FINANCIAL INCLUSION AND PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN KISUMU COUNTY, KENYA

BY

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DECLARATION AND APPROVAL

Declaration

This research thesis is my original work and has not been presented for an award of a degree or diploma in any other university or institution.

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DEDICATION

I dedicate this work to my better half Tom Mboya, beloved children Nancy Atieno, Matilda Joanne and Dick Humphrey for their patience and support. Not forgetting my mum Mary Ouya and to all my siblings and friends for their encouragement.

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ABSTRACT

Most MSEs suffer from financial exclusion because they may not be able to access affordable and useful financial services to help them boost their businesses. The general objective of this study was to determine the effect of financial inclusion on performance of micro and small enterprises in Kisumu County, Kenya. Specific objectives of the study included to evaluate the effect of financial access, examine the effect of financial usage, determine the effect of financial products and investigate the influence of financial literacy training on performance of micro and small enterprises in Kisumu County. This study used theories which support independent variables that include; Grameen Model (main theory), Transaction Costs Theory and Financial Capital/Liquidity Theory. It adopted stratified random sampling technique Sample size of 375 MSEs was arrived at by use of the Krejcie and Morgan formula and table, picked from target population of 15000 MSEs. Self- administered structured questionnaires and interview schedules were used to collect primary data and the study adopted Descriptive survey research design. The research instrument's reliability was tested by use of Cronbach's Alpha and the coefficients were found to be above 0.7 which were accepted. Multiple linear regression model, Karl Pearson's correlation and ANOVA were used in data analysis with the help of Statistical Package for Social Sciences (SPSS) Version 27. The findings revealed that; most MSEs could access small amounts of finances through their mobile phones easily, most financial providers required collateral before lending and charged very high interest rates, most MSEs don't save their finances with Unit trusts and also incur very high transaction costs. The study recommendations included; banks and other financial institutions reduce their lending interest rates so as to be affordable to MSEs, MSEs be insured against risks, buy their own means of transport, government to be in the forefront to provide enabling environment to MSEs for better performance and MSEs to embrace use of modern technology in their transactions. Results revealed that financial literacy training doesn't have significant effect on performance of MSEs. Further research be conducted on effect of innovation and performance of MSEs.The study revealed that financial access has highest effect on performance of MSEs as it was found to have p – value of 0.000 < 0.05. The study therefore concluded that financial inclusion has positive and significant effect on performance of Micro and Small Enterprises in Kisumu County.

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ABBREVIATIONS AND ACRONYMS

AU	**:**	African Union
CBD	**:**	Central Business District
CBK	**:**	Central Bank of Kenya
DFI	**:**	Digital Finance Institution
EAC	**:**	East Africa Community
GDP	**:**	Gross Domestic Product
GOK	**:**	Government of Kenya
JLB	**:**	Joint Loans Board
KCB	**:**	Kenya Commercial Bank
KCIDP	**:**	Kisumu County Integrated Development Plan
KIBT	**:**	Kenya Institute of Business Training
KIE	**:**	Kenya Industrial Estates
KIPPRA	**:**	Kenya Institute for Public Policy Research and Analysis
MDGs	**:**	Millennium Development Goals
MFIs	**:**	Micro Financial Institutions
MSEs	**:**	Micro and Small Enterprises
MSMEs	**:**	Micro, Small & Medium Enterprises
NGOs	**:**	Non-Governmental Organizations
PLWD	:	People Living With Disabilities
R & D	**:**	Research and Development
ROA	**:**	Return on Assets
ROE	**:**	Return on Equity
SDGs	**:**	Sustainability Development Goals
SMEs	**:**	Small and Medium Enterprises
SPSS	**:**	Statistical Package for Social Sciences
WEF	**:**	Women Enterprise Fund
WBES	**:**	World Bank Enterprise Survey
YEDF	**:**	Youth Enterprise Development Fund

OPERATIONAL DEFINITION OF TERMS

Entrepreneur: This is the owner of a business enterprise.

Financial Access: This is the ability to have financial services at disposal or within reach.

Financial Inclusion: This is means by which individuals and businesses have access to useful and affordable financial products and services that meet their needs.

Financial Literacy Training: This is the process of imparting knowledge and skills to MSE owners on matters related to finance that are very necessary in business management.

Financial Performance: This is a measure of how well a firm can use assets from its primary mode of business to generate revenues.

Financial Product: This is an instrument that enables a person to make financial investment or save money.

Financial Regulation: This is a form of supervision which subjects financial institutions to certain requirements, restrictions and guidelines in order to maintain the stability and integrity of the financial system.

Financial Usage: Refers to spending money on a product.

Loan: This is any amount of money borrowed.

Micro and Small Enterprise (MSE): Is a business that is operated by the proprietor himself or has less than six employees. Examples include small scale retail shops, boda-boda operators, mama mbogas, front – door tailors, cereal sellers, salonists, barbers and jua kali artisans.

Micro Small and Medium Enterprises (MSMEs): These are businesses that are inclusive of MSEs and SMEs.

Small and Medium Enterprises (SMEs): These are small scale businesses that may employ between 7 - 50 workers.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Micro and small enterprises have become the key drivers of economic growth, providing employment, increasing creativity, innovation, reducing poverty and elevating GDP in developed and developing countries, (Cole, 2010). Financial performance of micro and small enterprises largely depends on financial inclusion of the entrepreneur. According to World Bank (2014) financial inclusion is where different people have important and cheap financial products and services that are necessary for their needs.

Despite the importance of banking services, close to 2.7 billion individuals in the universe may not be able to access financial services that are formal, including credit, savings accounts and insurance (Chiba, 2009) where a larger percentage of these are found in the African continent (Beck et. al, 2008).The onset of Microfinance started in Bangladesh around 1976 when Muhammad Yunus established Grameen Bank in a bid to provide unsecured loans to the disadvantaged poor in the society and also charging interest rates. When Grameen Bank became successful, some other Micro Finance Institutions sprouted which include Accion International after which over 6900 other micro lending institutions are now serving close to 30 million poor customers (Chemin, 2008). According to United Nations (2020) lack of financial management skills, lack of capital, strict social constraints, limited business hours are the main obstacles that limit growth of micro businesses in the whole world.

A research study of small Canadian firms revealed that more than half of those firms become bankrupt due to their own deficiencies and not because of external causes Inexperienced and unskilled management is the main cause of failure. Fostering entrepreneurship is very significant for the economic growth of all countries and having access to financial services is important for business owners for success of their enterprises (World Bank, 2012). Micro enterprises currently play a very important part while starting and encouraging sustainable growth and development in all economies, (Gordon & Brayden, 2014). The G20 Seoul Summit (2010) asserts that low financial literacy among entrepreneurs especially skills in book keeping generally leads to great number of non performing MSEs in the world.

In 2004, Lusardi and Mitchell conducted several researches with the United States adult population of above 50 years of age. Only 34% of that population responded to all the financial literacy questions related to interest, inflation and investment risks correctly even though at their level, they would have made numerous decisions financially and experienced two occasions of high inflation which would have informed them about risky investments. Later on, other surveys conducted in the U.S. revealed low levels of financial literacy among Americans (Lusardi and Mitchell 2009; Lusardi; Lusardi and Mitchell 2011d). Failure of businesses, financial constraints and poor management skills result from lack of entrepreneurship training (Kaijage, 2013).

Manimala (2006) carried out a survey on training needs by SMEs against entrepreneurial practices in India. The study revealed that more attention given to entrepreneurship is just at higher learning institutions. Small enterprise training and entrepreneurship should be distinguished/ differentiated as suggested by the survey. According to the survey MSEs require entrepreneurial training even if there are serious problems denying them the chance to undertake such training. In Pakistan, floods have always raised havoc while interfering with MSEs in general for example the one experienced in mid – July 2010 and continued until September 2010. The result was serious floods that affected almost all sectors of the entire country. The floods usually interfere with their business stalls/ business rooms, crops are also swept leading to very low or no yield at all. Livestock sector too suffer heavy losses concerning large number of animals and poultry that are carried away. Fisheries sector also suffers the blow sometimes when there is very heavy down pour, when it is not possible to go fishing. MSEs may find it difficult to reach markets when roads and bridges are destroyed by floods hence very severe losses. Perishable goods like vegetables, fruits and milk therefore go bad because of failure in the transport sector. There is therefore need for insurance in order to cover for the losses. The MSE owners also suffer bad health arising from the floods, sometimes rendering them too weak to continue with their business activities. The recovery and reconstruction cost is usually very high, making the MSEs suffer for a very long time. Such kind of hazard may therefore call for insurance by the MSEs.

Business owners in Sub – Sahara Africa encounter various problems like low financial inclusion, stringent policies and very poor infrastructure (Legas, 2015). Felix and Ezenwakwelu (2014) carried out a study in Nigeria concerning its economic growth and recommended that the government should come up seminars where young and aged entrepreneurs could get knowledge necessary to run their enterprises. Financial inclusion and financial deepening are very significant in under developed countries where infrastructure and markets are not developed (Aterido et al., 2009). Olawale and Garwe (2010) assert that finance in inefficient quantities a key factor hindering the growth of micro, small, and medium enterprises (MSMEs) in Africa. Many of MSEs in South Africa also lacked financial literacy that adversely affected the performance of their enterprises, though financial literacy was found to be positively correlated to performance of MSEs (Fatoki, 2014). Bradford (2007) conducted a study in a Township of South Africa on the need for business training and the findings were that financial records keeping was the most wanted skill and how to conduct marketing of the products. The study therefore concluded that for effective service delivery and performance, MSEs require knowledge and skills in preparation and understanding of financial records, advertising and managing business funds.

Very high level of financial illiteracy among women micro business owners in Accra Ghana was also experienced (Agyei, 2014). Evidence of poor record keeping and poor financial management among most MSEs have also portrayed low level of financial literacy among business owners in many countries (Lusardi and Mitchel, 2014; FSD, 2009; Fatoki, 2014). Many women venture into micro and small businesses due to lack of sufficient amount of start - up capital, skills in entrepreneurship and general experience in business (Tundui, 2011). However because of competition these micro and small business activities have lower survival and growth rates implying lower earning potential (Coleman, 2007).

According to Economic Recovery Strategy (2003), Kenya is among developing countries which are hardest hit by unemployment. Oguta, Onyango, Nyagol and Onyango (2014) define MSEs as business ventures which target lower income people that are extremely poor, unbankable and also have informal employment. In Kenya, MSEs contributed to 21% to the GDP and also 73% towards employment creation (2003 – 2007, ERS). When ERS projected over five hundred employment opportunities every year, 88% of the opportunities were to come from MSEs in order to alleviate poverty rate from 57% to 52% (Ministry of Planning and National Development, 2003). MSE sector therefore delivers significantly to the economy of every country by employment creation, production of large volumes of products, increase of exports and a good platform for molding creativity and skills in entrepreneurship.

The Kenya Vision 2030 strategy can only be realized by increasing performance and competitiveness of MSEs. It has indeed emphasized importance of MSMEs in a bid to create employment. In Kenya, micro enterprises contributed to above 50% of all employment opportunities and contributed to above 40% of GDP of the country (KNBS, 2013). Koech (2011) asserts that, small enterprises have been in the fore front contributing to innovation, industrialization and accelerated growth. According to Ojera, Simeyo, Lumumba, Nyabwanga & Odondo (2011) 50% of SME's recorded decreasing performance five months after they were started. According to Sahrawat (2010) financial inclusion covers from very basic banking services which include, financial counseling, loans to insurance. A great number of variations have resulted in the definitions arising from the facets that are considered to be useful in the context in which financial inclusion is being applied.

Most micro and small entrepreneurs do not mind about transaction costs that they incur in their businesses while such knowledge is very significant ingredients for the development of the businesses. Despite important contribution to the Kenyan economy, micro and small enterprises continue to experience various difficulties that hinder their expansion. Lack of basic financial skills by entrepreneurs is a serious limitation in the growth and overall expansion of the MSE sector as spelled out in Sessional Paper No. 2 (GOK, 2005).The paper also had recommendation that women entrepreneurs be empowered in order to have easy access to credit, by enlightening them to embrace formation of Sacco's, network with commercial banks and MFIs. According to the government, this initiative could bring about grassroots economic development and enhancement of entrepreneurship in general. Financial literate entrepreneurs wisely manage resources (Berman, 2008). This view was supported by Njoroge (2013) who asserted that most business people suffer from low literacy in financial matters, few chances of accessing financial services and relatively high costs of transaction. The CBK (2005) emphasized that access to finance is an important tool growth of today's modern economy and to strengthen relevant policies and innovative ways to giving out decent and formal financial services.

Financial inclusion is a policy goal aimed at benefiting all households that are excluded financially with formal financial services which are affordable, reasonable and convenient (CBK, 2011). Financial inclusion entails the provision of financial services to sections of society that are the financially excluded and increasing usage of various financial services to the entire Kenyan population. According to Sarma and Pais (2011) financial inclusion is away that leads to easy access, usage and availability of the formal financial system for the members of an economic system. MSEs continue facing various problems that weigh down their progress and also financial performance. Some constraints include low levels of credit and other services that are non-credit. These also emanate from the view of various financial institutions that MSEs are un-credit worthy hence lowering access to credit by this sector.

In most cases credit is a way of expressing financial services which include services like loans, insurance, savings and transfer payment while training in basic business skills such as simple book keeping form non-credit aspects. The MSEs' performance whether organizational, operational, or financial relies on the ability of the MSEs to gain access to enough credit and non - credit services which are important for their development. According to Oketch (2011) low access to credit has been known as one of the most serious challenges faced by micro and small enterprises in Kenya and slowing down their growth. Inadequate literacy in finance leads to low access to finance, poor planning and very weak management in finance and finally to high failure rates of MSEs (Oluoch, 2014; Njoroge, 2012). Entrepreneurs having sound skills in financial literacy usually try to make very good decisions in finance, good usage of finances and service delivery than those entrepreneurs who suffer from financial illiteracy (Njoroge, 2014).

Sahrawat (2010) posit that just financial inclusion is brought about by ownership of a financial product which leads to economic self-reliance and development. A sure indicator of financial inclusion is opening of a bank account by an individual or entrepreneur. The usage intensity of the bank account by an individual is a better indicator since it is the number of interaction and transactions between the financial institutions and the individual which shows the value received by the individual while being involved in the main financial system. Quality of services and products should be checked while measuring financial inclusion because most of the poor individuals are left dependent on poor performing and non - sustainable financial institutions, which are also dependent on support by the government. Thus the views should assist in the measurement of financial inclusion.

Socio-economic transformation in Kenya is largely brought about by the MSE sector development. This sector is important and is chore in the realization of national development goals as spelled out in the Kenya Vision 2030, including the country's Big Four Agenda. MSEs provide income and employment opportunities for economically excluded section of the community who include women, the youth and persons living with disabilities, semi-skilled and the unskilled. The East African Community (EAC) Vision 2050 has recognized the role of MSEs in its regional industrial agenda, calling for the need to enhance competitiveness through value addition and innovation so as to tap trade opportunities globally. According to AU Agenda 2063, industrial base of the African continent should grow through value addition of natural resources and productivity of different sectors while focusing on Agribusiness and MSEs. The SDGs also recognize socio-economic importance of MSEs while prioritizing development of the sector through enhanced competitiveness and innovation.

The introduction of initiatives like WEF by the Kenyan government was meant to empower women in entrepreneurship by enabling them to be more self-reliant and developed to participate in the country's economic development. This was possible by allowing them to borrow finances to engage in business and other useful activities at very reasonable and affordable interest rates without many restrictions like guarantors and collaterals. Due to rampant unemployment amongst the youth, the government also introduced YEDF to boost the youth towards starting and developing micro and small enterprises. Like WEF, YEDF beneficiaries also suffered lack of knowledge on where to get finances afterwards, how to utilize the funds well in their service delivery so that their businesses could grow. Many organizations have in the recent past joined the government by coming up with programs and interventions that are geared towards promoting MSEs in general. These include, NGOs, donors, international public institutions, charity organizations, business associations and private organizations.

