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ACCESS TO MICROCREDIT DETERMINANTS AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM RETAILING ENTERPRISES IN WAJIR COUNTY, KENYA

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Abstract

Purpose: The purpose of the study was to establish the effect of determinants of access to microcredit on financial performance of retailing SMEs in Wajir County, Kenya.

Methodology: The study adopted a descriptive survey research design. The target population comprised of all the 5000 retailing small and medium enterprises in Wajir County where the units of analysis were the SME owners. The study used stratified random sampling and simple random sampling technique to come up with the sample. The target population was stratified into 6 strata (the 6 sub-counties in Wajir County). Further, random sampling was used to select 146 SMEs from each sub-county. The study used primary data which was largely quantitative and descriptive in nature. The questionnaires were self-administered with the help of two research assistants. The data analysis was undertaken using SPSS Version 20 where the statistics generated included descriptive statistics and inferential statistics.

Results: The study findings revealed that savings, meeting the eligibility criterion, loan structuring and some socio economic characteristics positively and significantly affected the financial performance of SMEs in Wajir County.

Unique contribution to theory, practice and policy: the study recommended that SMEs should take the initiative to increase the amount they saved so that they could increase their borrowing capacity. The study also recommended that SME owners needed to take the initiative of ensuring that they were all the time able to meet the necessary requirements needed for obtaining loans especially their documentation, business and repayment plans and aim at ensuring that they acquired the necessary collateral. It was further recommended that MFIs needed to ensure that the loan structure presented to SMEs were favorable. The study also recommended that it was necessary for SMEs to expand/grow their asset base so as to increase the ability to repay the loans. They also needed to expand their networks especially within the financial institutions circles so that they could increase the trust the MFIs had on them and for easy considerations for loans.

Keywords: *access, microcredit, loan structuring, savings, eligibility criterion, socio economic characteristics, financial performance*

1.0 INTRODUCTION

According to Ward (2005) there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has fewer than 500 employees and small enterprise as one that has less than 100 employees. On the other hand, the World Bank defines SMEs as having no more than 500 employees. Small and medium enterprises (SMEs) have become the focus of attention for the economic development, economic growth and job creation in the world. The importance of Small and medium Enterprises in the economies has been recognized by many players such as World Bank, UN agency UNCDF, governments, non-governmental organizations and private entities (Kenya Economic Survey, 2009). Liedholm and Mead (2005) in the review of national surveys conducted in several African countries estimate that between 17% - 27% of the working population was employed in MSMEs, being nearly twice the employment of large scale enterprises and public sector. The United States Agency for International Development (USAID) considers that MSMEs employ a third or more of the labor force in low income countries (USAID, 2010). In Kenya, Nasirembe (2007) indicated that the MSE sector employs around 2.3 million people and generates around 14% of the country's Gross Domestic Product (GDP).

Access to credit refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services. Those who involuntarily have no or only limited access to financial services are referred to as the unbanked or under banked, respectively (Beck & Honohan, 2008). According to World Bank (2008), access to credit is the absence of price and non-price barriers in the use of financial services. In many countries across the world, commercial banks have not been able to effectively address the many financial needs of low income population which is as a result of stringent baseline requirements (World Bank, 2009). As a result, credit facilities that are provided by Microcredit Institutions (MFIs) play a crucial role of filling the gap for financial services among low income earners. The services provided by MFIs are flexible and tailored to meet the financing needs of these populations in rural and urban settings (Chandrasekhar, 2004). The origin of microcredit is traceable to the 14th Century, when the Franciscan monks founded the community-oriented pawnshops (World Bank, 2009). In the 19th Century, establishment of the Credit Union Movement in Western Europe added a significant impetus to the growth of microcredit industry.

Microcredit belongs to the group of financial service innovations under the term of microfinance. Other services according to microfinance are micro savings, money transfer vehicles and micro insurance. Microcredit is an innovation for the developing countries. Microcredit is a service for poor people that are unemployed, entrepreneurs or farmers who are not bankable. Micro credit consists of small loans provided to micro enterprises. Small and Medium Enterprises (SMEs) are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs) (Ndife, 2013). As Quaye argues that this is because these SMEs cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firms. In addition to this, the associated risks involved in lending to MSEs make it unattractive to the banks to deal with micro and small enterprises. Statistically, small enterprises are reported to have high failure rates making it difficult for lenders to assess

accurately the viability of their enterprises, the abilities of the entrepreneur, and the likelihood of repayment. SME's need both financial and non-financial services to enhance their productivity, profitability and growth. Sievers and Vanderberg (2004) hold the view that access to financial and business development services are essential for growth and development of Micro and Small Enterprises.

The microcredit experiences in the EU have shaped with the tendencies to increase the competitiveness of the SMEs and have always provided a more generous budget then the conventional microcredit schemes. Therefore microcredit has always seen as a source of financial injection for the business oriented development of the disadvantaged groups in the society (Karatas & Helvacioglu, 2008). For the last decade, the EU used microcredit as a facilitating tool to achieve Lisbon Agenda objectives. The European Commission (2007) in its recent Communication titled "A European initiative for the development of micro-credit in support of growth and employment" provides a detailed analysis of demand and supply of microcredit in the European Union. The European Commission estimates that the potential demand for micro-loans for EU-27 is € 6 145 million which is estimated to be equal to 712.900 loans in sum.

In emerging economies, microcredit represent a very particular financial activity, which has been characterized, among others, by the following elements: The amount of each credit is on average relatively low, credits are at short and medium term maturities and the interest rates charged are relatively high, although much lower than those that the usurer charges, micro credits tend to be used for the financing of working capital and be guaranteed through the creation of solidarity groups, the access to new and larger credits is possible only if the borrower displays a good performance in their payments, and the lender bank performs a frequent monitoring of the borrower and the approved loan disbursements are usually conducted only once a micro-entrepreneur has complied with the stipulated previous payments (Gopalaswamy et al., 2015).

Microfinance has the ability to strengthen SMEs and encourage best practices among operators of SMEs (Wang, 2013). Without finance, SMEs regardless of the industry or sector they operate in cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms. The growth and expansion of SMEs requires sustained investment in working capital (Atieno, 2001).SMEs growth depends to a large extent on the financial assistance obtained internally or externally, internal sources of funds are generated from business operations or fund from owner themselves, due to the fact that most of the time these funds are not enough external finance become important, external sources include, funds from family members or friends, debts financing from financial institutions(UNCTAD, 2002).

Access to external resources is needed to ensure flexibility in resource allocation and reduce the impact of cash flow problems (Bigsten et al., 2000). Firms with access to funding are able to build up inventories to avoid stocking out during crises, while the availability of credit increases the growth potential of the surviving firms during periods of macroeconomic instability. Firms without access to bank funding are more vulnerable to external shocks (Nkurunziza, 2005). Credit also enables individuals to smooth out consumption in the face of varying incomes, provides income for investment and improves ability to cope with unexpected expenditure

shocks. But lack of collateral and the high possibility of default can prevent individuals and small firms from obtaining credit.

A pilot study carried out in South Africa showed that most very small enterprises need a short term line of credit to weather brief (sometimes overnight) cash flow gaps (CGAP, 2013). The need for the entrepreneur to maintain a saving buffer is always advisable, because income is often unpredictable while business partners, families and friends can be unreliable. As very small businesses grow, their needs extend beyond short-term lending and savings into other financial products, such as cash transfers, long term debt, current accounts. It has further been noted that the banks and other financial institutions prefer to extend these financial products to formal and large businesses thus leaving the small enterprises underfunded

The granting micro loans at fair and affordable terms to alleviate financial constraints of the poor households and entrepreneurs have been recognized by the private sector and public sectors, researchers and other stakeholders (Cedric, 2012; Hugh, 2007). The microcredit market sub sector has grown overtime, and by the year 2010, MFIs were able to provide microloans to around 200 million clients and above and about 1 billion persons in developing countries have been able to better their lives due to the micro loans (Nuwagaba, 2015).

