EFFECT OF INFORMAL CREDIT ON FINANCIAL PEFORMANCE. A CASE OF JUA-KALI SECTOR IN GITHUNGURI SUB-COUNTY

GRACE WAMBUI KARANJA (MBA) [1], DR. PETER GITHAE [2]

MBA student, Mount Kenya University[1], Lecturer, Mount Kenya University[2]

School of Business and Economics

ABSTRACT

The Jua-Kali sector is very vital to the economy of the Nation, making a considerable contribution to the GDP and national income by 14.9% for the past 10 years (Kenya National Bureau of Statistics, 2016). The sector has faced several challenges, among which access to finance been the most common talked about challenge. With focus on informal credit, the study aimed to explore effect of informal credit on financial performance of Jua-Kali sector in Githunguri Sub-County. Financial performance was measured using Return on Investment, Return on Equity, Profits and Volume of Output. The theories used in the study were Social network theory and Adverse selection theory. A descriptive research design was used and a sample size of 150 participants were surveyed. The study used questionnaires to get primary data from the respondents. Analysis of data was carried out through descriptive statistical techniques, correlation analysis and multiple linear regression. The study revealed that informal credit has a positive and statistically significant relationship with financial performance. The study thus recommended Jua-Kali business owners should actively engage in table banking services so as to make easier to access informal credit and embrace saving culture. Further, Jua-Kali business owners should seek financing from alternative sources which have cheaper interest rates and have favorable repayment terms. Shylock finance should be avoided at all costs. Other stakeholders are encouraged to partner with Jua-Kali business owners and managers and invest in the sector.

KEY WORDS-Return on Investment (ROI), Return on Equity (ROE), Gross Domestic Product (GDP), Kenya National Bureau of Statistics (KNBS), Small Medium Enterprises (SMEs)

I. INTRODUCTION

1.1 Background of the study

Informal finance is defined as small, unsecured and short-in-maturity funding capital sourced from private moneylender(s), the relatives and friends of the business owners and other enterprises (Nguyen & Canh, 2021). The informal sector contributes largely to the country's GPD and recorded an increase in income by 14.9% for the past 10 years (Kenya National Bureau of Statistics, 2016). It further revealed that the informal sector employs about 82.7 percent of the population in the country. Access to credit especially in the Jua-Kali sector has been a major issue of concern. In sub-Saharan Africa, many informal firms faced with such a situation, resort to borrowing from informal sources, mostly family and friends, as well as unregulated moneylenders. Klapper & Singer (2015) found that loans from family and friends formed the largest proportion of new loans in sub-Saharan Africa.

Globally, a study conducted in Bangladesh by Hasan and Khanam (2018) examined the relationship between Informal credit and its role in financing microenterprises. The study found that microenterprises that had access to informal credit had higher profits and were able to grow their businesses faster compared to those that did not have access to informal credit thus having to have impacted greatly the financial performance of the microenterprises positively. However, the researchers noted that informal credit was associated with high interest rates compared to the formal credit, which could be a challenge for microenterprises in the long term although the microenterprises were still willing to borrow from informal lenders due to the ease of access and flexibility in repayment terms.

In Africa, a study done by Tabiri, Arthur, Novignon and Frimpong (2019) examined how credit from informal sources impact the performance of informal firms across selected countries in sub-Saharan Africa. The study found out that access to formal credit is a major challenge for informal firms due to the nature of their operations. This leads many entrepreneurs in the informal sector to resort to informal credit. The results showed that the use of informal finance is associated with lower performance, while formal finance is associated with better performance. The findings of the study recommended integrating community-based group lending schemes with credit information systems to make it easier to assess informal enterprises for access to credit.

In Kenya, a study by Mungiru and Njeru (2018) examined effect of informal finance on financial performance of Small and Medium-term Enterprises in Kiambu county. The study found out that self-help group finance, family and friends finance; trade credit finance and shylock finance sources influence the performance of SMEs. Self-help group finance, family and friends finance; trade credit finance has a positive influence on the performance of SMEs while shylock finance sources have a negative influence on the performance of SMEs. The study recommended that SMEs need to put more emphasis on informal form of finance (self-help group finance, family and friends finance and trade credit finance). Shylock finance sources need to be avoided by SMEs if possible since it charges high interests and its terms and conditions are more stringent.

