MICROFINANCE SERVICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES OF YOUTH SMES IN KISUMU COUNTY, KENYA

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ABSTRACT

Small and Medium Enterprises (SMEs) 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 SMEs in Kisumu County, Kenya. The specific objectives were to determine the effect of access to credit, savings mobilization, financial skills training and role modeling on performance of SMEs in Kisumu county.The study was anchored on the following five theories which include women empowerment theory, game theory of microfinance, uniting theory of microfinance, financial sustainability theory and poverty alleviation theory. Empirical literature reviewed scholarly studies on access to credit, savings mobilization, financial skills training and role modeling and their influence on financial performance of SMEs. The study used a descriptive research design. The population of study were the youth owned enterprises in the 7 sub-counties in Kisumu County that were operational. This consisted of 448 respondents who were the proprietors of the enterprises. A sample of 135 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.

Key Words: *microfinance services, financial performance, small and medium enterprises, youth, SMEs, Kisumu County, Kenya*

INTRODUCTION

Small and Medium Enterprises (SME's) 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 and 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 (Ledgerwood, 1998). 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 (Ledgerwood, 1998). However, potential entrepreneurs often need more than financial services. Many need skills training or other inputs to make their enterprises a success (Ledgerwood, 1998).

According to the Kenya Micro and Small enterprises bill, 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). Micro and Small Enterprises (MSEs) 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

The concept of business growth is still a grey area as there is yet to be a conclusive approach and definite indicators of business growth despite the fact that it is every entrepreneur's wish to have their businesses grow. Thus the subject of business growth is a fertile area for a study in the Kenyan context (Kemei (2011). Reviews examining impacts of microfinance have concluded that, rigorous quantitative evidence on the nature, magnitude and balance of microfinance impact is still scarce and inconclusive. It is widely acknowledged that no well-known study robustly shows any strong impacts of microfinance (Aghion and Morduch (2010). Various studies have been done in Kenya on SMEs and how they are influenced by microfinance services. Mutuku (2010) studied on the impact of microfinance institutions on SMEs in Kenya and found out that they had a great impact on employment creation and poverty alleviation. Ngugi (2009); Kioko (2009); Makena (2011) studied on the financial challenges faced by SMEs and found that inadequacies in access to finance are key obstacles to SMEs growth. Kemei (2011) studied on the relationship between microfinance services and financial performance of SMEs. The findings were that positive and significant relationships have been established between MFIs loans and SMEs performance. Kimoro (2011) in a study on the impact of microfinance services on women empowerment found that microfinance has led to expansion of freedom of choice of women. A survey of the financial constraints hindering growth of SMEs by Koech (2011) found that the factors affecting growth were capital market, cost, capital access, collateral requirements, capital management and cost of registration. Coopper (2012) studied on the impact of microfinance services on the growth of SMEs in Nairobi and found a strong positive impact. There are limited studies on the effects of microfinance services on the growth of SMEs in Kenya. The researcher sought to fill the research gap by establishing the influence of microfinance services on the financial performance of SMEs in Kenya with a special focus on youth enterprises in Kisumu County.

GENERAL OBJECTIVE

The general objective of the study was to establish the influence of microfinance services on the financial performance of SMEs in Kenya.

SPECIFIC OBJECTIVES

1. To establish the influence of provision of credit facilities on the financial performance of SMEs in Kisumu County, Kenya
2. To determine the effect of savings mobilization on the financial performance of SMEs in Kisumu County, Kenya
3. To find out the relationship between financial skills training and financial performance of SMEs in Kisumu County, Kenya
4. To assess the influence of role modelling on the financial performance of SMEs in Kisumu County, Kenya.

THEORETICAL REVIEW

Women Empowerment Theory

Cheston and Kuhn (2002) talk about the theory of empowerment. 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.

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).

