

**EFFECT OF INFORMAL FINANCIAL SERVICES ON FINANCIAL
PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN NAIROBI COUNTY,
KENYA**

By

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
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DECLARATION

I declare that this research dissertation is my original work and has not been presented to any other examination body and no part of this research should be reproduced without my consent or that of KCA University.

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DEDICATION

This research dissertation is dedicated to my spouse Zipporah Nyarangi and my mother Jane Kerebi, my entire family, friends and my colleagues for all the support and love they have accorded me during the entire process.

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I am grateful to my mother Jane for instilling in me a culture of continuous improvement and encouraging me to reach these heights.

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GOD BLESS YOU.

ABSTRACT

Globally, micro and small enterprises play a vital role in social and economic development of a country through the creation of employment and contribution to the growth of GDP (Gross Domestic Product). Financial access, savings mobilization, and financial literacy are critical for the sustainability and growth small businesses. The purpose of this study was to investigate the effect of informal financial services on the financial performance of micro and small enterprises in Nairobi County, Kenya. The study was guided by the following objectives – to find out the effect of table banking credit access on the financial performance of MSEs in Nairobi County, to investigate the effect of table banking financial literacy on the financial performance of MSEs in Nairobi County, and to evaluate the effect of table banking savings mobilization on financial performance of MSEs in Nairobi County. The target population was 177 MSEs in informal markets in Nairobi County. The study used stratified random sampling to select a sample size of 121 respondents. The researcher used structured questionnaires to collect primary data. Data was analyzed via the Statistical Package for Social Sciences (SPSS). The findings of the study were presented using pie-charts and frequency table. The study used descriptive statistics – mean, standard deviation, and mode to explain the characteristics of variables. The study found out that the majority (43.7%) of entrepreneurs were in the retail and wholesale sector. Regarding the cost of credit, respondents agreed (mean 4.18) to great extent that table banking cost of loan was cheaper than that of formal financial institutions. On savings mobilization, respondents consented (mean 4.20) that table banking had allowed them to pool funds and reinvest them in their businesses. On financial literacy, respondents concurred (mean 4.10) that business literate entrepreneurs practiced diversification by assigning their funds to various ventures. Also, financial literacy was found to be the best and significant predictor of financial performance ($p=0.000$). Furthermore, the respondents agreed (mean 4.15) that there had been an increase in the annual profits of their businesses. The study concluded that table banking groups had favorable loans terms which made MSEs to borrow loan from them. Table banking firms instilled savings discipline amongst members making them to pool adequate funds for reinvestment. To enhance financial performance, members of table banking should seek the services of a financial expert to teach them about the best business practices.

ABBREVIATIONS

| | |
|---------------|---|
| CBK: | Central Bank of Kenya |
| FFS: | Formal Financial Services |
| IFS: | Informal Financial Services |
| GDP: | Gross Domestic Product |
| ICDC: | Industrial and Commercial Development Corporation |
| KIE: | Kenya Industrial Estates |
| MSEs: | Micro and Small Enterprises |
| NGOs: | Non-Governmental Organizations |
| SACCO: | Saving and Credit Co-operative Society. |
| KNBS: | Kenya National Bureau of Statistics |
| SPSS: | Statistical Package for Social Sciences |

DEFINITION OF TERMS

Informal finance: It entails all the financial transactions conducted without the regulator's approval (Allen, Qian, Xie, 2018)

Formal finance: It encompasses all financial transactions done under the authority of the regulator (Khan, 2015)

Informal Financial Institutions: It includes all the organizations offering informal finance such as rotating savings and credit associations, mutual help groups, money lenders, relatives and friends (Feckhout & Munshi, 2010)

Formal financial institution: It entails financial institutions which offer official and authorized finance services. They include commercial banks, post office savings bank, development finance institutions, mortgage finance companies, and many more (Feckhout & Munshi, 2010)

Jua Kali: It refers to micro and small business in the informal sector. It may also encompass small business activities taking place under harsh conditions e.g intense sunshine (Kenya Micro and Small Enterprise Act of 2012)

Micro and Small Enterprises: These are business organizations with annual turnover between Kes500, 000 to 5 million and which employ between 1-49 people (Kenya Micro and Small Enterprise Act of 2012)

Financial Performance: It is the extent to which the firm's financial goals have been met, and it is measured in monetary terms (Fairoz, Hirobumi, & Tanaka)

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Micro and small businesses perform a significant duty in social and economic development of a country such as contributing to the growth of self-employment (Mungiru & Njeru, 2014). Financial access is an essential aspect for the growth and sustainability of any business venture. Loan repayment period is very critical, and micro and small enterprises (MSEs) clients prefer long duration because it is associated with affordable installments (Babajide, 2012)

Babajide (2012) argues that the growth of micro and small enterprises (MSEs) in Nigeria do not only rely on access to finance, but on getting the right loan amount and at the right time. Babajide noted that the growth of MSEs was greatly determined by other factors – the location of the firm, training of business owners, technology, age of business, and the registration of business. Financial literacy is very crucial for the growth of small businesses; however, most MSEs owners in South Africa have low levels of financial literacy because they rarely engage themselves in financial planning, budgeting, and control (Fatoki, 2014).

A quite number of MSEs manage their financial aspects in an informal manner; for instance, they use the manual methods to record their business transactions as opposed to the utilization of computers (Fatoki, 2014). Dahmen and Rodríguez opine that the ability of small business owners to understand basic financial statements – balance sheet and income statements is very critical for financial literacy. In their study, Dahmen and Rodríguez found out that there was a significant association between lack of financial literacy and business difficulties of entrepreneurs in the US. The authors revealed that 50% of the businesses made losses; and out that, 86% of them didn't review their financial statements frequently.

Savings mobilization is very vital for economic growth of any country because it is an excellent channel through which credit facilities can be granted to small business especially those in rural areas (Akinrinola & Mafimisebi, 2010). Informal savings and credit institutions are very favorable to MSEs because they not only grant them affordable loans, but they also make it for the members to guarantee one another. In Nigeria, the pooling of savings is normally done through cooperatives societies, and this has accorded huge benefits to the youths in terms of employments (Ifenkwe, 2009).

Informal financial services are vital because they help in income mobilization and provision of funds to small entrepreneurs who aren't able to access the same from formal financial institutions (Armendariz de Aghion & Morduch, 2000). Regionally, the Kenyan financial system is performing very well despite the structural obstacles which impede the country from reaching its maximum success (Beck & Fuchs, 2004).

According to Beck and Fuchs (2004), the major impediments affecting Kenya's financial sector include limited information on credit sharing, weaknesses in the judicial system, and lack of transparency in loan pricing. According to CBK (2019), the Kenyan banking industry is classified as formal and the informal sector. The formal finance sector entails registered financial entities (e.g., banks and insurance companies) authorized to offer financial services whereas the informal financial services encompasses entities not legally registered to carry out financial transaction even though they belong to registered groups.

Informal financial services play a vital role in mobilizing savings and advancing credit facilities to MSEs operating in both rural and urban settings (Pagura & Kirsten, 2010). The informal financing accords women a lot of benefits such as training and credit facilities without necessarily requiring any collateral because the borrowers belong to a registered self-help group where

personal trust and family ties determines lending (Kurgat, Kibas, & Otuya, 2018). A quite number of microfinance are formed to accomplish the social mission of alleviating poverty and promoting the activities of the private sector such as creation of employment (Armendariz de Aghion & Morduch, 2000).

Kurgat *et al.* (2018) opine that the informal lending doesn't involve complicated loan processing, but it only requires the borrower to make simple commitment either through writing or verbal agreement. In Kenya, only a few people (less than 50%) are aware of the availability of finance options because banks are located far away in urban centers hence they have little information about the financial institutions (Collins, Morduch, Rutherford, & Ruthven, 2010). Sustainable financial services vary from nation to nation and have been created to empower the needy people to sort out their financial constraints (Adoyo, 2013).

Microcredit institutions are currently the best lenders in the provision of services to individuals who find it difficult to access loans from banking institutions (Kurgat *et al.*, 2018). The households of micro business people use both savings and borrowings in running their businesses; and there sources of credit may be from friends, rent arrears, microfinance, and banks (Collins *et al.*, 2010). In South Africa, the insurance needs are not fully met because of lack of trust between the insurer and the insured (Collins *et al.*, 2010). People fail to take insurance cover since they fear that the companies might decline to compensate them if they suffer any loss. Also, the insurers have negative perception that the insured might immorally fake the claims. Although savings are very crucial to MSEs, they are not satisfactory in sorting out financial needs hence the justification to borrow from either informal or semi-formal (micro finance) financial institutions (Kurgat *et al.*, 2018). Accumulation of savings can help the needy people cater for emergencies like diseases, environmental catastrophes, and basic necessities (Karlan, Ratan, & Zinman, 2014).

Even though saving is vital, an individual may fail to save because of financial constraints, lack of awareness, and having a negative attitude towards saving (Karlan *et al.*, 2014). Therefore, to the poor, it is advisable to make appropriate savings by using instruments that don't have high risk and high cost. Unwise saving, under saving, can lead to negative consequences - reduced resilience to shocks and abandoned profitable ventures.

The idea of informal financial services was conceived to help the disadvantaged people in the society who had been neglected by formal financial systems for various reasons (Kurgat *et al.*, 2018). The less fortunate people whom banks refused to assist included women and the youths. Because of such circumstances, there was an emergence of informal finance like the mobilization of savings, micro-loans, transfer of funds, and insurance.

Micro-credit is very essential to MSEs because it is a source of money for their business investment, it facilitates their daily upkeeps, and the funds obtained can cushion them against unforeseen risks such as sickness (Armendariz de Aghion & Morduch, 2000). Women in self-help group are likely to get significant empowerment from the microfinance institutions than those not in the group (Bali & Yang, 2009). The authors argue that this empowerment is deemed to take place if women rise up and challenge the current norms to effectively enhance their welfare.

The MSEs clients who are new in business encounter a lot of challenges, but the most conspicuous constraint is lack of financial access (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2008; Beck, Brown, & T. Beck, 2010). In most cases, the financial constraint affects the new people who have either ventured or are about to start the business. The MSEs entities can either acquire capital from formal or informal financial institutions. Informal source of finance require less documentations and procedures, but it is characterized by inadequacy in terms of supply and high interest rates

(Kurgat *et al.*, 2018). However, formal financial institutions have the capacity to lend adequate amount of funds which can exceed the entrepreneur expectation.

Women empowerment is a critical aspect for economic growth; therefore, the marginalized women, especially village residents, should be informed of the availability of markets, sources of funds, how to apply for tenders, and furthering their skills (Gangadhar, Bhat, & Malyadri, 2017). Access to saving accounts has a substantial positive impact on the level of investments for the market women who have interest in savings even though they receive zero or negative interest rates (Dupas & Robinson, 2009).

1.1.1 Role of Financial Services

Microfinance programs have been introduced in many countries because they are vital in offering financial services to low income households, particularly women who are financially constrained, because of their inability to undertake income generating activities (Bali & Yang, 2009). In the money markets, financial intermediaries are very instrumental in allowing the flow of funds from the providers to the needy. The intermediation of finance can take place through different categories - microfinance institutions, banks, insurance companies, SACCOs, mutual funds, pension funds, and many more (CBK, 2019).

Financial institutions play a significant role of intermediation by taking deposits from customers and then lending to it to other clients to cater for their projects' financing (Gertler & Kiyotaki, 2010). For instance, the money deposited by households in financial intermediaries is later advanced as credit to non-financial entities at a cost. Through financial intermediation, credit is made available and accessible MSEs, hence enabling them contribute greatly to the growth of the economy(Shittu, 2012). Traditionally, formal financial institutions have been providing funds to

customers in developing countries, but currently, there is an alternative source of money for firms in both developed and developing countries (Allen, Carletti, & Valenzuela, 2013).

Informal financial services are the alternative channels to the formal financial sector (e.g., banks), and they are very critical to economic development of any country (Allen *et al.*, 2013). The alternative channels of funds encompass non-bank and non-market sources such as money obtained from friends or relatives, credit agencies, trade credits, and retained earnings. Alternative finance institutions arise in an environment where there are unmet needs due to weak formal financial institutions.

Allen *et al.* (2013) opine that a sound financial system is vital in emerging economies where we have potential enterprises fail to succeed due to lack of funding. Bank credit tend to increase as the economy of the country grows, and high income economies have a larger financial sector than the middle/low income ones. Therefore, in developing countries, it is difficult to promote economic growth through the development of the banking sector.

In both developing and developed countries, sound financial practices occur when banks are willing to move funds to entrepreneurs to enable them produce goods and services through innovative processes (Schumpeter, 1912). Financial services are essential for the poor because they are to get funds to finance their business and cater for other expenses (Sutton & Jenkins, 2007). The best approach banks can use to make the provision of financial services all inclusive is to have a willingness to lend to low-income earners, small business people, and peasant farmers. Financial services may be utilized in two ways – for the generation of income (e.g., investment in credit and saving deposits) and for consumption smoothing (e.g., insurance and savings).

1.1.2 The Role of the Informal Financial Sector

Informal financial sector became prominent following a study conducted by McKinnon and Shaw (1973). They argued that the government policies can make the funds meant for investment to be shifted away from the market. According to the authors, some governments have tried to make credit available in the markets through subsidies and direct involvement, but since the loans are charged low interest rates, the demand for credit increases. What follows is that the formal financial institutions find it economically unviable to lend their money at reduced rates; hence they shift their credit to less risk clients. Consequently, the rationed customers turn to the informal institutions to seek alternative funds. Taylor (1983) opines that financial sector comes into being or exists due to the reaction towards financial repression.

Unlike in the formal financial sector, there is a lot of efficiency in the informal sector because of lack of regulations. The solution to inefficiency in the formal sector lies in financial liberalization. However, in Kenya and other developing countries, this view doesn't apply because, despite the liberalization of interest rates, the informal sector still does well. Also, despite liberalization, the informal sector still has an upper hand in some market niches (Adams & Wal, 1992). The authors point out that even though the formal institutions have difficulties obtaining information; the informal ones find it easy because of power monopoly and good client relationship. Furthermore, the existence of weak laws prevent the enforcement of credit contracts; hence denying credit to prospective borrowers without collaterals. The informal sectors enjoy minimum cost of lending and recovery, and they have the freedom to enter and exit the market.

Across many countries, informal finance seems to be more significant than formal funding. For instance, in Ghana, a study revealed that 65% of all the savings in rural areas belonged to the informal financial services (Aryeetey & Gockel, 1991). The informal funding services are crucial in

reducing poverty among the needy people by facilitating them to pool resources for the generation of income. Gockel argues that contrary to the perception of many people, interest rate charged on loans by the informal sector is not higher than those in the formal sectors. Access to informal loan is quite easy when one is making application either individual or through a group (Alila, 2000). According to the author's study findings, 90% of the respondents informal saving and borrowing because it was convenient and less complicated to them. Most of the people in rural areas like informal credit because they have witnessed its contribution to the development in the villages. For instance, many individuals have succeeded in using the informal borrowing to educate their children and to do farming.

According to Mburi (1994), 6% of his clients acquired their loans from informal sources. The author argues that the MSEs fear to apply for credit from formal financial institutions because of lack of conventional security, inadequate information about banks loans and borrowing procedures, and poor financial records. On the hand, the informal financial institutions are easily accessible, don't require formal securities, and are willing to process credit with little bureaucracy. Ouma (1991) conducted an investigation in Siaya about informal sector and found that 73% of the respondents dependent on the informal sector for their upkeep. Kibuuka (2006) argues that the major reasons why customer don't like borrowing from banks are insistence on collateral and their location being far away from their business operations.

According to Kibuuka (2006), the informal financial sector is popular because of many reasons - convenience in making loan application because it involves few documents; it encourages the culture of savings even in small installments; transactions occur between parties conversant to each other, hence minimizing information asymmetry and transaction costs; transactions take place

in an environment familiar to the customers making them feel free; and most transactions occur in an informal manner without government awareness, hence no taxation costs are incurred.

