MICROFINANCE INSTITUTIONS ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: A CASE OF KILIFI TOWN, KENYA

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ABSTRACT

Small and Medium Enterprises continue to fail from the problems that Microfinance Institutions claim to offer solutions to. A survey by Kenya National Bureau of statistics, (2007) indicates that three out of five Small and Medium Enterprises businesses fail within the first few months of operation. A gap exists in finding out the effect of Microfinance Institutions and financial performance of Small and Medium Enterprises. This study therefore sought to establish the effect of microfinance institutions on the performance of small and medium enterprises. The study was guided by the following objectives; to find out the effect of credit facilities, provision of financial literacy, development of management skills and market facilitation on the performance of Small and Medium Enterprises in Kilifi Town. The study was expected to establish the practical role of perceived solutions provided by microfinance institutions and how this affects growth of Small and Medium Enterprises. The study was anchored on Resource based theory and the dynamic capability theory of the firm. A survey design was used to accomplish the study objectives. Data was gathered from managers of Microfinance I institutions as well as Small and Medium Enterprises within Kilifi Town. Stratified sampling was adopted to select 66 Small and medium Enterprises and five microfinance institutions to participate in the study. Data was collected via a questionnaire whose validity and reliability was established in the pilot test. Quantitative data analysis was undertaken to generate both descriptive and inferential statistics, this was done using statistical package for social sciences (SPSS). Presentation of data was done in tables and interpretation made based on research objective. It was revealed that there is a significant number of Small Medium Enterprises in Kilifi Town. The Small Medium Enterprises are significantly aware of the services offered by the Microfinance Institutions. The study concludes that the Microfinance Institutions have not done much in ensuring that their services reach and are appreciated by Small Medium Enterprises in the town. Credit facilities and financial literacy have significantly been extended to the Small Medium Enterprises by the Microfinance Institutions but development of managerial skills and market facilitation has not been done to expectations. The study recommends sensitization of the Small Medium Enterprises before credit extension to them.

Key Words: *Microfinance institutions, financial performance, small and medium enterprises, Kilifi Town, Kenya*

INTRODUCTION

The microfinance revolution came about more than two decades ago with an aim of catapulting development in various arenas of the economy. However, the spread off the adoption of the microfinance model did not happen until mid 1990s. During this time, microfinance programmes and institutions came up and aimed to foster that growth of many micro-enterprises, especially in developing countries. The term micro-finance was defined by the United Nations in the year 2005 as basic financial services such as savings, credit and insurance. This concept enabled people to borrow, invest, and protect their families against various forms of risk. As observed, microfinance institutions are not only useful for levying credit but also aim at levying the accumulation of assets for poor people. Harper (2003) explains that the aspect of microfinance originated from Bangladesh at around 1976 as a result of the pioneer research conducted by Dr. Muhammad Yunis who was a professor of Economics.

Globally, Small to Medium Size Enterprises (SMEs) are being hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. In the United States of America (USA) and European Union (EU) countries Small Medium Enterprises are enterprises with employees under 500 while in developing countries any enterprise employing below 100 employees would constitute a Small Medium Enterprise. Small Medium Enterprises have become more important in the economic matrixes in recent years across the globe through increased deliberate government policies and legislation aimed at nurturing Small Medium Enterprises as engines of economic growth and employment creation. It is estimated that Small Medium Enterprises constitute over 90 percent of total enterprises in most economies with a high rate of employment growth. They are also a vehicle for increased industrial production and exports.

In the USA and EU countries it is estimated that Small Medium Enterprises contribute over 60 percent in employment, 40-60 percent to Gross Domestic Product (GDP) and 30-60 percent to exports. The Asian countries such as India, Indonesia, China, Malaysia, Japan, and South Korea also have thriving Small Medium Enterprises sectors contributing between 70-90 percent in employment and an estimated 40 percent contribution to their respective Gross Domestic Products. In Africa, economic powerhouses such as South Africa, Egypt, Nigeria and Kenya, the Small Medium Enterprises sector is estimated to contribute over 70 percent in employment and 30-40 percent contribution to Gross Domestic Product, but contribute less than four percent to export earnings.

