

Effects of Loan Structure On the Performance of Micro-Enterprises in Uasin Gishu County, Kenya

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DOI: 10.29322/IJSRP.10.11.2020.p10708
<http://dx.doi.org/10.29322/IJSRP.10.11.2020.p10708>

Abstract

The importance of loan structure has not been emphasized by microenterprises when it comes to management of loan risks and performance of the microenterprise. The study therefore investigated the effect of loan structure on the performance of microenterprises in Eldoret Town, Kenya. The specific objectives guiding the study are to evaluate the effect of installments on the performance of microenterprises in Kenya, to determine the effect of repayment period on the performance of microenterprises in Kenya, to find out the effect of loan interest on the performance of microenterprises in in Kenya and to establish the effect of loan security on the performance of microenterprises in Kenya. This research was guided by three theories; the Pecking Order Theory of Financing, Adverse Selection Theory of Financial Markets and Ex Ante Theory of Collateral. This study adopted descriptive survey research design. The target population of the study was 2508 registered enterprises and the sample size was 334 respondents. The study used questionnaires as the main tool for collecting data. The study used structured questionnaire to collect primary data. Pilot study was done among micro-enterprises in Kitale town by distributing 34 questionnaires representing 10% of the total sample size. The collected data was analyzed using Statistical Package for Social Science (SPSS) version 20. Quantitative data was analysed using both descriptive and inferential statistics. Descriptive statistics included frequencies, means, mode, standard deviation, variance and percentages. Inferentially data was analyzed using correlation and multiple linear regressions. Pearson Product-Moment Correlation Coefficient and regression analysis was used in order to test the relationship between the dependent and independent variables. This study was significant to the government since used the findings of this study by bringing into light various policies and regulations to enact in order to help in the growth of microenterprises in Kenya. The study findings revealed that installment period had a positive and statistical significant effect on performance of microenterprises ($\beta=0.228$, $p<0.05$), repayment period had a positive and statistical significant effect on performance of microenterprises ($\beta=0.201$, $p<0.05$), loan interest had a positive and statistical significant effect on performance of microenterprises ($\beta=0.136$, $p<0.05$) and loan security had a positive and statistical significant effect on performance of microenterprises ($\beta=0.196$, $p<0.05$). In conclusion installment repayment greatly dependent on loan size

which is used to determine spread of repayment which is usually monthly basis. Repayment period with adjusted or extended terms help microenterprises do better because they can generate enough profit to assist in offsetting the expenses and debts owed. Creditors need loan security before issuing out loans and the challenge to microenterprises is that they lack collateral. The study recommends to microfinance institutions who lend money to microenterprises to consider reviewing installment payment extended to three months from the usual one month. The study further suggests an evaluating to be done on the effect of installment payments on performance of microenterprises in the banking sector.

Key Words: *Loan Structure, Micro-Enterprises Performance, Pecking Order Theory, Payback Period*

INTRODUCTION

Background of the Study

Performance of microenterprises are measured by its financial status and that an accurate and standardized performance information is imperative, both financial information and social information (Kahsay & Zeleke, 2019). Further, MFIs, donors, investors, bank supervisors and customers' need this information to judge their cost, risk and returns. Ahmad, Sipon, Yousop, Nur'Asyiqin Ramdhan, Hasan, Abdullah and Mohamed (2018) highlight six major indicators of microenterprises performance. They include: Portfolio quality, productivity and efficiency, financial viability, profitability, leverage and capital adequacy scale, outreach and growth. The essence of calculating and analyzing performance indicators (ratios) is to provide information that may help improve microenterprises financial performance (Kosgei, 2019).

Loan structure is about putting in place the structure, processes and mechanism that may ensure the microenterprises is being directed and managed in a way that enhances long-term equity value through accountability of managers and enhancing organizational performance, (Viswanath, 2018). Therefore, capital structure is a set of rules and incentives by which the management of microenterprises is directed and controlled, hence, sound capital structure have effects on profitability and long-term value of the firm for shareholders. Microenterprises performance and capital structure has succeeded in attracting a good deal of public interest because it is a tool for socio-

economic development. Also when there is good firm performance and capital structure, there was proper and efficient practice in the administration of business entities. The choice between debt and equity for a business firm has implications on the value of a firm as well as strategic importance for corporate managers (O'Leary, 2017).

The impact of capital structure on the performance of microenterprises shows that most of the microenterprises use high leverage and finance their operations with long term as against short term debt. Also highly leveraged microenterprises perform better by reaching out to more clientele, enjoy scale economies, and are therefore better able to deal with moral hazard and adverse selection. ROA and ROE is used as performance indicators, and total debt, short term debt and long term debt are used as indicators for capital structure of MFI. As control variables size, age and risk level are used. At the heart of capital structure decisions is the search for the optimal capital structure which is the level of capital that maximizes profitability and shareholders' value (Van Hoang, Gurau, Lahiani & Seran, 2018).

Globally, microenterprises have evolved as an economic development approach intended to benefit both low income men and women. Financial services include loans and savings; however some organizations also provide insurance and payment services. Thus, microfinance includes not only microcredits but also other financial services, which can be offered to the poor. Interested economists found soon that not only small credits but also other services connected with lending could improve economic lives of the poorest (Chu & Luke, 2018).

In Australia, capital structure of a microenterprise is basically a mix of debt and equity which a microenterprise deems as appropriate to enhance its operations performance. Capital structure decision is the choice of a firm's mixture of sources of financing, made up of debt and equity financing (Van Hoang et., 2018). Microenterprises capital structure decision is the choice of how much debt a firm should have relative to equity. The capital structure is a reflection of a firm's borrowing policy. It refers to the mix of long term debt and equity financing. Therefore, capital structure is deemed to have an impact on a microenterprises performance against the position. The high leverage or low equity/asset ratio reduces agency cost of outside equity and thus increases firm value by compelling managers to act more in the interest of shareholders (Charman, 2017).

In Canada, Microenterprises make a significant and long-term contribution to improving the access of finance to the poor residents and make them financially inclusive. Microenterprises need to know more about factors that may help these institutions reach their financial and social goals. Aiming at maximizing outreach under the condition of being financially sustainable is certainly important, as many MFIs nowadays are still dependent on subsidies from governments and NGOs. It is hard for MFIs to achieve their goals if they are not performing well financially. Capital structure decisions are an important factor for firm's performance. Microenterprises has proven to be an appropriate, effective and powerful tool for the poor and for poverty reduction in order to reach the Millennium goals (Mohammed & Uruguchi, 2017).

In the Middle-East and Iraq, loan structure is the vital tool on performance of microenterprise since the profitability of an

enterprise is directly affected by loan structures. The successful selection and use of capital is one of the key elements of the firms' financial strategy. Profitability should be re-invested into the business for its' survival where, profitability is the most prominent issues in the world of corporate finance literature, and the ultimate goal for any firm is to maximize profitability. However, too much attention paid to profitability, which may lead the microenterprise into a pitfall by diluting the liquidity position of the organization (Arezki, Belhaj & Shah, 2019).

Microenterprises are basically a long-term process which tends to support the poor financially so that they can combine their skills, knowledge, experience and financial capital to break away from poverty and change their lives. Therefore, access to commercial funds is likely to encourage microenterprise to move out of heavily subsidized operations and to enter into commercialization in order to achieve efficiency and sustainability. The control of loan structure enabled microenterprises to continue making improvement in their performance. This is therefore necessary for all micro institutions (Kuada, 2019).

Sub-Saharan Africa, microenterprises tend to report lower levels of profitability, as measured by return on assets, than microenterprises in other global regions. Among the African Microenterprises that provided information for this study, 47 per cent post positive unadjusted returns; regulated MFIs report the highest return on assets of all MFI types, averaging around 2.6 per cent. The microfinance sector in Africa is quickly expanding, and institutions have increased their activities. In fact, African Microenterprises are among the most productive globally, as measured by the number of borrowers and savers per staff member. Microenterprises in Africa also demonstrate higher levels of portfolio quality, with an average portfolio at risk over 30 days of only 4.0 per cent. However, operating and financial expenses are high, and on average, revenues remain lower than in other global regions. Efficiency in terms of cost per borrower is lowest for African microenterprises (Nwaokoro, Ojemakinde & Washington, 2017).

