# MICROFINANCE SERVICES AND PERFORMANCE OF WOMEN OWNED SMALL SCALE BUSINESS ENTERPRISES IN NAIROBI CITY COUNTY, KENYA

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## ABSTRACT

Small scale and Medium owned Enterprises is an important sub sector for the Kenyan economy like many other developing countries since it employs about 85% of the Kenyan workforce (about 7.5million Kenyans of the current total employment). The current constitutional framework and the new Micro and Small Enterprise Act 2012 provide a new window of opportunity through which the evolution of SMEs can be realized through the devolution framework. However, the impact of devolution on SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy. Lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs. The study sought to establish the influence of microfinance services on the financial performance of women owned SMEs in Nairobi City County, Kenya. The specific objectives were; to determine the effect of financial accessibility, savings mobilization, financial knowledge and lending rates on performance of SMEs in Nairobi City County. The study was anchored on the following three theories which included women empowerment theory, game theory of microfinance and microfinance theory. Empirical literature reviewed scholarly studies on financial accessibility, savings mobilization, financial knowledge and lending rates and their influence on financial performance of SMEs. The study used a descriptive research design. The population of study was women owned enterprises in the 17 sub-counties in Nairobi City County that were operational. This consisted of 524 respondents who were the proprietors of the enterprises. A sample of 157 respondents was taken which formed 30% of the target population. The primary data was collected by use of self-administered semi-structured questionnaire. Data analysis was done by use of descriptive statistics such as frequencies, percentages, mean scores and standard deviation with the aid of SPSS and presented through tables, charts, graphs, frequencies and percentages. The study established that financial accessibility, savings mobilization and financial knowledge positively and significantly influence the performance of small scale enterprises while lending rates negatively affected their performance. The study further concludes that financial knowledge was offered to a limited extent to the small scale enterprises in Nairobi County with most of them not being aware of the trainings. It was concluded on the other hand that lending rates had in inverse relationship with the performance of the women owned small scale enterprises in Nairobi City. The study recommends that the MFIs in Nairobi City County need to create awareness among the business owners especially the small scale cadre to enable them access the credit facilities. The study recommends that the MFIs need to reduce lending rates and make them affordable and flexible hence making credit friendly and attractive to the enterprises. The study recommends that the small scale enterprises in the area of study need to embrace a diligent savings plan and scheme to enable them improve their creditworthiness and seed capital.

***Key Words:*** *microfinance services, performance, women owned small scale business enterprises, Nairobi City County, Kenya*

## INTRODUCTION

Microfinance services are crucial tools for economic empowerment to individuals especially the women and youths in Kenya. The microcredit industry has supported more than 3 million Small and Medium Enterprises for close three decades. Existing literature on the growth MSEs indicate that many SMEs fail to expand due to limited financial resources, poor managements, use of outdated technologies, stiff competitions from bigger firms, poor management of account receivables, unfavorable government policies among others. Poor access to loans and limited finance are stated as the main causes limiting the growth of micro and small enterprises (Yaron, 1997). However, Microfinance establishments have a significant role in increasing participation in SMEs through financing hence contribution to economic growth and development of the nation.

The findings on the statistics in the study by Muiruri (2014) demonstrate that MFIs offer services to customers who are of the low income earning level and the disadvantaged, majorly women, persons with disabilities and youths to start up or expand SMEs and this has contributed to economic growth which has been rapid over the years. Asemelash (2002) confirmed a positive impact of microfinance on beneficiaries as compared to non-beneficiaries. He showed that microfinance has impacted positively income, asset building, and access to schools and medical facilities. However, credit alone can’t automatically lead to increased financial performance. Madole (2013) established that, age or experience of the SMEs owners, and, credit accessibility influence the access of credit and that once accessed, there is need for training on best investment decisions or maintenance of increased profits. The study concluded most of the small businesses depend on loan for business capital growth which plays a very crucial role to promote small business financial health.

Women Enterprises contribute to macroeconomic goals of nations and their growth is essential for a competitive and efficient market, labor absorption, and production. Costs, resources, labor and energy have to be harnessed through operational efficiencies and other sector interventions such as creation of an enabling legal and policy framework, access to markets facilitation, capital investments, training, infrastructure development, capacity building, taxation and technology adaptations in meeting overall business objectives (Eeden, 2006).