Informal financial institutions promote education amongst their members. Whenever members meet, they deliberate on several issues such as where to invest and what asset to buy. Kibuuka (2006) observes that those who belong to rotating savings and credit institutions get a lot of benefits - business literacy, knowledge in public speaking, and skills on how to conduct themselves at home. Informal financial services, e.g., table banking, are also popular because of their ability to solve financial constraints (Besley & Levenson, 1994).

Due to the poor services of the formal financial institutions, a quite number of individuals admit that table banking is the best avenue for saving money either to invest in the future or purchase assets (Gugerty, 2007). In some areas, credit associations are established to offer financial support and membership may involve people living in the same location. The informal financial sector is very critical to the community because it enhances credit access, creates employments, reduces poverty, and upgrades social participation of members in a particular community.

1.1.3 Financial Services Deepening

In Kenya, the financial sectors comprises of various institutions - microfinance firms, Mortgage Company, Saccos, postal bank, foreign exchange bureaus, and other unlicensed lenders (CBK, 2013). Even though we have many institutions, the financial sector is dominated by a few institutions in terms of market share. For instance, Coop bank, KCB, Equity, and Post bank control 66% of the banks accounts. The microfinance institutions are led by Jamii Bora, Kenya Women Finance Trust, and Faulu (Cracknell, 2012).

Financial sector deepening contributes to access to long-term capital which is vital for the growth of the economy (Demirgüç-Kunt, Klapper, & Panos, 2007). Since the year 2000, the Kenyan government decided to revamp the financial sector and since then, a lot has been done concerning financial deepening. However, little has been done to revitalize the Kenyan capital market which has been operational for more than 50 years because it has minimal activities taking place there (Ngugi, Amanja, & Maana, 2009). The bond market in Kenya has also poor performance because in most cases, it attracts government bonds and rarely deal with the corporate ones.

Financial deepening is an important aspect in financial transformation and it supplements the banking sector in growing the economy. The financial sector is very essential since it assists in the transfer of risk, determination of price, provision of liquidity, and lowering of transaction costs (Adjasi & Yartey, 2007). Through financial deepening, information cost is minimized by sharing crucial details on firms thus resulting to efficient market under which prices reflect the information that is present (Garcia & Liu, 1999). The existence of funding institutions makes resources available to investors and also increases the possibility of foreign investment into the local economy; hence, more liquidity (Ngugi *et al.*, 2010).

Financial deepening contribute to new business entry in sectors which needs external funds and the smallest firm get the most benefit in terms of financial aid (Aghion, Fally, & Scarpetta, 2007). Getting access to financial services has made many firms to be innovative hence leading to production of quality products (Ayyagari *et al.*, 2008). Credit constrained companies tend to produce more, in terms of sales, whenever subsidized credit is availed to them (Banerjee & Duflo, 2013). On the same note, small firms in Pakistan were found to have reduced their sales after they were denied subsidized credit (Zia, 2008). However, large and listed firms rarely decrease in sales after failing to get subsidized credit meaning that they can get finance from any other source.

1.1.4 The Concept of Table Banking

Table banking is a concept where a particular strategy is used for members to make savings and borrow money later. This idea is practiced throughout the world, and it has benefited many business people especially those who are unable to borrow money from banks and MFIs due to high interest rates and long distance (RoK, 2009). Members of group converge together on specific dates of a given month to deliberate on how to save and borrow. During the meeting, members can borrow all the funds except a small proportion to cater for administration charges; hence the concept of 'table banking.' Members' savings entails insurance fee, penalty charges, membership fees, and micro charges. The capital to start the venture initially comes from members' contributions, but table top-up is done to mobilize money for administration cost during the beginning of the group (RoK, 2009).

The idea of table banking is based on the Grameen Bank of Bangladesh and the village savings and loan scheme of Tanzania (Kitomari, & Abwe, 2016). At Grameen Bank, low-income clients can borrow unsecured loans. The bank has been able to overcome information asymmetry by being transparent in its transactions and by fostering good relationship management with clients. The issue of collateral has been replaced by the aspect of peer pressure and social sanctions through group lending strategy. Even the poorest person is eligible for a small loan at Grameen as long as he/she borrows through a group of people not less than five. The majority of the bank's customers are women, and lending to them has been easy due simple recoveries of loans from them (Hassan & Guerrero, 1997). This type of financial service is doing well in Malaysia as demonstrated by the 3% reduction in poverty (RoK, 2009).

Table banking was meant to uplift the standard of living in economically disadvantaged areas as per the millennium development goal. Although the performance of table banking was impressive,

the government didn't proceed with its roll-out after launching it in 1999 (Asseto, 2014). Nevertheless, after the re-launch of table banking with an aim of helping rural women get financed to engage in business, the idea has helped more than 13 counties (Kanyi, 2014). Most of the MSEs in Kenya have adopted the idea of table banking because it is convenient to save and borrow money to finance their projects (Asseto, 2014). Members in this group are empowered through various ways - running profitable projects and training.

1.1.5 Micro and Small Enterprises in Nairobi County

MSEs constitute a significant proportion of the Kenyan economy in terms of many aspects such as job creation, initiation of innovation, and arousing competition. MSEs are vital for the betterment of Kenya's economy, and about 85% of Kenya's labor is under MSEs (Mwewa, 2013). MSEs are critical in diversifying the economy, stabilizing societies, and enhancing private sector development. MSEs can be found in any sector of the economy (manufacturing, production, and services) and can take any form of business ownership. A quite number of MSEs are owned and managed by the owner or family members, have inadequate capital, and those running them have insufficient skills (Karanja, 2014). A study conducted in HomaBay, Kwale, Bomet, and Kiambu Counties revealed that the major constraint of MSEs is lack of access to finance despite the presence of various banks and microfinance institutions (Ong'olo & Awino, 2013).

According to Ong'olo and Awino (2013), most of the challenges encountered by MSEs are caused by the stringent conditions imposed by banks on MSEs loans. MSEs are playing a very crucial role in growth and economic development for both developed and developing nations, and, therefore, a favorable environment should be created to enhance their performance.

Nairobi is Kenya's capital City, and it has grown from a simple suburb to a major economic hub in Africa. As a City, its history can be traced back to its relationship with East Africa Community, East Africa Railway, and East Africa Airways which had their headquarters in the City. In Kenya, Nairobi County has experienced tremendous urban growth and has a population size of three million (KNBS, 2009). Being the capital City, Nairobi hosts the major national and international business organizations such as the UN offices, CBK, World Bank, and many more. In this county, MSEs are practiced as financial services, construction, manufacturing, trade, and many more. Research shows that in Kenya, more than 400,000 SMEs are closed down annually after operating in less than a year (KNBS, 2016). According to KNBS, over 3 million people lost their jobs after the closure, and Nairobi County accounted for the majority (14.4%).

1.2 Statement of the Problem

The primary constraint affecting MSEs is access to finance. Formal external finance may be available, but the amount granted is too little to meet the objectives of MSEs. Formal institutions are not willing to advance credit to MSEs due to high risk and transaction costs. The informal finance option is still popular among small business people despite the government's effort to encourage borrowing from the formal sector. Commercial banks find it difficult to appraise MSEs for loans because they have inadequate records, they require small loan size, and they lack collateral. The long and tedious application process, at commercial banks, increases loan application fees hence making MSEs to shy away from the formal financial institutions (Nguyet, 2014).

In Kenya, credit constraints are experienced because the capital markets are underdeveloped prompting MSEs to rely on savings and borrowing from friends or relatives. Long term credit is not easily accessible, and this has made the business people to rely on costly short term loans.

Unlike the formal finance sector, the informal and semi-formal financial institutions are at the forefront in helping the MSEs in regard to financing in slums, rural areas and urban areas (Kashuliza, Hella, Magayane, & Mvena, 1998). Despite the informal sector financing being readily accessible, the interest charged by some of them is still high hence impacting negatively on some of the MSEs (Cesare, 2006).

Although MSEs contributes to creation of employment, research shows that there are more business closure than expansion, and only a small proportion (1%) is growing from at most five employees to at least ten (Liedholm & Mead, 1998). A significant number (38.7%) of the Kenyan population belongs to more than one informal financial services (KNBS, 2009). This implies that in the money market, the informal financial sector complements the formal one as opposed to being competitive.

Despite the fact that a quite number of studies have been conducted on the effects of financial service providers on MSEs, in developing countries, there is a paucity of research on the effect of informal financial services on the financial performance of MSEs in Nairobi County, Kenya. Even though informal finance provide excellent sources of credit for MSEs, government policies are geared towards replacing the informal with formal for easier regulation (Jain & Mansuri, 2003). Therefore, this research sought to fill the existing gaps by finding out the effect of informal financial services on the financial performance of MSEs in Nairobi County, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective was to determine the effect of informal financial services on the financial performance of MSEs in Nairobi County, Kenya.

1.3.2 Specific Objective

- (i) To find out the relationship between table banking credit access and the financial performance of MSEs in Nairobi County.
- (ii) To investigate the relationship between table banking financial literacy and the financial performance of MSEs in Nairobi County.
- (iii) To determine the relationship between table banking savings mobilization and financial performance of MSEs in Nairobi County.

1.4 Research Hypotheses

The following are the study hypotheses:

H₁: There is a significant relationship between table banking credit access and the financial performance of MSEs in Nairobi County.

H₂: There is a significant relationship between table banking literacy and the financial performance of MSEs in Nairobi County.

H₃: There is a significant relationship between table banking savings mobilization and financial performance of MSEs in Nairobi County.

1.5 Significance of the Study

Through this study, the County government of Nairobi can get information on the effect of informal financial services on the growth of MSEs and then formulate regulations to encourage table banking among MSEs.

The recommendations of this study can inform the policy makers to formulate favorable laws for the operation of informal financial services among MSEs.

The results of this study can help future researchers with information necessary in conducting academic studies.

The findings of the study can also be of great help to various stakeholders such as government entities, micro and small business organizations, agencies, research companies, and academic institutions.

The results of the study create awareness among the formal financial institutions on the role of informal financial services on the performance of MSEs. Therefore, the formal institution, especially banks, will improve their customer services regarding availing credit to MSEs.

1.6 Scope of the Study

The study was conducted in Nairobi County within Nairobi City, Kenya. The essence of this research was to investigate the effect of informal financial services on financial performance of MSEs in Nairobi County, Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives a highlight of theoretical reviews, critical reviews, empirical reviews, and the conceptual framework for the study on the effect of informal financial services on the performance of MSEs in Nairobi County, Kenya.

2.2 Theoretical Review

This study is anchored on four theories – social network theory, enterprise growth theory, loanable funds theory, and conventional theory of financial deepening.

2.2.1 Social Network Theory

This theory can be traced back to Granovetter (1973). Social network entails the associations, ties, or relationship that exists between people or groups of individuals. According to Atterton (2007), social interactions are essential for the operation of informal financial services which can be made possible through social ties among the group members like credit associations (e.g., table banking). The extent of associations among members of a particular group enhances the implementation of the concept of table banking. Social ties make it possible for the poor people in the society to have access to credit without necessarily raising collateral (Mayoux, 2001).

Under table banking, members of the group converge to deliberate on very important aspects such the rate of interest, repayment period, and the appropriate investment opportunities for the borrowers. At table banking meetings, members may come up with different entrepreneurial ideas which might help them to succeed economically.

2.2.2 Enterprise Growth Theory

This theory views an organization like people's situations - their place of birth, growth, maturity, and death. According to Hanks, Watson, Jansen, and Chandler (1994), the stages of human being's life-cycle is related to an enterprise's variable. Miller and Friesen (1984) opine that an enterprise undergoes five main stages throughout its life - birth, growth, maturity, revival, and decline. This theory describes the enterprise's life cycle in terms of growth over a particular period of time. It brings out the development process which an organization sustains through excellent performance.

A quite number of researchers have found out several factors to be responsible for the failures of enterprises, for instance Muthaih and Venkatesh (2012) found out that poor business records, inadequate managerial skills, and lack of experience are some of the causes for business decline. MSEs may experience slow growth because of lack of professional guidance, insufficient network, and limitations in obtaining business information. Table banking is an excellent avenue where MSEs can sort out the challenges affecting their business growth and performance.

2.2.3 Loanable Funds Theory

This theory depends on market analysis to describe the association between demand, supply, and interest rates in the market for credit money (Wicksell, 1936). Ordinary individuals can supply credit in the market from the savings they have accumulated over time. An entrepreneur's need for investment money elicits demand for loanable funds, and the interest rate charges constitute the cost of the loan. According to this theory, loanable funds markets are united due to perfect competition in these markets. The participants in these areas are referred to as price takers. At any given time and in any market, there is only a single interest rate. The theory postulates that the equilibrium flow of credit determine the rate of interest. The interest rate in the market depends on the forces of demand and supply, and desire to invest hikes the demand for loanable funds.

2.2.4 Conventional theory of Financial Deepening

This theory postulates that financial deepening is a prerequisite for the growth of the economy (Shaw, 1973). It assumes that financial deepening enhances credit access in the market making it easy for uptake. According to the theory, a sound financial system facilitates the creation and mobilization of savings, and transfer of resources from ancient sectors to contemporary sectors to facilitate entrepreneurial growth. Financial deepening was the main reason behind the 18th century industrial revolution in England (Hicks, 1969). A quite number of empirical studies in developing and developed countries concur with this theory (Gelb, 1989; Ghani, 1992; King & Levine, 1993). However, some researchers (Patrick, 1956; Robinson, 1952) are against this theory by arguing that financial deepening occurs as a result of growth in the economy.

2.3 Empirical Reviews

The theories assume that MSEs operating in places with accessibility to informal financial services can record good performance. So far, the empirical reviews done reveals that there is a relationship between informal financial services and financial performance. The gravity of financial performance is determined on the basis of savings accumulation, credit access, and financial literacy of micro and small enterprises.

2.3.1 Table Banking Credit Access and Financial Performance of MSEs

Inaccessibility to loan is viewed as an obstacle to financial performance of MSEs (Wanjohi & Mugure, 2008). The major challenges faced by MSEs can be classified as follows: lack of conventional securities and inadequate policies to recognize the innovation of MSEs as a factor to be considered for loan approval, and insufficient funds leading to delivery of unsatisfactory services to customers. This inhibits the options of technology by controlling the available alternatives. Financial constraint is a major hindrance to MSEs growth because the immature

capital market has forced the small business people to borrow from friends and relatives or to raise capital from their savings. Also, failure to get long term financing makes SMEs resort to table banking. Credit challenges experienced by MSEs include high rate of interest on loans, processing charges, and other expenses. Therefore, there is need for low income earners to be financed through informal services so that they may grow their businesses (Mutuku, & Kinuthia, 2014).

The majority of MSEs businesses in Kenya depend on their own savings because they are unable to meet conditions of commercial banks. Research shows that 68.6% of business firms rely on their own savings for money to support their ventures, 12.9% from family savings, 9.5% banks, and 8.8 from other sources. Lack of access to initial capital is a common problem among MSEs; hence, commencing an enterprise is a major concern. Many studies argue that the major problem to financial performance is lack adequate funds. Village savings and credit associations have been found to be one of the best avenues that can enable entrepreneurs to access affordable loans (Gichuki, Mulu-Mutuku, & Kinuthia, 2014). Gichuki *et al.* found out that the business people who obtained credit in years 2010, 2011, and 2012 recorded good performance in terms of profitability and capital. Essien and Arene (2014) argue that although informal credit is a good source of financing to MSEs, it is inadequate and meant for a particular purpose therefore lowering the performance of enterprises.

