

**INFLUENCE OF BUSINESS NETWORKS ON THE RELATIONSHIP
BETWEEN MICROFINANCE SERVICES AND PERFORMANCE OF MICRO
AND SMALL ENTERPRISES IN KISUMU COUNTY, KISUMU COUNTY
KENYA**

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DECLARATION

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DEDICATION

This research project is dedicated to my mother and wife for their unwavering support financially, materially and in prayers. Moreover to my sisters, brothers, friends and the community who taught me to appreciate the fruits of hard-work.

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ABSTRACT

Most of the MSEs are stagnating, retrogressing to micro status or closing after few years of operation. Therefore the ability of MSEs to grow depends highly on their potential to invest in restructuring and innovation; all these investments require capital and access to finance. Various studies have been done in Kenya on MSEs and how they are influenced by microfinance services; the small businesses are experiencing an average decline of 4% points while medium enterprises are experiencing an average turnover increase of 7% points. Despite the fact that MSEs have maintained the increase in use of Chama and Mobile Money as well as sharp decline in Banks as a source of finance. The purpose of the study was to assess the influence business networks on the relationship between microfinance services and performance of micro and small enterprises in Kisumu county Kenya. The specific objectives for this study was to find out the influence of microfinance saving services on the performance of MSEs in Kisumu county Kenya; determine the influence of microfinance credit service on the performance of MSEs in Kisumu county Kenya; determine the influence of microfinance training services on the Performance of MSEs in Kisumu county Kenya; determine the influence of business network on the performance of micro and small enterprises in Kisumu county Kenya, and to assess the moderating influence business networks on the relationship between microfinance services and performance of micro and small enterprises in Kisumu county Kenya. Government and other policy making bodies may use the study findings in formulating policies and inform the general public on the available of microfinance products and how the products compare to other products offered in other countries. The findings of this study will provide a useful source of reference for other researchers and offer useful and lacking literature on the influence of MFI's on Kenyan MSE's in the process fill an existing literature gap. This study adopted a descriptive survey research design. The study was guided Grameen model, microfinance credit theory and joint liability theory. The study targeted 171 MSEs operating at Kisumu County. Results of the reliability test showed that all the variables had reliability alpha greater than 0.70 and therefore all were found to be reliable. The items included in the variables were consistent. Study sample size of 120 MSEs was used. Both primary and secondary data were used. Data analysis was done using descriptive statistics and inferential statistics. The findings revealed that regressors (saving services, credit facilities ,training services and MSE's networks) account for 83.4% of the variation in performance of MSE's in Kisumu bus park enterprises while 16.6% of the variation remain unexplained($R=0.913$; $R^2 = 0.834$; $F=622.286$; $p < 0.05$). In the regression analysis when MSE's Networks was not factored the regressors (saving services, credit facilities, training services) indicate a strong correlation of 0.805^a and its R^2 is 0.648 (the variation of dependent variable is accounted for up to 64.8%); its F value is highest at 62.497, $p<0.05$ indicating when Business networks moderate microfinance services and MSE's performance the results are better and statistically significant. Based on the findings the study concludes that microfinance services positively influence performance of MSEs and the performance is better when the Business Networks of traders is involves as it has a statistically significant influence on the performance of MSE's operating at Kisumu County.

LIST OF ABBREVIATION

CGAP	Consultative Group to Assist the Poor
NGOs	Non-Governmental Organizations
MFI	Micro-Financial Institutions
MSE	Micro and Small Enterprises

DEFINITION OF TERMS

Financial Intermediation	It is the process of provision of financial products and services such as savings, credit, insurance, credit cards, payment systems that do not require subsidies.
Micro-Finance Institution	Institutions that provide credit services and other financial service to the poor in the form of small loans or savings.
Social Intermediation	The process of building human and social capital needed for sustainable financial intermediation of the poor.
Microfinance	The provision of financial services to low-income poor and very poor self-employed people.
Micro and Small Enterprises (MSE)	Institutions employing between 1 to 49 employees or those with annual revenue below Ksh. 50 million.
Small and Medium Enterprises (SME)	Small enterprises employ between 10 to 49 employees while medium enterprises employ between 50 to 99 employees.
Micro, Small, and Medium Enterprises	These are enterprises that have 1-99 employees.
Business networks	Consisting of those persons with whom the entrepreneur has a direct relationship and those with whom the entrepreneur has indirect relationships through his direct relationships.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microfinance is “the provision of financial services to low-income poor and very poor self-employed people” (Armendariz and Morduch 2005). These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Galor and Zeira (2012) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

The history of Micro-Finance Institutions (MFIs) in Africa dates back to the 16th Century where it was in the form of “esusu” or “susu”; a Rotating Savings and Credit Association (ROSCA) among the Yoruba. Its origin is found in the rotating work associations where labor as a scarce commodity was accumulated and allocated to one of the members at a time. With advent of money and commercialization, these transactions were replaced with money such as naira and pounds.

In Kenya, The Kenya Microfinance sector began in the late 1960s with NGOs setting up pilot programs providing donor funded credit services. Some of these organizations have evolved over time to become commercialized, self-sustaining and hugely profitable institutions with over 100,000 citizens (Njoroge, 2008). These MFIs are regulated by the Central Bank of Kenya. There are twelve licensed MFIs in Kenya. These include Choice Microfinance Bank, Faulu, Kenya Women Microfinance bank limited, MSEP, REMU, Rafiki, Uwezo, Century, Sumac, U&I, Daraja and Caritas. Microfinance is regulated by Micro-Finance Act which became active in 2008 while the banking system in Kenya is regulated by the Companies Act, the Banking Act, and the Central Bank of Kenya Act. In addition, there are several existing guidelines. The responsibility for monetary policy and the banking system is held by the Central Bank of Kenya, which also releases information about interest rates, banking guidelines, and legally registered institutions. With the adoption of this act, institutions could apply for micro finance licenses at the Kenyan

Central Bank either as a national or community institution. In order to do so, these institutions must be registered as: Deposit-taking institutions, Non-deposit taking institutions and Informal organizations (CBK, 2008).

There are different providers of microfinance services and some of them are; nongovernmental organizations (NGOs), savings and loan cooperatives, credit unions, governmental banks, commercial banks and non-bank financial institutions. Their target groups are self-employed and low income entrepreneurs. MFIs have the following characteristics: Loans are usually relatively short term, less than 12 months in most instances, and are generally for working capital with immediate, regularly, weekly or monthly repayments. They are also disbursed quickly after approval, particularly for those seeking properly repeat loan. The traditional lenders requirements for physical collateral such as property are usually replaced by a system of collective guarantee where members are mutually responsible for ensuring that their individual loans are repaid. Loans application and disbursement procedures are designed to be helpful to low income borrowers. They are simple to understand, locally provided and quickly accessible (Ledgerwood, Earne and Nelson, 2013).

Universally, microfinance has been acclaimed as an important tool for poverty eradication especially in the developing economies (Armandariz and Morduch, 2005, Johnson and Rogaly, 1997, Gibbons and Meehan, 2002). In fact the World Bank, United Nations and other International Development bodies have identified microfinance as a major tool in the fight of poverty and the attainment of the Millennium Development Goals (MDG's) by the year 2030. In a 2005 publication, the United Nations noted that, microfinance has changed the lives of thousands of people and revitalized communities since the inception of trade. In fact, the year 2005 was declared the year of micro-credit. The declaration of the year of micro credit was aimed at creating awareness and attention to the efforts of Microfinance in poverty eradication through modern communication channels of radio, print press, TV's and case studies (United Nations, 2005).

According to Fraser (2015) microfinance industry has experience tremendous growth especially in the developing countries such as India, Mexico and some parts of African continent. The main reason for this is that banks have shied away from the section of the

population with low income because they are considered by the mainstream financial institutions as being risky. In India for example the microfinance industry made 40% growth in the loans that they offered to their clients whose number also grew by 23% to 27.9 million. According to the World Bank (2010), in developing countries, poor people of the female gender have proved to be excellent borrowers who provide a ready market for effective and responsive loan products at commercial rates. Oussama (2014) analyst of Mix Market and World Bank revealed that African continent has witnessed one of the fastest growths in its microfinance industry. The growth rate is estimated at 1312% between the years 2002 and 2012. The loan portfolio has also grown from \$0.6 billion to \$8.48 billion in the same period. The demand for MFI products is attributed to group liability model that has allowed members of the group to guarantee each other. Central Bank of Kenya on its part has recognized the growth that microfinance sector has witnessed since 2008. The sector has registered a growth from 1 microfinance institution to 12 with a total of 114 branches as at 2017 (Consultative paper on the review of microfinance legislations by CBK, 2018).

There is no standard or internationally accepted definition of Micro and Small Enterprises (MSEs). However, the definition of MSE does vary from one country to another or one regional block to another. The European Union defines MSE's as companies employing less than 10 employees for micro institutions and fewer than 50 employees for small institutions. According to European Union (2016) micro enterprise has fewer than 10 employees and an annual turnover (the amount of money taken in a particular period) or balance sheet (a statement of a company's assets and liabilities) below €2 million. Small enterprise has fewer than 50 employees and an annual turnover or balance sheet below €10 million. On the other hand, most Kenyan institutions define MSE's as institutions employing between 1 to 49 employees or those with an annual revenue below Ksh. 50 million (Kihuro, 2010). The Government of Kenya (2012) defines Micro enterprises as those with less than 10 employees while Small enterprises have 10 – 49 employees.

According to Chole, (2017), MFI provides avenue that avails funds to micro and small institutions which entail very small savings, micro insurance, and micro leasing which support extremely poor individuals in growing and establishing their businesses which is

in line with main objective of microfinance institutions of poverty alleviation. It is mainly practiced in less developed nations where small enterprises face numerous challenges in accessing cheaper and flexible finances. The term is usually taken to refer to availing funds to micro and small entrepreneurs who lack access to banking or related services since such range of clients suffer high transaction costs and interest rates. The process involved in accessing the loans is less complicated as compared to other lenders where the process is complicated and cumbersome (Kemei, 2011).

Micro savings accounts provided by MFIs to their clients work similar to a normal savings account, however, are designed around smaller amounts of money. The minimum balance requirements are often waived or very low, allowing users to save small amounts of money and not be charged for the service. There are a number of reasons why MSEs find it difficult to save. Some of them may lack a structured disciplined method of saving (Ledgerwood, 2013). Others may have difficulty controlling the consumption habits of other members of their household. This problem is particularly acute for women, who often have no control over household spending (Prathap, Subrahmanya and Harisha, 2018). Moreover, for those who are interested in saving, the only mechanisms available may be investments in illiquid assets that deprive them of the ability to take advantage of new investment opportunities or respond to sudden setbacks. In addition, those assets may themselves be risky investments (Ling, 2018).

According to Mwirigi (2020) observed that most MSE owners have low level of debt management literacy which may negatively affect their financial decisions of when to borrow, how much and from whom resulting to poor business performance. Investing in basic business or financial skills training may greatly increase the impact of taking a loan and result in improved repayment and benefit to the lending organization and increased incomes in the MSEs' household. For a microfinance institution, it may therefore be useful to provide such training to the entrepreneurs.

The performance of MSEs is important for both social and economic development of under developed countries. Performance of MSEs has been defined as revealing the health of a firm as well as its going concern, and also used for comparing firms in the same industry. There are various ratios which are used for measuring the performance of firms.

Firms are mostly concerned with their profitability, as profitability serves as the main driver for firms engaging in businesses as firms constantly making losses will in the end be insolvent (Abor and Quartey, 2014). MSEs' performance is defined as "how well the organization is managed and the value the organization delivers for customers and other stakeholders". It is also the measurement of the effectiveness and efficiency of both the organization and the workers where effectiveness refers to the extent to which stakeholder requirements are met, while efficiency is a measure of how economically the organizations resources are utilized when providing a given level of stakeholder and customer satisfaction. Hence, performance can be defined as the use of resources both efficiently and effectively in the achievement of its expected objectives (Ivanov and Avasilcai, 2013).

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. The Micro and Small Enterprise (MSE) sector in Kenya is an important and fast growing sector employing 42 per cent of the working population, and accounting for 75 per cent of all modern establishments in Kenya as at 2018. MSEs dominate majority of the sectors, including insurance, wholesale and retail trade, restaurants, hotels, manufacturing, agriculture, community and social services, real estate, business services, transport and communication and construction.

The Constitution of Kenya assigns county governments trade development and regulation functions, including markets, trade licenses, fair trading practices, local tourism and cooperative societies. In conjunction with other devolved functions such as agriculture, county public works and planning, county governments play critical roles in MSE sector growth. Due to the large share of enterprises, MSEs' form the base for private-sector-led

growth, and deliberate policy efforts have often targeted the sector in developing countries as an engine of employment and growth. MSEs act as a catalyst for entrepreneurial seedbed for industrial transformation (McPherson, 1996). Kenya Vision 2030 recognizes the sector and envisages MSEs' improved productivity and innovation by enhancing the investment climate, including access to finance.

Policy efforts targeted at the MSE sector are anchored on the premises that MSEs are the engine of growth, but market imperfections and institutional weaknesses impede their growth (White, 2018). Under the devolved governance structure, MSEs are not only significant in employment creation but also in revenue generation for the county governments in form of service fees. Single business permit fees form a significant source of own revenues for county governments, which is used for delivery of county services. During the 2009/10 fiscal year, single business permit fees amounted to Ksh.2.9 billion, accounting for 17 per cent of local government own revenues (Government of Kenya, 2010). The role of MSEs can only be maximized by mitigating growth constraints resulting mainly from adverse investment climate, poor infrastructure, credit constraints, insecurity and regulatory burden.

The MSE industry in Kisumu is characterized by the employment of between 1 to 49 employees and capital assets of about Ksh.50,000/= to ksh.15 million (FKE, Kisumu). Boasting of over 9000 players with license revenues of about ksh.80 million (Kisumu County single business permit records, 2019), and accounting for about 80% of the county workforce, it is no doubt that the MSE sector is the key driver of Kisumu county economy. Myriad challenges compound to inhibit the lateral growth of MSE's in Kisumu County.