The small and medium enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Among the inexhaustible list of factors that could enhance development of Small and Medium Enterprises is adequate finances and good financial management among the Small and Medium Enterprises. Finance and financial related services are an important prerequisite in initiation, development and growth of business enterprises. Every business whether large, medium or small requires some level of financing in order to sustain its operations and expand. Financial institutions provide finance solutions to facilitate the aforementioned business requirements. With large business enterprises, it is not a difficult task to obtain financing from financial institutions and hence can easily walk into banking facilities and get loans to finance their business operations, Ledgerwood (2007).

A survey done by the World Bank (2005) confirms that generally, large firms have access to bank credit and other financial services both local and foreign than small firms. The situation is however, different for Small and Medium Enterprises who heavily rely on internal funds and retained earnings.

The issue of formal microfinance lending has existed in Kenya since 1950s as a result of a Joint Loan Board Scheme established by the colonialists (Kitabu, 2007). Just after Kenya gained independence, the government of Kenya embarked on a program which aimed to ensure that people from rural settings were provided with credit services. This factor influenced other financial institutions to venture into the practice drawing profits and helping to enrich the rural communities as a result.

The inception of microfinance institutions was convenient in the growth of small and medium enterprises since large banks usually transact with large and middle companies due to reduced risks associated with them. Small and Medium Enterprises are also associated with poor creditworthiness which most commercial banks tend to shy away from. These institutions are, therefore, a major form of funding for small and medium enterprises in the entire of Africa and other developing countries.

As of the year 1999, Kenya had 1.3 million small and medium enterprises employing about 2.3 million people in Kenya. This accounts for about 20% percent of all employed people. According to the National micro and small enterprise baseline for 2013, there is a great relationship between microfinance institutions and Small and Medium Enterprises in Kilifi County (Kilifi Blog, 2015).

Microfinance Services in Kenya

Microfinance is termed as development tool which gifts administrations and items, for example, extremely investment fund, little advances little protection and cash move to help with setting up and extending organizations of the low pay people (Mbithe, 2013). It likewise alludes to the idea of arrangement of little size administrations particularly to the lower portion of the rustic and urban populace (Hudon, et al, 2016). Also microfinance is seen as the arrangement of money related and non-benefits by MFIs to low salary bunches without unmistakable security yet whose exercises are connected to pay creating wanders (Olowe, et al, 2013).

In Kenya the microfinance organizations, which give the microfinance administrations, are under the rules of the Kenyan Micro Finance Act, which was actualized in 2006 and was dynamic in 2008 (RoK, 2015). With the appropriation of this demonstration, numerous organizations could apply for smaller scale back licenses at the Central Bank of Kenya either as a group or national establishment. As of now, in Kenya there are 24 substantial small scale back foundations. Act.

The five biggest establishments are: Equity Bank with a piece of the overall industry of 73.50%, Kenya Women Microfinance Bank (KWFT): with a piece of the pie of 12.06%, K-Rep Bank with a piece of the pie of 6.39%. There is also Faulu with a piece of the overall industry of 3.56% and Jamii Bora that has a piece of the pie of 0.86% in light of their gross advance portfolio (Curtis, 2012).

Microfinance money related exercises include: little advances for the most part to work capital, casual endorsement of borrowers and speculations, insurance substitutes, for example, a gathering ensure or obligatory investment funds, access to rehash and huge credits in light of reimbursement execution, streamlined advance payment and checking and secure sparing items (Olowe, et al, 2013). The Small and Medium Enterprises' proprietors likewise advantage from capital venture choices, for example, designation of the miniaturized scale endeavor constrained capital subsidizes most successfully so as to guarantee the most ideal return.