Chepsang, Iraya, and Okiro (2018) in their study on the effect of credit access on business performance of SMEs in Nairobi County found out that there was a significant relationship between access to credit and financial performance ($r=0.713$, $p=000$). Nyatogo (2012) sought to find out the influence of loans on the financial performance of youth-owned businesses in Nairobi County and established that the majority of the respondents agreed (mean 4.4) that access to credit enhanced the realization of the youth enterprises' business goals. Also, Onyiego, Namusonge, and

Waiganjo (2017) studied the impact of credit on business performance of SMEs in Mombasa County and found that financial access had a significant ($P=0.003$) effect on the business performance of entrepreneurs in that county. Further to that, Namusonge *et al.* (2017) reported that a quite number of entrepreneurs agreed (mean 3.53) that collateral requirement was an important consideration to banks when granting loans.

Itonga, Waweru, and Huka (2016) sought to investigate the effect of credit on women-owned enterprises in Imenti North Sub-County in Kenya and found out that 25.99% of the respondents reported that they didn't like borrowing from banks because of collateral requirements; while 23.73% avoided borrowing for fear of losing their properties. In Ghana, Ahiawodzi and Adade (2012) studied the relationship between access to credit and growth of SMEs in Ho Municipality and found out a significant ($p=0.048$) relationship between loan access and business performance. Fatoki and Smith (2011) in their study on obstacles to credit access by new SMEs in South Africa concluded that there is need for new SMEs to save adequately so that they may raise a certain proportion of the loan as required by commercial banks. Also, the Fatoki and Smith argued that training for the new SMEs was vital to make informed on eligibility for credit from financial institutions.

Nyangoma (2012) investigated credit terms and access to finance by SMEs in Uganda and found out that there was a significant relationship between credit access and business growth of SMEs ($r=0.543$, $p<0.01$). Also, Nyagoma's findings revealed that access to credit was the most significant predictor of financial performance ($Beta\ 0.489$, $p=0.000$). Essien and Arene (2014) analyzed credit access and performance of agricultural products dealers in Nigeria and established that for the informal financial services, access to credit was significantly ($p<0.000$) influenced by age of business, gender, and social capital.

Simeyo, Lumumba, Nyabwanga, Ojera, and Odondo (2011) sought to find out the effect of micro finance on the growth of MSEs in Kisii County, Kenya and established that credit was the best and significant predictor of business growth (*Beta 0.385*), followed by training (*Beta 0.281*) and then savings mobilization (*Beta 0.272*). Simeyo *et al.* concluded that provision of credit facilities to MSEs was very vital for their business growth as well as economic development in the country.

2.3.2 Table Banking Savings Mobilization and Financial Performance of MSEs

Organization learning entails uplifting the groups' well being concerning table banking. The concept of organization learning is a critical component in cognitive theories and it is based on social cohesion. Group policies and procedures may act as a guideline for the learners' education as envisaged in the curriculum. Peterson, Slaughter, Moore, and Wellman (2016) argue that social competence is a step which people undertake to improve their lifestyles. Education in environmental awareness is disseminated by agents to members of groups to enable the latter get skills on the accumulation of savings to boost their lending fund. Although the unbanked rural women entrepreneurs participate in savings support groups, their business growth is hampered by negative cultures, gender discrimination, and poverty (Aghion, Armendáriz, & Morduch, 2007). Their research builds on early studies to determine if poverty, government policies, and gender mediations are significant in the participation of community in the empowerment programmes.

Based on the framework of this research, perceptions are expressed based on beliefs, attitudes, norms, and values. Some attitudes influence the general perceptual outcome on economic empowerment such self esteem which enhances self confidence, interests, and values of individuals (Chen, Cheng, & Hwang, 2005). Studies reveal that entrepreneurs can learn well through experiential approach which helps them recognize opportunities and think creatively in building skills and self-confidence (Rasmussen & Sørheim, 2012; San Tan & Ng, 2006). Studies

on entrepreneurship ought to investigate the association between external factors (e.g., entrepreneurial education) and personal factors (e.g., entrepreneurial competence) and effect on financial performance (Welter, 2011).

Isinta, Aduda, and Magutu (2019) studied the effect of savings mobilization as an explanatory variable on the relationship between bankassurance and financial performance of commercial banks. Isinta *et al.* found out that savings mobilization had an insignificant intervening effect on the association between bankassurance and performance of banks in Kenya. Manu (2015) investigated the effect of savings and credit firms on the performance of SMEs in Kumasi, Ghana and found out that the majority (56.8%) of the respondents obtained their start-up finance from their personal savings, 27.4% got starting capital from family and friends, 8.4% acquired it MFIs, and 7.4% sourced it from banks. Manu concluded that the informal financial institutions contributed to entrepreneurs' sources of finance in Ghana.

Woldehanna (2017) studied financial access to MSEs in Ethiopia and established that respondents preferred borrowing from informal lenders for various reasons – favorable interest rate (3.33%), simple loan application process (56.67%), and no collateral (23.33%). Gichuki, Mutuku, and Kinuthia (2014) investigated the business performance of women-owned enterprises who accessed credit from village credit and savings associations in Kenya and concluded that village self-help groups were very critical entities that empowered women entrepreneurs. Gichucki *et al.* further established that the level of education, income, and credit access had a positive impact on the performance of women businesses with a pseudo R^2 of 60.2% and 49.3%. In Pakistani, Haider, Asad, Atiq, and Fatima (2017) studied the role of opportunity recognition in mediating the relationship between credit, savings, and performance of MSEs and found out that opportunity

recognition had a significant ($p=0.000$) effect in mediating credit, savings, and business performance.

Chenuos, Bitok, Tanui, and Kiptanui (2014) investigated the influence of training and savings in the financial performance of MSEs in Kiambu County, Kenya and established that the majority of the respondents were happy with the savings services provided by MFIs because it enhanced their business growth (mean 4.03).

2.3.3 Table Banking Financial Literacy and the Financial Performance of MSEs

Due to immense number of financial products in the market, MSEs need education on products' knowledge so that they make an informed decision when selecting financial products for their businesses. Inadequate product knowledge can hinder MSEs from making the right assessment on financial products from institutions (Nunoo & Andoh, 2012). MSEs who are literate are likely to champion for their rights by demanding for better services from informal and formal financial institutions.

Financial literacy on table banking promotes the utilization banking services by MSEs (Nunoo & Andoh, 2012). Entrepreneurs with financial literacy are able to borrow wisely, make prompt payments, save more, and manage risks appropriately. Wachira and Kihiu (2012) carried out study to find out the effect of financial literacy on financial access by Kenyan households. Their results indicated that age, gender, education level, and income had a lot of significance in influencing financial access. Even though literacy in finance was lowly ranked in household decision making, it had a lot of significance in explaining why MSEs were excluded from the market. Financially literate clients know their rights concerning product pricing, transparency in transactions, and can negotiate for better services (Fatoki, 2014).

Clients with financial literacy pose little risk to the financial institutions because they can use product and services effectively hence contributing to economic development (Fatoki & Asah, 2011). The MSEs are informed on financial issues and can vet various bank services like loan types, nature of savings account, insurance products, and trading in shares or bonds. Currently, what poses a big challenge to the financial institutions is insufficient financial literacy by the small business owners.

Financial literacy is essential in credit access and repayment of loans in a manner satisfactory to both parties - MSEs and the financial institutions. Fatoki (2014) opines that inadequate information on finance can have negative consequences on the management of MSEs businesses, and can be attributed to business failures. A solid financial base for business people is an indicator of successful enterprises, and can help in improving access to finance (Wise, 2013). Financial literacy enhances appropriate appraisal of loan and minimizes the chances of default thus boosting business performance (Mills & McCarthy, 2014).

Mutiso and Muigai (2018) assessed financial literacy on financial performance of SMEs in Kirinyaga County, Kenya and found out that there was a significant ($p=0.002$) association between financial literacy and business growth of SMEs. Siekei, Wagoki, and Kalio (2013) assessed the influence of financial literacy on financial performance of MSEs under Equity group foundation Njoro District, Kenya. Their findings revealed that there was a significant ($p<0.01$) effect of training on business performance. Siekei *et al.* argued that credit management training has a significant effect the business growth of MSEs because through the training, entrepreneurs are able to acquire and manage loans to ensure that loan liability is minimized.

Akhtar and Liu (2018) investigated the association between financial literacy and firm performance of SMEs in Pakistani and found out that financial awareness and financial knowledge were not prerequisite for firm performance. Kessy and Temu (2010) studied the impact of training on the performance of MSEs served by MFIs in Tanzania and found out that there was significant differences on assets ($p=0.001$) and revenue ($p=0.006$) between the MSEs who had received training and MSEs who had not received training. Kess and Temu concluded that financial literacy training has a positive impact on the asset and revenue levels of the recipients of that business knowledge. In her study on the relationship between financial literacy and the growth of MSEs in Kakamega Central Sub-County, Lusimbo (2016) found out that the majority (81.2%) of the respondents indicated that they were not practicing booking keeping in their businesses while 58.1% reported that they couldn't perform any financial analysis. Okello, Mpeerai, Munene, and Akol (2017) studied the relationship between financial access and the performance of SMEs in developing countries and established a significant moderating effect of financial literacy in the relationship between access to finance and business performance.

Atandi, Bwisa, and Sakwa (2017) sought to find out the role of financial literacy in savings mobilization of MSEs and found out that financial literacy does not influence the extent of savings by entrepreneurs, but it makes them have confidence to make savings decisions on their own in regard to making saving plans and financial budgeting. Asenge, Anyebe, and Nomhwange (2018) in their review of financial literacy and business performance in developing countries concluded that financial literacy enables entrepreneurs making independent decision in facing competition and producing quality products for clients in the market.

2.3.4 Informal Financial Services and Financial Performance

Mungiru & Njeru (2014) investigated the effect of informal finance on the performance of MSEs in Kiambu County, Kenya. The findings from their research indicated that many respondents preferred credit from self-help groups, friends and families, and trade credit because these sources positively influenced their business performance. However, results indicated that shylock finance had a negative influence on the performance of MSEs. In their study, the authors used only the quantitative approach to collect data through questionnaire. The current study will adopt mixed approaches (questionnaires and interview schedules) to collect sufficient information from the respondents.

Babajide (2012) studied the effects of microfinance on MSEs growth in Nigeria. The results from the research indicated that access to microfinance did not contribute to the growth of MSEs in Nigeria. However, other factors like business location, the knowledge of entrepreneur, firm age, rate of interest, and loan period significantly contributed to the performance of the firm. Babajide's research was quantitative, he used questionnaire to collect primary, and he also utilised secondary data for his analysis.

Olowe *et al.* (2013) did an empirical study on the impact of microfinance banks on SMEs in Nigeria. The researchers used purposeful sampling to select SMEs respondents, and random sampling to select microfinance bank participants. Their findings revealed that repayment period has a positive impact on the growth of MSEs, therefore, short term loans don't contribute significantly to MSEs growth.

Kurgat *et al.* (2018) investigated the role of informal financial banking services in economic empowerment of women in rural area through self help group. The findings from their study

revealed that women fear to borrow money from banks because of high interest rates and complicated documentation. Also, the findings revealed that a quite number of women were aware of the microfinance loans and credit facilities from the government. The majority of women agreed that they accessed credit facilities to fund their projects.

Shittu (2012) sought to determine the relationship between financial intermediation and economic growth in Nigeria. The study used secondary data of 1970-2010 to conduct a detailed time series analysis. The outcome of his research revealed that the supply of money had a significant effect on economic growth. The author, however, used few explanatory variables in his study. Therefore, this didn't bring out sufficient information regarding the role of intermediation on the growth of the economy.

Gugerty (2007) investigated on the commitment of rotating savings and credit associations in Kenya (ROSCAs). She collected data from 70 ROSCAs in Western Kenya. The findings of her study revealed that 50% of ROSCA participants spent a huge chunk of their money on school fees, food, and household goods. The majority of the participants like this mode of savings because it promotes the culture of savings since ROSCAs enforce saving by closely monitoring a member's contribution.

Nunoo and Andoh (2012) investigated the association between financial literacy and utilization of financial services by SMEs. The study's findings indicated that literate entrepreneurs are more likely to use financial services than the illiterate ones. Also, the study found out that frequent teaching of SMEs enhanced their financial literacy.

Osoro and Muturi (2013) studied the role of micro financial institutions on the growth of SMEs in Kenya. The findings from their research indicated that the majority (42%) of the respondents had a positive increase in sales volume after receiving credit from financial institutions.

2.5 Research Gaps

From the literature reviews, a quite number of studies in Kenya have been done on formal financial services and business performance; hence, little has been done to find out the role of informal financial services on business growth of MSEs. Past studies have focused on determinants of financial access and sustainable finance. Some studies (e.g., Shittu, 2012) have only relied on secondary data, which might not be valid, in reporting their findings. A quite number of studies have focused on SMEs (Fatoki & Asah., 2011; Mungiru & Njeru, 2014; Khan, 2015; Siekei, 2013). This method isn't adequate in getting crucial information from respondents. Therefore, the current study will focus on MSEs and will use both secondary and primary data.

2.6 Conceptual framework

The current study intends to investigate the effects of informal financial services on financial performance of MSEs in Nairobi County, Kenya. The independent variables include credit access, savings mobilization, and financial literacy. The dependent variable is the financial performance of MSEs. Fig 2.1 shows the conceptual framework.

Conceptual framework

Independent Variable

Dependent Variable

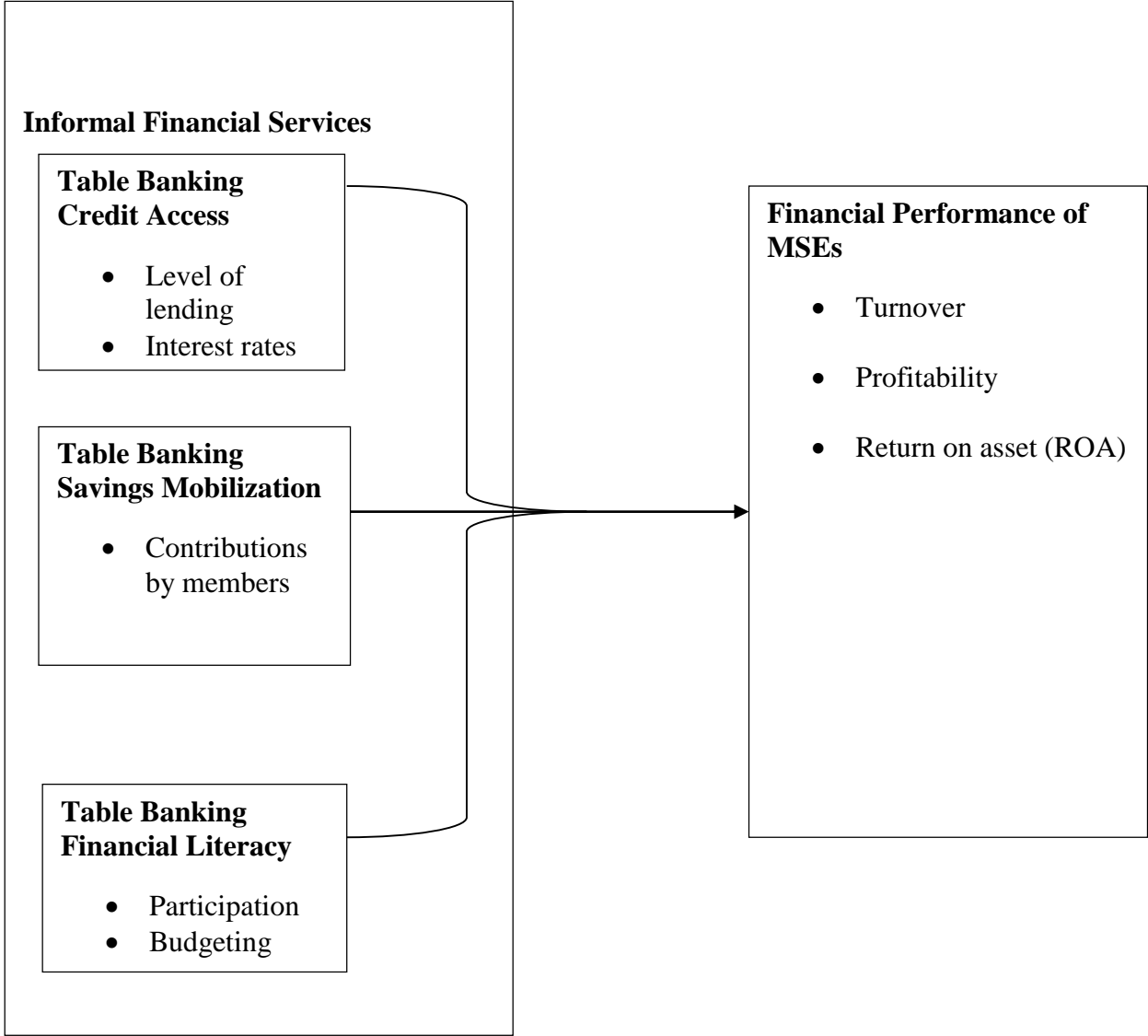


Figure 2.1: Conceptual Framework (Source: Author, 2019)

2.6.1 Operationalization of Variables

Table 2.1: Operationalization of Variables

| Variables | Indicators | Measurement |
|-------------------------------|------------------------------------|---|
| Informal Financial Services | Table banking Credit Access | Likert scale of ratio 1 to 5 i.e. 5 represents strongly agree, 4 agree, 3 moderate, 2 disagree and 1 strongly disagree. |
| | Table banking Savings Mobilization | Likert scale of ratio 1 to 5 i.e. 5 represents strongly agree, 4 agree, 3 moderate, 2 disagree and 1 strongly disagree. |
| | Table banking Financial Literacy | Likert scale of ratio 1 to 5 i.e. 5 represents strongly agree, 4 agree, 3 moderate, 2 disagree and 1 strongly disagree. |
| Financial performance of MSEs | Sales growth | Likert scale of ratio 1 to 5 i.e. 5 represents strongly agree, 4 agree, 3 moderate, 2 disagree and 1 strongly disagree. |
| | Profitability | Likert scale of ratio 1 to 5 i.e. 5 represents strongly agree, 4 agree, 3 moderate, 2 disagree and 1 strongly disagree. |
| | Return on Asset | Growth |

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives a highlight of the methods and procedures applied in the collection and analysis of data. It also constitutes of research design, population of the study, sample size, and piloting.