A study by KIPPRA and Ernst and Young (2016) established that being in an industrial location, access to electricity, lower incidences of insecurity, access to bank loans and positive perceptions of the entrepreneur regarding the courts in terms of affordability and fairness positively affect firm growth. The Kenya National Trading Corporation's (KNTC) major objectives are to develop micro and small enterprise (MSEs) markets, expand and diversify trade, and improve and strengthen the supply chain and distribution systems. On the other hand, the Joint Loan Board (JLB) seeks to promote small-scale enterprises through provision of affordable credit of between Ksh 20,000 and Ksh.100, 000. The

county government of Kisumu has given a cumulative amount of Kshs 20.1 million financial assistance to enable MSEs to become self-reliant. Most of MSE collapse in their second year of operation due to inability to services loans and to cope up with changing economic atmosphere. This was done in line with policy of supporting MSEs as key element in growing the economy (Annual State of the County Address, 2019). The MSE performance indicators that the study focused on were Profit Levels and Sales Volume.

Micro and 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. Further, 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 MSEs in Kenya found a strong positive relationship between micro finance services and growth of MSEs; but it was unclear on the extent to which entrepreneurs networks do influence the relationship between microfinance services and growth of the MSEs.

The micro and small enterprises (MSEs) that is the “Jua kali” sectors in Kenya occupy a very strategic position in the country’s development. They have been identified as major contributors towards employment creation and wealth generation across all sectors of the economy. This sector is estimated to contribute overwhelmingly to the country’s Gross Domestic Product (GDP) by employing nearly 80 per cent of the population. Over the years, successive governments have therefore supported growth and development of the sector by implementing targeted interventions and programs aimed at making it more vibrant. Nonetheless, the full potential of the sector has not been realized as there have been several organizations attending to the Micro and Small Enterprise (MSE) sector both in the public and private sector causing overlaps, duplication and confusion. Although the

private sectors have played critical tasks to nurture the sector with Kenya Private Sector Alliance (KEPSA) and Non-Government Organizations among others adopting leading roles, the ultimate micro entrepreneur and the enterprises have not realized their full potential in terms of growth. Therefore this study focus is on the microfinance services, business networks and MSE performance relationship in Kisumu County Kenya.

1.2 Statement of the Problem

Availability of finance determines the capacity of an enterprise especially in choice of technology, access to markets, and access to essential resources which in turn greatly influence the viability and success of that business, (Wole, 2009). Further, securing capital for business start-up or business operation is a major obstacle every entrepreneur faces particularly those in the MSE's sector. Lack of access to credit as a factor hinders the emergence and performance of businesses. Most of the MSEs are stagnating, retrogressing to micro status or closing after few years of operation. Therefore the ability of MSEs to perform better depends highly on their potential to invest in restructuring and innovation, all these investments require capital and access to finance.

Various studies have been done in Kenya on MSEs and how they are influenced by microfinance services. Mutuku (2010) studied the impact of microfinance institutions on MSEs in Kenya and found out that they had a great impact on employment creation and poverty alleviation. Ngugi (2009); Kioko (2009); Makena (2011) studied the financial challenges faced by MSEs and found that inadequacies in access to finance are key obstacles to MSE's performance. Kemei (2011) studied the relationship between microfinance services and financial performance of MSEs. The findings were that positive and significant relationships have been established between MFIs loans and MSE's 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 performance of MSEs by Koech (2011) found that the factors affecting performance were capital market, cost, capital access, collateral requirements, capital management and cost of registration. Cooper (2012) study on the impact of microfinance services on the performance of MSEs in Nairobi and found a strong positive impact. There are limited studies on the influence of

business networks on the relationship between microfinance services and performance of MSEs in Kenya, particularly in Kisumu County. Further, micro businesses with annual turnover of less than Kshs 500,000 mostly informal in nature recorded an 18% point increase in annual turnover between financial years 2018-2019. This is corroborated with their job creation credential of over 80% according to Kenya National Bureau of Statistics economic survey 2019.

However, the micro businesses experiencing an average decline of 4% points while small enterprises experienced an average turnover increase of 7% points. MSEs have maintained financing through retained business profits as their number one option in the last three years. The rapid increase in use of Chama and Mobile Money as well as sharp decline in Banks as a source of finance has been attributed to the effects of interest rate cap introduced in 2016. Therefore this study sought to establish the influence of business networks on the relationship between microfinance services and performance of MSEs in Kenya, particularly in Kisumu County.

1.3 Research Objectives

The main objective of this study was to assess the influence of business networks on the relationship between microfinance services and performance of micro and small enterprises in Kisumu county Kenya. The specific objectives of this study include;

- i. Establish the influence of microfinance saving services on the performance of micro and small enterprises in Kisumu county Kenya
- ii. Determine the influence of microfinance credit services (facilities) on performance of micro and small enterprises in Kisumu county Kenya
- iii. Determine the influence of microfinance training services on the performance of micro and small enterprises in Kisumu county Kenya
- iv. Determine the influence of business network on the performance of micro and small enterprises in Kisumu county Kenya.

- v. To assess the moderating influence of business networks on the relationship between microfinance services and performance of micro and small enterprises in Kisumu county Kenya

1.4 Research Hypotheses

The study was guided by the following research hypotheses

- i. There is no statistically significant influence of microfinance saving services on the performance of micro and small enterprises in Kisumu county Kenya
- ii. There is no statistically significant influence of microfinance credit services on the performance of micro and small enterprises in Kisumu county Kenya
- iii. There is no statistically significant influence of microfinance training services on the performance of micro and small enterprises in Kisumu county Kenya
- iv. There is no statistically significant influence of business network on the performance of micro and small enterprises in Kisumu county Kenya.
- v. There is no statistically significant moderating influence of business networks on the relationship between microfinance services and performance of micro and small enterprises in Kisumu county Kenya

1.5 Significance of the Study

Government and other policy making bodies may use the study findings in formulating policies aimed at making credit facilities offered to be accessible, making training of MSE owners priority and making savings attractive to encourage capital formation.

For the MFI's, this study will be of importance to the existing and prospective MFI's Managers and decision makers in MFI's will find the findings of this study useful as they will be informed of the products, services and trends that their competitors are offering as opposed to them. Therefore, this study will provide them with useful information on the product offering which can form the basis for product or market formulation. The study will provide further impetus to the MFI's to develop similar products or identify market niches which have not been exploited. Therefore the findings of this study will be

important as they will provide data on how MFI's can develop products to drive growth in MSE's.

Millions of Kenyans have no access to financial products and services in their localities. Financial intermediation is an important catalyst of wealth creation and therefore lack of access to financial services reduces the chances of wealth creation. This study will provide information to the general public on the services and products offered by the Microfinance institutions across Kenya. In addition, this study will inform the general public on the available of microfinance products and how the products compare to other products offered in other countries.

This study is of critical importance to the academic fraternity and prospective researchers. The findings of this study will provide a useful source of reference for other researchers on the aspects of Microfinance especially in Kenya. The findings of this research will offer useful and lacking literature on the influence of MFI's on Kenyan MSE's in the process fill an existing literature gap. The study will be useful to the academic fraternity as it will provide reference for future studies i.e. other researchers can use this research as a basis of future or further study on Microfinance services in Kenya.

1.6 Scope of the Study

The study was carried out on MSEs in Kisumu County particularly those MSEs operating in Kisumu City Business Park. The research independent variables were Microfinance Saving Services, Microfinance Credit services, Microfinance Training Services and business networks among MSE's Traders. The dependent variable was the MSE performance in terms of Profit levels and sales volume.

1.7 Limitations of the Study

The study was limited to MSEs operating in the Kisumu City Business Park, any MSE's outside this area were not part of this study. The study was limited to a period of three months of data collection using a questionnaire and document analysis guide to collect secondary data for this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature related to microfinance services, that is, credit services, saving services, training services, business networks and performance of MSEs. The chapter focused on theoretical framework, empirical literature review and conceptual framework

2.2 Theoretical Framework

There are different theories that try to explain the relationship between microfinance services and micro and small enterprises (MSEs). The theories that directed this study include: Grameen model, microfinance credit theory and joint liability theory are all used in this study to elaborate the contributions of microfinance services to the performance of MSEs. The main theory on which the study is anchored is the Grameen Model.

2.2.1 Grameen Model

The Grameen model was invented in 1976 by Professor Muhammad Yunus, the founder and managing director of Grameen Bank. The model proved to be successful and today is practiced in more than 250 outlets of Grameen Bank in more than 100 countries (Yunus, 1999). The Grameen model was copied and modified many times according to the respective needs of regional markets and clients. Therefore, many other models are extensions of, or derived from, the Grameen Model. 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.

2.2.2 Microfinance Credit Theory

It was propagated by Dondo (1999). The theory argues that the concept of group lending is a solution to default rate common to microfinance institutions and information asymmetry. The relevance is attributed to its basic principles of providing education to the MSE owners, encouraging MSE owners to save, and offer credit to a group of members which are the main focus of the current study.

2.2.3 Joint Liability Theory

Joint Liability Theory was propagated by Ghatakin and Fischer (2011). The theory argues that the poor are unable to get credit since screening them to determine their credit worthy, enforcing them to make repayment or doing a follow up is difficult, and therefore calls for group lending. The current study focused on the services that contribute to the success or failure of the MSEs and therefore the theory is relevant as it attempts to focus on reasons why the MSEs find it difficult to get access to credit.

2.3 Empirical Literature

2.3.1 Microfinance Saving Services and Performance of MSEs

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 MSE's asset building with a view on possible solutions to any imperfections.

The study on Impact of Microfinance Institutions (MFIs) in the Development of Micro Small and Medium Enterprises the Case of Uttar Pradesh, India (An Empirical Study) by Kapoor and Dhaka (2017) aimed at seeing the kind of impact that microfinance institutions (MFIs) have on the growth and development of micro small and medium enterprises (MSMEs). The study adopted survey that followed a descriptive analysis where 67 MSME owners in Uttar Pradesh in the scope of 6 villages in the Ghaziabad and Baghpat district were used in the study. The respondents were surveyed on various characteristic variables including age, gender etc. and their view towards MFI savings. The Primary Sources of data used were door to door surveys done via a personal interaction with the business owners or their representatives and Secondary Sources of data were found on multiple sources online include government sources, journals and reports. The study found out that saving with MFIs formed sources of finance for MSE. The study concluded that accessibility to the products offered by Microfinance Institutions such as savings, credit and training affect financial performance of Micro-Enterprises positively. The study relied only on questionnaire as a method of data collection. Questionnaires are only suitable for collecting data that can be quantified and not qualitative data. The current study employed both the qualitative and quantitative approach to carry out the study so as to obtain in-depth information that cannot be quantified and not only quantitative approached used by these researchers.

Pei-Wen, Zariyawati, Diana-Rose and Annuar (2016) carried out a study on Impact of Microfinance Facilities on Performance of Small Medium Enterprises in Malaysia with the

main purpose of investigating the effect of microfinance facilities on MSEs in Malaysia. The data of this study was collected from primary sources and questionnaires distributed to the owners of MSEs which fall into a microenterprise category in the Klang Valley. The questionnaires were used in collecting the primary data while the secondary data was mainly obtained from online platform. The study established that micro financing and its loan facilities have a significant effect on MSEs' performance. The study concluded that microfinance institutions (MFIs) will assist in providing more microfinance facilities to MSE. The current study collected data through questionnaire and interviews unlike this study that only used questionnaire to collect data. The researcher did not use any theory hence criticizing the study become difficult. The current study focused on other services that the study did not explore like savings and training services.

According to the study on Innovation in Small and Medium Enterprises in the United Arab Emirates by Schilirò (2015) whose purpose was establish the contributions to the business and innovation literature on MSEs in the context of an emerging economy, namely the United Arab Emirates. The design approach adopted was exploratory research design. The study established that MSEs that embraced savings among other strategies experienced growth in their financial base. The study concluded that among all innovative strategies, savings is critical in boosting the MSE capital base since it's free and MFIs are encouraged to have attractive interest rates on the savings accounts to attract savings. The current study will carry out research on other key MFIs services like training and credit have on the MSE performance. The current study used descriptive research design that will attempt to explain the findings as opposed to exploratory design.

A study by Kinimi (2014) on the effect of micro-finance institutions on the performance of small and medium-sized enterprises in the Democratic Republic of Congo was carried out mainly to establish the effect of microfinance institutions on the performance of small and medium enterprises in the Democratic Republic of Congo. The study adopted quantitative design to carry out the research. The data was collected through the use of questionnaires. Purposive sampling technique was adopted by the researcher to obtain the sample size of 77 entrepreneurs. No theory was used by the researcher to guide the study. The study found out that Micro-finance institutions played the role of facilitator to small and medium enterprise

growth, as a tool for change, provider of banking services, tool for empowerment, transferor of technology and to a lesser extent showed that micro-finance institutions are destroyers of small and medium enterprises. The study concluded that the effect of micro-finance institutions on the performance small and medium enterprises in the Democratic Republic of Congo was positive, as proved by the mean score factor. The current study determined the influence of training service offered by the MFIs on the performance of the MSEs that the study overlooked.

According to Abio and Kalu (2017) study on microfinance institutions' support and growth of small and medium enterprises in South Sudan investigates the relationship between microfinance institutions' (MFIs') support and growth of small and medium size enterprises (MSEs) in Nimule, South Sudan. The study used descriptive analysis, Pearson's linear correlation coefficient analysis, and ordinary least square regression analysis to evaluate the responses obtained through questionnaires and interviews. The study adopted survey design with questionnaires and interview to collect data. The sample size used was 212 MSEs' Managers. Results of the quantitative analysis found out that positive linear relationship exists between loan provision, savings account provision, managerial skills provision and growth of MSEs in Nimule, South Sudan. The regression analysis found out that loan provision, savings account provision, and managerial skills provision have positive and significant effect on MSE growth in Nimule. The study concluded that loan provision, savings account provision, and managerial skills provision are strong variables in determining MSE growth in South Sudan. The study lacked theoretical review and therefore it is difficult to criticize and therefore the current study was based on theories of joint liability and microfinance credit to guide the study.

The Impact of Microfinance Service Delivery on the Growth of MSEs in Uganda By The study by Nahamya, Ajanga, Omeke Nasinyama and Tumwine (2013) on the impact of microfinance service delivery on the growth of MSEs in Uganda aimed at establishing the impact of microfinance service delivery on the growth of MSEs in Eastern Uganda employed qualitative and quantitative methods of data analysis and a multiple regression. The sample size used was 228 MSEs. The study found out that MFIs have had a significant impact in linking MSEs and the poor to sources of finance for establishment or expansion

of the businesses in Uganda. The study concluded that Microfinance plays a central role in the growth of micro enterprise only when are accessible and reasonably priced. The study concentrated only on credit facilities offered by MFIs but the current study explored training and savings services offered by MFIs in addition to credit facilities. Furthermore, the study overlooked theoretical review a gap that the current study filled by reviewing theories of microfinance credit and joint liability.

