EFFECTS OF MICROFINANCE LENDING ON WORKING CAPITAL MANAGEMENT OF MICRO AND SMALL ENTERPRISES IN NAROK TOWN KENYA.

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EGERTON UNIVERSITY

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DECLARATION

This research project is my original work and has not been submitted for the award of a degree or diploma to any other institution of higher learning other than Egerton University.

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APPROVAL AND RECOMMENDATION

This Research Project has been submitted for examination with my approval as the University supervisor.

Signature……. Date…….

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DEDICATION

I dedicate this work to my parents, brothers and sisters.

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I first of all want to thank the Almighty God for the wisdom and guidance in helping me go through this programme successfully. I wish to also thank Egerton university at large. This thesis could not also have been possible without the assistance of some dedicated people and I acknowledge with sincere heartfelt gratitude the effort of Mrs. Mary Bosire for her encouragement and support during the supervision of this work, to my family for their criticisms and many valuable suggestions and their undying support for me throughout this work, all participants who in diverse ways furnished me with information and to all who in diverse ways supported for the successful completion of this work. God bless us all.

ABSTRACT

Financial management is a critical component of efficient working capital management of both small and large firms. MSEs business remain the most dynamic force and agent of economic growth and development of a nation. However, MSEs sector have the problems of accessing funds for their working capital because they do not have securities. Despite the provision of fund by MFIs, many MSEs businesses still fail because they neglect the principal of efficient working capital management. This study sought to establish the effects of MFI's lending on working capital management of micro and small businesses in Narok Town. The specific objectives of the study were to establish the effects of Microfinance institution lending on the cash management, inventory management, receivables management and payables management of the MSEs. The findings from the study will aid MSEs in making efficient use of loans advance to them by MFIs and Government will use for policy formulation. The study used descriptive survey design and the target population comprised of 240 MSE's. Purposive sampling technique was used to select a sample of 71 MSE's from the population. Primary data were collected using face to face interviews through the aid of structured questionnaire. Descriptive statistics which includes percentages, frequencies, means, standard deviation and inferential statistics namely; Pearson product moment correlation and multiple regressions were used to analyze the data. Test of significance was tested at α=0.1. The Statistical Package for Social Science (SPSS) aided the data analysis. In general the study established that MFI's lending (cost of lending, loan period and loan size) positively effect on working capital management (cash management, inventory management, receivables management and payable management) of MSEs in Narok Town. In conclusion, it is evident that adoption of MFI's lending is likely to significantly improve the working capital management of MSEs in Narok Town.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK- Central Bank of Kenya

CBN- Central Bank of Nigeria

EOQ- Economic Order Quantity

IMF- International Monitory Fund

MFIs- Microfinance Institutions

MSEs- Micro and Small Enterprises

PRA- Prudential Regulation Authority

SMEs-Small and Medium Enterprises

OECD- Organization for Economic Co-operation and Development

OLS- Ordinary Least Square

UNCTAD- United Nations Conference on Trade and Development

WLS- Weighted Least Squares

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Microfinance traces its origins to 1976, when Yunus started a small microfinance scheme as an experiment in the rural areas of Bangladesh. The experiment evolved from its initial success into the Grameen Bank, the world's first microfinance institution, which popularized group lending, in which loans were issued to individual members of small, homogeneous groups, who collectively guarantee loans issued to their members. All members were barred from further access to credit in the case of default by one group member, providing strong incentives for the group to ensure repayment by each individual borrower. This microfinance model eventually spread around the world, especially in third world countries (Roy, 2009).

Microfinance has now turned into an industry according to Robinson (2001). One of the key roles that microfinance plays in development is the bringing of access to financial services to the poor, to those who are neglected by the formal banking sector. Mainstream banks target clients that have collateral. The poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centers while the majority of the poor in the developing world live in rural areas, where financial services are not provided. Atieno (2000) on factors affecting the performance of small business indicated that once a business is established, expansion is hampered by lack of funds and credit. Bank credit is simply not available for small scale operation because they usually don't have securities and administration cost of small loans is prohibitive. Therefore, if MFIs are to fill this void they must reach the rural and semi-urban poor. However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield and Rosenberg, 2004).

Despite MSEs being the main driving forces of economic growth and job creation. MSEs in most countries have challenges in accessing finance, difficulties in exploiting the technology, insufficient managerial capabilities, low productivity and regulatory burdens in their business environment, (Cabbar, 2000). Provision of financial services is an important means for mobilizing resources for more productive use. The extent to which small enterprises could access fund is the extents to which small firms can save and accumulate own capital for further investment (Lawson, 2007).

Goldberg and white (1999) reveals that MFIs across developing countries affects small business lending positively in urban markets and negatively in rural markets. This kind of borrowing is necessary for business performance and improving MSEs development if it fully accessible at fair cost of money. MSEs cannot function without an appropriate finance because of the nature of their operations and management. The importance of financial services to MSEs cannot be overemphasized. MSEs particularly those in developing countries need a range of enabling and sustainable financial services in order to enable them effectively exploit abundant resources in their areas and fulfill their productive potential (Nwanna, 2000).

Lending to MSEs entails higher administration and transaction cost owing to inadequacy of records and information relating to their operations. Some MSEs have difficulty in raising short-terms funds for working capital as well as long-term funds for business investment. Enterprises can take in trade credits in addition to institution loans in short term finances which later hinder their performance in the short period (Ebong, 2007). According to Wanja 2009, access to credit facilities is the main constraint for MSEs and limited access to capital to meet their operating working capital and long term investments. Therefore, this makes it difficult for them to achieve their performance in terms of liquidity and profitability hence leading to loss of business opportunities, and failure to grow in terms of size and financial resources (Badagawa, 2008)

Efficient working capital management is important for the success and survival of small business which needs to be embrace to enhance performance and contribution to the economy, (Padachi, 2006). Working capital starvation is generally credited as the major course of small business failure in many developed and developing countries. The success of a firm depends ultimately, on its ability to generate cash receipts in excess of disbursement. Efficient management of working capital and more recently good credit management practice is pivotal to the health and performance of the small firm sector, (Peel and Wilson, 1996).

Like in many countries the world over, Kenya has been a leader in developing a network of microfinance institutions that extend loans to small farms, businesses, and entrepreneurs. The Association of Microfinance Institutions (AMFI) was formed to serve the interests of these institutions by creating an enabling environment for microfinance, sharing best practices, and creating business connections between various regional firms. Narok town is a fast growing town that is a home to several Micro Finance Institutions namely Kadet, KWFT, Faulu Kenya, Puani Fosa, Nasaruni Sacco, and Narok Teachers Fosa Account. The target clientele

for most MFI's in Narok Town can broadly be classified as micro and small-scale enterprises made up of women/men in the informal sector; unemployed youth; subsistence and small-scale producers in the agricultural sector. This study seeks to find out the effect of MFIs lending on MSEs working capital efficiency in Narok Town.

1.2. Statement of the problem

Financial management is a critical component of efficient working capital management of all both large and small firms. MSEs business remain the most dynamic force and agent of economic growth and development of a nation. The Micro and small enterprises generates employments, national production and exports (Mathuva, 2010). In Kenya, the MSEs constitute the major breakthrough in several emerging sectors. However, MSEs sector have the problems of accessing funds for their working capital because they do not have securities. Despite the provision of fund by MFIs, many MSEs businesses still fail because they neglect the principal of efficient working capital management. Johnson and Soenen (2003) argue that efficient working capital management ensures a firm has sufficient cash flow to meet short term debt obligation and operating expenses. Although the MSEs receiving funds from MFIs, most MSEs still have challenges of ensuring maximum working capital management (Geoffrey, 2010). Therefore, this study sought to establish the effect of MFIs lending on working capital management on MSEs in Narok Town.

1.3. General Objective

The general objective of this study was to determine the effects of MFI's lending on working capital management of MSEs in Narok Town.

1.4 Specific Objectives of the Study

The specific objectives of the study were:

i. To establish the effect of MFIs lending on cash management of MSEs.
ii. To establish the effect of MFIs lending on inventory management of MSEs.
iii. To establish the effect of MFIs lending on receivables management of MSEs.
iv. To establish the effect of MFIs lending on payables management of MSEs.
v. To determine the effect of MFIs lending on working capital management of MSEs.

1.5 Research Hypotheses

The following hypotheses guided the study:

$H_{O1:}$ MFIs lending does not have significant effect on MSEs cash management.

$H_{O1:}$ MFIs lending does not have significant effect on MSEs inventory management.

$H_{O1:}$ MFIs lending does not have significant effect on MSEs receivables management.

$H_{O1:}$ MFIs lending does not have significant effect on MSEs payables management.

Ho1: MFIs lending does not have significant effect on MSEs working capital management

1.6 Significance of the Study

The findings will benefit various stakeholders, Government will use the findings in policy formulation and implementation in financial framework for provision of credit facilities to small businesses. MSEs will be able to negotiate for favorable lending terms from lending institutions and also make efficient use of the loan advanced to them to ensure maximum profitability. It will help MFIs to understand the impact of loans on micro and small businesses. It will also provide important information to scholars and researchers as well as a foundation for further research.

1.7 Scope of the Study

The study was conducted in Narok Town. It involved interviewing of MSEs owners/managers within Narok Town who had acquired loans from Microfinance. It addressed the MFIs lending variables and working capital management variables. The study was restricted to cash management, inventory management, receivables management and payables management.

1.8 Limitations of the Study

The MSEs owners was not willing to provide accurate information due to the sensitivity of the required information. The study overcame this limitation by guaranteeing maximum confidentiality on the information provided by the respondent.

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1.9 Operational Definition of Terms

Cost of lending- Refers to the rate at which MFI's lend to MSE,s

Loan period- Refers to the period that MSE's take to complete the repayment period i.e monthly or annually

Loan size- Refers to the amount of loan advance to MSE's by MFI's

MFIs Lending– Refers to advancing loan by MFIs with the expectation those funds will be repaid. This study looked at the cost of lending, loan size and loan period.

Micro and Small Enterprises–Refers to businesses employing less than 10 employees. This study used this definition for its study.

Microfinance -A financial institution specializing in banking services for low-income groups or individuals. A microfinance institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offers transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions.

Working Capital Management–is a measure of how well a company balances money. This study looked at cash, inventory, accounts receivables and account payables as measures of working capital management.

Cash Management- Refer to the efficient management of cash in business in order to put cash to work more quickly and keep the cash in application that produce income.

Inventory management- Refer to overseeing and controlling of ordering, storage and use of components that a firm will use in the production of items it will sell as well as the controlling of quantities of finished products for sale.

Receivable Management- Refer to effective credit policy that increases the efficient of the firm's credit and collection department and contribute to the maximization of the value of the firm

Payable Management- Refer to the administration of the firm outstanding debts or liabilities to the vendors for purchases goods and services made in credit.