3.1 Research Design

This study used a descriptive research design. Cooper and Schindler (2006) argue that questions are precisely answered when this design is used. Descriptive research design reduces errors and bias in research (Bernard & Bernard, 2013). Descriptive research design is appropriate in ascertaining and giving reports the way things are (Sekaran & Bougie, 2016).

3.2 Target Population

A population is the number of elements in a particular area to which the study findings were generalized to (Daymon & Holloway, 2010). According to Lune and Berg (2016), a population is a group of individuals with observable characteristics. The target Population was drawn from all Micro and Small Enterprises in Nairobi County, Kenya informal markets (Gikomba and Githurai 45). The research focused on MSEs who had been utilizing the informal sources of funds like table banking. The MSEs registered with Micro and Small Enterprises Business Association were 177. The businesses they were operating were mainly in wholesale and retail, accommodation, financial activities, professional activities, arts and entertainment, clothing and textile, information & technology and manufacturing. This is shown in Table 3.1.

Table 3.1 Population

| Sector | Population | Percent |
|-----------------------------|------------|------------|
| Wholesale and retail | 74 | 42 |
| Accommodation | 21 | 12 |
| Financial activities | 9 | 5 |
| Professional activities | 39 | 22 |
| Arts & Entertainment | 5 | 3 |
| Clothing and textile | 14 | 8 |
| Information & Communication | 9 | 5 |
| Manufacturing | 6 | 3 |
| Total | 177 | 100 |

3.3 Sample Plan

The researcher has used Kothari (2004) formula to determine the sample size which is presented in Appendix III. Therefore, the sample size for the study was 121 respondents (Table 3.2). The sample was selected from Gikomba and Githurai45 informal markets in Nairobi County. The reason for sampling in this study is to lower the cost of the study and enhance greater accuracy.

Table 3.2 Sample Size

| Sector | Sample size | Percent |
|-----------------------------|-------------|------------|
| Wholesale and retail | 51 | 42 |
| Accommodation | 14 | 12 |
| Financial activities | 6 | 5 |
| Professional activities | 25 | 22 |
| Arts & Entertainment | 4 | 3 |
| Clothing and textile | 10 | 8 |
| Information & Communication | 6 | 5 |
| Manufacturing | 4 | 3 |
| Total | 121 | 100 |

3.4 Sampling Techniques

The study used stratified random sampling to select respondents from the population. According Bryman (2016) stratified random sampling is applicable when the population of the study is not homogeneous, and it ensures that every element in a given population is accorded an equal chance of being selected

3.5 Research instruments

A structured questionnaire, with open and closed ended queries, was used to collect data for this study. This type of questionnaire enabled the researcher to collect quantitative and qualitative information. Sekaran and Bougie (2016) opine that questionnaire provide answers to sophisticated questions.

3.6 Data Type and Collection Procedures.

The researcher collected primary data from MSEs respondents. This data entailed their demographic information and details concerning the informal financial services they used.

3.7 Piloting of Data Collection Instruments

The researcher conducted a pilot study to test for reliability and validity before embarking on the actual research in the field.

3.7.1 Reliability

According to Sekaran and Bougie (2016), reliability is the ability of a research instrument to give consistent results after repeated trials. This study adopted test-retest reliability as follows: Ten percent (21 people) of sampled individuals (within the population but outside the sample) were given the questionnaire twice but at an interval of 2 week. The reliability of the scores between the two occasions was satisfactory ($r= 0.787$) (Table 3.3). Ten percent of the sample is suitable for the test-retest reliability (Bryman, 2016). A correlation coefficient of at least 0.5 is considered reliable for the study (Sekaran, 2003).

Table 3.3 Correlations

| | week 1 | week 2 |
|------------------------|--------|--------|
| Pearson Correlation | 1 | .787** |
| week 1 Sig. (2-tailed) | | .000 |
| N | 21 | 21 |
| Pearson Correlation | .787** | 1 |
| week 2 Sig. (2-tailed) | .000 | |
| N | 21 | 21 |

** . Correlation is significant at the 0.01 level (2-tailed).

3.7.2 Validity

The researcher used pre-testing to ascertain the validity of the instrument. Walliman (2015) opine that pre-testing can help to identify any gap in the instrument, correct it, and hence enhance its accuracy. The researcher consulted with his supervisors for their opinions regarding the contents of the instruments. The researcher also asked the peers in the graduate class to validate the questionnaire. From the feedback, the instruments were then modified to ensure that there was no ambiguity in them.

3.8 Specification of Variables

Measures of satisfaction of MSEs with table banking was determined through measurement of perception (i.e. highly, moderate or least valuable), opinions on the efficiency of the services and loan processing turnaround time.

3.9 Data Analysis

Before any analysis, the researcher cleaned data to remove any possible error. The author then entered and analyzed data using the statistical package for social scientists (SPSS). Descriptive statistics e.g. mean, median, mode, and standard deviation were used to explain the characteristics of the study variables. Correlation and regression analysis were used to generalize the study findings to the population. Regression analysis model was used to predict the effects of credit access, savings mobilizations, and financial literacy on financial performance of MSEs in Nairobi County, Kenya.

4.0 Regression Model

Regression analysis was used to determine the effect of informal financial services on the financial performance of MSEs as shown in the equation below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Y – Is Dependant variable (Financial performance of Micro and small enterprises)

B_0 = constant (coefficient of intercept).

X_1 = Savings mobilization

X_2 = Credit Access

X_3 = Financial Literacy

ε - (stochastic disturbance) the error term explaining the variability resulting from other factors not accounted for.

4.1 Ethical Issues

The researcher sought the clearance to collect data from KCA University. Permission to conduct the study was further sought from the respective respondents before questionnaires were administered to them. The participation in the study was voluntary, and the respondent had a right to decide otherwise. The researcher assured respondents of confidentiality and affirmed to them that the study was only meant for purposes of accomplishing academic goals. The researcher avoided plagiarism by writing a unique content and citing appropriately all the information that was borrowed from other authors.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the analysis and interpretation of study findings on the effect of informal financial services on the financial performance of micro and small enterprises in Nairobi County, Kenya. The analyzed data was presented using frequency tables, graphs, and figures.

4.1 Response Rate

The study was conducted on a sample of 121 respondents to which questionnaires were administered. Therefore, a total of 121 questionnaires were issued, and 87 were returned duly filled in, making a response rate of 71% (Table 4.1). According to Bernard (2006), for drop-and-pick questionnaires, a response rate of at least 70% is acceptable.

Table 4.1 Response Rate

| Response | Frequency | Percent |
|---------------------------|------------|------------|
| Returned Questionnaires | 87 | 71 |
| Unreturned Questionnaires | 34 | 29 |
| Total | 121 | 100 |

4.2 Demographic Characteristics

The study sought to find out the information from respondents regarding their gender, age, sector, business, age of business, number of employees, and details of table banking.

4.2.1 Gender of the respondents

The respondents were requested to note their genders and the findings are shown in Figure 4.1.

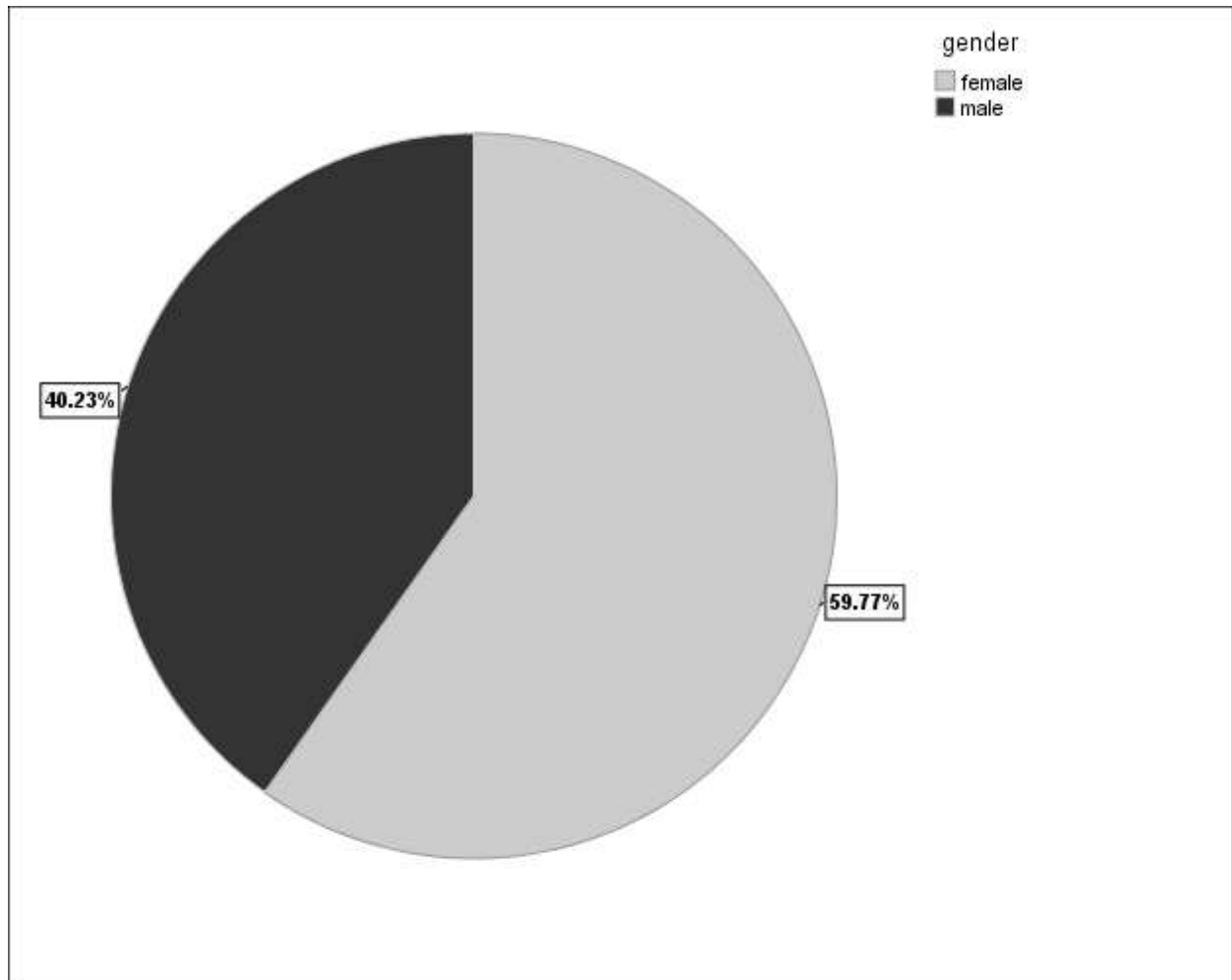


Figure 4.1 Genders of the Respondents

The results in Figure 4.1 revealed that the majority (59.77%) of the respondents were females whereas the males comprised of 40.23%. This means that table banking is aligned to self-help groups whose membership is dominated by women female who represents the unbanked and low income population. Male membership in the self-help groups was smaller because the majority of the men in the society haven't adopted the idea of table banking as compared to women.

4.2.2 Age

The study sought to find out the age of the respondents and found out that the majority (46.4%) were in the age group 36 to 45 (Figure 4.2). This implies that most of the entrepreneurs who had embraced the idea of table banking were adults who were past the youth age. Age bracket 26 to 35 constituted of 45.24%; meaning that these were youthful adults who engaged themselves in self-help groups to generate income for their livelihoods. Also, the study found out that 5.952% belonged to age bracket 18 to 25. This age group comprised of the youths who had finished schools and didn't have adequate capital to start MSEs hence the reason why they were few. Finally, the minority (2.381%) fell in the age category of 46-59. This category represented aged and experienced adults who could be relying on formal financial institutions for services.

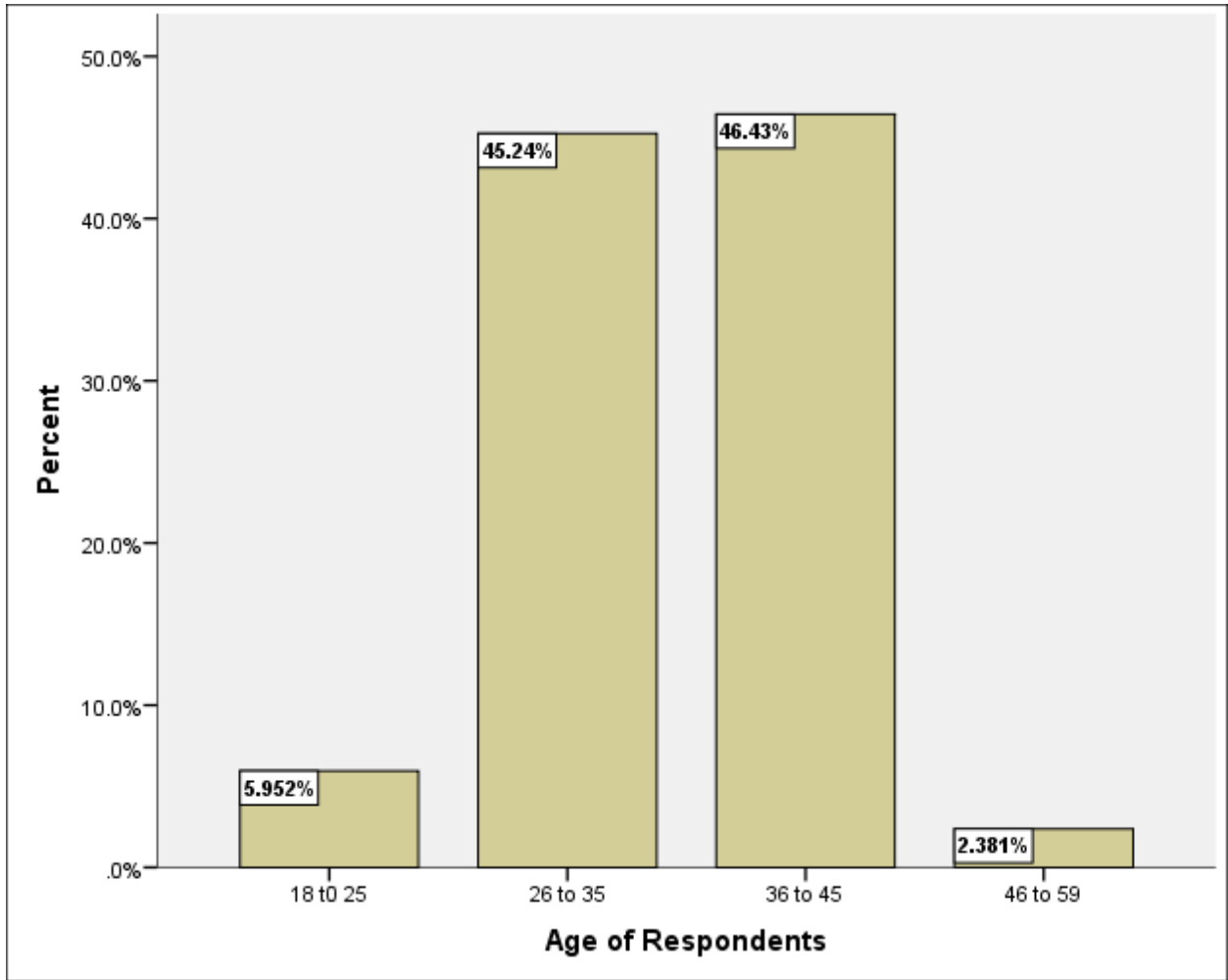


Figure 4.2 Age of Respondents

4.2.3 Sector Classification

The study found out that the majority (43.7%) of MSEs were in the wholesale and retail trade. Also, the findings revealed that a few traders were engaged in manufacturing (2.3%), and information and communication represented only 5.7% (Table 4.2). According to the results, many people could be in the wholesale and retail sector because such businesses require little capital to start and are easy to manage.