Those administrations gave by microfinance establishments to customers can be sorted into our gatherings .The gatherings are money related intermediation, arrangement of monetary items and administrations, for example, credit, reserve funds, protection, installment framework and Visas which ought not require on-going sponsorships (Maengwe and Otuya, 2016). The accompanying are qualities of Microfinance Institutions: Loans are normally under 12 months much of the time and are for the most part to work capital with quick consistent reimbursements generally week by week or month to month. After endorsement they are dispensed rapidly, for the most part for those looking for rehash advance. Consequently the accommodation Microfinance Institutions benefits as a wellspring of capital for generally Small and Medium Enterprises.

Financial performance of Small and Medium Enterprises

West and Fair (2006), define performance as a function of an organization ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way. Studies by Whyte (1991), show that performance can be measured at both organization and individual levels and this measurement is sometimes referred to as performance appraisal. He urges that organizations have desired potentials in terms of capacity attraction, market share and financial strength and that performance is the difference between those potentials and what has been achieved. The World Bank defines financial self sustainability as the process of increasing the capacity of institutions or groups to make choices and to transform those choices into desired actions and outcomes (Montgomery, 2005). Central to this process are actions which both build individual and collective assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets.

In order to ensure financial viability, sustainability needs to be central in the planning and day-to-day operation of the Small and Medium Enterprises. Indeed, financial sustainability can be considered as an important dimension as it is a condition for achieving sustainability of other project components (Salman, 2008). It is achieved if the revenues of the Small and Medium

Enterprises are greater than the expenditures. However, financial sustainability is an output of the sustainability of other components at the same time.

Financial sustainability is a key factor for Small and Medium Enterprises sustainability, as it is a condition for achieving sustainability of other components and the survival of the Small and Medium Enterprises (Todd, 2006). Moreover, financial sustainability is based on a given minimum purchasing power and sufficient density of potential Small and Medium Enterprises customers. In addition to budgeting, bookkeeping, and strict financial discipline Small and Medium Enterprises should establish financial controlling mechanisms keeping them informed of the status of planned vs. actual expenditures, earnings, and cash flows.

Microfinance Services and Financial performance

Accessing credit is considered to be an important factor in increasing the development of Small and Medium Enterprises. It is thought that credit augments income levels, increases employment and thereby alleviates poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995).

A number of studies have observed that savings-led groups perform better than credit-led ones (Allen 2005; Murray and Rosenberg 2006; Ritchie, 2007). Access to micro-finance has the potential to assist the poor in earning income from microenterprises, smooth their income and consumption (Zeller, 1999), help households diversify their income sources. (Anand et al, 2005). According to Mosley (2000) microfinance makes a considerable contribution to the reduction of poverty. It helps increase income earning and asset building opportunities which make households less reliant on a single asset type and consequently deal with disasters (Anand et.al, 2005). According to Hassan (2002), many Grameen Bank borrowers were actually building larger houses. Panganiban (1998) advances that the income of borrowers has risen and their assets base has widened. Investments made by loans appear to have been extremely productive and to have contributed significant improvements in household output, income and consumption (Ghai, 1984). In Tegucigalpa and Cholteca in Honduras in 2003, effect assessment studies revealed that 60% and 50% of the recipients had their sales and incomes increase respectively one year after receipt of credit for working capital. Agricultural Finance Cooperation Limited in 2008 in India, assessed development effect of microfinance programmes. Clients reported increase in income from 76% of activities. There is therefore reason to believe microfinance services in its entirety should report effect on savings, income and investments alongside non-financial study was specific in investigating these aspect.

STATEMENT OF THE PROBLEM

Many parts of Kenya are built by small and medium enterprises. However, they have a high mortality rate due to lack of sufficient financing from financial institutions. Over 60% of small and medium enterprises collapse within a year of being established (KNBS, 2007). Small and Medium Enterprises continue to fail from the problems that Microfinance Institutions claim to offer solutions to. A gap exists in finding out the effect of Microfinance Institutions and growth and development Small and Medium Enterprises. The poor health of the economy as well as poor relationship between the businesses and financial institutions is among the causes of such a situation. Also, despite the much effort prompted by the government to the informal sector, there is still more that needs to be done so as to heighten the growth of the small and medium enterprises. The department of micro- and small enterprise development estimates that there were close to 2.8 businesses in the year 2002. This number increased drastically within the subsequent years, although a big gap still lies in place. Kilifi town has had an upsurge of business units in the previous years. However, this factor has not meant the survival of individual business units. The heavy presence of financial institutions in the town in the recent times has also prompted the research into their relationship with the small and medium enterprises (Kilifi Blog, 2015).