Many organizations including financial institutions, non-governmental organizations and business associations have set up various programs to speed up factors that influence expansion and growth of MSEs. Despite the numerous assistance programs, development and growth of MSEs hasn't been up to date. Financial literacy skills empower and educate investors to be able to evaluate financial opportunities for investment and are critical for the survival and management of MSEs. Micro and small enterprise activities in Kisumu County cover all sectors, ranging from fishing, general farming, pottery, transport, construction and manufacturing. Specific micro small entrepreneurs include boda-boda operators, fish mongers, second hand clothes and shoes traders, green grocers, cereal sellers, small scale crops farmers, hotel kiosks and general shop owners, salonists, tailors, hawkers and shoe shiners among others.

These micro and small enterprise owners not only lack financial skills on effective service delivery and financial usage but also lack access to affordable finance that they can use in the expansion, growth and development of their businesses. Lack of access to formal loans may be because of lack of security for the loans, lack of business plans and other collaterals. MSE owners largely depend on the merry-go rounds for savings while most of them don't save their finances in formal institutions like banks, hence do not have bank accounts. Most of the micro and small scale entrepreneurs also incur a lot of transaction costs due to lack of knowledge concerning payment of expenses incurred by their businesses and transportation costs. The government, microfinance institutions and other organizations have identified the gap of lack of proper practices of financial management amongst micro and small scale entrepreneurs especially in areas of emergency, hence the need for insurance. The role of government, banks and other financial institutions is also very important in provision of finances to the MSEs. Financial preparedness by these entrepreneurs may therefore be very necessary so that they don't suffer heavy losses in case of emergency. In case of abrupt losses, the micro and small enterprise owners may find it easy to look for capital to finance their businesses again as they also minimize transaction costs incurred.

An entrepreneur who is financially literate understands the best and most appropriate financial management options for his or her business. The business owner also knows how to produce and where to get suitable high quality products for customers' satisfaction so that the business can grow. Quality service delivery has always promoted customer loyalty which improves sales of a business enterprise hence high profits and entire growth and development of the enterprise. According to World Bank (2009) access to credit alone doesn't bring about success of microenterprises and this must be accompanied by the knowledge of proper utilization of the finances. In Kisumu County, women dominate food supply sector, hairdressing, brewing of beer, dressmaking and selling of second hand clothes. The males also dominate fishing, carpentry, metalwork, vehicle mechanics, shoe making and repair, building and construction and boda-boda operation. PLWD also engage in activities like shoe repair, selling of candy and other fast foods within the town set up and other market centres.

MSE sector in Kisumu partly receives financial assistance from the county government to expand their businesses. Receipt of this may not be easy because of challenges that they may encounter that hinder their development. Most micro and small scale entrepreneurs are not in a position to access wider markets due to lack of enough finances to facilitate their transportation and due to the fact that just a few of them have embraced innovation. A bigger percentage doesn't make any savings that may help them in future while a few now join Sacco's and other merry go rounds for investment. The fishermen and boda-boda riders are the worst hit when it comes to savings. They rarely save due to the fact that they get small earnings regularly hence do not see the need of saving or making investments. These groups of people also need insurance because of the nature of their work like boda-boda riders and fishermen. Adverse business environment has been blamed for high rates of business failure (World Bank, 2014). Enterprises with the ability to export have got high chances of survival and growth because of the wider market as compared to those that are unable to export like most micro and small enterprises in Kisumu County.

1.2 Statement of the Problem

Kisumu County hosts Kisumu City which is a cosmopolitan city and representative of other cities in the world. It has high population and a mixture of different MSEs in various sectors. The MSE sector is recognized as the engine towards economic development and employment creation for developing countries by International Labour Organization (ILO) hence the need to support their expansion, viability and growth. This sector assists in the fulfillment of Sustainable Development Goals (SDGs) adopted by the United Nations in 2015. At both national and county levels, the Government of Kenya has set aside funds to be given to the informal sector. The Fund for Inclusion of Informal Sector (FIIS) by the government allows MSEs to access financial services in order to expand their businesses and increase savings. This fund is majorly given to the MSEs so that they can transit to formal sector enterprises through financial access. The government also enters into agreements of credit facility with selected banks in order to lend to micro and small enterprises mainly through branches, mobile banking, authorized banking agents and other channels. Some micro and small traders in Kisumu County have also benefitted from the Hustler Fund, Uwezo Fund, Women Enterprise Fund, Kisumu Traders' Fund and Youth Enterprise Development Fund among others (KCIDP, 2018). Banks such as Kenya Commercial Bank, Family Bank, Cooperative Bank and Post Bank are in the fore front to provide financial access to MSEs. Despite putting in place these monetary interventions, MSEs still seem to have challenges in accessing financial services. A study by Ojera, Simeyo, Lumumba, Nyabwanga and Odondo (2011) reported that in Sub – Sahara Africa, 50% of SMEs registered decreasing performance five months after they were started. Inaccessibility to financial services may be attributed to high lending interest rates, lack of collateral, unavailability of business plans and general financial illiteracy among other reasons (Ndede, 2015). It is for this reason that the researcher found it useful to carry out a study on financial inclusion and performance of micro and small enterprises in Kisumu County, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to determine the effect of financial inclusion on performance of micro and small enterprises in Kisumu County, Kenya.

1.3.2 Specific Objectives

Specific objectives of this study were to;

i) Evaluate the effect of financial access on performance of micro and small enterprises in Kisumu County.

ii) Examine the effect of financial usage on performance of micro and small enterprises in Kisumu County

iii) Determine the effect of financial products on performance of micro and small enterprises in Kisumu County.

iv) Investigate the influence of financial literacy training on performance of micro and small enterprises in Kisumu County.

1.4 Research Hypotheses

This study was guided by the following research hypotheses;

$\mathbf{H_{01}}$ Financial access does not have significant relationship with performance of micro and small enterprises in Kisumu County.

$\mathbf{H_{02}}$ Financial usage does not have significant relationship with performance of micro and small enterprises in Kisumu County.

$\mathbf{H_{03}}$ Financial products does not have significant relationship with performance of micro and small enterprises in Kisumu County.

$\mathbf{H_{04}}$ Financial literacy training does not have significant relationship with performance of micro and small enterprises in Kisumu County.

1.5 Scope of the Study

The scope of this study was limited to financial inclusion and performance of micro and small enterprises in Kisumu County, Kenya. It focused on financial access, financial usage, financial products and service delivery and financial literacy training as the independent variables. The study was conducted in the year 2023 since this was the year of study and in the 7 Sub-counties of Kisumu County namely; Kisumu central, Kisumu east, Kisumu west, Nyando, Nyakach, Muhoroni and Seme sub counties.

1.6 Limitations of the Study

The major limitation of this study included the fact that some micro and small entrepreneurs considered some information to be confidential and hence were not willing to reveal most of the required information. The study therefore overcame this limitation by having a letter of introduction from the university to assure the respondents that the information provided was to be used for academic purposes only and the information was to be treated with a lot of confidentiality. Distance to be covered within the sub - counties posed a challenge but it was made lighter by training two research assistants to assist in data collection. The researcher and assistants also encountered difficulty in movement when collecting data during rainy season because of floods. This was solved by putting on gum boots when going to such areas during rainy seasons.

1.7 Significance of the Study

Findings of this study should enable micro and small enterprises to embrace financial inclusion for their wealth creation because it has been found to have significant effect on performance of micro and small enterprises. Findings of this study may also be relevant to other entrepreneurs in general because financial management practices may be important to all enterprises. According to Cooper (2012), practices like good credit management brings about upward growth of the business.

The findings of this study may help steer government development strategies like creation of employment, poverty eradication and industrialization. The government may also create an enabling environment for micro and small enterprises as a result.

It may enable economic policy makers to develop policy interventions that would help improve performance of micro and small enterprises and other businesses. They may come up with policies and regulations that address important factors according to the recommendations of the study.

Future researchers and academicians may find this study to be very valuable as it may provide literature for future scholars. The results of this study may therefore help scholars and researchers in contributing to the existing body of knowledge while showing how important financial inclusion is to performance of micro and small enterprises. The study suggested areas for further studies and may then act as future reference material.

The findings of this study also contributed to new knowledge that is very important to performance of micro and small enterprises and other businesses in general.

1.8 Assumptions of the study

The study was carried out with the assumption that the sample selected represented the entire population. It was also assumed that the respondents answered the questions honestly. Another assumption was that the data collected were reliable enough to necessitate generalizations for the entire population.

1.9 Justification of the Study

This study was conducted in Kisumu County because it is the industrial and economic hub of Western Kenya, having been one of the largest of the 47 counties in the country. The county also accommodates people from all parts of Kenya because it is cosmopolitan in nature. This study was also very necessary since it would discover areas of financial challenges faced by MSE owners that may hinder their wealth creation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature relevant to the study and based on themes derived from research objective. It reviews literature on financial inclusion and performance of micro and small enterprises with respect to theoretical, conceptual and empirical literature. Main theory used for review of literature was Grameen Model theory. This chapter also contains conceptual framework.

2.2 Theoretical Literature Review

Theoretical review tends to guide the researcher on variables that are to be measured. This study was guided by Grameen Model theory as the main theory anchoring the study, transaction costs theory and financial capital/liquidity theory.

2.2.1 Grameen Model Theory

This was the main theory of this study. This model is related to this study because it is very important in the microfinance sector as it targets the poor, provides door step services, issues less collateral loans with low interest rates, focuses on the marginalized groups and also has good impact on the vulnerable group in the society like women, the youth and people living with disabilities. The model is based on groups of five prospective borrowers who are to meet on regular basis with field managers of Grameen bank. According to this theory, the assumption is that when two borrowers are given money and they meet the terms of repayment then the remaining group members are also given loans. This is possible because already trust has been built on the group and there is surety that the other group members will also meet the repayment terms. The biggest challenge for the rural poor is lack of access to credit (Grameen Bank, 1976). Most MSE owners are poor, consist of people living with disabilities, youths and women hence this theory was very relevant while explaining financial access by this section of the society.

2.2.2 Transaction Costs Theory

Transaction costs are major challenges that affect access to markets for MSEs. Low transaction costs are very necessary in enhancing access to market as posited by Transaction costs theory. High transaction costs arise due to poor infrastructure, market inefficiencies and information asymmetry. MSEs may not compete effectively because of skewed customer preference, low quality products, very limited product diversity and un-conducive pricing (KIPPRA, 2010). Morduch (2010) used this theory and posited that availability of finance only isn't enough and those who borrow should be trained on use of loans and management of their enterprises to realize tremendous growth as they try to reduce transaction costs. This study adopted transaction costs theory in explaining costs that MSEs might incur in accessing finance and service delivery to customers. It therefore also advocates for proper financial usage, financial products and financial literacy training of the MSE owners.

2.2.3 Financial Capital/Liquidity Theory

Clausen (2009) who used the theory concluded that entrepreneurial opportunities can effectively be exploited by those with enough financial capital who are also able to acquire necessary resources. The assumption of this theory therefore is that micro and small businesses can only have excellent performance if they had adequate start - up capital. According to some studies, this theory is not valid due to the fact that most entrepreneurs start new businesses without much capital and that there is no significant relationship between financial capital and the probability of being semi developed business owners (Aldrich and Martinez, 2011). The confusion may be because the line of research related to the theory of liquidity challenges usually aiming at resolving whether a founder's capital access is determined by the amount of capital used to start a new business (Clausen, 2010). This theory was important to this study as it helped explain availability of capital that is necessary for acquisition of other resources by MSEs. The theory therefore relates to financial access.

2.3 Conceptual Literature Review

This section presents description of variables of this study. It explains financial inclusion, financial access, financial usage, financial products, financial literacy training, financial regulation, government legislation and performance of micro and small enterprises. It also explains the specific sub variables of the study under each variable.

2.3.1 Financial Inclusion

Financial inclusion refers to equal and available business opportunities in accessing financial services. Financial inclusion is geared towards attaining easy access to financial services by enabling the vulnerable and disadvantaged part of the society to actively contribute to socio – economic growth. It offers way forward to promote inclusive development, alleviate poverty and attain the United Nation's Sustainable Development Goals (SDGs). According to Samundengu (2014) ability to use financial products and services from various formal institutions is referred to as financial access. It has been identified by many researchers globally (Onaolapo and Odetayo, 2012; Pallavi and Bharti, 2013; Stephen and Sibert, 2014; Godwin, 2011) as solution to the development of MSMEs.

In this study, financial inclusion is portrayed as accessing the most affordable and fair financial services. In developed economies, generally one in five adults doesn't have recognized bank accounts or any other evidence of access to a formal financial sector and in a good number of developing countries, the number of adults who are not banked may even reach ninety percent, (Demirguc-Kunt and Klapper, 2012). Financial inclusion offers credible solutions to alleviate poverty steer economic development and work towards achieving the sustainable Development Goals (SDGs). Financial inclusion is a process that may steer the development of SMEs (Terzi, 2015). It is influenced by financial literacy, especially in improving ability of the society in the usage of financial services to get direct success from the financial institutions (Alaaraj and Bakri, 2020). Financial inclusion as portrayed in this study was measured by use of four variables which included financial access, financial usage, financial products and service delivery and financial literacy training.

2.3.2 Financial Access

Financial access refers to the ability to have financial services within reach. Access to finance by MSEs speeds up financial inclusion and hence contributes to deepening of the financial sector and overall growth of the economy. One of the most serious challenges facing small scale enterprises and blocking their growth and development is lack of credit (Oketch, 2011). Most lenders are reluctant to give funds to micro and small firms because of lack of business plans or adequate financial statements. This makes it harder for financial service providers to check proposals of MSEs in order to verify their credit worthiness, more so where a new product is involved.

Some measures of access to financial services may include ownership of account, how various financial services are utilized together with the ability to solicit services from different providers of financial services. In this study, financial access was measured with respect to financial access from banks and other financial institutions, government funding and innovation as discussed below;

2.3.2.1 Banks and other financial institutions

There was use of questionnaires and interview guides to collect primary data by checking on the number of MSEs that access finance from commercial banks and other financial institutions like MFIs. The common banks include Equity Bank, Kenya Commercial Bank (KCB), Cooperative Bank, Standard Chartered Bank, National Bank and Family Bank among others. Other financial institutions that may also extend loan facilities to MSEs include Faulu bank, Kenya Rural Enterprise Programme (K – Rep), now Sidian bank which used to support growth and development of MSEs through NGO managed programs. Small and Medium Enterprise Programme (SMEP), which is also a financial institution empowering members through provision of market driven financial services, Kenya Women Finance Trust (KWFT) and some insurance companies that extend credit services to micro and small enterprises. This measure was geared towards looking at percentage (%) data on MSEs that had accounts and/ or were taking loans from some of these banks and other financial institutions as per the respondents’ responses.

2.3.2.2 Government Funding

This refers to financial spending by the government on micro and small enterprises. The Government of Kenya is committed to assisting the micro and small enterprises with financial provision for their sustainability, growth and development for ultimate wealth and employment creation. These may include funds availed to micro and small enterprises through channels like Uwezo fund, Youth Enterprise Development Fund (YEDF) and Women Enterprsie Fund (WEF), among others. The researcher measured this variable by use of questionnaires and interview guides, where respondents indicated if they were receiving government funds or not. The respondents were also to indicate the least and highest amount of finances that they had ever received from the government and its agencies. From the responses, percentages were to be computed from the primary data for analysis.

2.3.2.3 Innovation

This refers to coming up with a new idea with the intention of improving a particular field. In this study, the responses from respondents would reveal the number of MSEs that had had financial access from innovations like Mshwari, Fuliza, KCB Mpesa and also those that have received payments from customers via Lipa na Mpesa, Pochi La Biashara, Paypal, Airtel money and Equitel services among others. Other innovations through which micro and small enterprises can use to make payments or receive finances may include the use of Automated Teller Machines (ATMs), agency banking such as Equity, Cooperative and KCB Mtaani agents which enable banks to bring their services directly to the customers without them visiting a physical branch, Western Union, Real - Time Gross Settlement (RTGS) which are money transfer systems that enable users to instantly transfer money or securities from one bank account to another. Society for Worldwide Interbank Financial Telecommunications (SWIFT) which offers safe money transfers to its representatives. An e – commerce website which allows users to list items for sale, allowing other users to bid on in auctions is eBay. All the enlisted money transfer systems may assist micro and small enterprises to do their financial transactions worldwide and faster. Information from respondents concerning these innovations would be analyzed to know to what extent they have been embraced by the micro and small enterprises (MSEs).