Table 4.2 Sector Classification

| | Frequency | Percent |
|-------------------------------------|-----------|--------------|
| Wholesale & retail | 38 | 43.7 |
| Accommodation & food | 10 | 11.5 |
| Financial activities | 4 | 4.6 |
| Professional & technical activities | 19 | 21.8 |
| Arts & entertainment | 3 | 3.4 |
| Clothing and textile | 6 | 6.9 |
| Information and Communication | 5 | 5.7 |
| Manufacturing | 2 | 2.3 |
| Total | 87 | 100.0 |

4.2.4 Type of Business

The study sought to investigate the kind of business done by the MSEs and found out that the majority (47.13%) were in retail business, followed by Mpesa (14.94%), beauty salons (14.94%), clothing (3.448%) , and 8.046% were engaged in other businesses (Table 4.3). The retail business formed the majority because it is not difficult to start and manage.

Table 4.3 Type of business

| Type of business | Frequency | Percent |
|------------------|-----------|--------------|
| Retail business | 41 | 47.1 |
| Clothing | 3 | 3.4 |
| food vendors | 10 | 11.5 |
| Salons | 13 | 14.9 |
| Mpesa | 13 | 14.9 |
| Others | 7 | 8.0 |
| Total | 87 | 100.0 |

4.2.5 Number of Years in Business

The study established that the majority (32.2%) of the MSEs had been in business for 6-11 years, and 31% for 4-6 year as indicated in Table 4.4. The findings show that a quite number of traders had vast experience in running their respective businesses.

Table 4.4 Number of years in business

| Number of years | Frequency | Percent |
|--------------------|-----------|--------------|
| Less than 1 year | 3 | 3.4 |
| 1-4 years | 10 | 11.5 |
| 4-6 years | 27 | 31.0 |
| 6-11 years | 28 | 32.2 |
| More than 11 years | 19 | 21.8 |
| Total | 87 | 100.0 |

4.2.6 Number of Employees

The study sought to find out the average number of employees for the SMEs and established that it was around 2 (Table 4.5). The study further found out that the majority of MSEs were micro business people who either operated business as sole-traders or employed an average of two people. The findings are in line with the Kenya Micro and Small Enterprise Act 2012 which stipulates that SMEs have 1-49 employees.

Table 4.5 Average Number of Employees

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-----------------------|----|---------|---------|------|----------------|
| Employees | 87 | 1 | 4 | 1.64 | .777 |
| Valid N (listwise) | 87 | | | | |

4.2.7 Number of Table Banking Groups

The findings revealed that the majority (88.51%) of the respondents indicated that the number of table banking firms operating in their study areas were less than 25 firms (Figure 4.3). Therefore, there is need for more MSEs to form more self-help groups in order to benefit in terms of financial access.

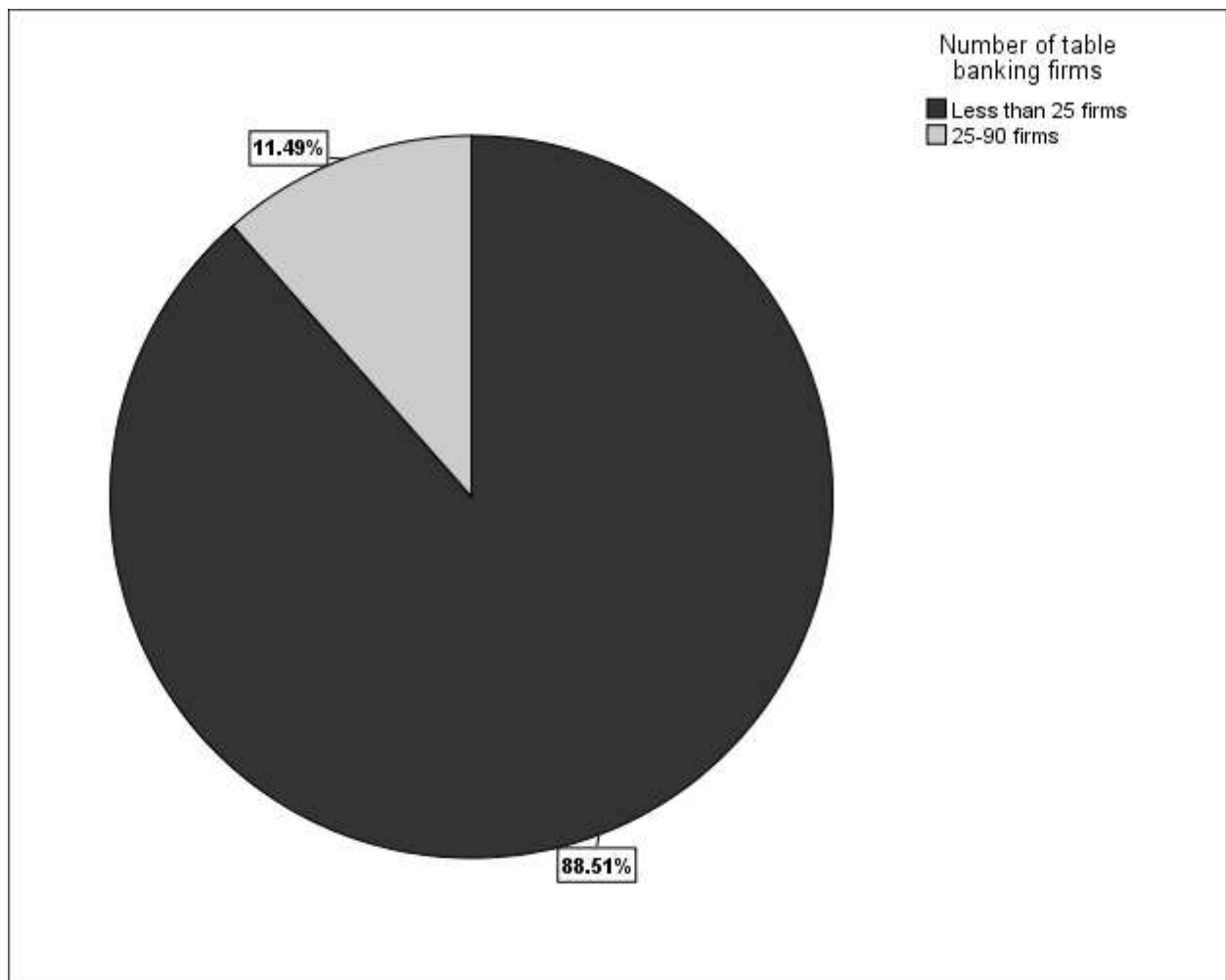


Figure 4.3 Number of table banking firms

4.2.8 Table Banking Operating in the Respondent's Business Location

The study established that the majority (98.9%) reported that there were table banking groups within the proximity of their business locations. However, a few (1.1%) indicated that although

they were members of table banking, the location of those groups was far from their businesses (Table 4.6).

Table 4.6 Presence of table banking

| | Frequency | Percent |
|--------------|-----------|--------------|
| Yes | 86 | 98.9 |
| No | 1 | 1.1 |
| Total | 87 | 100.0 |

4.2.9 Evaluation of Lending Efficiency of Table Banking Groups

The study evaluated the efficiency of lending services from table banking firms and found that the majority (46.4%) of the respondents indicated that the efficiency was high (Figure 4.4). This implies that the members of the table banking firms got their loans through an easy and simple process. However, 22.62% reported that the efficiency of table banking groups was average; implying that they were not fully satisfied with the loan amount and other services accorded by the table banking firms.

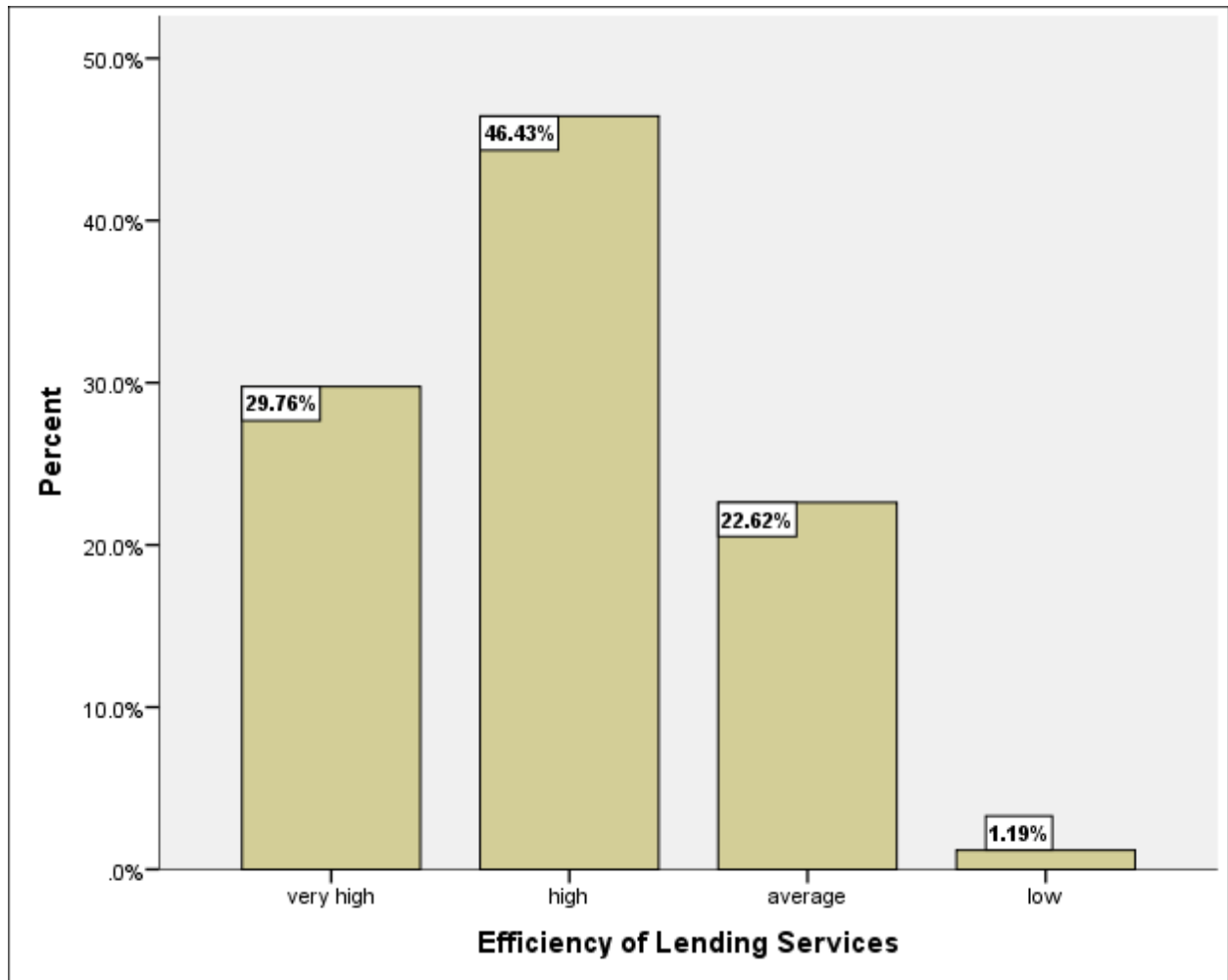


Figure 4.4 Efficiency of Lending Services

4.3 Descriptive Statistics

The study sought to find out the extent of agreement from the respondents on the effect of various independent variables on the dependent variable.

4.3.1 Credit Access

A quite number of statements were posed to the respondents regarding the effect of table banking credit access on the financial performance of business. The researcher asked the respondents to select the extent of their agreement with each item by using a scale of 1-5 where 1=not at all, 2=small extent, 3=moderate extent, 4=great extent, and 5=very great extent (Table 4.7).

Table 4.7 Table banking credit access

| Statements | Mean | Std. Deviation |
|---|-------------|-----------------------|
| There are minimum requirements on access of table banking credit e.g., no collateral requirements | 3.93 | .682 |
| There is rivalry among informal financial services for clients | 2.39 | 1.135 |
| There are many table banking groups serving MSEs in Nairobi county. | 3.86 | .594 |
| Table banking cost of loan is lower than formal financial services | 4.18 | .638 |

From the results (Table 4.7), a quite number of entrepreneurs agreed to a great extent that there were minimum requirements on access of table banking credit with a mean of 3.93. This means that table banking groups rarely impose difficult credit conditions, such as collateral requirement, on their members while applying for loans. The study concurs with the result of Nyatogo (2012) who established that 32% of the respondents indicated that access to credit increased the capital base of youth-owned MSEs in Nairobi County. The results of the current study also confirm those of Woldehanna (2017) where 29.4% of the respondents indicated that they borrowed from informal lenders because of simplicity in loan processing and little collateral condition.

The majority of the respondents agreed to a small extent that there was rivalry among informal financial services for clients (mean 2.39). This implies that unlike formal institutions such as banks, table banking firms don't compete for clients because they only offer services to members within their groups. Regarding the number of table banking groups, a lot of respondents agreed to a large extent that there were many table banking firms serving MSEs in Nairobi County (mean 3.86). Finally, most of the respondents agreed that table banking cost of loan was lower than formal

financial services (mean 4.18). This means that a loan acquired from table banking firms was cheaper in terms of interest rates and other charges than that obtained from the formal financial institutions such banks. The study also concurs with Woldehanna (2017) who found out that 12.87% of MSEs derived their business capital from savings & credit associations because the cost loans there was cheaper than at commercial banks. Moreover, the current research agrees with Gichuki *et al.* (2014) who argue that the village self-help groups play a significant role in empowering women financially when they fail to get credit from the formal financial institutions.

4.3.2 Savings Mobilization

The researcher presented a quite number of questionnaires to the respondents regarding the effect of table banking savings mobilization on the financial performance of business. Respondents were asked to indicate the extent of their agreement with each item by using a scale of 1-5 where 1=not at all, 2=small extent, 3=moderate extent, 4=great extent, and 5=very great extent (Table 4.8).