In Cameroon, the capital structure decision of a business is important because a poor decision can affect a microenterprises profitability leading to a decrease in shareholders' value and vice versa. The overriding objective of financial decisions is to maximize the wealth of shareholders (Cosgrove, 2018). In other words, the objective of a firm's financial decisions is to increase its profitability and the value of its shares. The effect that capital structure decisions have on profitability and firm value is that, it increases value through the present value of tax savings from the use of debt. Intuitively, this may imply that firms should use 100% debt to maximize their value. However, excessive use of debt may lead to a reduction in value because of the increasing possibility of financial distress and possible downgrading of the firm's credit rating. Therefore the possible effects of capital structure policy are that it can increase both gains and losses of the firm (Taiwo, Alege & Olokoyo, 2016).

Similarly in Ghana, in microenterprises short term debts are less expensive as compared to long term debts leading to an increase in profit levels. Short term debt has a significant positive relationship with Return on Equity and long term debt has a significant negative relationship with return on Equity.

In Uganda, microenterprises show that grants and debt have a substantial damaging consequence on MFI performance. When sustainability was more constricted to financial sustainability, debt and share capital remained noteworthy. Other than grants, debt was paid back on competitive market interest rates, whereas share capital fetched in revenues to the MFIs at market interest rates from the borrowers.

The Microenterprises industry in Kenya is growing at a very rapid rate. While East Africa is at an earlier stage of competition, the major urban centers in Kenya, are becoming saturated by competition among numerous MFIs (Eberhard-Ruiz & Moradi, 2019). From an economic perspective competition means more firms are competing for a limited market share and thus having to adjust ever closer to the needs of the customers as well as lowering prices down to a point where marginal revenue equals marginal cost. According to Omare (2019), 25% of borrowers in microfinance institutions take loans from six or more different financial institutions which eventually lead to repayment crisis in the microfinance industry. Microenterprises with a relatively high portfolio to asset ratio may be at greater risk of failure.

In the year 2012, the main source of funding for enterprises was only microfinance institutions through borrowings, which accounted for 54.2%. Compulsory deposits accounted for 22.5% of the loan structure, which was a decrease from 28.8% in the year 2011 (Bengi & Njenje, 2016). The change in deposits and debt influence the capital structure of microfinance institutions. Whether the loan structure in Depository Microfinance Institutions influence financial performance has not been empirically determine. Understanding the role of DMFIs' Loan structure and its composition, whose knowledge largely misses in the literature, constitutes a knowledge gap in Kenya, hence studying the field was critical. Mainly this study sought to investigate on the effect of loan structure on the performance of microenterprises with a case of taking microfinance institutions.

Statement of the Problem

Performance of microenterprises is often used indiscriminately to describe everything from efficiency to effectiveness. Improving the performance of the microenterprises is a central concern and the speculation about the factors related to organizational effectiveness is necessary in the modern society. Unfortunately, little effort has been made to look at those factors empirically. Further, the importance of loan structure has not been emphasized by microenterprises when it comes to management of loan risks and performance of the microenterprise (Gamez & Aguirre, 2019).

Similarly, in Eldoret town a number of microenterprises have failed to prosper because they cannot repay their loans on time thus end up being forced to shut down and quit the market due to limited capital. The key problems facing this microenterprises is poor performance that is attributed by lack of adequate finance and limited access to credit, inadequate knowledge and skills, rapid technology changes, poor infrastructure and unfavourable regulatory environment. This has led to closer of some microenterprises due to multiple losses and others never grow to macro enterprise levels. Thus a further research is needed to gap the problem.

On the other hand the importance of loan structure helps microenterprises to maintain good record on its performance. However, Nasser et al., (2014) assessed the effect of loan

repayment on performance of Microenterprise in Addis Ababa enterprises. Odongo (2014) evaluated the effect of loan lending period and Financial Performance of Small Medium Enterprises in Uganda and Nyumba et al., (2015) evaluated effect of loan interest rate on the performance of small and medium size enterprises in Lurambi Sub-County. These reviews indicated that repayment of loans by microenterprises has sabotage its management due to meagre profits and frequent losses made. This has derail performance and growth of microenterprises. None of the past reviewers has researched on loan structure and its performance of microenterprises in Eldoret Town. Based on these gaps, this study is motivated to investigate the effect of loan structure on the performance of microenterprises in Eldoret Town, Kenya.

Specific Objectives

1. To evaluate the effect of instalment payments on the performance of microenterprises in Kenya
2. To determine the effect of repayment period on the performance of microenterprises in Kenya
3. To find out the effect of loan interest on the performance of microenterprises in in Kenya
4. To establish the effect of loan security on the performance of microenterprises in Kenya

Theoretical Framework

The Pecking Order Theory of Financing

The pecking order theory was postulated by Myers in 1984. The theory states that microenterprises prefer hierarchical financing decisions in borrowing and repaying debts. There is a strict ordering or hierarchy of sources of funds for firms. The assumption of the theory states that firms will prefer retained earnings to any other source of finance and then choose debt and lastly equity (Njama, 2013).

Theory suggests that a more flexible repayment schedule would benefit clients and potentially increase their repayment capacity, microfinance experts believe that the discipline imposed by regular repayment maintains high repayment rates in the absence of collateral. Although this feature is less usual than the previous mechanisms, it helps MFI to maintain high repayment rates (Armendariz & Morduch, 2000; Morduch, 1999). In the MFI, the repayment starts almost immediately after disbursement and then occurs on a weekly or monthly basis. Critiques show that the pecking order theory of financing argues that adverse selection issues in raising funds from different sources overlook other considerations in the Trade-off model resulting in a hierarchy of funds (Mmbaya, 2013). The Trade-off theory assumes that there are benefits to leverage within a capital structure until the optimal level is reached (Waweru, 2014).

This theory is useful to the study as it supports the objective of loan instalments on performance of microenterprises. Microenterprises used internal sources of funds first to repay their loan and after exhausting such options, they will resort to using new equity finance (Njama, 2013). Firms have more information about the credit risk facing them than the providers of funds resulting in adverse selection (Kago, 2014). According to this theory, SMEs will prefer internal sources of funds followed by debt and lastly equity finance when internal and debt sources are exhausted. Loan repayment by the borrower is dependent on various aspects such as the interest rate, Age, level of education, level of income, and corporate membership

Adverse Selection Theory of Financial Markets

The adverse selection theory of financial institutions originates from the work of Stiglitz and Weiss (1981). In his explanation interest charged by a credit institution are assumed to have a dual role of sorting potential borrowers (leading to adverse selection) and affecting the actions of borrowers (leading to incentive effect). Interest rates thus assumed to affect the nature of the transaction and do not necessarily clear the market. Both effects are seen as a result of the imperfect information inherent in credit markets.

Assumptions of adverse selection theory states that adverse selection occurs because lenders would like to identify the borrowers most likely to repay their loans since the financial institutions expect returns depending on the probability of repayment. In order to identify borrowers with high probability of repayment, banks are likely to use the interest rates that an individual is willing to pay to screen. However, borrowers willing to pay high interest rates may on average be worse risks; thus as the interest rate increases, the riskiness of those who borrow also increases, reducing the bank's profitability.

Huberman and Repullo (2014) critique that higher interest rates induce microenterprises to undertake projects with lower probability of success but higher payoffs when they succeed (leading to the problem of moral hazard). Since the bank is not able to control all actions of borrowers due to imperfect and costly information, it will formulate the terms of the loan contract to induce borrowers to take actions in the interest of the bank and to attract low risk borrowers. The result is an equilibrium rate of interests at which the demand for credit exceeds the supply. Other terms of the contract, like the amount of the loan and the amount of collateral, will also affect the behaviour of borrowers and their distribution, as well as the return to banks.