The study on Effect of microfinance products on small business growth: emerging economy perspective by Gyimah and Boachie (2017) which examined whether microfinance products such as loans, savings, insurance, and education affects small business growth in Ghana. The quantitative analysis and structured questionnaire was used to collect data. The study used descriptive and inferential statistics to analyze responses of 248 (sample) small business owners. Using a multiple linear regression model, the study found that all the microfinance products positively affects small business growth, and the greatest influence is micro loans. The study concluded that the MFIs products or services affect the growth of small businesses in Ghana, and the greatest influence product is micro loans and savings. The current study used both questionnaire and interview and therefore will be able to get in-depth information about MFIs that the study could not get by use of questionnaire. The study also overlooked theoretical review a gap that the current study filled by reviewing two theories that is joint liability and microfinance theories.

The study on the effect of micro finance institution services on the financial performance of MSEs in Nairobi County by Githinji (2016) whose main aim was to establish the effect of MFIs services on the MSEs' performance within Nairobi County used a sample size of 56 MSEs that was obtained through random sampling technique. The study adopted descriptive survey design that used the data purely collected from the field and which was analyzed through descriptive techniques. The study used Credit Access Theory, Micro Credit Theory, Financial Growth Theory and Pecking Order Theory. The findings established that the County received an equal distribution of the various microfinance services (loans, savings, micro-finance insurance and training) but the effect the services had on the MSEs were diversified. The results obtained also showed that, the effect of the variables combined had a strong relationship with MSEs financial performance. The study concluded that each service

offered by the microfinance institution impacts differently, with some having positive impacts while others having negative impacts. The study used 56 MSEs as a sample size out of over 50000 MSEs in Nairobi City County making it unrepresentative sample size. The current study used both the questionnaire and interview to get in-depth information about MFIs services.

The study by Njagi (2015) effect of microfinance services on the financial performance of small and medium enterprises in Embu County aimed at investigating the effects of MFIs credit on the financial performance of MSEs in Embu County used a cross-sectional survey design with a sample size of 60 MSEs. The study used theories of microfinance credit theory, games theory and poverty reduction techniques theory. The study found out that there are various services offered to MSEs by the MFIs such as micro- credit and micro-savings services. A smaller percentage mentioned that they received microinsurance and training services from MFIs. The study concluded that savings services create better opportunities to create wealth and manage risk through diversification of assets. The current study relied on primary data collected through questionnaire and interview as opposed to relying on secondary data that may be overtaken by events and questionnaires that cannot be used in collecting qualitative data.

The research by Kalui and Omwansa (2015) on the effects of Microfinance institutions' products on the financial of small and medium scale enterprises in Kisumu County whose main objective was to determine whether there was any significant effect of microfinance products on the financial performance of small and medium enterprises in Machakos town was guided by agency theory and uniting theory of microfinance. The study adopted a descriptive design and a stratified random sampling technique with a sample size of 372. The data was collected through the use of questionnaire that were dropped and collected later by the researcher. The data collected were analyzed through regression equation. The study found out that micro savings played a significant role in determining financial performance of MSEs in Kisumu town. The current study relied on primary data that was collected by questionnaire and interview for in-depth information unlike the study that used only questionnaire that cannot be used in collecting qualitative data.

2.3.2 Microfinance Credit Service and Performance of MSEs

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). The study 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 MSEs sector. Within the MSE 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 a new 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 MSEs 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 MSE operators confining themselves to narrow markets where profit margins are low due to intense competition. Consequently, most of the MSEs 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 MSEs 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 MSEs 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 MSE 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 Levitsky and Oyen (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 MSEs' external funds (Darson, 1995). MSEs therefore, cannot raise funds from other alternative sources. Lack of credit for MSEs' development is a cardinal problem to MSE development in developing countries. Owing to the problems associated with accessing alternative credit facilities, a large proportion of Kenyan MSEs rely more on self-financing in terms of retained earnings. MSEs 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 MSE. They have few alternatives of accessing finance other than relying on their retained earnings to finance their investment. The implication therefore is that MSEs 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 MSEs by lending them money and capacity equipment purchase. This requires the Microfinance Institution to have effective management of credit risk. The MSEs must organize themselves to be able to meet the credit terms set by microfinance institutions. These credit terms can affect the profitability of MSEs as failure to repay their loans could result 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 MSEs. 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 MSEs in the European

regions that were sampled however it does not investigate the effect of lack of the provision of seed capital on MSE 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. Therefore this study seek to determine the influence of credit facilities on the growth of MSEs.

The purpose of the study by Pei-Wen, Zariyawati, Diana-Rose and Annuar (2016) on Impact of Microfinance Facilities on Performance of Small Medium Enterprises in Malaysia was to investigate the effect of microfinance facilities on MSEs in Malaysia. The data of this study was collected from primary sources and questionnaires distributed to the owners of MSEs which fall into a microenterprise category in the Klang Valley. Results of regression analysis demonstrate that micro financing has a significant effect on MSEs' incomes. The study concluded that the success of MSEs is based on the microfinance institutions (MFIs) ability to assist in providing more microfinance facilities to them (MSEs). The study focused mainly on credit facilities that MFIs offer while the current study focused on credit facilities, savings and training services that are also important in determining the performance of MSEs. The current study collected data through questionnaire and interview unlike this study that relied only on questionnaire.

The study on Impact of Microfinance on the Development of Small and Medium Enterprises a Case of Taizhou, China by Wang (2013) studied the impact of microfinance on the development of small and medium enterprises (MSEs). The study used survey design and questionnaire to collect data from 211 MSEs in Taizhou, Zhejiang, the largest home of MSEs in China. The study found out that microfinance plays a crucial role in the revenue and profit growth of MSEs. The study then reveals that the MSEs with higher financial risk and lower level of productivity are more likely to seek microfinance. The study also found out that firm characteristics including product innovation efforts and managerial and entrepreneurial attitudes are the keys that determine the likelihood of receiving micro financing. The study concluded that firms that participate in micro financing recorded an increase in their revenues and net profits. The study overlooked theoretical review a gap that current study will fill by reviewing two theories. The main focus of this study was only on

the microfinance leaving out other key services that will determine how well MSEs perform like micro-savings and micro-training those were fully addressed by the current study.

The study on financing small and medium enterprises in Asia and the Pacific by Abe, Troilo and Batsaikhan (2012) whose main aim was to propose policy suggestions for the financing of small and medium enterprises (MSEs) in the Asia-Pacific region. The methodology included both quantitative and qualitative components. 32 experts from East and South Asia were interviewed several times to determine areas of concern in financing MSEs. The study found out that financing is a critical constraint for MSEs for several reasons. Many MSE owners do not manage working capital effectively, information asymmetry between banks and MSEs retards the loan application and approval process, and underdeveloped equity markets deny MSEs future growth opportunities. The study concluded that financing remains a major constraint for MSE survival and growth in East and South Asia as in other parts of the world. The current study concentrated on microfinance, saving and training services offered to MSEs by MFIs hence making it broader than this study.

According to the study on the effects of microfinance loans on performance of small and medium enterprises (MSEs) in Tanzania's case of NMB borrowers in Kinondoni Municipal, Dar-es-Salaam by Nyamwihula (2017) assessed the effects of Microfinance loans on performance of Small and Medium Enterprises (MSEs) in Tanzania. A cross sectional design applying descriptive research design was adopted. The sample size of 106 respondents who are clients of National Microfinance Bank were selected by using simple random sampling. The data was collected through questionnaires. Results from the study indicated that there was a significant increase in the average monthly gross profit of MSEs after employing loan obtained from NMB over time. Results found no significant relationship between collateral with MSE performance in terms of socioeconomic performance and results showed strong relationship between Loan size with MSE performance and slightly significant relationship between loans processing time with MSE performance. The study concluded that a micro-credit facility is, no doubt, a good innovation for developing low income earners of our society, as it enhances the productive capacity of the MSEs to participate in income generating activities. The current study carried out a new research using three parameters of MFIs services, i.e. savings, microcredit

and training making the current study broader than this study hence filling the gap that the previous studies could not cover.

According to the study on microfinance credit facilities and the growth of the small and medium scale enterprises in the Cape Coast Metropolis of Ghana, Prah (2016) examined whether microfinance credit facilities contribute to the growth of the MSE sector in the Cape Coast Metropolis of Ghana. The researcher used Micro Credit Theory to guide the study. Descriptive study design as well as quantitative analysis was carried out. Simple random sampling technique was used to sample 357 respondents for the study. The study revealed that most of the MSEs in the Cape Coast Metropolis have contracted microfinance credit facilities and that there was significant difference in growth of the MSEs before and after receiving microfinance credit facilities. The study also discovered that strict repayment terms, shorter repayment period, higher interest rate as well as small loan amounts were the major challenges that confronted the MSEs in the use of microfinance credit facilities to grow their businesses in the Cape Coast metropolis of the Republic of Ghana. The study concluded that the use of microfinance credit facilities poses challenges to the MSEs in the Cape Coast Metropolis. The current study employed both quantitative and qualitative methods of data collection for in-depth information that quantitative techniques may not get. The current study also investigated the impact of micro-finance, micro-saving and micro training on the MSEs' performance.

The study on effects of microcredit on performance of women owned microenterprises and household welfare in Arusha, Dar-es-Salaam and Mwanza cities in Tanzania by Salia (2016) assessed the effect of microcredit obtained from various sources on the performance of women owned microenterprises and household welfare. The study was guided by resource based theory and was adopted a cross-sectional research design and involved 400 respondents including 217 borrowers and 183 non-borrowers. The sampling techniques used were cluster sampling, purposive sampling and simple random sampling. The researcher used resource-based theory of entrepreneurship to guide the study. Data were collected through questionnaire based interviews, key informant interviews and focus group discussions. The study found out that businesses of borrowers were performing better than those of non-borrowers in terms of total sales and net business worth. The study concluded

that women's participation in microcredit schemes improves the performance of their businesses as well as their household welfare. The current study was interested in MSEs owned by both men and women so as to determine their uniqueness when their owners access saving services, micro-credit and training from MFIs.

The study by Wakaba (2014) on the effect of microfinance credit on the financial performance of small and medium enterprises in Kiambu County that was aimed at investigating the effects of micro-finance credit on the financial performance of Small and Medium Enterprises (MSEs) in Kiambu County, Kenya used survey design with a sample size of 60 MSEs which was obtained through random sampling technique. The study used two sources of data i.e. primary data that was collected through semi-structured questionnaires and secondary data that was obtained from newspapers, journals and magazines as well as other sources such as the MFIs' annual reports. The data was analyzed through simple regression model. The study adopted microfinance credit theory, credit access theory and the theory of financial intermediation. The study found that there is a direct relationship of access to credit and financial performance of the companies and that most MSEs borrow from MFIs their initial capital. The study concluded that the enterprises benefit from loans from microfinance institutions, the MSEs seek financial assistance from the MFIs due to low interest rate, easy loan repayment and amount offered. The current study was interested in MSEs performance in terms of Profit Levels, Growth in Assets, Employment or Poverty Eradication and Sales Volume and not only the financial performance by manipulating the MFIs services of training, savings and credit facility.

According to the study by Morobe (2015) on the effect of micro finance loans on the financial performance of small medium enterprises in Nairobi County to examine the effect of micro finance loans on the financial performance of small medium enterprises in Nairobi County. The study was descriptive in nature. The population for this study was the MSEs operating in Nairobi County drawn from a target population of 17 constituencies in Nairobi County. The study used stratified random sampling technique to obtain the sample size of 357 MSEs. This study used a questionnaire in data collection. The study provided two types of data analysis; namely descriptive analysis and inferential analysis. The study adopted financial liberalization theory, game theory of microfinance and financial

sustainability Theory to guide the study. The study found out that the type of business which most of the MSE in Nairobi County engage in is retail. The study also found that microfinance loan influence financial performance in MSE's in Nairobi County to a very great extent. The study concluded that the type of business which most of the MSE in Nairobi County engage in is retailers. The study also concludes that microfinance loan influence financial performance in MSE's in Nairobi County to a very great extent. The current study employed both the questionnaire and interview to collect data on the impact of micro-savings, micro-credit and provision of training on the performance of MSEs.

According to the study by Suryadevara (2017) on the effect of microfinance credit on the performance of small and medium enterprises in Nairobi with the purpose of investigating the effect of microfinance credit on the performance of Manufacturing MSE's in Nairobi County in Kenya. This study used a descriptive research design and the sampling technique that was used for this study was convenience sampling to collect ready information from the survey. The sample size of 59 Manufacturing MSEs was used as respondents. The data was collected by use of structured questionnaires. The researcher did not adopt any theory to guide the study. The study found out that respondents relied on MFI credit financing for their business. The study concluded that most MSEs have relied on rotating savings and credit association or chamas and MFI credit financing for the business this has been beneficial in expanding this business. The current study was carried out a new research using three parameters of MFIs services, i.e. savings, micro-credit and training making the current study broader than this study hence filling the gap that the study could not cover. The current study used structured questionnaire to collect primary data for the research.

A study on the effect of Microfinance Credit on MSEs Financial Performance in Kenya by Amsi, Ngare, Imo and Gachie (2017) that was carried out to investigate the effect of microfinance credit factors (credit amount, interest rate, collateral requirement, credit repayment period and entrepreneur orientation) on the MSEs financial performance in Kenya used a sample size of 210 MSEs and data was collected through questionnaire. The study employed stratified and simple random sampling technique to obtain the sample used in the study. The researcher used resource based view theory to guide the study. The study found out that the effect of interest rate, collateral requirement, and repayment period were

found to have negative effect on MSES financial performance, but there was a positive effect on the entrepreneur orientation and credit amount. The study also established that microfinance credit factors affect MSEs financial performance with entrepreneur orientation contributing the most to MSEs financial performance compared to the other factors thus implying that most of the MSEs' entrepreneurs are innovative, take risks by venturing into new business activities and are proactive. The study concluded that microfinance credit factors affect MSEs financial performance with entrepreneur orientation contributing the most to MSEs financial performance compared to the other factors. The current study used structured questionnaire to collect the primary data unlike this study that relied on questionnaire.

2.3.3 Microfinance Training To Entrepreneurs and Performance of MSEs

The study on Impact of training and development on business performance: with reference to MSEs in Gampaha district by Weerakkody and Ediriweera (2010). The aim of the study was to find the impact of training and development on business performance of selected small and medium size (MSEs) manufacturing firms in Small and Medium Manufacturing firms in Gampaha district. The study adopted survey design with a sample of 200 managers of MSEs (manufacturing firms) in Gampaha district. The data was collected through administration of questionnaire. The study established that there is a positive relationship between training and development and competencies of entrepreneurs. Another positive relationship exists between competencies of employees and business performance. The study concluded that skilled entrepreneur run successful MSEs because of their enhanced competencies. The current study used structured questionnaires for data collection to get in-depth information on MFIs.

