INFORMAL FINANCES AND PERFORMANCE OF WHOLESALE AND RETAIL BUSINESSES IN KENYA

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International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 17th September 2020

Published: 24th September 2020

Full Length Research

Available Online at: http://www.iajournals.org/articles/iajef_v3_i6_101_118.pdf

Citation: Mutie, J. M., Muturi, W. & Njeru, A. (2020). Informal finances and performance of wholesale and retail businesses in Kenya. *International Academic Journal of Economics and Finance, 3*(6), 101-118

ABSTRACT

In Kenya most businesses do not have enough internal finances to re-invest in their businesses and therefore they seek external finances which they obtain from various sources and it is not clear which source of finance contribute most to their improved performance and hence this study. Purposely this study was to determine the effect of sources of finance on the performance of wholesale and retail businesses in Kenya. The specific objective was to establish the effect of informal finances on performance of wholesale and retail businesses in Kenya. The population of the study was all the 1.56 Million businesses in Kenya. The target population of the study was 510,000 licensed businesses in the selected counties. The accessible population was the 310,000 licensed businesses in the six selected counties by operational wholesale and retail trade. Simple random techniques were used to collect a sample of 384 respondents. Secondary and primary data was used to provide information which was quantitative or qualitative. Through a structured questionnaire data was collected and these questionnaires were dropped and later picked as the method gave respondents enough time to think about their responses carefully without interference. Determining of the reliability of the questionnaire was done by using Cronbach Alpha. The study made use of Statistical Package for Social Sciences (SPSS) version 22.0 to aid in coding, entry and analysis of quantitative data. By using regression and correlation analysis data was analyzed and this helped to test the connection between the independent and dependent variables. Data was analyzed by use of descriptive and inferential statistics and then presented through figures, tables, percentages, arithmetic means, standard deviations and tabulation to show differences in frequencies. The findings of the study revealed that there was a statistical significant relationship between the independent variables and the dependent variable. Although Informal financing had a positive relationship with performance, use of Shylocks was not common with most of the businesses due high interest rates that was charged. The study concluded that there was no one source of finance that fully contribute to the performance of the businesses in Kenya. The study recommended further research to be conducted to determine the other factors that influence performance of businesses other than the sources of finance.

Key Words: *rotating savings and credit associations, accumulating savings and credit associations, borrowings from friends and families and shylocks*

INTRODUCTION

Global Perspective on Finance Sources for Business Enterprises

In the European Union; small and medium business enterprises use a variety of sources for financing their activities where Bank loans comprise the main source of external funding for these businesses in most of the countries, for instance Greek companies on bank loans were (39.1%), Cypriot (24.3%) and Italian (22.4%), where bank loans accounted for over a fifth of the small and medium business enterprises liabilities (European commission, 2016). In the USA, financing sources for small and medium business enterprises include online business lenders, finance programs, angel investors, and crowd-funding platforms but banks are more focused on the financing of larger and less blossoming companies (Grover & Suominen, 2014). The USA small and medium business enterprises also rely on the Federal government sources that play a complementary role of funding these business enterprises. According to Grover and Suominen (2014) for the first two quarters of 2013, angel lenders invested a total of $9.7 billion with the small and medium business enterprises in the USA and Crowd-funding exceeded $5 billion in 2013 in the North America. The provision of equity financing to start-up companies is challenging in the United States and Canada than elsewhere in the world (OECD, small businesses, job creation and growth, obstacles and best practices, 2014).

Small and medium business enterprises in Japan have few assets and weak financial foundations and then they find it difficult to procure startup capital from the stock market (Bose, 2013). Continued risk aversion and reliance on fixed assets for collateral by the banks in Japan disadvantage many small and medium business enterprises in getting funds (Yoshino & Tanghizadel, 2016). Government affiliated financial institutions have been established to create a system to provide small and medium business enterprises with long term funds at low interest rates (Chimaleni , Muganda & Musiega , 2015). In Asia accessing finance from formal institutions is also a big problem by the small and medium business enterprises due to requirement for collateral, inflexible policies, high rates of lending or complicated procedures to be followed when getting bank loans (The Asian development bank, 2014). Banks predominantly finance small and medium business enterprises in India (ADBI working paper series no 581, 2016).