Adverse selection theory is useful to the study because it supports the third objective on the effect of interest rates. Adverse selection arises because in the absence of perfect information about the borrower, an increase in interest rates encourages borrowers with the most risky projects, and hence least likely to repay, to borrow, while those with the least risky projects cease to borrow. Interest rates will thus play the allocative role of equating demand and supply for loanable funds, and will also affect the average quality of lenders' loan portfolios. Lenders will fix the interest rates at a lower level and ration access to credit. Imperfect information is therefore important in explaining the existence of credit rationing for small and microenterprises. Moral hazard occurs basically because projects have identical mean returns but different degrees of risk, and lenders are unable to discern the borrowers' actions.

Ex Ante Theory of Collateral

Ex Ante Theory of Collateral was postulated by Stiglitz and Weiss in 1981. The Ex Ante Theory of Collateral explains the gap between borrowers (Microenterprises) and lenders (Banks/MFIs) that can otherwise lead to an equilibrium characterized by adverse selection and loan rationing. The assumption of Ex ante theory is that they only hold for customers with short relationships with the lender, that is, borrowers that are relatively unknown to the lender. In this case, collateral allows financial institutions to sort observationally equivalent loan applicants through signalling.

Gavalas and Syriopoulos (2015) critique that Lenders offer a menu of contract terms such that applicants with higher-quality projects choose secured debt with lower risk premiums, while those with lower-quality projects self-select into unsecured debt with higher risk premiums. For instance, ex ante fixed seniority of lenders can serve as an instrument to strategically allocate bargaining power between lenders, thereby deterring costly conflicts ex post. Ex ante private information and suggests that collateral may allow lenders to sort observationally equivalent loan applicants through signalling. Specifically, lenders offer a menu of contract terms such that observationally equivalent applicants with higher-quality projects choose secured debt with lower risk premiums, while those with lower-quality projects self-select into unsecured debt with higher risk premiums (Berger et al., 2011).

According to Berger et al. (2010), the loan security (collateral) as arising from ex ante information gaps between borrowers and lenders lead to an equilibrium characterized by adverse selection and credit rationing. The study further acknowledges that in this case, collateral allows lenders to sort observationally equivalent loan applicants through signalling. Specifically, financial institutions offer a list of terms such that observationally equivalent applicants with higher-capital choose secured debt with lower risk premiums, while those with lower-capital operations self-select into unsecured debt with higher risk premiums which limit growth of microenterprises.

Conceptual Framework

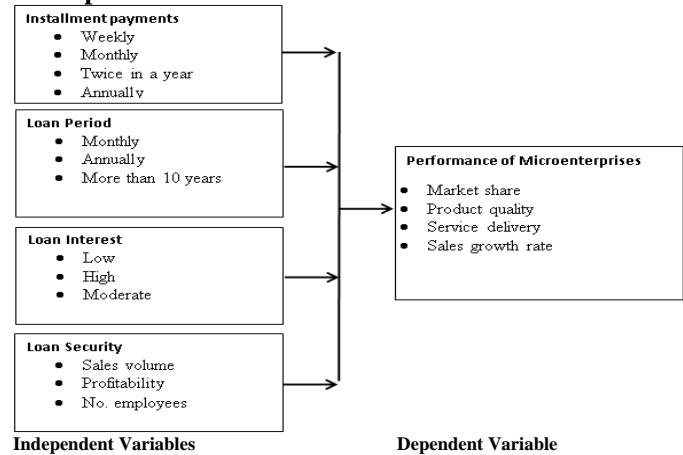


Figure 2.1: Conceptual Framework

Empirical Review

The empirical review of literature shall look at the empirical evidence on the independent variable.

Instalment payments and Performance of Microenterprises

An instalment payment is the business loan in which the principal and interest are repaid in equal instalments at fixed intervals (usually every month). It is one of a series of regular payments that you make until you have paid all the money you owe (Kuada, 2019). On literature review Noah (2015), investigated the effect of loan instalments on the cash flows of SMEs in Kanduyi constituency in Bungoma County. The study findings revealed that frequency of loan repayment does not have a significant effect on the cash flows of SMEs. Majority 67.39% indicated that frequency of loan repayment does not affect SMEs cash flows. Only 32.61% agreed that frequency of loan repayment affects SMEs cash flows. The loan amount and

business sector does not have a significant effect on the cash flows of SMEs. The study, however, found out that age of business has a significant effect on the cash flows of SMEs. In conclusion, the study found out that SMEs could choose to repay the loans either on weekly basis or monthly. The frequency of loan repayment has no significant effect on the cash flows of SMEs.

Mogire (2016) analyzed the influence of loan repayment schedules on Growth of Small Business Enterprises in Kenyena Sub-county–Kisii County, Kenya. The study used survey research design. The study found that loan repayment analysis from the rural enterprise records shows that its crystal clear that the outstanding loans balances advanced to MSEs keeps on growing on the subsequent years depicting a problem with the performance of these enterprises. The survey was more concerned with repayment of credit/loans in determining the performance of MSEs rather than looking at the profitability of these enterprises, savings, assets, market share, employment and stock levels. This study thus focuses on the effect of loan instalments on performance of microenterprises.

Noah (2015) further critique that weekly repayment of funds are sometimes raised through sale of productive assets, under stocking, or reduced consumption and this affects the growth of business. A monthly repayment schedule could assist MFI clients manage their cash flows better, repay their loans on time and have sufficient working capital. Weekly repayment schedule may limit the amount of loan a client can borrow, increases workload for the loan officers, and may lead to exit of lucrative clients. Client retention may be affected by the frequency of repayment because clients could leave the program to join another MFI offering monthly repayment schedule.

Nasser, Ahmed and Shewalem (2014) assessed the effect of loan repayment on performance of Microenterprise in Addis Ababa enterprises, particularly to Arada Sub-city. The study adopted cross-sectional research design. Findings show that a good repayment performance is an important measure for the success of micro enterprises. Hence, it is advisable to credit schemes initiatives to make more attention to investigate factors that affect loan repayment performance which enables the problem to reach millions of poor. According to the findings, educational level, supervision, available of other source of credit and monthly repayment period are found to be positively related to repaying loan in full in a repayment period of one year. Loan diversion and loan size has a negative relation. Hence, factors that enhance and hinder loan repayment performance should be considered by Arada Sub-city and Credit and Saving Office in designing a more effective loan repayment mechanism for its borrowers.

Kamath and Ramanathan (2015), argue that the need to raise funds for weekly repayment makes clients take informal sector loans. They argue that MFI benefits from these informal lenders because of their effective collection methods and therefore prefers are payment schedule that makes it more likely that a client will also take credit from money lenders to service the loan. Field and Pande (2008) found out that there is no significance effect of type of repayment schedule on delinquency or default. The study suggests that a more flexible schedule can significantly lower transaction costs without increasing client default. Field and Pande identified weekly collection of

repayment installments as a key feature of MFI that is believed to reduce default risk in the absence of collateral and thus make lending to the poor viable. They also identified weekly collection as a key feature that increases MFI s transaction costs, thereby limiting the set of loan sizes and client types that are profitable under weekly repayment schedule. Field and Pande reported that access to future loans is the main incentive for clients to avoid default.

Muhammad, Bambale, Ibrahim and Sulaiman, (2019) examined Loan Repayment and Performance of Small and Medium Enterprises in Kano Metropolitan. The study uses cross-sectional primary data, stratified sampling techniques, and finally employed chi-square test to test the association of the independent variables and loan repayment performance. A total of eleven explanatory variables were included in the chi-square. According to the chi-square test, group formation (screening), peer monitoring, loan size, loan term and supervision have significant association with loan repayment performance.