2.3.3 Financial Usage

Financial usage refers to spending on financial products and services. Financial services entail securing of loans, savings, making of payments and pension products. Usage of finance should therefore include knowledge in records keeping, business plan and debt management in order to make good use of the business finances. Distinction between access and usage of finance should be made clear when measuring financial inclusion. According to Beck et al., (2006) accessing and probability of using financial services is different from real or true usage. According to Samundengu (2014) ability to use financial products and services from various financial formal institutions contributes to financial access.

Samundengu (2014) further asserts that usage is geared towards the depth and permanence of financial services and usage of the product in terms of frequency, regularity, and time of usage over a given period. Management of most bankrupt firms may not have the knowledge, experience or vision to manage their enterprises and correct usage of business finances (Baldwin & Ford, 1988). Numbers and size can be used as indicators to gauge the usage of financial services. For example, indicators of numbers may refer to the amount of loans for 1,000 persons and the number of deposits also per 1,000 persons while indicators of size are reasonable loan sizes to Gross Domestic Product per capita and mean size of deposits to GDP per capita. Larger number of deposits and loans, and their lower ratios to GDP per capita show the banking services' usage by a larger proportion of the population together with client base of small size. In this study financial usage was therefore measured by use of unit trusts, insurance and investments. These are explained as below;

2.3.3.1 Unit Trusts

These refer to savings and investments made over a period of time to be used in the future by an individual or a business enterprise when need arises. There are some micro and small enterprise owners who save with the unit trusts. Examples of these unit trusts include Old Mutual, Natbank, Cytonn and Zimele that trade in money markets. In this study, primary data was collected by use of questionnaires and interview schedules and the respondents were to indicate whether they save their finances with Unit trusts and also give the names of those organizations. From the data, the number of MSEs that are committed to save finances with Unit trusts would be known and percentages computed for analysis.

2.3.3.2 Insurance

This refers to a financial service that may be geared towards protection of a business enterprise against certain risks by an insurance company. Insurance therefore enables the insured to transfer the business risks to the insurance company. Today some financial institutions also offer insurance services to business enterprises, including banks like Equity bank and Kenya Commercial Bank, among others. There are other Non-governmental organizations (NGOs) which also extend some financial services to micro and small enterprises, including insurance services. Such organizations include CITAM. MSE owners can insure their businesses against perils like theft and burglary, fire, floods, drought and accident with insurance companies. The insurance companies include Britam, Sanlam and Direct Assurance among others. The insured then pays premiums regularly to cover the risk. Questionnaires and interview schedules were used to obtain the number of MSEs that are insured with different insurance companies or organizations and perhaps the amount of premiums that they contribute per month. From the number of responses obtained, percentages would then be arrived at for adequate analysis.

2.3.3.3 Investments

This refers to financial usage by MSEs that is geared towards profit making and general expansion and development of the business enterprises. There are various types of investments that can be adopted by MSEs which include; physical investment, human capital investment, monetary investment and technological investment. Questionnaires and interview schedules were used to gauge the number of MSEs that engage in different types of general investments for their growth. In the questionnaire, the respondents were to indicate whether they have employed some people to help in the business, other assets that they own and their savings among others. This data would be useful in knowing the percentage of micro and small entrepreneurs who have embraced investment from their finances.

2.3.4 Financial Products

Financial inclusion may refer to a way of ensuring access to quality financial services and products that are required by everybody in the community, more so weaker, and vulnerable sector and individuals with poor or low income at a very reasonable cost (Aduda and Kalunda, 2012). Elements of financial products are evident in customer satisfaction, public image of the business and transaction costs incurred by the MSEs. In countries with developing economies, financial markets are largely imperfect and accompanied with soaring transaction costs, information asymmetries, moral decay, and negative selection (Hieltjes and Petrova, 2013). When measuring financial inclusion, quality of services and other products should be evaluated because most of the poor section of the community is dependent on poor performing and weaker institutions that are also dependent on assistance by government.

Many previous researches have supported the fact that market access and performance of enterprises have positive correlations (Kara et al., 2005). Research studies have revealed that most MSEs are faced with so many problems while trying to find market for their products. Low access to market to the Kenyan MSEs is characterized by few linkages with other business enterprises, low quantity and quality products offered low participation by MSE sector in the foreign markets, very low access to market information and unavailable spaces in the physical market for selling their products.

The MSEs are therefore confined to overcrowded local markets. Trade barriers have been removed and markets have also been opened up through globalization, leading to very high competition from large enterprises and multinational companies. Growth and expansion of the MSE sector has been constrained by lower access to formal finance because of bad and inadequate level to deliver high quality services by MSEs. Numerous factors have also been discovered as limiting the entry into market by MSEs in Kenya. These include poor quality products and services, inadequate information about market, low access to physical markets, limited market spaces, weak advertising and promotional capacities and bad correlations with markets outside the country. There are also entry restrictions in some markets, limited product diversity, limited market research and low levels of e-commerce. All these impact negatively on service delivery of businesses. Enterprises may have challenges in pursuing potential growth opportunities when their resources aren't enough to meet their financial needs (Carpenter & Peterson, 2002). Financial products and service delivery was measured by looking at customer satisfaction, public image of the business and transaction costs as explained below;

2.3.4.1 Customer Satisfaction

This refers to positive behavior posited by the customer after using a particular product. It may also include compliments by the customer depending on his/her taste and preference for the product. Customers' complaints about a certain product would mean dissatisfaction. The customers may be satisfied when the entrepreneur talks to them well, gives them the right product of right quantity and quality, may extend credit to them when need arises, gives discounts and listens to their complaints among others. Customers may also be satisfied when they always get goods and services that they require from the business at the time of need. In this study, questionnaires and interview schedules were used to collect primary data where respondents indicated whether their customers were satisfied or not. If not satisfied then researcher/ assistants would enquire orally from the respondents about reasons for dissatisfaction of the customers. The respondents would also mention what actually made their customers to be satisfied and remain loyal to the business. According to their responses, percentages were to be calculated and analysis of the data done.

2.3.4.2 Public Image

This refers to the perception that people have for a particular business enterprise. It actually portrays how the business is interpreted by the entire community and the reputation that it holds which may lead to customer loyalty. The general public may rate a given business as good or bad, depending on the manner in which it does its activities in the area. These activities may include but not limited to waste disposal and advertising among others. When the general public talks well about the business, it means that the public image of the business is good as compared to when people talk negatively about it which implies bad image. Intense advertising can always bring about positivity on the image of a particular business and is necessary where there is bad public image. In this study, primary data was collected by use of questionnaires and interview schedules in which the respondents indicated whether their businesses had good public image and were able to retain customers as long as they existed.

2.3.4.3 Transaction Costs

These refer to the expenses of operating an economic system which include the indirect and direct costs. Examples of such expenses are transportation costs, advertising costs, lending costs, wages and salaries. There are those transaction costs that can be avoided while others can be minimized for sustenance, growth and better performance of micro and small enterprises. Most MSEs may incur high transaction costs in their activities and if not controlled, may bring about the collapse of the businesses due to poor performance. In this study, the researcher and assistants used questionnaires and interview schedules to get responses from the respondents concerning transaction costs that they regularly incur in their businesses. Analysis was to be done in order to establish the percentage of micro and small entrepreneurs who spend their finances most on certain types of expenses or transaction costs. This study would then suggest ways of minimizing these costs by the entrepreneurs so that their businesses can grow and develop.

2.3.5 Financial Literacy Training

Financial literacy training is the process of imparting skills and knowledge to MSE owners on matters related to finance that are very necessary in business financial management. Very minimal levels of financial literacy are great hindrance to financial inclusion as they restrict access to finance and also lead to high transaction costs, (Gardeva*,* 2010).Majority of micro and small enterprises in many developing economies may have limited access to finance while inadequate literacy in finance has been discovered as one of the causes of limited access to finance (OECD, 2012). In this study, financial literacy training was measured by looking at savings mobilization, records keeping and lending. These are explained below;

2.3.5.1 Savings Mobilization

This generally refers to creation of awareness amongst micro and small entrepreneurs so that they can save some percentage of their income from their businesses. In this study, questionnaires were used to collect primary data on micro and small enterprises that save their finances with banks and other financial institutions. There was provision for indicating whether they save finances or not. Interview schedules were also used to collect primary data from the micro and small entrepreneurs. There are those micro and small entrepreneurs who may not save with banks but can prefer to save with Savings and Credit Cooperative societies (SACCOs) and other organizations, MFIs, mobile phone savings like Mshwari and KCB Mpesa among others. Some micro and small entrepreneurs belong to various groupings where they come together to do regular savings as they borrow (Table banking). At the end of the year, they gather to distribute the dividends amongst themselves. Some of them also belong to Merry go rounds which assist them make small savings for their growth and development, The questionnaires and interview schedules were also used to gauge the number of micro and small entrepreneurs who have been trained on savings mobilization by different institutions and organizations.

2.3.5.2 Records Keeping

This refers to safe keeping of financial transactions by use of simple financial statements. Primary data was used to capture the number of MSEs who have been trained on records keeping by different institutions like MFIs, commercial banks, NGOs and the government. This study used both questionnaires and interview schedules in primary data collection. They were used in order to get information concerning the number of entrepreneurs who have been trained on records keeping. Information gathered would help to get data on the percentage of micro and small entrepreneurs who have been trained on records keeping for analysis and those that have not been trained, their performance and training need.

2.3.5.3 Lending

This is the process of allowing an individual or a business to borrow money from another financial institution or individual. In this study, lending therefore refers to borrowing by MSEs in order to run or expand their businesses. It also refers to lending by the MSEs which if done cautiously may not lead the MSEs into incurring bad debts. The finances lent to other individuals may assist the micro and small entrepreneurs to earn some extra income in terms of interests that they charge when lending. Questionnaires were used to collect primary data in the field and gather more information on the micro and small entrepreneurs who borrow loans from banks and other non - bank financial institutions and also lend to other individuals or other MSEs. Interview schedules were also used to supplement questionnaires in data collection.

2.3.6 Performance of MSEs

Performance of MSEs depends on their access to finance, financial usage, availability of financial products and service delivery coupled with financial literacy of the entrepreneur. It may also refer to the ability to sustain income, stability and growth. Growth and development of a business enterprise may be reflected in new and improved products, increased market share and increased sales (Marry, 2014).

Another indicator that is frequently used by businesses to gauge financial performance is profitability. It consists of commonly used measures which include return on firm equity (ROE) and return on assets (ROA). ROE measures the rate of return on the owner's equity as employed in the firm. According to Zenios (1999) it is important to assess ROA in relation to ROE to establish if the businesses make returns that are profitable on the money that they borrow. Economics and finance researchers prefer cash flow or market returns measures together with their variability as measures of performance. Accounting rate of return is also preferred by some firms (Rao, 2007).This measurement of profitability is used in evaluating performance from the management point of view.

Bijker (2007) asserts that there are three main factors in improving financial performance of a financial institution which include the management of its assets, efficiency in its operations and the size of the institution. Another tool used to establish the financial performance of a firm is liquidity. It refers to the ability of the business to meet its financial obligations as they fall due, without interfering with the usual running operations of the firm. Finally, this study assessed the joint impact of financial access, financial usage, financial product and service delivery and financial literacy training on the performance of micro and small enterprises. Therefore the choosing of the variables of study, the building of the correlation among the different variables and the formulation of the conceptual framework depicts the nature of the correlation and is very unique to this research study. In this study, performance of MSEs was measured by use of Return on Assets (ROA), growth in sales volume and growth in profits.

2.3.6.1 Return on Assets (ROA)

Many researchers argue that Return on Assets (ROA) is an efficient profitability measure of an enterprise. Olawale (2010) is one of the previous studies that used ROA and ROE as means of measurement of profitability. The returns to all business's assets is measured by ROA and is always used as a profitability index where the bigger the value, the more profitable the business. Nduati (2013) asserts that financial performance of an enterprise is a show of how profitable it is in relation to its total assets and is measured by Return on Assets (ROA). Performance can be explained as the ability to sustain income stability and growth. A banking sector that is profitable should be able to contribute to the financial system's stability of a country while also withstanding negative shocks. Different researchers therefore posit that return on assets (ROA), growth in sales volume and growth in profits are excellent measures of performance of micro and small enterprises.

Return on Assets (ROA) as an efficient measure of the performance of a business enterprise shows the ability of an enterprise to generate profit from its available assets. When the value is high, then there is better performance of the business and vice versa. Questionnaires and interview schedules were used in this study to gauge micro and small entrepreneurs' responses on their Return on Assets.

$$\text{ROA} = \frac{\text{Business' Net Income}}{\text{Average Total Assets}}$$

$$\text{Where Average Total Assets} = \frac{\text{Total Assets at the beginning} + \text{Total Assets at the end}}{2}$$

2.3.6.2 Growth in Sales Volume

This is an increase in the number of sales for an enterprise in comparison to similar products of the business over a given period of time. Primary data by use of questionnaires revealed the number of MSEs that experience increase or decrease in sales volume. Growth in sales volume is actually evident in the large number of products sold by a business. The volume of sales for a particular micro and small enterprise may grow when it opens new branches. This is because of increase in population due to many customers. According to Kalleberg & Leicht (1991) performance measures include sales turnover, growth in number of employees, value of capital assets and increased number of clients. Brush et al. (2009) posit that growth in sales volume may be due to geographical expansion, emergence of new customers, increase in new branches and mergers. According to Janssen (2009) an enterprises' sales volume is increased by increase in demand for products. Sales volume is also boosted through better use of resources that are available and diversification of the products sold in order to attract more customers. Sometimes, some MSEs go to an extent of reducing the prices for their products in order to attract more customers to aid in growth in sales volume. It is now a normal practice by MSEs to advertise their products by talking to a group of people about the product, use of posters, flyers, Facebook pages, WhatsApp status update and sending of normal short messages to prospective customers. This practice may assist most MSEs that use the same platforms to increase their sales volume for better performance.

2.3.6.3 Growth in Profits

This shows an increase in amount of profits earned by an enterprise over a given period of time. The profitability of an enterprise is usually measured by use of various financial ratios analysis like measuring performance against budget and benchmarking put together (Barley, 2000). Profitability of MSEs on the other hand is reduced by high transaction costs which should be reduced by the MSEs. Siekei (2013) asserts that skills in credit management that are obtained through programmes of financial literacy increase profitability and hence performance. This is possible through acquisition of credit finance and management of loan portfolios to ensure that interest expenses and loan liability is reduced. Skills in budgeting are also very important in increasing sales, ensuring smooth running of the business and also increasing profits. There are common measures for growth in profit that may be used by micro and small entrepreneurs as shown below;

Gross profit = Net sales – Cost of goods sold

Operating profit = Gross profit – Operating costs

Where operating costs may include administrative and selling expenses

Net profit = Operating profit +Any other income – Additional expenses – Income taxes

In this study, questionnaires were distributed to the respondents in order to collect primary data. Interview schedules were also used in primary data collection. The respondents were to indicate whether they were experiencing growth in profits or not.

2.3.7 Intervening Variable

2.3.7.1 Micro and Small Enterprises Authority (MSEA)

In Kenya, the Micro and Small Enterprises Authority is charged with the responsibility of promoting, developing and also regulating the micro and small enterprises. The Kenyan government has appreciated the role of micro and small enterprises in the economy and has made policy efforts directed towards creating a conducive environment for the MSEs. This therefore brought about the enactment of the MSE Act (GOK, 2012). The new Micro and Small Enterprise Act (2012) provides a chance through which MSEs can evolve that may be achieved through framework of devolution. The MSE Act (2012) and KNBS are therefore charged with the act of overseeing the operations of all MSEs in the country. According to Ongolo and Odhiambo (2013) architecture of the institutional and regulatory framework that support micro and small enterprises in the economy affects the impact of devolution on MSEs' development. By 2013, the MSE sector had sustained the upward growth and it contributed to the greatest part of total jobs created in the country (KNBS, 2014). In appreciation for the role of micro enterprises in the country together with the problems that they face,

An enabling business environment is given to micro and small enterprises by the MSE Act through provision of institutional and legal framework for the regulation, development and promotion. Micro and small enterprises still experience challenges that constrain their performance, despite such support by the Government of Kenya (GOK). According to Eton, Mwosi, Ogwel, Edaku and Obote (2018) MSEs should get considerable support and legal protection from all interested parties including the government. This is important for sustenance of development and economic growth of micro and small enterprises, leading to creation of employment opportunities, high economic investment and generation of revenue to the government through taxation and wealth creation in general. Other functions of MSEA include monitoring and evaluation of the implementation of existing policies and also programmes that may affect micro and small enterprises and advice the government on appropriate policies and course of action to be taken.