Microfinance and Performance of Micro and Small Enterprises; Does Training have an Impact, Pakistan by Syed, Minaa, Zain and Muzaffar (2017) carried out to find the difference in certain performance indicators of MSEs whose owners have been given training against those whose owners have never been given any kind of training. The survey research design was used to conduct the study and a sample of 384 MSEs was selected on simple random basis. The findings revealed that all the performance indicators including

sales increase, income increase, assets increase, employment increase, and meeting household expenses have shown a significant difference among the two groups. The results of the data analysis highlighted that training of microfinance beneficiaries is vital for getting better performance. The study concluded that training facilitates growth perspective and that growth rate of MSEs whose owners have been trained were better as compared to those MSEs whose owners have never been given training. The current study focused pre and post loan training services that the study did not focus on.

The study on the impact of entrepreneurship training on performance of small enterprises in Jaffna District, Sri Lanka by Mayuran (2016) aimed at studying the impact of entrepreneurship training on performance of small enterprises. The study adopted knowledge-based theory, resource-based theory and situational-based approach to guide it. Survey was chosen as a research technique in this study. The data was collected through questionnaires and the sample used was selected through purposive sampling method. Data were collected through questionnaires obtained from 60 employees from Small enterprises from Jaffna District. The study utilized correlation and regression statistics to analyze the data. The findings showed a significant positive impact of entrepreneurship training on performance of small enterprise. The study concluded that entrepreneurship training contributed 85% towards the performance of small enterprise in Jaffna district. The current study focused on the training to entrepreneurs on pre-loan, post-loan and business management skills unlike this study that focused on customer care, marketing, quality maintenance and financial management and therefore filled the gap not covered by this study.

A study on Microfinance training and the number of loans received by MSEs a case of Nigeria by Habibu, Shazida, and Noor (2018) whose objective was to examine the impact of Microfinance training, Trust and Social ties on the Number of loans received by small and medium-scale enterprises (MSEs) in developing economies. Poisson regression model is used as the method of analysis. 195 MSEs in North-Eastern Nigeria form the sample of the study based on two-stage sampling and simple random sampling technique. The results reveal that social ties, location, and nature of operation have a significant positive relationship with the number of loans receives by MSEs. Similarly, the number of training

and trust has significant positive impact on the number of loans received. The study concluded that training demonstrates the least impact as compared with the other variables based on the level of significance. The researcher recommended for pre-loan training to MSEs' owners by MFIs and the current study addressed.

The Impact of Training on Performance of Micro and Small Enterprises Served by Microfinance Institutions in Tanzania a study by Kessy and Temu (2010) carried out to examines differences in business performance between two specific groups of microfinance clients; the enterprises whose owners have received business and entrepreneurship training against those who had never. The study adopted survey design in carrying out the research and a total of 225 MSEs who are microcredit recipients was involved in the study. The findings of the study were that the enterprises owned by clients who had received business and entrepreneurship training demonstrated a different growth level in terms of assets owned and revenues obtained compared to enterprises that owners had never been exposed to any form of business and entrepreneurship training. On the other hand, training has a very minimum influence on the growth of enterprises when it is measured in terms of number of employees. The study concluded that training helps small business owners, managers and potential entrepreneurs to meet the challenges of today's business environment manage the ever-changing world and plan for future of their business. The study overlooked theoretical review making it difficult to critic and therefore the current study was guided by two theories of joint liability and microfinance credit theories.

The study on impact of training and support interventions on small businesses in the expanded public works program, Pretoria Region by Dladla and Mutambara (2018) which assessed the impact and effectiveness of the training and support interventions provided to small businesses through the Expanded Public Works Program (EPWP) employed a quantitative research method due to the size, availability, and ease of access of the participants, and the entire population of 20 small businesses, supported by the EPWP in the Pretoria region, was sampled. A questionnaire-based survey was conducted. The study adopted Theory of Change to guide it. The study established that the training intervention provided by the EPWP had a positive impact and achieved its intended goal of enhancing the business management skills of participants. It also revealed an interesting outcome,

i.e., that the majority of the participants are women. The current study used structured questionnaire for data collection to find out more about the impact of training on MSE's performance.

The study by Sifunjo and Mwewa (2014) on effects of Micro-credit, Micro-savings and Training on the Growth of Small and Medium Enterprises in Machakos County whose main purpose was to find out the effects of micro-credit, micro-savings and training on the growth of MSEs in Machakos County. The study was based on the law of Proportionate Effects or Gibrat's law to guide the study. A survey research design was applied to study 8 types of business categories. Structured questionnaire was used to collect data from 100 businesses. Multiple regression analysis was used to determine the relationships between micro-credit, micro-savings, training and growth of MSEs. The results showed that micro-credit, micro-savings and training jointly contribute positively to MSE's growth. The study concluded that training provided by MFIs does not impact MSE growth probably because it is not based on the real needs of the MSEs. The current study focused on the pre-loan, post-loan and business management training that are considered key to the entrepreneurs since most studies have shown that entrepreneurs misuse or find it difficult to repay loans advanced to them by MFIs. This is so because this study concluded that training that MSE's owners embark on are irrelevant and therefore did not impact on the growth of MSEs.

According to the study on the effect of microfinance services on financial performance of small medium and enterprises in Narok County by Koila (2014) which investigated the effect of microfinance services on financial performances of MSEs in Narok County. The study was guided by economic theory, classical and Australian school theory and MFIs joint liability theory. The study adopted a descriptive research design and had target population of 93 selected enterprises. The researcher administered structured questionnaires for data collection. The data was analyzed using descriptive statistics, such as mean scores, percentages and standard deviations. Regression and correlation analysis was applied to show the relationship between variables. The study findings established that the existence of MFIS services has contributed to the development of MSEs. The study concluded that that the existence of MFIS services has contributed to the development of MSEs. The study did

not cover training services by the MFIs and so the current study investigated the impact of this critical service in terms of pre-loan, post-loan and business management skills.

2.3.4 Business Networks and MSE's Performance

Previous studies looked at the relationship between small business development stages and networks (Birley et al. 1991; Hite 2001; Lechner 2003) as well as the relationship between small business development stages and small business performance (Uzzi 1997; Simsek 2003; Anon 2003). Various studies have also dealt with the relationship between small business performance and the life cycle of small firms (Masurel and Montfort 2006). This study aimed at addressing gaps in literature on micro and small business enterprises by addressing the question on the relationship between the use of business networks, microfinance services and MSE's business performance. Business networking has been gaining grounds as an influencing factor for business success in the recent years. The growth of technology has increased the avenues available for Business networking in many folds, compared to what was available a decade ago. Many empirical studies have been conducted to understand and model the way on how Micro and Small Enterprises (MSEs) function and perform. However, relatively limited research has been conducted on understanding the impact of business networks on MSE performance throughout the world despite most of the economies recognizing MSEs as the driving force in respective economies. In this study the business networking is considered as a moderator variable on the relationship between microfinance services and performance of MSE's.

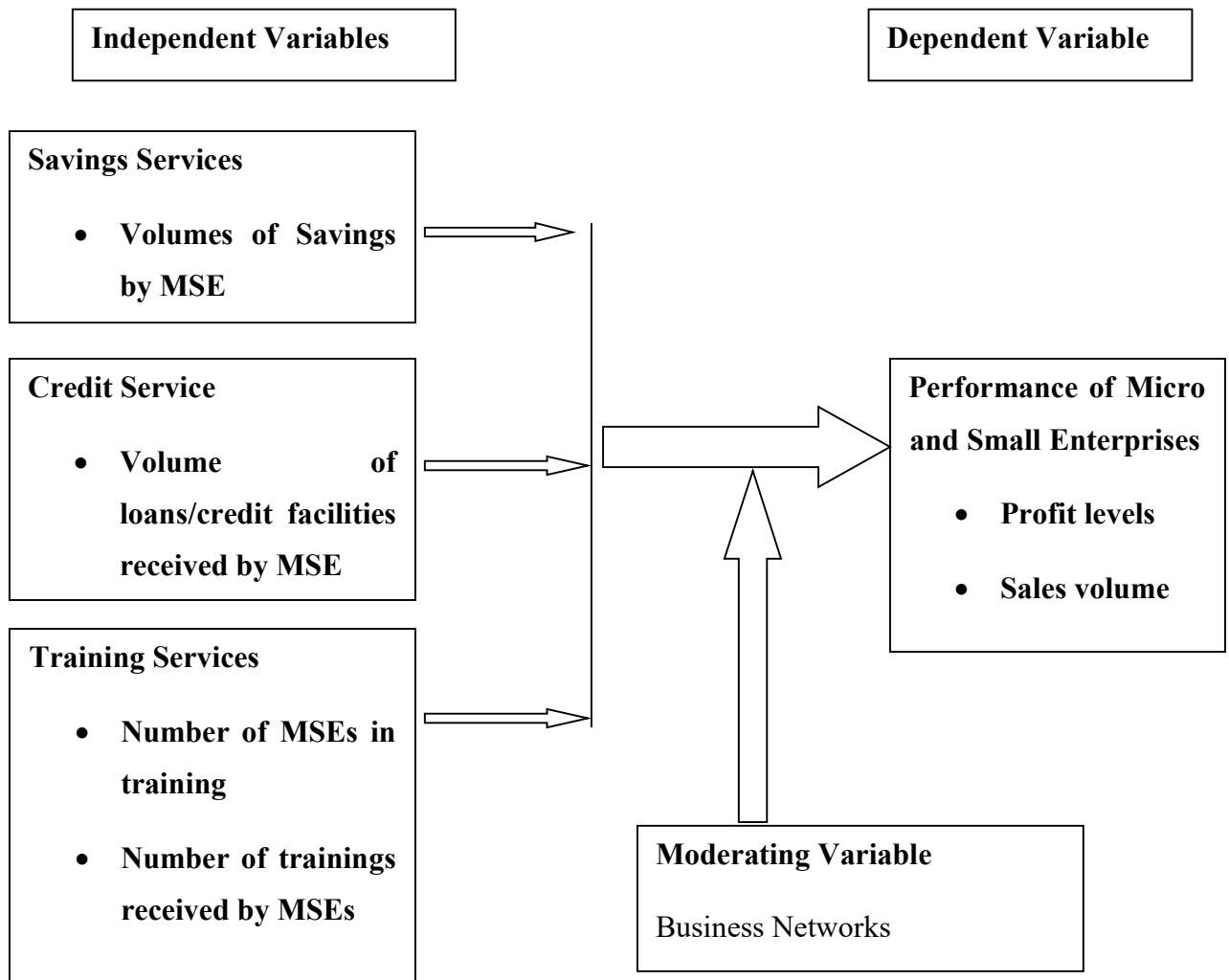
Aldrich and Zimmer (1985) defined business networks as consisting of those persons with whom the entrepreneur has a direct relationship and those with whom the entrepreneur has indirect relationships through his direct relationships. Aldrich et al. (1986) argues that density is an important factor in examining networks. Density is explained as how well people in a network know each other. A broader definition is provided by Granovetter (1973) that refer to the strength and quality of relations in a network by the amount of time, emotional intensity, intimacy and reciprocal services involved in these relationships. Subsequently they argue towards strong ties and weak ties. Strong network ties are the type characterized by frequent interaction, more intimacy and intensity and weak network ties are characterized by the opposite traits.

According to Institute of Economic Affairs Report of the MSE's performance index 2019, the country's Real Gross Domestic Product (GDP) according to 2019 Kenyan National Bureau of Statistics economic survey estimated to have expanded by 6.3% in 2018 as compared to 4.9% in 2017. The report attributes the 1.4% growth to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities. Further according to the same report the Kenyan economy created 846 thousand new jobs in 2018 with MSEs mostly in informal sector accounting for 83.6 per cent of the total employment created. Despite the high levels of resilience exhibited by the MSE sector as evidenced by job creation abilities in a tough environment as well as significant contribution to GDP at over 30% MSE still face serious challenges that impede their growth.

Viffa Consultant conducted its annual MSE index survey in the month of November 2019 to establish the performance of MSEs in Kenya based on critical success factors of access to finance markets, policies and support services among others. The existing research on the relationship between small business performance and the importance of networks is surprisingly limited (Simsek et al. 2003), the literature that does exist on this matter suggests a general facilitating effect of a well-developed social network on business performance (Anon 2003). However, while this general effect is clearly present, not all ties of small firm possession are of equal importance or have this positive effect (Peng and Luo 2000). Studies on the effects of having strong network ties (Uzzi 1997), or weak network ties (Granovetter 1973) come up with different benefits for each and suggest that having strong ties or weak ties can each be ideal in different situations. One of the benefits of having a well-developed social network is described by Birley (1985) as having access to new information. Also, empirical research has shown that in addition to the benefit of new information, several other benefits can be identified. Stuart et al. (1999), for example, showed that a firm might benefit from the legitimacy gained from a large social network. Furthermore, research indicates that access to financial capital (Batjargal 2003) and emotional support (Bruderl and Preisendorfer 1998) also play important roles in the facilitating effect of networks on small business performance. The moderating variable, business networks, was measured using network diversity, network size and networking platform. This argument formed the

basis for this research on the influence of business networks, microfinance services and performance of MSEs operating in Kisumu county Kenya.

2.4 Conceptual Framework



A conceptual model gives an idea of the association between and influence amongst the variables informing the investigation and helping in achieving the set goals. Kothari (2004) describes an independent or explanatory variable as the variable presumed to give rise to variability in the dependent variable, whereas a dependent variable is described as a variable that ought to be explained. The main aim of a conceptual model is to particularly classify and give a detailed account of the idea closely connected to the investigation and give a representation of the association between them. Similarly, a framework would help the researcher describe exactly the abstract idea, give a representation of the terrain of the research or conceptualize the extent and arrange according to associations among concepts,

and establish gaps in the written works. The moderating variable, business networks, was measured using network diversity, network size and networking platform.