Dire (2018) studied the effect of loan instalments on performance of micro and small enterprises in Jimma town, Ethiopia. Study used survey research design as a methodology. The study found that there are different factors which influence MSEs for successful loan repayment either internal or external, among factors that confronting MSEs such as individual characteristics, loan characteristics and firm characteristics that impeding the successful loan repayment of MSEs in Jimma town, Ethiopia. Among this inconvenience loan payback period, Lack of financial skills and planning, lack of marketing skills, lack of performance monitoring was focuses of the study because majority of banks and financial intermediaries are providing loan based on the creditworthiness and performance of MSEs in loan repayment, however, it is necessary to know basic factor that impeding loan repayment of MSEs. This study recommends remedial actions to be taken in order to tackle the identified hindering factors.

Firafis (2015) evaluated the effect of loan repayments frequency and performance of Hirari micro-enterprises. The study employed descriptive statistics and logistic regression (binary logit) to analysis the data. The study revealed that loan size significantly influenced loan instalments and performance of microenterprises. In the same vein, Seyedmehrdad, Andrea, Giorgio, Emanuele and Paolo (2015) found that loan size has significant relationship with loan repayment and performance of Indian Institute for Mother and Child. Similarly, Tesfaye, Tesfatsion and Kiros (2014) also studied the determinants of loan repayments frequency and performance of SMEs in Ethiopia. The study employed binary logistic regression to analysis the data. The study revealed that loan size significantly influenced loan instalments on performance of SMEs. Al-Sharafat, Qtaishat and Majdalawi (2013) assessed the loan-instalments on performance of public agricultural credit agencies in Jordan. The result of this study further revealed that size of loan size, size of loans repaid number of borrowers and numbers of credit agency staff and borrower experience have positive effects on loan repayment.

Repayment period and Performance of Microenterprises

Repayment period is the time between the first payment on a loan and its maturity. For example, if one takes out a student loan with a payback period of 10 years, the full amount of the loan is

due 10 years after the first payment, which occurs on an agreed-upon date (Mogire, 2016). On literature review Odongo (2014) evaluated the effect of loan lending period and Financial Performance of Small Medium Enterprises in Uganda. The study adopted cross sectional research design. The findings showed that shorter term credits will prevail. This direct impact on SMEs was noted when attracting new funding; repayment period will possibly be shorter as the MFIs might be afraid that they are not able to pay their own loan because they are less sure that they will get their outstanding credits back. They concluded that some MFIs require borrowers to make compulsory deposits before they can receive a loan; borrowers typically must maintain these deposits during the life of the loan. The costs of money borrowers receive on these deposits are well below the rates borrowers pay on their loans. The effect of such deposit requirements is to reduce the net additional cash borrowers realize from their loans and, thus, to increase the effective cost of the loan to them. About one-third of the sustainable MFIs reporting to microfinance information exchange required such savings deposits, and on average these MFIs are smaller than the ones that do not use compulsory savings.

Wakaba (2014) determined the effect of repayment period on the financial performance of small and medium enterprises in Kiambu County. The study used descriptive survey research design. The study findings indicated that repayment period, costs of money and loan size are good predictors of the SMEs financial performance because the business is able to look at the sales turnover, payment ability, good returns in assets and the market share in the market, increase in profits and customer base maintained for a company to breakeven. Further, the study agrees that the ability of the SMEs to meet all their financial obligations, asset accumulation and number of years in business is the good predictor of financial performance.

Oduro-Ofori, Anokye and Mathias (2014) conducted a study on repayment period and performance of Micro and Small Enterprises (MSEs) in the Ashaiman municipality of Ghana. The study used descriptive survey research design. The study found that timely repayments of loans were not made from incomes gained from business operations but through further borrowing from private money lenders, therefore few of these MSEs ever develop into mega business concerns and a large number of them either remain small or simply fizzle out. It can be noted that credit to MSEs have been found to cause trauma and even self-pity and unfulfilment perpetuating a vicious cycle of financial problems to majority of borrowers.

Odongo (2014) in a study on the effects of repayment period and financial performance of small medium enterprises in Uganda found that, lending is predominantly short term and low to SMES due to poor credit discipline, contractual enforcement problems, and scarcity of projects and lack of collateral. Despite SMEs' perceptions of excessively high interest rates, the cost of finance is found to compare favorably with and generally the issue relates to the amount (monetary value) of the installment as opposed to the cost of credit. When installments are high (due to 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. The maturity of loans is also a serious issue, as Uganda seems to have the shortest average loan maturity (12

months) among comparable countries such as Kenya, Brazil, China and India (CGAP report, 2009). The MFIs short term loans are not conducive for rural farmers who rely on climatic conditions to pay the loans and long term loans are not available to cater for animal production which are costly and risky. The financial institutions credit terms are recognized to meet SMEs working capital not for asset accumulation in the long run and limited access to loans of not more than 12 months.

Chin and Nor (2016) determined whether does the micro financing term dictate the performance of micro enterprise. The study findings show that loan tenure has also been found to be critical for access to enterprise performance. Loan repayment period negatively influences access to credit as it has a major bearing on the total amount to be repaid. Specifically, making a long-term financing or loan will increase the rate of interest to be paid in the long run. When enterprises perceive repayment period as inflexible, they will have no chance to apply for another financing and this will affect the performance of enterprise to obtain back their investment. Nkundabanyanga, Kasozi, Nalukenge and Tauringana (2014) also found that the short term repayment period does not meet the enterprise's long term financing and as a result, they will take any amount of loan that the financial institutions are willing to offer them. From the discussion above, it can be concluded that tenure has an insignificant effect towards the performance of micro enterprise in terms of return on Asset. This conclusion is drawn from the fact that tenure has its own antecedents such as individual's capacity and financial institution's ability to collect and ensure repayments.

Loan Interest and Performance of Microenterprises

Loan interest rate is the amount a lender charges for the use of assets expressed as a percentage of the principal. The interest rate is typically noted on an annual basis known as the annual percentage rate (APR) (Charman, 2017). Shaikh (2017), examined the effect of loan interest on poverty alleviation through financing microenterprises with equity finance. The study used descriptive survey research design. The study found that high rate of interest on loans is effectively a burden on the incomes of the poor and microenterprises. Given the low capital intensity of investment made through lending institutions and the resultant low profit margins, high interest rates dampen the possibility of any significant savings on the part of the poor borrower who largely borrows to meet consumption related to household requirements. Therefore the fast economic growth anticipated after use of credit is not achieved instead a marginal economic growth is witnessed. This perhaps explains why there is continues increase in unemployment and poverty is on the increase despite efforts being made to improve the performance of MSEs which have been widely accepted a being engines of national economic development.

Nyumba, Muganda, Musiega and Masinde (2015) evaluated effect of loan interest rate on the performance of small and medium size enterprises in Lurambi Sub-County, Kenya. The study used descriptive survey research design. The study was based on the bank lending channel theory. The data for the study was collected by use of questionnaire. Cronbach's Alpha of coefficient test was used to determine the reliability while test-retest and data triangulation technique was used to determine the validity of the instruments. The study used the correlation r (beta,

β) to test the research question. The test criteria was set such that there is either a positive or negative effect if the value of beta, $\beta_2 \neq 0$. The study evaluated the mean of loan interest and the mean of performance of small and medium size enterprises in Lurambi sub-County. From the results, the correlation of the mean of interest rate and mean of performance had a beta term $\beta = -0.289$, $P=0.01$. This implies that the value of beta is negative and significant. Basing on this value, it therefore implies that there exists a statistically significant negative effect of interest rate on the performance of SME's.

Nyumba et al., (2015) also noted that SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital and leasing. For instance, although SMEs are by far the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also limit.