The background of this study demonstrated that majority of the studies done in the developed countries gave much attention to informal credit in the big corporate firms with little regard to the informal sector. The same scenario has been cascaded to countries in Africa where informal sector thrives yet very few researches have been done to find out how informal credit affects financial performance. Here in Kenya, the situation confirmed that majority of the studies done tilt towards financing using formal financing especially the manufacturing industries. This created a contextual research gap which this study aimed at address.

1.2 Statement of the Problem

A comprehensive research done by the Ministry of Labor on informal sector in Kenya (2020) found that the economy is mostly made up of the formal sector but the sector is slowly reducing and been overtaken by the informal sector that creates more employment opportunities. The informal sector not only employs persons who have completed either primary or secondary school education but also tertiary school graduates. However, the sector faces several challenges including limited access to finance. Among these challenges, access to finance is often cited as most detrimental to the growth and sustainability of informal firms (Stein, 2013). Limited funds in the informal businesses can lead to closure of the businesses which might have adverse effects on the society such as increase in crimes due to the joblessness caused (World bank, 2016). The use of informal credit particularly for the small business is a significance source of financing but it is not clear how it impacts the financial performance of the business especially the Jua-Kali sector.

1.3 Research Objective

The overall research objective was to study the effect of informal credit on financial performance of Jua-Kali sector in Githunguri Sub- County

1.4 Research hypothesis

H_{01}: Informal credit has no significant relationship with financial performance of Jua-Kali sector in Githunguri Sub-County

II. LITERATURE REVIEW

2.1 Empirical Review

2.1.1 Informal credit on Financial Performance

A study conducted by Mokua (2019) sought to determine how informal financial services affected the financial performance of medium and small sized businesses in Nairobi, Kenya. The study employed stratified random sampling to select a total of 121 respondents and a target population of 177 SMEs in the informal sector. The results showed that table banking organizations offered advantageous lending conditions, which encouraged SMEs to borrow money from them because of the favorable loans terms. Table banking organizations helped members develop a disciplined approach to saving by encouraging them to pool enough money for reinvestment. The report suggested that members of table banking should hire a financial professional to instruct them in the finest business procedures in order to improve their financial success.

In a research conducted in Kericho County, Kenya, by Kurgat, Njuguna, Mungai, Kibet, and Mulwa (2018), it was explored how informal banking services operate contributing to the rural women's economic empowerment through self-help organizations. The study adopted a survey design and targeted rural women entrepreneurs who are members of groups totally to 1040 women. As a consequence of the high interest rates and complicated paperwork, their investigation's findings indicated women are hesitant to obtain credit from banks. Groups comprising of their members will find the research useful in simplifying their lending, saving, and borrowing programs. By adopting the concepts of informal banking and using group financing, conventional banks will also gain. Governments at both the federal and local levels will base their policies on the findings.

A study done by Mungiru and Njeru (2018) conducted in Kiambu County in Kenya researched on the effect of unofficial funding on the financial performance of SMEs. A sample size of 95 was selected using random sampling from a sample of 7384 SMEs. The study found that Self-help group financing, family and friend financing, and trade credit financing all have a beneficial influence on the performance of SMEs; however, shylock funding sources have the opposite effect. The research suggests that SMEs should concentrate more on informal sources of funding, such as financing from self-help groups and family. The study found that Shylock funding sources, which offer harsher terms and higher interest rates, should be avoided at all costs by SMEs.

2.2 Theoretical Framework

2.2.1 Social Network Theory

The theory was propagated by Granovetter (1973) suggested that informal debt financing can be heavily influenced by the structure and strength of social relationships between lenders and borrowers. According to the theory the strength of these social ties influenced the terms of informal debt financing, including interest rates, repayment schedules and the likelihood of default. Borrowers who have stronger social ties to lenders were more likely to receive favorable terms and less likely to default on their loans.

According to Gurung (2014) social network is a range of people, mostly family members and friends of the entrepreneur interacting and helping each other towards the success of the business especially in the early and critical stages. The connection between members of social networks can differ in closeness or strength and results in different exploitations of business opportunities (Jackson & Young, 2016). The closeness of those relationships can be used in social networks to find business-related knowledge, attain strategic information, share ideas, and establish new business contacts. The degree of relationships among members of a particular group, such as table banking, improves the application of the idea of informal loan financing.