Small and medium business enterprises in India largely depend on self finance where 87.23% depend on personal financing and 10.87% finance their businesses through institutions sources (Bose, 2013). Small and medium business enterprises also make use of informal financial entities in lending but use of angel investors is not very active (Ambrose, 2012). Small and medium business enterprises in China rely on varieties of alternative sources of finance including informal finance, online peer to peer platforms, registered non-banking financial institution (NBFIs) and underground financiers (Shan, 2013).

Finance Sources for Business Enterprises in Africa

According to Memba (2011) the main sources of capital for most of the small and medium business enterprises in Africa are their retained earnings and informal savings but access to formal finance is poor because of the high risk of default among the small and medium business enterprises and due to inadequate financial facilities. According to Beck and Cull (2014) in Africa financial systems are small, shallow and costly, with limited outreach, particularly worse in formal financing and more so the use of bank loans in sub-Saharan Africa is not much like in other developing regions of the world. According to Quaye and Sarbah (2014) there is limited access to deposit and credit facilities provided by formal financial institutions hence a great role of non-banking financial institutions, particularly savings and loan companies as a reliable and alternative source of finance for small and medium businesses in greater Accra region.

According to Sitharam and Hoque (2016) Majority of small and medium business enterprises in South Africa rely on internal finance, such as contribution from the owners, family and friends, which is often inadequate for the business to survive and grow. According to Oladele, Oloowokere and Aknruwa (2016) Small and medium business enterprises in Nigeria may be financed through owners savings, government institutions, co- operative societies, trade credit, relatives and friends, informal money lenders, business associates and bank loans. According to Ade, Olaleka, Awe, Musa and Yunusa (2015) financing approaches for small and medium business enterprises in Nigeria may include private sources of owners and manager's savings and retained earnings, family and associates, trade credit, venture capital and angel investors. Most small and medium business enterprises do not prefer using bank loans due to some challenges like the high interest rate that is charged and also the repayment periods on these loans are too short making it very difficult to embark on any developmental or expansion projects Owusu et al., (2015).

Finance Sources for Wholesale and Retail Businesses in Kenya

According to Abdulaziz and Andrew (2013) financing methods used by businesses may vary from internal financing sources like owners personal savings and retained profits or informal sources which may include informal money lenders and rotating savings and credit associations or formal external sources which may include bank loans and loans from other financial institutions or outside sources which may include financial assistance from family and friends, trade credit, angel investors or venture capitalist. For example in Kenya most startup business enterprises are financed through bootstrapping (internal equity financing) which means that the entrepreneur has to use personal savings at the beginning, which is only possible if the start-up does not require a big investment and if no financial investment has to be covered by third parties (Njagi et al., 2017).

According to Njeru (2013) 60% of small and medium business enterprises are financed by internal equity finances (self-financing) in terms of personal savings and retained earnings. According to Onyiengo et al., (2017) most of the business enterprises at the initial stage prefer using internal equity financing in terms of personal savings due to the inability to secure loans from banks. The Kenyan government value the very high worthiness of the small and medium business sector to her economic development and for this reason the government has initiated finance schemes such as youth and women fund and Uwezo fund with a view to finance small and medium business enterprises (Njagi et al., 2017).

Banks do not provide enough support to small and medium business enterprises (Chimaleni et al., 2015). Most banks in Kenya require small and medium businesses to provide collateral that includes land title deeds, motor vehicle log books, guarantees, listed shares, as well as cash in the form of deposits since these collateral is limited to most businesses use of bank loans is difficult with these business enterprises (FSD Kenya & Growth Cap, 2016). In Kenya about 70% of the small and medium business enterprises get their initial capital by borrowing from family, friends and relatives (Njeru, 2013). According to Kamau (2011) in Kenya mostly small and medium business enterprises rely on borrowing from family, friends and relatives or self-financing as their main source of finance.