Msangula (2015) examined the effect of loan interest rates to SMEs' Performance and Growth in Tanga City. The study used descriptive survey research design. Data for the study was collected from 83 respondents using structured questionnaire. The result of the study has revealed loan interest rates to have effect on SMEs performance and growth; which is presented by majority 68.7 per cent who had yes response. This particular response is further supported by 44.6 per cent who reported to experience slow growth of business capital and 39.8 per cent who responded to have continued operating on less profit respectively. However, a slow growth of business capital is explained as the decision of loan seeker opting to take small loan amount from the fear of paying more money charged on interest rate. Nevertheless, price fluctuation, business seasonality and economic hardship were emerged other factors challenged their business performance.

Msangula (2015) also found that loan's interest rates charged by lenders (MFIs) are not well-suited with the performance of the SMEs and that most of them charge high interest rates compared to larger firms which usually comply with higher disclosure requirements to a greater extent. Interest rates yielded by any investment take into account the following parameters: the risk-free cost of capital, inflationary expectations, the level of risk in the investment and the costs of the transaction. Indeed, interest rates are thus made to keep inflation within a target range for the health of economic activities to safeguard economic momentum.

Wang (2016) examined the biggest obstacles to growth of SMEs in developing countries. The study adopted cross-sectional study design. The study noted that interest rate is seen to influence the significance contribution of SMEs to development. The likely indication for SMEs significant contribution is observed in the economy in terms of output of goods and services, and creation of jobs at relatively low capital cost. It is a vehicle for the reduction of income disparities among skilled and none skilled individuals and is basis for the future industrial expansion; improve forward and backward linkages between economically, socially and geographically diverse sectors of the economy. SMEs provide opportunities for developing and adapting appropriate technological approaches and offer an excellent breeding ground for entrepreneurial and managerial talent.

Gichuki, Njeru and Tirimba (2014) studied on the challenges facing micro and small enterprises in accessing credit facilities in Kangemi Harambee Market in Nairobi City County, Kenya. The study used cross-sectional research design. The study found that credit for small enterprises forces them to rely on high cost short term finance. There are various financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Kenya.

Mazumder, Dastidar and Bhandari (2017) access effect of loan interest credit and growth of micro entrepreneurship. The study utilized descriptive survey research design. The study found that high interest rates as an impediment to access to loans from Micro finance institutions (MFIs) by micro entrepreneurs. Micro entrepreneurs who secure funds from such institutions spend the bulk of their returns on investment in paying the cost of capital, thus leaving them with none or little savings for reinvestment. As a result, majority of micro enterprises fail to grow into Small and eventually Medium enterprises. Therefore, to bring the youth on board, the Kenyan government with the support of development partners in 2006 established a youth enterprise development fund that is channelled to Micro finance Institutions and other financial intermediaries for onward lending to the youth without collateral. Such a fund attracts a greatly reduced cost of capital which stands at 8% per annum as a strategy to make the fund affordable to the youth who in many cases do not have collateral and therefore ideal for start-ups.

Loan Security and Performance of Microenterprises

Loan security is loan secured by the pledge of any marketable asset as collateral. Not to be confused with 'securities loan' which is a loan collateralized by marketable securities (Msangula, 2015). Campello and Larrain (2016) determined the effect of loan security on the performance of microenterprises. The study adopted descriptive survey research design. The study found that firms with tangible collateral seem to be doing well in terms of access to credit than those that don't. There is therefore a positive but insignificant relationship between collateral and performance of SMEs generally. Collaterals are used as a mechanism to reduce equilibrium credit rationing and other problems that arise due to asymmetric information between borrowers and lenders. Besides, increases in a firm's collateral value relax the credit constraint faced by the firm, enabling the firm to borrow more. Loan Security is regarded as a secondary source of repayment, and therefore is only used in assessing the amount of loan loss provision required for non-performing loans. Where securities are obtained, they should be perfected in all respects, namely; duly charged, registered and adequately insured.

Rahman, Belas, Kliestik and Tyll (2017) determined the effect loan security on performance of microenterprises from the Visegrad countries (V4, cultural and political alliance of four Central European countries - the Czech Republic, Hungary,

Poland and Slovakia). The study adopted survey descriptive research design. The study found that the greater the amount of loan security possessed by an SME, the lower is likely to be the extent of the financial limitation. In more general terms it can be postulated that the greater the financial depth or development of a financial system, the greater was the availability of loans to firms, including SMEs, and, therefore, the lower was the extent of any financial gap. Access to collateral can be postulated to be positively related to firm performance, as with business transparency, preparation of business plans, the skill level of the entrepreneur and credit rating of the business.

Thuku (2017) examined the factors affecting access to credit by small and medium enterprises in Kenya. The study used cross sectional research design. The study found that lending decisions of financial institutions are traditionally based on the availability of collateral security, a sound business plan with sufficient cash flow, and personal guarantors for loans. Full collateral, using land and buildings are often required by banks to cover losses in case of default. The effect of collateral security on performance of small firms is negative as it is a major deterrence to access to credit.

Demirguc-Kunt, Klapper and Singer (2017) evaluated effect of loan accessibility in the inclusion and inclusive growth of microenterprises. The study used a survey research design. The findings showed that lending conditions may depend on the distance between the borrower and the lender and the distance between the borrower and the competing bank. This implies that if there are so many banks within convenient distance to the small businesses, the proprietors will have alternatives to shop around and will have the benefit of learning the requirements of accessing those loans. Further a behaviour that is predominantly found amongst small businesses, where a lender connected to the community can easily know whether the account behaviour of a business is due to lack of financial knowledge on the part of the lender or lack of viability in the business.

Kamunge, Njeru and Tirimba (2014) establish the factors affecting the performance of small and micro enterprises (SMEs) traders at Limuru town market in Kiambu County, Kenya. The study employed a descriptive research design to achieve the objectives. The target population under study was the 965 licensed SMEs by Limuru sub-county operating in Limuru Market in 2014. The study used a questionnaire to collect the required data from a sample of 274 SMEs. The data collected was coded, quantified and analyzed quantitatively and qualitatively. Quantitative data was analyzed by the use of statistical package for social sciences (SPSS). The study concluded that access to finance and availability of management experience are the key socio-economic factors affecting the performance of businesses in Limuru Town Market. The other key factors that were found to affect businesses in Limuru Town Market positively are: access to business information, access to infrastructure and government policy and regulations. The study recommended that the government should start offering basic business and financial management skills as this enabled entrepreneurs to make informed investment decisions as well as enhance their entrepreneurial skills that enable them to recognize and exploit the available business opportunities.

Omwono, Paul and Omwono (2018) examined the effect of loan security on the financial performance of micro, small and

medium enterprises. The study adopted cross sectional research design. The study found that a shortage of collateral leads to limited financing which is one of the major barriers to rapid development of the small and medium enterprises. The recent global financial crisis created a tough environment for SMEs, with a reduction in demand for goods and services and a contraction in credit by banks and other financial institutions. SMEs by number, dominate the world business stage. It is worthwhile noting that, SMEs tend to be more labour intensive and at a macro level, therefore, provide a substantial contribution to employment. However, they are strongly hampered in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major impediment.

Pencea and Oehler-Sincai (2015), investigated the effect of loan security on performance of Investment-Led Development in China. The study adopted descriptive survey research design. The study found that the provision of credit and other services to small and medium enterprises has traditionally been challenging since there is limited loan security to allow them secure desired loans. The growth of the microenterprises was slow since most of them lack enough credit for expansion. On the one hand, the challenge may be related to a lack or non-existence of financial history and the inability to provide required collateral among small and medium enterprises. This was in agreement with Madole (2013) who did a similar study in Tanzania and found out that there was a positive and significant effect of access to loan on sales volume, profitability and number of employees of firms. This study focuses on collateral and lack of financial credit history as the major hindrances to credit access. The study did not take into account that access to credit can be influenced by credit history, age and size of the firm, education levels of firm owners and managers, sales turnover among other factors such as the time the lender takes to process the credit facility, or the repayment period.