CHAPTER TWO
LITERATURE REVIEW

2.1. Concepts of Micro Finance

Micro-finance is considered providing financial services to low income groups and poor people, the original focus of micro finance was on the provision micro-credit small loans usually for short periods to finance working capital for small enterprises usually operate by low-income people, however the field of micro-finance has broaden greatly beyond credit only, to include micro-savings, micro insurance, remittances and other payments all of which have a great impact on the lives of the poor (James, 2005). Grameen Bank of Bangladesh, which was founded by 2006 Nobel Peace Laureate Muhammad Yunus, is the world's largest and most successful Microfinance institutions; it serves more than seven million clients (Hassan, 2010).

According to Ngehneu & Nimbo (2010), Microfinance is defined as a development tool that grants or provides financial services such as very small credits, savings, micro-leasing, micro-insurance and money transfer to assist the exceptionally poor in expanding or establishing their businesses. Micro finance is considered as the provision of financial services to the low-income groups including the self-employed which has evolved as economic development approach intended to benefit the marginally poor people especially the women (Lan, 2004). The idea of microfinance is based on the concept that poor people's lack of access to financial services represents a serious obstacle for their economic development, management of daily life and getting resources to realize starting new businesses ideas or expand existing businesses and there by struggle to improve their economic situation on their own (Zeller & Meyer, 2002). Microfinance is the provision of small scale financial services to low income clients parts, who have no access to financial services provided by the formal sector (Ledgerwood,1999).

2.2 Concept of Micro and Small Enterprises

MSE's in have become the focus of attention for the economic development, economic growth and job creation. In Kenya, over 5.9 million people work in this sector, this translates to about 19% of the total population. Micro and Small enterprises are business that are often registered, having five or fewer employees and requiring seed capital of not more than $35,000. Kehinde (2011), reported that MSE's normally encounters high rate and threat of insolvency due to ineffective working capital management.

2.3. Theoretical Review

2.3.1 Transaction Cost Theory

Transaction cost approach to the theory of the firm was created by Ronald (1937) in his article "The Problem of Social Cost" “In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on”. More succinctly transaction costs are: Search and information costs, bargaining and decision costs, and policing and enforcement costs. The transaction cost can be conceptualized as a nonfinancial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, the borrowers that is SMEs for this case may incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings. The parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across, Stiglitz (1990).

2.3.2 Theories of Stage of Development

According to the influential theory of Churchill and Lewis (1983), growth is part of the natural evolution of a firm. The authors identify five stages of growth: existence, survival, success, take-off and resource maturity. In each stage of development a different set of factors is critical to the firm's survival and success. Growth thresholds may exist as obstacles to the transition from one stage to another. Accordingly, in the take-off stage – most relevant in a study of rapid growth – there are two major concerns or obstacles to firm growth: the ability of the owner to hire new people and delegate responsibility. The business will also need enough cash to satisfy the greater demand for financial resources brought about by growth.

2.3.3 Passive Learning Model

In the Passive Learning Model (PLM), Jovanic 1982 cited in Agaje (2004), a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. This

learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more viable growth rates.

2.4. Microfinance Lending

2.4.1 Cost of lending

Whited (2004) in his contemporary study on rural finance argue that the cost of money is intended to compensate a contractor for the capital cost of employing certain facilities in the performance of contract. The cost of money charge by lending institutions include operation costs administrative cost and an acceptable rate of return, (Levasser, 2002). He also cited the studies of heath and Gibson (1991) that cost of money may be fixed for the term of loan or adjusted to reflect the changing market conditions. They also added that MFIs charge high cost of money to their low-income borrowers because MSEs have tendency not to keep proper financial records and difficult to confirm their financial performance in the near future.

Alf mon et al (1998) indicate that its labor-intensive to deliver tiny loans to large number of MSE without collateral and making loans to low income enterprises is very risky. Briget et al in his empirical review identified three types of cost need to be covered by the cost of money: the cost of funds for on-lending, the cost of risk (loan loss), and administrative costs.

Rosenberg (2008) in his Microfinance analysis showed that MFI clientele are varied and consist of high risk borrowers due to their nature of their core business. He also found out that some are concerned with access to financial services and their willingness to pay the cost of the loan borrowed because it's only alternative available source of finance.

2.4.2 Loan size

Roserberg (2009) in his study findings supported financial institutions that prefer large loans because the administrative cost decreases proportionally to the size of the loan. Kalema (2008) conducted research study on access of financing service to MSEs found that most MSEs consider small loans amount to meet the immediate needs because MSEs do not have capacity or experience to handle large sums of money in their business and can even lead to business failure. Loans are given depending on saving with financial institutions and MSEs

prefer repayment period. Financial institutions tend to meet their clients working capital by giving short term loans and limit long term loans (Rennie and Laurens, 2008).

2.4.3 Loan period

The IMF report (2007) attributes that lending is predominantly short term and low to MSEs due to poor credit discipline, contractual enforcement problems and scarcity of projects and lack of collateral. Despite MSEs perceptions of excessively high interest rates, the cost of financial is found to compare favorably with and generally the issue relates to the amount of installment as opposed to the cost of credit. When installments are high due to the inadequate loan maturities or inadequate product structure the cost of money is perceived to be high. Low installment amounts represent a much higher cost of money, are perceived as being less expensive, (Rennie and Laurens, 2008).

The maturity of loans is also a serious issue; Kenya seems to have the shortest average loan maturity (12 Months). The financial institutions credit terms are recognized to meet MSE working capital not for asset accumulations in the long run and limited access to loan of not more than 12 months (Kalema, 2008).

2.5 Working capital management Models

2.5.1 Economic Order Quantity Model

This inventory management model was developed by Harris (1923) but Wilson (1940), a consultant who applied it extensively is credited for his in-depth analysis. This classical inventory management model calculates an optimum order size by balancing the costs of holding inventory against the costs of ordering fresh supplies. This optimum order size is the basis of a minimum cost procurement policy.

The economic order quantity model assumes that, for the period under consideration costs and demand are constant and known with certainty. If we assume a constant demand for inventory, holding costs will increase as average inventory levels and order quantity increase, while ordering costs will decrease as order quantity increases and the number of orders falls. The total cost is the sum of the annual holding cost and the annual ordering cost. This inventory management technique is for determining an items optimal order quantity, which is one that minimizes the total of its order and carrying cost. It helps management to lower total cost of inventory. The goal facilitated by using EOQ calculation is to lower total cost.

EOQ aims at setting up the ordering and carrying cost at minimal level. The underlying assumptions under EOQ are that the demand for a product is constant over the year and that each new order is delivered in full when the inventory reaches zero. There is a fixed cost charged for each order placed, regardless of the number of units ordered. There is also a holding or storage cost for each unit held in storage (sometimes expressed as a percentage of the purchase cost of the item).

2.5.2 Cash Conversion Cycle Model

Cash balances and safety stock of cash are influenced by the firm's production and sales technique and by its procedure for collecting sales receipts and paying for purchases. Cash conversion cycle helps in understanding this, (Pandey, 2008). Cash conversion cycle focuses on the length of time between when the firm makes payments for production inputs and when it receives cash inflows from the sale of finished products. The key terms used in the model are; inventory conversion period, which is the average time required to convert materials into finished goods and then to sell those goods, receivables collection period, which is the average length of time required to convert the firm's receivables into cash and payables deferral period, which is the average length of time between the purchase of materials and labour and the payment of cash for them. Cash Conversion Cycle, which nets out the periods just defined and which therefore equals the length of time between the firm's actual cash expenditures to pay for productive resources and its own cash receipts from the sale of products: that is, the length of time between paying for labour and materials and collection of receivables. (Brigham and Houston, 2004).

A firm's goal should be to shorten the cash conversion cycle as much as possible without hurting operations. This will increase a firm's value because the shorter a firm's conversion cycle, the lower the required net operating working capital and the higher the resulting free cash flows. Cash conversion cycle can be shortened by reducing the inventory conversion period by processing and selling goods as soon as possible, by reducing the receivables collection period by speeding up collection or by lengthening the payables deferral period by slowing down a firm's own payment. These actions should only be taken without increasing costs or depressing sales (Ehrhardt and Brigham, 2008)

2.5.3 Baumol Model

Baumol Model developed by Baumol (1952) is cash management approach that aids in determining the optimum amount of cash for a company to hold under conditions of certainty.

The objective is to minimize the sum of the fixed costs of transactions and the opportunity cost of holding cash balances that do not yield a return. This is similar to the EOQ model used in inventory management. Baumol Model of cash management assumes the firm is able to forecast the cash needs with certainty, the firm's cash payments occurs uniformly over a period of time, the opportunity cost of holding the cash is known and it does not change over time, the firm will incur the same transaction cost whenever it converts securities to cash.

2.5.4 The Miller- Orr Model

The Miller-Orr model developed by Miller and Orr (1966) assumes that net cash flows are normally distributed with a zero value of mean and standard deviation. The model provides for two control limits- the upper control limit and the lower control limit as well as a return point. If the firm's cash flows changes randomly and hit the upper limit, then it takes appropriate corrective action to come back to a normal level of cash balance and when the firm's cash flows decreases below the lower limit, it also takes the appropriate corrective control measures . A firm will sale marketable securities to return to the correct cash levels and will purchase marketable securities if above the required limit. Firms set lower limits (L) depending on how much risk of cash shortfall the firm is willing to tolerate.. The return point is the cube root of the square root of 3 multiply by conversion cost multiply by variance of daily net cash flows divided by 4 times daily opportunity cost. The difference between the upper limit and the lower limit depends on the transaction cost, the interest rate, and the standard deviation.

2.6 Management of working capital components

2.6.1 Inventory Management

Inventory management is described as "the planning, coordinating and controlling activities related to the flow of inventory through and out of an organization, (Horngren, Datar and Foster, 2013). Inventory may be classified as Supplies, Raw materials, Work in progress and finished goods Brigham and Houston, (2002).

Maintaining optimal inventory levels reduces the cost of possible interruption or loss of business due to scarcity of products ,reduces supply cost and protect against price fluctuation .The inventing conversing period has negative effect on a business performance .For instance shortening the inventing conversion period could increase stock out cost of inventing when result in losing sales opportunity and leads to poor performance (De loof,2003) managers firms should therefore keep their inventing to an optimal level some

management of inventing will leads to trying up excess capital at the expense of profitable operation (Lazaridus and Dimitrious ,2005).