Games Theory of Microfinance

The microfinance games theory also supports the idea of group lending among micro finance institutions. Many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves .It is based on Grameen lending model of microfinance 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, 1999). However, group based mechanisms tend to be vulnerable to free riding and collusion. Inefficiencies are well known to emerge in similar contexts Gruber (2005).

Financial Sustainability Theory

Long-term survival and sustainability is critical for an MFI in being able to reach its target clientele and cover administrative and other costs. While social goals of reaching the poorest and poverty alleviation are valid, sustainable standing on one's own feet is as true for low income households receiving microfinance as for microfinance itself. Sustainability for the microfinance has internal and external implications. Internal in terms of deposit and savings mobilization, financial performance, staff motivation, loan administrative costs etc. while external in terms of availability of funds for loan disbursement, grant for community organizing (Morduch, 2002).

EMPIRICAL REVIEW

Access to Credit and Financial Performance of SMEs

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 favoured 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.

According to the CBS/ICEG/K-Rep (1999), the two key challenges facing SMEs include poor access to markets and limited access to financial services. Lack of tangible security, the procedural bureaucracies of credit borrowing were some of the facts highlighted that constrain small-scale entrepreneurs from accessing credit from formal credit institutions. The impact of these challenges has led to majority of SMEs operators confining themselvesto narrow markets where profit margins are low due to intense competition. Consequently, most of the SMEs are stagnating, retrogressing to micro status or closing after few years of operation. Very few manage to graduate to medium and large-scale enterprises (Ministry of Labour and Human Resource Development, GOK, 2004).

The ability of SMEs to grow depends highly on their potential to invest in restructuring and innovation. All these investments require capital and therefore access to finance. Against this background, the consistently repeated conception of SMEs about their problems regarding access to finance is a priority area of concern, which if not properly addressed, can endanger the survival and growth of the SMEs sector. Ganbold (2008) argued that Investment Climate Survey conducted by the IBRD/World Bank (2008) showed that one of the major impediments of nurturing firms is lack of access to financial services which would expand economic growth and employment generation as well as reducing poverty in many developing countries.

Lack of access to credit has led to poor maintenance or replacement of machinery, inability to purchase required materials and services, or to expand LevitskyandOyen (1999). According to Evans & Carter (2000) and Whincop (2001), large firms benefit from established capital markets where small firms cannot raise funds. Owing to lack of well-developed finance information systems, the financial sector is the main source for SMEs' external funds (Darson, 1995). SMEs therefore, cannot raise funds from other alternative sources. Lack of credit for SMEs' development is a cardinal problem to SME development in developing countries. Owing to the problems associated with accessing alternative credit facilities, a large proportion of Kenyan SMEs rely more on self-financing in terms of retained earnings.

SMEs in Kenya have difficulties in growth due to lack of finance. They hardly grow beyond start-up stage, others go out of business at very early stage (Brownwyn, 1995).The study undertaken by Hallberg (1998) reveals that access to credit is an important ingredient to development of SME. They have few alternatives of accessing finance other than relying on their retained earnings to finance their investment. The implication therefore is that SMEs do not have adequate credit to meet the needs at different levels of growth. Therefore, a finance gap exists for firms starting or wishing to expand. The Microfinance Institutions provide seed capital to SMEs by lending them money and capacity equipment purchase. This requires the Microfinance Institution to have effective management of credit risk. The SMEs must organize themselves to be able to meet the credit terms set by microfinance institutions. These credit terms can affect the profitability of SMEs as failure to repay their loans could results in fines and other penalty related costs.

Forster, Greene and Pytkowska (2006) studied the state of microfinance in Central and Eastern Europe and found that outreach to the region's poor was very low with the organizations mainly focusing on providing loans to already established SMEs. The study further highlights that Micro finance institutions based their operations around the delivery of simple, short-term, relatively high-interest, working-capital loan products. "Microfinance lending requires a genuine ability to repay the loans and diverse income sources" (Shreiner&Colombet 2001, p.351). The study by Forster, Greene and Pytkowska indicates that Microfinance Institutions do not provide seed capital to SMEs in the European regions that were sampled however it does not investigate the effect of lack of the provision of seed capital on SME growth. In contrast there exists an argument by Peters (2000) that equity financing in developed countries has been successful and can also be replicated in developing countries by providing business start-up grants. Evidence of the success of equity and grant start-up capital financing given by the study is not conclusive.