Hyder and Lussier (2016), examined why the businesses succeed or fail: a Study on Small Businesses in Pakistan. The study found that financial crisis and subsequent widespread economic downturn had a huge impact on the accessibility of finance to SMEs. SMEs in many developing countries before the crisis had been strongly restricted in accessing the capital that they needed to grow and expand. Performance of firms is positively related to access of finances. However, banks do not provide SMEs with adequate capital in many of these countries because they lack collaterals. In fact, only 20% of African SMEs have a line of credit from a financial institution. The financial crisis has further increased the financing gap for SMEs in developing countries.

Rahman, Belas, Kliestik and Tyll (2017) evaluated the effect of collateral requirements for SME growth from the Visegrad Countries. The research adopted survey research design. The examination found out that most of the requirements as collateral for loan application could not be afforded by most SMEs, hence opting for cheaper sources of capital hence the low adoption of the loan services by businesses. Financial institutions loans led to the improvement in performance among the beneficiary SMEs, as well as profitability and the high number of entrepreneurs starting up new ventures. There exists negative relationship between ROA and collateral of FI lending. This contradicts Nyabicha (2015) who asserts that collateral requirements

positively affect the performance of businesses in Nairobi. Apart from the mixed results found by the scholars, the study of collateral security and their influence has received less attention by scholars. Collaterals are increasingly becoming important to financial institutions as a secondary source of repayment and cannot be overlooked as lack of it may deny SMEs the much sophisticated capital required for business growth.

RESEARCH METHODOLOGY

A descriptive study was adopted for this study. The target population was 2508 registered enterprises according to Uasin Gishu County government records (Company Registrar, 2019). The listed microenterprises include Agrovets, Banking Agencies, Boutiques, Chemists, Electronic Shops, General Shops, Groceries, Guest Houses, Hardware, Hotels, Membership Clubs, Mobile and Phone Accessory Shops, SACCOS, Saloons and Barber Shops and Service Firms. This study used stratified random sampling technique to collect data from the respondents; because stratification ensured homogeneity within microenterprises and heterogeneity across microenterprises. This study adopted structured closed ended type of questionnaires; the questionnaires were administered by the researcher to the respondents. The structured questions were in the form of a five point Likert scale, whereby respondents were required to indicate their response on a scale of 1 to 5. The data collected was analyzed using the statistical package for social sciences (SPSS V 20). Quantitative data was analyzed using both descriptive and inferential statistics.

Research Findings and Discussion

Instalment Payments and Performance of Microenterprises

The first objective was to evaluate the effect of instalment payments on the performance of microenterprises in Kenya. The study focused on the effect of weekly, monthly, twice in a year and annual payments. The study was interested with the opinions of the respondents on the extent to which such constructs affect the performance of microenterprises in Kenya. The study research asked respondents to give their opinion on the statement that weekly payments affect financial performance of microenterprise. Majority of the respondents 82.4% agreed and 16.3% disagreed with the statement. Respondents also responded to monthly payment and majority 86.3% agreed that monthly instalment payment affect performance of microenterprises and 9.1% disagreed with similar statement. Monthly instalment payments are the most common type of loan repayments to most entrepreneurs as the way of paying back the loan borrowed. Instalment repayment greatly dependent on loan size which is used to determine spread of repayment. Seyedmehrdad, Andrea, Giorgio, Emanuele and Paolo (2015) found that loan size has significant relationship with loan repayment and performance of Indian Institute for Mother and Child.

The study respondents' view on payment of instalment twice a year revealed that 80.5% of the respondents agreed and 12.4% disagreed with the statement that microenterprises are rarely allowed to make instalment payments twice a year. The study respondents' opinion on annual payment revealed that majority of the respondents 90.9% agreed that microenterprises rarely allow customers make annual payment instalment and 5.3% disagreed with the statement. The study results showed that

majority of the respondents agreed that instalment repayments range from the commonly monthly, after a fortnight, others pay weekly, another group repay their loan after three months, others repay after six months and very few repay their loan annually. The performance of the microenterprise can greatly depend on the capital and delinquent cash. When more money is paid out to cater for loan weekly, little is saved for the purpose of improving performance of the business. Microenterprises that repay their instalments monthly, in three months, six months or annually thrive better than those that repay their loan weekly or in a fortnight.

The findings are in agreement with Noah (2015) who critique that weekly repayment of funds are sometimes raised through sale of productive assets, under stocking, or reduced consumption and this affects the growth of business. A monthly repayment schedule could assist MFI clients manage their cash flows better, repay their loans on time and have sufficient working capital. Weekly repayment schedule may limit the amount of loan a client can borrow, increases workload for the loan officers, and may lead to exit of lucrative clients. Client retention may be affected by the frequency of repayment because clients could leave the program to join another MFI offering monthly repayment schedule.

Repayment Period and Performance of Microenterprises

The second objective was to determine the effect of repayment period on the performance of microenterprises in Kenya. The study focused on the effect monthly repayment period, annual repayment period and more than 10 years of loan repayment period. The study was interested with the opinions of the respondents on the extent to which such constructs influence performance of microenterprises in Eldoret town. Respondents were asked to give their view on the statement that the repayment period of loan is monthly. The findings showed that majority of the respondents 86.3% agreed that repayment period of loan is monthly. Respondents who disagreed were 11.1%. The research also asked respondents to give their opinion on the statement that microenterprise loan repayment period is annual. The study findings revealed that 77.9% agreed with the statement and 7.9% disagreed. Respondents view on the statement that microenterprises are given a loan repayment period of between 2-5 years reveal that 82.4% of the respondents agreed and 9.1% disagreed with the statement. Respondents view on the statement that microenterprises are given a loan repayment period of between 6-10 years reveal that 84.3% of the respondents agreed and 5.9% disagreed with the statement.

Respondents view on the statement that microenterprises are given a loan repayment period of more than 10 years reveal that 92.2% of the respondents agreed and 5.2% disagreed with the statement. Microenterprises that has a wider production range and optimizes large amount of loans are given enough time to clear up their loans running up to 10 years. Majority of the microenterprises that produce small range of products and take medium and small sizes of loan are given short period of repayment. Repayment period of the most microenterprises is monthly and other microenterprises make their repayments in three months, six months or 9 months. Decision on repayment period depends on the amount of loan issued and the purpose of the loan. Repayment period with adjusted or extended terms help microenterprises do better because they can generate enough

profit to assist in offsetting the expenses and debts owed. Performance of microenterprise is greatly determined by loan repayment period.

Chin and Nor (2016) findings supported that loan tenure has been found to be critical for access to enterprise performance. Loan repayment period negatively influences access to credit as it has a major bearing on the total amount to be repaid. Specifically, making a long-term financing or loan will increase the rate of interest to be paid in the long run. When enterprises perceive repayment period as inflexible, they will have no chance to apply for another financing and this will affect the performance of enterprise to obtain back their investment. Wakaba (2014) who indicated that repayment period, costs of money and loan size are good predictors of the SMEs financial performance because the business is able to look at the sales turnover, payment ability, good returns in assets and the market share in the market, increase in profits and customer base maintained for a company to breakeven.

Loan Interest and Performance of Microenterprises

The third objective was to find out the effect of loan interest on the performance of microenterprises in Kenya. The study focused on the effect of low interest rate, high interest rate and moderate interest rate. The study was interested with the opinions of the respondents on the extent to which such constructs influences performance of microenterprises in Eldoret town. Respondents gave their opinion on the statement that the loan interest rate is low and therefore affordable to repay. The study findings revealed that majority of the respondents 89.6% agreed that the loan interest rate is low and therefore affordable to repay and 9.1% of the respondents disagreed with the statement. Respondents gave their view on the statement that the interest rate is moderate and therefore manageable for microenterprises. 93.5% of the respondents agreed that the interest rate is moderate and therefore manageable for microenterprises. 3.9% of the respondents disagreed. Microenterprises supported the fact that interest rates from other MFIs are moderated and can be managed since they favour growth of the small business.