2.6.2 Receivables management

Provision of trade credit is normally used by the business as a marketing strategy to expand or maintain sales (Pandey, 2008). Efficient receivables management augmented by a shorter creditors collection period ,low level of bad debts and sound credit poling often improve the businesses' ability to attract new customers and accordingly increase finance performance hence the need for some credit policy that will ensure MSE's value is optimized (Ross et al,2008). Cost of cash discounts, losses of bad debt and cost of managing credit and credit collection constitute the carrying cost associated with granting a credit which increase when amount of receivable granted are increased . Lost sales resulting from not granting credit constitute the opportunity cost which decrease when the amount of receivables increased. Firms that are efficient in receivables investment should determine their optimal credit which minimizes the total costs of granting credit.

Michalski, (2007) in his study, an increase in the level of account receivables in a firm increase both net working capital and the cost of holding and managing account receivables and both leads to decrease the value of the firm. A study by Lazaridus and Dimitrious ,(2005) found out that firm who pursue increase in their account receivables to an optimal level increase their profitability resulting from sales and market share .Juan and Martinez (2002) emphasized that firm can create value by reducing their number of days of account receivables , thus confirmed the finding of De loof (2003) who established the length of receivables collection period has negative effects on firm performance. According to Sushina and Bhaposh (2007) attempted that putting place a sound credit policy ensure proper debt collection procedures and is pivotal in improving efficient in receivables management hence performance of firms.

2.6.3 Cash management

Cash management is the process of planning and controlling cash inflow into and out of business, cash flows within the business, and cash balances or held by a business at the point in time (Pandey,2008).Efficient cash management involve the determination of the optional cash of hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little(Ross et al,2008) and as stressed by Atrill (2006),

there is need for careful planning and monitoring of cash flows over time so as to determine the optional cash to hold .

A study by Kwame (2007) established that the setting up of a cash balance policy ensure prudent cash budgeting and investment of surplus cash. This finding agree with the findings by Kotut (2003),who established that cash budgeting is useful in planning for the shortage and surplus of cash has an assertion buy Ross et al. ,(2005) that reducing the time cash is tied up in the operating cycle improving a significance of efficient cash management practice in improving business performance.

2.6.4 Payables

Firms generally make purchases from other firms on credits, recording the debts as account payables. (Block, Hirk and Short,2000), It is the largest single category of short term debt because small firms do not qualify from financing from other sources , they rely heavily especially on trade credits as a result firms that do sell on credit have a credit policy that includes terms of credits. Account payables can further be looked into as trade account payables and other accounts payables. Trade accounts payables are short term obligations to suppliers for purchases of merchandise and other accounts payable includes liabilities for any goods and services other than merchandise.

2.7 Efficiency of Working Capital Management

Efficient working capital management includes planning and controlling of current liabilities and assets in a way it avoids excessive investments in current assets and prevents from working with few currents assets insufficient to fulfill the responsibilities. The more cash conversion cycle of the firm extends, the more financing is allocated to working capital (Deloof, 2003). Extension of cash conversion cycle can increase the sales, thus profits of the firm. But increasing need for working capital in parallel with the extension of cash conversion cycle brings together an additional financing cost. On this matter Kienschnick, LaPlante and Moussawi (2006), emphasized that an additional dollar invested in working capital would be less than a dollar, indeed.

Shin & Soenen (1998), Deloof (2003), Raheman & Nasr (2007) and Teruel & Solano (2007) in their studies concluded that there is a negative relationship between profitability of a firm and cash conversion cycle. Thus, it is possible to increase firm profitability through more efficient working capital management. To realize this, it is necessary that main elements of cash conversion cycle (short term trade liabilities, short term account receivables and

inventories) should be managed in a way they maximize firm profitability. An efficient working capital management will increase free cash flows to the firm and growth opportunities and returns of stockholders.

Working capital level of a firm indicates that it wants to take a risk. The more working capital amounts, the lower liquidity risk and profitability become. Filbeck & Krueger (2005), stated that working capital policies of firms vary according to the sectors and within each sector it changes over time. Ganesan (2007), put forward that the firms in less competitive sectors focus on cash conversion minimizing receivables, while the firms in more competitive sectors have a relatively higher level of receivables. Lazaridis & Tryfonidis (2005), stated that small firms focus on inventory management, the firms with low profitability on credit management.

Statements in finance literature about the importance of working capital for firms are being once more emphasized in these turbulent days of global economies. While firms make efforts to increase return on assets in a way they pay their due obligations as late as possible and keep the cash, decreases in activity volume decreases the cash flow, too and this case increases the liquidity risk (Hofler, 2009).

2.8 Empirical Review

2.8.1 Working Capital Management and MSE's

Working capital, the money needed for firm's growth opportunities and shareholders' return. However, management can also confront liquidity problems due to under investment in working capital. As pointed out by Filbeck and Krueger (2005), the ability of financial managers to effectively manage receivables, inventories, and payables has a significant impact on the success of the business. If capital invested in cash, trade receivables, or inventories is not sufficient, the firm may have difficulty in carrying out its daily business operations. This may result in declining sales and, in the end, a reduction in profitability.

Dong (2010) in his analysis, reported that the firms' profitability and liquidity are affected by working capital management. Pooled data are selected for carrying out the research for the era of 2006-2008 for assessing the Small business enterprises. He focused on the variables that include profitability, conversion cycle and its related elements and the relationship that exists between them. From his research he found that the relationships among these variables are strongly negative. This denotes that decrease in the profitability occur due to increase in cash conversion cycle. In addition, if the number of days of account receivable and inventories are

diminished then the profitability will increase numbers of days of accounts receivable and inventories.

Terual and Martinez–Solano (2007) provided the empirical relationship between the profitability, number of days of account receivables and inventory. They chose the small and medium sized Spanish firms, a sample of about 8872 small to medium sized enterprises for 1996 to 2002. After the in-depth view it was found out that the negative relationship between the profitability of MSE's and the number of days account receivable and days of Inventory. The study did not provide the exact impact of number of days account payable affect and MSE's return on Assets.

Johnson and Soenen (2003) also reported that efficient working capital management is one of the crucial characteristics of financially flourishing firms. Inadequate working capital decisions and accounting information have been referenced consistently as causes of small and medium enterprises failure. Profitability, number of days of account receivables and inventory affect working capital management. Efficient working capital management involves managing short-term assets and short-term liabilities in a way that provides balance between eliminating potential inability to cope with short-term debts and avoiding unnecessary holdings in these assets.

Omesa at al, (2013) examined the relationships between Working Capital Management and Corporate Performance of manufacturing firms. A sample of 20 companies whose data for 5 years from 2007-2011 was selected. For analysis Principal components analysis (PCA) is used due to its simplicity and its capacity of extracting relevant information from confusing data sets. From the results using PAC and multiple regression, working capital proxies Cash Conversion Cycle (CCC), Average Collection Period (ACP) and control variables Current Liabilities (CLTA), Net Working Capital Turnover Ratio (NSCA) and Fixed Financial Ratio (FATA) were significant at 95% confidence (p values are <0.1) to performance as measured by Return on Equity (ROE).

Maradi at al, (2012) compared working capital management of two groups of companies, which comprised of chemical industry and medicine industry. In chemical industry, 34 companies and medicine industry, 30 companies were selected and information related to these companies was gathered over 10 years (2001-2010) and analyzed using OLS multiple regression. The results show that, in medicine industry compared to chemical industry, debt ratio makes more impact on reduction of net liquidity. But examination of impact of LEV

over WCR indicate that, in chemical industry, debt ratio makes more impact on reduction of working capital requirements, compared to medicine industry.

Nyabwanga at al, (2012) assessed the effect of working capital management practices on the financial performance of SSEs in Kisii South District. A sample of 113 SSEs comprising 72 trading and 41 manufacturing enterprises was used. Pearson's correlation coefficients and multiple regression analysis techniques were used to analyze data. Consequently, the findings of the study were that, working capital management practices were low amongst SSEs as majority had not adopted formal working capital management routines and their financial performance was on a low average. The study also revealed that SSE financial performance was positively related to efficiency of cash management (ECM), efficiency of receivables management (ERM) and efficiency of inventory management (EIM).

Gakure, Cheluget, Onyango and Keraro (2012) analyzed the relationship between working capital management and performance of 15 manufacturing firms from 2006 to 2010 and for a total 75 firms year observations. They used secondary data from a sample of 18 companies. A regression model was used to establish the relationship between the dependent variable and the independent variables. Pearson's correlation and regression analysis were used for the analysis. The results indicated that there is a strong negative relationship between firm's performance and liquidity of the firm. The study found that there is a negative coefficient relationship between accounts collection period, average payment period, inventory holding period and profitability while the cash conversion cycle was found to be positively correlated with profitability.

Sharma and Kumar (2011) examined the effect of working capital on profitability of Indian firms. They collected data about a sample of 263 non-financial BSE 500 firms from 2000 to 2008 and evaluated the data using OLS multiple regression. The results revealed that working capital management and profitability is positively correlated in Indian companies. The study further reveals that inventory of number of days and numbers of day's accounts payable are negatively correlated with a firm's profitability, whereas number of days accounts receivables and cash conversion period exhibit a positive relationship with corporate profitability.

Raheman, Afza, Qayyum and Bodla (2010) analyzed the impact of working capital management on firm's performance in Pakistan for the period 1998 to 2007. For this purpose, balanced panel data of 204 manufacturing firms. The results indicate that the cash conversion cycle, net trade cycle and inventory turnover in days are significantly affecting the

performance of the firms. They concluded that manufacturing firms were in general facing problems with their collection and payment policies. Moreover, financial leverage, sales growth and firm size also had significant effect on the firm's profitability. They study recommended that effective policies must be formulated for the individual components of working capital overall model was statistically significant.

Mathuva (2010) in his study on the influence of working capital management on corporate profitability found that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers and profitability. He explained that the more profitable firms take the shortest time to collect cash from the customers. The study further revealed that there exist a highly significant positive relationship between the inventory conversion period and profitability. It was explained that firms, which maintain sufficiently high inventory levels reduce costs of possible interruptions in the production process and loss of business due to scarcity and products. Finally, the study established that there exists a highly significant positive significant positive relationship between the average payment period and profitability. He held that the longer a firm takes to pay its creditors, the more profitable it is. In this study, a sample of 30 firms for the periods 1993 to 2008 was used. Both the ported OLS and the fixed effects regression models were used.

Gill, Biger and Mathur (2010) analyzed the relationship between working capital management and profitability of 88 American firms for a period of 3 years from 2005 to 2007 was selected. The data was analyzed using Pearson Bivariate Correlation Analysis and Weighted Least Squares (WLS) Regression techniques. They found statistically significant relationship between the cash conversion cycle and profitability, measured through gross operating profit. It followed that managers can create profits for their companies by handling correctly the cash conversion cycle and by keeping accounts receivables at an optimal level.