Table 4.8 Table Banking Savings Mobilization

| Statements | Mean | Std. Deviation |
|---|-------------|-----------------------|
| Table banking have allowed me to open a savings account. | 3.97 | .655 |
| Table banking supports savings mobilization | 4.04 | .645 |
| Table banking have allowed me to save some money | 4.24 | .549 |
| The table banking Interest rates are much reasonable | 4.48 | .629 |
| The MSEs adopts savings mobilization. | 4.37 | .636 |
| Savings mobilization has resulted to a prosperous long-term relationship with MSEs. | 4.38 | .575 |
| Table banking has helped me to access loans as a result of the savings. | 4.38 | .689 |
| Table banking has enabled to reinforce the culture of savings. | 4.24 | .664 |
| The savings have allowed me to pool funds and reinvest in the business | 4.20 | .679 |

| | | |
|--|------|------|
| Reinvestment of table banking savings has led to expansion of my business. | 4.31 | .670 |
|--|------|------|

According to the findings (Table 4.8), the respondents agreed to a great extent that table banking had helped them open savings account (mean 3.97). This means that the table banking groups instilled a saving discipline among their members. The results also revealed that table banking savings mobilization had led to a prosperous long-term relationship among MSEs (mean 4.38) implying that the members helped one another in different aspects e.g., sharing of business ideas. Concerning loan access, respondents agreed to a large extent that they were able to get credit facilities due to their table banking savings mobilizations (mean 4.38). This finding is line with Gichuki *et al.* (2014), who established that village savings were the best source of funds for entrepreneurs. Also, the results confirm Manu (2015), who unveiled that 56.8% of the respondents, indicated that they had used their personal savings as sources of initial capital. A quite number of the respondents agreed to a large extent that the savings had helped them to accumulate funds for reinvestment (mean 4.20). This implies that consistent savings is one of the sources of capital for MSEs.

4.3.3 Financial Literacy

The study sought to find out the effect of table banking financial literacy on the financial performance of MSEs in Nairobi County, Kenya. Respondents were asked to indicate the extent of their agreement with each statement by using a scale of 1-5 where 1=not at all, 2=small extent, 3=moderate extent, 4=great extent, and 5=very great extent (Table 4.9).

Table 4.9 Table banking financial literacy

| Statements | Mean | Std. Deviation |
|---|-------------|-----------------------|
| Table banking financial literacy has led to capital assigned to viable/profitable investments | 3.82 | .471 |
| There is reduced risk as the entrepreneurs practice diversification by assigning funds to various investment streams. | 4.10 | .591 |
| The enterprise assigns adequate funds to the working capital. | 4.39 | .671 |
| Financially literate entrepreneurs borrow wisely and make prompt payments | 4.34 | .679 |
| Financially literate entrepreneurs can use the product appropriately hence leading to economic development | 4.31 | .687 |

The results (Table 4.9) revealed that the respondents agreed to a large extent that table banking financial literacy enabled them to reduce risks by diversifying funds to various investment streams (mean 4.10). Also, the respondents agreed to a large extent that financial literate entrepreneurs borrowed wisely and made prompt payments (mean 4.34). The findings of this study concurs with Nunoo and Ando (2012) who opined that insufficient product knowledge can be an obstacle to MSEs in making appropriate assessments concerning loan products. With regard to product knowledge, the respondents agreed to a large extent that literate entrepreneurs could use loan wisely hence contributing to economic growth (mean 4.31). The study agrees with Fatoki and Asah (2011) that financially literate entrepreneurs pose little risk to financial institutions because they borrow wisely and invest their money properly.

4.3.4 Financial Performance of MSEs

The researcher presented statements regarding financial performance of MSEs to the respondents and asked them to indicate the extent of their agreement with each item by using a scale of 1-5 where 1=not at all, 2=small extent, 3=moderate extent, 4=great extent, and 5=very great extent (Table 4.10).

Table 4.10 Financial Performance of MSEs

| Statements | Mean | Std. Deviation |
|---|-------------|-----------------------|
| There has been increase in sales. | 3.74 | .619 |
| There has been an increase in commodity over time | 3.99 | .600 |
| There has been an increase in outlets over time | 3.97 | .784 |
| There has been an increase in the annual profitability of Micro and Small enterprises | 4.15 | .771 |
| There has been an increase in annual return on assets | 4.15 | .800 |

From the findings, a quite number of the respondents agreed to a large extent that there had been increase in sales with a mean of 3.74. This finding is in line with Mutiso and Muigai (2018) where the majority of the respondents agreed (mean 4.32) that their performance in terms of sales had improved due to the acquisition of personal savings skills. Regarding business expansion, respondents agreed to a large extent that there had been an increase in outlets over time. Also, the majority of the respondents agreed to a large extent that there had been an increase in their annual profitability arising from the use of table banking services.

4.4 Inferential Statistics

Inferential statistics are research findings that make us draw conclusion from the sample to the population (Sekaran & Bougie, 2016). The current study used correlation and regression analysis.

4.4.1 Diagnostic Tests

Tests were carried out to determine regression assumptions – normality, multicollinearity, and homoscedasticity.

4.4.1.1 Normality Test

Normality was tested using the visual inspection of Normal Q-Q plot and a histogram. Through the normal Q-Q plot, it was established that the observed data were closely distributed along the diagonal line (Figure 4.5). Also, the histogram was noted to exhibit a normal distribution curve (Figure 4.6). Therefore, the assumption of normality wasn't violated.

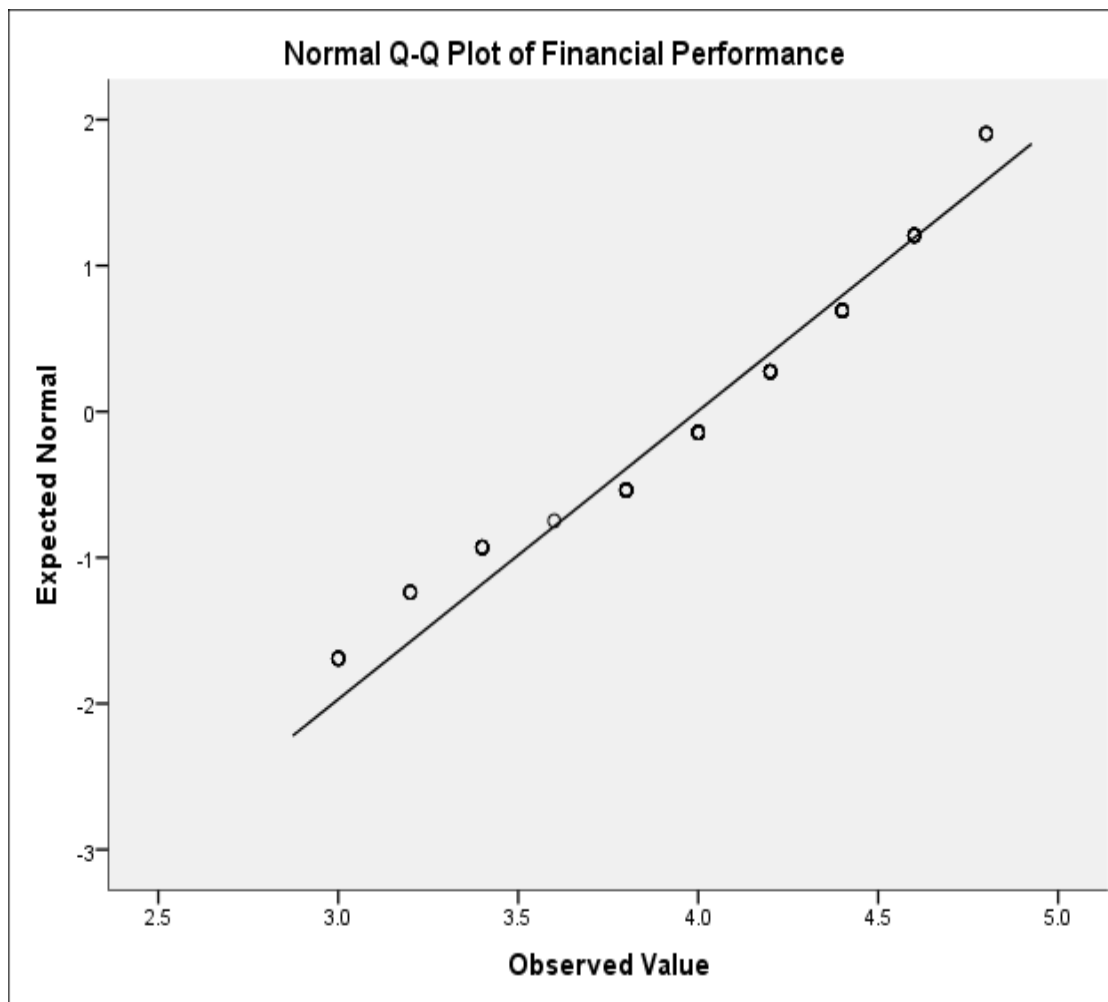


Figure 4.5 Normality Test

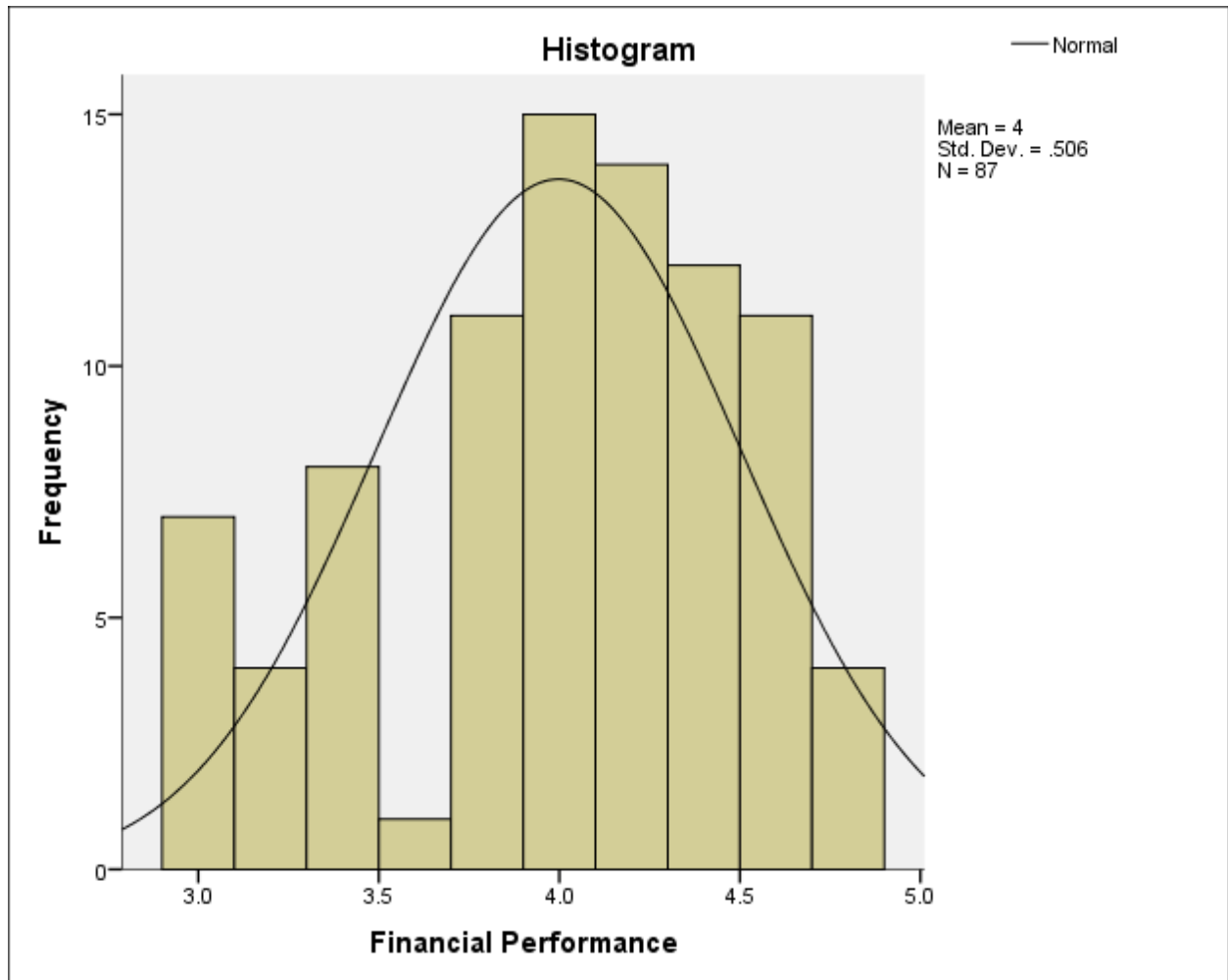


Figure 4.6 Normality Test

4.4.1.2 Multicollinearity Test

According to Tabachnick and Fidell (2012), multicollinearity occurs when the independent variables are highly correlated ($r > 0.7$). From the results (Table 4.11), the correlations between predictor variables were very low ($r < 0.7$) hence there was no multicollinearity.

4.4.1.3 Homoscedasticity Test

Homoscedasticity means that the variance of the residuals about the predicted dependent variable scores remain the same for all the predicted scores (Tabachnick & Fidell, 2012). Homoscedasticity

was examined using the scatter plot of the standardized residuals. It was observed that the residuals were rectangularly spread with a quite number of scores concentrated at the centre (Figure 4.5).

The study, therefore, concluded that the assumption of homoscedasticity wasn't violated.

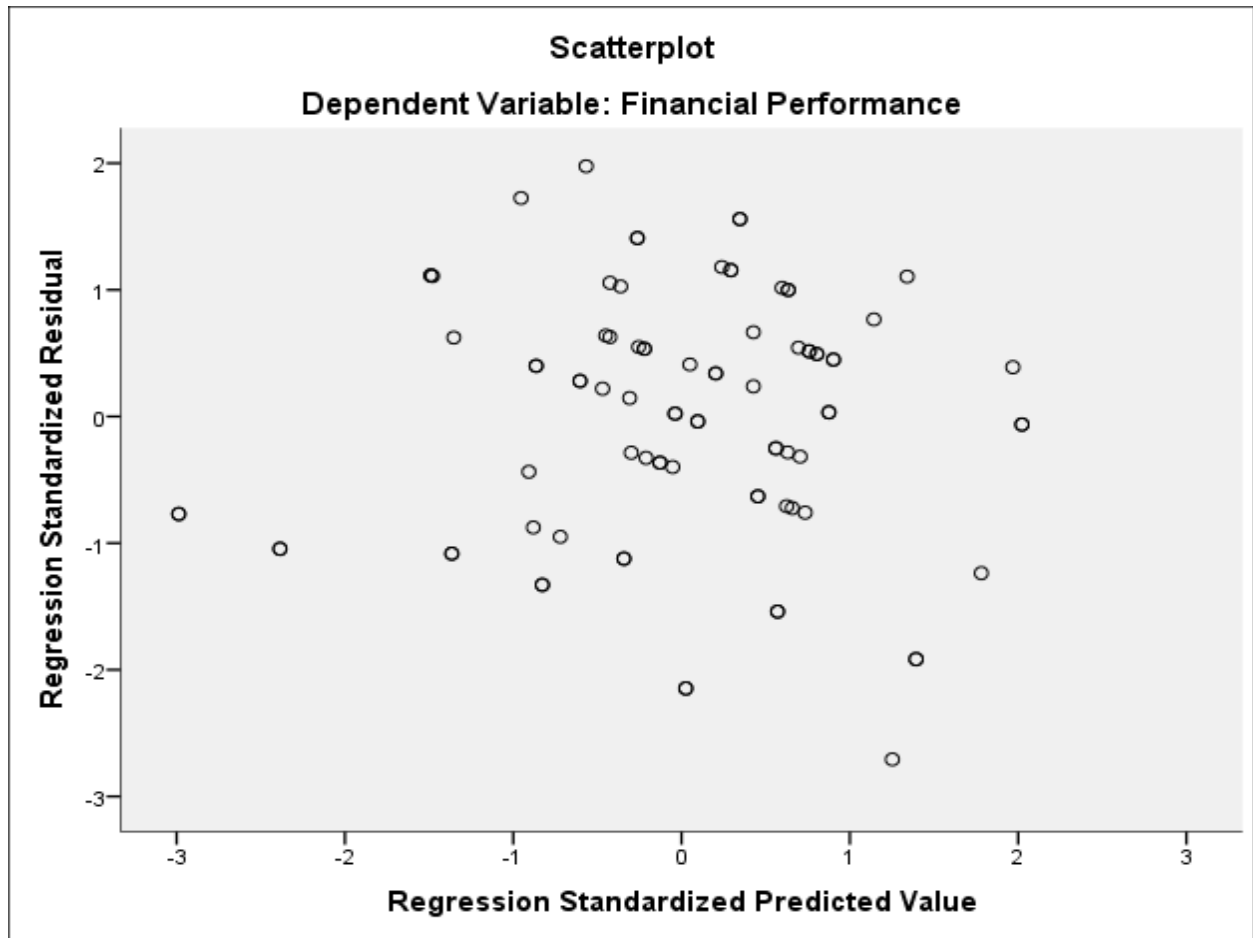


Figure 4.7 Homoscedasticity Test

4.4.2 Correlation Analysis

The study used Pearson correlation to determine if there was correlation between table banking credit access, table banking savings mobilization, table banking financial literacy, and financial performance of MSEs in Nairobi County, Kenya (Table 4.11).