2.4 Empirical Literature Review

This review is based on previous research studies by different scholars concerning both dependent and independent variables of the study which include financial access, financial usage, financial products, financial literacy training and performance of micro and small enterprises.

2.4.1 Financial Access and Performance of MSEs

Micro businesses are in the fore front as they play a very significant role in the development of Kenyan economy. Despite several assistances, the MSE sector is still experiencing very low graduation and huge failure rates which interfere with their ability to contribute to vast development of the economy (Bowen, 2009). Main determinant for starting business, running and growth of micro and small scale businesses is access to financial services (Khandker, 2013 USAID 1998; Parker *et al.,* 1994, World Bank, 2008). According to Terzi (2015) major factor that influences success of SMEs is financial inclusion. The Government of Kenya (2012) came up with the Micro and Small Enterprise (MSE) Act which was aiming at providing a legal environment for MSE's through an enabling policy. By introducing Uwezo Fund, Youth Enterprise Development Fund (YEDF) and Women Enterprise Fund (WEF), the Government has tried to ease the financial challenges of the sector.

Finance includes activities geared towards managing cash flows in a business premises. Enterprises should therefore choose a suitable organizational structure in order to make the best use of finance at their disposal; while also trying to balance objectives of managers, shareholders and all other stakeholders. Finance includes some other related activities like investment, raising of capital in order to support different enterprise activities, choosing better projects to undertake, the business's internal cash flows management and financing a mixture of its debt and equity, development of corporate governance structures and management of the firms exposure to risk so as to maintain optimum risk-return trade off and hence shareholder value maximization (Ledgerwood, and Victoria, 2006). Businesses may raise finance both externally from creditors or investors and internally through retention of operating cash flows. According to (Owualah, 1999; Carpenter, 2001; Anyawu, 2003; Lawson, 2007) inadequate financial access has been established as a main challenge to expansion of SMEs. If SMEs could access funds, then they are able to accumulate and save own capital for future development (Hossain, 1988). However, MSEs do not find it easy to access financial institutions that are formal like commercial banks for loan or credit which limit their growth.

While studying the state of microfinance institutions in Eastern and Central Europe, Forster, Greene and Pytkowska (2006) revealed that outreach to the poor section of the community was very low. Loans were being given to well established organizations and not to MSMEs. The study also highlighted that MFIs were delivering short term loans with high interest rates. The study therefore recommended that MFIs should reach out to the poor and also offer loans at relatively low interest rates that are affordable.

Mwobobia (2012) carried out a study on the challenges faced by small scale women business owners in Kenya using computer research study. Baseline survey of MSEs indicated that 612,847 women MSE owners in the Kenyan economy account for 47.5% of all the micro and small enterprises. The study found out that those MSEs face very serious challenges like lack of education, finance and the challenge of multiple duties. The study further stated that many stakeholders from both private and public sector are trying to give assistance to the women entrepreneurs in a bid to empower them, like the formation of WEF and establishment and development of Women's University of Science and Technology. It recommended that women be accepted and financially supported while more capacity building should be availed to them. MFIs in Kenya give loans that are limited in amount, are short term in nature, have no grace period and are of very high interest rates. The study used desktop survey only as no primary data was collected in the field. The current study relied on information provided by the micro and small enterprise owners themselves because primary data was collected by use of questionnaires and interview schedules.

Lakuma, Marty and Muhumuza (2019) carried out a study on financial inclusion and micro, small and medium enterprises (MSMEs) growth in Uganda, to establish effect of the enterprise environment with sole interest towards the impact of finance on a businesses' expansion while focusing on distinct features across enterprise size. The study used secondary data of 762 firms drawn from Uganda's 2013 World Bank Enterprise Survey (WBES). The results revealed positive relationship between increased access to finances on MSMEs growth and expansion in relation to larger firms but effects weren't significant on MSMEs. The findings also revealed that inadequate finance and weaker firm environment may constrain the development of MSMEs but favor growth of larger firms. Lakuma et al. (2019) used purely secondary data to draw conclusions while the findings were also found to be conclusive for larger firms only and not MSMEs The present study bridged this gap by using purely primary data to draw conclusions and the results were found to be conclusive for micro and small enterprises.

Many enterprises raise funds they require on yearly basis internally. The form of business is influenced by access to external financing. Partnerships and sole proprietorships also face low and inadequate external funding opportunities while compared with large businesses like companies which have better access. The finance function encompasses everything involved in managing the firm's financial resources and is wholly supported by (Financial Management Guide, 2003). It entails such activities like: Planning, budgeting and forecasting; planning how the business wants to carry out its activities, management of Cash, ensuring the business has finance when it's required, accounts receivable and payable, ensuring that the firm receives what it's owed by debtors and pays what it owes to the creditors. Planning/filing and reporting of tax; meeting requirements of the government, management of risk, making sure that the business does not face an unfavorable occurrence, reporting by internal management and providing image of the business for those who may require it.

Otuke (2015) carried out a study on participation of women in SMEs and the growth of their businesses in Gikomba market, Nairobi County. The study had specific objectives like to examine factors influencing the performance of enterprises owned by women, establish the distinctive features of women entrepreneurs, to establish different types of enterprises owned and managed by the women, to find out the factors influencing the performance of enterprises owned by women. The study used descriptive survey research design. Population targeted was women owning businesses in Gikomba market, Kenya. It employed technique of purposive sampling to identify sample size of 120 respondents from clothes, groceries, hardware, jua kali, carpentry and shoes businesses. Questionnaires were used in data collection and quantitative data analysis was done by use of descriptive statistics with the help of Statistical Package for Social Sciences (SPSS version 20). The findings of the study were that most of those women entrepreneurs were relatively young and very energetic, were the breadwinners, had inadequate academic background, could not access credit, operated small enterprises, lacked proper entrepreneurial training and were also members of various social groups. The study concluded that low academic background, inadequate training on entrepreneurship, limited access to credit; family obligations and weak social networks adversely affected the performance of women owned micro and small enterprises. The study recommended that women who owned businesses should be given some training on entrepreneurship, uplift their academic knowledge, expand their enterprises, engage in strong social networks, and look for other sources of finances in order for their businesses to successfully grow and expand The current study filled this gap by covering a wider area and not restricted to one market area. This current study also included micro and small enterprises for both men and women.

According to Memba & Karanja (2012) ventures have continued to collapse immediately helping organizations abandon the project and remaining ones have continued to be small. 50% of small enterprises continue to have decreasing performance with 3 out of every 5, failing within few months of establishment. Memba, Gakure and Karanja (2012) carried out a study in various major urban centres in Kenya to determine the effect of venture capital on development of SMEs. The study targeted 200 SMEs that had received financing from venture capitalists. They were accordingly stratified depending on the locality while random sampling was done by giving numbers to individuals of each stratum and determination of sample size was done, after which a sample size of 100 firms were selected randomly from which data collection was done by use of questionnaires. Analysis of data was done by use of descriptive statistics with the assistance of SPSS. The study findings were that presence of venture capitalists in a firm provides guidance and hence growth of sales. It concluded that SMEs that use venture capital experience increased growth and development hence many enterprises should be encouraged to use this type of finance so that Kenya can be able to achieve its vision 2030. The study recommends that SMEs should use venture capital because it doesn't only help in provision of funds but also assists in the internal activities of the enterprise especially in formulation of policies. The study by Memba et al. (2012) was majorly conducted on businesses that had received venture capital in major urban centres, while the current study included other sources of capital that influence performance of enterprises not necessarily in major urban centres.

Weaknesses of MSEs are always portrayed inform of lack of security (Galindo & Micco, 2005). Inadequate access to credit has been a major challenge for MSEs. This affects the choice of technology by lowering the number of alternatives that can be selected. Many MSEs may use obsolete technology due to the fact that it is the only one they can easily afford. In many cases even where there is availability of credit, the business owner may not have freedom of choice when the lending terms and conditions may enable the purchase of heavy, immovable assets/equipment that may serve as security for the loan. Challenges in obtaining credit are varied for micro and small entrepreneurs in Kenya where capital market are underdeveloped forcing them to depend on self-financing or borrowing from relatives and friends. It posits that lack of information symmetry emanating from inadequate financial statements of MSEs and business plans making it very difficult for financiers to assess the creditworthiness of potential MSE proposals which causes many lenders to be reluctant funding small scale businesses especially those with new products in the market.

Financiers normally fix high rates of interest; require excess collateral and high premiums which make it impossible for MSEs to comply. Very high credit rationing for MSEs leads to credit challenges making them not to focus on projects that are highly profitable because they are not able to acquire external finances that are necessary to fund them (Craig et al., 2007). Galindo & Micco (2007) assert that countries with weak enforcement and weak institutions experience scarce and expensive financing. Unavailability of access to credit that is long-term in nature for micro and small businesses are forcing them to depend on short term finances which are of high cost. Other financial constraints facing micro and small enterprises may include exorbitant bank charges, high cost of credit and fees. Inadequate collateral calls for institutions of financing to freeze amount of loan that is given to MSMEs as compared to some other sectors (Beck, Demirguc – Kurts & Levine, 2003).

Towards the end of 2008, many micro and small entrepreneurs fell prey for various financiers like Pyramid schemes that were promising and giving a lot of hope to young investors that they can excel to financial freedom by soft loan borrowing. The significance of resorting to these schemes among different business owners is majorly to find alternatives and soft loans with minimal rates of interest while still making profits. According to Wanjohi and Mugure (2008) most SMEs in Kenya face major financial constraints. Many organizations which include non-governmental organizations and business associations have come up with several programs to steer factors that affect expansion of MSEs, with respect to their growth and development. Performance of micro and small enterprises has never been satisfactory despite the large number of assistance programs.

Oguta, Onyango, Nyagol and Onyango (2014) carried out a study to investigate the role of financial support on growth of MSEs in Homabay County, where sample size of 5 financial institutions and 18 artisan enterprises was selected by the technique of random sampling. Primary data was collected in the field by use of questionnaires. The study findings were that there are challenges experienced in management of funding which acts against the MSEs leading to very low levels of growth despite there being high correlation between financial support and growth of the MSEs. The study recommended that funds be outsourced in order to support women, the youth and all those unemployed in a bid to help in job creation. The study by Oguta et al. (2014) however failed to cover a wide range of other micro and small businesses as it only focused on a few financial institutions and artisan enterprises only. It was also conducted in one town centre only. The current study however covered various types of micro and small enterprises and not artisan enterprises only. The current study was also conducted in various town and market centres.

Ibor, Offiong and Mandie (2017) carried out a study on financial inclusion and performance of micro, small and medium scale enterprises in Nigeria. The main objective of the study was to investigate the impact of financial inclusion on the micro, small and medium enterprises (MSMEs) performance in Nigeria. The researcher distributed 600 questionnaires of which 596 were returned. Analysis of data was done using both descriptive and inferential statistics. Results of the findings were that financial inclusion positively and significantly affects activities and development of MSMEs. Another finding was that distance between access points to financial services and infrastructural deficiency constrained fast effective financial services access by MSMEs in Nigeria. The study recommended that significant efforts should be made in order to expand access points to various rural areas and elevate infrastructure so as to promote financial inclusion. Another recommendation was that payments should be digitalized to promote E-banking, customer complaints/protection network in order to increase financial inclusion in Nigeria. Ibor et al. (2017) adopted survey research design and also included medium enterprises in their study. The current study excluded medium enterprises because there is a wide gap between micro and medium enterprises. The current study bridged the gap by using descriptive survey design and focusing on micro and small enterprises only while ignoring medium enterprises.

Most micro and small enterprises have limited financial access which leads to restricted economic and social opportunities, households, strained growth and enterprises which are relatively vulnerable to threats, while payments are less safe and more costly (Rojas-

Suarez and Gonzales, 2010). Financial inclusion is promoted by financial access which in turn contributes to financial sector deepening and entire economic growth. Hannig and Jansen (2010) assert that financial inclusion is aiming at taking population without bank accounts into formal financial systems in order for them to access various financial services which include money transfer systems, making payments, savings, insurance and credit. Financial inclusion of micro and small scale enterprises reduces liquidity challenges, encouraging investment which also influences size of the firm, industrial structure, and economic competition (Beck et al., 2006). According to Atkinson and Kaplan (2012) financial inclusion prepares ground for financial deepening, which in turn brings about investment, reduction of poverty, growth and economic total factor productivity. Measuring of access to finance including account ownership, use of various financial services and ability to get services from numerous providers of financial services. Literature of international scene argues that micro, small and medium scale businesses heavily rely on internal finances because of inavailability of transparency (Berger & Udell, 1998). According to Olawale & Garwe (2010) low access to finances is a reason as to why employment creation in Sub-Saharan Africa is rampant with micro and non-formal enterprises while characterized by low productivity.

ElDeeb, Halim and Kamel (2021) carried out a study to identify the main pill ars of financial inclusion for SMEs in Egypt. They collected primary data using questionnaires addressing bankers who manage portfolios. They analyzed data through descriptive and inferential statistics. Logistic regression analysis was employed to analyze important variables that are in the fore front in increasing the financial inclusion of small scale businesses. They outlined limitations of their paper which included lack of a standard definition of SME to the banking society and the procedure through which financiers would be providing access to financial services targeting the SMEs. The study recommended that SMEs should be subjected to more services and follow-up activities through financial, non-financial institutions and other agencies to boost the role of SMEs as the main driver of economic development and creation of jobs. ElDeeb et al. (2021) failed to give a standard and clear definition of SMEs in their study as only banks featured in the research study. The main pillars of financial inclusion were not clearly stated from the beginning of the study. The current research study filled the gap that was left. In the current study, financial inclusion was discussed with respect to financial access, financial usage, financial products and service delivery and financial literacy training. Financial access distinctly focused on banks and other financial institutions, government funding and innovation.

In Kenya, commercial banks like KCB, Cooperative bank, Equity bank, National bank and Absa provide finances to MSEs together with financial institutions other than banks, which include microfinance institutions (MFIs), SACCOs and insurance companies. Some NGOs and other interventions like Kenya Women Finance Trust (KWFT), Faulu bank Kenya are always in the fore front in a bid to offer various types of financing to MSE entrepreneurs in an attempt to improve their performance. MFIs are defined by the World Bank as institutions which are engaged in some small financial transactions in order to serve households with low income, small scale farmers, micro businesses and others who may not be able to access formal banking services. The Banking industry in Kenya has been positively progressing in the last two decades in relation to its financial performance. According to Oloo (2009) not all players in the industry are profitable because there are those that are experiencing losses like some microfinance institutions. Financial institutions that give small loans to borrowers of low income are focusing on maintenance of financially sustainable lending operations. They therefore charge high interest rates in order to make up for their lost costs. According to them, permanence and expansion of the services provided will be ensured (Rosenberg et al., 2009).

A few micro and small entrepreneurs pick loans from commercial banks in order to use as capital while the majority shy away from the same due to scanty information that they have concerning bank loans. There are other various constraints of financial nature that micro and small enterprises face. These include very high bank charges, ledger fees and high cost of credit. Women entrepreneurs who require debt financing reported challenges in dealing with lenders and getting bank loans (Rao, 2010).Women entrepreneurs in Sub-Saharan Africa are highly disadvantaged in accessing loans from commercial banks due to the fact that they don't have control of their family resources like land that can be used as collateral when acquiring loans for expansion of their businesses (Stevenson and St-Onge, 2011). In Ethiopia, borrowing policies of the commercial banks require that not less than 85% of all loans given out must have collateral (Kipnis, 2013).Commercial banks consider the lending costs to MSMEs to be more higher than to the other sectors due to the numerous transactions and amount of time required appraising and monitoring loan compliance (USAID, 2005). To get risk loans, financiers normally require security like land or other assets and charge them very high rates of interest or give them loans of short term which may not significantly help meet their needs (Cowling and Westhead, 1996). According to Sacerdoti (2011) lack of security, limited income, unsound business plans, challenges in filing tax repayment reports are some of the major reasons for the formal banks' unwillingness to lend to most micro and small enterprise owners.