2.8.2 Microfinance Institutions and MSEs

Niskanen and Niskanen (2007) investigated the determinants of growth in a sample of small and micro Finnish firms. Firm growth was examined on a number of firm specific and relationship lending characteristics. The data set provided an excellent opportunity for investigating the effects that firm specific factors had on firm growth. The study investigated the relationship between firm growth and relationship lending variables. They were also able to provide new information on the role that legal form has on firm growth by using more detailed ownership variables. The results on relationship lending effects suggested that an

increase in the number of lending banks decreases growth rates in the larger firms and that an increase in the number of banks operating in the county where the firm is located enhances growth of the larger firms and decreases growth rates of the smaller firms. It could, therefore, be argued that close lending relationships enhance growth for all firms, but that only the larger firms in the sample benefit from more competitive banking markets.

Brown, Earle and Lup (2004), employed panel data techniques to analyze a survey of 297 new small enterprises in Romania containing detailed information from the start-up date through 2001. They found strong evidence that access to external credit increases the growth of both employment and sales, while taxes appears as constrain to growth. The data suggested that entrepreneurial skills had little independent effect on growth, once demand conditions were taken into account. The evidence for the effectiveness of technical assistance is weak: only assistance provided by foreign partners yields a positive effect. A wide variety of alternative measures of the business environment (contract enforcement, property rights, and corruption) were tested, but none were found to have any clear association with firm growth.

OECD, (2006) reported that the MSE sector does not have access to external funds due to stringent terms that the financiers tend to tie to their credit and investment, this leads to the possibility that capacity building are seriously impaired. In the same report, it was noted that the difficulties that MSEs experience can stem from several sources of their financial needs. For example, the domestic financial market may contain an incomplete range of financial products and services, the lack of appropriate financing mechanisms. In that case, suppliers of finance (MFIs) had rationally choose to offer an array of financial services that left significant numbers of potential borrowers without access to credit. Such credit rationing was said to occur if among loan applicants who appear to be identical, some receive credit while others do not; or there were identifiable groups in the population that were unable to obtain credit.

A study about MFI-MSE financing in Afghanistan by Mennonite Economic Development Associates (2009),established that financing interventions that focus exclusively on MSEs had in the end prove to be a high credit risk. While there was value in focus and specialization in financial service delivery, it had also become a weakness if the needs of MSEs were set to limit its affordability and access.

Onlutunla and Obamuyi (2008) investigated the relationship between profitability, bank loans, age of business and the size of small and medium enterprises in Nigeria. Using fixed-effects regression model, the paper was based on a balanced panel data of 115

SMEs of existing firms that have taken loans or currently have active loans, randomly selected in Ondo State, Nigeria. The equation specified profitability as dependent variable and loans, sales, age of business, size of business and interest rate as independent variables. The results demonstrate that there is interdependence between the SMEs profitability and bank loans, and a significant relationship between profitability and the size of business. For high profitability, increased loans and growth in size of business remain important. The paper recommends that the government should formulate policies that will compel commercial banks to relax their restrictive regulations and operations which discourage borrowing, and offer more credit facilities for SMEs.

Hendayana and Bustaman (2007) investigated the performance of Micro Finance Institution (MFI) in rural economic development perspective has been conducted in Java and off Java. The study applied PRA approach using group interview and individual in-depth interview techniques, involving the MFI board and customers. Using qualitative descriptive type of analysis, the study revealed that the MFI has an advantage as one of the government policy instruments for income improvement through the implementation of accommodative scheme by understanding the farmer's characteristics that is Non-Bank Non Cooperative (NBNC).

Babajide (2012) investigated the effects of microfinance on micro and small business growth in Nigeria by examined the effects of different loan administration practices (in terms of loan size and tenor) on small business growth criteria. The result reported that firm level characteristics such as MFI size and MFI location, are found to have positive effect on enterprise growth. Aczel (2000), conducted a study on the role of microfinance in supporting micro entrepreneurial endeavor found that the involvement of microfinance institutions in promotion of micro enterprise and processing industry plays a key role in economies of developed countries as a source of goods and services, income, savings and employment. He further states that the industry provides information, knowledge, and skills and often links entrepreneurs to information service providers.

Rahmat and Maulana (2006) in their studies, on the impact of Microfinance to Micro and Small Enterprise's Performance in Indonesia indicated that Microfinance had a positive impact to improvement of MSE's performance as indicated by sales. Doubling the amount of loan was found to have a negative impact on the performance as indicated by income and

savings. To address that negative impact, they recommended the allocation of loan to productive activities, such as investment, in a way that improves the business opportunity.

Emmanuel at al (2012), in their studies on the assessment of the Contribution of Micro Finance Institutions (MFIs) to Sustainable Growth of Micro and Small Scale Enterprises (MSEs) in Nigeria revealed that MFIs does and could contribute to the sustainable growth of MSEs in the country. Nevertheless, the study also found among others that MFIs services out-reach to MSEs was poor. The study recommends periodic review of MFIs activities by the regulatory authority-CBN base on policy objectives/targets. Appropriate modification should be made to address gaps for these institutions to effectively contribute to MSEs activities in the country.

Beck et al (2010), provided the first attempt to understand MSE financing from the supply side. Based on a survey of 91 MFI's in 45 countries, the authors provided a characterization of MFI financing to MSEs and found that MFI's perceive the MSE segment to be highly profitable and serve them through a number of lending technologies and organizational setups. The authors observed few differences in the extent the MSEs were reached out by MFI's based on their ownership structure (i.e. public, private or foreign-owned). However, they found significant differences across MFI's based in developed and developing economies, and conclude that the enabling environment was more important than the size of the firm or bank ownership in shaping MFI financing to MSEs.

De la Torre et al (2010) investigated MFIs' approaches to MSEs in terms of business models and risk management systems. Based on surveys for 48 MFIs and one leasing company in 12 countries, the authors found that all banks in the sample were interested in serving the MSE segment. To do so, almost all had separated organizational units that offered wide range of products, applying different transactional technologies such as credit scoring or risk-rating systems. The authors conclude that the conventional wisdom according to which large banks were not attracted by MSEs and that this business is dominated by small banks and based on relationship lending does not hold in practice.

Rocha et al (2011) investigated the status of MFIs financing to MSEs in the Middle East and North Africa (MENA) based on survey of 139 banks in 16 countries. The authors found that in spite of positive perception of the attractiveness of the segment, the MSE sector in the region remains largely underserved. Direct government interventions through public banks, credit guarantee schemes and other forms of subsidized financing play a major role in MSE

lending, partly compensating for the low level of private sector involvement, which in turn reflects the MENA's weak financial infrastructure.

Stephanou and Rodriguez (2008) analyzed both trend and structure of the MSE financing market in Colombia. They found that MFIs in the country regard the MSE segment as an attractive business opportunity though their level of sophistication in terms of business models and risk management tools remains modest. The authors conclude that the market was characterized by a number of institutional and policy constraints, that inhibits further growth of MSE lending.

Fidrmuc (2009) analyzed MFIs and MSEs in emerging market established that there was a lot of uncertainty about the risks involved in lending. The study used a unique unbalanced panel of 700 short-term loans made to MSEs in Slovakia between January 2000 and June 2005. It found out that of the loans granted, on average 6.0 per cent of the firms defaulted. It affected the relationship between the MFIs and MSEs hence deflecting the possibilities of accessing finances in future because the terms would change and become more stringent against the borrowers for fear of more defaults.

Mosley (2001), in his research on microfinance and Poverty in Bolivia, assessed the impact of microfinance on poverty, through small sample surveys of four microfinance institutions. Two urban and two rural, using a range of poverty concepts such as income, assets holdings and diversity, and different measures of vulnerability. All the institutions studied had on average, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. The study revealed also that in comparison with other anti-poverty measures, microfinance appears to be successfully and relatively cheap at reducing the poverty of those close to the poverty line. However, it was revealed to be ineffective, by comparison with labor-market and infrastructural measures, in reducing extreme poverty.

Nichols (2004) used a case study approach to investigate the impact of microfinance upon the lives of the poor in the rural China and found that the participation of poor in MFI program had led to positive impact in their life. Their income had increased, spending on educational and health had increased hence improved their standard of living and also women had benefited out of that program. There were visible sign of higher wealth level within the village.

Amin et al (2003) used a unique panel dataset from northern Bangladesh with monthly consumption and income data for 229 households before they received loans. They found that while microfinance is successful in reaching the poor, it is less successful in reaching the vulnerable, especially the group most prone to destitution (the vulnerable poor). Coleman (1999) also found evidence of an impact on the programme participants. The results, Coleman further explains, were consistent with Adams and von Pischke's assertion that "debt is not an effective tool for helping most poor people enhance their economic condition" and that the poor are poor because of reasons other than lack of access to credit.

Kuzilwa and Mushi (1997) examined the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of business that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that those enterprises, whose owners received business training and advice, performed better than those who do not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

Chijoriga (2000) evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organizational strength, client outreach, and operational and financial performance. 28 MFIs and 194 MSEs were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar regions. The findings revealed that, the overall performance of MFIs in Tanzania was poor and only few of them have clear objectives, or a strong organizational structure. It was further observed that MFIs in Tanzania lack participatory ownership and many were donor driven. Although client outreach was increasing, with branches opening in almost all regions of the Tanzanian mainland, still MFIs activities remain in and around urban areas. Their operational performance demonstrates low loan repayment rates. In conclusion, he pointed to low population density, poor infrastructures and low house hold income levels as constraints to the MFIs' performance.

Rweyemanu et al (2003), evaluated the performance and constrains facing semi-formal microfinance institutions in providing credit in Mbeya and Mwanza regions. The primary data were collected through a formal survey of 222 farmers participating in the Agriculture Development Programme in Mbozi and the Mwanza Women Development Association. In the analysis of their study the interest rates were found to be a significant barrier to the

borrowing decision. Also the borrowers cited other problems like lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, Mbeya and Mwanza credit programme experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-repayment.

Kessy & Urio (2006) on the contribution of MFI on poverty reduction in Tanzania, the researchers covered four regions of Tanzania which are Dares Salaam, Zanzibar, Arusha and Mwanza. Both primary and secondary data were collected; primary data were collected from 352 MSE's through questionnaires, interviews were also conducted. PRIDE (T) Ltd which is a microfinance institutions were used as a case study so as to get the insight of MFI operations. The study findings pointed out that to large extent MFI operations in Tanzania has brought positive changes in the standard of living of people who access their services, clients of MFI complained about high interest rate charged, the weekly meeting was pointed out as barrier as the time spent in weekly meeting could be used to other productive activities. The study recommended MFI to lower its interest rate, increase grace period and provide proper training to MSEs.

Cohen (2009) indicated that participation in microfinance programs contributes to reduced vulnerability to liquidity risks among MSEs. Microfinance services help the MSEs to diversify their income sources, building up physical, human and social assets, and focus on good money management, rebuild the household's base of income and assets after economic shocks had occurred and to smooth consumption. Hence for that, the impact assessment studies carried out confirm positive effects of microfinance services on poverty reduction.

