

# Micro Credit Finance And Financial Performance Of Small And Medium Enterprises In Nyamira Town, Kenya

## Abstract:

The critical role played by small and medium enterprises in growing economy cannot be underestimated. Small and Medium Enterprises (SMEs) are characterized by rapid growth and the potential to create employment and boost the GDP. Performance of Small and Medium Enterprises (SMEs) are signs of economic growth in many counties in Kenya and beyond. Although there has been improved access to credit by SMEs overtime, SMEs have continued to suffer financial challenges. Existing research indicates that 50% of the SMEs operate in a financial deficit and some of the SME owners are still uncomfortable with such credit extended to them. Therefore the general objective of the study was to analyze Micro Credit Finance and Financial Performance of small and medium enterprises in Nyamira Town, Kenya. The specific objectives were to; determine the effect of microfinance loans on financial performance of SMEs in Nyamira Town, establish the effect of microfinance saving on financial performance of SMEs in Nyamira Town, assess the effect of microfinance insurance on financial performance of SMEs in Nyamira Town, and to establish the moderating effect of size on the relationship between micro credit finance and financial performance of SMEs in Nyamira Town, Kenya. To achieve the objectives of the study, null hypotheses was developed and tested. The developed hypotheses was: there is no significant effect of microfinance loans, savings and insurance on financial performance of SMEs and Business size has no significant effect on the relationship between micro credit finance and financial performance of SMEs. The study employed correlation research design. The target population was 550 registered SMEs as per register records Trade Department in Nyamira County. The study sampled 232 owners of SMEs through stratified random sampling technique. Primary data was gathered by use of questionnaires. Data was analyzed by use of descriptive and inferential statistical methods. The test criterion was set such that the study rejected the null hypothesis if the t-statistic value was significant. Validity and reliability of research instruments was conducted with the aid of pilot study. Data was presented by use of tables and figures. The study will be of significance to the County Government of Nyamira so as to develop SMEs in the County for enhanced county revenue collection. The study found out that Micro Credit Finance is positively and significantly related to financial performance of SMEs. The study results imply that microfinance loans had a higher positive and significant relationship on financial performance with a person coefficient ( $r$ ) of 0.604 followed by microfinance insurance and microfinance saving,  $r$  of 0.595 and 0.570 respectively. The study also found out that business size plays a greater moderating effect on the relationship between micro credit finance and financial performance of SMEs. The study therefore rejected the null hypotheses and concluded that microfinance loans, microfinance insurance and microfinance saving had a positive and significant effect on financial performance of SMEs in Nyamira Town. The study thus recommends that SMEs should consider taking loans so as to expand their business and enhance financial performance. This can be undertaken through; favourable loan repayment terms by financial institutions and reduction of loan application fees. It is also recommended

that SMEs should insure their business and expand their savings so as to realize improved financial performance.

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