According to Robinson (1998) Microfinance is a tool for development which provides financial products and services such as savings, very minimal loans, micro-insurance, micro leasing and money transfer to help enterprises. Developing economies mostly use it where MSEs cannot access other sources of financial assistance. Microfinance has the role of financial intermediation where it provides the poor with credit hence allowing them to get capital inputs thus steering efficient self-employment. Microfinance also offers services that are not credit in nature referred to as social intermediation where borrowers are trained on various skills that empower them socially.

Informal credit groups like Merry go rounds were formed within the rural areas and at community levels because the Kenyan Colonial government didn't provide credit facilities to Africans. These groups successfully conducted savings and lending amongst members and this promoted the activities of MSEs. According to Microfinance Act (2006) microfinance institution is a business that receives money inform of deposits from informal groups. Interest earned on deposits is given out to people in form of loans or is ploughed back into the business, including giving loans to micro and small enterprises. Lack of adequate information on the alternative financial sources and inability of small enterprises to analyze their finances were some of the significant constraints faced by business owners (Orser, 2000). High interest rates charged by banks and other financial institutions are regressive to the economic development of the country, according to economic observers and academicians in Kenya.

Riwayati, Salim, Maskie and Indrawati (2020) conducted a study on financial inclusion and performance to mediate the effect of tax regulation and banking on the growth and expansion of small and medium businesses in Indonesia. The objective of the study was to analyze the influence of tax regulation and banking which is mediated by financial performance and inclusion of business players and moderated social responsibility to the success of a business. The study used census sampling technique and a population 76 batik business actors. Findings of the study were that implementation of tax regulation and banking for small and medium business actors has various positive impact to success of the businesses involved. Another finding was that knowledge in finance (financial inclusion) is a better determinant factor in promoting business scale, capital, profit and enterprise management. The study recommended that the results are quit useful from practical and theoretical aspect to be applied for the financial inclusion. Riwayati et al. (2020) failed to use a larger sample size and the findings could not be used to draw valid conclusions because it only focused on 76 batik business actors. The current study used a larger sample size and micro and small entrepreneurs from different sectors in order to draw valid conclusions.

A research study by Cooper (2012) in Nairobi on the impact of microfinance services on the development of SMEs in Kenya revealed a high positive relationship between microfinance services and the development of small enterprises. Most MSE owners prefer getting quick loans from micro financial institutions because of ease of access to these loans, very few collaterals needed and shorter time for processing not taking into account very high interest rates associated with them. While having quick access to the loans, the high interest rates make them rather expensive. Kaneyama (2001) asserts that steady growth of MSEs is brought about by sound financing by the MFIs. Mushumiyamana (2008) carried out a study to establish the relationship between access to capital finance and enterprise performance of MSEs. The study findings were that women were much able to recruit more employees and increase sales, due to availability of finance. Empirical studies by Mano (2010) revealed that access to credit that is affordable was a major determinant to expansion and development of businesses. Mugo (2012) conducted a study to analyze factors that affect women business owners' performance in Central Business District (CBD) of Nairobi City and discovered finance as the main challenge that affects performance of women business owners. Study by Ochola (2013) identified insufficient quantities of micro financing to have adverse effect on the growth, expansion and productivity of women enterprises.

In the recent past, the government has been in the forefront in providing funds to micro and small scale entrepreneurs (MSEs). This has been done through Uwezo fund, Women Enterprise Fund (WEF) and Youth Enterprise Development Fund (YEDF) among others. These funds are provided through youth and women groups while those entrepreneurs that are not in organized groups go without receiving the funds. Both Uwezo fund and WEF provide loans to women at very low interest rates to start or expand their businesses. Most youth development funds also provide loans to youths even with no interest rates attached to them. While these funds are available for expansion of the MSEs, some entrepreneurs don't take advantage of the same in order to expand their businesses. This has been done through provision of finance, organized programs for capacity-building in skills of entrepreneurship and strengthening youth, women entrepreneurs' networks and micro and small enterprises in general. They also design policies that boost stronger start-ups and enterprise growth.

Despite the growing number of initiatives and resources availed to develop and promote youth and women owned business ventures in less developed countries, women enterprises are most likely to fail at early stages of startup while their growth is slow. The Government of Kenya's Vision 2030 is very much committed to improving performance of MSEs and innovation (MPNDV2030). In Kenya, women constitute 51% of the total population and play very crucial roles in economic development as micro and small scale entrepreneurs. Women entrepreneurs face challenges including inadequate entrepreneurial skills, limited access to finance, lack of reliable networks and market for their businesses (Wanjohi et al., 2008). In a bid to empower women entrepreneurs, the Government of Kenya (GOK) therefore introduced Women Enterprise Fund. Various studies have shown that most women in the country have benefitted from Women Enterprise Fund (WEF) and Uwezo Fund while some youths have also benefitted from Youth Enterprise Development Fund (YEDF).

A Kenyan youth is a person aged between 15-30 years (Kenya National Youth Policy, 2002). The meaning considered the biological, social, psychological, cultural, political and physical aspects that actually explain situation of youths in Kenya. In Kenya, a report by the ministry of Youth and sports (2008) revealed that 50% of the youths and below are engaged in gainful economic activities in both informal and formal sectors. The Kenyan government is equally committed to supporting the youth in starting and development of their enterprises. The government has come up with various policies formulated to respond to problems of the youth. YEDF has really assisted the youth to put up and run their MSEs across the country. In Kenya, youths' involvement with MSEs is a normal phenomenon due to the rising rate of unemployment. They are operating enterprises in various sectors like manufacturing and service industries, Jua kali, farming, fishing and pottery.

There is Stiff competition arising from globalization, increased transaction costs because of market inefficiency, far off distance to markets and many activities concentrated just in a few sectors leading them to be vulnerable to competition and other risks (GOK 2005, KIPPRA, 2010). Stiff competition and globalization also put most MSEs out of business. Finance promotes investment, entrepreneurial activity, market entry, risk reduction, growth of companies and innovation (World Bank, 2008). Marry (2014) posits that performance of the business may be measured by increase in investment and innovation enabling women enterprises to enter successfully into market domain for new products and subsequently increase their sales volume.

Innovation easens access to marketing information and markets which is serious challenge to MSEs in Kenya (ILO, 2009). Through innovation, there are other factors like limited access to business services which include counseling services and consultancy services and networking (Ishengoma and Kappel, 2010). According to Timmons (2011) efficient networking places a business person a step ahead of his or her competitor in fighting for resources. Muteti (2010) asserts that MSEs can take advantage of enhanced connectivity which aims at connecting Kenya to the whole world through Fibre Optic Cable project. There are also various ways through which innovation has assisted MSEs to access small amounts of finances at their disposal. Mobile banking service is a current trend in business, where individuals can save and borrow loans through the mobile phone. This method of banking is very cheap and has been embraced by many micro and small scale business owners, in an attempt to save their money and borrow at the same time when in need. Online banking activities allow customers to open accounts, transfer funds, make payments and do e - shopping (Ajigo, Baraza and Wuádongo, 2021). MSE owners have taken advantage of the same. Most entrepreneurs do their transactions through airtel money, Mpesa (Mshwari & KCB Mpesa). They can send money, borrow some money (Fuliza) and pay their debts (Lipa na Mpesa) comfortably without travelling to the bank. Other electronic money transfer services that can also assist MSEs improve their performance include the use of Paypal, Society for worldwide Interbank Financial Telecommunications (SWIFT), Western Union and Real Time Gross Settlement (RTGS). This is due to the fact that transactions can be done very fast across the globe and the MSEs do not have to shy away from selling their products worldwide.

In Kenya, various banks like Equity, cooperative bank, Family bank and KCB have also extended their services to citizens through the mobile phone transactions (KCB – Mpesa) and some MSEs are taking advantage of such services. MSE owners can now transact their businesses at their premises very easily, cheaply and conveniently without having to travel to the bank. Mobile banking services are also preferred because no collateral is required when borrowing money as only some terms and conditions should be met. Financiers should continuously sensitize the general public concerning available financial services other than credit services which are commonly known. Encouragement of clientele using financial services that are digitalized, secure, cheap and risk averse should be done by digital finance service providers (Eton, Mwosi, Obura, Turyehebwa and Uwonda, 2021). Digital Transaction Management (DTM) is a system that allows users to manage document – based transactions digitally. It aims at signing of business contracts and agreements by digitalizing the process in a manner that is accurate, secure and fast. A few MSE owners have now embraced the use of DTM to manage their transactions.

2.4.2 Financial Usage and Performance of MSEs

Financial usage refers to spending money on a product or financial services. Poor performance of micro and small enterprises has been attributed to various internal and external factors. Ways of using finances of the enterprise affect its entire performance and growth in general. MSE owners who are financially literate make good use of their finances in the business while those that are financially illiterate use their finances haphazardly. Recent empirical study by Njoroge (2013) on the relation that exists between entrepreneur success and financial literacy among SMEs in Nairobi County, Kenya identified entrepreneur financial literacy as one of the significant factors influencing the performance of business enterprises. Siekei, Wagoki and Kalio (2013) carried out a research study on the impact of financial literacy training on performance of small scale firms in Njoro, Kenya and revealed that education in financial analysis, management of credit and budgeting increased the performance of micro enterprises. According to Alaaraj and Bakri (2020) financial inclusion is program for financial literacy in a bid to increase ability of the society to use financial services obtaining direct effect from various financial institutions.

Sabana (2014) carried out a study on entrepreneur financial literacy, financial access and transaction costs and performance of micro enterprises in Nairobi County, Kenya where a sample population of 396 micro enterprises was used. Well-structured questionnaires were used to collect primary data and analysis done using descriptive and inferential statistics. The study findings were that financial literacy had statistical significance on correct usage of financial services and on enterprise performance in an enterprise. The study recommended that future studies should as well be done by longitudinal studies which may provide accurate information about cause-effect relationships and changes in variables of study over a period of time. Study by Sabana (2014) failed to focus on small enterprises as only micro enterprises were included in the study. The study also failed to specifically highlight aspects of literacy like knowledge in book keeping and lending but equally generalized its findings on financial literacy. The current study filled the gaps left by looking into different aspects of financial literacy in both micro and small enterprises.

Tambwe (2015) conducted a research to investigate the impact of the entrepreneurship training on micro and small enterprises performance in Ilala District, Tanzania. The study was to establish whether entrepreneurial training actually results to proper usage of finances by the MSE owners after training and success performance of Micro and Small

Enterprises (MSEs) and if there is some correlation between training in entrepreneurship and performance of MSEs. Hypothesis was tested just before and after the training after selecting a sample size of 60 respondents from Ilala District who were food vendors. Hypotheses were tested and data presentation done using statistical parameters like correlations, frequencies and percentages. The study revealed that proper entrepreneurial education may lead to the overall success of MSEs. Financial marketing, specific communication and technical skills were found to be very important skills to the owners of micro and small enterprises. The study recommended that there should be efforts made by the government and Business Development Services (BDS) providers to avail such trainings to all the MSEs in the country for economic development that is sustainable. Tambwe (2015) in this study failed to use a larger sample size for better generalization because it is evident that only 60 food vendors were the respondents. The current study however used a larger sample size of 375 respondents from varied sectors.

Njoroge and Gathungu (2013) conducted a research study to determine the effect of entrepreneurship training on the entrepreneurial development in Kenya. They used a research design that is exploratory in nature, where the population targeted was 1670 which consisted of all SMEs in Githunguri district that are legally registered. A total of 167 SMEs were selected by use of simple random sampling, while data collection was done by use of structured questionnaires. The findings of the study were that business owners could easily market their commodities in the district and not in the whole country. It also indicated that the entrepreneurs could easily do simple records keeping of business transactions but not very complex financial statements. This study concluded that sometimes an entrepreneur could report increasing sales and profits and registers growth but lack financial services training, marketing and strategic management implies that the business will lack growth past the very initial stage of business development and may actually not exist beyond its first five years of establishment. The study therefore recommended that the national government through its Ministry of Trade be in the fore front in the formulation and implementation of training programs to equip business owners with entrepreneurial skills to enable correct usage of finance by SMEs. This study by Njoroge and Gathungu (2013) was confined to Githunguri district only which is equivalent to the present day one sub-county. Its findings could not be generalized for other sub – counties and the entire country. The current study however covered a wider area by including seven sub counties of Kisumu County in order to be representative of the whole country. The present study also took into account the micro enterprises who are the majority in the economy.

Nabutola (2015) carried out a study to investigate factors influencing performance of small and medium enterprises in the central business district of Bungoma County, Kenya. Target population was 427 employees and selected SME managers in Bungoma CBD. 219 SMEs was chosen to be the sample size for the study by use of stratified random sampling. Data collection was conducted by use of interview schedules and questionnaires. It also used descriptive survey research design. The study findings were that level of education of owners of SMEs is highly correlated to networking of the SMEs and the type of network an SME is involved in. The study recommended that the County government of Bungoma to spearhead the training and skill upgrading in operations of SMEs in order to realize high delivery of services in CBD of Bungoma County. Nabutola (2015) failed to consider other factors that may improve performance of enterprises, by dwelling on networking only. The study also focused on the CBD of Bungoma County, not covering other market centers. This current study looked at other major factors that may affect performance of business enterprises and also covered a wider area and not only the CBD of Kisumu County which is Kisumu City.

Nunoo et al. (2012) in their study found out that financial literacy contributed to high utilization of financial services by Small and Medium Enterprises in Ghana. Mengich, Ndiira and Juma (2012) carried out a study on the constraints in uptaking equity finance by SMEs in Kenya and discovered that asymmetries in information, limited literacy in finance and high transaction costs challenged the uptake of equity financing in Kenya by SMEs. Problems that result from low financial management mostly affect the productivity of workers. Report of the Financial Capability (2009) revealed that many Kenyans of about 25% have difficulties in borrowing and borrow loans in order to repay the borrowed loans and they also admitted that they don't control their finances. Lusimbo et al. (2016) posit that acquiring of literacy in finance might have a positive impact on a person’s behavior with respect to increased savings, avoidance of unnecessary expenses and wealth accumulation.

The studies employed various conceptualizations of the correlations among the variables. Many of them conceptualized linear correlations between access to financial services, usage of financial services, quality of financial services, service delivery and enterprise performance, with each one of the variables being direct predictors of micro enterprise performance. As a result of the limited conceptualizations of the relationships among the variables, there is no study that used an integrative model to analyze how interactions among the variables influence performance of micro and small enterprises. No specific study identified and established the influence of access to finance and usage of financial services on performance of micro and small enterprises. In this study, financial usage was discussed with respect to unit trusts, insurance and investments.

Unit trusts refer to savings and investments made over the years to be used later by an individual or a business enterprise when need arises. An example is pension’s scheme. Khan (2011) asserts that financial inclusion may elevate efficiency of intermediation between savings and investment. Access to financial services may mobilize many households to save and invest in themselves and their families (Central Bank of Nigeria, 2012). Some MSE owners tend to save money through Old Mutual, NSSF and other pension schemes that give them security even to face old age confidently. Some of them also take medical schemes like NHIF to cover themselves and families so that in the event of sickness, they don’t use a lot of finances on medication. Unit trusts are therefore sources of security to be embraced by MSEs.

Transaction costs that may be incurred by MSE owners include marketing, advertising, transportation and insurance costs. They are overheads that if not controlled, may lead to poor performance of enterprises. Sahrawat (2010) assert that the coverage of financial inclusion has undergone through evolvement from basic banking services to include insurance, financial counseling and giving of loans. Banking services are very important and close to 2.7 billion persons in the world don’t have formal access to financial services like insurance, credit, payment services and savings accounts (Chiba, 2009) while nearly 80% of them are in Africa (Demirgüç-Kunt et al., 2008).According to Kaneyama (2001) development of micro and small enterprises also depend on the success ability of the business, which may also depend on business accidents and natural disasters. The natural disasters entail floods, drought and earthquake among others. MSE owners in the manufacturing, transport and construction sectors may get accidents while carrying out their duties, hence insurance may be the only way to bail them out.