Oni, Paiko and Ormin, (2012) assessed the contribution of micro finance institutions (MFIs) to sustainable growth of small and medium scale enterprises (SMEs) in Nigeria. Their research revealed that MFIs does and could contribute to the sustainable growth of SMEs in the country. Nevertheless, the study also found among others that MFIs services outreach to SMEs was poor.

Ojo (2009), studied the role of micro finance in entrepreneurship development found out that there was a significant difference in the number of entrepreneurs who used Microfinance Institutions and those who do not. Microfinance was sustainable to the development of entrepreneurship activities in Nigeria and that Micro-finance had affected entrepreneurship in the country positively. He concluded that Microfinance institutions have a positive

relationship with the Nigerian economy represented by expanded GDP. Although the interest rate was not significantly influential, microfinance institutions and their activities go a long way in the determination of the pattern and level of economic activities and development in the Nigerian economy. He recommended that the financial institutions need to put more effort in financing MSEs, their role need to be felt by the MSEs in terms of growth and development.

Oni and Daniya, (2012) accessed the development of Small and Medium Scale Enterprises and the role of Government and other Financial Institutions, they discovered that financial institutions provide the necessary financial lubricant that facilitate the development of Small and Medium Scale Enterprises, they stressed that, a lot still need to be done by the government in terms of policy formulation in order to complement the efforts of financial institutions. They finally recommended among other things that establishment of micro finance institutions to serve the grass root financial needs should be encouraged.

Chowdhury (2002) emphasized that favorable credit terms such as adequate loan amounts, affordable interest rates and flexible repayment schedules help MSEs keep enough finances to run their working capital activities. It helps them improve their performance because they would always have an opportunity cost of reinvesting their proceeds in order to generate more revenues something that increases on their return on capital employed. In return, their (MSE) net profit margin would raise something that lifts the capital size (APEC, 2003).

Sudhir & Subrahmanya (2009) & Dalrymple, (2004) accessed that growth over a period of time can be used for performance measurements of SMEs since this, rather than short term performance, will reflect the long-term strategy of the firm. The researchers probed how far Indian SMEs carried out technological innovations as a result of technology and other related inputs acquired through subcontracting relationships and achieve growth using the case study approach covering two SMEs in Bangalore. It was established that customer requirements were the major causal factors while internal factors such as self-efforts and in-house technical capability along with external factors in the form of technical inputs, suggestions and initiative from Large Enterprises (LE) customers were the sources of innovations for these SMEs. Because of these innovations, SMEs achieved growth in terms of investment in plant and machinery, output and customer base, which are ideal indicators of SME performance.

Temtime and Pansiri (`2004) investigated the factors which contribute to the perceived success or failure of MSEs in Botswana. They surveyed 203 SMEs. Their findings were that

Perceived Critical Success/Failure Factors (PCSFs) such as human resource developments, managerial background, lack of finances and organizational development had an influence on the performance of MSEs. Kapunda (2007) also found that the main challenges to MSEs were non-payment of outstanding accounts by clients, stiff competition, and lack of market for their goods or services and limited access to finance.

Sharma (2008) argue that microfinance can aid in the improvement or establishment of family enterprise, potentially making the difference between alleviating poverty and economically secure life. On the other hand, Burger (2003) indicated that microfinance tends to stabilize rather than increase income and tends to preserve rather than to create jobs.

Coleman (2009) suggests that the village bank credit did not have any significant and physical asset accumulation. The women ended up in a vicious cycle of debt as they use the money from the village banks for consumption purposes and were forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans. The main observation from that study was that credit was not an effective tool to help the poor out of poverty or enhance their economic condition of Small business. Mosley and Hulme (2008) concluded that household income tends to increase at a decreasing rate as the income and asset position of the debtors was improved. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on MSE development. Investing in MSE activities would have no effect in raising household income because the infrastructure and market was not developed.

Mochona (2006), assessed the impact of micro-finance on women micro enterprises that were clients of Gasha Microfinance Institution. The research findings indicated that only a few of the women clients of the Gasha Microfinance Institution reported increased incomes from their micro enterprise activities. It was also noted that majority of the respondents expressed dissatisfaction with the loan processing procedure and time taken to secure the loan. Most present and ex-clients faced major risks in running their businesses and therefore dropped out of the micro finance program as they were pushed into indebtedness and could not repay the loans. Although savings were made regularly, majority of the women clients of Gasha Microfinance Institution were unable to build key assets since the savings were dismal. The study recommended giving individual loans instead of group loans and that extending the loans beyond the maximum loan size ceiling to match varying borrowing powers of clients.

Kushoka (2013) adapted a research to examine the contribution of microfinance institutions on enterprise development in Tanzania. The article is aimed at moving poor small-scale entrepreneurs and/or would-be entrepreneurs from low-growth enterprises to high-growth Enterprises using Microfinance Institutions (MFIs). The study employed both descriptive and explanatory approaches to seek answers to the research question. The study reveals that there is an increase in the number of employees and amount of working capital of entrepreneurs after using the services of Microfinance Institutions (MFIs). The researcher concludes that Microfinance Institutions (MFIs) are key players in entrepreneurship development; it is recommended that Microfinance Institutions (MFIs) should package their services together (financial and non-financial) in order positively boost growth of Micro and Small Enterprises.

Ekpe (2010) have studied the effect of Microfinance factors on women Entrepreneurs' performance in Nigeria. Women play a crucial role in the economic development of their families and communities but certain obstacles such as poverty, unemployment, low household income and societal discriminations mostly in developing countries have hindered their effective performance of that role. It is discovered that women entrepreneurship could be an effective strategy for poverty reduction in a country; since women are the worst hit in such situation. However, it is discovered that women entrepreneurs, especially in developing countries, do not have easy access to microfinance factors for their entrepreneurial activity and as such have low business performance than their men counterparts, whereas the rate of their participation in the informal sector of the economy is higher than males, and microfinance factors could have positive effect on enterprise performance.

Yasin (2013) adapted a study of Microfinance relevance to the business in Magadishu, Somalia. The main objective of the study was to examine the challenges facing by small businesses in accessing microfinance services in Mogadishu. Purposive sampling technique was employed in selecting the 100 Small businesses that constituted the sample size of the research. The study identifies that Small businesses in Mogadishu are facing challenges to access loan from MFIs and this results many small business to demise soon or may not be started due to lack of ability to overcome the challenges.

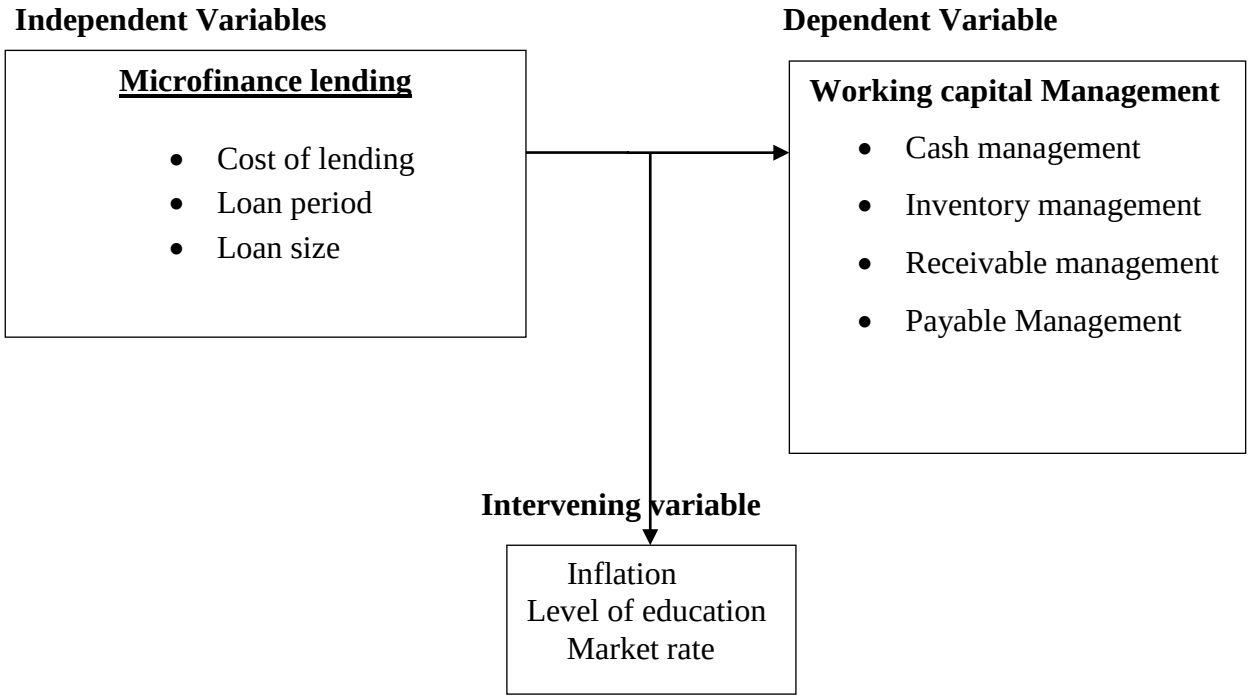
Padachi (2011) conducted a research study about the role of microfinance institutions in the development of entrepreneurs in Africa. The study is focus for entrepreneurs who want to run a business and yet can't afford a piece of equipment and merchandise. The research whereby providing equipment or merchandise to enable the project to run a self-funding profitable project. The research find out that only 6 % of Africans borrow money to start a business

where as 13 % borrow to buy food. 50 % of the population live with less than 1US$ or less per day. Most of the Africans lack the understanding of what it would take to successful entrepreneurs. They lack necessary technical management skills and confidence. They lack personal ambition and willingness for fear of sharing ownership and failed to form partnership.

Olu (2003) investigates the impact of microfinance on entrepreneurial development of small scale enterprises that are craving for growth and development in a stiffened economy called Nigeria. The study reveals that there is a significant difference in the number of entrepreneurs who used microfinance institutions and those who do not use them; there is a significant effect of microfinance institutions activities in predicting entrepreneurial productivity; and that there is no significant effect of microfinance institutions activities in predicting entrepreneurial development. The researcher concludes that microfinance institutions world over and especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions, the government and the economy at large through the services they offer and the functions they perform in the economy.

K'Aol (2008), on the role of micro-finance in fostering women entrepreneurship in Kenya assessed the impact of Microfinance funding on women entrepreneurship in Kenya. The population consisted of women entrepreneurs who had benefited from four major Kenya Rural Enterprise Program (K-REP) microfinance schemes within Nairobi and Nyeri. The findings revealed that most of the respondents in this study reported that their business had expanded and their house hold income had increased significantly as a result of having taken microfinance loans from K-REP. The most significant impact evident among the women entrepreneurs involved in farming activities was that the number cattle they owned had doubled after taking the loan.