The Consultative Group to Assist the Poor (CGAP) defines a Microfinance Institution (MFI) as an organisation that provides financial services to the poor in the form of credit, savings and insurance. Microfinance is also defined as provision of small- scale financial services to the low-income people (Robinson, 2001; Nair, 2001). Financial services provide the poor an opportunity to improve their livelihoods and, alongside with social services, can contribute to poverty reduction. People living in poverty, like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks (CGAP, 2012).

The microfinance industry was borne primarily out of a desire to help the world's vulnerable and poor (Campion et al., 2008). Over the years, following numerous studies and models, it has become clear that the poor are actually bankable. Thus the microfinance industry today forms an integral part of the formal financial sector in many countries around the world. By 2006 there were more than 133 million microfinance clients, 70% of whom were among the world's poorest people (Campion et al., 2008). Providers of financial services who enable people to cross such a poverty line have focused on credit, in particular credit for small enterprises, including agricultural production (Johnson & Rogaly, 1997).

The ability to both borrow and save with an MFI may increase micro entrepreneur's profits through lower interest rates and access to appropriately designed loan products. This also improves their ability to manage working capital needs through borrowing and savings at different times as required (Ogilo, 2012). MFIs that target potential entrepreneurs often have poverty alleviation as an objective. The belief is that by aiding potential entrepreneurs to start up their own businesses, they will increase their incomes and consequently reduce their level of poverty. Most MFIs' prefer to focus on existing businesses, with perhaps a small portion of their portfolio invested in start-up businesses, thereby reducing their risk horizon. However, potential entrepreneurs often need more than financial services. Many need skills training or other inputs to make their enterprises a success (Kabiru, 2002).

According to the Kenya Micro and Small enterprises bill (GoK, 2006), micro and small enterprises are defined as enterprises in both formal and informal sector, classified in farm and non- farm categories, employing not more than fifty employees and have a turnover not more than four million shillings. Small and medium enterprises in Kenya contribute between 18-25% to the country's GDP and employ over about 17% of the total labour force in Kenya, (CBS, ACEG and KREP Holdings, 1999). Most small business enterprises are self-financed or financed by loans from family or other informal sources.

Kenya has a developing economy, agriculture being the chief economic activity. Most people in Kenya work in agricultural sector. Some practice subsistence farming while a very small number practice large-scale farming. Some people work as wage labourers in coffee farms or tea plantations. They depend on the small wages and life become rather unbearable at times. For those who practice small scale farming, their source of income is mainly from the sale of the farm produce. Some are engaged in small businesses such as the selling of agricultural goods in market places while others trade in livestock and selling of milk. There are all sorts of small businesses related to agricultural sector.

Kenyan microfinance has shown resiliency despite local droughts and high inflation rates that afflicted the economy in 2008 and 2009. With the Kenyan government and the Central

Bank of Kenya (2005) emphasizing financial access as a key to modernizing the economy, the sector has been strengthened by progressive policies and innovative approaches to delivering financial services. A large deposit base, along with the existence of well-developed MFIs, has allowed financial and operational expenses to remain relatively low and has led to some of the highest profitability measures in the region.

Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated growth and rapid industrialization have been achieved (Koch, 2011). Women Enterprises have been recognized as socio-economic and political development catalysts in both developed and developing economies. Mwangi (2011), Maalu, et. al. (1999) discussed the role of Micro and Small Enterprises in the economy of Kenya and noted the important role it has played and continues to play. In addition to the employment creation and income generation, the study noted other important roles in the economy such as production of goods and services and development skills. A study by Cooper (2012) on the impact of micro finance services on the growth of SMEs in Kenya found a strong positive relationship between micro finance services and growth of SMEs.

The Kenya Government's commitment to foster the growth of MSEs emerged as one of the key strategies in 1986 report. It was reinforced as a priority in 1989 report, a document that set out the mechanisms for removing constraints to growth of MSE sector. In 1992, the government published the MSE policy report. This report was reviewed in 2002, leading to a new policy framework that provides a balanced focus to MSE development in line with the national goals of fostering growth, employment creation, income generation, poverty reduction and industrialization (Kenya Agency for the Development of Enterprises and technology (2005). Vision 2030 had also emphasized the importance of Micro and Small Enterprises in Kenya. Micro and Small Enterprises are noted as a crucial catalyst for achieving the vision 2030.