Table 4.11 Correlation Analysis

| | | Credit Access | Savings Mobilization | Financial Literacy | Financial performance |
|-----------------------|---------------------|---------------|----------------------|--------------------|-----------------------|
| Credit Access | Pearson Correlation | 1 | .083 | .075 | .190 |
| | Sig. (2-tailed) | | .446 | .488 | .078 |
| | N | 87 | 87 | 87 | 87 |
| Savings Mobilization | Pearson Correlation | .083 | 1 | .032 | -.032 |
| | Sig. (2-tailed) | .446 | | .768 | .767 |
| | N | 87 | 87 | 87 | 87 |
| Financial Literacy | Pearson Correlation | .075 | .032 | 1 | .385** |
| | Sig. (2-tailed) | .488 | .768 | | .000 |
| | N | 87 | 87 | 87 | 87 |
| Financial performance | Pearson Correlation | .190 | -.032 | .385** | 1 |
| | Sig. (2-tailed) | .078 | .767 | .000 | |
| | N | 87 | 87 | 87 | 87 |

** . Correlation is significant at the 0.01 level (2-tailed).

The relationship between the independent variables was determined. From the findings (Table 4.11), there was a weak positive relationship between credit access and savings mobilization [$r=0.083$, $n=87$, $p=0.446$]. The relationship between credit access and financial literacy was positive and weak [$r=0.075$, $n=87$, $p=0.488$]. Also, there was a weak positive relationship between savings mobilization and financial literacy [$r=0.032$, $n=87$, $p=0.768$].

The study also investigated the relationship between the independent variable and dependent variable. It was established that there was positive relationship between credit access and financial performance [$r=0.19$, $n=87$, $p=0.078$]. Savings mobilization and financial performance had a

weak negative relationship [$r=-0.032$, $n=87$, $p=0.767$]. Finally, there was a positive relationship between financial literacy and financial performance [$r=0.385$, $n=87$, $p=0.000$]. The findings of the current study are in line with Siekei *et al.* (2013) who established that training had a significant ($p=0.01$) on business growth of MSEs in Njoro District, Kenya.

4.4.3 Regression Analysis

The study conducted a regression analysis to find out the effect of credit access, savings mobilization, and financial literacy on financial performance of MSEs in Nairobi County, Kenya. The findings of regression analysis were presented in the sub sequent sections:

Table 4.12 Regression Model Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|----------------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 1.449 | 1.071 | | 1.353 | .180 |
| Credit Access | .182 | .109 | .167 | 1.665 | .100 |
| Savings Mobilization | -.114 | .197 | -.058 | -.582 | .562 |
| Financial Literacy | .564 | .150 | .375 | 3.752 | .000 |

a. Dependent Variable: Financial Performance

From the results – column ‘Standardized Coefficients’ (Table 4.12), financial literacy was the best and significant predictor of financial performance ($Beta= 0.375$, $p=0.000$). The findings of this study tally with those of Mutiso and Mugai (2018) who reported that financial literacy had a significant effect on the performance of UWEZO funded SMEs in Kirinyaga County, Kenya.

Credit access was the second best, but it wasn’t a significant predictor of financial performance ($Beta= 0.167$, $p=0.100$). This finding is in line with Itonga *et al.* (2016) who established that access to credit by women-owned MSEs insignificantly ($p=0.240$) affected financial performance.

However, the results of the current study are contrary to Chepsang, Iraya, and Okiro (2018), who unveiled that credit access, was a significant predictor of financial performance of SMEs in Nairobi County, Kenya. Also, the current study disagrees with Onyiego *et al.* (2017), who found out that access to finance had a significant impact on financial performance of SMEs in Mombasa County, Kenya.

Finally, savings mobilization was the least and insignificant predictor of financial performance ($Beta = -0.058, p = 0.562$). The result of the current study confirms the finding of Isinta *et al.* (2019), who found out that savings mobilization, had no significant intervening effect on the financial performance of commercial banks in Kenya.

The regression model was fitted using the Beta values in the ‘Unstandardized Coefficients’ column to become:

$$Y = 1.449 + 0.182X_1 - 0.114X_2 + 0.562X_3 \text{ where;}$$

Y=financial performance, X_1 =credit access, X_2 =savings mobilization, and X_3 =financial literacy.

From the model, one unit increase in credit access will lead to 0.182 units increase in financial performance; one unit increase in savings mobilization will result to 0.114 units decrease in financial performance; and one unit increase in financial literacy leads to 0.562 units increase in financial performance.

The fitness of the model was evaluated (Table 4.13) and its R Square found to be 17.8%. This implies that 17.8% of the variation in the dependent variable can be explained by the independent variables while 82.2% of the variation is absorbed by the error term or can be explained by the variables not introduced in the model.

Table 4.13 Model Fitness

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .422 ^a | .178 | .148 | .467 |

a. Predictors: (Constant), Financial Literacy, Savings Mobilization, Credit Access

b. Dependent Variable: Financial Performance.

The results (Table 4.14) of ANOVA indicated that the model was statistically significant ($p=0.001$) meaning that the table banking services have effect on financial performance of MSEs in Nairobi County, Kenya.

Table 4.14 ANOVA

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|------------|----------------|----|-------------|-------|-------------------|
| Regression | 3.921 | 3 | 1.307 | 5.988 | .001 ^b |
| Residual | 18.118 | 83 | .218 | | |
| Total | 22.040 | 86 | | | |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Financial Literacy, Savings Mobilization, Credit Access

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions, recommendations and suggestions for further studies drawn. The purpose of this research was to find out the effect of informal financial services on financial performance of MSEs in Nairobi County, Kenya

5.2 Summary of Findings

5.2.1 Credit Access

From the results, the majority of the respondents reported that there were table-banking groups within their business locations. The study evaluate the number of table banking groups within Nairobi County and many respondents indicated that it was high. Also, the study revealed that table banking didn't impose difficult conditions such as collateral requirement for loan access; for example, the majority of the respondents agreed to a great extent that there were minimum requirements on access to table banking credit.

Furthermore, respondents agreed to a small extent that there was rivalry among informal financial services for clients. The research also unveiled that micro and small business owners preferred borrowing from informal lenders because they charged a lower interest rate as compared to the formal financiers. For instance, respondents agreed that table banking cost of the loan was lower than that of formal financial services. From the findings, the respondents also indicated that there were many table banking groups operating within Nairobi County, Kenya.

5.2.2 Savings Mobilization

From the results, a quite number of respondents confirmed that through table banking, they had been trained about the significance of making savings in bank accounts. For example, the majority of respondents agreed that table banking groups had helped them to open saving accounts. Regarding the nature of relationship among MSEs, respondents agreed that table banking services helped them to have a prosperous relationship among themselves. The study further found out that through such relationship, the group members helped one another in various aspects e.g., co-guaranteeing during loan application. Also, respondents agreed that table banking services were very essential because they helped them accumulate funds for reinvestment in entrepreneurial ventures. Moreover, respondents consented that table banking savings had contributed to their business expansion.

5.2.3 Financial Literacy

On financial literacy, the respondents agreed that through table banking services, they were able to help themselves in investing their funds in various projects hence minimizing risks. Also, the respondents agreed that financial literate entrepreneurs borrowed wisely and made prompt payments. Regarding product knowledge, the respondents agreed that financially literate entrepreneurs could use their loans wisely; hence, contributing to economic growth in the country. From the results of regression analysis, it was indicated that financial literacy was the best predictor of financial performance followed by credit access and then by savings mobilization.

5.2.4 Financial Performance

On financial performance, respondents agreed that there had been an increase in sales due table banking financial services. The study further unveiled that through credit access and savings mobilization, group members were able to replenish their stock level hence leading to more

revenues. Regarding business expansion, respondents agreed that there had been an increase in outlets over time. On profitability, respondents agreed that table banking services had made their businesses to be more profitable.

5.3 Conclusions

5.3.1 Credit Access

The study concluded that informal financial services such as table banking had favorable loan requirements; hence, they helped MSEs to get credit conveniently. From the findings, it was revealed that table banking cost of loan was cheaper than that of formal financial institutions. Also, it was reported that unlike commercial banks, table banking associations had no rivalry over competition for clients.

5.3.2 Savings Mobilization

Regarding savings mobilization, the study concluded that table banking groups instilled discipline amongst members hence making them save more money for reinvestment. Through table banking, members were able to easily get sufficient funds for initial and working capitals for their enterprises. Table banking savings mobilization helped members get loans at very low interest rates.

5.3.3 Financial Literacy

On financial literacy, the study found out that business knowledge helped MSEs diversify their investments thus reducing risks. The study further unveiled that financially literate entrepreneurs borrowed money wisely and paid it promptly. Regarding product use, the study revealed that financially literate MSEs can use their funds appropriately hence contributing to economic growth.

5.3.3 Financial Performance

Finally, the study revealed that table banking services helped MSEs to expand their businesses, increase their sales, and get a lot of profits. Also, the study concluded that through table banking, MSEs can expand their businesses by opening new outlets over a particular period of time. The opening of new branches can consequently translate to high business performance for the micro and small entrepreneurs.

5.4 Recommendations

The study recommended that the members of table banking seek financial expert to teach them on matters regarding financial management, book keeping, personal savings, and budgeting so that they may enhance their financial literacy.

The Kenyan government should create an enabling environment for MSEs to conduct their businesses throughout the country and in particular Nairobi County. The favorable environment should encompass adequate security, affordable license fees, and efficient business registration processes.

The government should also put in place a public policy that would create awareness amongst MSEs about the various financing options so as to enhance monetary accessibility.

From the study findings, it was revealed that table-banking groups fostered good relationships among members. Therefore, more MSEs in Nairobi County, and other parts of Kenya, should form associations so that they may benefit from such relationships.

5.5 Limitations of the Study

Some micro and small enterprises owners declined from taking the questionnaires as they were afraid of exposing their operations and also fear that may be the data collection process being a ploy to aid the researcher develop his business proposal for possible funding from government youth fund initiative.

5.6 Suggestions for further research

The research sought to examine the effect of informal financial services on financial performance of micro and small enterprises in Nairobi, Kenya. Further study should be conducted about the influence of financial practices on financial performance of MSEs in any County within Kenya.

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APPENDICES

Appendix I: Questionnaires

Questionnaires to Micro and Small Enterprises

Dear Respondent,

I am a Masters of Science in development finance from KCA University. I am conducting research study on that the **effect of informal financial services on financial performance of micro and small enterprises in Nairobi County, Kenya.**

You have been selected as one of the respondents to assist in providing the requisite data and information for this research study. I kindly request you to spare a few minutes and answer a few questions. The information obtained will be used for academic purposes and will be treated with utmost confidentiality. Your identity will be anonymous and your name shall not be recorded.

Yours faithfully,

Benjamin Mokuia
Student, MSc. Development Finance,
School of Graduate Studies, KCA University.

Part A:

1. Gender? Female [] Male []

2. Age group? 18 to 25[] 26 to 35[] 36 to 45[] 46 to 59[] 60 and above

3. Kindly select your sector classification. Please tick the appropriate box

| Sector Classification | Please Tick |
|---|-------------|
| Agriculture (livestock keeping, crop production etc.) | |
| Manufacturing | |
| Wholesale & Retail Trade | |

| | |
|---|--|
| Repair of motor vehicles and motorcycles | |
| Transportation and storage | |
| Accommodation and food services activities | |
| Information and communication | |
| Financial and insurance activities | |
| Education | |
| Professional, scientific and technical activities | |
| Human health and social work activities | |
| Arts, entertainment and recreation | |
| Others (please specify)----- | |

4. What kind of business do you run?

- Street hawking
- Retail business
- Green groceries
- Clothing and shoes vendors
- Food vendors
- Salons
- Others (Specify).....

5. The number of years your business has been operating

- Less than 1 year

- 1-4 years
- 4-6 years
- 6-11 years
- More than 11 years

6. How many persons are employed in your firm? Please indicate-----

7. How many table Banking (Chama/Merry-go-round) groups operating around this area?

- Less than 25 firms
- 25-90 firms
- More than 90 firms

8. Any table banking/Chama/Merry-go-round operating at your business location?

- Yes
- No

If yes above, are you:

- a) A member of the table banking
- b) Seeking for table banking services despite not being a member

9. What is your evaluation of the efficiency of the lending services by table banking/Chama/Merry-go-round?

- Very high
- High
- Average
- Low
- Very low

Part B: Informal Financial Services

Table banking Credit Access

10. Please choose your level of agreement with the below statements by ticking only once in each of the questions?

Where; 1=Not at all 2=small extent 3=moderate extent 4=Great extent 5=Very great extent

| Statements | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| There are minimum requirements on access of table banking credit e.g., no collateral requirements | | | | | |
| There is rivalry among informal financial services for clients | | | | | |
| There are many table banking groups serving MSEs in Nairobi county. | | | | | |
| There is few table banking serving MSEs in Nairobi county. | | | | | |
| Table banking cost of loan is lower than formal financial services | | | | | |

Table banking Savings Mobilization

11. Please choose your level of agreement with the below statements by ticking only once in each of the questions?

Where; 1=Not at all 2=small extent 3=moderate extent 4=Great extent 5=Very great extent

| Statements | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Table banking have allowed me to open a savings account. | | | | | |
| Table banking supports savings mobilization | | | | | |
| Table banking have allowed me to save some money | | | | | |
| The table banking Interest rates are much reasonable | | | | | |
| The MSEs adopts savings mobilization. | | | | | |
| Savings mobilizationhas resulted to a prosperous long-term relationship with MSEs. | | | | | |
| Table banking has helped me to access loans as a result of the savings. | | | | | |
| Table banking has enabled to reinforce the culture of savings. | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| The savings have allowed me to pool funds and reinvest in the business | | | | | |
| Reinvestment of table banking savings have led to expansion of my business. | | | | | |

Table banking financial literacy

12. Please choose your level of agreement with the below statements by ticking only once in each of the questions?

Where; 1=Not at all 2=small extent 3=moderate extent 4=Great extent 5=Very great extent

| Statements | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Table banking financial literacy has led to capital assigned to viable/profitable investments | | | | | |
| There is reduced risk as the entrepreneurs practice diversification by assigning funds to various investments streams. | | | | | |
| The enterprise assigns adequate funds to the working capital. | | | | | |
| Financially literate entrepreneurs borrow wisely and make prompt payments | | | | | |
| Financially literate entrepreneurs can use the product appropriately hence leading to economic development | | | | | |