The theory gave a clear indication of how the community used social links to acquire informal credit. This was through table banking, loans from friends and family and shylock financing. The theory shed light on how social and structural variables affected loans and borrowing behaviors in the Jua-Kali sector, as well as how those behaviors affected both lenders and borrowers.

2.2.2 Adverse selection theory

The theory was proposed by Stieglitz and Weiss (1981). The theory stated that interest charged by Financial Institutions is assumed to have a dual role of sorting potential borrowers leading to adverse selection and affecting the actions of borrowers. Interest rates thus assumed to affect the nature of the transaction and do not necessarily clear the market. Financial Institutions. According to Stiglitz and Weiss (1981), lenders would identify borrowers likely to repay their loans since the banks' expected returns depended on the probability of repayment. Financial Institutions failed to cater for the credit needs of informal sector who are perceived to be too risky.

When interest rates rise, borrowers with the riskiest projects who are therefore the least likely to repay are encouraged to borrow more money while those with the least risky projects stop borrowing, leading to adverse selection. As a result, interest rates will impact both the average quality of lenders' loan portfolios and the allocative function of balancing supply and demand for loanable funds. Lenders will limit credit availability and set interest rates at a lower level. Therefore, incomplete information plays a significant role in explaining why credit rationing applies to Jua-Kali enterprises. The hypothesis of Stiglitz and Weiss was intended to be applied broadly, not just in the context of informal credit in Jua-Kali sector. The theory's basic presumption that lenders are unaware of borrower characteristics has frequently drawn criticism. Since many traditional rural and urban communities are close-knit, it stands to reason that lenders have extensive knowledge of pertinent borrower attributes, including business acumen, asset quantity and quality and risk tolerance. This hypothesis has been criticized because it fails to take into account the fact that borrowers themselves might look for ways to reassure lenders that they are not "lemons," allowing them to obtain loans.

The theory gave a clear indication as to why Jua-Kali business owners or managers result to informal credit because of the interest rates charged by Financial Institutions.

2.3 Conceptual Framework

INDEPENDENT VARIABLE → **DEPENDENT VARIABLE**

INFORMAL CREDIT

- Table banking
- Friends and family loans
- Shylock finance

→

FINANCIAL PERFROMANCE

- Profits
- ROI
- ROE
- Volume of output

Source: (Researcher, 2023)

III. RESEARCH METHODOLOGY

3.1 Research design

A descriptive research design was used for the study. This study method was chosen because, according to Schnidler and Cooper (2007), descriptive research designs objectively assess and describe connections as they actually are. Another argument in favor of the descriptive research design is that it enables the researcher to get data that naturally comes from unrestricted interactions among the variables under investigation without the need for outside intervention (Wambua, 2019).

3.2 Study Area

The research was conducted in Githunguri Sub-County that is located in Kiambu County, Kenya. According to Kiambu County Development Integrated Plan (2018) Githunguri Sub-County is among the fastest growing in the county with a population of 147,763 (Kenya Population and Housing Census, 2009). The Sub-County has a total of 578 licensed businesses among which 157 are Jua-Kali licensed businesses (Kiambu Revenue Management Portal, 2023).

3.3 Target population

Population is a term used to describe a large group of people, things, or events that are drawn from the broader population and have comparable observable characteristics (Kombo& Tromp, 2006). Within the Githunguri Sub-County, licensed Jua-Kali businesses were the study's target population. In this instance, as of 2023, 157 Jua-Kali enterprises had received licenses (Kenya Revenue Management Portal, 2023).

3.4 Sampling Procedure and Technique

According to Kombo and Tromp (2006), sampling is the act of choosing participants for a research in a way that ensures they accurately reflect the big population from which they were drawn. Since the study's target population was fewer than 200, the census technique was used to choose the sample (Israel, 2012).