STATEMENT OF THE PROBLEM

Despite the critical role played by the wholesale and retail trade sector in the Kenyan economy in terms of growth and development through creation of employment, contribution to GDP, alleviation of poverty and provision of tax revenue among many other importance there are many factors that challenge the business growth and survival in the sector. Finance has been cited by many researchers as the major constraint which limit the ability to drive the economy growth and development as expected (Njeru, 2013, Wangui et al., 2014, Muriithi, 2017 and Ombongi & Wei, 2018). According to Muturi (2012) in many African countries the informal financial sector co-exist with the formal financial sector. The implication is that the informal financial sector can not meet all the financial needs of a business hence the need to seek finances from the formal financial sector. According to Muriithi (2017) most of the business enterprises in Kenya lack adequate internal finances and the implication therefore is that business enterprises do not have enough internal finances to meet the business needs at different levels of growth and development, hence they seek external finances. Most of the business units in Kenya do not have enough internal finances for financing the business activities hence they seek extra finances from external sources (Wangui et al., 2014). According to Ombongi and Wei (2018) business enterprises do not have enough internal finances for re-investment in their business and then they have to seek external sources of finance to supplement the internal finances. This clearly shows that for effective growth and development of any business enterprise use of both internal and external finances must be witnessed. However it is not clear which source of finance contribute to a better performance of the wholesale and retail businesses hence the need for this study. An important question then arises on what sources of finance significantly contribute to the best performance of the wholesale and retail businesses in Kenya. Then this study aimed at determining the effect of sources of finance on financial performance of wholesale and retail businesses in Kenya. Considering previous studies done on influence of sources of finance on business performance for example Njagi et al., (2017) studied on capital structure and financial performance of small and medium business enterprises in Embu County, Kenya. The findings of the study implied that sources of finance affects the financial performance of the business. Their study only collected data from only one town and used a small sample size of 60 SMEs hence these findings may be difficult to generalize to the Kenyan economy. Ndemi and Mungai (2018) using a sample size of 88 SMEs studied formal credit financing and financial performance of small and medium business enterprises in Nanyuki town, Kenya. The study identified a positive association between formal financing and financial profitability of SMEs. Onyiengo et al., (2017) using a sample size of 320 SMEs studied the effect of access to finance on financial performance of SMEs in Mombasa county Kenya. The results of the study showed that access to finance has a significant effect on financial performance of the business. This study had a gap as it had a limited scope since it only collected data form one county. Mwangi and Maranga (2015) using a sample size of 40 SMEs studied the effect of capital structure on the financial performance of small and medium enterprises in Thika sub- county, Kenya.The findings of the study showed no significant effect of capital structure on financial performance of the business. Most of the previous studies considered had a gap in the scope of study, yielding conflicting results where some studies showed positive effect while others were negative also the sample used in some studies was small in size. This study filled this gap by considering more sectors of the economy which included wholesale and retail sector. The study also increased the study area by considering six counties other than a town or sub-county or one county. More so from the previous studies it is not clear which source of finance contributes most to the improved performance of wholesale and retail businesses in Kenya and hence this study was conducted to fill these gaps.

THEORETICAL FRAMEWORK

Pecking Order Theory

Donaldson in 1961 suggested Pecking order theory and it was modified by Stewart Myers and Nicolas Majluf (1984). According to this theory firms are financially constrained due to the information asymmetry between managers/ owners and investors and then firms adopt a hierarchy in selecting sources of finance. According to this theory firms have to rank their sources of finances (Njagi et al., 2017). Depending on this theory firms have three main sources to fund the financial needs which are internal funds, debt and new equity. The theory claims that mostly firms prefer to use firstly internal finances such as excess liquid assets or retained earnings (Abdulaziz & Andrew, 2013). If it is necessary to turn to external finance firms use debt with little or no risk, which usually corresponds to short term debt and in the last place, firms will select external equity (Njagi et al., 2017).

According to Abdulaziz and Andrew (2013) puts it that finances contributed internally are preferred by business enterprises since they are usually very cheap and easier to arrange for by giving a short notification. If internal financing is not sufficient to fund investment projects, external funding may be sourced and if they do, in order to minimize costs the managers have to choose debt before using equity. According to Njeru (2013) internal finances are preferred to firms because they are cheaper and easy to get at a short notice. This theory observes that businesses follow a hierarchy of financing and prefer internal financing first; debt is preferred over equity as equity would mean bringing external ownership into the company. The POT may fail to hold for some business units where information asymmetry is an important problem (Njagi et al., 2017).