Ansah and Kwabena (2012) point out that SMEs are normally presented with the requirements that they need to meet to qualify for financing by financial institutions which vary from one institution to the other. Some of the requirements that are common to almost all financial institutions are collateral security, SMEs financial performance, audited financial statements, credit history, recommendation from risk managers, business registration documents, entrepreneurial experience and age of firm. Although the SME loan eligibility requirements may vary from one financial institution to the other, the principle remains the same; to ensure that the financial institution does not loss from the loan transaction. Credit terms in terms of the loan structure in terms of the way in which the loan product has been tailored so as to accommodate the borrower's best interest as well as the loan itself also significantly affect loan accessibility to SMEs. Olutunla and Obamuyi (2008) note that due to the high collateral requirements, unfavorable interest rates and untimely delivery of credit SMEs are reluctant to obtain loans. In addition, access to credit by SMEs has limited since financial institutions have failed to expand SME loans due to imperfect information, high transaction costs, large number of borrowers and low returns from investments. This intern has resulted in reduced financial performance in terms of sales, profits and liquidity.

The level of savings has also been found to influence access to credit. Hwarire (2012) concluded that if SMEs take large loans, their own contribution or deposit should be high. In banking, the higher the deposit the client puts down, the more willing the bank is to price down. A higher deposit decreases loss, given default, and a lower loss, given default, means a lower amount to be written off by the bank. Firm characteristics such as firm's location, firm industry, firm size, firm age, firm's legal status and the availability of collateral and business information are critical when SMEs are seeking external finances. Other characteristics include as gender, household income, business capital, contact with the financial institutions and awareness of lending institutions in the area. These characteristics explain why some enterprises have higher chances of accessing loans compared to their counterparts (Nahamya et al., 2015).

Improved access to credit helps businesses to grow and advance their financial performance (Claessens & Tzioumis, 2006). On the other hand acquisition of such credit has proved to be difficult due to credit terms that are perceived to be unfavorable. According to Nyangoma (2008) in Uganda for instance, collateral is up to a tune of 150% of the loan, the repayment period is as short as 24 months, and interest rates range from 23% to 30% per month. Financial performance of SMEs is measured by total sales, profitability, and liquidity. The performance of SMEs is their ability to contribute to job and wealth creation through business startup, survival and growth (Sandberg et al., 2002). Maintaining optimal liquidity demonstrates that there are economies of scale associated with the cash levels required to confront the normal transactions of the firm. Sales growth is often used as a measure of performance. Thomas and Mason (2007) have argued that if sales increase, profits will eventually follow. Information on financial performance is useful in predicting the capacity of the enterprise (Levasseur, 2002). The lack of adequate funding therefore means that SMEs will experience low incomes, low profits and low capital formation. However, improved access of credit by SMEs resulting from their ability to meet commercial bank credit terms, leads to survival, increased sales, higher profitability and low cost of doing business (Ogujiuba, 2004; Central Bank of Nigeria, 2007).

Small scale retail businesses dominate the MSMEs industry in Kenya. The 1999 National MSE Baseline Survey indicates that 64.1% of the total MSMEs are involved in trade either as retailers or wholesalers. This trade sector is mainly dominated by retailers with 1,452,848 people in retailing and 58,485 people employed in whole selling. For instance in Wajir County, shops, kiosks and sometimes rooms in wholesaler stores are the face of food retail in Wajir County. These are the actors from which the target population purchases food. They usually stock a variety of dry and packaged food items, including rice, maize and beans. In larger towns, some have vegetable and fruit available as well (Emergency Market Mapping and Analysis (EMMA), 2011). Major businesses in the county include sale of fast moving consumer goods, fire wood and wood products, transport services and sale of clothes amongst other. Other informal sources include charcoal burning and white wash production. Wholesale and retail traders also supply food and non-food items to the market (National Drought Management Authority, 2013).

1.1 Statement of the Problem

SMEs performance and growth depends to a large extent on the financial assistance obtained internally or externally. Without access to finance, SMEs regardless of the industry or sector they operate in cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms. The growth, expansion and sustainability of SMEs require sustained investment in working capital (Atieno, 2001). The rate of SMEs failure in developing countries as well as developed countries is alarming. 33% to 41% of new SMEs fail within the first five years of their business operation due to lack of finances (Thaimuta, 2014). Three out of five SMEs fail within their first three years of operation in Kenya (RoK, 2007). It is therefore widely recognized that 'bank lending gap' exists in the provision of modest amounts of finance to SMEs since all investments need capital. In many countries across the world, commercial banks have not been able to effectively address the many financial needs of low income population that is unemployed, entrepreneurs or farmers that are not bankable which is as a result of stringent baseline requirements (World Bank, 2009). As a result, credit

facilities that are provided by Microcredit Institutions (MFIs) play a crucial role of filling the gap for financial services among low income earners (Wang, 2013).

Despite the widespread provision of this microfinance service, many SMEs are still constrained in their access to these microloans. Many are challenged by the existing loan terms, strict requirements and even exclusion based on various social characteristics such as gender and age of business. These factors has greatly influenced the amounts of loans granted, loan approvals as well as the default levels which impact their performance (Anash & Kwabena, 2012; Essien & Arene, 2014; Gichuki *et al.* 2014; Haron *et al*., 2013; Hwarire, 2012). This in turn has also influenced their performance with many struggling to increase their sales performance and profitability (Akoto-Sampong, 2011).

A review of existing literature showed that most researchers focused more on microfinance as a whole rather that the specific components of access to micro credit that influence the performance of SMEs individually. In addition, a large number of these studies focused on various dimensions of micro finance institutions. Those that entirely focused on micro credit had a different objective from this current study. The above sentiments motivated this current study which sought to highlight how access to microcredit had influenced the financial performance of retailing SMEs in Wajir County and gave various suggestions on how some of the challenges could be handled.

1.2 Research Objectives

i. To determine the effect of level of savings on financial performance of small and medium retailing enterprises in Wajir County
ii. To assess the effect of eligibility criterion on financial performance of small and medium retailing enterprises in Wajir County
iii. To determine the effect of loan structure on financial performance of small and medium retailing enterprises in Wajir County
iv. To assess the effect of socio-economic characteristics on financial performance of small and medium retailing enterprises in Wajir County

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Information Asymmetry Theory

This theory was first introduced by Akerlof's in 1970. The information asymmetry theory assumes that at least one party to a transaction has relevant information whereas the other(s) do not. Some asymmetric information models can also be used in situations where at least one party can enforce, or effectively retaliate for breaches of, certain parts of an agreement whereas the other(s) cannot. Spence and Stiglitz (2001) demonstrated that market may break down completely in the presence of asymmetric information and the three distinct consequences emerging, adverse selection, moral hazard and monitoring cost. Information asymmetry has been found to increase the transaction costs.

It is necessary for financial institutions to identify credibility indicators that are identifiable by their customers to facilitate the evaluation mechanism by interested entrepreneurs searching for

finance. Richheld and Sasser (1990) showed that the reason why financial institutions preferred repeat customers was due to less cost involved in transacting business with them. The information gap between the institution and the customer had drastically reduced due to the attribute of experience. The scholars assert that firms should develop capabilities and resources within the firm that are contingent on the service qualities they are providing.

According to Waari and Mwangi (2015), the three results of the asymmetric information syndrome on the financial or more precisely the credit market are best reflected in the sourcing of external funds by the SMEs. The transaction between the borrowers offers the best example/s to study their practical implications. Most MSME's have to inevitable take recourse to the external source of financing for them to meet their objectives. The borrowed funds come with some conditions, which have to be met by parties to these transactions. Both the parties to this financial transaction have to exchange the relevant information between each other. This theory was highly applicable in understanding how eligibility criteria and even loan structure and other credit terms influenced the availability of these micro loans to these SMEs.

2.1.2 Credit Rationing Theory

Credit Rationing Theory is a financing gap theory that was advanced by Stiglitz and Weiss (1981) whom in their formulation, argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization) and information asymmetries were the major reason why SMEs had constrained access to finance. They argued that only SMEs knew their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms had superior private information (asymmetric information). Hence, the bank manager made decisions under asymmetric information, and operated under a moral hazard and adverse selection risk.