2.9 Conceptual Framework



Source, (Goldberg and white (1999) and modified)

Figure1: Shows Relationship between Dependent, Independent and Intervening Variables.

The conceptual framework shown in Figure 1 above depicts the relationship between the variables in the study. The independent variable is Microfinance lending entails the cost of money, loan size and loan period. According to blank (2003) cost of money, loan period and loan size are good predictors of MSE working capital management because they look at, ability to pay creditors, cash management, inventory management and debtors collection period.

Working capital management, the dependent variable entails cash management, inventory management, receivables management and payables management. MFI's lending and working capital management can be affected or influenced by other variables not directly associated with. Such intervening variables include inflation, level of education and market rate.

The cost of money was measured by interest rates compared to rate of returns from the stocks and loan period in terms of months in which MSE would have completed repaying the loans in time against the continuity of the business. While loan size was measured in terms of loan amount borrowed compared with the expansion of business. Working capital management components that is cash, inventory, receivable and payable were all measured and tested

individually. With the assumption that the intervening variables remain constant. That enabled the researcher to test if MFI's lending had any effects on MSE's working capital components.

CHAPTER THREE
METHODOLOGY

3.1 Research Design

This study used a descriptive survey design. Descriptive survey design is a fact-finding study that involves adequate and accurate interpretation of findings. The purpose of employing the descriptive survey design is to describe the nature of condition as it takes place and explore the cause or causes of a particular condition. The researcher opted to use this kind of research considering the desire to acquire first hand data from the respondents so as to formulate rational and sound conclusions and recommendations for the study.

3.2 The Target Population

The population under study consisted of a range of Micro and Small enterprises operating in Narok Town. These compose of Manufacturing, Servicing and Trading. The target population of the study was 240 MSEs operating in Narok Town. The study was done within Narok Town.

3.3 Sample Size and Sampling Techniques

The study took a sample of 71 MSEs operating in Narok Town. The sample was determined using the following sample formula (Kish, 1965).

$n=N/1+N\ (e)^{2}$

Where: n- the sample size, N- total population, e- margin of error

N-240, e- 0.1 that is 90% confidence level.

$$n=240/1+240(0.1)^{2}=71$$

The study used purposive sampling to administer the questionnaire. The use of this sampling technique was due to how the nature of the information required to be collected for the study. Purposive sampling was useful because it helped the researcher to get the target sample. The study was purposely interested in the MFIs clients because they had relevant information on provision of microfinance.

3.4 Research Instruments

The study used face to face interviews through the aid of structured questionnaire to collect data. The reason for using face to face interviews were that they reduce ambiguity and ensure that the respondents are more likely to answer the questions and give right answer as required in the study. The study used these type of data collection instruments because they were easy for the respondent to answer and easy to administer. Moreover, it was easy to process with the use of computers and analyze statistically.

3.5 Data Collection

The researcher personally scheduled face to face interviews for owners or managers who were considered decision makers as regards to financing and management of the businesses. The reason for using schedule face to face interviews was to ensure all questions in the questionnaire was answered. This minimized the chances of respondents not responding to the questionnaires.

3.6 Data Validation and Reliability

Validity refers to the degree to which result obtained from the analysis of data actually represent the phenomenon under the study and how accurate the data obtained in the study represent the variable of the study (Mugenda & Mugenda,2003).The researcher sought assistance from research experts and supervisor to help improve the validity of the instruments. The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials (Porter, 2010). A pilot test was conducted to ensure that items in the questionnaire were understandable as possible, not ambiguous and insufficient. The instrument was pilot tested by taking a sample of 15 MSE's. Reliability coefficient of 0.82 was found from the sample taken. Reliability was calculated using Cronbach's Alpha method. Cronbach alpha was used in order to establish the degree of consistency and accuracy of items in the questionnaire (Mugenda & Mugenda 2003). Wallen, and Fraenkell (2000), argued that Cronbach's Alpha method is acceptable if reliability coefficient is greater than 0.7.

3.7 Data Analysis

Data collected was entered, coded, tabulated and analyzed using both descriptive statistic and Pearson product moment correlation and, simple and multiple regressions. Data was analyzed for means, frequencies, percentages and standard deviations using descriptive statistic, whereas correlation and simple and multiple regression was used to ascertain the relationship between MFIs lending and working capital management variables of MSEs. Each of the working capital management variable was tested to ascertain the effects MFI lending on those variables. Multiple regression was run for each dependent variable that is for cash management, inventory management, receivable management and payable management. Thereafter, simple regression was done by calculating mean for all the MFI lending variables (cost of lending, loan size, loan period) so as to ascertain the effect on working capital management.

Multiple regression will be in the form of: $Y_1= B_0+B_1X_1+ B_2X_2 + B_3X_3+e$

$$Y_2 = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + e$$

$$Y_3 = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + e$$

$$Y_4 = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + e$$

Where Y_1- Cash management

Y_2 - Inventory management

Y_3 - Receivable management

Y_4 - Payable management

X_1- cost of lending, represented by the interest rates and administrative costs

X_2- loan period, represented by the maturity and installments periods

X_3- loan size, represented by small and large loans

B_0- is the constant

B_1-B_3- is the regression coefficients or change induced in Y by each X

E- is the error

The simple regression will be in the form of $Y = B_o + B_1X_1 + E$

Where: Y- working capital management

Bo- constant

B_1- gradient

X_1- MFIs lending variables (cost of lending, loan size and loan amount)

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter covers the data analysis, presentation and discussion of the data collected on effects of MFI's lending on working capital management of MSEs in Narok Town. The data analyzed included data on :- Respondents demographic characteristics; effect of MFIs lending on cash management of MSEs; effect of MFIs lending on inventory management of MSEs; effect of MFIs lending on receivables management of MSEs; effect of MFIs lending on payable management of MSEs. Data was analyzed using descriptive and inferential statistics. Descriptive statistics include frequencies, percentages, means, standard deviation and inferential statistics include t-test, Correlation, Multiple Regression and summarized in form of tables.

4.2 Respondents Demographic Characteristics

Out of the 71 questionnaires distributed to the respondents, a total of 61 questionnaires were returned, which realized a return rate of 85.9% considered significant to answer the set objectives. In this study the following respondents' demographic characteristics were considered and analyzed: - age, gender, level of education, no of employees, period of business operation and nature of business. Descriptive statistics that is frequencies, percentages, means, and standard deviation were used to analyze the data as presented in table 4.2.

Table 4.2: Demographic Characteristics of the Respondents

		Frequency	Percent	Cumulative Percent
Age	18-25 yrs.	5	8.2	8.2
	26-34 yrs.	14	23.0	31.1
	35-44 yrs.	33	54.1	85.2
	Over 45 yrs.	9	14.8	100.0
Gender	Male	29	47.5	47.5
	Female	32	52.5	100.0
Highest level of education	Primary	10	16.4	16.7
	Secondary	24	39.3	56.7
	Tertiary	18	29.5	86.7
	University	8	13.1	100.0

Number of employees	0-3	9	14.8	15.5
	3-5	30	49.2	67.2
	Over 5	19	31.1	100.0
Period of business operation (years)	Less than 5 yrs.	29	47.5	50.0
	6-9 yrs.	25	41.0	93.1
	over 10 yrs.	4	6.6	100.0
The nature business	Trading	14	23.0	24.1
	Service	15	24.6	50.0
	manufacturing	27	44.3	96.6
	Others	2	3.3	100.0
Total		61	100.0	

Source: Field Data (2015)

Based on the results, majority of the respondents with MSEs in Narok Town were female 52.5% compared to 47.5% who were men. Majority of the respondents 54.1% had age bracket of 35-44 years, 23% were 26-34 years, 14.8% were above 45 years, 8.2% were 18-25 years. In terms of the highest level of education, 39.3% of the respondents reached secondary level, 29.5% reached tertiary level, 16.4% reached primary school level and 13.1% reached university level. The study also established that 49.2% of respondent had 3-5 employees, 31.1% had over 5 and 14.8% had below 3 employees. In terms of period of business operation 47.5% had less than 5 years, 41% had 6-9 years and 6.6% had over 10 years. In terms of nature of business the study established that 44.3% of the respondents were manufacturing, 24.6% were offering services, 23% were trading and 3.3% were doing other activities.

4.3 Relationship between MFIs lending on cash management of MSEs

The first objective of the study was to establish the effect of MFIs lending on cash management of MSEs. In this objective all the three variables of MFI lending (cost of lending, loan period and loan size) was combined to get an overall mean. This overall mean of MFI lending variables was then used against cash management to ascertain their relationship. In this study r stand for pearson correlation while p stand for significant level. The study used Pearson Correlation to establish the relationship between MFIs lending and cash management.

Table 4.3 Correlations between MFIs lending and cash management

		Cash Management
MFIs lending	Pearson Correlation	0.676**
	Sig. (1-tailed)	0.000
	N	59

** Correlation is significant at the 0.1 level (1-tailed).

Source: Field Data (2015)

The results revealed that there was a strong statistically significant positive relationship of (r = 0.676, p <0.1) between MFIs lending and cash management. Consequently, the $H_0 1$ which stated that there is no statistically significant relationship between MFIs lending and cash management was rejected and the alternative hypothesis which states that there is statistically significant relationship between MFIs lending and cash management was accepted.

Table 4.3.1: Analysis on the Effect of MFIs lending on MSEs cash management in Narok

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.770[a]	.524	.502	.187

a. Predictors: (Constant), Loan size, Loan period, Cost of lending

Coefficients

Model		Un-standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.163	.528		.308	.002
	Cost of lending	.156	.079	.208	1.963	.003
	Loan period	.413	.117	.345	3.523	.001
	Loan size	.369	.082	.469	4.489	.000

a. Dependent Variable: cash management.

Source: Field Data (2015)

Table 4.3.1, indicates that MFIs lending (Cost of lending, Loan period and Loan size) accounted for 52.4% of the variation in on MSEs cash management in Narok Town (R^2 = 0.524). The un-standardized beta coefficients indicate that Cost of lending (β = 0.156, p<0.1),

Loan period (β = 0.413, p<0.1) and Loan size (β = 0.369, p<0.1) were the strongest predictors of MSEs cash management in Narok Town. This suggests that, all the MFIs lending (Cost of lending, Loan period and Loan size) has an effect on MSEs cash management in Narok Town. Therefore there was statistically significant relationship between MFIs lending (Cost of lending, Loan period and Loan size) and MSEs cash management.