POT is important as it signals to the public how the company is performing. This means if the company finances itself internally it means it is a strong company and if the company has external financing then this shows high level of confident that the company has high chance of satisfying its obligations (Wahome, 2017). According to this theory firms prefer equity when they perceive that its relative cost is low otherwise debt finance would be appropriate. (Njagi et al., 2017) observed that managers or business owners will use those financial tools that appear to be more favorable in the moment they need financing. Managers or business owners seek equity finance even when growth opportunities do not exist, so that such cash flow can be used for perquisites rather than for enhancing firms' value.

Manager wants free cash flows to invest in unprofitable project that generate cash so that salaries or perquisites may be enhanced rather than service debts. This means managers and business owners will use the financial tools that appear to be more favorable in terms of cost in the moment of financing the business (Njagi et al., 2017). If pecking order theory applies then it means that higher profitability will always corresponds to a very lower level of debt ratio. Pecking order theory shows a negative relationship between leverage and profitability. The critique of Pecking order theory is that it does not explain the influence of taxes and financial distress. The theory assumes that there is no target capital structure. The firms choose capital according to the following preference order; internal finance, debt finance and then equity finance. This may not be the case for most business enterprises as they may lack retained earnings (Abdulaziz & Andrew, 2013). The theory was useful to this study by testing the effect of internal equity financing on performance of the wholesale and retail business enterprises in Kenya.

Informal Sources of Finance

Informal finance means all financial transactions, loans and deposits outside the regulation of the central monetary authority (Muturi, 2012; Oladele et al., 2016). Informal finance may include institutions such as ROSCAs, ASCAs, informal moneylenders, loan brokers, village savings and loan associations, village community banks, savings clubs and burial societies among others (ILO, 2015). In Kenya more than 90% of new ventures are financed by informal sources of finance (Njeru, 2013). According to Muturi (2012) ROSCAs are locally organized groups that meet at regular intervals; at each meeting members contribute funds that are given in turn to one or more of the members. Once every participant has received funds, the ROSCAs can disband or begin another round. In joining a ROSCA, an individual agrees to a schedule of periodic payments in return for which she receives a lump-sum payment at a future date (Oladele et al., 2016). ROSCAs often pay no interest and participants may have little or no control over when they receive the funds. Participants also bear the risk that other participants may not fulfill their obligations (Muturi, 2012).

Small and medium business enterprises make use of informal financial entities in lending and this has various merits like access to information through social and personal networks (Abdulaziz & Andrew, 2013). This is also helpful to develop a relationship of trust and confidence which is important in the absence of the required collateral (Muturi, 2012). Informal finances also is easy to get because there is less usage of paper work , less rigid administrative procedures that makes the availability of loans quicker when compared to formal banking system (Bose, 2013). Money lenders as an informal finance is a very vital source of emergency and short term finance for the population that do not have access to commercial financing but The demerit of money lenders is that the borrower has to pay interest rate which is more than that of a bank (Quaye & Sarbah , 2014).

Rotating savings and credit associations are among the oldest and most prevalent savings institutions found in the world and play an important role in savings mobilization in many developing economies for example Participation in ROSCAs is very prevalent in developing countries like Kenya, this despite the fact that such participation is expensive in terms of the opportunity cost of time spent in meetings and there is the risk of getting a loss from defaulting participants (Muturi, 2012). Despite the development in electronic money transfer these services do not seem to affect participation in ROSCAs in Kenya (Oladele et al., 2016).

According to Muturi (2012) participation in ROSCAs depend on varied of motives where the main ones may include saving, insurance, keeping away money from spouses and socialization. Factors that may determine the use of informal finances compared to formal financing are costs of transaction which includes travel time, transport costs, time spend at banks among other factors. In the developing world, Kenya included more than 90% of new ventures are financed by informal sources of finance (Njeru, 2013). The repayment of informal finance might be flexible and allow the business to carry on its trade without the added concerns of regular interest and capital repayment (Oladele et al., 2016).