In their theory, Stiglitz and Weiss (1981) explained that asymmetric information could lead to credit rationing conditions by modifying the risk-return distribution and this encouraged financial institutions to hold back capital for investments and produces divergence between capital demand and supply (Alfo & Trovato, 2006). Constrained access to finance that emanated from financial institutions' credit rationing behavior might not be efficient because managers worked under conditions of asymmetric information. This might result in less profitable investments getting financed while more profitable investments are being left out and thus resulting in adverse selection and moral hazard risks. Therefore, asymmetric information could explain asymmetric of credit among firms with identical characteristics, the lenders not being aware of the exact bankruptcy likelihood for the firms, know only that this likelihood is positive and therefore choose to increase debts' cost.

According to Deakins *et al.,* (2008), start-up small firms were more likely to be affected by information asymmetry problems. They argued at an early stage, information was limited and not always transparent and assets were often knowledge based exclusive associated with the founding entrepreneur. This was as a result of fear that disclosure might make it easier for others to exploit. Gichuki *et al*., (2014) asserts that there are some categories of SMEs that will face additional problems due to lack of security, such as young entrepreneurs or those from deprived areas. In addition, there may be asymmetries arising from location as well as sector. For example, owners of MSEs in rural environments may face difficulties with access to bank finance. Small firms are more likely to be rationed because they are seen as particularly risky.

Although they might be willing to pay more to compensate for the additional risk, the banks will refuse to raise the interest rate sufficiently to equate supply and demand. This theory was also applicable to this current study in explaining why some SMEs with certain characteristics did not readily get credit from financial institutions than others.

2.1.3 Pecking Order Theory

This theory was developed by Myers (1984) and Myers and Majluf (1984). The underlying premise was that 'inside' management are better informed of the true value of the firm than the 'outside' investors. These information asymmetries led to varied costs of getting additional external finance as potential investors' perceived equity to be riskier than debt. Myers (1984) and Myers & Majluf (1984) proposed that firms sought to overcome the problems of undervaluation arising from information asymmetries, preferring to finance investment projects with internal funds in the first instance. When internal equity was exhausted, firms used debt financing before resulting to external equity. According to (Ibbotson, Sindelar & Ritter, 2001), POT is even more relevant for the SME sector because of the relatively greater information asymmetries and the higher cost of external equity for SMEs. In addition, this is necessary especially in this sector where the desire of the firm owners to retain control of the firm and maintain managerial independence was a common phenomenon (Jordan, Lowe, & Taylor, 1998).

The above factors therefore suggest that MSE owners' source their capital from a pecking order of, first, their "own" money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt; and, least preferred of all, from the introduction of new equity investors, which represents the maximum intrusion. Small firms rely on internal sources of finance and external borrowing to finance operations and growth, and only a very small number of firms use external equity. Firms operate under a constrained pecking order, and do not even consider raising external equity (Ou & Haynes, 2006). Adherence to the POT is dependent not only on demand-side preferences, but also on the availability of the preferred source of financing. The supply of finance depends on many factors, particularly the stage of development of the firm. The most important source of funding for start-up and nascent firms are the personal funds of the firm owner, and funding from friends and family. Howorth (2001) investigated the pecking order and found out that entrepreneurs tend to seek finance first from their own resources, and then friends and families, and then from other sources such as banks. Indeed, the money from family and friends is often essential (and often regarded as quasi-equity by the banks) to unlock support from financial institutions.

2.2 Empirical Review

Rogg (2000) sought to assess the impact of access to credit on the saving behavior of micro entrepreneurs using evidence from 3 Latin American Countries. Given the focus of this study, it was important to take a closer look at differences in saving profiles between entrepreneurs who had access to credit (grouping together borrowers from commercial banks and microfinance institutions) and those who did not. For all three countries, the data clearly showed that on average borrowers saved more regularly than non-borrowers. Moreover, for Ecuador and Paraguay, borrowers saved higher amounts. The saving profiles already shed some light on the hypothesis posed in this study that removing borrowing constraints increased the amount of savings that micro entrepreneurs held in deposit accounts. Not only were borrowers always more regular savers than non-borrowers, but in two of the three countries they also saved larger

amounts. Hence, there was a positive correlation between access to credit and savings deposits. This could be attributed to the fact that obtaining credit and making regular repayments introduced entrepreneurs to formal financial intermediaries and increased their confidence in, and understanding of, the institutions' operations and services. As a result, there would be a tendency to deposit funds at financial institutions that would otherwise have been kept in cash, land, jewelry or other inflation hedges.

Hwarire (2012) analysed the loan repayment and credit management of small businesses using a case study of a South African financial institution. Factors such as age, bank balance, relationships (personal, business and new customer), interest rate, loan size, loan term, product type, gender and race were analysed to determine their relationship and impact on default. The dichotomous nature of the dependent variable (default) led the researcher to use the binary Logit model to assess the relationship and impact of the determinant factors affecting loan repayment. The study analysed 169 loans granted to small businesses by a South African commercial bank. The results showed that 39 per cent of loan repayments were not made on time, while 28 per cent actually defaulted. From the study findings, the study concluded that if SMEs take large loans, their own contribution or deposit should be high. In banking, the higher the deposit the client puts down, the more willing the bank is to price down. A higher deposit decreases loss, given default, and a lower loss, given default, means a lower amount to be written off by the bank. This also decreases the risks to the borrower and the lender and hence increases the likelihood of pricing down as the bank does not have to recover as much of the loan. These findings are in line with that of Ngehnevu and Nembo (2010) who found that. Loans that are within savings are not a problem to get but when it goes beyond the savings it become a problem. Other members can stand as a security for a loan for someone who does not have the needed security. The surety must be a trust worthy person and of course a faithful and high savings member. .

Ansah and Kwabena (2012) in their study investigated the SME loan eligibility criteria of the Ghanaian financial institutions. Data was collected through interviews of 10 banks and 5 non-bank financial institutions in Tema metropolis. The findings of the study indicate that there were some differences in the list of lending criteria of the bank and non-bank financial institutions. The most important lending criteria for both bank and non-bank financial institutions were collateral. In addition although their relative level of importance differed with that of the others, common lending criteria were audited account where applicable registered business and its documents. The non-bank financial institutions are interested in major criteria such as collateral, guarantor, business registration documents, bank statement, audited account, recommendation by risk managers and credit history. The non-bank financial institutions placed little premium on criteria such as tax documents and age of the business. Gichuki *et al*., (2014) sought to determine the challenges facing Micro and Small Enterprises in accessing credit facilities in Kangemi Harambee Market in Nairobi City County, Kenya. The study revealed that the key challenges hindering micro and small enterprises from accessing credit facilities to be high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, high credit facilities' processing fees and short repayment period.

Bawuah *et al.,* (2014) investigated the effects of interest rate on micro, small and medium enterprises' (MSMEs) access to funds and their financing decision in Wa municipality of Ghana. Evidence from the analysis shows that majority of MSME businesses have resorted to the use of

equity financing for their operations. This was attributed to several factors of which interest rate was the leading cause. It emerged that interest rate affects choice of financing decision of MSMEs in Wa municipality. In order to help these micro, small and medium enterprises, the cost of credit facilities should be reviewed downwards to enable smooth repayment and increase in the demand for loans by MSMEs.

Ackah *et al.,* (2011) examined the challenges faced by small and medium enterprises in obtaining credit in Ghana to undertake various activities; be it general business operations or carrying out expansion project all in the name of fulfilling the objectives as being job creators and helping to reduce poverty. The study findings revealed that there are institutions such as bank and non-bank financial institutions that are willing to provide funds to SMEs but Ghanaian SMEs are not able to meet the requirements of these financial institutions. Chief among these requirements is the issue of collateral, which most SMEs cannot provide. Aside this is the other issue of small equity base of these SMEs among others. Secondly, those who are able to access this credit are also faced with high interest rates and short repayment periods making it very difficult to embark on any developmental or expansion projects.