Insurance is therefore necessary for such risks. Other factors including inflation also affect behavior of consumers, which may have adverse effect on the development of MSEs. Formal institutions of finance view MSEs as highly risky ventures and generally not viable, hence not many MSEs can access credit from financial institutions of finance that are formal in the country. This calls for security enhancement through insurance. Most micro and small enterprises don't prepare business records which may allow them to get important information of accounting because of limited knowledge in accounting (Fatoki, 2014; Agyei, 2011; Maseko and Manyani, 2011). Lack of such records leads to information asymmetry making it difficult for finance givers to accurately quantify the level of risk involved in a business opportunity in order to fix more accurate interest rates resulting into high costs of transaction because of high cost of gathering information, hence this calls for need for insurance. Most MSEs also experience risks like theft and burglary, fire, accident, floods and drought which may interfere with their performance and ultimate growth, while these call for insurance services.

Investments are geared towards profit making and general expansion of the business. There are various types of investments that can be adopted by MSEs which include; physical investment, human capital investment, monetary investment and technological investment. Physical investment entails investment in buildings, machinery and plants. Human capital investment deals with training, education and development of the employees to increase their skills, knowledge, values and abilities (Alika and Stan, 2014).Monetary investment covers stocks and bonds while technological investment is concerned with improved technology (technological invention). According to Onyiego, Namusonge and Waiganjo (2017) financial access is a significant factor for businesses like MSEs who need to achieve long term investment opportunities and also maintain daily business operations. There is correlation between financial access and MSE growth and investment when businesses show increase in value of assets and number of employees (Macharia, 2012). According to GOK (2013) KIE has been in the fore front in offering cheaper loans and improving talents of indigenous MSEs as far as business is concerned. MSEs should use alternative financial service providers like DFIs that may encourage high rates of investment as spelled out in Kenya's Vision 2030 (GOK, 2007). Most MSEs focus on investment with respect to physical, human capital and technological growth.

Numerous researches posit that entrepreneurs with limited literacy in finance are most vulnerable to face very many problems with respect to investments and savings and are not likely to focus and plan for the future while those with higher financial literacy have good ability to manage their finances, avoid exorbitant payments of interest, participate in the stock market, do better on their choice of portfolio, accumulate larger amounts of wealth and have good skills for debt management (Lusardi and Mitchell, 2008, 2011; FSD, 2009).According to Morduch (2010) provision of finance alone isn't enough but those looking for finance to borrow like MSEs should receive training on use of loans and borrowed funds' management to ensure sufficient expansion.

2.4.3 Financial Products and Performance of MSEs

The availability of relevant financial products determines the level of service delivery to the customers. Financial products may influence service delivery either positively or negatively while also affecting performance of the micro and small enterprises. High customer satisfaction and excellent service delivery also improves the image of a business organization. Financial products and service delivery depend on transaction costs which refer to costs of efficiently running an economic system. They include both direct and indirect costs of monitoring, negotiating and enforcing implicit and explicit contracts between the business and clients (Kamyabi *et al.,* 2011). Transaction costs are divided into pecuniary and non-pecuniary transaction costs. Pecuniary costs include those which relate to travel, opportunity and administrative costs. Services like account opening fees, withdrawal fees and minimum deposit requirements refer to non-pecuniary costs as factors necessary for financial services access (Karlan *et al*., 2013).

Transaction costs which are related to lending services and deposit constitute the biggest section of the costs of intermediation in financial markets (Beck, 2006). According to Hieltjes and Petrova (2013) financial markets in most countries that are developing are imperfect and experience high cost of transaction, adverse selection and information asymmetries. Costs of transactions in financial markets lead to absence of trade and imperfect markets while for small enterprises; costs of transaction can go beyond the advantages of the financial services (Masuko and Marufu, 2003). Micro and small enterprises also suffer losses due to transportation delays.

Abdullahi, Ghazali, Awang, Tahhir and Salim (2015) carried out a study to establish the effect of infrastructure, training and finance on performance of SMEs in Kano state, Nigeria. The study used descriptive survey research design. Sample size of 310 was drawn from population of 1530 registered SMEs in Kano state Nigeria by use of simple random sampling. Closed-ended structured questionnaires were used in data collection. The respondents returned 299 questionnaires while SPSS was used in analyzing data.

The findings of the study were that training, finance and infrastructure are highly correlated to the performance of SMEs in Nigeria. The study recommendation was that the government to steer work of policy development which aims at making access to finance easier for the SMEs with high potential for growth and reduce the rates of interest. It also recommended that existing infrastructural facilities like roads, telecommunication, supply of water and electricity should be improved to higher standards by the Nigeria government. Transaction costs therefore have bigger challenges to both demand and supply of financial services among micro and small enterprises. Abdullahi et al. (2015) used closed ended structured questionnaires that contributed to limited responses. The current study used structured questionnaires and interview schedules for better responses.

According to Swamy and Tulasimala (2011) high costs of transaction tend to be discouraging business owners from looking for financial services, even where they may be available. High transaction costs of the borrower greatly hike the actual total cost of borrowing finance which ultimately interferes with the performance of micro enterprises (Ladman, 1988). High costs of transaction, information asymmetries and moral hazard risks together with negative selection reduce amount of incentive to be lent to the micro enterprises (Binks, Ennew and Reed, 1992). According to USAID (2005) lending costs to the MSME sector is considered to be higher by the commercial banks than lending to other sectors of the economy due to size of the transactions and the total amount of timing that is required in appraising and monitoring of loan compliance. In order to secure loans that are risky in nature, there is demand for collateral like land or other assets and charging them interest rates that are very high or granting them short term loans which cannot meet their obligations and needs (Cowling *et al.,* 1996).

Kalunda (2015) carried out a study on financial inclusion, bank ownership, bank stability and financial performance of commercial banks in Kenya. One of the objectives of the study was to investigate the effect of financial inclusion on banks financial performance. Secondary data was used by the study, collected from commercial bank statements and bank supervisory reports from Central Bank of Kenya. Hypotheses were tested by simple, hierarchical and stepwise regression analysis and correlation analysis. The finding of the research study was that financial inclusion had a statistically significant effect on banks performance in Kenya. Recommendation of the study was that financial inclusion be looked into together with some other factors when critically analyzing its impact on financial performance. Research gap included the fact that there is requirement for an index of financial inclusion that includes the new service delivery paths and financial services quality given to capture the real levels of financial inclusion. The study also calls for the need for a comparative study on other non-bank financial institutions including MFIs and commercial banks may be carried out to identify the best institution that can drive financial inclusion agenda or/and creation of synergies. The study could have used both secondary and primary data for better results. The study by Kalunda (2015) failed to include non-bank financial institutions while the current study included micro finance institutions also. The current study looked into financial inclusion in terms of financial access, financial usage, financial products and service delivery and financial literacy training and their effect on performance of micro and small enterprises.

Eton, Mwosi, Obura, Turyehebwa and Uwonda (2021) carried out a study on financial inclusion and growth of small and medium enterprises in Uganda to determine challenges affecting small and medium enterprises and establish relationship between financial inclusion and growth of small medium enterprises. The study employed cross-sectional research design and descriptive design accompanied by inferential statistics. It also adopted regression and correlation analysis techniques. The findings of the study were that financial inclusion is very necessary in supporting the growth of SMEs and that the cost of servicing and acquiring financial services is very high and there exist a problem in the use of some financial services. The study also found out that some financial service providers lack some aspects of dignity and respect. The study recommended that capital cost should be decreased for encouragement of borrowing whereas some SMEs should creatively produce items that can compete at both local and foreign markets. The study findings by Eton *et al.* (2021) mentioned about the constraints in using some financial services, however the financial services are not clearly stated. This current study filled the gap by discussing clearly the necessary financial services that may pose any constraint on an enterprise. In this study financial products and service delivery were discussed with respect to customer satisfaction, public image and transaction costs.

Customer satisfaction refers to positive behavior by the customer after using a particular product. It may include compliments on customers' tastes and preferences. Most MSEs produce goods and services without considering needs of customers and hence they may not be able to enter fully into the market (GOK, 2005). MSEs are not able to compete in the international market either because of low product diversity, low quality products, skewed customer preference, unfair pricing (KIPPRA, 2010). According to Cantzler & Leijon (2011) access to information on marketing may increase the knowledge of the MSEs' market concerning prices and behavior of their customers through networking activities. Behavior of the customers may include honoring their debts, customers' tastes and preferences, their compliments and complaints. Establishment of demand for a product creates a market for it, if there is high demand, the market seems to be vibrant and vice versa. A decrease in demand may lead to decline in market and the decline in demand may be due to the fact that customers may not be satisfied with the goods or services offered in the market. Ethiopian Government also focused on introduction of microfinance regulation to eradicate poverty and promote service delivery to the poor rural households (Stevenson *et al.*, 2005). Many developing countries like Kenya have made such efforts but minimal effect has been realized while establishing MSE owners as potential business owners. Currently the purpose of sales and marketing is to get the rightful product for your customers and not the right customers for your products (Kotler, 2003). Customer satisfaction leads to customer loyalty and retention implying better performance of the business. Public image refers to the way consumers/ customers view the business. According to the customers, the business may be good or bad depending on how it relates with them, quality of products offered and service delivery. It is the actual image of a business to outsiders and is very important for its growth. High quality of financial products offered by the business and service delivery will always boost the public image of MSEs and vice versa. Good image attracts many customers leading to better performance of the business and vice versa.

Transaction costs refer to the expenses of operating an economic system which include the indirect and direct costs of monitoring, negotiating and enforcing implicit and explicit agreements between the business and its clients (Kamyabi and Devi, 2011).Most micro and small scale entrepreneurs haven't realized that they also make losses because of high cost of transportation. Where some of them can use cheaper transport means like bicycles for near markets, they hire motorbikes to and from the market. This may prove to be very expensive in the long run. An entrepreneur can even think of buying his own motorbike to cut down on transportation costs. Transaction expenses can be split into pecuniary expenses relating to opportunity, transport and administrative expenses while non-pecuniary transaction expenses refer to those requirements for financial services access like account opening fees, minimum deposit requirements and withdrawal fees (Karlan *et al*., 2013). In financial markets, transaction costs that make up largest sector of intermediation costs are those relating to lending and deposit services. Beck (2006) asserts that financial institutions should reduce the market frictions and challenges which determine the depth, breadth and efficiency of a financial system. Market imperfections or lack of trade is brought about by transaction costs in financial markets and for micro and small firms, transaction costs may go beyond the advantages of the financial services (Masuko and Marufu, 2003).

Micro and small enterprises are constrained by both demand and supply of financial services. On the part of demand, increased transaction expenses discourage micro and small scale business men and women from looking for financial services, even where they are present (Swamy and Tulasimala, 2011). Profitability of micro and small enterprises is compromised by high total cost of borrowing which significantly emerges from high borrower transaction costs (Ladman, 1988).On the supply side, incentive to lend to micro and small enterprises is lowered by high costs of transaction, limited market information and the challenge of moral hazard and negative selection (Binks, Ennew and Reeds, 1992). Market access in MSEs is majorly affected by high transaction costs while decreased costs of transaction are very important in marketing and in accelerating market access. Demand for different products always affects demand for other products depending on whether they are complimentary or substitutes. If complimentary, then an increasing demand for a product may cause increasing demand for the other. If they are substitutes, then an increasing demand for one product will cause a decrease in demand for the other. Sound knowledge of the market by the entrepreneur may therefore help reduce marketing costs and advertising costs which are components of transaction costs.

Feming (2012) conducted a study to investigate how the implementation of management quality practices will affect the performance and development of SMEs in a developing country, Ghana, where a sample size of 200 SMEs that employ not more than 50 employees were selected within Accra. Data collection was done by use of both quantitative approach and survey method. Questionnaires were administered through face to face interview. Findings of the study were that firms should employ high quality practices of management in order to have very great effect on growth and performance of SMEs in Ghana. The study recommended that even large firms should employ quality management practices in order to offer high quality service delivery. The study by Feming (2012) failed to specifically outline actual quality management practices that should be employed by firms to improve their performance. The current study outlined some specific management practices of interest like literacy in finance and proper financial usage, among others that could help boost performance of enterprises.

Market access has been enhanced by reduced transaction costs, according to transactional theory. The increased costs are due to poor infrastructure, market inefficiencies, and skewed information. Very many MSEs lack vital information on opportunities in marketing which also confine them to few non foreign markets. Most entrepreneurs of micro and small enterprises may incur very high advertising costs as they try to give free samples of their products to prospective customers, while at the same time incurring losses. Some of them do not know how much to give out as samples. In a bid to advertise their products, those who make and sell *mandazis* and doughnuts are always victims when they venture into new markets. The MSE owners may want to attract many customers by giving out free samples while incurring high costs at the same time. This may lead the business to making losses, hence poor performance and retarded growth.

2.4.4 Financial Literacy Training and Performance of MSEs

An entrepreneur who is financially literate has knowledge of the most suitable management of finance and financing options for his / her enterprise at different stages of development (USAID, 2009). Tundui (2012) recommended that education programs should stress to the MSEs on the use of various sources of enterprises financing because most of the micro and small enterprises use personal savings as the main source of getting finance for their enterprises. MSE owners with limited standards of literacy in finance usually realize very high costs of transaction because of information asymmetries in the financial markets which are characterized by fees structures that are complicated (Lusardi and Peter, 2008). Lack of skills in keeping of records has led to lost opportunities for a bigger number of MSEs in the whole world G20 Seoul Summit (2010). Wachira and Kihiu (2012) concluded that financial literacy has got some influence on access to finance which in turn has a negative influence on the performance of micro and small enterprises in the Kenyan country. According to Felix and Ezenwakwelu (2014) after their study in Nigeria concerning its economic growth, they recommended that the government should come up with seminars where both old and young owners of businesses could get relevant skills needed to run their enterprises.

Barte (2012) carried out a study on the impact of literacy in finance on micro enterprises in the fishing sub sector in the Philippines and discovered that the fish mongers had limited knowledge in financial literacy which adversely interfered with their businesses. Bruhn and Bilal (2011) conducted a study on the effect of business and training in financial literacy for young business owners in Bosnia and Herzegovina and the findings were that increasing knowledge in basic finance had a positive effect on the development and expansion of surviving enterprises. According to Dugassa (2012) most micro and small scale entrepreneurs in Sub-Sahara Africa lack comprehensive training. While most studies found strong positive correlation between financial literacy and enterprises performance, a study by Eurasia-Eke and Reith (2013) on the relationship between entrepreneur financial literacy and expansion of businesses in South Africa concluded that there was no significant relationship between financial literacy and the development of Micro Small and Medium Enterprises.

Munene (2008) conducted a research on the effect of entrepreneurial training on performance of micro, small and medium enterprises in Nakuru County. The main objective of the study was to ascertain the impact of entrepreneurial training on the performance of businesses, type of entrepreneurial knowledge provided and inadequacy in training programs. The study used descriptive survey design while data was collected by use of pre-tested questionnaires. A sample of fifty entrepreneurs who had been previously trained by Kenya Institute of Business Training (KIBT) and Joint Loans Board (JLB) in Nakuru County from 2010 - 2012 was obtained by the researcher. The sample composed of entrepreneurs drawn from three identified strata within Nakuru County using stratified random sampling technique. Findings of the study revealed that there occurred general increase in entrepreneurial skills and knowledge among the MSMEs after going through either KIBT or JLB training. It also revealed that MSMEs were happy with areas like good working capital management; marketing and keeping of records hence the results revealed that there was relationship between entrepreneurial skills and MSMEs' performance. The study recommended that KIBT and JLB should develop an inclusive program for loan beneficiaries that would ease areas like management of risk, enterprise expansion strategies and loan default and delinquency. The study by Munene (2008) was only interested in business enterprises that had been trained by KIBT and JLB. This did not clearly bring out the need for training amongst entrepreneurs who had not been trained on financial matters by any institution or organization. The current study filled this gap by focusing on micro and small enterprises that had been trained by some organizations and those that had not been trained on financial issues so as to clearly state the need for training such business owners.