Both ASCAs (accumulating savings and credit associations) and ROSCAs (rotating savings and credit associations) are self-help groups operating in Kenya (Waithaka &Njeru, 2015). ROSCAs collect money from their members on a regular basis, pool the money and use it to facilitate savings and lend it among the members (Oladele et al., 2016). The difference between them is that; ROSCAs redistribute the money to a group member as soon as the money has been collected while the ASCAs only redistribute the money through loans to those that apply for them at low level interest rate (Muturi, 2012).

Mostly individuals who live in remote areas which are far from the formal financial institutions or maybe they require more flexible and variety of products which are provided by the formal financial institutions or they are ignored by the formal financial institutions due to some reasons then they mostly rely on these informal finances (Waithaka & Njeru, 2015). In the informal associations the transactions are very simplified and transparent and they mostly take place in front of other members. Informal finances has a very long history in poor and developing communities as they help the low income individuals manage their financial need (Muturi, 2012).

Informal groups mostly operate at times and on the days which are more convenient for all the members (Njeru, 2013). Access to credit is simple, none bureaucratic and mostly no need for written documents when getting loans from the informal associations (Waithaka & Njeru, 2015). Mostly it is the group members in the informal associations to determine the amount to be contributed by the members on regular basis, the total members in a group, number of people to receive a payout on each occasion and the problematic group members can be eliminated from the association (Muturi, 2012). High probability of failure of these informal associations is due to financial irregularities where this could be due to lack of the required skills in book keeping and financial management (Waithaka & Njeru, 2015). Mostly these informal groups are managed by leaders who are elected by the members to manage the issues of the group and this committee may manipulate the group rules for their own benefits as individuals (Njeru, 2013).

EMPIRICAL REVIEW

Empirical literature review is a directed search of published works, including periodicals and books that discusses theory and presents empirical results that are relevant to the topic at hand (Mugenda & Mugenda, 2003). Literature review is a comprehensive survey of previous inquiries related to a research question.

Njeru (2013) studied determinants of choice of source of entrepreneurial finances for SMEs a case of Thika, Kenya. The study used descriptive survey, a population of 800 SMEs, sample size of 259 SMEs. Stratified sampling was used and a questionnaire made it possible for data collection. Through the use of descriptive and inferential statics data analysis was done. The study made conclusions that businesses that use informal financing find this form of financing to have less severe penalties. According to this study, 90% of the new businesses were financed by informal sources of finance.

Waithaka and Njeru (2015) studied the effect of informal financing and performance of SMEs in Kiambu County. Through the use of descriptive research design, population of 7384, sample size of 95 SMEs and stratified random sampling the study was made possible. Data collection was by use of a questionnaire and analysis was by use of descriptive and inferential statistics. The study found equity finance had a positive effect on the performance of the business unit. The study recommended that businesses need to put more emphasis on informal form of finance (self-help group finance).The study however indicated that shylocks finances were not mostly used due to their inflated interest rate.

Murigi (2014) studied the financial accessibility and financial performance of small and micro enterprises in Mukuru slums in Kenya. The study was possible through the use of descriptive research design, population of 2464 and a sample of 100 SMEs. A structured questionnaire was used for data collection and analysis was by using descriptive and inferential statistics. The study made conclusions that informal source of finance has a positive correlation with financial performance of small and medium business enterprises.

RESEARCH METHODOLOGY

Research Design

Kombo and Tromp (2006) explain research design as the glue that puts all the components in a research project together. A research design is a plan showing how the problem under investigation will be solved (Kothari, 2003). The function of a research design is to ensure that the evidence obtained enables the study to answer the research question as unambiguously as possible (Mugenda & Mugenda, 2003). The study made use of descriptive research design. Descriptive design is a method of collecting information by distributing a structured questionnaire to a sample of individuals or interviewing the individuals. This research design is appropriate for answering questions on the current state of affairs (Stangor, 2011). A descriptive research design attempts to describe things like attitudes ,values, possible behaviours and characteristics and it also allows for collection of large data which enables the researcher to generalize the findings to the large population (Mugenda & Mugenda, 2003).