It is important investigate lack of seed capital for business as it could prevent an entrepreneur from starting a business.

Zeller (2003) studied micro enterprises in Madagascar and concluded that friends and relatives were the biggest providers of seed capital for starting-up SMEs in this country. In Malawi as highlighted by Okurut, Banga&Mukungu (2004) SMEs acquired their start-up capital from money lenders however the money lenders did not lend to the poorest members of the community as they did not have ability to provide collateral. Commercial banks may not able to provide seed capital due to their stringent loan requirements and in ability to penetrate rural areas but In South Africa, the banking system as written by FNB (2010) remains the main source of capital to start and grow businesses. Financial services groups like First Rand have an entrepreneurial tradition and have spurred successful entrepreneurial ventures.

The study by First National Bank also highlights that capital is not the only catalyst for business success and the entrepreneur plays the most important role by identifying the array of factors that dictate the conditions and circumstances under which a business should thrive which involves skill and aptitude. Similarly Heide (2006) indicates that finance is a necessary but not a sufficient condition for success of innovative start-ups, entrepreneurial and management skills are as vital therefore financing should be made conditional, only to be provided when the start-up accepts adequate managerial skills coaching to ensure successful business models. Another study however indicates that "75 percent of applications for credit by new businesses in South Africa are rejected and only two percent of new SMEs are able to access loans, whilst only 2% of businesses seeking private equity are successful" (Dalberg and Morgan 2012, p.4). In Ireland the second most significant source of funding for SMEs as highlighted by Inter Trade Ireland (2013, p.13) is external equity finance as represented by seed capital, venture capital and business angel finance however it is mainly targeted at a small number of business sectors, mainly Information and Communications Technology, Professional, Scientific and Technical Services, Manufacturing and Medical Devices.

In Kenya lack of credit has been identified as one of the most serious constraints facing SMEs and hindering their development. Mwobobia (2012) argues that loans from Kenyan microfinance institutions tend to be limited in amount, have no grace period, are short term in design and carry very high interest rates. These studies may be important in highlighting the providers of seed capital in these African countries but they have not discussed the effect of seed capital on the growth of SMEs. A study by Kehinde and Ashamu (2014) on the effect on growth and earning of SMEs in Nigeria revealed that granting pioneering status for tax purpose will go a long way to create a strong earnings base for the SMEs. It was also revealed that personal saving is mostly used by the SMEs owner to start the business but it is not better than debt financing (government financing and leasing) at growth stage of the SMEs' life. The study further highlighted the pecking order theory that stated companies prioritize on using internal sources of finance than taking on debt this involve issuing equity to enable companies access capital at the initial stage of their development. "Government should reduce tax and social security compliance burdens therefore securing fair tax and social security treatment for new firms" (OECD, 2010). SMEs also are disadvantaged when accessing seed capital through debt as the costs (risk assessment, legal and administrative costs, supervision) of providing a small amount of finance are practically identical to the costs of providing a large amount (Heide, 2006).

These studies provide an important base for assessing the impact of seed capital on growth of SMEs however it does not give a detailed analysis of the role of seed capital on the growth of SMEs. Ahiawodzi and Adede (2012) in a study of Ho-Municipality of Ghana indicate that access to credit exerts a significant positive effect on growth of SMEs, the result from the regression model shows that there is positive relationship between the growth of the SMEs and access to credit while this study addresses effect of access to credit on growth of SMEs it does not specifically mention seed capital.

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.