Multiple Regression Model

$Y_1= B_0+B_1X_1+ B_2X_2 + B_3X_3+e$

$Y_1= 0.163+0.156X_1+0.413X_2+0.369X_3+e$

Interpretation

When there is 1% increase in cost of lending, MSEs cash management will increase by 0. 156% and when there is 1% increase in loan period, MSEs cash management will increase by 0.413%.When there is 1% increase in loan size, MSEs cash management will increase by 0.369%**.** The above multiple regression model indicate that the MFIs lending positively effect MSEs cash management in Narok town.

4.4 Relationship between MFIs lending and inventory Management

The second objective of the study was to establish the effect of MFIs lending (cost of lending, loan period, and loan size) on inventory management of MSEs . In this objective all the three variables of MFI lending (cost of lending, loan period and loan size) was combined to get an overall mean. This overall mean of MFI lending variables was then used against inventory management to ascertain their relationship. In this study r stand for Pearson correlation while p stand for significant level. The study used Pearson Correlation to establish the relationship between MFIs lending and inventory Management.

Table 4.4: Relationship between MFIs lending and Inventory Management

		Inventory Management
MFIs lending	Pearson Correlation	0.425**
	Sig. (1-tailed)	0.000
	N	60

** Correlation is significant at the 0.1 level (1-tailed).

Source: Field Data (2015)

Based on the results the study revealed that there was a moderate statistically significant positive relationship of (r = 0.425, p <0.1) between MFIs lending and inventory management. $H_0$1 which stated that there is no statistically significant relationship between MFIs lending and inventory management was rejected and the alternative hypothesis which states that there is statistically significant relationship between MFIs lending and inventory management was accepted.

Table 4.4.1: Analysis on the Effect of MFIs lending on MSEs inventory management in Narok Town

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.735[a]	.589	.546	.189

a. Predictors: (Constant), Loan size, Loan period, Cost of lending

Coefficients

Model		Un-standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.254	.769		0.330	.004
	Cost of lending	.234	.116	.323	2.017	.000
	Loan period	.202	.171	.109	1.181	.000
	Loan size	.138	.120	.150	1.148	.001

a. Dependent Variable: inventory management.

Table 4.4.1, indicates that MFIs lending (Cost of lending, Loan period and Loan size) accounted for 58.9% of the variation in on MSEs inventory management in Narok Town (R^2 = 0.589). The un-standardized beta coefficients indicate that Cost of lending (β = 0.234, p<0.1), Loan period (β = 0.202, p<0.1) and Loan size (β = 0.138, p<0.1) were the strongest predictors of MSEs inventory management in Narok Town. This suggests that, all the MFIs lending (Cost of lending, Loan period and Loan size)has an effect on MSEs inventory management in Narok Town. Therefore there was statistically significant relationship between MFIs lending (Cost of lending, Loan period and Loan size) and MSEs inventory management.

Multiple Regression Model

$Y_2 = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + e$

$Y_2 = 0.254 + 0.234X_1 + 0.202X_2 + 0.138X_3 + e$

Interpretation

When there is 1% increase in cost of lending, MSEs inventory management will increase by 0.234% and when there is 1% increase in loan period, MSEs inventory management will increase by 0.202%.When there is 1% increase in loan size, MSEs inventory management will increase by 0.138%.

The above multiple regression model indicate that the MFIs lending positively effect MSEs inventory management in Narok town.

4.5 Relationship between MFIs Lending and Receivable Management

The third objective of the study was to establish the effect of MFIs lending (cost of lending, loan period, and loan size) on receivable management of MSEs. In this objective all the three variables of MFI lending (cost of lending, loan period and loan size) was combined to get an overall mean. This overall mean of MFI lending variables was then used against receivables management to ascertain their relationship. In this study r stand for pearson correlation while p stand for significant level. The study used Pearson Correlation to establish the relationship between MFIs lending and receivable management.

Table 4.5: Correlations between MFIs lending and Account Receivable Management

		Receivable Management
MFIs lending	Pearson Correlation	0.729**
	Sig. (1-tailed)	0.000
	N	60

** Correlation is significant at the 0.1 level (1-tailed).

Source: Field Data (2015)

Based on the results the study revealed that there was a strong statistically significant positive relationship of (r = 0.729, p <0.1) between MFIs lending and receivable management. $H_0$1 which stated that there is no statistically significant relationship between MFIs lending and receivable management was rejected and the alternative hypothesis which states that there is statistically significant relationship between MFIs lending and receivable management was accepted.

Table 4.5.1: Analysis on the Effect of MFIs lending on MSEs receivable management in Narok Town.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error Of The Estimate
1	.754[a]	.568	.545	.279

A. Predictors: (Constant), Loan size, Loan period, Cost of lending

Coefficients

Model		Un-standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.246	.144		1.708	.000
	Cost of lending	.142	.112	.466	0.304	.000
	Loan period	.130	.165	.070	0.788	.003
	Loan size	.217	.116	.424	1.870	.000

a. Dependent Variable: Receivable Management.

Table 4.5.1, indicates that MFIs lending (Cost of lending, Loan period and Loan size) accounted for 56.8% of the variation in on MSEs Account Receivable Management in Narok Town (R^2 = 0.568). The un-standardized beta coefficients indicate that Cost of lending (β = 0.142, p<0.1), Loan period (β = 0.130, p<0.1) and Loan size (β = 0.217, p<0.1) were the strongest predictors of MSEs Account Receivable Management in Narok Town. This suggests that, all the MFIs lending (Cost of lending, Loan period and Loan size) has an effect on MSEs Receivable Management in Narok Town. Therefore there was statistically significant relationship between MFIs lending (Cost of lending, Loan period and Loan size) and MSEs Receivable Management.

Thus the MFIs lending will be high in MSEs in Narok town that adopted MSEs Receivable Management.

Interpretation

When there is 1% increase in cost of lending, MSEs receivable management will increase by 0. 142% and when there is 1% increase in loan period, MSEs receivable management will increase by 0.130%. When there is 1% increase in loan size, MSEs receivable management

will increase by 0.217%. The above multiple regression model indicate that the MFIs lending positively effect MSEs receivable management in Narok town.

4.6 Relationship between MFIs lending and Payable Management

The fourth objective of the study was to establish the effect of MFIs lending (cost of lending, loan period, and loan size) on payable management of MSEs. In this objective all the three variables of MFI lending (cost of lending, loan period and loan size) was combined to get an overall mean. This overall mean of MFI lending variables was then used against payable management to ascertain their relationship. In this study r stand for pearson correlation while p stand for significant level. The study used Pearson Correlation to establish the relationship between MFIs lending and Payable Management.

Table 4.6: Correlations between MFIs lending and Payable Management

		Payable Management
MFIs lending	Pearson Correlation	0.459**
	Sig. (1-tailed)	0.000
	N	60

** Correlation is significant at the 0.1 level (1-tailed).

Source: Field Data (2015)

The results revealed that there was a moderate statistically significant positive relationship of (r = 0.459, p <0.1) between MFIs lending and payable management. Consequently, the $H_0$1 which stated that there is no statistically significant relationship between MFIs lending and account payable management was rejected and the alternative hypothesis which states that there is statistically significant relationship between MFIs lending and payable management was accepted.

Table 4.6.1: Analysis on the Effect of MFIs lending on MSEs payable management in Narok Town..

Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.841[a]	.693	.255	.199

a. Predictors: (Constant), Loan size, Loan period, Cost of lending

Coefficients

Model		Un-standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.207	.797		.260	.000
	Cost of lending	.230	.120	.339	1.916	.002
	Loan period	.254	.177	.357	1.435	.003
	Loan size	.126	.124	.026	1.016	.000

a. Dependent Variable: Account payable management,

Table 4.6.1, indicates that MFIs lending (Cost of lending, Loan period and Loan size) accounted for 69.3% of the variation in on MSEs payable management in Narok Town (R^2 = 0.693) The un-standardized beta coefficients indicate that Cost of lending ($\beta = 0.230 p<0.1$), Loan period ($\beta = 0.254$, $p<0.1$) and Loan size ($\beta = 0.126$, $p<0.1$) were the strongest predictors of MSEs Account payable management in Narok Town. This suggests that, all the MFIs lending (Cost of lending, Loan period and Loan size) has an effect on MSEs payable management in Narok Town. Therefore there was statistically significant relationship between MFIs lending (Cost of lending, Loan period and Loan size) and MSEs payable management.

Thus the MFIs lending will be high in MSEs in Narok town that adopted MSEs payable management.

Multiple Regression Model

$Y_4= B_0+B_1X_1+ B_2X_2 + B_3X_3+ e$

$Y_4=0.207+0.230X_1+0.254X_2+0.126X_3+e$

Interpretation

When there is 1% increase in cost of lending, MSEs payable management will increase by 0. 230% and when there is 1% increase in loan period, MSEs account payable management will increase by 0.254%.When there is 1% increase in loan size, MSEs payable management will increase by 0.126%.

The above multiple regression model indicate that the MFIs lending positively effect MSEs payable management in Narok town.

4.7 Combine Effect of MFIs Lending on Working Capital Management of MSEs

Table: 4.7.1 Correlations matrix

		Cost of lending	Loan period	Loan size	Working Capital Management of MSEs
Cost of lending	Pearson Correlation	1	.174	.385**	.803**
	Sig. (1-tailed)		.092	.001	.000
	N	60	60	60	59
Loan period	Pearson Correlation	.174	1	.035	.449**
	Sig. (1-tailed)	.092		.397	.000
	N	60	60	60	59
Loan size	Pearson Correlation	.385**	.035	1	.664**
	Sig. (1-tailed)	.001	.397		.000
	N	60	60	60	59
Working Capital Management of MSEs	Pearson Correlation	.803**	.449**	.664**	1
	Sig. (1-tailed)	.000	.000	.000	
	N	59	59	59	59

**. Correlation is significant at the 0.1 level (1-tailed).

The result in Table 4.7.1, indicates the slope of each variable against the dependent variable and the degree of associations. The study used pearson correlation analysis to establish the relationship between the MFIs lending and MSEs working capital management. MFIs lending constitute cost of lending, loan period and loan size. The Null hypothesis stated that there is no significant relationship between MFIs lending and working capital management of MSEs. the results indicate otherwise. Table 4.7.1 shows that there is a significant strong associtiation between cost of lending and working capital management. Similarly the null hypothesis stated that loan period does not have a significant effect on MSEs working capital was rejected because the result in Table 4.7.1 shows that there is weak relationship between the two variables. Finally the null hypothesis stated that loan size does not have significant effect on MSEs working capital was also rejected because the results in Table 4.7.1 show that their exist a moderate relationship between the variable.