Hwarire (2012) analysed loan repayment and credit management of SMMEs in a South African financial institution. Factors such as age, bank balance, relationships (personal, business and new customer), interest rate, loan size, loan term, product type, gender and race were analysed to determine their relationship and impact on default. The dichotomous nature of the dependent variable (default) led the researcher to use the binary Logit model to assess the relationship and impact of the determinant factors affecting loan repayment. The study analysed 169 loans granted to small businesses by a South African commercial bank. The results showed that 39 per cent of loan repayments were not made on time, while 28 per cent actually defaulted. The study concluded that the culture of banking indicates that cultivating good behavior is important in building those relationships. The client's risk profile is important to the bank since the lower the client's risk profile, the more willing the banks are to reduce interest rates. The risk of a client gives an indication of his or her potential to default which influences their access to credit. Small businesses are encouraged to take small to medium loans since, if the loan is spread over a period of five years, there payments would be very low and therefore reduce chances of default.

Yehuala (2008) sought to ascertain factors that affect smallholder farmer's access to formal credit and also the status of women and different wealth groups' access to formal and informal credit sources in the study area. A two stage sampling method was employed to select three out of eighteen rural peasant associations and 130 farm households. Structured interview schedule was developed, pre-tested and used for collecting quantitative data for the study from the sampled farm households. The study findings revealed that farmers acknowledged group lending that solved the problem of collateral requirement by lending institutions, controlled misuse of borrowed funds and minimized the risk of default. Moreover, the smaller loan size, earlier saving requirement which was not convenient to the farmers, and repayment period by the MFI were among the critical problems. Loan repayment period was also found to be critical for access to formal credit. The study found that loan repayment period negatively influences access to credit as it has a major bearing on the total amount to be repaid. Specifically, longer repayment period increases interest to be paid in the long run.

Kibet, Achesa, and Omwono (2015) investigated the effects of microfinance credit on the performance of small and medium enterprises in Uasin Gishu County. The study found that in order to enhance a sustained and accelerated growth in the operations of SMEs, credits should be client-oriented and not product-oriented. The study noted that provision of financial services to poor people using means which are just, fair and sustainable for example accepting social collateral rather than financial collateral, access to larger amounts of loan and if repayment is done when performance is positive affected SMEs growth. Small-scale loans can relieve capital constraints that might otherwise preclude cash strapped entrepreneurs from investing in profitable businesses, while savings services can create opportunities to accumulate wealth in safe repositories and to manage risk through asset diversification. The study finally concludes that ROA increased with each consecutive loan showing that microfinance services enhance performance of SMEs in Uasin Gishu County.

Essien and Arene (2014) conducted a study that was designed to examine access to credit markets and performance by small scale agro-based enterprises in the Niger Delta. A multistage sampling technique was adopted in selecting 264 and 96 agro-based enterprises that accessed informal and formal credit respectively through the use of structured questionnaire and oral interview. The logit model was used to examine the factors that had significant influence on credit access by the enterprises in the region. Results revealed that the factors that significantly influenced informal credit access by small scale agro-based enterprises were gender, age and social capital, while factors that influenced formal credit access were education, age, enterprise size and collateral. Majority of enterprises accessed informal credit but the few that accessed formal credit performed better.

Nahamya *et al.,* (2015) conducted a study whose aim was to establish the impact of microfinance services on the growth of Small and Medium Enterprises (SMEs) in eastern Uganda. One of the objectives was to assess the factors constraining access to MFIs services by SMEs. The study established that access to MFIs products was constrained by levels of education of the business owners, age of business, initial capital, and assets owned before the loan, liabilities before the loan, the availability of collateral, location and default history. The borrowers with higher levels of education have higher chances of accessing loans compared to their counterparts.

Research on gender of owner/manager tended to focus on the male owner/managers, as the proportion of firms owned by men exceeds those owned by women (Kantor, 2001; Chell, 2001), with most studies reporting that failure rates for female owned firms are higher than those for male. Reasons for this included limited access to finance, stringent collateral requirements, women's double duties (Riding & Swift, 1990; Carter & Jones-Evans, 2000). In his study on determinants of SME growth: an empirical perspective of SMEs in the Cape Coast Metropolis, Ghana, Yeboah (2015) found that the male-owned/managed SMEs experience not only a lesser decrease in sales, but also a significant increase in sales growth compared with their female counterparts. However, more female-owned/managed SMEs had stability in their sales growth than the males. An isolated study carried out by Curran and Stanworth (1973) found that growth can be found among sole proprietorship firms. Limited liability firms and sole proprietorships were associated with growth however, larger and older firms have higher propensity for growth than smaller or newer firms.

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3.0 RESEARCH METHODOLOGY

The study adopted a descriptive research design. The target population of the study included all 5000 retailing SMEs in all the six sub counties in Wajir County (Wajir County Government; Licensing Department, 2014). The respondents were the SME owners. The study used stratified random sampling and simple random sampling technique to come up with the sample. The study used primary data collected using questionnaires. The data analysis was undertaken using SPSS Version 20 where the statistics generated included descriptive statistics and inferential statistics

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The number of questionnaires administered was 146. A total of 127 questionnaires were properly filled and returned. This represented an overall successful response rate of 86.98%.

4.2 Demographic Characteristics

4.2.1 Gender of Business Owner

The respondents were asked to indicate their gender. Majority of the respondents were male who represented 73.2% of the sample while 26.8% were female. This implies that most of the business owners of retailing SMEs in Wajir County are male. These findings tend to agree with that of Kantor (2001) and Chell (2001) who pointed out that failure rates for female owned SMEs were higher than those for male which could be explained by limited access to finance, stringent collateral requirements as well as women's double duties.
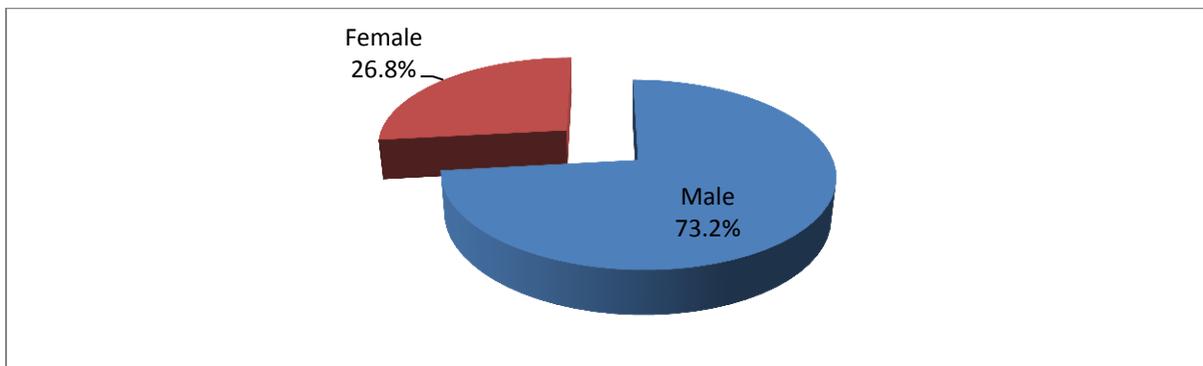