## STATEMENT OF THE PROBLEM

According to Wagana (2014) women owned enterprises in Kenya have faced a hostile playing ground given the societal set up and unfairly competitive environment. Most of these SMEs have closed down soon after takeoff. This has been precipitated by limited access to capital by women from the financial sector due to high lending rates and limited security. Most women also have limited socialization, knowledge and awareness regarding sources of funding for their enterprises. This has retarded the growth of the enterprises. Provision of financial services, especially credit and saving facilities plays an important role in the development of the economy. Despite the efforts of microfinance institutions to take microfinance services within the reach of poor people and MSEs that have not benefited from the conventional formal financial system, growth and expansion of SMEs sector had not shown any sign of growth and expansion. Poverty is a concept that applies to all humans and more seriously to people in the developing world. The deadly effect of poverty on the poor necessitated a worldwide research into ways of reducing its impact. An important tool in fighting poverty is microfinance which has gained prominence over the last few decades in countries hardly hit by the menace (Wanambisi, 2013). Studies have shown that microfinance has produced certain successes in poverty reduction and increased performance of SMEs. Adama and Agbim (2015), found out that micro-credit has significant effect on self-employment, education, training and skills acquisition, and economic empowerment. Wanambisi (2013) found out that the amount of loans is significantly and positively related with performance of MSEs in Kitale Municipality. He found that access to microcredit significantly associated with sales, net profit, number of paid workers and liabilities thus access to microcredit had positive effects on the growth of enterprises. On the contrary, other scholars that microfinance has not had the much-hyped impact. Microfinance services are believed to facilitate access to financing to small businesses by determining the extent in which small firms accumulates own capital and save for further investment (Wagana, 2014). In attempt to understand the effect of microfinance on SMEs, numerous studies have been done. Owusu (2002) found that micro finance credit was the major source of capital for SME's. A positive correlation was shown between credit access and SME's financial position. These findings concur with those of Ojo (2009) who also established the same positive impact. Therefore, there exists a knowledge gap in the current research literature as far as addressing the effect of microfinance institution services and the performance of Women Enterprises is concerned. The study therefore sought to establish the effects of microfinance institutions' services on the performance of women owned small scale business enterprises in Nairobi City County, Kenya.

## GENERAL OBJECTIVE

The general objective of the study was to establish the effects microfinance services and performance of women owned small scale business enterprises in Nairobi City County, Kenya.

## SPECIFIC OBJECTIVES

1. To establish the relationship between financial accessibility and Performance of women owned small scale business enterprises in Nairobi City County, Kenya.
2. To investigate the effect of financial knowledge on Performance of women owned small scale business enterprises in Nairobi City County, Kenya.
3. To find out the influence of savings on Performance of women owned small scale business enterprises in Nairobi City County, Kenya.
4. To determine the effect of lending rates on Performance of women owned small scale business enterprises in Nairobi City County, Kenya.

## THEORETICAL REVIEW

### Women empowerment Theory

The theory of empowerment was postulated by S Turner in 2000. The theory indicates that women account for nearly 74% of the 19.3 million of the world's poorest people now being served by microfinance institutions. Most of these women have access to credit to invest in businesses that they own and operate themselves. The vast majority of them have excellent payment records in spite of the daily hardships they face. Contrary to conventional wisdom, they have shown that it is a very good idea to lend to the poor and to women.

Financial self-sustainability paradigm: The main consideration in programme design is provision of financially self-sustainable microfinance services to large numbers of people particularly micro and small entrepreneurs. The focus is on setting of interest rates right to cover costs, to separate microfinance from other interventions, to enhance separate accounting, to expand programmes so as to capture economies of scale to use group to decrease cost of delivery. Gender lobbies argue that targeting women on grounds of high women repayment rate, it is assumed that increasing women access to microfinance services will in itself lead to individual economic empowerment, well-being and social and political empowerment.