3.5 Pilot Testing

A pilot research is conducted to evaluate the validity and reliability of the instruments to be used for data collection, sample recruitment techniques, and other study components (Zikmund, Babin, Carr, & Griffin, 2010). In this study, a sample of 15 respondents from the Githunguri Sub-County, or 10% of the sample of 157 respondents, was used for the pre-testing of the questionnaire. A justification for this approach was based on Mugenda & Mugenda (2003), a successful pilot research takes into account the sample size and employs 1% to 10%; however, with a big sample, the percentage is low. The purpose of this pretest was to identify any potential issues, such as instrument clarity, acceptable phrasing, and language used in the questionnaire being appropriate. It assisted in exposing ambiguous questions or ones that respondents may have viewed differently. If there were issues with the data gathering instruments, the necessary changes were done. The selection of 15 respondents as pilot participants aligned best with practices for pilot research as it fell within the suggested percentage range and served the purpose of instrument validation and refinement.

3.6.1 Reliability Test

According to Mugenda & Mugenda (2003), reliability is a measurement of how consistently a research instrument produces the same results across trials. The internal consistency test known as Cronbach's alpha, which was created by Lee Cronbach in 1951, was used to assess the reliability. Internal consistency is gauged by coefficient alpha, which also indicates if the test is properly measuring the target variable. To test dependability, a coefficient alpha of 0.70 or above is always appropriate (Oso & Onen, 2009).

3.6.2 Validity Test

According to Ghauri and Gronhaug (2005), validity describes how effectively the data collection adequately covers the subject under examination. Construct validity was used in the study. Construct validity is the ability to transfer or turn a construct a notion, idea, or behavior into an actual, operational reality (Hameed, 2016). Convergent and discriminant validity are the two halves of construct validity. Since neither is adequate to measure construct validity, the existence of both discriminant and convergent validity indicates that the constructs in the research are valid.

Principal component analysis (PCA) with the varimax rotation approach was used to conduct a factor analysis (Wee & Quazi, 2005). Items cross loading below 0.40 should be eliminated, and items loaded over 0.40, which is the minimum suggested value in research, were be taken into consideration for future investigation (Koh & Nam, 2005).

3.7 Data collection method and Procedure

The systematic techniques used by a researcher to obtain and collect data for use in the study are known as data collecting methods (Zikmund, Babin, Carr & Griffin, 2011). Questionnaires were used by the researcher to gather primary data. The researcher utilized questionnaires to gather information from owners and managers who primarily oversee the day-to-day operations of the licensed Jua-Kali enterprises within Githunguri Sub-County, with the assistance of a research assistant. In the event that a respondent was illiterate, the researcher and research assistant explained in another language, either Kiswahili or the respondent's native tongue.

3.8 Data analysis and presentation

Making conclusions and inferences based on the information gathered during an experiment or survey is known as data analysis (Kombo & Tromp, 2006). For data input and analysis, the researcher utilized SPSS software version 22.0. The properties of the research variables were explained using descriptive data, such as mean, mode, median, and standard deviations. Regression analysis and correlation were used in inferential statistics. The statistic utilized to describe the level of relationship between the used variables was correlation. To connect the independent variables to the dependent variable and evaluate the strength of the relationship between the independent variable and the dependent variable, a regression model was utilized. The total model significance was evaluated using an analysis of variance (ANOVA). The tabulated f statistic was contrasted with the computed f statistic in detail. It decided whether or not the whole model was significant using a crucial p value of 0.05. Tables, figures, and graphs were used in the presentation of the results.

3.8.2 Statistical Model

The following equation was utilized in the Ordinary Least Squares (OLS) model to analyze how informal credit affected the financial performance of Jua-Kali businesses in Githunguri Sub-County.

$y = \beta 0 + \beta 1\ X1 + \varepsilon$ ………………………………………………. Equation (1)

Where,

y = Financial performance of Juakali sector

$\beta 0$ = least squares estimate of the intercept/constant,

$\beta 1$ = least squares estimate of the population regression coefficient for X observed scores, which include;

X1= Informal Credit

IV. RESEARCH FINDINGS, ANALYSIS AND PRESENTATION

4.1 Descriptive statistics on Informal credit

4.1.1 Effect of Informal credit on Financial Performance

Informal credit variable was operationalized into table banking, friends & family loans and shylock finance which were measured using a Likert scale and the results expressed as percentages as shown in table 4.1

Majority (61.33%) of the respondents agreed that social ties are created through table banking, 8% remained neutral while a few (30.67%) disagreed. This means that social ties have been embraced by the Jua-Kali business owners or manager's Social ties is the relationship created amongst different members in table banking groups. Majority are engaging in table banking groups and creating strong social ties amongst themselves for various reasons. This is because social ties created in table banking foster a culture of supportive and trust-based environment that encourages the flow of informal credit amongst members. These ties facilitate lending among members making credit accessible, affordable and reliable among table banking members. Table banking organizations offer advantageous lending conditions, which encourage SMEs to borrow money from them because of the favorable loans terms (Mokua, 2019).