Figure 1: Gender of Business Owners

4.2.2 Level of Education of the Business Owners

The respondents were asked to indicate the highest level of education attained. The results show that 33.1% of the business owners had education up to the primary level, 36.2% had attained education up to the secondary level, and 26% of the business owners had attained a diploma while 4.7% had an undergraduate degree. This implies that most of the business owners were literate. The findings show agree with that of Essien and Arene (2014) who found that factors that influenced formal credit access were education, age, enterprise size and collateral and that

although majority of enterprises accessed informal credit, the few that accessed formal credit performed better. Hence, literacy was crucial for these SME owners.
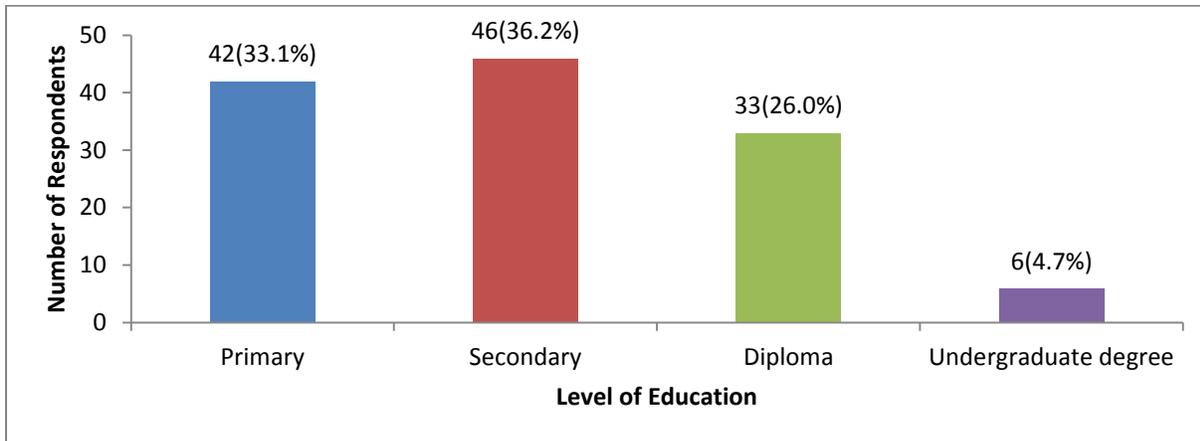

Figure 2: Level of Education of Business Owners

4.2.3 Age of the Business Owners

The respondents were also asked to indicate their age. The results revealed that 45.7% of the respondents were aged 31 to 40years, 26.0% of the business owners were aged 41-50years while those aged less than 30years and above 50years were 19.7% and 8.7% respectively. This implies that most of the enterprise owners were in their middle age/ reproductive age. The findings were in line with that of Kiboki *et al.,* (2014) who revealed that age SME owners were significantly predictors of access to credit. Mature owners of SMEs were more likely to access credit from MFIs.
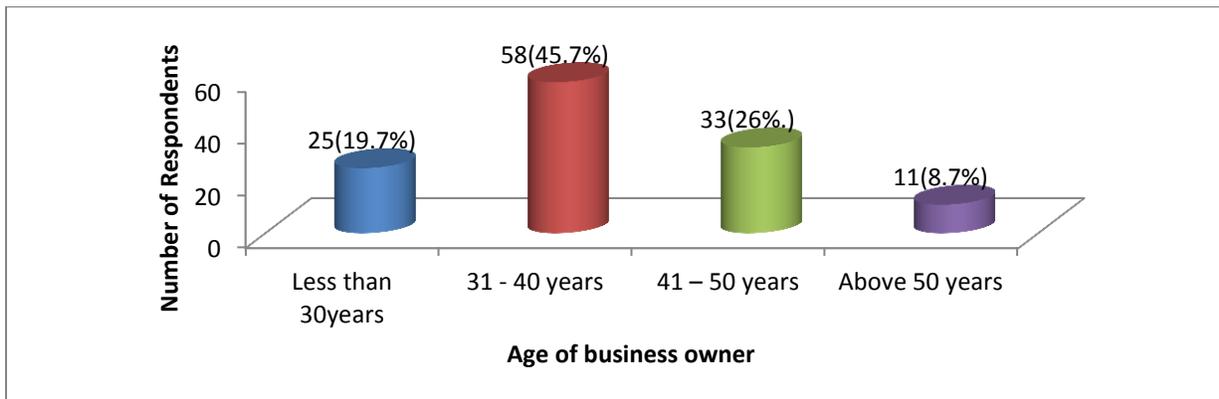

Figure 3: Age of Business Owners

4.2.4 Age of the Business

The respondents were asked to indicate the number of years the business had been in existence. The results showed that 21.3% of the enterprises had been in existence for less than a year, 35.4% had existed for 1 to 5years while 28.3% of the enterprises had been in existence for 6 to 10years. The enterprises that had existence for more than 10 years were 15.0%. These findings were in line with of Kiboki *et al.,* (2014) who also found that the age of the business was a

significant predictor of access to credit by SMEs therefore the older the business the more likely it was to access credit.
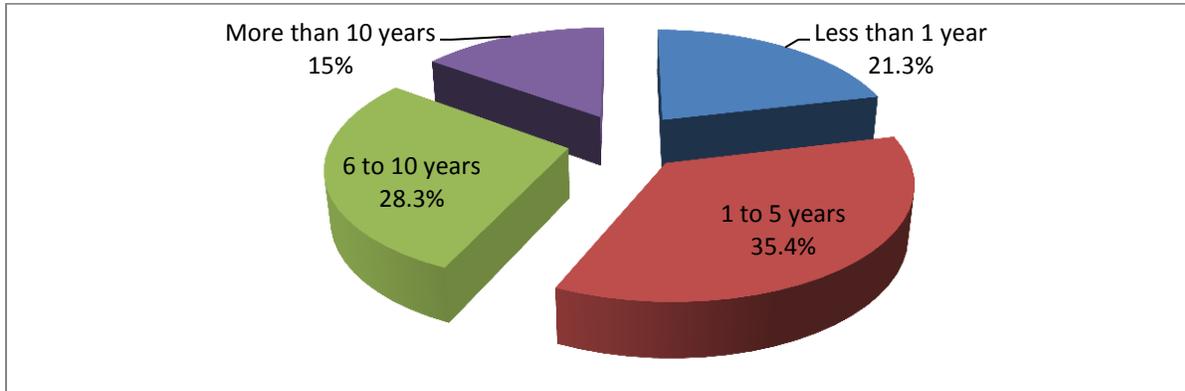

Figure 4: Age of the Business

4.2.5 Legal Business Ownership of the Enterprise

The respondents were further asked to indicate the legal business ownership of enterprise. The study findings revealed that a majority of the respondents, 78.0%, noted that their enterprises were a sole ownership, 18.9% of the respondents indicated that their enterprises were a partnership while 3.1% noted that their enterprises were private limited companies. The findings agree with that of Curran and Stanworth (1973) that sole proprietorship legal forms are also seen to be more likely to grow than would have been expected.
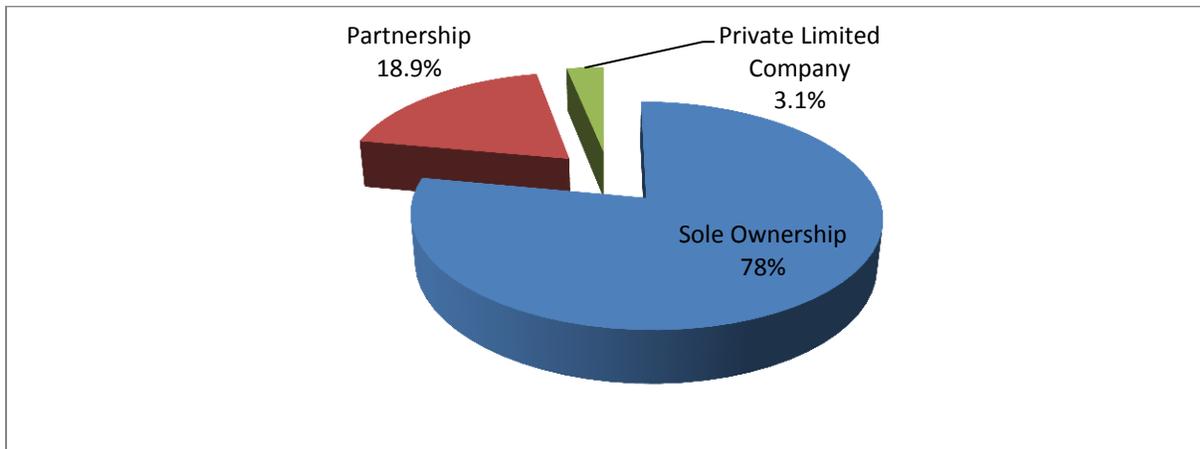
Figure 5: Legal Business Ownership of the Enterprise

4.2.6 Number of Employees in the Enterprise

The respondents were asked to indicate the number of people employed in the enterprise. The results revealed that majority of respondents, 66.1% were form enterprises that had 10 employees, 33.1% of the respondents indicated that the enterprise had 11 to 20 employees while 0.8% of the respondents indicated that their enterprises had more than 20 employees. The findings were in line with that of Bunyasi, Bwisa, and Namusonge (2014) that micro-enterprises comprised the lion's share of enterprises in Kenya, while there are a few medium enterprises since a majority were having no more than 10 employees.