Respondents gave their opinion in the statement that the interest rate is high and this has negatively affected performance of the microenterprises. From the findings, majorities of the respondents 92.9% agreed that the interest rate is high and this has negatively affected performance of the microenterprises. The findings are supported by Mazumder (2017) who found that high interest rates as an impediment to access to loans from Micro finance institutions (MFIs) by micro entrepreneurs. Micro entrepreneurs who secure funds from such institutions spend the bulk of their returns on investment in paying the cost of capital, thus leaving them with none or little savings for reinvestment. As a result, majority of micro enterprises fail to grow into Small and eventually Medium enterprises.

Respondents were further asked to respond to the statement that performance of microenterprises is directly affected by the loan interest rate limits. Findings showed that 85.0% of the respondents agreed that performance of microenterprises is directly affected by the loan interest rate limits. Respondents who disagreed with the statement were 0.7%. The findings are in line with Nyumba et al., (2015) who found that loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-

perceived risks in SME loans, access to competitive interest rates may also limit

Also respondents were asked to give their opinion on the statement that interest rates require moderation to ensure improvement on performance of microenterprises. Findings showed that 80.4% of the respondents agreed that interest rates require moderation to ensure improvement on performance of microenterprises. Respondents who disagreed with the statement were 4.6%. Moderated loan interest rates enables microenterprises access large amount of money needed for business extension and expansion. Loan interest rates determine accessibility of loans and performance of microenterprise.

The study results has revealed that majority of the respondent agreed that the consequences of high interest rates weaken the performance of microenterprises because more percentage of generated income (profits) is used to pay the accrued loans without consideration of expansion of the business. High interest rates may sink the enterprise because operation costs are not paid on time and also assets can be sold to cater for the loans. Also interest rate limits depending on the amount of loans and the duration of repayment discriminates micro-entrepreneurs. Microenterprises that take up small loans end up paying more on the interest rates compared to Microenterprises that takes up large amount of loans. Microenterprises cannot perform well with such discrimination and unstandardized interest rates.

Loan Security and Performance of Microenterprises

The fourth objective was to establish the effect of loan security on the performance of microenterprises in Kenya. The study focused on the sales volume, profitability and number employees. The study was interested with the opinions of the respondents on the extent to which such constructs influences performance of microenterprises in Eldoret town. Respondents were asked to give their views on the statement that flexible loan security terms have positively affected performance of microenterprises. Majority of the respondents 89.6% agreed that flexible loan security terms have positively affected performance of microenterprises. Respondents who disagreed were 9.1%. Pencea and Oehler-Sincai (2015) concurred that provision of credit and other services to small and medium enterprises has traditionally been challenging since there is limited loan security to allow them secure desired loans. The growth of the microenterprises was slow since most of them lack enough credit for expansion

Respondents were asked to give their views on the statement that microenterprise performance is greatly hampered by limited access of credit. Majority of the respondents 93.5% agreed that microenterprise performance is greatly hampered by limited access of credit. Respondents who disagreed were 3.9%. Campello and Larrain (2016) concurred with the findings that loan security is regarded as a secondary source of repayment, and therefore is only used in assessing the amount of loan loss provision required for non-performing loans.

Respondents were asked to give their views on the statement that collateral value of microenterprises creates enabling environment for the firm to borrow more. Majority of the respondents 92.9% admitted that collateral value of microenterprises creates enabling environment for the firm to borrow more. Respondents who disagreed were 3.3%. The study findings were supported by Campello and Larrain (2016) who found that collaterals are used

as a mechanism to reduce equilibrium credit rationing and other problems that arise due to asymmetric information between borrowers and lenders. Besides, increases in a firm's collateral value relax the credit constraint faced by the firm, enabling the firm to borrow more.

Respondents were asked to give their views on the statement that the amount of loan security possessed by microenterprises determines success and profitability gained. 85.0% of the respondents agreed that the amount of loan security possessed by microenterprises determines success and profitability gained. Respondents who disagreed were 0.7%. Rahman et al., (2017) concurred that the access to collateral can be postulated to be positively related to firm performance, as with business transparency, preparation of business plans, and the skill level of the entrepreneur and credit rating of the business.

Respondents were asked to give their views on the statement that the loan security limits performance of microenterprises. Majority of the respondents 80.4% admitted that the loan security limits performance of microenterprises. Respondents who disagreed were 4.6%. The findings are supported by Hyder and Lussier (2016) who mentioned that performance of microenterprises are positively related to access of finances. However, banks do not provide microenterprises with adequate capital in many of these countries because they lack collaterals. In fact, only 20% of African microenterprises have a line of credit from a financial institution. The financial crisis has further increased the financing gap for microenterprises in developing countries.

Majority of the respondents agreed that microenterprise performance is greatly limited by lack of enough access to credit. Creditors need loan security before issuing out loans and the challenge to microenterprises is that they lack collateral. Majority of them use business assets as the collateral to which if the loan repayment fails they have to sell the assets to offset the loans borrowed. Loan securities need to be adjusted since the collateral value of the microenterprises creates enabling environment for the firm to borrow more. And finally the amount of loan security possessed by microenterprises determines the success and profitability gained.

Performance of microenterprises

Responses on performance of microenterprises institutions in Eldoret Town, Kenya were also analysed. The study focused on the market share, product quality, service delivery and sales growth rate. The study was interested with the opinions of the respondents on the extent to which such constructs influences performance of microenterprises in Eldoret town. The research study asked respondents to respond on the statement that instalment payments are good and improve performance of microenterprises. The study findings revealed that majority of the respondents 92.9% agreed that the instalment payments are good and improve performance of microenterprises. Respondents who disagreed were 6.5%. The study respondents were asked to give their views on the statement that performance of microenterprises need adjustable repayment period that can allow negotiations to sort bending loans. The study findings revealed that majority of the respondents 93.5% agreed that performance of microenterprises need adjustable repayment period that can allow negotiations to sort bending loans. Respondents who disagreed with the statement were 5.2%.

Respondents also reacted to the statement that high interest rates reduce loan borrowing chances that directly affect performance of microenterprises. The study findings revealed that majority of the respondents 93.5% agreed that high interest rates reduce loan borrowing chances that directly affect performance of microenterprises. Respondents who disagreed were 5.3%. In addition respondents gave their views on the statement that loan security determines the amount of loan borrowed which in the long run affects performance of microenterprise. The study findings showed that majority of the respondents 90.9% agreed with the statement loan security determines the amount of loan borrowed which in the long run affects performance of microenterprise.

Performance of microenterprise depends on loan structure existing. A flexible loan structures makes enterprises effective and successful for instance adjusted instalment payments are good and enables the business to improve its performance. High interest rates reduce loan borrowing chances that directly affect performance of microenterprises specifically the economic microenterprises. And finally Loan security determines the amount of loan borrowed which in the long run affects performance of microenterprise.

Inferential Analysis

Inferential analysis was conducted in order to determine the existence of relationships between the study variables (the dependent and the independent variables). This study research conducted an inferential analysis using Pearson's product moment correlation. Correlation is a statistical technique that shows how strongly pairs of variables are related. The correlation coefficient ranges from -1.000 to +1.000. The correlation coefficient value of -1.000 indicates a perfect negative correlation, correlation coefficient value of +1.000 indicates a perfect positive correlation and a correlation coefficient value of 0.000 implies that there is no relationship between the study variables (Orodho, 2013).