Majority (70.66%) agreed that table banking has influenced one's ability to save, 6% remained neutral while 23.34% disagreed. Table banking groups have a positive influence to their members which include encouraging their members to embrace saving culture. Many Jua-Kali business owners or managers have joined table banking groups and are able to mobilize each other in saving through the constant meetings and holding each member accountable because they set a target amount to be saved in every meeting. This will enable each member to contribute individually the required amount without failure and where one fails to comply, they can be excluded from the table banking groups. The results align with those of Tabiri, Arthur, Novignon and Frimpong (2019) established that table banking organizations help members develop a disciplined approach to saving by encouraging them to pool enough money for reinvestment.

Majority (55.33%) agreed that table banking had improved the financial stability of the Juakali business, 34.67% disagreed while 10% remained neutral. Table banking has been accepted by majority of Jua-Kali business owners or managers. It has positive impacts to its members where table banking has helped improve the financial stability of the Jua-Kali businesses in Githunguri Sub-County. This can be as a result of the mobilized savings, easier accessibility and affordability of informal credit provided through table banking, where the Jua-Kali business owners or managers are able to keep their businesses operational hence improving financial stability of the business. With a proper flow of cash, Jua-Kali business owners or managers are able to keep their businesses running and operational and generate more income daily resulting to financial stability.

Majority (57.33%) of the respondents agreed that loans from friends and family are a reliable source of financing the Jua-Kali business, 36.67% disagreed while few 6% were neutral. This is an indication that majority of respondents likely believe that borrowing from personal connections can provide the necessary funds for their Jua-Kali businesses. Friends and family may have a personal interest in the success of the Jua-Kali business and may be more willing to provide support. This personal connection can result in lower interest rates, extended repayment timelines and emotional support hence been a reliable source of finance. These findings resonate with Beck (2015) and Elston (2016) who established that the use of informal finance, especially financing from friends and family, is positively associated with the sales growth of Chinese microenterprises.

Majority (48.67%) agreed that loans from friends and family have helped in business expansion and growth, 35.33% disagreed while 16% remained unsure. Loans from friends and families have had a great impact to the Jua-Kali businesses in Githunguri Sub-County. From the findings, loans from friends and families can result in cost savings for the Jua-Kali business, where borrowers may negotiate favorable interest rates, repayment schedules, or even receive loans without interests, making it easier to manage the debt hence able to foster business expansion and its growth. The findings agree with Mungiru and Njeru (2018) who found that Self-help group financing, family and friend financing, and trade credit financing all have a beneficial influence on the growth of SMEs in Kiambu county.

Majority (45.34%) of the respondents disagreed that shylock finance has been a reliable source of emergency funds the Jua-Kali business, 36.67% agreed while 18% remained neutral whether. Shylock finance is highly discouraged as a source of financing the Jua-Kali businesses because it has more disadvantages and risks. From the findings, this is a pointer that shylock finance is unreliable means of financing. This is because shylock finance is readily available when anybody needs it, however, it can be associated with high interest rates which become unsustainable for a Jua-Kali business, leading to financial stress and potentially even bankruptcy by borrowers. They also lack transparency where there is absence of clear, straightforward, and easily understandable terms and conditions associated with the loans provided by such lenders and borrowers are at risk of losing their businesses in case of default to pay making it unreliable and unfavorable source of financing for any business, The findings agree with Mungiru and Njeru (2018) who established that Shylock funding sources offer harsher terms and higher interest rates and should be avoided at all costs by SMEs.

Majority (64.67%) of respondents agreed that informal credit is affordable, 30.67% disagreed while 6.67% were unsure. Informal credit has greatly impacted the business growth of the Jua-Kali businesses due to various reasons. Due to its informal nature, informal credit tends to be associated with low interest rates which can be as low as 1% per month or even no interests at all, no collateral needed and flexibility in repayment hence making it an affordable means of finance. These agree with findings of Kurgat, Njuguna, Mungai, Kibet, and Mulwa (2018) study on effect of informal credit on rural women and found that informal credit has contributed to rural women's economic empowerment in Kericho county because of its affordability and easier access.