2.5 Literature Review Summary

Author	Title	Methodology	Findings	Knowledge Gap
Kapoor and Dhaka (2017)	Impact of Microfinance Institutions (MFIs) in the Development of Micro Small and Medium Enterprises the Case of Uttar Pradesh, India	The study adopted survey that followed a descriptive analysis where 67 MSME.	The study found out that saving with MFIs formed sources of finance for MSE.	The study relied only on questionnaire to collect data. The current study employed both the qualitative and quantitative approach.
Pei-Wen, Zariyawati, Diana-Rose and Annuar (2016)	Impact of Microfinance Facilities on Performance of Small Medium Enterprises in Malaysia	The data of this study used questionnaires to collect the primary data while the secondary data was mainly obtained from online platform.	The study established that micro financing and its loan facilities have a significant effect on MSEs' performance.	The current study employed both the qualitative and quantitative approach to carry out the study so as to obtain in-depth information that cannot be quantified and not only quantitative approached used by these researchers.
Schilirò (2015)	Innovation in Small and Medium Enterprises in the United Arab Emirates.	The design approach adopted was exploratory research design.	The study established that MSEs that embraced savings among other strategies experienced growth in their financial base.	The current study used descriptive research design that will attempt to explain the findings as opposed to exploratory design.

Kinimi (2014)	The effect of micro-finance institutions on the performance of small and medium-sized enterprises in the Democratic Republic of Congo.	The study adopted quantitative design to carry out the research. The data was collected through the use of questionnaires. Purposive sampling technique was adopted by the researcher.	The study found out that Micro-finance institutions played the role of facilitator to small and medium enterprise growth, as a tool for change, provider of banking services, tool for empowerment, transferor of technology and to a lesser extent showed that micro-finance institutions are destroyers of small and medium enterprises.	The current study determined the influence of training service offered by the MFIs on the performance of the MSEs that the study overlooked.
Abio and Kalu (2017)	Microfinance institutions' support and growth of small and medium enterprises in South Sudan.	The study adopted survey design with questionnaires and interview to collect data.	The study found out that there is positive linear relationship and significant effect on MSE growth exists between loan provision, savings account provision, managerial skills provision and growth of	The study lacked theoretical review and therefore it is difficult to criticize and therefore the current study was based on theories of joint liability and microfinance credit to guide the study.

			MSEs.	
Njagi (2015)	Effect of microfinance services on the financial performance of small and medium enterprises in Embu County.	The study used a cross-sectional survey design with a sample size of 60 MSEs. The study used theories of microfinance credit theory, games theory and poverty reduction techniques theory.	The study found out that there are various services offered to MSEs by the MFIs such as microcredit and microsavings services, microinsurance and training services from MFIs.	The current study relied on primary data collected through questionnaire and interview as opposed to relying on secondary data that may be overtaken by events and questionnaires that cannot be used in collecting qualitative data.
Githinji (2016)	The effect of micro finance institution services on the financial performance of MSEs in Nairobi County.	The study adopted descriptive survey design that used the data purely collected from the field and which was analyzed through descriptive techniques. The study used Credit Access Theory, Micro Credit Theory, Financial Growth Theory and Pecking Order Theory.	The findings established that the County received an equal distribution of the various microfinance services (loans, savings, micro-finance insurance and training) but the effect the services had on the MSEs were diversified. The results obtained also showed that, the effect of the variables combined had a strong relationship with	The current study used both the questionnaire and interview to get in-depth information about MFIs services.

			MSEs financial performance.	
Wang (2013)	Impact of Microfinance on the Development of Small and Medium Enterprises a Case of Taizhou, China. The study concluded that firms that participate in micro financing recorded an increase in their revenues and net profits. The study overlooked theoretical review a gap that current study will fill by reviewing two theories.	The study used survey design and questionnaire to collect data from 211 MSEs in Taizhou, Zhejiang, the largest home of MSEs in China.	The study then reveals that the MSEs with higher financial risk and lower level of productivity are more likely to seek microfinance. The study also found out that firm characteristics including product innovation efforts and managerial and entrepreneurial attitudes are the keys that determine the likelihood of receiving micro financing.	The main focus of this study was only on the microfinance leaving out other key services that will determine how well MSEs perform like micro-savings and micro-training those were fully addressed by the current study.
Abe, Troilo and Batsaikhan (2012)	Financing small and medium enterprises in Asia and the Pacific region.	The methodology included both quantitative and qualitative components.	The study found out that financing is a critical constraint for MSEs for several reasons. Many MSE owners do not manage working capital effectively,	The current study concentrated on microfinance, saving and training services offered to MSEs by MFIs hence making it broader than this study.

			information asymmetry between banks and MSEs retards the loan application and approval process, and underdeveloped equity markets deny MSEs future growth opportunities.	
Nyamwihula (2017)	The effects of microfinance loans on performance of small and medium enterprises (MSEs) in Tanzania's case of NMB borrowers in Kinondoni Municipal, Dar-es-Salaam.	A cross sectional design applying descriptive research design was adopted. The data was collected through questionnaires.	Results from the study indicated that there was a significant increase in the average monthly gross profit of MSEs after employing loan obtained from NMB over time.	The current study carried out a new research using three parameters of MFIs services, i.e. savings, microcredit and training making the current study broader than this study hence filling the gap that the previous studies could not cover.
Wakaba (2014)	The effect of microfinance credit on the financial performance of small and medium enterprises in Kiambu County.	The study used survey design and used primary data that was collected through semi-structured questionnaires and secondary data.	The study found that there is a direct relationship of access to credit and financial performance of the companies and that most MSEs borrow from MFIs	The current study was interested in MSEs performance in terms of Profit Levels, Growth in Assets, Employment or Poverty Eradication and Sales Volume and not only the financial performance by manipulating the MFIs services of

			their initial capital.	training, savings and credit facility.
Suryadevara (2017)	The effect of microfinance credit on the performance of small and medium enterprises in Nairobi.	This study used a descriptive research design and the convenience sampling to collect ready information from the survey. The data was collected by use of structured questionnaires.	The study found out that respondents relied on MFI credit financing for their business.	The current study used structured questionnaire to collect primary data for the research.
Weerakkody and Ediriweera (2010)	Impact of training and development on business performance: with reference to MSEs in Gampaha district.	The study adopted survey design with a sample of 200 managers of MSEs (manufacturing firms) in Gampaha district. The data was collected through administration of questionnaire.	The study established that there is a positive relationship between training and development and competencies of entrepreneurs. Another positive relationship exists between competencies of employees and business performance.	The current study used structured questionnaires for data collection to get in-depth information on MFIs
Syed, Minaa,	Microfinance and	The survey research design	The findings revealed that all	The current study focused pre and post

Zain and Muzaffar (2017)	Performance of Micro and Small Enterprises; Does Training have an Impact, Pakistan.	was used to conduct the study.	the performance indicators including sales increase, income increase, assets increase, employment increase, and meeting household expenses have shown a significant difference among the two groups. The results of the data analysis highlighted that training of microfinance beneficiaries is vital for getting better performance.	loan training services that the study did not focus on.
Mayuran (2016)	The impact of entrepreneurship training on performance of small enterprises in Jaffna District, Sri Lanka.	Survey was chosen as a research technique in this study. The data was collected through questionnaires and the sample used was selected through purposive sampling	The findings showed a significant positive impact of entrepreneurship training on performance of small enterprise.	The current study focused on the training to entrepreneurs on pre-loan, post-loan and business management skills unlike this study that focused on customer care, marketing, quality maintenance and financial management and therefore filled the gap not covered by this study.

		method.		
Kessy and Temu (2010)	The Impact of Training on Performance of Micro and Small Enterprises Served by Microfinance Institutions in Tanzania.	The study adopted survey design in carrying out the research.	The findings of the study were that the enterprises owned by clients who had received business and entrepreneurship training demonstrated a different growth level in terms of assets owned and revenues obtained compared to enterprises that owners had never been exposed to any form of business and entrepreneurship training.	The study overlooked theoretical review making it difficult to critic and therefore the current study was guided by two theories of joint liability and microfinance credit theories.
Sifunjo and Mwewa (2014)	Effects of Micro-credit, Micro-savings and Training on the Growth of Small and Medium Enterprises in Machakos County.	A survey research design was applied to study 8 types of business categories. Structured questionnaire was used to collect data from 100 businesses.	The results showed that micro-credit, micro-savings and training jointly contribute positively to MSE's growth.	The current study focused on the pre-loan, post-loan and business management training that are considered key to the entrepreneurs since most studies have shown that entrepreneurs misuse or find it difficult to repay loans advanced to

				them by MFIs.
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CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research methodology to be utilized in the course of the study. The chapter presents a clear framework of the steps to be undertaken during the research. It details the research design, the population, sampling design, research instruments, data collection, data analysis, interpretations and research procedures.

3.1 Research Design

A research design helps the researcher to allocate resources for an effective and efficient research (Cooper and Schindler, 2014). This study adopted a descriptive survey research design. The purpose of using descriptive research design was to find the relationship between microfinance services and performance of micro and small enterprises. A descriptive study is one which information is collected without changing the environment. (Khan, 2007). The research design was also suitable for this study because the researcher intended to gather detailed facts by means of descriptions and is important in establishing variables and logical conclusions. This research design further permitted collection of data from many elements within a short time since it allowed use of research instruments like questionnaires on the status of the object under study, MSEs, (Zikmund, 2003).

3.2 Study Area

Under Medium Term Plan II of Kenya Vision 2030, Kisumu City was identified to benefit from development of Small and Medium Enterprises Parks. The specific objectives of the projects were to: Attract both local and foreign investments; Expansion and diversification of produce of goods and services for domestic and export markets; Promotion of value addition; Promotion of local entrepreneurship through MSEs (The 2018 Kisumu County Fiscal Strategy Paper (CFSP)). In the 2019 most shops were demolished by the Kenya Railways Corporation in an attempt to recover the Corporation's grabbed land and this is causing a lot of pressure to the MSEs as their owners were forced to look for alternative place to locate the business with majority moving to Kisumu City Business Park (KNCC-Kisumu Chapter, 2019). The economy of Kisumu City is not as robust when compared to

Mombasa, Nairobi and Nakuru in the country (Otieno, 2013). Despite the pressure and expectations, the growth of MSE businesses in Kisumu City has not been quite sustainable and therefore the main purpose of this study is to find out the influence of business networks on the relationship between microfinance services and performance of Micro and Small Sized enterprises in Kisumu County.

3.3 Target Population

The study unit of analysis is the MSE’s business entities. The study focused on entrepreneurs operating the MSE. There are 171 MSEs operating at Kisumu City Business Park (Kisumu County Department of Business, Cooperative and Markets office report, 2019). Therefore the study target population is 171 MSE’s owners. The population denotes all the elements that have the same characteristics for inclusion in a study. Mugenda and Mugenda (2003) define a population as the total number of units from which a sample was selected.

Table 3.1 Target Population

MSE’s Category	Population (Owners/proprietors)
Electric and electrical Shops	36
Apparel Industry	70
Food and Beverage	54
General Retail shops	11
Total	171

Source: Kisumu County Department of Business, Cooperative and Markets, 2019

3.4 Sampling Design

The sampling design indicates the statistical procedures to be adopted for the acquisition of an appropriate sample and sample size.

3.4.1 Sampling Frame

The sample frame for the study was 171 MSEs operating at Kisumu County. The Yamane (1967) formula was used to determine the sample size from the target population of 171 MSE's owners. The study used a sample size of 120 MSE owners as shown;

$$\begin{aligned} \text{Sample Size (n)} &= \frac{N}{1 + N(e)^2} \dots\dots\dots\text{Equation 3.0} \\ &= \frac{171}{1 + 171(0.05)^2} \\ &= 120 \text{ MSE owners} \end{aligned}$$

3.5 Research Instruments

This study utilized primary data and secondary data. According to Yin (2003), primary data is fresh and raw data collected for the first time for the purpose of a specific study. Data from MSE owners was collected using a well-structured questionnaire and document analysis guide to extract the information from the basic books of accounts of the entrepreneurs and through the Microfinance institutions that help them get the microfinance services.

3.5.1 Pilot Study

The pilot was carried out on 10% of MSEs operating at Kisumu County. Kothari (2014) agrees with this percentage and therefore the result obtain would assist in streamlining consistency of the research instruments. Those who took part in the pilot study did not participate in the main study. The data obtained was then subjected to various tests to check for instrument reliability and instrument validity.

3.5.2 Validity and Reliability of Research Instruments

The content validity and reliability was tested to ensure that each question in the research instrument is valid and correctly structured for easy understanding.

3.5.3 Validity of Research Instruments

Validity refers to the ability of the data collection method to achieve the exactness of what it is supposed to achieve or to measure exactly what it intended to measure (Orodho, 2013). Validity was determined by use of content and face validity. Expert assistance was sought in determining the face and content validity of the instruments so as to suit the study objectives.

3.5.4 Reliability of Research Instruments

Reliability is the ability of a research instrument to yield consistent results when administered to different respondents or after carrying out repeated trials (Magenda and Mugenda, 2008). The reliability of the study's research instruments was tested using Cronbach's alpha. The bench mark of this was 0.7 and anything less than 0.7 was amended or removed. The reliability of coefficient ($\alpha = \alpha$) range from 0-1, with 0 representing items full of errors and 1 representing total absence of error. A reliability coefficient (α) of 0.70 or higher is considered acceptable reliability (Yang, and Green, 2011). To ensure reliability the researcher conducted a pilot study for pre-testing the questionnaire using two MSEs.

$$a = \frac{N.C}{V + (N - 1).C} \dots\dots\dots \text{Equation 3.0}$$

Where:

N= the number of items

\hat{C} = average covariance between item pairs

V= average variance

Table 3.2 Reliability Tests of the variables

Scale	Number of items	Cronbach's Alpha	Comment
Business networks	6	0.75	Reliable
Savings Services	6	0.71	Reliable
Credit Services	6	0.85	Reliable
Training services	5	0.79	Reliable
Performance of Micro and Small Enterprises	4	0.87	Reliable
Overall	21	0.87	Reliable

Results of the reliability test in Table 3.2 show that all the variables had reliability alpha greater than 0.70 and therefore all were found to be reliable. The items included in the variables were consistent. This result therefore means that under the same conditions a different researcher can obtain the same results.

3.5.5 Data Collection Procedure

The researcher obtained the letter of authority from Board of Post-graduate of Jaramogi Oginga Odinga University of Science and Technology and Internal Ethics Review Committee (IERC). The letter of authority was used to ask for permission from the MSEs' owners to administer the questionnaire for data collection and interview. The researcher adopted drop and pick method to collect data from respondents. This allowed the respondents to conveniently respond to the questions.

3.6 Data Analysis and Presentation

Data collected for analysis using questionnaires were cleaned and edited for errors, completeness and sufficiency. After analysis of the data, it was coded and keyed into

Statistical Package for Social Sciences for analysis. Analysis was undertaken using descriptive statistics of centrality e.g. Means, Standard Deviations and Variances.