Poverty alleviation paradigm: The main considerations are poverty reduction among the poorest, increased well-being and community development. The focus is on small savings and loans, provision for consumption and production, group formation, etc. This paradigm justifies some level of subsidy for programmes working with particular clients group or in particular context. Some programmes have developed effective methodologies for poverty targeting and or operating in remote areas. Gender lobbies in this context have argued that targeting women because of women's responsibility for households' well-being. Poverty alleviation and women empowerment are seen as two sides of the same coin. The assumption is that increasing women's access to microfinance will in itself increase household income which will then translate into improved well-being and enable women to bring about wider change in gender inequality.

Feminist empowerment paradigm: The underlying concern is gender equality and women's human rights. Microfinance is promoted as an entry point in the context of a wider strategy for women's economic and social political empowerment. The focus here is gender awareness and feminist organization (Khan, 2008).

This theory supports women empowerment through fair and equal access to resources especially the microfinance and financial sector services and resources. The theory supports the independent variables.

## Games Theory of Microfinance

This theory was postulated by Dean Karlan in 2006 which is based on group peer pressure whereby loans are made to individual groups of four to seven. Group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly. The groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as Grameen Bank (Bangladesh) that use this type of microfinance model. The model has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to a broader social network (Ledgewood, 1998). However, group based mechanisms tend to be vulnerable to free riding and collusion. Inefficiencies are well known to emerge in similar contexts (Gruber, 2005).

This theory forms the basis upon which the lending institutions especially the microfinance institutions for their clients. The theory alludes to the reason why women should form groups to increase their chances of qualifying for credit and other microfinance services from lenders.

## Microfinance Credit Theory

Microfinance in Kenya was postulated by S Osman in 1984. These model examines how group liability schemes resolve moral hazard and monitoring problems The Microfinance sector in Kenya has grown since it inceptions in the 1970s and is one of the most established in Africa (Kashangaki et al, 1999). The birth of specialized microfinance in Kenya was in the 1980s when Kenya Rural Enterprises Fund (K-REP) and the Kenya Women Finance Trust (KWFT) were established. In the 1990s more MFIs emerged like Faulu Kenya, Small and Medium Enterprise Program commonly known as SMEP and Jamii Bora.

The concept of group lending is commonly heralded as the main innovation of microfinance and claims to provide an answer to the shortcomings of imperfect credit markets, in particular to the challenge of overcoming information asymmetries. Information asymmetries may lead to the distinct phenomena of adverse selection and moral hazard. In the case of adverse selection, the lender lacks information on the riskiness of its borrowers. Riskier borrowers are more likely to default than safer borrowers, and thus should be charged higher interest rates to compensate for the increased risk of default (Rahman, 2010). The standard model of lending commonly contains two mechanisms which address the issue of information asymmetries: assortative matching or screening to deal with adverse selection, and peer monitoring to overcome moral hazard.

Early models were developed by Stiglitz (1990) and Swain, (2008).These models examined how group liability schemes resolve moral hazard and monitoring problems. Other models developed by (Rafiq et al, 2009). Gangopadhyay et al. (2005) were inspired by Stiglitz and Weiss (1981) and focused on adverse selection and screening mechanisms. Moreover, social ties among group members, i.e. social connections in the language of Anand and Kanbur (1993), also referred to as social capital; appear to play an important role in the context of group liability schemes in terms of enhancing repayment behavior, as theorized by PisaniYoskowitz (2010).

This theory supports the microfinance aspect of forming groups to access finance and uplifting each other as SMEs especially the Women owned enterprises. This theory supports the performance of the SMEs through access to the microfinance services.

## EMPIRICAL REVIEW

### Financial Accessibility and Performance of SMEs

Access to credit enables Small and Medium enterprises to enhance their financial performance. The main objective of microcredit is to improve the performance of SMEs as a result of better access to small loans that are not offered by the formal financial institutions. It is argued that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare (Kamau & Kalio, 2012).

Availability of finance determines the capacity of an enterprise in a number of ways, especially in choice of technology, access to markets, and access to essential resources which in turn greatly influence the viability and success of a business, (Wole, 2009). Wole further states that securing capital for business start-up or business operation is one of the major obstacles every entrepreneur faces particularly those in the SMEs sector. Within the SMEs sectors lack of access to credit is one of the major factors accountable for hindering the emergence and growth of their businesses.