GENERAL OBJECTIVE

The general objective of the study was to establish the influence of microfinance institutions on the financial performance of Small and Medium Enterprises in Kilifi Town.

SPECIFIC OBJECTIVES

1. To establish the effect of credit facilities and financial performance of small and medium enterprises
2. To investigate the influence of financial literacy and financial performance of the small medium enterprises
3. To assess the effect of development of managerial skills and financial performance of small and medium enterprises
4. To establish the effect of market facilitation and financial performance of small and medium enterprises.

THEORETICAL REVIEW

Resource Based View

Barney, Wright and Ketchen (2001) noted that every firm owns a diverse outline of tangible and intangible resources. Barney is one of the late contributors of Resource Based View who studied and established the existence of key firm resources for superior performance. The theory of Resource Based View assumes that individuals are inspired to make maximum use of economic resources available and rational choices that a firm makes which are shaped by economic framework (Barney, 2007). Resource Based View theory in this study played a role of evaluating and explaining resources and capability of a firm that have the capability to create and maintain a firm's advantage and thus higher performance among the mobile phone industries in Kenya (Sheehan & Toss, 2007).

Complex packages of skills, obtained knowledge, ability and experience that facilitate the company to manage activities of the firm and make use of resources to create performance through coordinating and putting resources into proper production use is what defines capability (Amit and Shoemaker 1993; Barney, 2007 and Mckelvie and Davidsson, 2009). According to Lockett, Thompsons and Morgensrern (2009) on strategic management, Resource Based View scrutinizes the resources and abilities that facilitate how the firm will produce above the ordinary rates of return and higher performance benefits.

The theory of Resource Based View contributes in enabling the firm managers to check whether factors relevant to superior performance exist or not. This enables them to be in a position of exploiting market imperfection to advance their performance. That way, managers are put in a place where they can combine resources to sustain their performance advantage. Resource Based View theory provides the benefit to the firm specifically highlighting factors that create superior performance for a firm (Locket, Thompson and Morgenstern, 2009). Resource Based View allows executives of the organization to choose the most important strategic factors to invest in from a given range of probable strategic factors in the mobile telephone industry.

Barney and Hesterly (2010) advanced that resources in general include the following key constructs: resources, capabilities and competences. In strategic management literature, resources are defined as stocks of accessible things that are possessed by the firm. Competencies are the firm's strengths that enable it to better differentiate its products or service quality by building technological system to respond to customers' needs, hence allowing the firm to compete more efficiently and successfully than other firms (Defillippi, 1990; Arend and Levesque, 2010 and Anderson, 2011). Resource Based View has contributed in strategic management through its emphasis on firm-specific resources as bona fide source of high performance (Mckelvie & Davidsson, 2009).

For a firm to have a superior performance, resources and capabilities have to qualify as exceedingly valuable, rare, inimitable, and non-substitutable. Resources that are valuable add to advancing the firm's performance. Rareness creates ideal competition in view of the fact that resources in that category are possessed by fewer firms. Inimitable resources are costly to duplicate and non-substitutable, meaning that there is no alternative to accomplishing an equal function instantly available to competitors (Barney 2007, Barney and Hesterly, 2010). Tangible resources are physical substances that an organization possesses such as facilities, raw materials and equipment. Intangible resources include corporate brand name, organizational values, networks and processes that are not included in normal managerial-accounting information. Intangible resources are more likely to generate competitive advantage and superior performance as compared to tangible resources (Rouse & Daellenbach, 2009; Kenneth at el., 2011).