Overall Correlation Analysis Results

		Instalment payments	Repayment period	Loan interest	Loan security	Performance of microenterprises
Installment payments	Pearson Sig. (2-tailed)	1				
Repayment period	Pearson Sig. (2-tailed)	.584**	1			
Loan interest	Pearson Sig. (2-tailed)	.450**	.587**	1		
Loan security	Pearson Sig. (2-tailed)	.631**	.360**	.589**	1	

Performance of microenterprises	Pearson	.689**	.645**	.607**	.610**	1
	Sig. (2-tailed)	0.00	0.00	0.00	0.00	

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

Instalment period and Performance of microenterprises

The influence of instalment payments on performance of microenterprises was analysed and the findings were as shown in table above. The study results indicated that the instalment payments have a positive and statistically significant influence on performance of microenterprises with ($r=0.689, p<0.05$). This implies that instalment payments influence performance of microenterprises.

Repayment period and Performance of microenterprises

The influence of Repayment period on performance of microenterprises was analysed and the results were shown in table above. Results revealed that repayment period had positive and statistically significant influence on performance of microenterprises with ($r=0.645, p<0.05$). This implied that customer requirement to qualify for loan award influence performance of microenterprises of the borrowed loan among microenterprise institutions

Loan interest and Performance of microenterprises

The influence of Loan interest on performance of microenterprises was analysed and the findings are indicated in table above. The study results revealed that Loan interest had positive and statistically significant influence on performance of microenterprises with ($r=0.607, p<0.05$). This implied that Loan interest influence performance of microenterprises success.

Loan security and Performance of microenterprises

The influence of loan security on performance of microenterprises in Eldoret town was analysed and the findings shown in table above. The study results indicated that loan security had positive and statistically significant effect on performance of microenterprises with ($r=0.610, p<0.05$). This implied that loan security state influence performance of microenterprises. The findings are supported by Thuku (2017) who stated that full collateral, using land and buildings are often required by banks to cover losses in case of default. The effect of collateral security on performance of small firms is negative as it is a major deterrence to access to credit.

Multiple Regression Analysis

The table below show results of model summary. Multiple linear regression analysis was used to determine the combined linear relationship between the dependent variable and the independent variables.

Multiple Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.795 ^a	.632	.627	.34690

a. Predictors: (Constant), Instalment period, Repayment period, Loan interest, Loan security

b. Dependent Variable: Performance of microenterprises

The results in table above indicated that there is a positive and statistical significant influence of loan structure on performance

of microenterprises as indicated by ($R^2=0.632$). This implies that 63.2% variation in performance of microenterprises is accounted by loan structure (Instalment period, Repayment period, Loan interest, Loan security) in the study whereas 36.8% of the performance of microenterprises is accounted by other factors that were not covered in the study.

Assessing the Fit of the Model Summary

The analysis of variance (ANOVA) was used to determine if the multiple regression model was fit for the data. The results were as shown in the ANOVA table below;

ANOVA Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62.432	4	15.608	129.699	.000 ^b
	Residual	36.343	302	.120		
	Total	98.775	306			

The results indicates that the influence of independent variables on the dependent variable was statistically significant ($F=129.699; p<0.05$). This implies that the multiple regression model was fit for the data and thus instalment period, repayment period, loan interest and loan security influence performance of microenterprises success.

Regression coefficients

The ANOVA table shows the regression analysis results. T-test of statistical significance of each regression coefficient was conducted in order to determine the beta (β) value which shows how strongly each independent variable influences the dependent variable.

Regression Analysis

Model		Unstandardized Coefficients		Standardize d Coefficients	t	Sig.
		β	Std. Error			
1	(Constant)	1.019	.155		6.561	.000
	Instalment period	.228	.038	.314	5.996	.000
	Repayment period	.201	.036	.282	5.661	.000
	Loan interest	.137	.038	.180	3.564	.000
	Loan security	.196	.050	.205	3.937	.000

The study findings in the above table shows the regression coefficients results whereby instalment period had a positive and statistical significant influence on performance of microenterprises ($\beta=0.228, p<0.05$), repayment period had a positive and statistical significant influence on performance of microenterprises ($\beta=0.201, p<0.05$), loan interest had a positive and statistical significant influence on performance of microenterprises ($\beta=0.137, p<0.05$) and Loan security a positive and statistical significant influence on performance of microenterprises ($\beta=0.196, p<0.05$). The multiple regression equation for loan structure was as shown below:

$$Y_i = 1.019 + 0.228X_1 + 0.201X_2 + 0.137X_3 + 0.196X_4 + \epsilon \dots \text{Eqn (1)}$$

This implied that the performance of microenterprise was constant at 1.019 units given that all the key variables unchanged. The coefficient 0.228 indicates that an improvement or change on instalment period by one unit increases performance of microenterprises by 0.228 units, the coefficient 0.201 indicates that an improvement or change on repayment period by one unit increases performance of microenterprises by 0.201 units, a coefficient 0.137 indicates that an improvement of loan interest by one unit increases performance of microenterprises by 0.137 units and a coefficients 0.196 indicates that improvement of loan security by one unit causes an increase on performance of microenterprises by 0.196 units.

CONCLUSSIONS AND RECOMMENDATIONS

Conclusion of Findings

From the findings the study concluded that instalment payments influence performance of microenterprises and the microenterprises that repay their instalments monthly, in three months, six months or annually thrive better than those that repay their loan weekly or in a fortnight. Monthly instalment payment is the most common type of loan repayments to most entrepreneurs. Instalment repayment greatly dependent on loan size which is used to determine spread of repayment. Also repayment period influence performance of microenterprises and the repayment period with adjusted or extended terms help microenterprises do better because they can generate enough profit to assist in offsetting the expenses and debts owed. Microenterprises that has a wider production range and optimizes large amount of loans are given enough time to clear up their loans running up to 10 years. Loan interest rates influence performance of microenterprises and microenterprises that take up small loans end up paying more on the interest rates compared to microenterprises that takes up large amount of loans. Microenterprises cannot perform well with such discrimination and unstandardized interest rates. Loan security influences performance of microenterprises in that it is greatly limited by lack of enough access to credit. Creditors need loan security before issuing out loans and the challenge to microenterprises is that they lack collateral and finally majority of microenterprises use business assets as the collateral to which if the loan repayment fails they have to sell the assets to offset the loans borrowed.

Recommendations

The study provides the following important recommendations for policy and practice

The study recommends to microfinance institutions who lend money to microenterprises to consider reviewing installment payment extended to three months from the usual one month. Also the microenterprise institution managers to further seek more training on proper management of loan and successful investment on profit generating business ideas.

The study also recommends to MFIs managers to adopt a flexible repayment period so that they can allow microenterprises to grow and be able to pay their loans without selling their assets to repay the loans. The repayment period of loan should be adjusted to up to 5 or 10 years depending on the potential and capital strength of the microenterprise. And also litigation procedures for making debt collections should not be harsh to the customers.

The study also recommends to microfinance managers to lower their interest rates which in the long run will enable microenterprise managers repay the loan without much straining or selling of assets to repay the loan.

Finally this research recommends to the microfinance managers to establish flexible requirements on collaterals that cannot lock out microenterprises from accessing the loans or credit needed to expand their business and improve on the performance.

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ACKNOWLEDGEMENT

WORKING ON THIS RESEARCH HAS BEEN A WORTHY EXPERIENCE AND I WOULD LIKE TO ACKNOWLEDGE THE FOLLOWING FOR THEIR INVALUABLE CONTRIBUTIONS AND SUPPORT. ABOVE ALL, I AM MOST GRATEFUL TO GOD FOR HIS GRACIOUSNESS THROUGHOUT THE TIME OF MY STUDY. I AM GREATLY INDEBTED TO JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY FOR GIVING ME THE OPPORTUNITY TO STUDY. MY DEEPEST APPRECIATION GOES TO MY SUPERVISOR DR. DANCUN NYABERI, FOR HIS STEADFAST SUPPORT IN THIS RESEARCH AND THE ENTIRE COURSE. I ALSO WISH TO ACKNOWLEDGE THE SUPPORT OF MY COLLEAGUES AND FRIENDS FOR THE ENCOURAGEMENT, INSIGHT, TIME, EFFORT AND COUNSEL GIVEN TO ME IN THIS PROJECT..