Table 4.7.2: Overall Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Cost of lending	60	3	5	3.78	.356
Loan period	60	3	4	3.81	.224
Loan size	60	3	5	3.76	.340
Working Capital Management of MSEs	59	3	5	3.70	.205
Valid N (list wise)	59				

Table 4.7.2 shows the mean and standard deviation. The study established that the respondents agreed that MFI's lending i.e cost lending, loan period, loan size was really beneficial to their day to day running of their business. they also agreed that good working capital management will not result in business failure.

Table 4.7.3: Results of Simple Regression Analysis determining the combined Effect of MFIs lending on Working Capital Management of MSEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.948[a]	.898	.897	.066

a. Predictors: (Constant), combined MFIs lending

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.307	.151		2.030	.003
	Combined MFIs lending	.896	.040	.948	22.459	.000

a. Dependent Variable: Working Capital Management of MSEs

Source: Field Data (2015)

Table 4.7, indicates that MFIs lending (Cost of lending, Loan period and Loan size) accounted for 89.8% of the variation inWorking Capital Management of MSEs in Narok Town ($R^2 = 0.898$) The un-standardized beta coefficient indicate that Combined MFIs lending ($\beta = 0.896$ $p<0.1$) was the strongest predictor of working capital management of MSEs.This

suggests that, MFIs lending (Cost of lending, Loan period and Loan size) has a very effect on working capital management of MSEs (cash management, inventory management, account receivable management and account payable management). Therefore there was statistically positive significant relationship between MFIs lending (cost of lending, loan period and loan size) and working capital management of micro and small Enterprises (MSEs). Thus the MFIs lending will be high in MSEs in Narok town that embrace Working Capital Management of MSEs.

Simple Regression Model

$Y_5 = B_0 + B_1X_1 + e$

Where Y_5- Working Capital Management of MSEs

X_1- MFIs lending (cost of lending, loan period and loan size)

B_0- is the constant

B_1- is the regression coefficient or change induced in Y by each X

e - is the error

Interpretation

When there is 1% increase in cost of lending, Working Capital Management of MSEs will increase by 0. 896%. The above multiple regression model indicate that the MFIs lending positively effect working capital management of MSEsin Narok town.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

The general objective of this study was to find out the effects of MFI's lending on working capital strategies (cash management, inventory management, receivable management and payable management) of MSEs in Narok Town. The study came up with a number of very important findings on selected MFI's lending (cost of lending, loan period and loan size)on working capital strategies of MSEs in Narok Town, Kenya, that are presented in this section. The findings are summarized as per the research objectives.

The first objective was to establish the effect of MFIs lending on cash management of MSEs. Based on the results, first, it was established that MSEs in Narok Town, received the loan borrowed from MFIs on time , MFIs charged favorable interest rate that could be repaid with the profits from the business, MFI's period of payment was flexible enough to repay from cash obtained from the business and they could remain with sufficient amount of cash to meet daily obligations after repaying the loans. Second, the study established that MFIs lending had a strong effect on cash management of MSEs in Narok town. In general the results revealed that there was statistically significant positive relationship between MFIs lending and cash management of MSEs indicated by strong positive correlation of 67.6%. Thus MFIs lending positively effect MSEs cash management in Narok town.

The second objective was to establish the effect of MFIs lending on inventory management of MSEs. In this case, first the study established that the time given to repay the loan was adequate enough, the amount of loan advanced to them by MFI's had enabled them to increase their stock and MFI's cost lending was lower compared with the returns from the stock sold. Consequently, the study established that MFIs lending had a moderate effect on cash management of MSEs in Narok town. In general the results revealed that there was statistically significant positive relationship between MFIs lending and inventory management of MSEs indicated by moderate positive correlation of 42.5%. Thus MFIs lending positively effect MSEs inventory management in Narok town.

The third objective was to establish the effect of MFIs lending on receivables management of MSEs. The study established that the MFIs cost of lending had led them maximize on returns from stock, MFI's loan payment period was favorable enough to enable them collect from their debts and MFI's advance to them was enough. The study established that MFIs lending

had a strong effect on receivables management of MSEs in Narok town. In general the results revealed that there was statistically significant positive relationship between MFIs lending and receivables management indicated by strong positive correlation of 72.9%. Thus MFIs lending positively effect MSEs receivables management in Narok town.

The fourth objective was to establish the effect of MFIs lending on payable management of MSEs. The study established that MFI's cost lending was low compared to borrowing or taking trade credits, MFI's loan was enough to run daily business operation and pay the creditors and MFI's loan payment period was flexible enough to enable them repay their creditors on time. The study established that MFIs lending had a moderate effect on payable management of MSEs in Narok town. In general the results revealed that there was statistically significant positive relationship between MFIs lending and payable management indicated by moderate positive correlation of 45.9%. Thus MFIs lending positively effect MSEs payable management in Narok town.

The combined effect of MFIs lending on Working Capital Management of MSEs. In general the results revealed that there was statistically significant positive relationship between MFIs lending and working capital management indicated by strong positive correlation of 94.8%. Hence MFIs lending positively effect working capital management.

5.2 Conclusion

The general objective of this study was to find out the effects of MFI's lending on working capital management of MSEs in Narok Town. In ge neral the study established that MFI's lending (cost of lending, loan period and loan size) positively affect capital management (cash management, inventory management, receivables management and payable management) of MSEs in Narok Town.

In conclusion, it is evident that adoption of MFI's lending is likely to significantly improve/enhance the working capital management of MSEs in Narok Town. Thus MFI's lending have a positive effect on working capital management of MSEs.

5.3 Recommendations

5.3.1 Policy Recommendations

As indicated from the results of the study that MFI's lending improve/enhance the working capital management of MSEs, it is necessary that MSEs embrace/adopt working capital

management such as cash management, inventory management, receivables management and payable management.

It is also important that MFI's should lower the interest charges on the loans to MSEs to enhance easy repayment. It is also important that MFI's should increase the amount of the loans granted to and process it within a very short time to enhance the growth of MSEs.

5.3.2 Recommendations for further research

This research was based on effects of MFI's lending on working capital management of MSEs in Narok Town. Generally there are other MFI's lending variables available and they contribute to working capital management of MSEs. Therefore there is need for further research to capture these other variables to determine whether they have a significant positive effect on working capital management of MSEs or not. Such information obtained from the study shade more light on MFI's lending adopted by MSEs in Kenya are effective in improving working capital management of MSEs .

The study focused on MSEs only. This limits the generalization of results. Similar studies needs to be conducted in other enterprises. A comparative study can also be done to capture the MFI's lending adopted by MSEs countrywide whether there is a difference in effect.

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APPENDICES

APPENDIX I: WORK PLAN

Below is the work schedule of the project. The project will be carried out in 10 Months and 2 weeks.

Proposal writing	8 Months
Questionnaire Development	2 Weeks
Pre-testing	2 Weeks
Data Collection	1 Month
Data analysis and presentation	1 Month
Report writing	2 Week

APPENDIX II: QUESTIONNAIRE

EGERTON UNIVERSITY

GRADUATE RESEARCH CENTRE

MASTERS IN BUSINESS ADMINISTRATION (FINANCE OPTION)

QUESTIONNAIRE

Dear respondent,

The questions that follow are intended to facilitate a study on the of MFI's lending on working capital efficiency of Micro and Small enterprises in Narok Town. Please take a few minutes of your precious time and answer them. Your responses will be used for academic purposes only and will be treated with utmost confidentiality.

NB**. **From the following, questions provided, please tick where appropriate.

SECTION A. BACKGROUND INFORMATION

1. Age. 18-25 [ ] 26-34 [ ] 35-44 [ ] Over 45 [ ]
2. Gender. Male [ ] Female [ ]
3. Highest level of education Primary [ ] secondary [ ] Tertiary [ ] university [ ]
4. How many employees do you have? 0-3 [ ] 3-5 [ ] Over 5 [ ]
5. How long have you operated this business (years)? Less than 5[ ] 6-9 [ ] over 10 [ ]
6. What is the nature of your business? Trading [ ] Service [] manufacturing[ ] Others[ ]

SECTION B: QUESTIONS ON MFI'S LENDING VARIABLES

a). Questions on cost of lending

7. Do you receive loan borrowed from MFI's on time?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

8. Do MFI's charge favorable interest rate?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

9. Do MFI's charge favorable administrative cost?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

10. Do MFI's charge favorable cost on defaulters?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

11. Do MFI's ask for Collateral before they start processing for loans?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

b). Questions on loan period

12. Do MFI's period of payment flexible?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

13. Have you ever failed to repay the installments?

Always [ ] Often [ ] Sometimes [ ] Rarely [ ] Never [ ]

14. Do the time given to repay the loan adequate?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

15. Do MFI's offer loans with short maturity period?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

c). Questions on loan Size

16. Do MFI's offer you sufficient loan to run your daily business operations?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

17.Do MFI's offer you loan depending on your savings?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

18. Do MFI's offer you loan depending on the level of education?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

19. Do MFI's offer you loan depending on the worth of your collateral?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

SECTION C: WORKING CAPITAL MANAGEMENT

a) Question on cash management

20. Do MFI's loans increase your daily operation?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

21. Do MFI's cost of lending lower compared with the returns from the business?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

22. Has MFI's lending has enable you to establish cash budgeting policy?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

23. Have you ever failed to repay monthly installment due to lack of cash?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

b) Questions on inventory management

24. Have you ever failed to repay the monthly installments due to the rate of stocks movements?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

25. Do the time given to repay the loan adequate enough hence has help you to increase your stock?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

26. Has the loan advance to your by MFI's has enabled you to increase your stock?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

27. Do MFI's cost lending is lower compared with the returns from the stock turnover?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

28. Has MFI's lending enable you to make frequent sales due to availability of variety of stock for sale?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

29. Has MFI's cost of lending led you maximize on returns from stock hence low bad debts?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

c) Questions on receivables management

30. Do MFI's loan payment period favorable enough to enable you collect debts before repaying installments?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

31. Do MFI's loan enough to run daily business transaction even if you have high numbers of debtor?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

32. Do MFI's monthly repayment installment lower compared to the rate at which the amount from debtors are collected?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

33. Do MFI's cost of lending lower compared to taking trade credits?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

d) Question on payables management

34. Do MFI's loan enough to run daily business operation and pay the creditors?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

35. Do MFI's loan payment period flexible enough to enable you repay your creditors on time?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

36. Do MFI's loan reduce the amount of trade credits hence creating confidence among the creditors?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

37. Do MFI's lending led you to develop a credit policy?

Strongly Disagree [ ] Disagree [ ] Not sure [ ] Agree [ ] Strongly Agree [ ]

APPENDIX III: RESEARCH BUDGET

Elements	Units	Cost/Unit	Total/Ksh
Photocopy	48	4	192
Internet	30	60	1,800
Typing	48	30	1,440
Printing	48	10	480
Binding	9	50	450
Computer Hire		15,000	15,000
Miscellaneous			5,000
Totals			24,362/=