In the United Kingdom a study by Gray, Saunders and Goregaokar (2012) found the main sources of finance used by SMEs to fund their businesses were reinvesting profits (68%), Personal/ family savings (39%) and bank loan (29%). This indicates the importance of saving in funding business growth at 39%. Similarly the Important of savings to SMEs is emphasized by Citi's "susu" in Ghana where 200 to 800 members save between US dollars 40,000 and 800,000 per cycle with the accumulated savings being paid out to the members over a 100 week cycle for each week's collection (Bass and Henderson, 2014).

This example is a clear evidence of success of saving with Microfinance Institutions however Bass and Anderson further argue that this success is solely not dependent on the design of the savings products but also on pricing and marketing. The MFIs must also have a sound management structure and an appropriate management information system that safeguards clients' deposits. This argument may be important for the microfinance institutions to consider but the growth of SMEs needs to be taken into consideration also to ensure benefits to SME clients, constant growth of SMEs can improve availability of Micro financial funds and lower their costs.

Akasamire (2010) wrote that firm growth opportunities has a correlation with liquidity levels, enterprises with more investment opportunities keep higher liquidity levels in order not to limit or cancel their profitable investment projects. It can be argued that these kind of firms would require a reliable savings institution to enable them maximize on their growth opportunities, MFIs should establish effective savings programs by transforming their capabilities to support SME saving services. However it should also be noted according to Gray, Saunders and Goregaokar (2012) that too much liquidity is harmful as SMEs might not spend it wisely effective training on cash flow management is also important.

Financial Skills Training and Financial Performance of SMEs

Financial education training 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.

A study of SMEs by the OECD (2013) in New Zealand, United Kingdom, Belgium, Poland, Turkey and Canada outlined the following reasons why SMEs do not participate in financial training programs: lack of time, very expensive and difficulty in accessing its relevance to the needs of the enterprise. Furthermore a conclusion was drawn that firms that did not participate in these training programs did so because they believed they already have or can recruit the skills the enterprise required. Therefore, Microfinance Institutions need to train SME owners to have skills for specific production, business management and access to markets in order to make profits from the financial resources they receive. Financial skills training can improve the ability of the low-income earners to operate enterprises either directly or indirectly. Complexity of financial decisions requires that business owners are able to make informed choices on saving, borrowing, spending and investing their money.

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 Kisumu County where a large population of the SMEs are 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 .

Role Modeling and Financial Performance of SMEs

Role modeling is defined as the tendency of individuals to identify with other people and the psychological matching of cognitive skills and patterns of behavior between a person and an observing individual. The individual identifies with the other person because of belief that their characteristics are close to his/her own motives and character. Furthermore "individuals are attracted to role models who can help them to further develop themselves by learning new tasks and skills (Gibson, 2004). 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. Armendariz and Morduch (2010) argues that the groups formed by Microfinance institutions could have disadvantages such as the members colluding against the institution by deciding collectively not to repay loans and these groups could also encourage free riding where borrowers do not see the need to work hard when others can work for them. These imperfections must be addressed for the successful cohesion of the groups and their contact with Microfinance Institutions.

Research by Bosma, Hessels, Schitjens, Vanpraag&Verheul (2011) aimed at establishing the importance of role models for entrepreneurs in three major Dutch cities who have recently started up a business in the retail, hotel and restaurant sectors, business services and other services provided indications of the presence and importance of entrepreneurial role models, the function of these role models and the strength of their relationship. The study further argues that entrepreneurial role models may perform four interrelated functions which include; inspiration and motivation (i.e. the role model creates awareness and motivates people to get started), Increasing self-efficacy (i.e. the role model makes people confident that they too can achieve a certain goal), Learning by example (i.e. the role model provides guidelines for action), and Learning by support (i.e. the role model provides hands-on support or advice) (Bosma, Hessels, Schitjens, Vanpraag&Verheul, 2011). This argument presents a basis on the role of entrepreneurial role models but it does not address how they impact the growth of SMEs.