Banerjee and Duflo (2004) studied detailed loan information on 253 small and medium – size borrowers from a bank in India both before and after they became newly eligible for the program. Specifically the size definition of the program was changed in 1998 which enabled anew group of medium-size firms to obtain loans at subsidized interest rates. Naturally these firms began to borrow under this favored program, but instead of simply substituting subsidized credit for more costly finance, they expanded their sales proportionately to the additional loan sources which suggest that these firms must have previously been credit constrained.

### Savings Mobilization and Financial Performance of SMEs in Kenya

Savings is defined as the action of putting aside a part of current income, in order to consume or invest it later on. The money saved can be kept at home, deposited in a savings account or invested in different types of capital. Savings is a critical service for entrepreneurs who want secure and convenient deposit services that allow for small transactions and offer easy access to their funds (Gardiol, 2004).

A study by Kurgat (2007 ) of the Kenya Women Finance Trust shows that clients preferred credit and savings services in the Microfinance Institution with their reason for saving being to expand their business (62%), education for their children (40%) and for emergencies (26%) additionally 71% of the clients viewed compulsory savings as an opportunity to save. In this study it is concluded that savings mobilization is important for the improved financial performance and outreach especially in the rural areas where access to financial services is challenging.

However, it can be argued that savings mobilization is costly and risky relative to other sources of financing and also that it would be better if entrepreneurs were helped to build assets through saving rather than to take on debt. A study by Bateman and Chang critically examined evidence on saving with microfinance institutions in Croatia and found that savings were only useful in maximization of profits for MFI managers and external shareholders. The study further argues that poverty reduction can only be done through a range of state coordinated policy interventions as happened in Malaysia, China, Taiwan, South Korea and India. It would be important to establish the role of savings on SMEs asset building with a view on possible solutions to any imperfections.

A study in Uganda by Akisimire (2010) found that MFI savings products to SMEs have encountered stiff competition at the market place with the entry of new commercial banks and downscaling of old banks' while competition may be beneficial to the SMEs because of higher interest rates on savings, it could affect the MFIs by reducing the revenue available in order to lend. Similarly Yeboah (2010) contends that little progress has been made to establish microfinance institutions (MFIs) as full-fledged financial intermediaries and MFIs offer only credit, and savings mobilization remains the forgotten half of microfinance. Microfinance Institutions can gain outreach to SMEs by providing appropriate savings products. The MFIs should conduct research to ensure that the pricing of their savings products will ensure financial sustainability.

## Financial Knowledge and Financial Performance of SMEs

Financial knowledge provides material capital to a business person empowering the person to participate in the economy and society. Microfinance Institutions train entrepreneurs on financial management, business planning and projection. However Wright (2000) is not enthusiastic about the role of microfinance institution training to SMEs and thinks that these funds should be diverted to other projects desperately needed such as health of the people in an organization and there is inadequate learning from the training programs offered by Microfinance Institutions funds could be used in other projects that might help the SMEs more. It could also be noted that money given to the SMEs without proper management could result in spending on social entertainment such as alcohol or gambling.

Similarly another study by King & McGrath (2002) concludes that education is one of the factors that impact positively on growth entrepreneurs with large stocks of capital that includes education and or vocational training are better placed to adapt the constantly changing business environment. "SMEs are dominated by people with relatively low levels of education in Kenya" (Bowen, Morara & Mureithi, 2009) similarly in Belgium SMEs according to statistics by the Nationale Bank van België, less than one out of ten employees had participated in formal education. In Zimbabwe Zindiye (2008) argues that the SME sector attracts a low priority to financial training and are often unwilling to participate in programs that require them to finance the costs these enterprises eventually are weak in cash management, marketing strategies and finance. The study further concluded that SMEs should be trained in the following financial management skills book keeping, preparing financial statements, debit/ credit control, budgeting and tax calculation to ensure their growth. It can be argued that well designed financial training programs can improve the incomes of SMEs. Therefore, microfinance institutions need to create ways of measuring the impact of financial skills training to the SMEs.