Figure 6: Number of Employees in the Enterprise

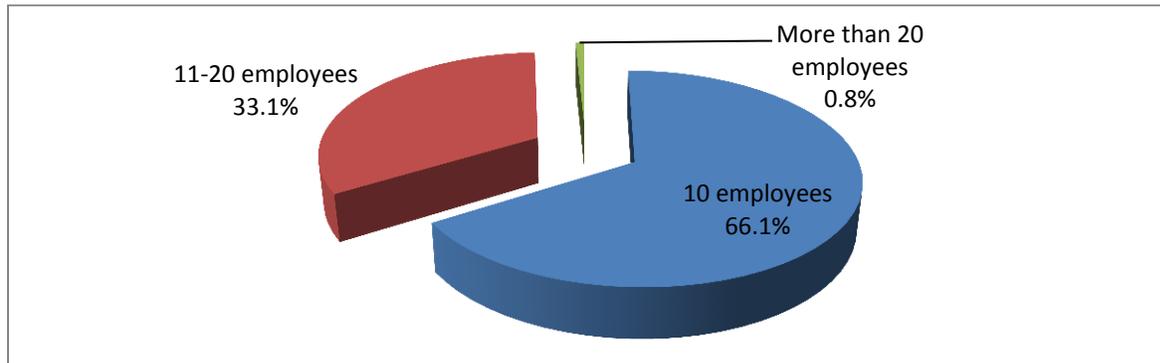## 4.3 Descriptive Statistics

This section presents the descriptive results on savings, eligibility criterion, loan structuring, social economic characteristics and the performance of retailing SMEs.

4.3.1 Savings

The first objective of the study was to determine the effect of the level of savings on financial performance of retailing SMEs in Wajir County. The respondents were asked to respond to some statements on savings. The results in Table 4.2 showed that a majority of the respondents, 88.9% (53.50%+35.40%), agreed that saving large amounts affected the access to larger amounts of microcredit. A majority of the respondents, 70.9% also agreed that the level of savings affected the frequency of repayment and losses incurred as result of defaults. The results showed that 72.5% of the respondents representing the majority were in agreement that saving more regularly affected the trust of MFIs in an individual and chances of getting an increased amount of loan. 54.1 % of the respondents noted that having savings in terms of deposits affected individual's consideration by financial institutions in granting loans, 29.2% of the respondents disagreed while 16.50% had a neutral opinion. On whether having savings beyond loans affected the competitive edge of an individual over other business in accessing bigger loans, 69.3% of the respondents were in agreement, 15.7% disagreed while 15.0% of the respondents were of neutral opinion. On a five point scale, the average mean of the responses was 3.75 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.14. The findings were in line with that of Rogg (2000) who sought to assess the impact of access to credit on the saving behavior of micro entrepreneurs using evidence from 3 Latin American Countries and found that there was a correlation between access to credit and savings deposits. Saving high amounts and regularly increasing borrowing ability. Savings enabled entrepreneurs obtaining credit and making regular repayments increased the trust of financial institutions in entrepreneurs and hence the granting of credit. A higher deposit decreases loss, given default, and a lower loss, given default, means a lower amount to be written off by the bank (Hwarire, 2012). Improved access to credit helped businesses to grow and advance their financial performance (Claessens & Tzioumis, 2006).

Table 1: Savings

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
Saving large amounts of funds affects access to larger amounts of microcredit	1.60%	3.90%	5.50%	53.50%	35.40%	4.17	0.83
The level of savings affects the frequency of repayment and losses incurred as result of defaults	7.90%	9.40%	11.80%	45.70%	25.20%	3.71	1.18
Saving more regularly affects the trust of MFIs in an individual and chances of getting an increased amount of loan	6.30%	12.60%	8.70%	39.40%	33.10%	3.80	1.21
Having my savings in terms of deposits affects individual's consideration by financial institutions	14.20%	15.00%	16.50%	36.20%	18.10%	3.29	1.32
Having savings beyond my loans affects the competitive edge of an individual over other business in accessing bigger loans	6.30%	9.40%	15.00%	38.60%	30.70%	3.78	1.17
Average						**3.75**	**1.14**

4.3.2 Eligibility Criterion

The second objective of the study was to investigate the effect of eligibility criterion on financial performance of small and medium retailing enterprises in Wajir County. The respondents were required to respond to some statements on eligibility criterion. The study results revealed that 63.0% of the respondents agreed to the statement that meeting collateral requirements by MFIs affects returns to business investments, 15.7% were in disagreement while 21.30% were of a neutral opinion. The results also showed that 70.8% of the respondents representing a majority agreed that having the required documentations by MFIs affected the timeliness of loan approvals. Good credit history was noted to affect the chances of being considered for a loan by a majority of the respondents, 73.2%. On whether people's willing to act as guarantors affected the ease of securing loans, 54.4% of the respondents were of the opinion that it did, 29.9% disagreed with the statement while 15.70% had a neutral opinion. When asked whether the

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presence of collateral assets affected the growth of the business, a majority of the respondents, 66.9%, indicated that it did, 13.4% disagreed with the statement while 19.70% of the respondents were of neutral opinion. On a five point scale, the average mean of the responses was 3.64 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.21. These findings were consistent with that of Ansah and Kwabena (2012) who investigated the SME loan eligibility criteria of the Ghanaian financial institutions and found that financial institutions were interested in major criteria such as collateral, guarantor, business registration documents, bank statement, audited account, recommendation by risk managers and credit history for SMEs to access credit. Gichuki *et al*., (2014) found that key challenges hindering micro and small enterprises from accessing credit facilities to be strict collateral requirements and unwillingness of people to act as guarantors.

Table 2: Eligibility Criterion

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
Meeting collateral requirements by MFIs affects returns to business investments	6.30%	9.40%	21.30%	33.10%	29.90%	3.71	1.18
Having the required documentations by MFIs affect the timeliness of loan approvals	7.90%	11.80%	9.40%	48.80%	22.00%	3.65	1.18
Good credit history affects the chances of being considered for a loan	6.30%	15.00%	5.50%	37.80%	35.40%	3.81	1.25
People's willing to act as guarantors affects the ease of securing loans	13.40%	16.50%	15.70%	33.90%	20.50%	3.31	1.33
Presence of collateral assets affects the growth of the business	6.30%	7.10%	19.70%	40.90%	26.00%	3.73	1.12
Average						**3.64**	**1.21**

4.3.3 Loan Structuring

The study sought to establish the effect of loan structuring on financial performance of small and medium retailing enterprises in Wajir County. The respondents were presented with some statements on loan structuring. The results in Table 3 show that 65.4% of the respondents agreed

that reasonable interest rates/cost of repayment affected the smooth repayment of a loan, 18.10% were in disagreement while 16.50% had a neutral opinion. Considerate repayment period was found to affect the amount that was repaid by 76.3% of the respondents who were the majority. It was found that 69.3% of the respondents were in agreement with the statement that the size of loans advanced affected how the needs of the business were met, 15.7% disagreed while 15.0% of the respondents were of neutral opinion. The study findings showed that 70.1% of the respondents, a majority, agreed that access to different types of loans affected the expansion of business activities. The results also revealed that 71.6% of the respondents agreed to the statement that favorable loan facility processing fees affect transaction costs, 18.90% disagreed while 9.40% had a neutral opinion. On a five point scale, the average mean of the responses was 3.74 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.16. The findings were in line with that of Ackah *et al.,* (2011) who found that those SMEs which were able to access the credit were also faced with high interest rates and short repayment periods making it very difficult to embark on any developmental or expansion projects or their activities. Yehuala (2008) also found that loan repayment period was critical for access to formal credit in that loan repayment period negatively influenced access to credit as it had a major bearing on the total amount to be repaid.