The Dynamic Capability Theory of the Firm

The Dynamic Capabilities View of a firm, which was launched by David Teece in early 1990s, is based on the works of Barney (2011). The framework is an advancement of the Resource-Based View (RBV) of the firm which views resources as the key to superior organization performance. The dynamic capability theory is based on the concept that organizations will always attempt to renew their resources in a way that suits the changes taking place in a dynamic environment. According to (Teece, Pisano and Shuen 2005), the dynamic capability view examines how firms are able to integrate, build, and reconfigure their specific competencies (internal or external) into new competencies that match changes taking place in a turbulent environment. The theory is based on the assumption that firms with greater dynamic capabilities will always outperform those with smaller dynamic capabilities.

Therefore, operations in a dynamic environment call for firms to continuously renew, re-engineer and regenerate their internal and external firm's specific capabilities in order to remain competitive (Barney, 2007). The dynamic capabilities are hard to develop and difficult to transfer because they are tacit and are embedded in a unique set of relationships and histories of a firm. Ordinary capabilities, according to Resource Based View, are about doing things right whereas dynamic capabilities are about doing right things at the right time based on unique processes, organizational culture and prescient assessments of the business environment and technological opportunities surrounding a firm. Strong dynamic capabilities include processes, business models, technology, and leadership skills needed to effectuate high performance sensing, seizing and transforming an organization.

The literature review provided a review of past studies on; the business model for microfinance institutions, the situation for Small and Medium Enterprises in Kenya, and empirical review of the effect of various microfinance services i.e. financing, provisions of financial literacy, and developments of management skills among Small and Medium Enterprises in facilitation of market network among Small and Medium Enterprises. The chapter also discussed the interrelationship between the study variables in the conceptual framework.

EMPIRICAL REVIEW

Provision of Credit Facilities and Financial Performance Small and Medium Enterprises

Various attempts have been done to examine the effect of financing Small and Medium Enterprises by microfinance institutions on growth and development of Small and Medium Enterprises. Maina (2012) did a survey on microfinance services contribution to entrepreneurial development in Kenya. The study employed a case study design and focused on Small and Medium Enterprises within Nairobi. In his study, Maina noted that the banking sector in Kenya is fairly vibrant by the standards of developing third world countries.

However, the sector is 90% emphatically dominated by the formal commercial banks. Credit policy for banking institutions catered mainly for big businesses only, thus implying lack of access to credit facilities for small and medium enterprises. Maina study further observed that MFIs had come up to address the gap in finance requirements for Small and Medium Enterprises (SME). The study finding indicated the Microfinance Institutions intervention to Small and Medium Enterprises financing was faced by hurdle of Lack of collateral and inappropriate legal and regulatory framework that does not recognize innovative lending policy to coupled with limited access to credit and financial services, there was no structural institutional mechanism to facilitate flow of financial resources from banks to Microfinance Institution, and then to the Small and Medium Enterprises hence increasing cost of credit.

Provision of Financial Literacy and Financial Performance of Small and Medium Enterprises

Financial literacy among Small and Medium Enterprises owners and managers is critical in ensuring that Small and Medium Enterprises grow from small and medium to large enterprises. According to a report by Financial Sector Deepening 2009, Small and Medium Enterprises finance capacity is a critical component in expanding Small and Medium Enterprises finance. The report noted that some Microfinance Institutions were involved in enhancing the capacity for Small and Medium Enterprises through financial literacy training. It was however noted in Financial Sector Deepening report that attempting to build this capacity at an institutional level was unlikely to be sustainable and certainly an expensive approach among Microfinance Institutions. Thus as much as Microfinance Institutions wish to provide Small and Medium Enterprises capacity to handle finances, most of them are limited by the costs associated and the likelihood of passing this cost to the final consumer reduces original concept of providing affordable financing to Small and Medium Enterprises.

Development of Management Skills and Financial Performance of Small and Medium Enterprises

Management of Small and Medium Enterprises is a likely intervention that microfinance institutions are expected to offer in a bid to provide solution to many inadequacies that Small and Medium Enterprises face. According to Armyx, 2005 Small and Medium Enterprises face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Among such challenges as highlighted by is lack of managerial training and experience (Wanjohi, 2007). He noted that a typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made.