Analyzed data was presented in tables and figures.

Multiple linear regression models using ordinary least square enter method was used to investigate the influence of business networks on relationship between microfinance services and the performances of MSEs in Kisumu County:

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

Where: Y = Performance of MSEs (sales volume/ level of profits of MSE)

X₁ = saving services (volume of savings by MSEs)

X₂ = credit services (volume of loans/volume of credit received by MSEs)

X₃ = training services (number of MSEs trained /number of trainings to MSEs)

X₄ = Business Networks (Number of business networks by MSEs)

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$ are regression coefficients ε = error term.

3.7 Ethical Considerations

An introductory letter was obtained from Jaramogi Oginga Odinga University of Science and Technology before proceeding for data collection. The researcher revealed to respondents that this research findings were for academic purposes and assured the respondents of their privacy by ensuring anonymity.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents the data analysis, presentation, interpretation and discussions. In addition, this chapter discusses the questionnaire return rate, the findings from the research hypotheses on the influence of microfinance services on performance of micro and small enterprises operating at Kisumu County.

4.2 Response Rate

The study targeted 120 Micro and Small Enterprises operating at Kisumu City Business Park. Out of 120 questionnaires administered, 106 were adequately filled and picked by the researcher contributing to a response rate of 88.3%. This response rate is in line with Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for data analysis and reporting, a response rate of 60% is good while a response rate of 70% was considered adequate for research.

Table 4.1 Response rate

	Frequency	Percentage
Complete responses	106	88.3
Incomplete responses	14	11.7
TOTAL	120	100.0

4.3 Demographic Information

The study sought to determine the demographic profile of the respondents. The results are as a described;

4.3.1 Gender Distribution

The study sought to establish the gender of the respondents. The main reason for collection of data from both the males and females were to get their opinions since both are owners of MSEs. The findings are as illustrated in Table 4.2;

Table 4.2 Gender of Respondents

			Valid	Cumulative
Gender		Frequency	Percent	Percent
Valid	Male	44	41.5	41.5
	Female	62	58.5	100.0
	Total	106	100.0	100.0

Based on Table 4.2 males who participated in the study were 44 (41.5%) while females were 62 (58.5%). This means that at Kisumu City Bus Park females are the majority owners of MSEs representing 58.5% of all the MSEs sampled for the study. These findings concurred with Mbaluka (2013) findings who revealed that gender representation of the respondents indicated that, views concerning the influence of microfinance services on performance of MSEs were represented by all gender, and no single opinion can be attributed to a particular gender.

4.3.2 Age Distribution of the Respondents

The study sought to establish the age of respondents. Age of the respondents is significant because it indicates level of maturity in doing a business and in answering the questions.

The findings are shown in Table 4.3.

Table 4.3 Age Distribution

		Years Range	Frequency	Percent
Valid		18 and Below	24	22.6
		19-35	33	31.1
		36-40	32	30.2
		40-49	6	5.7
		50-59	11	10.4
		Total	106	100.0

Based on the results in table 4.3 respondents aged 18 years and below were 24 (22.6%), 19-35 were 33 (31.1%), 36-40 were 32 (30.2%), 40-49 were 6(5.7%) while 50-59 of the sampled respondents were 11 (10.4%). From the sampled respondents there were no respondents whose age were 60

years and above. The findings there means that majority of MSE owners are aged 19 years and above therefore were in a position to open a business account and access the services offered by the MFIs.

4.3.3 Respondents Level of Education

The study sought to determine the level of education of the MSE owners. The findings are shown in the Table 4.4.

Table 4.4 Respondents' Level of Education

	Level of education	Frequency	Percent
Valid	Primary	2	1.9
	Secondary	30	28.3
	Tertiary College	39	36.8
	University	35	33.0
	Total	106	100.0

The findings showed that 2 (1.9%) respondents had primary education, 30 (28.3%) had secondary education, 39 (36.8%) had tertiary college education and 35 (33.0) had university education. The findings therefore meant that majority of respondents had at least basic education and therefore were able to trained and apply the skills acquired in running their businesses.

4.3.4 Respondents Year of Experience in doing Business

The study sought to establish the respondents' years of experience in doing the business. The study findings are presented in the Table 4.5;

Table 4.5 Respondents' Years of Experience in doing Business

		Frequency	Percent
Valid	Less than 1 Year	31	29.2
	1-5 Years	42	39.6
6-10 Years		19	17.9
	11 Years and Above	14	13.2
	Total	106	100.0

The findings indicated that those respondents who had experience of less than 1 Year in doing business were 31 (29.2%), 1-5 Years were 42 (39.6%), 6-10 Years were 19 (17.9%) and those who had carried out business for 11 Years and more were 14 (13.2%). The findings meant that majority of the respondents had carried out business for 1 Year and More and therefore were in the right position to respond well to the questions expressed in the questionnaires. Those who had operated for more than 1 year were able to evaluate the training services offered, credit received and the savings that MFIs have been offering.

4.4 Study Variables

4.4.1 The Influence of Microfinance Saving Services on the Performance of MSE

The first objective of the study sought to determine the influence of microfinance saving services on the performance of MSE. The study evaluated the respondents' level of agreement with various statements on saving services using a 5 point scale where 1 – strongly agree, 2 – agree, 3 – neutral, 4 – disagree and 5 – strongly disagree. From these results a mean of 1 indicate that respondents strongly agreed with the statement, a mean of 2 indicate that respondents agreed with the statement, a mean of 3 indicate that the respondents are neutral about the statement, a mean of 4 indicate that respondents disagreed with the statement and a mean of 5 indicate that the respondents strongly disagreed with the statement. The standard deviation gives the variation of the response from the mean. The smaller the standard deviation the better the results as it indicates that the response were not far from the mean response.

The study findings were as illustrated in Table 4.6

Table 4.6 Respondents' Level of Agreement with the Statement on Microfinance Saving Services

Statements	N	Mean	Std. Deviation
Micro-saving has led to an increase in business capital	105	2.56	1.393
The procedure for opening a savings account is simple which encourages me to reduce too much cash in the business and at the same time assisting in capital accumulation	106	2.38	1.238
My MFI encourages me to make regular savings so as to improve business profile for future credit facilities	106	2.54	1.228
My MFI does not charge ledger fees on my savings account hence encouraging savings which enables the business to accumulate capital	106	2.85	1.271
Micro-saving has improved the business liquidity position	106	2.92	1.243
My savings with the MFI earn good interest	106	3.25	1.163
Micro-savings has led to an increase in asset accumulation	106	2.85	1.111
I make regular deposits into my MFI account	106	2.42	1.257
Savings has enabled me grow my assets and therefore improvement in the performance of my business	106	2.83	1.268
Micro-saving has led to protection in income fluctuation and maintained consumption levels of what in MSEs	106	2.81	1.147
Average Mean		2.74	

From the findings in Table 4.6, response mean for statement on micro-saving has led to an increase in business capital was 2.56; the procedure for opening a savings account is simple had a response mean of 2.38; my MFI encourages me to make regular savings had a response mean of 2.54; my MFI does not charge ledger fee on my savings account had a response mean of 2.85; micro-savings has improved the business liquidity position had a response mean of 2.92; my saving with the MFI earn a good interest had a response mean of 3.25; micro-saving has led to an increase in asset accumulation had a mean response of 2.85; I make regular deposits into my MFI account response mean was 2.42; saving has enabled me to grow my assets and therefore improvement in the performance of my business response mean was 2.83; and finally the statement on micro-saving has led to protection in income fluctuation and maintained consumption levels had a response mean of 2.81.

The average response rate is 2.74 which imply that respondents agreed that microfinance savings service has positively impacted on the performance of their MSE. The findings were supported by Schilirò (2015) whose study established that MSEs that embraced savings among other strategies experienced growth in their financial base and concluded that among all innovative strategies, savings is critical in boosting the MSEs' capital base since it's free and MFIs are encouraged to have attractive interest rates on the savings accounts to attract savings.

Table 4.7 Respondents' rating of saving services Offered by MFIs

Rating		Frequency	Percent
Valid	Very Poor	5	4.7
	Poor	33	31.1
	Good	58	54.7
	Very Good	10	9.4
	Total	106	100.0

From the Table 4.7, the response on the question on how respondents would rate the savings services that they receive from MFI, 5 (4.7%) rated saving services as being very poor, 33 (31.1%) as being poor, 58 (54.7%) as being good, 10 (9.4%) as being very good and no rating for excellent services. This findings meant that majority of the respondents are in agreement that saving services that their MFIs are offering to them are good. Some of the explanations for the good rating are that

saving has been made easier through M-Banking services, savings are used as collateral during loan application by some MFIs and savings account attracts some interests even though it's still very low.

The findings were supported by Schilirò (2015) who established that among all innovative strategies, savings is critical in boosting the MSE capital base since it's free and MFIs are encouraged to have attractive interest rates on the savings accounts to attract savings. Kalui and Omwansa (2015) also found out that micro savings played a significant role in determining financial performance of MSEs.

4.4.2 The Influence of Microfinance Credit Services on the Performance of MSE

The second objective of the study sought to determine the influence of microfinance credit services on the performance of MSE. The study evaluated the respondents' level of agreement with various statements on credit services using a 5 point scale where 1 – strongly agree, 2 – agree, 3 – neutral, 4 – disagree and 5 – strongly disagree. From these results a mean of 1 indicate that respondents strongly agreed with the statement, a mean of 2 indicate that respondents agreed with the statement, a mean of 3 indicate that the respondents are neutral about the statement, a mean of 4 indicate that respondents disagreed with the statement and a mean of 5 indicate that the respondents strongly disagreed with the statement. The standard deviation gives the variation of the response from the mean. The smaller the standard deviation the better the results as it indicates that the response were not far from the mean response. The study findings were as illustrated in Table 4.8;

Table 4.8 Respondents' level of agreement with the statements on credit services

Statements	N	Mean	Std. Deviation
My MFI only offers group loans hence making credit readily available because of group guarantee.	106	3.80	1.383
My MFI only offers individual loans that are affordable.	106	4.31	.970
My MFI offers both group and individual loans that have enabled my business to grow.	106	1.81	1.172
The interest charge on loans are low compared to bank rates making it possible for business to grow its assets	106	3.08	1.015
My MFI provides both start up and business expansion loans to enhance business growth.	106	2.01	1.167
The loan processing takes a short period of time	106	2.54	1.332
Credit facilities that MFIs have provided have enabled me to run a successful business (generate sales and profit)	106	2.80	1.312
Average Mean		2.91	

Findings from Table 4.8, statement on my MFI only offers group loans had a response mean of 3.80; my MFI only offers individual loans response mean was 4.31; on my MFI offers both group and individual loans had a response mean of 1.81; the interest charged on loans are low compared to bank rates response mean was 3.08; my MFI provides both start up and business expansion loans had a response mean of 2.01; the loan processing takes a short period of time response mean was 2.54; and credit facilities that MFIs have provided have enabled me to run a successful business had a response mean of 2.80.

The average mean response is 2.91 which implies that respondents agreed that micro credit facilities have positively impacted on the performance of their MSE. The findings concurred with

Nyamwihula (2017) who established that there was a significant increase in the average monthly gross profit of MSEs after employing loan obtained from National Microfinance Bank (NMB) over time and therefore concluded that a micro-credit facility is, no doubt, a good innovation for developing low income earners of our society, as it enhances the productive capacity of the MSEs to participate in income generating activities. The study findings were further supported by Wakaba (2014) whose study found that there is a direct relationship of access to credit and financial performance of the companies and that most MSEs borrow from MFIs their initial capital. The study therefore concluded that the enterprises benefit from loans from microfinance institutions, the MSEs seek financial assistance from the MFIs due to low interest rate, easy loan repayment and amount offered.

Table 4.9 Respondents' rating of micro credit services offered by MFIs

		Frequency	Percent
Valid	Very Poor	14	13.2
	Poor	34	32.1
	Good	50	47.2
	Very Good	8	7.5
	Total	106	100.0

From the Table 4.9, 14 (13.2%) respondents rated credit services offered by MFIs as very poor, 34 (32.1%) rated the service as poor, 50 (47.2%) as good, 8 (7.5%) as very good and no response for excellent credit service. Majority who rated credit service as good attributed it to short period for loan processing, 13.2% and 32.1% attributed poor rating to expensive loans and hidden charges on loan processing while 8% attributed very good rating to low interests (12% p.a. on a reducing balance) that their SACCO loans attract.

The results were supported by Prah (2016) discovered that strict repayment terms, shorter repayment period, higher interest rate as well as small loan amounts were the major challenges that confronted the MSEs in the use of microfinance credit facilities to grow their businesses. Wakaba (2014) also found that there is a direct relationship of access to credit and financial performance of the companies and that most MSEs borrow from MFIs their initial capital and

concluded that the enterprises benefit from loans from microfinance institutions, the MSEs seek financial assistance from the MFIs due to low interest rate, easy loan repayment and amount offered. The findings of Amsi, Ngare, Imo and Gachie (2017) also supported the study results and they found out that the effect of interest rate, collateral requirement, and repayment period were found to have negative effect on MSE financial performance, but there was a positive effect on the entrepreneur orientation and credit amount.