Study Population

Population refers to the whole group of individuals, events or objects taken from general population having similar observable features (Kombo & Tromp, 2006). Target population refers to the entire group of individuals or objects from which the study seeks to generalize its findings (Mugenda & Mugenda, 2003). The population of the study included all the 1.56 Million licensed small and medium business enterprises in Kenya (KNBS Economic survey, 2017). The target population was drawn from all the 560,000 licensed business enterprises in Nairobi County, Mombasa County, Machakos County, Makueni County, Kajiado County and Kitui County (KNBS County statistical abstract, 2017). However the major focus was on the accessible population of 310,000 licensed businesses in the wholesale and retail trade in the six counties. The accessible population is that proportion of the target population that the researcher can access easily and conveniently. The business enterprises in the six counties were selected because these counties were convenient for the researcher to get the information that was required.

Sampling Frame

A sampling frame is the list of all the items where a representative sample is drawn for the purpose of research (Mugenda and Mugenda, 2003). The sampling frame constituted all the 310,000 licensed wholesale and retail businesses in Nairobi County, Mombasa County, Machakos County, Makueni County, Kajiado County and Kitui County (KNBS County statistical abstract, 2017). See attached Appendix V. The businesses in wholesale and retail trade sector were selected because the sector had high failure according to KNBS economic report 2016. The sector was made up of 57.1% of licensed businesses in Kenya (KNBS Economic survey, 2017). Hence the researcher could get enough required information from the sector.

Sample and Sampling Technique

This section outlined the sample and the sampling technique used to get the sample. The section was divided into two parts: part one the sample size and part two comprised of the sampling technique. A population is a group of individuals, objects or items from which samples are taken for measurement. Population refers to an entire group of persons or elements that have at least one thing in common. Population refers to a large group from which a sample is taken (Kombo & Tromp, 2006). Business enterprises are scattered across the length and breadth of the country with most of them located in the urban centers. The target population will be drawn from all licensed small and medium business enterprises in Kenya. The wholesale and retail trade activities are enmeshed in a wide range including but not limited to agricultural sector, business enterprises, fabrication, manufacturing, micro financing, cyber cafés among others conducting their businesses locally and internationally. The firms operate in varying markets, in the urban, rural, local, national, regional and international settings. They exemplify different levels of skills, capital, sophistication and growth orientation, and operate in the formal or the informal economy. The target population will be representative to registered business enterprises in the country by operational wholesale and retail trade. Data was collected through a structured questionnaire and the questionnaire was administered using drop and later pick method. The study used a sample of 384 wholesale and retail businesses from the selected counties. The proposed six counties include Nairobi county 69, Mombasa county 66, Machakos county 60, Makueni county 63, Kajiado county 62 and Kitui County 64.

Sampling Technique

Sampling is the process of selecting individuals for a study in such a way that the selected individuals represent the large group from which they were selected (Kombo & Tromp, 2006). It is the process of taking a subset of subjects that is representative of the whole population (Mugenda & Mugenda, 2003). A sample from the target population was obtained through Stratified random sampling, where the population was divided into strata and the researcher used simple random sampling to obtain respondents from each of the small group. Stratified sampling design was used because the population was heterogeneous. Stratified sampling helped the researcher achieve desired representation from sub groups in the population. The frame was organized by the categories of wholesale and retail businesses. The merit of stratified sampling is that dividing the population into different independent strata can enable researches to draw inferences about specific sub groups that may be lost in a more generalized random sample. Since each strata was treated as an independent then different sampling approaches can be applied to different strata which enable the researcher to use the approach which is cost effective for each sub group within the population (Njeru, 2013). The study used simple random sampling from each stratum to select 384 respondents for this study.

Data Collection Instruments

Instruments involve designing, developing, pilot testing, validation and compilation of final instrument. The researcher made use of questionnaires for the collection of data from owners or managers of wholesale and retail businesses under study. Anonymity of the respondents was ensured and this increased the chances of getting honest replies. The questionnaires allow the researcher to collect variety of information cheaply (Mugenda & Mugenda, 2003). The researcher also used secondary data methods to collect information on wholesale and retail businesses. The secondary data was obtained from written information which includes review of journals and literature relevant to the subject matter of this research. The sources also included newspapers, magazines and official policy documents of the Kenyan government that are relevant to the study. Other sources will be electronic search which will include internet websites. According to Hamilton, (2010), secondary data relies on experts conclusions about a particular focused on the accounts of the past that were created by other people.