Table 3: Loan Structuring

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
Reasonable interest rates/ cost of repayment affects the smooth repayment of a loan	7.10%	11.00%	16.50%	38.60%	26.80%	3.67	1.19
Considerate repayment period affects the amount that is repaid	7.90%	11.00%	4.70%	41.70%	34.60%	3.84	1.24
The size of loans advanced affects how the needs of the business are met	6.30%	9.40%	15.00%	43.30%	26.00%	3.73	1.14
Access to different types of loans affects expansion of business activities	4.70%	10.20%	15.00%	49.60%	20.50%	3.71	1.05
Favorable loan facility processing fees affects transaction costs	5.50%	13.40%	9.40%	41.70%	29.90%	3.77	1.18
Average						**3.74**	**1.16**

4.3.4 Socio-Economic Characteristics

The fourth objective of the study was to assess the effect of socio-economic characteristics on financial performance of small and medium retailing enterprises in Wajir County. The respondents were requested to respond to some statements on socio-economic characteristics. The results are presented in Table 4.

Table 4: Socio-Economic Characteristics

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
A large business asset base affects ability to pay loan	3.10%	7.90%	17.30%	44.90%	26.80%	3.84	1.01
Large size and long existence affects the preference of a business by MFIs in granting of loans	7.90%	24.40%	4.70%	33.90%	29.10%	3.52	1.34
Social capital of a business affects the preference of a business by MFIs in granting of loans	7.10%	9.40%	18.90%	36.20%	28.30%	3.69	1.19
Education of business owners affects the quality of information and repayment plans	5.50%	12.60%	15.70%	37.00%	29.10%	3.72	1.17
Business partnerships affects the likelihood to get loans through better collateral than sole ownerships	10.20%	10.20%	14.20%	39.40%	26.00%	3.61	1.26
Average						**3.68**	**1.19**

The study results revealed that a majority of the respondents, 71.7%, agreed that a large business asset base affected ability to pay loan. 63.0% of the respondents agreed that large size and long existence of a business affected its preference by MFIs in granting loans, 32.3% of the respondents disagreed with the statement while 4.70% had a neutral opinion. The study findings also revealed that 64.5% of the respondents were in agreement with the statement that social capital of a business affected the preference of a business by MFIs in granting loans, 16.5% were in disagreement while 18.90% of the respondents had a neutral opinion. The study found that 66.1% of the respondents, a majority, agreed that education of business owners affected the quality of information and repayment plans. It was further found that 65.4% of the respondents agreed that business partnerships affected the likelihood of getting loans through better collateral

than sole ownerships, 20.40% disagreed while 14.20% of the respondents had a neutral opinion. On a five point scale, the average mean of the responses was 3.68 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.19.

The findings were in line with that of Nahamya *et al.,* (2015) who sought to establish the impact of microfinance services on the growth of Small and Medium Enterprises (SMEs) in eastern Uganda and found that access to MFIs products was constrained by levels of education of the business owners, age of business, initial capital, and assets owned before the loan, liabilities before the loan, the availability of collateral, location and default history. The borrowers with higher levels of education had higher chances of accessing loans compared to their counterparts. Kiboki *et al.,* (2014) found that group membership was a significant predictor of access to credit and that for SMEs to access credit, owners needed to form groups that acted as collateral to access loan.

4.3.5 Financial Performance of Retailing SMEs

The study also sought to assess financial performance of small and medium retailing enterprises in Wajir County. The respondents were presented with some statements on financial performance.

Table 5: Financial Performance of Retailing SMEs

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
There has been sales growth in my enterprise	13.40%	7.10%	11.80%	43.30%	24.40%	3.58	1.30
The revenues from my sales have increased	15.00%	7.90%	6.30%	43.30%	27.60%	3.61	1.36
The profits of the business have been increasing	10.20%	7.90%	8.70%	52.80%	20.50%	3.65	1.19
The ability of the business to meet the cost of normal transactions of the firm has improved	11.80%	5.50%	7.10%	44.10%	31.50%	3.78	1.28
Average						**3.655**	**1.28**

Results in Table 5 showed that 67.7% of the respondents indicated that there had been sales growth in their enterprise, 20.50% disagreed with the statement while 11.80% of the respondents were neutral. 70.9% of the respondents representing a majority indicated that the revenues from the business sales had increased. The study found that 73.3% of the respondents were in agreement that the profits of their business had been increasing, 18.10% disagreed while 8.70% had a neutral opinion. On whether the ability of the business to meet the cost of normal transactions of the firm had improved, a majority of the respondents, 75.6%, indicated that it had

improved. On a five point scale, the average mean of the responses was 3.655 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.28. Improved access to credit helped businesses to grow and advance their financial performance (Claessens & Tzioumis, 2006). The performance of SMEs was their ability to contribute to job and wealth creation through business startup, survival and growth (Sandberg *et al.,* 2002). Maintaining optimal liquidity demonstrated that there were economies of scale associated with the cash levels required to confront the normal transactions of the firm. Thomas and Mason (2007) argued that if sales increased, profits would eventually follow. Information on financial performance was useful in predicting the capacity of the enterprise (Levasseur, 2002).

4.4 Inferential Statistics

4.4.1 Correlation Analysis

The study sought to explore the association between savings, loan structuring, eligibility criterion and various socio economic characteristics and financial performance. Pearson's correlation coefficients were used to show the direction, strength of the association and the significance of the coefficient were also presented. Table 6 below presents the results of the correlation analysis.

Table 6: Correlation Matrix

		Performance	Savings	Eligibility Criterion	Loan Structuring	Socio-economic characteristics
Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Savings	Pearson Correlation	0.546	1			
	Sig. (2-tailed)	0.000				
Eligibility Criterion	Pearson Correlation	0.505	0.575	1		
	Sig. (2-tailed)	0.000	0.000			
Loan Structuring	Pearson Correlation	0.566	0.319	0.286	1	
	Sig. (2-tailed)	0.000	0.000	0.001		
Socio-economic characteristics	Pearson Correlation	0.522	0.277	0.231	0.592	1
	Sig. (2-tailed)	0.000	0.002	0.009	0.000	
	Correlation is significant at the 0.01 level (2-tailed).					

The results revealed that savings and financial performance of SMEs were positively and significantly related (r=0.546, p=0.000). The results further indicated that meeting the eligibility criterion and financial performance of SMEs were positively and significantly related (r=0.505,

p=0.000). It was further established that favorable loan structuring and financial performance of SMEs were positively and significantly related (r=0.566, p=0.000). Similarly, the results showed that some socio economic characteristics and financial performance of SMEs were positively and significantly related (r=0.522, p=0.000). This implies that an increase in any unit of the variables leads to an increase in the financial performance of SMEs. These findings were in line with that of Rogg (2000) who found that there was a positive correlation between access to credit and savings deposits. Hwarire (2012) found that a higher deposit decreased loss, given default, and a lowered loss, given default, meant a lower amount to be written off by the bank. This influenced the costs incurred by SMEs and hence their performance. Gichuki *et al*., (2014) found that key challenges hindering micro and small enterprises from accessing credit facilities to be high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, high credit facilities' processing fees and short repayment period and this influenced their ability to expand. Bawuah *et al.,* (2014) found that interest rate affected the choice of financing decision of SMEs and that in order to help them expand; the cost of credit facilities should be reviewed downwards to enable smooth repayment and increase in the demand for loans by SMEs. Nahamya *et al.,* (2015) also found that access to MFIs products was constrained by levels of education of the business owners, age of business, initial capital, and assets owned before the loan, liabilities before the loan, the availability of collateral, location and default history. The borrowers with higher levels of education had higher chances of accessing loans compared to their counterparts.

4.4.2 Regression Analysis

Regression was conducted to show the relationship between access to microcredit and financial performance of SMEs in Wajir County. The study assessed the relationship between savings, loan structuring, eligibility criterion and various socio economic characteristics and financial performance.