Financial skills as contended by the ILO (2013) can improve productivity and incomes in the informal economy and open opportunities to link with the formal economy this training can support medium term strategies for integration with the mainstream economy while also offering a range of immediate benefits to informal economy entrepreneurs and workers. This argument is particularly important in Nairobi CityCounty where a large population of the SMEs is in the informal economy their transition to the formal economy would create a bigger tax base for the government and also increase formal employment.

In Canada research was conducted by the CFEE (2011) into relationships between financial literacy and the nine Essential Skills (i.e., Numeracy, Thinking Skills, Reading Text, Document Use, Oral Communication, Writing, Computer Use, Continuous Learning, and Working with Others. The study found both empirical and anecdotal evidence in support of the relationship between financial skills and the nine essential skills. These essential skills can be viewed as very important to the success of a business enterprise.

It is therefore important to investigate the effect of financial skills training on the growth of SMEs as it is often these vulnerable businesses affected by lack of financial capability. The effects of a lack of financial capability as highlighted by McQuid and Egdell (2011) are not only financial but may lead to wider problems for the individual, household and beyond, including debt, higher stress and reduced wellbeing.

### Lending Rates and Financial Performance of SMEs

Accessing low interest credit is considered to be an important factor in increasing the performance of SMEs. Bourke (2009) reports that the effect of credit risk on profitability appears to be negative. Kamau and Kalio (2012) proposed that access to low interest credit further increases SME's risk-bearing abilities; improve risk coping strategies and enables consumption smoothing over time. High interest rates do not reduce the financial cost, improve cash flow as well as increase profitability of the SMEs. Microfinance Institutions organize entrepreneurs into groups as depicted by Armendariz and Morduch (2010), this system also known as the Grameen Solidarity Group Model emphasizes on group members collectively giving guarantee to loan repayment, access to subsequent loans is dependent on successful repayment by all group members. The groups have proven effective in deferring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank in Bangladesh.

It can be further noted that the mutual trust between the group members enables it to become the building block to a broader social network whereby the members look up to each other. This reduces the cost of monitoring loans by the Microfinance institutions as the members of the group make sure the loans are paid or they become liable.

Wanambisi(2013) examined the effects of microfinance institutions lending on micro and small enterprises performance within Kitale Municipality. This study adopted a descriptive survey research design and the target population was 1,200 MSEs which were registered within Kitale Municipality and had operated for at least three years. The findings were that the amount of loans is significantly and positively related with performance of MSEs in Kitale Municipality.

Chibole (2014) seeks to investigate the effect of capital Microfinance loans, liquidity and ownership on growth of medium enterprises in Kenya. Findings of the study indicated that capital structure, financial liquidity and ownership structure affect growth of medium enterprises in Kenya. The study recommended that enterprises need to avoid high Microfinance loans ratios which may results in high transaction costs resulting in a weakened position to pay higher dividends; for SMEs to encourage institutions to invest in their enterprises.

Boateng (2015) ascertained the impact of microfinance on poverty reduction in Ghana. The study employed economic and social variables such as individual income, household growth, and access to education, housing and participation in social and religious activities as benchmarks for measuring the impact. The study found a positive relationship between microfinance and the benchmark variables and recommended training for beneficiaries to ensure efficient use of funds and creation of sound political and economic environments so microenterprises can thrive.

## RESEARCH METHODOLOGY

### Research Design

The study adopted a descriptive research design. Sekran (2007) observed that descriptive research design is intended to produce statistical information about aspects of a phenomenal being studied by administering a questionnaire to a sample of individuals. .

### Target Population

According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. In this study, the target population was composed of women owned SMEs in Nairobi City County, Kenya. They were the women who own or manage the 524 women-owned small scale business enterprises registered and operating in Nairobi City County spread across the 17 sub-counties. The small scale women owned enterprises were classified as small, micro or medium.

### Sampling Design

The sampling frame describes the list of all population units from which the sample was selected (Cooper & Schindler, 2003). The study used stratified sampling. Kothari (2010), a representative sample is one which is at least 30% of the population, thus the choice of 30% of the 524 was considered representative. Therefore the sample for the study was 157 respondents.

### Data Collection, Procedures and Instruments

Primary data was used in the study. The data was collected from respondents using closed ended and open ended questionnaire. Drop and pick method was used to administer the questionnaire. Hence each respondent received the same set of questions in exactly the same way. The respondents were made aware of purpose of the research and were assured of their confidentiality. Questionnaires are suitable to obtain important information about the population and are said to reach large number of subject who are able to read and write independently (Orodho, 2004).