Data Analysis and Presentation

Data analysis refers to examining what has been collected in a survey or experiment and making deductions and inferences (Kombo & Tromp, 2006). Mugenda and Mugenda (2003) observed that raw data obtained from the field is hard to interpret unless it is cleaned, coded and analyzed. Descriptive and inferential statistics helped in data analysis. The descriptive statistics considered frequencies, percentages, means and standard deviations. Inferential statistics such as correlation technique and multiple regression analysis were used to the effect of predictor variables to dependent variable. The researcher made use of the SPSS software version 22.0 for data entry and analysis. The presentation of the results was shown through figures, tables and percentages.

RESEARCH RESULTS

The researcher sought to establish the usage of informal finances by the wholesale and retail businesses in Kenya. The study found that a total of (75%) were members of informal associations. This percentage was so high and it was associated with the fact that getting loans from informal associations was easy and less costly than from banks Muturi (2012). Further, it was established that the wholesale and retail traders were getting financial assistant from the informal association for their businesses at some little cost. Most (66%) of the informal associations were charging the 10% of the amount borrowed from the association. These findings agreed with Waithaka and Njeru (2015) that many individuals like using informal finances because these funds are cheap to arrange for and one would get them after a short notice.

The findings also agreed with Muturi (2012) that 75% were ROSCA members where they belonged to one to six ROSCAs where the amount contributed ranged from 20 to 3000. The money contributed in any ROSCA 47% was saved and the rest distributed to members. Businesses also obtained finances from other money lenders like shylocks and it was found that 17% of the business enterprises use these funds where low usage of money lenders was associated with high interest rates. These study results were in agreement with the findings of KNBS economic survey (2017) where the study found that 64.2% of the small and medium businesses belonged to various support groups like merry go rounds.

From the linear regression model for performance of wholesale and retail businesses:

$$Y = \beta 0 + \beta_4 x_4 + \mathcal{E}$$

Where: Y = Performance of wholesale and retail businesses in Kenya; β_0 = Constant (Y- Intercept); $\mathcal{E}$= Standard Error term; $X_{4=}$ Informal financing

Performance of wholesale and retail businesses in Kenya was:

$$Y= 0.544 + 0.632\ X_4.$$

From the regression results, 0.632 unit increase in informal financing resulted into one unit increase in performance. The findings resolved that there is statistical significant correlation of Informal financing and performance of wholesale and retail businesses. The findings were in line with Waithaka and Njeru (2015) who found that Informal finances positively influence the performance of small and medium businesses.

The researcher further sought to establish the proportion of informal finances to the grand total finances. The study found that 46.2% of informal financing was from Rotating savings and credit associations while 36.3% were credit from family and friends and 17.5% was shylocks. These results agreed with Waithaka and Njeru (2015) that many individuals like using informal finances because these funds are cheap to arrange for and one would get them after a short notice but at the same time many individuals do not like using shylocks due to the high interest rate involved.

The researcher further sought to establish the linear regression between informal financing and the performance of the wholesale and retail businesses in Kenya. The linear regression analysis models on the dependent variable which was performance of the wholesale and retail businesses in Kenya and independent variable which was informal financing, showed the coefficient of determination (R2) and correlation coefficient (R). The results showed that there was some degree of association between the informal financing and the performance of wholesale and retail businesses in Kenya. The results of the linear regression indicated that R2=0.572 and R= 0.541. Where the R= 0.541 showed an indication that there was a linear relationship between informal financing and the performance of the business. With the R2=0.572 showing that the independent variable could only explain 57.2% of variability of dependent variable. The adjusted R2=0.533 shows the independent variables improves the model by 53.3%.