A study by Wachira et al. (2012) which analyzed the effect of financial literacy on financial services access by SMEs in Kenya concluded that financial literacy was limited and this reduced financial services access. In a study on the impact of finance on the performance of micro enterprises in Sri Lanka, Del Mel (2008) concluded that literacy in finance increased the usage of available financial products by the businesses, which also increased their performance. Nunoo and Andoh (2012) carried out a study on the usage of financial services by SMEs in Ghana asserted that enterprise owners who were financially literate were highly likely to access and utilize financial services which led to improved performance of their businesses. It has been established by many studies that financial literacy has great impact on performance of micro and small enterprises. Mugori (2012) revealed that MSE business owners receive training from MFIs in different areas which relate to running of businesses and that imparting of knowledge in basic enterprise skills scored very highly. His recommendation was that MFIs should promote training for their customers in the general entrepreneurial skills. Some business constraints may be addressed through training. Poor business management, improper financing and lack of planning are the main causes of business failure for MSEs (Longenecker, Petty, Moore and Palich, 2006).In this study, financial literacy training was anchored on savings mobilization, records keeping and lending.

Mungai (2012) carried out a study on the relationship between business management training and small and medium sized enterprises' growth in Kenya, where population of about 400 entrepreneurs who had operating their enterprises for at least 2 years before being trained were targeted. The study used descriptive survey research method. 80 respondents were chosen as sample size by use of stratified random sampling technique, to whom questionnaires were distributed. Findings of the study were that training in business management had a positive impact on the business owners because new services and products were brought into the business after the training. It concluded that most entrepreneurs value training but can't afford. The study also concluded that owner managers are the people who require training the most but don’t have time to participate in the training of management in various sections. The study however recommended that training in business should be given to a higher number of businesses at reasonable costs so that many entrepreneurs can gain from it. The study by Mungai (2012) was limited to those entrepreneurs who had operated businesses for 2 years prior to being trained by Mwezi Kali II Project. The results were therefore not conclusive for effect of financial literacy on performance for other entrepreneurs in other regions where the project wasn’t conducted. This current study was conducted in Kisumu County where Mwezi Kali II Project was not carried out in order to make valid conclusions and generalizations.

Mobilization of savings by the MSEs is very necessary. Most micro and small scale business operators don’t save their finances formally as some argue that they get very low earnings from their businesses while some fishermen and boda boda operators also argue that they earn money regularly such that even if they don’t save, they will still receive the usual little for assistance. There is therefore need to mobilize them to save their earnings in their formal and informal groups/associations, SACCOs, banks and other non - bank financial institutions. Formally organized savings may also assist them in the access of loans from banks and non – bank institutions of finance. Savings mobilization will be measured through regular savings, skills in savings products, having a savings plan and maintenance of savings account.

Ojera, Simeyo, Lumumba, Nyabwanga and Odondo (2011) conducted a study to evaluate effect of provision of micro finance on the performance of youth micro enterprises under K- REP Program in Kisii County, Kenya. The study targeted 110 youth micro enterprises from where a sample of 86 was chosen by use of simple random sampling. It used cross sectional survey design. Primary data collection was conducted by using structured questionnaires and analyzed by using multiple regression analysis, descriptive statistics and Pearson coefficient of correlation. The study findings were that loan had the highest significant impact on growth of micro enterprises, characterized by training in micro business general investment and mobilization of savings. The study concluded that provision of micro finance has significant effect on the performance of youth micro enterprises in Kenya. The study recommended that provision of micro finance to the youth to engage in the activities of micro enterprises activities would help spur development of economy and combat unemployment among the youths, in line with Kenya's Vision 2030. Ojera et al. (2011) failed to include MSE entrepreneurs of all ages as only the youth were considered. The study also used a smaller sample size of 86 youths only. The current study targeted entrepreneurs of varied ages and a larger sample size of 375 respondents.

Accounting refers to systematic recording of financial activities as they take place in an enterprise. Lack of planning, improper financing, poor record keeping and poor management in general have been identified as the major causes of failure of micro and small businesses (Longenecker, Petty, Moore and Palich, 2009). Owners of businesses should have some knowledge of accounting and book keeping in order to have efficient records of finance (World Bank, 2009). Accounting skills are very important for the success of entrepreneurial and medium development of business as asserted by Akintoye and Oladejo (2008) after their research study on the theory of micro businesses in Nigeria. Their view is supported by Akande (2011) who reviewed the accounting skills of the business women in Nigeria and how it impacts onto their performance. Skills in accounting are the totality of skills ranging from keeping records of finances, directing attention, evaluation of performance and financial reporting of any business. According to Muchau (2013) a strong relationship exists between mentorship, profitability and growth of business. In the entire study, there was evidence of increased number of employees, perfect business management skills, increased number of customers, improved networking skills and product delivery among others due to relevant mentorship of the entrepreneurs.

Tambwe (2015) conducted a study on the effect of training in entrepreneurship on performance of MSEs in Tanzania revealed that about 96% of the 60 entrepreneurs who responded cited limited skills in finance as a major area that affects their businesses' profitability. They include knowledge in cash payment, cash collection, management of inventory, costs and profits. This view was supported by findings of Njoroge and Gathungu (2013) which revealed that most business owners could not do complex financial statements but just very simple daily book keeping transactions, hence the need to train entrepreneurs of micro and small enterprises. Financial literacy in records keeping may be very useful to MSEs as it can greatly contribute to upward growth of the business. Accounting skills is a very important area and ranges from financial records keeping, evaluation of performance and financial reporting by a business.

Msoka (2013) conducted a study on the influence of entrepreneurship skills on the performance of micro and small enterprises (MSEs) owned by women in Tanzania. The objective of the research study was to investigate the correlation between knowledge in entrepreneurship and the performance of women owned micro and small enterprises in urban area of Tanzania. A sample of 82 respondents was chosen for the study and cross-sectional research design was used. Questionnaires, focus group discussions and interview guides were used. Analysis of data was conducted both qualitatively and quantitatively. The study revealed that there is positive correlation between entrepreneurial skills and performance of micro and small enterprises. The study recommended that micro and small scale women entrepreneurs need to be trained in business planning, customer care knowledge, marketing skills, and accounting skills to enable them conduct businesses successfully. Msoka (2013) however failed to include men in the study. The study also used a smaller sample of 82 respondents only. The current study considered both men and women owned enterprises and also used a larger sample size to be representative of the whole country.

According to Lee (2001) keeping of financial records helps in business planning, needed by financiers, helps in controlling the business and taking appropriate action to retrench employees who are no longer effective in the business. Frankwood (2010) asserts that business records keeping helps in calculating profits and losses of the business, reveals the debtors value in terms of the amount due together with when the payments are due in order to escape heavy expenses in terms of bad debts, business planning and are needed by business financiers. Keeping financial records help in calculating business profits or losses, reveal debtors, amounts due and when payments are due so as to avoid heavy costs and bad debts.

Lending refers to the process of allowing an enterprise or an individual to borrow money from another individual or a financial institution. In this study, it refers to borrowing by

MSEs in order to run or expand their businesses. The interest rate should not go beyond 4% of the minimum rate for lending of the CBK (Finance Bill (2011). Lending interest rates have remained high for most microfinance institutions. The high rates are justified by high transaction costs and risks associated with micro lending. Fernando (2006) asserts that it is quite difficult to find the difference between greed, sustainability and profitability. According to MFIs lending to the poor and MSEs is expensive due to the fact that some borrowers may default at some point. CBK has also introduced a bench mark lending rate that guides financial institutions in their lending activities. Most revenues generated by MFIs are from interest income on lending, therefore MFIs that have quality loan portfolios tend to have a positive growth. According to Fernando (2006) MFIs with positive growth tend to attract many investors. Saunder (1995) asserted that lending interest rates affect overall economic activities, financial assets and flow of goods and services within an economy.

Lusimbo and Muturi (2016) conducted a study on financial literacy and the growth of small enterprises in Kakamega Central Sub County, Kenya to investigate the relation which exists between financial literacy and development of MSEs in Kenya. The study employed cross sectional survey design. A sample size of 306 MSEs was chosen by use of stratified random sampling from target population of 1300 MSEs that are registered in Kakamega Central Sub County. There was use of questionnaires in collecting primary data and analysis of documents in collecting secondary data. The study findings revealed that managers of MSEs had some little knowledge of management of debt but most of them don't actually understand the impact of rates of interest on the loans that they borrow and inflation. The managers were also not weighing out the terms and conditions before buying goods and services. The study therefore concluded that enterprises whose managers had minimal literacy in finance and posted very low or no growth required training in financial literacy. Lusimbo and Muturi (2016) focused on one Sub County only; hence the results could not be generalized for other sub counties and regions. The current study focused on all the seven sub counties of Kisumu County, for correct generalization of research findings.

Sushma and Bhupesh (2007) assert that firms should put in place good policy of credit that ensures proper procedures for debt collection as this helps in improving efficiency in management of debt hence leading to the efficient performance of enterprises. Bad management of financial skills also adversely affects employees' productivity and MSEs in general. Brown et al. (1993) as cited by Obago (2014) revealed that majority of workers suffer from stress which emanate from money problem behaviors like overspending, over-indebtedness, poor money management, poor credit use and lack of enough resources in making ends meet that results to poor efficiency at work. According to the Financial Capability Report of 2009, 25% of Kenyan population has credit difficulties as they tend to borrow loans in order to repay loans. They also reveal that they are not controlling their finances. Micro and small enterprise managers should possess debt management skills that can enable them to steer their businesses to the right direction.

Table 2.1: Summary of Empirical Study Gaps

The table below outlines studies by various researchers, methodologies used, their findings and knowledge gaps which exist thus warranted the present study which filled these gaps while focusing on financial access, financial usage, financial products, financial literacy training and performance of micro and small enterprises in Kisumu County.

Author	Title	Objectives	Methodology	Findings & Conclusions	Recommendations	Gaps
Lakuma, Marty and Muhumuza (2019)	Financial inclusion and micro, small and medium enterprise growth in Uganda	Assess effects of business environment with special interest on the effect of finance on growth of	Secondary data from Uganda 2013 World Bank Enterprise Survey (WES) was used on a sample of 762 firms in	Results showed positively increased effect on financial access to growth of MSMEs in relation to large	Similar study to be conducted for large firms	The study used purely secondary data to draw conclusions while the findings were also found to be conclusive for larger firms only and not MSMEs. The current study used purely primary data to draw conclusions and

		the firm	Uganda	scale firms -Effects conclusive for large firms		results were found to be conclusive for MSEs.
Mwobobia (2012)	The challenges faced by small scale women entrepreneurs: A case of Kenya	Establish challenges that small scale women entrepreneurs face	Desktop survey where 612,848 women in MSEs were used	MSEs face serious challenges including finance, lack of education and multiple duties -Many stakeholders try to empower women entrepreneurs e.g. formation of WEF	Women be accepted and financially supported while more capacity building be availed to them	The study used desktop survey only as no primary data was collected in the field. The current study relied on information provided by the MSE owners while collecting primary data using questionnaires and interview schedules.
Oguta, Onyango, Nyagol and Onyango (2014)	The role of financial support on growth of MSEs. A case study of artisan enterprises in oyugis township, Homabay county, Kenya	Investigate the role of financial support on Growth of MSEs in Homabay County	Random sampling technique used. A sample of 5 institutions of finance & 18 Artisan businesses used	There is very high correlation between financial support & growth of MSEs There is very low growth in MSEs due to challenges experienc	Funds be outsourced in order to support the youth, women & the unemployed to help in job creation	The study was conducted in one town centre only and it also concentrated on activities of artisan enterprises only while ignoring wide range of other MSEs. The current study covered various town centres and different types of micro and small enterprises.

				ed in management of funding		
Ibor, Offiong and Mendie (2017)	Financial inclusion and performance of micro, small and medium scale enterprises in Nigeria	Investigate the impact of financial inclusion on MSMEs' performance in Nigeria	The study used survey research design questionnaires were used Sample size of 600 entrepreneurs was selected but 596 returned the questionnaires Data was analysed by use of both inferential and descriptive statistics	Financial inclusion positively and significantly has effect on the activities and entire performance of MSMEs The study also found that the distance to points of access to financial services and infrastructural deficiency adversely affected quick access to financial services by MSMEs in Nigeria	Efforts should be made to spread points of access to many rural areas & promote infrastructure in order to improve financial inclusion - Payments should be digitalized to promote E-banking, customer complaints/ protection network in order to increase financial inclusion in Nigeria	The study used survey research design while current study used descriptive survey research design. Current study also concentrated on MSEs only while excluding medium enterprises.
ElDeeb, Halim and Kamel	The pillars determining financial	Identify the major pillars of financial inclusion	Dataset analysis done through inferential	Financial access was found to be one of the	More follow up to be done by non-financial & financial	The pillars determining financial inclusion were not clearly defined from start of study. There was no

(2021)	inclusion among SMEs in Egypt	for SMEs in Egypt	and descriptive statistics Regression analysis was done to determine important variables that are valuable to improving the financial inclusion of SMEs	pillars that significantly and positively contribute to growth of SMEs	agencies and institutions to reinforce role of SMEs in growth of economy & employment generation	clear definition of SMEs as only banks were used in the study. The current study clearly stated pillars of interest from the beginning eg financial access, financial usage, financial products and service delivery and financial literacy training.
Sabana (2014)	Entrepreneur financial literacy, financial access, transaction costs and performance of micro enterprises in Nairobi County, Kenya	Establish the relationship between transaction costs, financial literacy, financial access and performance of micro enterprises in Nairobi County	The study adopted descriptive survey research design A sample of 396 owners of micro enterprises were chosen from a population of all micro businesses in Nairobi county	Entrepreneur financial literacy had very high positive influence on performance of the business	Future research should be done by longitudinal studies which would give exact information about relationships of cause - effect & changes in study variables over time	Focus of the study was on micro enterprises only. - Specific aspects of financial literacy like knowledge in records keeping and lending among others were ignored. The current study focused on both micro and small enterprises and clearly explained specific aspects of financial literacy like knowledge in records keeping, savings mobilization and lending.
Tambwe (2015)	Impact of entrepreneurship training on MSEs' performance in Tanzania: The case	Investigate the impact of entrepreneurship training on performance of MSEs	60 food vendors from Ilala District were used as the sample size Descriptive	Proper entrepreneurship training in finance, marketing sector and specific technical	Business Development Services (BDS) providers and the government should make efforts to	The researcher used smaller sample size of 60 respondents and one type of MSEs (food vendors). The current study used a larger sample size of 375 respondents and

	of food vendors in Ilala District, Dar es Salaam		survey research design used	and communication skills leads to successful performance of MSEs	promote training to all MSEs in the country for economic growth that is sustainable	covered seven different types of MSEs.
Njoroge and Gathungu (2013)	The effect of entrepreneurial education and training on development of SMEs in Githunguri District, Kenya	Determine the effect of entrepreneurship training on the entrepreneurial development in Kenya	Exploratory research design was adopted by the study. 1670 legally registered SMEs in Githunguri District was the target population Sample size of 167 SMEs was chosen by simple random sampling was used in selecting 167 SMEs which formed the sample size Structured questionnaires were used in data collection	Entrepreneurs could be able to sell their products within the boundaries of the district but could not carry out financial statements that were complex Training is necessary for all entrepreneurs	Government through its ministry of trade should do formulation & implementation of programs for training to equip business owners with entrepreneurial skills to enable correct usage of financial services	The study was confined to one district only (sub county). The current study focused on seven sub – counties of Kisumu County and also focused on micro enterprises also that form majority in the economy and was hence suitable for making generalization.
Nabutola (2015)	Factors influencing	Investigate factors that influence	Descriptive survey research	Networking of SMEs and	County government of Bungoma	The study only focused on the CBD of Bungoma County and

	performance of SMEs in the Central Business District of Bungoma County	performance of small and medium enterprises in Bungoma County, Kenya	design was employed by the study 427 employees and SME managers was the target population but sample of 219 selected through stratified random sampling	the types of network an SME is engaged in is positively correlated to the level of education of SME owners	to promote training & upgrading of skills in operations of enterprises to achieve service delivery in CBD of Bungoma County	not other market centres. It also dwelt on networking only as a factor that affects performance of enterprises. The current study focused on both CBD of Kisumu (Central) and other market centres outside the CBD. It also looked into other factors that may affect performance of business enterprises.
Mungai (2012)	The relationship between business management training and small and medium sized enterprise growth in Kenya	Study the relationship between business management training and growth of small and medium enterprises in Kenya	The study used descriptive survey research design Population of 400 entrepreneurs were targeted who had operated business for at least 2 years prior to receiving training under Mwezi Kali II Project Sample of 80 entrepreneurs selected by use of	Business management training portrayed a positive impact on the entrepreneurs as new products were introduced in the business after training - Entrepreneur managers lack time to attend trainings - Most	Entrepreneur managers should create time to attend training in management in various sections -Government and other organizations should offer training services to entrepreneurs at affordable cost.	The study was limited to those who had operated businesses for 2 years prior to being trained by Mwezi Kali II Project. The results were therefore not conclusive for entrepreneurs in other regions where the project wasn't conducted The current study was conducted amongst entrepreneurs, some of whom had operated their businesses for below 2 years and more and had not been trained by Mwezi Kali II. This was good for generalizations to be made.