4.4.3 The Influence of Microfinance Training Services on the Performance of MSE

The first objective of the study sought to determine the influence of microfinance training services on the performance of MSE. The study evaluated the respondents' level of agreement with various statements on microfinance training services using a 5 point scale. The study evaluated the respondents' level of agreement with various statements on credit services using a 5 point scale where 1 – strongly agree, 2 – agree, 3 – neutral, 4 – disagree and 5 – strongly disagree. From these results a mean of 1 indicate that respondents strongly agreed with the statement, a mean of 2 indicate that respondents agreed with the statement, a mean of 3 indicate that the respondents are neutral about the statement, a mean of 4 indicate that respondents disagreed with the statement and a mean of 5 indicate that the respondents strongly disagreed with the statement. The standard deviation gives the variation of the response from the mean. The smaller the standard deviation the better the results as it indicates that the response were not far from the mean response. The study findings were as illustrated in Table 4.10;

Table 4.10 Respondents' level of agreement with the statements on microfinance training services offered by MFIs

Statements	N	Mean	Std. Deviation
MFI advise me on how best to utilize the loan money before the loan is granted	106	2.25	1.113
Microfinance training has enabled me to keep all business transactions	106	2.46	1.148
MFIs' training on how to effectively communicate with customers has helped me retain customers (hence boosting business sales)	106	2.67	1.169
Through training I am able to keep business account from personal account this has boosted revenue and profit for the business	106	2.71	1.265
Training from MFIs has enabled me to maintain a record of my business transactions thus accounting for profit in the business is a success.	106	2.74	1.229
Training has enabled me to acquire more skills in marketing strategies to boost sales volume	106	3.09	1.528
MFIs aggressively provide personalized training on how best the loans granted can be utilized to realize the purpose for which they were taken thus improving business performance	106	2.60	1.224
Training has enabled me to run my business better than before and hence performance of my business has improved	106	2.73	1.183
	106	2.75	1.172
Training has enabled me keep appropriate stock levels			
Average Mean		2.67	

From the result on Table 4.10, the statement on MFIs advise me on how best to utilize the loan money before the loan is granted had a response mean of 2.25; microfinance training has enabled me keep all business transactions response mean was 2.46; I keep business account had a response

mean of 1.96; MFIs' training on how to effectively communicate with customers has helped me retain customers had a response mean of 2.67; through training I am able to keep business account from personal account response mean was 2.71; training from MFIs has enabled me to maintain a record of my business transactions response mean was 2.74; training has enabled me to acquire more skills in marketing strategies had a response rate of 3.09; MFIs aggressively provide personalized training on how best the loans granted can be utilized to realize the purpose for which they were take had a response mean of 2.60; training has enabled me to run my business better than before and hence performance of my business has improved had a response mean of 2.73; and the last training has enabled me to keep appropriate stock level had a response mean of 2.75.

The average mean response is 2.67 which implies that respondents agreed that microfinance training service has a significant impact on the performance of MSE. The findings concurred with Weerakkody and Ediriweera (2010) whose study established that there is a positive relationship between training and development and competencies of entrepreneurs. Another positive relationship exists between competencies of employees and business performance. Their study concluded that skilled entrepreneur run successful MSEs because of their enhanced competencies. The study findings were also supported by Kessy and Temu (2010) who revealed that the enterprises owned by clients who had received business and entrepreneurship training demonstrated a different growth level in terms of assets owned and revenues obtained compared to enterprises that owners had never been exposed to any form of business and entrepreneurship training. They concluded that training helps small business owners, managers and potential entrepreneurs to meet the challenges of today's business environment manage the ever-changing world and plan for future of their business.

Table 4.11 Responses on training services are offered by MFIs

		Frequency	Percent
Valid	Never been trained	46	43.4
	Only when I approach them to take a loan	36	34.0
	They call for regular training programs	16	15.1
	They visit me at the business site	8	7.5
	Total	106	100.0

From the findings on Table 4.11, 46 (43.4%) acknowledged that they have never been trained, 36 (34.0%) noted that they were only trained when they approached MFIs to take loan, 16 (15.1%) noted that their MFIs call them for regular training programs and 8 (7.5%) indicated that their MFIs visit them at their business site. The findings meant that most of the MFIs do not offer trainings regularly.

The findings concurred with Mayuran (2016) who established that most MFIs are not keen on offering training to their clients especially when the clients have completed their loans. Findings were further supported by Sifunjo and Mwewa (2014) whose study revealed that training provided by MFIs does not impact MSE growth probably because it is not based on the real needs of the MSEs.

4.4.4 Performance of MSEs in Kisumu County

The study sought to determine the performance of MSEs in Kisumu City Business Park.

The study evaluated the respondents' level of agreement with various statements on the performance of MSEs using a 5 point scale where 1 – strongly agree, 2 – agree, 3 – neutral, 4 – disagree and 5 – strongly disagree. From these results a mean of 1 indicate that respondents strongly agreed with the statement, a mean of 2 indicate that respondents agreed with the statement, a mean of 3 indicate that the respondents are neutral about the statement, a mean of 4 indicate that respondents disagreed with the statement and a mean of 5 indicate that the respondents strongly disagreed with the statement. The standard deviation gives the variation of the response from the mean. The smaller the standard deviation the better the results as it indicates that the response were not far from the mean response. The study findings were as illustrated in Table 4.12.

Table 4.12 Responses on the performance of MSEs

Statements	N	Mean	Std. Deviation
The profit margins for by business has been on the rise since I received training from MFI	106	2.77	1.107
My savings with the MFI have enabled me to expand my business	106	2.77	1.244
Loans that have received from the MFI has enabled me to create employment for self and others	106	2.78	1.130
The sales in my business have grown since I implemented the ideas I got from MFI training	106	2.75	1.235
Average Mean		2.78	

From the findings on Table 4.12, the response on the profit margins for my business has been on the rise since I received training from MFI had a mean of 2.77; my savings with the MFI have enabled me to expand my business 2.77; loans that have received from the MFI has enabled me to create employment for self and others had a response mean of 2.78; and the sales in my business have grown since I implemented the ideas I got from MFI training response mean was 2.75. The average mean response was 2.78 which implied that respondents agreed with the statements.

These findings concurred with Pei-Wen, Zariyawati, Diana-Rose and Annuar (2016) who revealed that the success of MSEs is based on the microfinance institutions (MFIs) ability to assist in providing more microfinance facilities to them (MSEs). The results further concurred with a study by Githinji (2016) whose findings established that the MSEs received an equal distribution of the various microfinance services (loans, savings, microfinance insurance and training) but the effect the services had on the MSEs were diversified and therefore the study concluded that each service offered by the microfinance institution impacts differently, with some having positive impacts while others having negative impacts.

4.4.5 Entrepreneurial Business Networks and Performance of MSEs

The study established the business sectors of the economy seeking networking with MSEs operating in Kisumu Business Bus Park. The information obtained from the field was categorized into groups as presented in table 4.13 below

Table 4.13a Business networks of Business Sectors

Business Sector in Business networks	Percentage
Retail, Wholesale Businesses and MSE's Network	25%
Transport Businesses and MSE's Networks	23.8%
Jua Kali Businesses and MSE's Networks	41%
Hospitality Businesses and MSE's Networks	19.4 %

The results in Table 4.13a indicate that Jua kali businesses at 41% response rate are the majority in business networking with MSE's followed by those operating retail and wholesale business enterprises at 25% while those in the transport sector at 23.8% response rate. The least in seeking the business networks are those businesses in the hospitality sector with MSE's forming 9.4% of the response rate.

The study further sought to establish the influence of business networks on the performance of MSEs in Kisumu Bus Park. The information obtained from the field is presented in table 4.13b below.

The respondents were asked to indicate the extent of financial performance of the MSE's was as a result of Business network among traders in Kisumu Bus Park. The responses ranged from 1 don't influence, 2-less influential, 3-moderately influential, 4-more influential and 5-most influential. The metric means and standard deviation of the five statements were also computed. The results are as shown in Table 4.13b.

Table 4.13b: Business Networks and Financial Performance of MSE's

Indicators of Performance	(1)	(2)	(3)	(4)	(5)	Mean	SDV
Growth in Revenue	0.0	2.9%	11.8%	76.5%	8.8%	3.91	.570
Increase in number of employees	0.0	0.0	11.8%	82.4%	5.9%	3.94	.422
Growth in profit	0.0	2.9%	14.7%	79.4%	2.9%	3.82	.521
<u>Growth in Capital Base</u>	<u>0.0</u>	<u>2.9%</u>	<u>8.8%</u>	<u>70.6%</u>	<u>17.6%</u>	<u>4.03</u>	<u>.627</u>

The results in table 4.13b indicate that 76.5% and 8.8% expressed that there has been growth in revenue as a result of business networks among MSE's in Kisumu City Business Park; with a mean strength of 3.91 implied that business networks have moderately influenced the growth in revenue. Further the results also revealed that 82.4% and 5.9% of the respondents expressed that there has been growth in the number of employees in situations where traders are networked to facilitate their business operations. Moreover, the results revealed that 79.4% of the sampled respondents expressed that there is growth in profits through the use of business network with a mean weight of 3.82 indicating that there is growth in profits is moderately influence when networks are used.

4.5 Correlation Analysis

The study conducted the Pearson correlation analysis to measure the relationship between the study variables. The results are as shown in table 4.14

Table 4.14 Correlation Analysis

MSE's

Performance Savings Credit Training Networks

Pearson	Performance	1.000				
Correlation	Savings	.762	1.000			
	Credit	.577	.567	1.000		
	Training	.729	.743	.635	1.000	
Sig. (1-tailed)	MSE's	.856	.451	.572	.428	1.000
	Networks	.000	.000	.000	.000	.000
	N	106	106	106	106	106

The results obtained from the Pearson Correlation on Table 4.14 indicate that there is a positive correlation between saving services and performance of MSEs with a correlation coefficient of 0.762 and P value $p < 0.05$; there is a positive correlation between credit services and the performance of MSEs with a correlation coefficient of 0.577 and P value $p < 0.05$; and there is a positive correlation between training services and performance of MSEs with a correlation coefficient of 0.729 and P value $p < 0.05$. The relationship is strong as it tends to be closer to 1.00 which represents a linear relationship. The correlation between business networks and performance of MSEs was .856 and P value $p < 0.05$. The findings therefore indicate that there is a strong positive correlation between saving services, credit services, training services, MSE networks and the performance of MSEs and all the variables were statistically significant.

4.6 Diagnostic Tests

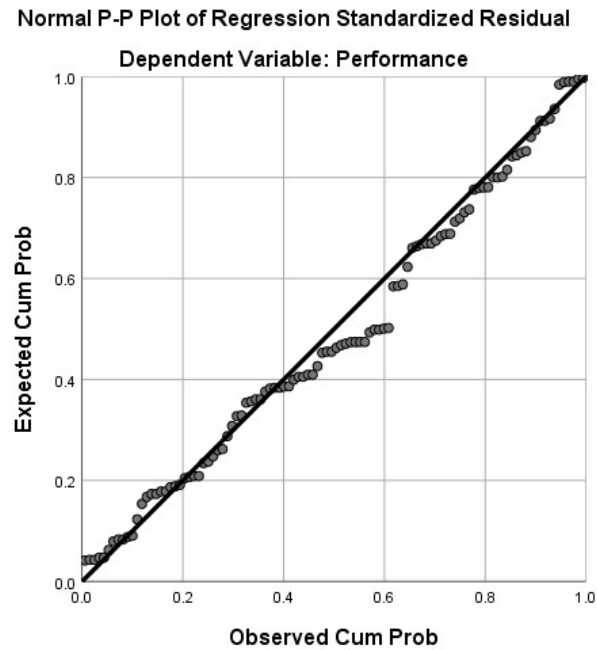
The study conducted various diagnostic tests to ensure that data collected met the assumptions underlying regression analysis as illustrated.

4.5.1 Normality Test

The study used graphical normality test method to test the normality of the sample data.

This is shown in Figure 4.5;

Figure 4.5 Normality Test



Source: Author (2020)

The result of Figure 4.4 shows that points plotted fall approximately on the straight line therefore the data set was normally distributed.

4.5.2 Multicollinearity Test

This test aims at assessing whether the independent (predictor) variables are exceedingly connected. In this study the multicollinearity was tested by utilizing tolerance and variance inflation factor (VIF).

Table 4.15 Multicollinearity Test

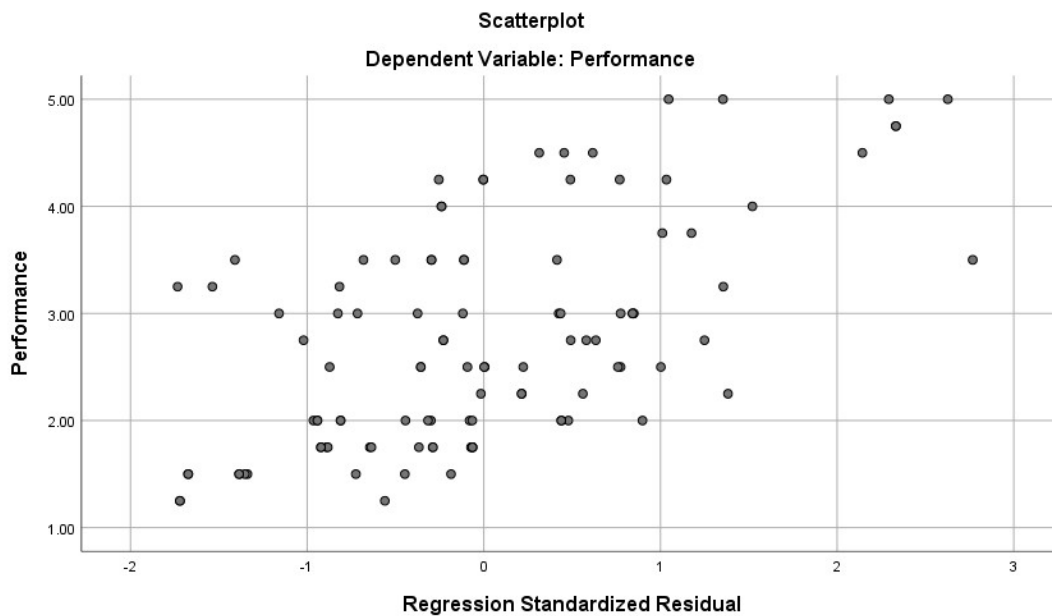
Variable	Collinearity Statistics	
	Tolerance	VIF
Savings	.433	2.311
Credit	.577	1.734
Training	.381	2.626
MSE's Networks	.543	1.841

Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors. It was assessed using the VIF (Variance Inflation Factor) and tolerance. From the Table 4.15 tolerance level for all the predictor (independent) variables were greater than 0.1 and less than 1.00 indicating no multicollinearity. Similarly, VIF values for independent variables were less than 10.00 hence no multicollinearity. Tolerance level for savings was 0.433, credit was 0.577 training was 0.381 and for MSE's Networks was 0.543 which implied that there was no multicollinearity because the values were greater than 0.1 but less than 1.00. The VIF values for the savings were 2.311, credit was 1.734, training was 2.626 and for MSE's Networks was 1.841 hence no multicollinearity since the values were less than 10.00.

4.5.3 Linearity Test

Assumption for linearity was tested by Scatter Plot as illustrated in Figure 4.6.

Figure 4.6 Linearity Test



Source: Author (2020)

From the Figure 4.6, when a rough rectangle is drawn around dots, dots appeared to be within the rectangle confirming linearity of the data. The range for testing this was between ranges of -3 to 3 leaving out only one dot.

4.6 Regression Analysis

The study conducted regression analysis to establish the relationship between the study variable. Independent variables (saving services, credit services and training services) were regressed against dependent variables (performance of MSEs). Table 4.16 shows the model summary results.