RESEARCH METHODOLOGY

Research Design

A research design is a statement of the essential elements of a study and constitutes the blue-print for the collection, measurement and analysis of data (Cooper & Schindler, 2008) hence a logical and systematic plan prepared for directing a research study (Shajahan, 2005). 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, events, group of things or households that are being investigated. In this study, the target population was composed of youth owned SMEs in Kisumu County, Kenya. The study involved 448 SMEs in Kisumu County spread across the 7 sub-counties.

Sampling Design

The sampling plan describes how the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample was selected (Cooper & Schindler, 2003). Kothari (2010), a representative sample is one which is at least 30% of the population, thus the choice of 30% of the 448 which was considered representative. Therefore the sample for the study was 135 respondents. The selection was as follows.

Data Collection Procedures and Instruments

The study used a semi-structured questionnaire that was administered to each member of the sample population. The questionnaires were carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data collected for the study.

Data Analysis

Descriptive statistics such as mean scores, Standard deviations, percentages, and frequency distribution were computed to describe the characteristics of the variables of interest in the study. These tools should bring out the basic features of the data collected on the variables under study and provide the impetus for conducting further analysis (Mugenda, 2008). The data was broken down into the different microfinance services offered by MFIs and how they affected financial performance of SMEs in Kisumu County. This offered quantitative and qualitative description of the objectives under study. Data collected was analysed using the Statistical Package for Social Sciences (SPSS) software. A descriptive and inferential approach was used to analyse the data collected. Data analyzed will be presented using graphs, tables, charts, and figures. A multiple linear regression analysis will be applied to examine the effect of the microfinance services on the financial performance of SMEs. The following algebraic expression of the analytical model will be 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; $\mathbf{X_1}$=Access to credit; $\mathbf{X_2}$ =Savings mobilization; $\mathbf{X_3}$ =Financial skills training; $\mathbf{X_4}$ =Role modelling; **ε** = Error term;

The regression coefficients are represented by βo, β_1 , β_2 … β_5 while x_1 , x_2 , x_4 are the independent variables and ε provides for the random variation in y that x variables were not able to explain.

RESEARCH RESULTS

Access to Credit and Financial Performance

The study revealed that the 25% of the SMEs in Kisumu County have access to credit from Microfinance institutions to a significant level through initiation capital, expansion, business loans and personal development loan facilities. The SME owners have information on existence of the credit facilities and have taken them up. However a great percentage has failed to repay due to limited training on finance management and slow growth rate of the firms. This has led to closure of the start-ups and poor financial performance of the enterprise in the region.

Savings Mobilization and Financial Performance of SMEs

The study revealed that the SMEs have not significantly adopted a diligent saving culture to make them profitable in the ever competitive business environment. 65% of the enterprises for the last one year have saved less than Kshs. 200,000. This indicates that the firms do not have a good saving culture or are not well informed on the objectives and advantages of saving. The MFI have sensitized them on savings mobilization to increase their credit potential however a few can manage to save.

Financial Skills Training and Financial Performance of SMEs

The study realized that only 15% of the SMEs in Kisumu County had spent on financial skills trainings and development. The firms that had acquired new skills via trainings offered by MFIs grew from 11% in 2011 to 34% by end of 2016. This indicates that a few SMEs have access or are aware of the trainings offered by MFIs in Kisumu County. The MFIs may also not be offering the trainings to SMEs located in the other areas of the County. This indicates that the firms have access to limited trainings which has affected the management skills of the owners and subsequent performance of the enterprises.

Role Modelling and Financial Performance of SMEs

It was realized that the SMEs in Kisumu County, to a very low extent have access to role models who can transfer skills, mentor them and offer exposure to business opportunities. 15% of the businesses have interacted with mentors who were connected to them via the Microfinance Institutions in region. Those that had been engaged in the role modeling processing had observed tremendous growth and performance. This indicates that role modeling has a significant influence on the performance of the SMEs however they need to be established by MFIs.