A consequence of poor managerial ability is that Small and Medium Enterprises owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run Small and Medium Enterprises are ordinary lot whose educational background is lacking. Hence they may not well equipped to carry out managerial routines for their enterprises (McGrath, 2002). According to Mugure, (2008) some educational institutions have made attempts to incorporate managerial training among Small and Medium Enterprises. There is however little known about how Microfinance Institutions are imparting business management skills among Small and Medium Enterprises and how this has affected their growth and development.

Market Facilitation and Financial Performance of Small and Medium Enterprises

Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data and poor connectivity especially in rural areas (Mwangi, 2013). Since there is vast amount of information and only lack of statistical knowledge to interpret and Internet connectivity, small enterprises entrepreneurs need to be supported. Belonging to a professional body helps gain a competitive advantage in a business. Being a member of an industry association implies that one is serious about the business they do. This could also help in networking and obtaining of business information. In addition to offering financial products, microfinance institutions can provide a link to between client and Microfinance Institutions through formation of business clubs, marketing associations and practicing development of well update data bases on Small and Medium Enterprises information, their products and services. Little has been discussed on how enhanced Small and Medium Enterprises network and accessibility of market information provided by Microfinance Institutions have contributed towards growth and development of Small and Medium Enterprises.

RESEARCH METHODOLOGY

Research Design

The study used a survey design to examine the effect of microfinance institutions on financial performance of Small Medium Enterprises in Kilifi Town. A descriptive survey was suitable in the study owing to the fact that several Small Medium Enterprises was sampled. A survey design describes people responses to questions about a phenomenon or situation with aim of understanding respondent's perceptions from which truism is constructed (KIM, 2009). This is based on the constructivist epistemology which holds that reality is what respondents generally perceive to be. A survey design was particularly useful as the study sought to establish the perception of respondents in reference to effect of microfinance institutions on financial performance of Small Medium Enterprises.

Target Population

The target population for this study were microfinance institutions and small and medium enterprises within Kilifi Town in Kilifi County. According to a report on microfinance operations by Cooper, (2012), Kenya has a total of 19 microfinance institutions with some having branches all over the country. For the sake of this study in Kilifi Town, Microfinance Institutions with nationwide presence and found in Kilifi County were considered. These include; Equity bank, K-rep bank, Faulu Kenya, Small and Micro Enterprise program and Kenya Women Finance Trust.

Sampling Design

Sampling of microfinance institutions was based on their distribution within the town. Five microfinance institutions with branches in Kilifi town and elsewhere in the country were selected to participate in the study. Each microfinance institution provided three managers in top management, middle level management and lower level management to participate in the study. This provided a sample size for Microfinance Institutions respondents of 15. The sampling frame for Small Medium Enterprises was drawn from the list of Small Medium Enterprises in Kilifi Town. Stratified random sampling was used to select Small Medium Enterprises to participate in the study. According to Kothari (2004), stratified random sampling entails grouping the study samples into homogenous strata from which a sampling fraction is selected. Small Medium Enterprises within Kilifi town were grouped into various categories based on the listing provided in table 3.2 below. From each strata a sampling fraction of 10% of the target population was selected. Selection of the sample size was based on Kothari (2004) recommendation for sample size which indicate that 10%-20% of the accessible population is adequate enough for a sample size. This gave sixty six (66) respondents sampled from a population of two hundred and two (652) in the proposed study.

Data Collection Instruments

The researcher used both secondary and primary data to accomplish the research objectives. Primary data was collected through questionnaires administered to managers in different companies. According to Chandran (2004), questionnaires provide a high degree of data standardization and adoption of generalized information amongst any population. They are useful in a descriptive study where there is need to quickly and easily get information from people in a non-threatening way. They provide flexibility at the creation phase in deciding how questions were administered. Secondary data was gathered through analysis of literature on trends and implications of price controls.

Data Collection Procedure

Data collection process was commenced by the researcher seeking an introduction letter to carry out research from the university. Further consent was sought from the County of Kilifi with help of a research assistant; the researcher issued the questionnaires to the targeted respondents to fill.