The results presented in Table present the fitness of model used of the regression model in explaining the study phenomena. Savings, eligibility criterion, loan structuring and socioeconomic characteristics were found to be satisfactory variables in explaining financial performance of SMEs in Wajir County. This is supported by coefficient of determination also known as the R square of 53.6%. This means that savings, eligibility criterion, loan structuring and socioeconomic characteristics explained 53.6% of the variations in the dependent variable which is financial performance of SMEs. These results also imply that the model applied to link the relationship of the variables was satisfactory.

Table 7: Model Fitness

Indicator	Coefficient
R	0.732a
R Square	0.536
Adjusted R Square	0.521
Std. Error of the Estimate	0.549140

In statistics significance testing using the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number is found to be less

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than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; otherwise the model would be regarded as non-significant. Table 8 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of performance of SMEs. This was supported by an F statistic of 35.235 and the reported p value (0.000) which was less than the conventional probability of 0.05significance level.

Table 8: Analysis of Variance

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	42.502	4	10.626	35.235	**0.000**
Residual	36.790	122	0.302		
Total	79.292	126			

Regression of coefficients results in Table 9 shows that savings and performance of SMEs are positively and significantly related (r=0.337, p=0.001). An increase in the unit change in savings would lead to an increase in financial performance of SMEs by 0.337 units. The findings are in line with that of Kalui and Omwansa (2015) who found a found a positive consistent correlation and relationship between micro savings and financial performance. The study also found that savings contributed to the growth of SMEs.

The results further indicate that meeting eligibility criterion and financial performance of SMEs were positively and significantly related (r=0.275, p=0.005). These results imply that an increase in the unit change in meeting the eligibility criterion would lead to an increase in the financial performance of SMEs by 0.275 units. These findings are in line with that of Nkuah, Tanyeh, and Gaeten (2013) who conducted a study on financing small and medium enterprises (SMEs) in Ghana; challenges and determinants in accessing bank credit and found that some financial characteristics such as business registration, accurate documentation of transactions and financial activities as well as good business planning had positive relations with credit accessibility and this influenced financial institutions' interest to do business with SMEs and to aid their growth through loan packages.

It was further established that favorable loan structuring and financial performance of SMEs were positively and significantly related (r=0.330, p=0.000) while some socio-economic characteristics and financial performance of SMEs were also positively and significantly related (r=0.284, p=0.003). This shows that an increase in the unit change in favorable loan structuring and some socioeconomic characteristics would lead to an increase in the financial performance of SMEs by 0.330 and 0.284 units respectively. The findings were in line with that of Kibet, Achesa, and Omwono (2015) who investigated the effects of microfinance credit on the performance of small and medium enterprises in Uasin Gishu County and found that small-scale loans can relieve capital constraints that might otherwise preclude cash strapped entrepreneurs from investing in profitable businesses and that ROA increased with each consecutive loan showing that microfinance services enhance performance of SMEs. The findings are also in line with that of Essien and Arene (2014) who conducted a study that was designed to examine access to credit markets and performance by small scale agro-based enterprises in the Niger Delta and found that education, age, enterprise size and collateral influenced formal credit access

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and that the few SMEs that accessed formal credit performed better that those that accessed informal credit.

Table 9: Regression of Coefficients

	B	Std. Error	Beta	t	Sig.
(Constant)	-0.686	0.365		-1.881	0.062
Savings	0.337	0.098	0.266	3.454	0.001
Eligibility Criterion	0.275	0.096	0.218	2.863	0.005
Loan Structuring	0.330	0.092	0.283	3.604	0.000
Socio-Economic Characteristics	0.284	0.095	0.231	2.994	0.003

Thus, the optimal model for the study is;

Staff productivity = -0.686+ 0.337 savings +0.275 eligibility criterion +0.330 loan structuring + 0.284 socio-economic characteristics

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

This section provides a summary of the findings from the analysis. The first objective of the study was to determine the effect of the level of savings on financial performance of retailing SMEs in Wajir County. The study findings revealed that savings had a positive and significant effect on the financial performance of SMEs in Wajir County. Therefore, regular and high amounts of savings were necessary if SMEs were to access credit in order to boost the growth and financial performance of their enterprises. The findings also revealed that meeting the eligibility criterion had a positive and significant effect on performance of SMEs in Wajir County. This was also supported by the statements in the questionnaire which majority of the respondents agreed with and this translated to better performance. This meant if SMEs were not able to meet the eligibility criteria, they would not access the financing/loans to expand their activities and this hindered their financial performance. The further showed that loan structuring had a positive and significant effect on financial performance of SMEs in Wajir County. This was also supported by the statements in the questionnaire which majority of the respondents agreed with and this translated to better performance. Hence, high interest rates and short repayment periods made it very difficult for SMEs to embark on any developmental or expansion projects or their activities and also increased the amount that was paid back to the financial institutions. This would then tickle down to increased costs and losses for the SMEs and hence poor financial performance. The findings revealed that some socio-economic characteristics had a positive and significant effect on the financial performance of SMEs in Wajir County. Access to MFIs products was determined by levels of education of the business owners, age of business, initial capital, and assets owned before the loan, liabilities before the loan, the availability of collateral, location and default history. Group membership was a significant predictor of access to credit and that for SMEs to access credit, owners needed to form groups that acted as collateral to access loan.

5.2 Conclusions

Based on the study findings, the study concluded that savings had a positive and significant influence on the financial performance of SMEs in this county. Similarly, the study concluded that meeting the eligibility criterion affected the financial performance of SMEs in Wajir County. Favorable loan structuring and various socio-economic characteristics also greatly influenced the financial performance of SMEs in this county. Based on the responses given by the owners participating in the study, it was concluded that if SMEs in this county were to improve their financial performance, they needed to place themselves in a place that they could easily access microcredit through meeting various requirements, saving more and gaining better social capital, education and ensuring that their businesses expanded for them to be easily considered for credit

5.3 Recommendations

Based on the research findings, the study recommended that SMEs should take the initiative to increase the amount they saved so that they could increase their borrowing capacity. Saving should be made regularly so that the SMEs can gain trust financial institutions and increase their considerations for loans. SMEs needed to increase their deposits so as to decrease losses in cases of default because it would lower the amount to be written off by the MFIs. This will also help decreases the risks to the SMEs and the lender and hence increase the likelihood of pricing down as the MFIs did not have to recover as much of the loan. This will translate to increased microcredit access which would lead to expansion of business and hence high financial performance.

The study also recommended that SME owners needed to take the initiative of ensuring that they were all the time able to meet the necessary requirements needed for obtaining loans especially their documentation, business and repayment plans and aim at ensuring that they acquired the necessary collateral. There was a need for them to be enlightened through trainings and other forums concerning what they needed to have in order to access loans and ensure timely approvals. The lending institutions also needed to ensure that the set requirements do not cause SMEs to shy away by making them a little bit more considerate.

It was further recommended that MFIs needed to ensure that the loan structure presented to SMEs were favorable. They needed to lower the cost of repayment, give SMEs able time to repay the loans, reduce the processes that led to increased transaction costs during the loan application and processing so as to encourage SMEs to borrow and ensure that they accessed credit easily. The MFIs needed to consider expanding the types and sizes of loans granted to SMEs to enable them expand their activities for enhanced growth and performance.

The study also recommended that it was necessary for SMEs to expand/grow their asset base so as to increase the ability to repay the loans. They also needed to expand their networks especially within the financial institutions circles so that they could increase the trust the MFIs had on them and for easy considerations for loans. They needed to acquire some education and information regarding the process of loan application and building up viable repayment plans through training.

5.4 Areas for Further Studies

The study focused on the access to microcredit and the financial performance of SMEs in Wajir County, Kenya. This called for analysis of financial performance of SMEs in only one county in Kenya and thus area for further studies could consider other counties in Kenya that have been faced with the challenge of constrained performance due to constrains in accessing loans among SMEs and comparison be made with the findings of the current study.

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