These results agreed with Muturi (2012) who argued that informal financing improves the performance of SMEs because mostly it is the group members in the informal associations to determine the amount to be contributed by the members on regular basis, the total members in a group, number of people to receive a payout on each occasion and the problematic group members can be eliminated from the association. Njeru (2013) studied determinants of choice of source of entrepreneurial finances for SMEs a case of Thika, Kenya. The study made conclusions that businesses that use informal financing find this form of financing to have less severe penalties. According to this study, 90% of the new businesses were financed by informal sources of finance. The findings of their study agreed with those of this study that informal financing positively affect the performance of the business.

The findings of this study also agreed with those of Waithaka and Njeru (2015) who studied the effect of informal financing and performance of SMEs in Kiambu County. The study found out that self-help group finance, family and friends finance sources positively influence the performance of SMEs. The study recommended that businesses need to put more emphasis on informal form of finance (self-help group finance, family and friends finance). The study however indicated that shylocks finances were not mostly used due to their inflated interest rate. Murigi (2014) studied the financial accessibility and financial performance of small and micro enterprises in Mukuru slums in Kenya. Their study made conclusions that informal source of finance has a positive correlation with financial performance of the business and it was in agreement with the findings of this study.

The results of ANOVA test revealed that the variable informal financing positively had an association with the performance of wholesale and retail businesses in Kenya, $F\,(1, 299) = 31.222$, $p < .05$, $R^2 = .572$. Since the P value of .000 is less than the critical P value of .05 then it was concluded that the informal finances has a significant effect on the performance of wholesale and retail businesses in Kenya.

From the linear regression model for performance of wholesale and retail businesses:

$$Y = \beta 0 + \beta_1 x_{41} + \beta_2 x_{42} + \beta_3 x_{43} + \mathcal{E}$$

Where: Y = Performance of wholesale and retail businesses in Kenya; β_0 = Is the Y intercept (constant) whose influence on the model is insignificant; β_1- β_3 The slope which represents the degree with which performance of the business changes as the independent variable (Informal financing) changes by one unit variable; X_{41}= Rotating savings and credit associations; X_{42}= Borrowings from family and friends; X_{43}= Shylocks; $\mathcal{E}$= Standard Error term

Performance of wholesale and retail businesses in Kenya was:

$$Y= 0.544 + 0.632X_1 + 0.442X_2 + 0.332X_3.$$

From regression results, Rotating savings and credit associations had the highest contribution on performance of wholesale and retail businesses compared to borrowings from family and friends and shylocks. This means that one unit increase in ROSCAs financing resulted into 0.632 increase in performance of the business and one unit increase in borrowings from family and friends financing resulted into 0.442 increase in performance of the business and lastly one unit increase in Shylock financing resulted into 0.332 increase in performance of the wholesale and retail businesses . The findings resolved that there is statistical significant correlation of Informal financing and financial performance of wholesale and retail businesses in Kenya. The findings were in line with Waithaka and Njeru (2015) who found that Informal finances positively influence the performance of the business enterprise.

CONCLUSIONS

Access to finance has been singled out as one of the major challenge impeding the survival and growth of start-up of many businesses. Individuals choose the informal financial institutions as the source of their capital providers because it has a simple administrative procedure, fast loan disbursement where the loan is given on time as required. The study findings would contribute knowledge to assist in the business growth. Although Informal financing had a positive relationship with performance, use of Shylocks was not common with most of the businesses due charging of high interest rates. The study recommended further research to be conducted to determine the other factors that influence performance of wholesale and retail businesses other than the sources of finance.

RECOMMENDATIONS

The study found that a good number of the respondents were in informal association and were getting financial assistance from the informal association for their businesses at some cost. Business enterprises make use of informal financial entities in lending and this has various merits like access to information through social and personal networks. Money lenders as an informal finance is a very vital source of emergency and short term finance for the population that do not have access to commercial financing. The demerit of money lending is that the borrower has to pay interest rate which is more than that of a bank. The study recommends that the Government should discourage use of shylocks in financing as it charges high interest rate. The government should come up with more funding schemes and make traders to be well educated on these financial schemes so as to make good use of them. There was need to create an enabling environment which can ensure credit flow and proper training on the management on how to use the borrowed funds.

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