Part C: Financial performance of MSEs

13. Please choose your level of agreement with the below statements by ticking only once in each of the questions?

Where; 1=Not at all 2=small extent 3=moderate extent 4=Great extent 5=Very great extent

| Statements | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| There has been increase in sales. | | | | | |
| There has been an increase in commodity over time | | | | | |
| There has been an increase in outlets over time | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| There has been an increase in the annual profitability of Micro and Small enterprises | | | | | |
| There has been an increase in annual return on assets | | | | | |

PartD: The other Determinants of Financial performance of Micro and Small enterprises

13. What should be done in order to reduce the hindrances to the financial performance of Micro and Small enterprises (Tick one from the list below)

- Depending on self-funding by informal financial services
- Strengthening management supervision and supervision of informal financial services.
- Regulating rivalry within the table banking services.
- Increasing inducement to the financial performance of Micro and Small enterprises.
- Emphasizing on the guidance of Micro and Small enterprises on financial services available to them
- Developing policies meant to increase accessibility of financial services by Micro and Small enterprises

Thanks in advance

Appendix II: List of Table banking MSEs in Githurai and Gikomba Markets

| No | Name of Business | Location | Sector |
|-----------|-------------------------|-----------------|-----------------------------|
| 1. | Friends Salon | Githurai45 | Professional Activities |
| 2. | Maishatech electronics | Githurai45 | Wholesale and retail |
| 3. | Daminion packaging | Githurai45 | Wholesale and retail |
| 4. | Fabulous kinyozi | Githurai45 | Professional Activities |
| 5. | Janjy stores | Githurai45 | Wholesale and retail |
| 6. | Joy café | Githurai45 | Accommodation |
| 7. | Winners hotel | Githurai45 | Accommodation |
| 8. | Kianyu enterprises | Githurai45 | Wholesale and retail |
| 9. | Kefra kinyozi | Githurai45 | Professional Activities |
| 10. | Jophi fashions | Githurai45 | Wholesale and retail |
| 11. | Mikes communications | Githurai45 | Information & Communication |
| 12. | Wamso beauty palace | Githurai45 | Clothing and textile |
| 13. | Wega stores | Githurai45 | Wholesale and retail |
| 14. | Lomar laundry | Githurai45 | Clothing and textile |
| 15. | Real stuff bakers | Githurai45 | Accommodation |

| | | | |
|-----|---------------------------|------------|-----------------------------|
| 16. | Big brothers kinyozi | Githurai45 | Professional Activities |
| 17. | GM general stores | Githurai45 | Wholesale and retail |
| 18. | Passion milk shop | Githurai45 | Wholesale and retail |
| 19. | Samama shop | Githurai45 | Wholesale and retail |
| 20. | Suvitex fashions | Githurai45 | Clothing and textile |
| 21. | Makim juice palour | Githurai45 | Accommodation |
| 22. | Alma fragrances | Githurai45 | Arts & Entertainment |
| 23. | Wa Lee cereal shop | Githurai45 | Wholesale and retail |
| 24. | Quarefu butchery | Githurai45 | Wholesale and retail |
| 25. | Githuken Ltd | Githurai45 | Wholesale and retail |
| 26. | Junction gas point | Githurai45 | Wholesale and retail |
| 27. | Nande shop | Githurai45 | Wholesale and retail |
| 28. | Modern sounds electronics | Githurai45 | Information & Communication |
| 29. | Perfect gas suppliers | Githurai45 | Wholesale and retail |
| 30. | Zetco investments | Githurai45 | Professional Activities |
| 31. | Neema hotel | Githurai45 | Accommodation |

| | | | |
|-----|-----------------------------|------------|-----------------------------|
| 32. | Trinity electronics | Githurai45 | Information & Communication |
| 33. | Fresh Kenyans Tilapia | Githurai45 | Wholesale and retail |
| 34. | Flodak holdings | Githurai45 | Professional Activities |
| 35. | Venus salon and cosmetics | Githurai45 | Wholesale and retail |
| 36. | Wa Shantel shop | Githurai45 | Wholesale and retail |
| 37. | Rafiki general shop | Githurai45 | Wholesale and retail |
| 38. | Tamtam wholesalers | Githurai45 | Wholesale and retail |
| 39. | Gesron wholesale and retail | Githurai45 | Wholesale and retail |
| 40. | Peaceview malimali | Githurai45 | Wholesale and retail |
| 41. | Junu technologies | Githurai45 | Information & Communication |
| 42. | Gracious electronics | Githurai45 | Information & Communication |
| 43. | Mwananchi cereals | Githurai45 | Wholesale and retail |
| 44. | Wakulima agrovet | Githurai45 | Wholesale and retail |
| 45. | Flex movies | Githurai45 | Arts & Entertainment |
| 46. | Wa Saimo vegetable juice | Githurai45 | Professional activities |
| 47. | Humble beginnings | Githurai45 | Professional Activities |

| | | | |
|-----|------------------------------|------------|-----------------------------|
| 48. | Wacaw cereals | Githurai45 | Wholesale and retail |
| 49. | Shiloh communications | Githurai45 | Information & Communication |
| 50. | Wa Veat millers | Githurai45 | Manufacturing |
| 51. | Havilla wholesalers | Githurai45 | Wholesale and retail |
| 52. | Amazing grace shop and Mpesa | Githurai45 | Financial activities |
| 53. | Bensoo enterprises | Githurai45 | Wholesale and retail |
| 54. | Movie shop and Mpesa | Githurai45 | Arts & Entertainment |
| 55. | Rehoboth yoghurt | Githurai45 | Professional activities |
| 56. | Genuine parts | Githurai45 | Wholesale and Retail |
| 57. | Sama bookshop | Githurai45 | Wholesale and Retail |
| 58. | Elite age digital center | Githurai45 | Information & Communication |
| 59. | Lancy electronics | Githurai45 | Information & Communication |
| 60. | John sewing machines | Githurai45 | Wholesale and retail |
| 61. | Taifa butchery | Githurai45 | Wholesale and retail |
| 62. | Samjoy wholesalers | Githurai45 | Wholesale and retail |
| 63. | Premier uniforms | Githurai45 | Clothing and textile |

| | | | |
|-----|---------------------------------------|------------|-------------------------|
| 64. | Gladstay stores | Githurai45 | Wholesale and retail |
| 65. | P-3 holidays | Githurai45 | Arts & Entertainment |
| 66. | Weddy chemist | Githurai45 | Professional activities |
| 67. | Aliwaka wholesale | Githurai45 | Wholesale and retail |
| 68. | MK hotel | Githurai45 | Accommodation |
| 69. | Jonadim kitchenwares | Githurai45 | Wholesale and retail |
| 70. | Princes cosmetics | Githurai45 | Wholesale and retail |
| 71. | Songea shop | Githurai45 | Wholesale and retail |
| 72. | Betty fashion shop | Githurai45 | Clothing and textile |
| 73. | Upendo school uniforms | Githurai45 | Clothing and textile |
| 74. | Vivatex beauty shop | Githurai45 | Clothing and textile |
| 75. | Smart choice collections | Githurai45 | Professional Activities |
| 76. | Miracle center boutique | Githurai45 | Clothing and textile |
| 77. | Tiptop collections | Githurai45 | Clothing and textile |
| 78. | Newland textiles | Githurai45 | Clothing and textile |
| 79. | Irungu merchants Githurai butchery | Githurai45 | Wholesale and retail |

| | | | |
|-----|-------------------------------|------------|-----------------------------|
| 80. | Lwanee shop | Githurai45 | Wholesale and retail |
| 81. | Mobitec investments | Githurai45 | Professional activities |
| 82. | AK gas dealers | Githurai45 | Wholesale and retail |
| 83. | Danhu milk bar | Githurai45 | Wholesale and retail |
| 84. | Mama Kim hotel | Githurai45 | Accommodation |
| 85. | Twin star agencies | Githurai45 | Professional activities |
| 86. | Chama enterprises | Githurai45 | Professional activities |
| 87. | Jagos ventures | Githurai45 | Professional activities |
| 88. | Chinga ventures | Githurai45 | Professional Activities |
| 89. | Judpic media and technologies | Githurai45 | Information & Communication |
| 90. | Voka bookshop | Githurai45 | Wholesale and retail |
| 91. | Vinacokom Limited | Githurai45 | Information & Communication |
| 92. | Hunter hardware | Githurai45 | Wholesale and retail |
| 93. | Tyre village | Githurai45 | Professional Activities |
| 94. | A to Z bookshop | Githurai45 | Wholesale and retail |
| 95. | Beacons investments | Githurai45 | Professional Activities |

| | | | |
|------|----------------------------|------------|-------------------------|
| 96. | Akdave general shop | Githurai45 | Wholesale and retail |
| 97. | Fekima wholesalers | Githurai45 | Wholesale and retail |
| 98. | Cityland auto services | Githurai45 | Professional Activities |
| 99. | Ebenezer poshomill | Githurai45 | Manufacturing |
| 100. | Kikwetu general shop | Githurai45 | Wholesale and retail |
| 101. | Famasko enterprises | Gikomba | Wholesale and retail |
| 102. | Atere Kinyozi | Gikomba | Professional Activities |
| 103. | Washamba shoes | Gikomba | Wholesale and retail |
| 104. | Amazing grace stores | Gikomba | Wholesale and retail |
| 105. | Mary glassmatt | Gikomba | Wholesale and retail |
| 106. | Ndekam traders | Gikomba | Wholesale and retail |
| 107. | Neema traders | Gikomba | Wholesale and retail |
| 108. | Juakali scrap dealers | Gikomba | Professional Activities |
| 109. | Damiru commercial agencies | Gikomba | Professional Activities |
| 110. | Judy investment shop | Gikomba | Professional Activities |
| 111. | Ebenezer traders | Gikomba | Wholesale and retail |

| | | | |
|------|--------------------------|---------|-----------------------------|
| 112. | Leja enterprises | Gikomba | Wholesale and retail |
| 113. | Joystep salon | Gikomba | Professional Activities |
| 114. | Gilvash enterprises | Gikomba | Wholesale and retail |
| 115. | Samfred fabricators | Gikomba | Professional Activities |
| 116. | Mungoso metal works | Gikomba | Professional Activities |
| 117. | Lane one communications | Gikomba | Information & Communication |
| 118. | GG kiosk | Gikomba | Wholesale and retail |
| 119. | JK shop | Gikomba | Wholesale and retail |
| 120. | Sakwa road kiosk | Gikomba | Wholesale and retail |
| 121. | Jojemah enterprises | Gikomba | Wholesale and retail |
| 122. | Gikopharm chemist | Gikomba | Wholesale and retail |
| 123. | Zasasa general traders | Gikomba | Wholesale and retail |
| 124. | Steve holdings | Gikomba | Professional Activities |
| 125. | Gracious fresh sugarcane | Gikomba | Wholesale and retail |
| 126. | Classic hotel | Gikomba | Accommodation |
| 127. | Tentwenty blues | Gikomba | Professional activities |

| | | | |
|------|----------------------------|---------|-------------------------|
| 128. | Experience Mitumba base | Gikomba | Wholesale and retail |
| 129. | By God's grace shop | Gikomba | Wholesale and retail |
| 130. | Sawa auto spares | Gikomba | Wholesale and retail |
| 131. | Headwide linus Mpesa | Gikomba | Financial activities |
| 132. | Sable general shop | Gikomba | Wholesale and retail |
| 133. | Wakush kiosk | Gikomba | Wholesale and retail |
| 134. | Aroma café | Gikomba | Accommodation |
| 135. | Upendo barbers | Gikomba | Professional Activities |
| 136. | Shark barbers | Gikomba | Professional Activities |
| 137. | Best aluminium accessories | Gikomba | Wholesale and retail |
| 138. | Veneca hardware | Gikomba | Wholesale and retail |
| 139. | Rewinders hardware | Gikomba | Wholesale and retail |
| 140. | Newlight hotel | Gikomba | Accommodation |
| 141. | Peeger electrical | Gikomba | Professional activities |
| 142. | Kabati general stores | Gikomba | Wholesale and retail |
| 143. | Fair price hardware | Gikomba | Wholesale and retail |

| | | | |
|------|----------------------|---------|-----------------------------|
| 144. | Hope hardware | Gikomba | Wholesale and retail |
| 145. | Cleanshine Kinyozi | Gikomba | Professional activities |
| 146. | Samka glassmatt | Gikomba | Wholesale and retail |
| 147. | Nyingi hardware | Gikomba | Wholesale and retail |
| 148. | Monach machinery | Gikomba | Wholesale and retail |
| 149. | Sukuma maize millers | Gikomba | Wholesale and retail |
| 150. | Karani general shop | Gikomba | Wholesale and retail |
| 151. | MamaWinnie cosmetics | Gikomba | Wholesale and retail |
| 152. | Manc salon | Gikomba | Professional activities |
| 153. | Robert shop | Gikomba | Professional activities |
| 154. | Blockboard store | Gikomba | Professional activities |
| 155. | Target network Ltd | Gikomba | Information & Communication |
| 156. | Sallyjoy enterprises | Gikomba | Manufacturing |
| 157. | Simca stores | Gikomba | Wholesale and retail |
| 158. | GM junior stores | Gikomba | Wholesale and retail |
| 159. | Wandugu hardware | Gikomba | Wholesale and retail |

| | | | |
|------|----------------------|---------|-----------------------------|
| 160. | Wnjoyo shop | Gikomba | Wholesale and retail |
| 161. | Jessman general shop | Gikomba | Wholesale and retail |
| 162. | Adonai cyber | Gikomba | Information & Communication |
| 163. | Patrick shop | Gikomba | Wholesale and retail |
| 164. | Jowab poly shop | Gikomba | Professional activities |
| 165. | Joyshine fries | Gikomba | Accommodation |
| 166. | Worldbase shop | Gikomba | Financial activities |
| 167. | Troublemaker fashion | Gikomba | Clothing and textile |
| 168. | Kakila shop | Gikomba | Financial activities |
| 169. | Blessings shop | Gikomba | Financial activities |
| 170. | Ash communications | Gikomba | Information & Communication |
| 171. | Nikwa shop | Gikomba | Wholesale and retail |
| 172. | Furaha shop | Gikomba | Wholesale and retail |
| 173. | Lina fashion | Gikomba | Clothing and textile |
| 174. | Mucheliza shop | Gikomba | Information & Communication |
| 175. | Definati Ltd | Gikomba | Information & Communication |

| | | | |
|------|----------------|---------|-------------------------|
| 176. | Sarah beauty | Gikomba | Professional activities |
| 177. | Johnson stores | Gikomba | Wholesale and retail |

Appendix III: Formula for Determining Sample Size.

Kothari's formula for calculating finite population is given as:

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2(N - 1) + z^2 \cdot p \cdot q}$$

Where; n = sample size

z = the value of standard deviate at a given confidence interval

p = sample proportion

q=1-p

e=acceptable error

p = 0.5 (assuming that half of the population has the attribute in question)

Z = 1.96 (at 95% confidence level)

e = 0.05 (at 5% + or - precision)

$$n = \frac{1.96^2 \cdot 0.5 \cdot 0.5 \cdot 177}{0.05^2(177-1) + 1.96^2 \cdot 0.5 \cdot 0.5} = \frac{169.9}{1.4004} = 121$$

Appendix IV: Data Collection Authorization Letter



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KCAU/SGS/MSc/August. 19/15

August 23, 2019

To whom it may concern,

Dear Sir/Madam,

RE: BENJAMIN BIKUNDO MOKUA REG NO: 18/02324

It is my distinct pleasure to introduce to you Mr. Benjamin Mokuia who is a student in our institution pursuing a Master of Science in Development Finance at the School of Business and Public Management.

Benjamin is conducting a research on a topic titled: "*Effect of Informal Financial Services on Financial Performance of Micro and Small Enterprises in Nairobi County*" which is part of the requirements of the program he is pursuing. The research as well as the data procured thereof shall be used for academic purposes only.

Any assistance accorded to him is highly appreciated.

In case of further inquiry, do not hesitate to contact the undersigned.

Yours faithfully,


Dr. Nyaribo Misuko
Dean, School of Graduate Studies & Research