REGRESSION ANALYSIS

The researcher conducted multiple regression analysis to establish the influence of microfinance services on financial performance of SMEs in Kisumu County. The findings are indicated in subsequent sections.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.988	0.951	0.911	0.685

The table above indicates the model summary. From the findings, R was 0.988, R square was 0.951 and adjusted R squared was 0.911. An R square of 0.951 implies that 95.1% of changes in financial performance of SMEs in Kisumu County, Kenya is explained by the independent variables of the study. There are however other factors that influence performance of SMEs in Kisumu County, Kenya that are not included in the model which account for 4.9%. An R of 0.988 on the other hand signifies strong positive correlation between the variables of the study.

Table 2: ANOVA

Model	SS	df	MS	F	Significance
Regression	648.04	5	529.4	776.005	0.0942
Residual	282.40	361	0.950		
Total	930.44	366			

From the ANOVA table above, the value of F calculated is 776.005 while F critical is 499.545. Since the value of F calculated is greater than F critical, the overall regression model was significant and therefore a reliable indicator of the study findings. In terms of p values, the study indicated 0.000 which is less than 0.05 and therefore statistically significant.

Table 3: Regression Coefficients

Model	Unstandardized coefficients		Standardized Coefficients	T	Sig
	B	Std Error	Beta		
Constant	6.40	0.674		8.012	0.000
Access to credit	0.855	0.022	0.811	14.15	0.00
Savings mobilization	0.886	0.033	0.120	11.04	0.000
Financial Skills training	0.965	0.029	0.127	1.15	0.000
Role modeling	0.960	0.031	0.384	4.42	0.000

The resultant regression equation becomes;

$$\mathbf{Y = 6.40 + 0.855X_1 + 0.886X_2 + 0.965X_3 + 0.960X_4}$$

Where: Y is the financial performance of SMEs in Kisumu County, Kenya; β_0, β_1, β_2, $\beta 3$ and β_4 are the regression coefficients and $X_{1,}$ X_2, X_3 and X_4 represent access to credit, savings mobilization, financial skills training and role modeling respectively.

This implies that when all the variables of the study are held constant, performance of SMEs in Kenya will be at the intercept which is 6.40. A unit improvement in access to credit while all other factors held constant results in 0.855 increase in performance of the SMEs, a unit increase in savings mobilizations with other factors ceteris paribus leads to 0.886 increase in performance of the SMEs. Similarly a unit increase in financial skills training while other factor ceteris paribus, translates to a 0.965 increase in performance of SMEs in Kenya while a unit increase in role modeling with other factors held constant leads to a 0.960 improvement in financial performance of SMEs in Kenya.

CONCLUSIONS

The study concluded that the selected microfinance services used in the study which included access to credit, savings mobilization, financial skills training and role modeling significantly influenced the financial performance of SMEs in Kisumu County, Kenya. The variables explained 95.1% of the changes in financial performance of the SMEs. A unit increase in access to credit by SMEs led to a 0.855 increase in financial performance of the SMEs, a unit increase in savings mobilization led to a 0.886 increase in financial performance of the enterprises, a unit increase in financial skills training transformed to a 0.965 increase in performance of the firms while a unit increase in role modeling for the SMEs led to a 0.960 increment in their financial performance. The access to credit as a microfinance service existed and was practiced to a greater extent by the MFIs for the SMEs followed by savings mobilizations, financial skills trainings and the least was role modeling.

RECOMMENDATIONS

It was recommended that for the SMEs to perform well financially, MFIs need to create awareness of the services they offer for the proprietors to be aware and how they can propel them to success. The MFIs need also to train the firm owners on basic financial management skills before extending credit or financial support to them to ensure the resources are well utilized. The SME owners need also to be proactive in approaching the MFIs within their vicinity and inform them of their existence needs and challenges so that they can collaborate, connect, solve and advise them. The government also needs to create a skills training platform via the Youth Fund, Women Enterprise Fund coupled with cheaper credit to propel the enterprises to success.

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