### Data Analysis Procedure and Presentation

The researcher edited the completed questionnaires and the secondary data collection forms to ensure completeness and consistency. The process of data clean-up was followed to enhance editing, coding, and tabulation in order to detect any anomalies in the responses and assign specific numerical values to the responses for further analysis. The data was quantitatively analyzed with the aid of SPSS software. The output of the analysis were tables, percentages, means and figures which helped establish the role of microfinance services on the performance of women owned SMEs in Nairobi City County, Kenya. A multiple linear regression analysis was applied to examine the effect of the microfinance services on the financial performance of SMEs. The following algebraic expression of the analytical model was applied:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where: Y = Financial Performance of SMEs; $X_1$= Financial accessibility; $X_2$ = Savings mobilization; $X_3$ = Financial knowledge; $X_4$ = Lending rates; ε = Error term

The regression coefficients are represented by $\beta o$, $\beta_1$, $\beta_2 \ldots \beta_5$ while $x_1$, $x_2$, ……, $x_4$ are the independent variables and ε provides for the random variation in y that x variables are not able to explain.

## RESEARCH RESULTS

The main objective of the study was to establish the effect of microfinance services on the performance of women owned small scale enterprises in Nairobi City County. The study sought to establish the effect of financial accessibility, savings mobilization, financial knowledge and lending rates. The response rate was 76.43%. Both descriptive and inferential statistics were used to analyze and present data.

## Financial Accessibility and Performance of Small Scale Enterprises

The study established that financial accessibility positively and significantly influenced performance of women owned small scale enterprises in Nairobi City County. It was indicated that most of the respondents were neutral/indifferent on whether there were diverse sources of finance for small scale businesses, credit application and maturity takes a short time and that the application procedure is simple and friendly. The respondents agreed that the volume of loans applied in a year were high and that most MFIs were willing to extent credit to SMEs. The respondents further disagreed that all loans applied were approved and extended.

## Savings Mobilization and Performance of Small Scale Enterprises

The study found out that savings mobilization significantly influenced performance of women owned small scale enterprises in Nairobi City County. The study indicated that the respondents were indifferent or neutral on whether the enterprises had a savings plan, their savings enabled them to growth their investments and that their savings have increased which has improved their creditworthiness. The study respondents disagreed that they saved on a regular basis and that the amount saved in a month keeps on increasing. The respondents agreed that there are many saving schemes among MFIs for small scale businesses.

## Financial Knowledge and Performance of Small Scale Enterprises

The study pointed out that financial knowledge positively influenced performance of small scale enterprises in Nairobi City County. The study indicated that the respondents were neutral on whether MFIs available provide diverse financial trainings for small scale enterprise owners. The study respondents disagreed that most small scale business owners have been trained on financial knowledge and management, most small scale business owners are aware of trainings offered on financial literacy, on-business trainings are available, off-business trainings are available and that most trainings on financial knowledge are customized to needs of entrepreneurs.

## Lending Rates and Performance of Small Scale Enterprises in Nairobi City County

The study established that lending rate significantly influenced performance of women owned enterprises negatively. The respondents disagreed that the lending rates by MFIs are friendly and that the rates are affordable. The respondents were neutral on whether the lending rates are always flexible and that the rates are reviewed regularly to enable small scale businesses access credit. The respondents agreed that small businesses have shied away from loans due to high lending rates. This indicates that lending rates were not friendly to the performance of the small scale enterprises with very few MFIs offering friendly rates to the borrowers. This reduced the number of enterprises that were able to secure the credit facilities from the MFIs.

## INFERENTIAL STATISTICS

The study used inferential statistics to establish the correlation between the independent and dependent variables of the study. The findings of coefficient of correlation and coefficient of determination are as shown in Table 1.