Majority of respondents (72.67%) agreed that informal credit has helped boost Jua-Kali business growth, 51.33% disagreed while 26% remained neutral to the statement. From the study findings, informal credit has been associated with easier accessibility, affordability, no collateral required and low interests charged. Informal credit has helped generate profits for the Jua-Kali businesses and the owners or managers are able to repay their informal credit while financing all business operations. All these factors help boost the growth of Jua-Kali businesses. The findings also resonate with Cumming and Groh (2018) on effect of formal and informal financing decisions on small business pointed that informal loans appear to be one of the most promising sources of external funding and are associated with improved economic growth outcomes for micro enterprises.

From the findings, the overall mean is 3.422 indicated that there is a strong positive relationship between informal credit and financial performance of Jua-kali business in Githunguri Sub-County and a standard deviation of 0.1512 showed a small variation in responses. Informal credit had proved to be beneficial to majority of Jua-Kali business owners and managers because of its favorable terms and low interest rates included. Participating in table banking groups and asking for financing from friends and families will benefit the Jua-Kali business greatly. However, shylock finance is quite risky thus discouraged amongst Jua-Kali business owners or managers. These findings aligned with study by Mokua (2019) who found a strong positive relationship between informal credit and financial performance of SMEs in Nairobi, Kenya. The results showed that table banking organizations offered advantageous lending conditions, which encouraged SMEs to borrow money from them because of the favorable loans terms. Table banking organizations helped members develop a disciplined approach to saving by encouraging them to pool enough money for reinvestment. The study also agreed with findings by Mungiru and Njeru (2018) on effect of unofficial funding on the financial performance of SMEs in Kiambu County who found that self-help group financing, family and friend financing all had a beneficial influence on the performance of SMEs; however, shylock funding sources have the opposite effect.

Table 4. 1: Informal credit financing on Financial performance

Statement on informal credit	SD(%)	D(%)	N(%)	A(%)	SA(%)	Mean	SD
Social ties created through of table banking enhance accessibility of informal credit.	12.67	18	8	48	13.33	3.313	0.1605
Table banking has influenced my ability to save.	8.67	14.67	6	59.33	11.33	3.5	0.2222
Table banking has improved financial stability of Jua-Kali business.	12	22.67	10	37.33	18	3.267	0.109
Loans from friends and family are a reliable source of financing for my business.	12.67	24	6	36	21.33	3.293	0.1144
Loans from friends and family have helped in business expansion and growth.	6.33	29	16	42	6.67	3.137	0.1537

Shylock finance is a reliable source of financing.	12.67	32.67	18	18.67	18	2.967	0.0748
Cost of informal credit is affordable.	10	20.67	6.67	58.68	6	3.361	0.2219
Informal credit has helped boost Jua-Kali business growth.	37.33	14	26	52.67	20	4.54	0.1533
Average						**3.422**	**0.1512**

Source: (Researcher,2023)

4.2 Hypothesis testing for study variables

4.2.1 Effect of informal credit on financial performance

The first specific objective of the study was to determine the influence of informal debt on the financial performance of Jua-Kali sector in Githunguri Sub-County. The hypothesis to test this specific objective of the study was:

H_{01}: Informal debt does not significantly influence the financial performance of Jua Kali sector in Githunguri Sub-County

The results were presented in table 4.2. Table 4.2 showed that there is a positive and statistically significant relationship between informal credit and financial performance of Jua-Kali sector in Githunguri Sub-County. H_{01} hypothesis was rejected. Therefore, this model was significant at 95% significance level (α-level 5% for a 2-tailed test).

The model significance for effect of informal credit on financial performance of Juakali sector in Githunguri Sub-County was presented in table 4.2. An F static of 50.01 indicated that the model for the effects of informal credit as the only independent variable is significant. This is also supported by a probability value of 0.001 which is less than the convectional probability of 0.05. With the model applied as the informal credit been the independent variable, any significant change to informal credit can have an effect on the financial performance of Jua-Kali sector in Githunguri Sub-county.