The process was closely monitored so as to clarify any issues that may arise during the answering of the questionnaire. For respondents who were unable to fill the questionnaire at the time the researcher was undertaking the exercise, were given more time so that the researcher picked the questionnaire after two days.

Data Analysis Techniques and Presentation

Quantitative and qualitative techniques were used to undertake data analysis. Qualitative data analysis involved explanation of information obtained from the empirical literature through open ended questions from the questionnaire. Quantitative analysis involved use of numeric measures in establishing the scores of responses provided. This entails generation of descriptive statistics after data collection, estimation of population parameters from the statistics, and making of inferences based on the statistical findings, with help of Statistical Package for Social Sciences (SPSS).

RESEARCH RESULTS

The general objective of the study was to establish the effects of Microfinance Institutions Services on the financial performance of Small Medium Enterprises in Kilifi Town, Kilifi County, Kenya. The study was guided by the following specific objectives; to establish the effect of credit facilities, financial literacy, development of managerial skills and market facilitation on financial performance of small and medium enterprises in Kilifi Town. The sample for the study included the 66 owners, directors or partners of the Small Medium Enterprises but the researcher managed to get 60 complete questionnaires which were used in analyzing the data. Descriptive research design was used to establish the influence of the four independent variables on the dependent variable.

75% of the Small Medium Enterprises were sole proprietorship type of businesses and had none or few employees. This indicates that the Small Medium Enterprises in Kilifi Town are small scale in nature. 95% of the respondent were aware of the existence of Micro Finance Institutions and some of the services they offered while 5% were not well versed with the existence and even the services due to their coming from outskirts of the town and some operating from home hence lacking information. The trainings offered by the Microfinance Institutions to the Small Medium Enterprises have to a great extent imparted basic business skills to the owners and proprietors of Small Medium Enterprises and the trainings enable them to become economic agents of change by increasing their income, productivity and decision making power. To a moderate extent do the trainings offered by Microfinance Institutions improve their business risk management skills, capital investment decisions and enhance development of sustainable community and social service skills like financial literacy. Other trainings were on insurance services significance and products thereof.

It is revealed that Microfinance Institutions have not done much on market facilitation for the Small Medium Enterprises as indicated by the weighted averages of less than 3. Annual growth in sales have been increasing significantly over the 5 year period considered at 52% while the rest of the indicators on loans, savings and trainings offered have been below average which shows that there are other factors that influence performance of Small Medium Enterprises a part from Microfinance Institutions services informing the growth in sales. However, the Microfinance Institutions services have not been fully effected to the Small Medium Enterprises to turn around their profitability and hence financial performance.

90% of the Small Medium Enterprises however indicated that the services extended to them by Microfinance Institutions contributed positively to the financial performance of their businesses while 4% indicated a negative effect and 6% indicated no effect. This shows that the Microfinance Institutions services have an impact on performance but they need to be accessible, affordable, effective and efficient in terms of timeliness of credit and other services. The Microfinance Institutions also need to train the traders before extending loans to them to avoid misuse of the funds.

CONCLUSIONS

The study concludes that there a number of significant number of Small Medium Enterprises in Kilifi Town, Kilifi County. The Small Medium Enterprises are significantly aware of the services offered by the Microfinance Institutions. The study concludes that the Microfinance Institutions have not done much in ensuring that their services reach and are appreciated by Small Medium Enterprises in the town. The study also concludes that credit facilities and financial literacy have significantly been extended to the Small Medium Enterprises by the Microfinance Institutions but development of managerial skills and market facilitation have not been done to expectations.

RECOMMENDATIONS

The study recommends that microfinance institutions in Kilifi Town need to sensitize Small Medium Enterprises on uptake and significance of their services. Credit facilities by Microfinance Institutions extended to Small Medium Enterprises need to be done after sufficient financial and business management skills have been given to the recipients. This will limit financial mismanagement, loan loss and delinquency and subsequent closure of the enterprises.

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