Table 4.16 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.805 ^a	.648	.637	.61911
a. Predictors: (Constant), Training, credit, savings,				
b. Dependent Variable: Performance of MSE				

According to the Table 4.16, R-square was 0.648 which means 64.8% variation in performance of MSEs was due to saving services, credit services, and training services while the remaining 35.2% of variation in the performance of MSEs was explained by other factors not considered in the current study.

R value represents the relationship between variables of study, from the findings; R value of 0.805 indicates a strong relationship between study variables. The difference between Adjusted R Square and R Square is 0.011 shows that the independent variables were precise.

Further the results indicate that variables in the regression model and its fitness can be relied up to 63.7% (adjusted $R^2 = 0.637$) in predicting the performance of MSEs and this prediction is statistically significant ($p=0.000^b < 0.05$; $F = 62.497$).

Table 4.17 ANOVA (Analysis of Variance)

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	71.865	3	23.955	62.497	.000 ^b
	Residual	39.097	102	.383		
	Total	110.962	105			
a. Dependent Variable: MSE's Performance						
B. Predictors: (Constant), Training, Credit, and Savings						

From the Table 4.17, F-test is used in regression analysis to test the hypothesis that all model parameters are zero. F test was significant with a p value = 0.000 is less than the standard p of 0.05 and this meant that the model was significant in influencing MSE's performance. From ANOVA, since p value was 0.000 then the influence of savings services, credit services, training services and business networks do have statistically significant influence on the performance of MSEs ($p=0.000^b < 0.05$; $F = 62.497$).

Table 4.18 Regression Analysis Results: Coefficients of Variables

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
Model		B	Std. Error	Beta		
1	Constant	-.183	.310		-.591	.556
	Savings (X1)	.539	.103	.468	5.237	.000
	Credit (X2)	.204	.136	.116	1.499	.137
	Training (X3)	.340	.105	.307	3.228	.002
	MSE's Networks (X4)	.586	.107	.384	1.918	.025

Based on the regression results shown on Table 4.18 the regression model and substituting the coefficients the model changes to;

$$Y = -0.183 + 0.539X_1 + 0.204X_2 + 0.340X_3 + 0.586X_4$$

From the regression equation shown, taking all predictor (independent) variables (savings, credit, training and MSE'S Networks) constants at zero the performance of MSEs is 0.183. From the results, a unit increase in saving services there would be 0.539 increase in the performance of MSEs, a unit increase in credit services there would be 0.204 increase in performance of MSEs whereas a unit increase in training services there would be 0.340 increase in performance of MSE's; a unit increase in MSE's Networks causes and increase in MSE's Performance by 0.586 unit change.

At significance level of 0.05, saving services had a significance level of 0.000; credit services had a significance level of 0.137; training services had a significance level of 0.002 and MSE's networks had a significance level of 0.025. The credit facilities offered by the MFIs are not attractive hence the respondents opt for other avenues of getting credit. Savings services, Training services and MSE's networks had a significance level less than 0.05 hence made a significant contribution in predicting the outcome (performance of MSEs). Credit services had a significance level greater than 0.05 and therefore it can be concluded that it was insignificant to influence on performance of MSEs obtained in this study. The findings reveal that regressors (saving services, credit facilities, training services and MSE's networks) account for 83.4% of the performance of MSE's in Kisumu City Business Park enterprises while 16.6% remain unexplained ($R=0.913$; $R^2 = 0.834$; $F= 622.286$; $p < 0.05$).

In the regression analysis when MSE's Networks is not factored the regressors (saving services, credit facilities, training services) indicate a strong correlation of 0.805^a and its R^2 is 0.648 (the variation of dependent variable is accounted for up to 64.8%); its F value is highest at 62.497, $p < 0.05$ indicating that model results are better when Business networks moderate microfinance services to influence performance of MSE's in Kisumu bus park ($R=0.913$; $R^2 = 0.834$; $F= 622.286$; $p < 0.05$) as indicated by the results in table 4.19 below.

Table 4.19: Model Summary

Change Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change.	Sig
1	.913 ^a	.834	.833	.35208	622.286	0.000

a. Predictors: (Constant), saving services, credit facilities, training services, MSE's networks

b. Dependent Variable: MSE's performance

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers summary of the study, discussion of the results and conclusions drawn from the study as well as the recommendations based on the study findings and suggestions for further study.

5.2 Summary of Major Findings

5.2.1 Microfinance Saving services and performance of MSEs

The first objective was to establish the influence of microfinance saving services on the performance of Micro and Small Enterprises in Kisumu County. The study showed that MSE owners agreed that micro-saving services have contributed in the performance of their MSE. The response on the question on how respondents would rate the savings services that they receive from MFI, showed that majority of MSE owners agreed that micro-saving services are good. The study findings also showed that there is a significant positive correlation between saving services and performance, with $r = 0.762$ and $p = 0.000$. The results of coefficients to the model estimates were significant at significance level of 0.05 because the significance was 0.000 which was less than 0.05. It can therefore be concluded that there is a positive significant relationship between microfinance saving service and performance of MSEs in Kisumu County.

The finding is supported by the coefficient of determination which shows that unit increase in microfinance saving services will lead to an increase of 0.539 in performance of MSEs in Kisumu County. Since P-value is 0.000 which is less than 0.05 hence the influence of microfinance saving service on the performance of MSEs is statistically significant.

5.2.2 Microfinance credit services and performance of MSEs

The second objective was to determine the influence of microfinance credit services on the performance of Micro and Small Enterprises in Kisumu County. The study found out that MSE owners agreed that micro-credit services they have received from MFIs have contributed to the performance of their businesses. Majority of the respondents noted that the training services they have received from MFIs are good and as a result contributed in the performance of the MSE. The study also established that there is a positive correlation between credit services and the

performance with $r = 0.577$ and $p = 0.000$. The results of coefficients to the model estimates were significant at significance level of 0.05 because the significance was 0.000 which was less than 0.05. It can therefore be concluded that there is a positive significant relationship between microfinance credit service and performance of MSEs in Kisumu County.

The finding is supported by the coefficient of determination which shows that unit increase in microfinance credit services will lead to an increase of 0.204 in performance of MSEs in Kisumu County. Since P-value is 0.000 which is less than 0.05 hence the influence of microfinance credit service on the performance of MSEs is statistically significant.

5.2.3 Microfinance training services and performance of MSEs

The third objective was to determine the influence of microfinance training services on the performance of Micro and Small Enterprises in Kisumu County. From the study MSE owners agreed that training services they received from MFIs made a contribution in the MSE performance. The study found out that majority of respondents agreed that they have received training and that the training services were good. The study also established that there is significant positive correlation between training services and performance of MSEs with $r = 0.729$ and $p = 0.000$. The results of coefficients to the model estimates were significant at significance level of 0.05 because the significance was 0.000 which was less than 0.05. It can therefore be concluded that there is a positive significant relationship between microfinance training service and performance of MSEs in Kisumu County.

The finding is supported by the coefficient of determination which shows that unit increase in microfinance saving services will lead to an increase of 0.340 in performance of MSEs in Kisumu County. Since P-value is 0.000 which is less than 0.05 hence the influence of microfinance saving service on the performance of MSEs is statistically significant.

5.2.4 Moderating influence of Business networks on Microfinance services and performance of MSEs

The findings revealed that Jua kali businesses at 41% response rate were the majority in business networking with MSE's followed by those operating retail and wholesale business enterprises at 25% while those in the transport sector at 23.8% response rate. The least in seeking the business networks are those businesses in the hospitality sector with MSE's forming 9.4% of the response

rate. The finding on the influence of Business networks on the performance of MSEs in Kisumu City Business Park. It showed that 76.5% and 8.8% expressed that there has been growth in revenue as a result of business or business networks among MSE's in Kisumu City Business Park; with a mean strength of 3.91 implying that business networks have moderately influenced the growth in revenue. Further the results also revealed that 82.4% and 5.9% of the respondents expressed that there has been growth in the number of employees in situations where traders are networked to facilitate their business operations. Moreover, the results revealed that 79.4% of the sampled respondents expressed that there is growth in profits through the use of business network with a mean weight of 3.82 indicating that growth in profits is moderately influence when networks are used.

Further the findings reveal that regressors (saving services, credit facilities ,training services and MSE's networks) account for 83.4% of the performance of MSE's in Kisumu City Business Park while 16.6% remain unexplained ($R=0.913$; $R^2= 0.834$; $F= 622.286$; $p < 0.05$). In the regression analysis when MSE's Networks is not factored the regressors (saving services, credit facilities, training services) indicate a strong correlation of 0.805^a and its R^2 is 0.648 (the variation of dependent variable is accounted for up-to 64.8%); its F value is highest at 62.497, $p<0.05$ indicating when Entrepreneurial Business networks moderate microfinance services and MSE's performance the results are better and statistically significant.

5.3 Conclusion

Based on the findings the study concludes that microfinance services positively influence performance of MSEs and the performance is better when the Business Networks of traders is involves as it has a statistically significant influence on the performance of MSE's operating at Kisumu County.

5.3 Recommendations

Based on the findings and conclusion, the study recommends that MSE's should embrace use of Business networks of traders to improve on their financial performance.

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APPENDIX I

Questionnaires for MSE Owners

The questionnaire is given to you so as to help the researcher get information about the influence of microfinance services on MSE performance in Kisumu Bus Park. Please an informant complete all the questions to the best of your ability. The data received will be treated in consideration with the ethical measures of anonymity, confidentiality, privacy and integrity.

SECTION A

1. Gender

Male [] Female []

2. Age

18 and Below [] 19-35 [] 36-40 [] 40-49 [] 50-59 []

60&Above []

3. Level of Education

Primary [] Secondary [] Tertiary College [] University []

Others: Specify

4. Years of Experience in doing the Business

Less than 1 Yr. [] 1-5 Yrs. [] 6-10 Yrs. [] 11 & Above []

SECTION B

The Influence of Microfinance Services

5. To what extend do you agree with the following statements on the influence of microfinance saving services on the performance of MSEs? Kindly tick where appropriate:

(1 Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree and 5 Strongly Disagree)

	Statement	1	2	3	4	5
--	-----------	---	---	---	---	---

Micro-Saving has led to an increase in business capital					
The procedure for opening a saving account is simple					
My MFI encourages me to make regular savings					
My MFI does not charge ledger fees on my savings account					
Micro-Saving has improved the business liquidity position					
My savings with the MFI earn good interest					
Micro-Saving has led to an increase in asset accumulation					
I make regular deposits into my MFI account					
Savings has enabled me grow my assets and therefore improvement in the performance of my business.					
Micro-Saving has led to protection in income fluctuation and maintained consumption levels.					

6. How would you rate savings services offered by MFIs and performance of your firm?

Very poor [] Poor [] Good [] Very good [] Excellent []

Kindly explain your rating

.....

.....

.....

.....

 7. To what extent do you agree with the following statements on the influence of microfinance credit service on the performance of MSEs? Kindly tick where appropriate

(1 Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree and 5 Strongly Disagree)

Statement	1	2	3	4	5
My MFI only offers group loans					
My MFI only offers individual loans					
My MFI offers both group and individual loans					
The interest charged on the loans are low compared to bank rates					
My MFI provide both start up and expansion of business loans					
The loan processing takes a short period of time					
Credit facilities that MFIs has been giving me has enabled me run a successful business					

8. How would you rate loan services offered by MFIs and performance of your firm?

Very poor [] Poor [] Good [] Very good []

Kindly explain your rating

.....

9. To what extent do you agree with the following statements on the influence of microfinance training service on the Performance of MSEs? Kindly tick where appropriate

(1 Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree and 5 Strongly Disagree)

Statement	1	2	3	4	5
MFIs advise me on how best to utilize the loan money before the loan is granted					
Microfinance training has enable me to keep all business transactions					
Do you keep a business account?					
MFIs' training on how to effectively communicate with customers has helped me retain customers.					
Through training I am able to keep business account from personal account					
Training from microfinance institutions has enabled me to maintain a record of my business transactions					
Training has enable me to acquire more skills in marketing strategies					
Microfinance institutions aggressively provide personalized training on how best the loans granted can be utilized to realize the purpose for which they were taken					
Training has enabled me to run my business better than before and hence performance of my business has improved					
Training has enabled me to keep appropriate stock levels					

10. How often do you get training from microfinance institutions, on how to use their services such as savings and loans to improve your business?

Never been trained []

Only when I approach them to take a loan []

They call for regular training programs []

They visit me at the business site []

How would you rate the training services offered by MFIs and performance of your firm?

Very poor [] Poor [] Good [] Very good [] Excellent []

Explain your rating

.....
.....
.....
.....

11. Outline the challenges you face on the following

Saving with MFIs

.....
.....
.....

Accessing loans from MFIs

.....
.....
.....

MFIs Training

.....

SECTION C

The Performance of MSEs

12. To what extent do you agree with the following statements on the performance of MSEs in Kisumu City Business Park? Kindly tick where appropriate

(1 Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree and 5 Strongly Disagree)

Statement	1	2	3	4	5
The profit margins for my business has been on the rise since I received training from MFI					
My savings with the MFI have enabled me to expand my business					
Loans that have received from the MFI has enabled me to create employment for self and others					
The sales in my business have grown since I implemented the ideas I got from MFI trainings					

13. Please on the table below put a tick the kind of network among business enterprises in the sectors of the economy that boost performance of Micro and Small Business Enterprises

Business Sector in Business networks	Please put tick
Retail and Wholesale Businesses and MSE's	
Transport Businesses and MSE's	
Jua Kali Businesses and MSE's	

14. On the five point likert scale below please indicate using a tick (√) against each statement the extent to which the elements of business networks in terms of their efficiency in influencing Micro and small business growth in Kisumu bus park

Business Networks Most Efficient (5.00 weight)

More Efficient (4.00 weight)

Moderately Efficient (3.00 weight)

Less Efficient (2.00 weight)

Not Efficient (1.00 weight)

15. Given Weights 1.0, 2.0 and 3.0 please rate the influence of Business networks on Microfinance services and the performance of business entities in your business set ups in Kisumu Bus Park.

Entrepreneurial Net works

Most influential (5.00 weight)

More influential (4.00 weight)

Moderately influential (3.00 weight)

Less influential (2.00 weight)

Not influential (1.00 weight)

APPENDIX II

DOCUMENT ANALYSIS GUIDE

NAME OF BUSINESS ENTERPRISE.....

YEAR	Net Profit of MSE's	Total cost of training services	volume of credit received by MSEs	volume of savings by MSEs	number of trainings to MSEs	Number of business networks by MSEs
2007						
2008						
2009						
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						