The study therefore rejects H_{01} null hypothesis at 95% confidence interval and concluded that there is a positive significant relationship between informal credit and financial performance of Jua-Kali sector in Githunguri Sub-County. Informal credit has a great positive impact on financial performance. Increase in informal credit to the Jua-Kali businesses, will positively affect the financial performance of the businesses. This can help Jua-Kali business growth or expansion. The findings resonate with findings of those of Kurgat, Njuguna, Mungai, Kibet and Mulwa (2018) was explored how informal banking services operate contributing to the rural women's economic empowerment through self-help organizations in Kericho County, Kenya. The researcher therefore rejected the null hypothesis, hence concluded that there was a significant relationship between informal credit and their level of economic empowerment.

Table 4.2 : ANOVA on relationship between Informal credit and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	150.01	1	150.00	50.01	.001b
	Residual	471.090	155	3.043		
	Total	628.100	156			

Source: (Researcher, 2023)

Table 4.3 indicated that informal credit was statistically significant (p=0.000, β = 0.085). This implied that for a 1- point increase in informal credit, financial performance of Jua-Kali sector in Githunguri Sub-County had a difference by 0.085.

Table 4. 3: Regression Model Coefficients for Informal credit

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.134	.274		11.458	.000
	Informal credit	.085	.010	.058	5.00	<.001

Source: (Researcher,2023)

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of findings

The study found that Informal credit had a positive relationship with financial performance of Githunguri Jua-Kali sector. In regard to the null hypothesis Informal credit has no significant relationship with financial performance of Jua-Kali sector in Githunguri Sub-County was rejected. Table banking and loans from friends and families contributed significantly to the financial performance of Jua-Kali businesses. However, Shylock finance was considered unreliable due to its high interest rates thus didn’t contribute significantly to the financial performance of Jua-Kali businesses in Githunguri Sub-County.

5.2 Conclusion

Due to the informal nature of the Jua-Kali businesses, the business owners or managers took keen interest in developing themselves through seeking alternative informal ways to obtain debt at low costs which made them form table banking groups and borrow money from friends or family. This greatly had an impact on the growth of the Jua-Kali business sector. The social ties created in table banking payed a huge role in obtaining credit for the Jua-Kali businesses. According to Jackson and Young (2016), the closeness of those relationships can be used in social networks to find business-related knowledge, attain strategic information, share ideas, establish new business contacts and obtain funds. This is evident in the social network theory where it gave a clear indication of how communities use social links to acquire informal debt in the form of table banking, friends and family financing. The theory further suggested that strength of these social ties influenced the terms of informal credit financing, including interest rates, repayment schedules and the likelihood of default. Borrowers who had stronger social ties to lenders are more likely to receive favorable terms and may be less likely to default on their loans. The theory of adverse selection gave a clear link as to why Jua-Kali traders prefer informal credit due to the information asymmetry. The informal nature of the Jua-Kali business did not guarantee them financing from financial institutions thus important for Jua-Kali traders to seek funding elsewhere like engaging in table banking groups of borrowing loans from friends and families to help finance the Jua-Kali business.

5.3 Recommendation

Jua-Kali business owners or managers are encouraged to actively take part in table banking services or borrow loan from friends and family. The loans are offered at cheaper interest rates and there is no collateral required or credit history background done. Informal credit has also encouraged Jua-Kali business owners or managers to save so as to have enough money to invest in the business as well. Jua-Kali business owners or managers are also encouraged to actively seek creating social ties because they also play a role in the informal credit financing. The strength of these social ties influence the terms of informal credit financing, including interest rates, repayment schedules and the likelihood of default. Borrowers who have stronger social ties to lenders may be more likely to receive favorable terms and may be less likely to default on their loans.

V. REFERENCES

Agyemang, J. K., Bardai, B., & Ntoah-Boadi, S. (2020). Empirical Analysis of the Financial Performance of Listed Banks in Ghana. *International Journal of Accounting and Financial Reporting*, 10 (1), 199-221. doi:10.5296/ijafr. v10i1.16748.

Ajibola, A., Wisdom, O., & Qudus, O. L. (2018). Capital structure and financial performance of listed manufacturing firms in Nigeria. *Journal of Research in International Business and Management*, 5(1), 81-89.

Al-Qudah, A. A. (2017). The Relationship between Capital Structure and Financial *Performance* in the Companies Listed in Abu Dhabi Securities Exchange: Evidences from United Arab Emirates. *Review of European Studies*, 9(2), 1-9.