**Table 1: Model summary**

| Model | R | R square | Adjusted r square | Std. Error of the estimate |
|---|---|---|---|---|
| 1 | .759[a] | .766 | .759 | 1.64055 |

a. Predictors: (constant), financial accessibility, savings mobilization, financial knowledge and lending rates

The study shows that coefficient of correlation R of 0.759 an indication of strong of correlation between the variables. Coefficient of adjusted $R^2$ was 0.759 which translates to 75.9%. This show that changes in dependent variable can significantly and sufficiently be explained by independent variables (financial accessibility, savings mobilization, financial knowledge and lending rates). The residual of 24.1% can be explained by other variables not incorporated in the current study.

An ANOVA was conducted at 95% level of significance. The findings of $F_{Calculated}$ and $F_{Critical}$ are as shown in Table 2.

**Table 2: ANOVA**

| Model | Sum of squares | Df | Mean square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 498.251 | 5 | 44.13 | 28.430 | .000[b] |
| Residual | 322.111 | 115 | 5.241 | | |
| Total | 820.362 | 120 | | | |

a. Dependent variable: Organizational Performance
b. Predictors: (constant), financial accessibility, savings mobilization, financial knowledge and lending rates)

It was established that the study had $F_{Calculated}$ of 31.530 and $F_{Critical}$ was 4.5466, this show that of $F_{Calculated} > F_{Critical}$ an indication that the overall regression model was significant for the study. The p value was $0.00<0.05$ an indication that at least one independent variable significantly influenced the performance of women owned small scale enterprises in Nairobi City County, Kenya.

The study used a regression coefficient to establish the effect of individual variables of MFI services on performance of small scale enterprises in Nairobi City County. The findings are indicated in Table 3.

**Table 3: Regression Coefficient**

| Model | Unstandardized coefficients | | Standardized coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | T | Sig. |
| (constant) | 5.667 | 1.43 | | 2.120 | .000 |
| Financial accessibility | 0.819 | .046 | .515 | 2.652 | .000 |
| Savings Mobilization | 0.791 | .067 | .165 | 3.833 | .000 |
| Financial Knowledge | 0.879 | .079 | .492 | 2.556 | .000 |
| Lending rates | -0.617 | .078 | .438 | 3.796 | .000 |

a. Dependent variable: Firm Performance

$$\mathbf{Y = 5.667 + 0.819X_1 + 0.791X_2 + 0.879X_3 - 0.617X_4}$$

Where: Y = Performance of women owned small scale enterprises in Nairobi County; $X_1$ = Financial accessibility; $X_2$ = Savings mobilization; $X_3$ = Financial knowledge; $X_4$ = Lending rates;

Table 3 indicates that all variables held constant, project performance would be at 5.667. A unit increase in financial accessibility while holding other variables constant, performance would be at 0.819. A unit increase in savings mobilization while holding other factors constant, performance would be at 0.791. A unit increase in financial knowledge while holding other factors constant, enterprise performance would be at 0.879. A unit increase in lending rates while holding other factors constant, performance of the enterprises would be at decrease by 0.617.

The p values of all the independent variables which include financial accessibility, savings mobilization, financial knowledge and lending rates were $0.000<0.05$ an indication that the variables significantly influenced performance of women owned small scale enterprises in Nairobi City County. This is supported Bosma, Hessels,Schitjens, Vanpraag and Verheu (2011) who in his study on entrepreneurship and performance of SMEs in Dutch cities concluded that services by MFI services played a critical for enterprise performance.

## CONCLUSION

The study concluded that to a moderate extent the small scale enterprises in Nairobi City County had access to financial resources from MFIs and also MFIs adequately provided finances to the enterprises. The study concluded that MFIs in Nairobi City County assisted the small scale enterprises to an average extent to mobilize their savings through savings schemes and coming up with savings plan

The study further concludes that financial knowledge was offered to a limited extent to the small scale enterprises in Nairobi County with most of them not being aware of the trainings. It was concluded on the other hand that lending rates had in inverse relationship with the performance of the women owned small scale enterprises in Nairobi City.

## RECOMMENDATIONS

The study recommends that the MFIs in Nairobi City County need to create awareness among the business owners especially the small scale cadre to enable them access the credit facilities. The study recommends that the MFIs need to reduce lending rates and make them affordable and flexible hence making credit friendly and attractive to the enterprises.

The study recommends that the small scale enterprises in the area of study need to embrace a diligent savings plan and scheme to enable them improve their creditworthiness and seed capital.

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