Aziz, S., & Abbas, U. (2019). Effect of Debt Financing on Firm Performance: A Study on Non-Financial Sector of Pakistan. *Open Journal of Economics and Commerce*, 2(1), 8-15.

Bach Nguyen & Nguyen Phuc Canh, 2021. Formal and informal financing decisions of small businesses, *Small Business Economics*, Springer, vol. 57(3), pages 1545-1567, October.

Bulle, H. I., & Omagwa, J. (2017). Financial Management and Financial Performance of Firms Listed under Manufacturing and Allied Sector at the Nairobi Securities Exchange, Kenya. *International Journal of Business & Management*, 5(11), 290-296.

Chimaleni,J., Muganda, M. & Musiega, D. (2015). Relationship between sources of business financing and financial performance of SMEs in Lurambi sub- county. *International journal of business and management invention* vol 4 issue 7 pp 35-45.

Cooper, D. R., & Schindler, P. S. (2011). *Business Research Methods*. (11th ed.). New Delhi, India: McGraw-Hill Publishing.

Fatoki, O. I. (2018). Effect of Financial Performance on Capital Structure of Non-Financial Firms in the Nigerian Stock Exchange. Doctoral Thesis. JKUAT

Gathogo, G., & Ragui, M. (2014). Capital structure of Kenyan firms: What determines it. *Research Journal of Finance and Accounting*, 5(5), 118-125.

Githaiga, P. N., & Kabiru, C. G. (2015). Debt Financing and Financial Performance of Small and Medium Size Enterprises: Evidence from Kenya. *Journal of Economics, Finance and Accounting*, II(3), 473-481. doi:10.17261/Pressacademia.2015312967.

Githire, C. & Mutiri, W. (2015). Effects of capital structure on financial performance of firms in kenya; Evidence from firms listed at the Nairobi securities exchange. *International journal of economics, commerce and management* vol 3 issue 4.

Kapkiyai, C., & Mugo, R. (2015). Effect of informal credit on financial performance of small-scale enterprises: evidence of Eldoret town, Kenya. *International Journal of Economics, Commerce and Management* Vol III.Issue 9.

Kurgat, Felister Chebet, Peter Kibas, and Robert Otuya. (2018). Role of Informal Financial Banking Services in Economic Empowerment of Rural Women Through Self-Help Groups Affiliated To Joyful Women Organization In Kericho County, Kenya. *IOSR Journal of Business and Management* (IOSR-JBM), 20(3), 56-66.

Kwasi Gyabaa Tabiria, Eric Arthurb, Jacob Novignonc and Prince Boakye Frimpongd (2019). Access to credit and informal firm performance: Evidence from Sub-Saharan Africa. *African Review of Economics and Finance*. ISSN 2042-1478

Magoro, K., & Abeywardhana, D. (2017). Debt capital and financial performance: A study of South African companies. *International Journal of Scientific Research and Innovative Technology*, 4(4), 71-84.

Matar, A., & Eneizan, B. M. (2018). Determinants of financial performance in the industrial firms: Evidence from Jordan. *Asian Journal of Agricultural Extension, Economics & Sociology*, 1-10.

Mohammed, I. & Ali, I. (2015). The effect of SMEs cost of capital on their financial performance in Nigeria. *Journal of finance and accounting* volume 3 issue 1.

Mokua, B. B. (2019). Effect of Informal Financial Services on Financial Performance of Micro and Small Enterprises in Nairobi County, Kenya. Retrieved from http://41.89.49.13:8080/xmlui/handle/123456789/1466.

Mungiru, J. W., & Njeru, A. (2019). Effects of Informal Finance on the Performance of Small and Medium Enterprises in Kiambu County. *International Journal of Scientific and Research Publications*, 5(11), 338. ISSN 2250-3153. Retrieved from http://www.ijsrp.org.

Nguyen, B., Canh, N.P. (2021. Formal and informal financing decisions of small businesses. *Small Bus Econ* 57, 1545–1567 (2021). https://doi.org/10.1007/s11187-020-00361-9.

Nomran, Naji & Haron, Razali. (2020). A systematic literature review on Shari'ah governance mechanism and firm performance in Islamic banking. *Islamic Economic Studies*. 28. 10.1108/IES-06-2019-0013.