			stratified random sampling technique	entrepreneurs value training but cannot afford		
Kalunda (2015)	Financial inclusion, bank stability, bank ownership and financial performance of commercial banks in Kenya	Investigate the effect of financial inclusion on bank's financial performance	The study employed secondary data of commercial banks' financial statements and supervision of bank reports from the Central Bank of Kenya Test for Hypotheses was done using hierarchical and simple regression analysis and correlation analysis	Financial inclusion had a significant impact on performance of banks in Kenya	Financial inclusion should be addressed together with other factors when establishing its effect on financial performance	The study failed to include non – bank financial institutions. It did not specify different factors under financial inclusion that may affect performance. The current study included other non – bank financial institutions e.g MFIs. The current study clearly specified factors of financial inclusion like financial access, financial usage, financial products and service delivery and financial literacy training that may affect performance of business enterprises.
Eton, Mwosi, Obura, Turyehebwa and Uwonda (2021)	Financial inclusion and the growth of small and medium enterprise in Uganda:	Establish the relationship between financial inclusion and development of small	The study adopted cross – sectional research design while inferential statistics	Financial inclusion is important in promoting SME growth -cost of	Cost of capital needs to be reduced in a bid to encourage borrowing - Some small businesses should	The study findings mentions about some costly financial services being difficult to use that are not clear. The current study was based on clear independent variables

	Empirical evidence on selected districts in Lango sub - region	medium enterprises in Uganda	supplemented the descriptive design There was adoption of regression and correlation analysis	servicing and acquiring financial services is quit high -Using some financial services is not easy	creatively produce products which may be competitive at the international and local markets	and how they impact on performance of MSEs.
Lusimbo and Muturi (2016)	Financial literacy and growth of small enterprises in Kakamega central sub county, Kenya	Investigate the relationship between financial literacy and growth of MSEs in Kenya	They used Descriptive cross sectional survey design 306 MSEs registered in Kakamega central sub county were selected using stratified random sampling	Most small scale entrepreneurs had low book keeping knowledge Managers of MSEs had scanty knowledge of debt management - Most managers didn't understand impact of interest rates and inflation on loans borrowed - Minimal or no growth was recorded by enterprise	Small scale entrepreneurs should be trained on book keeping -Managers should be trained on financial management	The study focused on one sub county only, hence the results could not be generalized for other sub counties and regions. The current study focused on seven sub – counties of Kisumu county and the results could be generalised for other regions.

				s whose managers had low literacy in finance.		
Abdullahi, Ghazali, Awang, Tahirand Salim (2015)	The effect of finance, infrastructure and training on the performance of SMEs in Nigeria	Examine the effect of finance, infrastructure and training on performance of SMEs in Kano State, Nigeria	The study employed descriptive survey research design Target population consisted of 1530 registered SMEs in Kano state, Nigeria A sample of 310 SMEs were selected by simple random sampling Close – ended structured questionnaires were used and 299 responded Data was analyzed by use of SPSS	Finance, infrastructure and training have positive correlation on performance of SMEs in Nigeria	Policy development should be undertaken by the government and geared towards easier access to finance for SMEs having potential for growth & reduction of rates of interest - Existing infrastructural facilities like electricity, roads & telecommunication be improved to a higher level by the government of Nigeria	The study used closed ended structured questionnaires that contributed to limited responses. The current study used both open and closed ended questions while using both questionnaires and interview guides that contributed to unlimited responses used in making valid conclusions.
Riwayati, Salim, Maskie and Indrawati (2020)	Financial inclusion and performance to mediate effect of tax	Analyze the influence of tax regulation and banking on the success of SMEs in	Population of 76 Batik business actors chosen and census sampling technique	Financial inclusion is a better determinant factor in promoting profit,	Similar study be conducted in other sectors to verify the conclusions	The study used a smaller sample of population i.e 76 respondents only. The study also focused on Batik business actors only. These

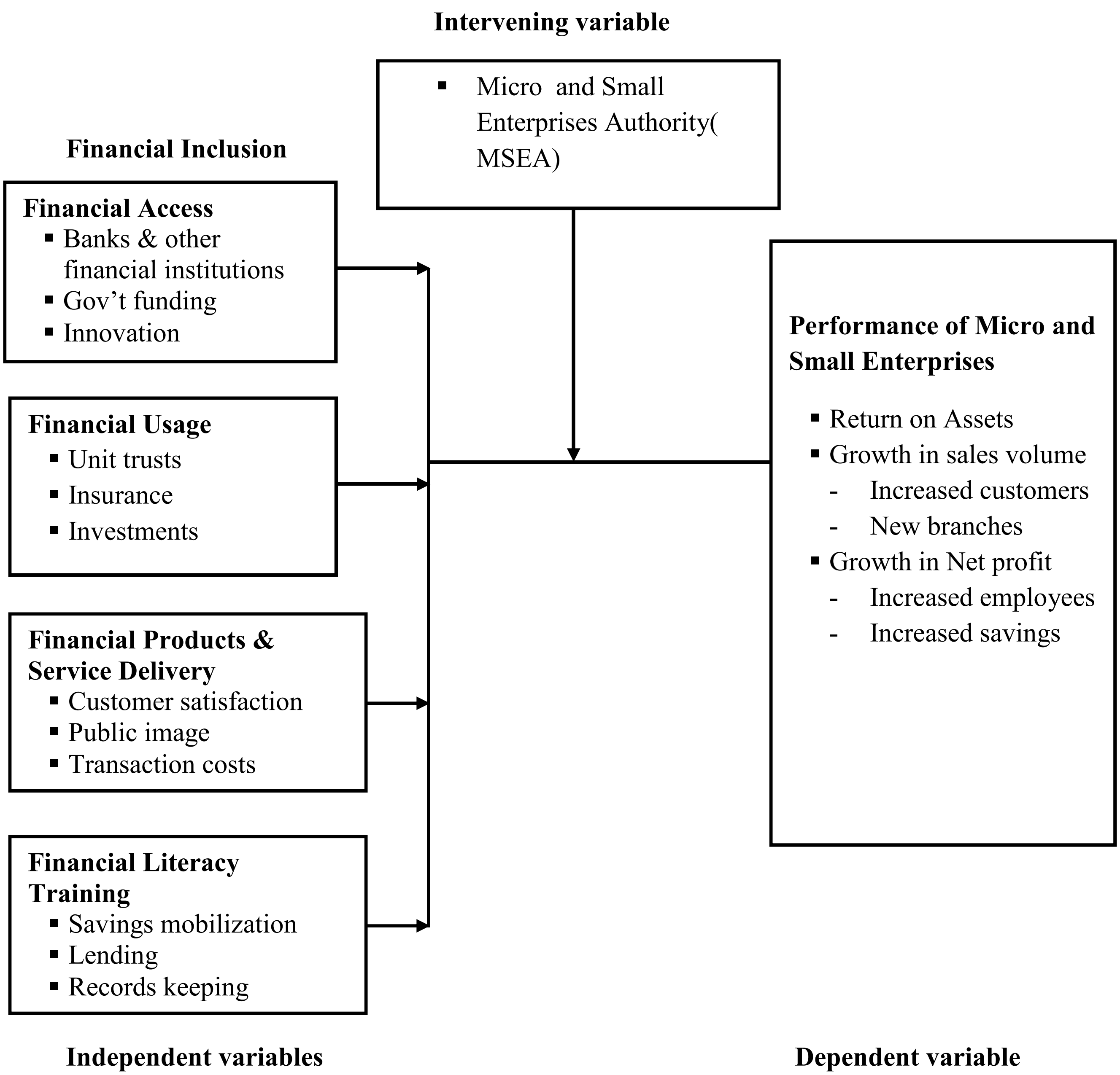
	regulation and banking on the success of MSMEs in Indonesia	Indonesia	used	business scale and management and capital - Results of the study found to be theoretically & practically good to support financial inclusion		could not be used to draw valid conclusions. The current study used a larger sample size of 375 MSEs from various sectors that was suitable to draw valid conclusions.
Memba, Gakure and Karanja (2012)	Venture capital: its impact on SMEs in Kenya	Determine the impact of venture capital on growth of SMEs in Kenyan urban centres	Population of 200 SMES chosen by use of stratified random sampling technique and use of questionnaires Data was collected before and after using venture capital	Enterprises which are using venture capital experience increased growth. -Venture capital has effect on growth of SMEs and can be profitable in Kenya	Entrepreneurs should be encouraged to use this type of finance in order for vision 2030 to be achieved by the government - SMEs should use venture capital to realise growth	The study only covered SMEs in major urban centres and was limited to venture capital only as a factor that triggers growth of businesses. The current study covered all sub – counties of Kisumu County and looked into other aspects of financial services, not necessarily venture capital.

Feming (2012)	Impact of quality management practices on performance and growth of SMEs in Ghana	Investigate how the implementation of quality management practices will impact on the performance and growth of SMEs in a developing country	Sample size included 200 small enterprises which recruit below 50 employees in Accra Survey method and Qualitative approach of data collection used Questionnaires administered through face to face interview	Quality management practices improve performance of both small and large firms and in all parts of the globe	Large firms should employ quality management in order to offer high quality service delivery	Study failed to specifically outline quality management practices that should be employed by firms to improve their performance. The current study outlined specific areas including financial usage and financial literacy training among others that could help boost performance of micro and small enterprises.
Simeyo, Lumumba, Nyabwanga, Ojera and Odondo (2011)	Effect of provision of micro finance on micro enterprises; A study of youth micro enterprise under K – REP in Kisii County, Kenya	Evaluate effect of provision of micro finance on the performance of youth micro enterprises under K-REP in Kisii County, Kenya	Sample size of 86 respondents chosen from population of micro enterprises of 100 youths Collection of primary data was by structured questionnaires Analysis done by use of descriptive statistics,	Micro finance loans portrayed highest significant effect on performance of micro enterprises, followed by training and lastly savings mobilization - Micro finance	Youths should embrace the use of micro finance to promote their business activities in order to help elevate development of the economy and fight unemployment among them as par Kenya's vision 2030.	The study used a smaller sample size and targeted the youth only The current study used a larger sample size and targeted different ages not only the youth.

			multiple regression analysis & Pearson correlation coefficient	provision has significant impact on the performance of youth micro enterprises in Kenya.		
Msoka (2013)	Influence of entrepreneurship skills on the performance of MSEs owned by women in Tanzania	Investigate relationship between entrepreneurship knowledge and performance of women owned MSEs in Tanzania's Urban Area	Sample size of 82 respondents. Questionnaires, focus group discussions and interview guide used Cross – sectional research design	There exist correlation between entrepreneurship knowledge and performance of small scale businesses	Women who own micro and small scale businesses should be trained in business planning, accounting knowledge and customer care skills	The study focused on female entrepreneurs only. It also used a smaller sample size. This current research study involved both male and female entrepreneurs. It also used a large sample size for generalization to be made for the entire country.

2.5 Conceptual Framework

According to Mugenda (2008) Conceptual framework is a brief description of the variable under study which is characterized by a visual or graphical depiction of the greater variables of the study.



Source: Researcher 2022

Figure 2.1: Conceptual Framework showing relationship between independent and Dependent variables.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was employed in this study. These include the research paradigm, research design, study area, target population, sampling frame and the sample size. It also shows the data collection tools, pilot testing of the research instruments, reliability and validity of the instruments, procedures of data collection, techniques of data analysis, tests of statistical hypotheses, multiple linear regression model, diagnostic tests, variables description, and ethical consideration.

3.2 Research Paradigm

This research study was anchored on pragmatic knowledge that focused on the research problem which in this study was; financial inclusion and performance of micro and small enterprises in Kisumu County. In this study, the research paradigm was anchored on ontology, which is a positivism paradigm. Ontology assumes that there is objectivity in nature of reality and that true reality exists and is always guided by cause – effect laws. It presumes order that can be discovered and preordained patterns. Ontology posits that reality is not context or time bound and hence can be generalized. According to Kivurya and Kaylni (2017) human beings are shaped by external factors and are rational while similar causes have similar effects on everyone. The positivist paradigm states that studies done by positivists are usually empirical in nature, are replicable and structured while the variables can be directly manipulated and quantified. This study also adopted positivist paradigm and entailed verification of hypotheses, quantitative descriptive studies and statistical analyses. According to Aliyu, Sinhy, Adams and Abubakar (2015) positivism philosophy posits that science is value – free and the same values do not have place in research and that all bias must be avoided. Positivism philosophy was adopted by this current study in order to achieve its objectives. The researcher was therefore guided by the research problem and the research hypotheses in applying different research methods. Quantitative descriptive studies, verification of the research hypotheses and statistical analyses were included in the strategies. This study also stressed on practical solutions and outcome. Scientific approach that this study adopted included identification of the problem, definition of research objectives and various methods of achieving the objectives, analyzing the results, results' interpretation and drawing of conclusions (Saunders, 2016).

3.3 Research Design

This consists of procedures that were used by the study in order to explore relationship between variables, administer measures and analyze the data. According to Kariuki, Namusonge and Orwa (2015) a good research design answers the research questions and hypotheses. This study adopted both correlational and desriptive research designs. Since collection of data was done by use of questionnaires and interview schedules, descriptive and correlational research designs were found to be appropriate. Descriptive research design is suitable when detailed and full description of existing phenomena is needed (Cohen, Manion and Morriso, 2000). According to Kothari (2008) this design gives room for maximum reliability of data and high provision for the protection of biasness. Qualitative research design was very useful in this study because there was use of interview schedules. Correlational research design was important in this study because it helps to investigate linear relationship between two variables. The researcher does not need to manipulate or control any variable in question. In this study there were both independent and dependent variables whose relationships were to be determined.

3.4 Study Area

This study was conducted in Kisumu County which consists of Kisumu east, Kisumu west, Kisumu central, Seme, Nyakach, Muhoroni, and Nyando Sub – counties. It lies between Longitude of 33.20' E and 35.20' E and Latitude of 00.20' S and 00.50' S. Kisumu County covers an area of 2085.9Km^2 and has population of 1,155,574 (National Census, 2019). The county therefore accommodates population density of 460 per square kilometers. This study area was chosen because Kisumu County is one of the largest counties in Kenya with large population of MSEs with different characteristics. Economic activities of People in this region include trade, agriculture, manufacturing and tourism.

3.5 Target Population

According to Polit and Beck (2003) target population is a range of all items from where required sample is chosen. The target population comprised of registered 15000 micro and small enterprise owners from seven sectors in Kisumu County. These included; 4440 Boda boda operators, 2160 green grocers, 2800 second – hand clothes dealers, 1200 cereals sellers, 1160 front door tailors, 2000 salonists and 1240 barbers.

Table 3.1: Target population

Sector	**Population**
Boda-boda operators	4440
Green grocers	2160
Second hand clothes dealers	2800
Cereals sellers	1200
Front door tailors	1160
Salonists	2000
Barbers	1240
TOTAL	**15,000**

Source: County Government of Kisumu, 2023

3.6 Sampling Frame and Sample Size

According to Mugenda and Mugenda (2003) if the researcher has adequate time for the study, then he should take a very big sample to ensure another individual would obtain same findings to a greater degree if he chose another sample with the same size. In this study, stratified random sampling was used and the unit of analysis was formed by sampled owners of registered micro and small enterprises in Kisumu County by obtaining data from the County Government of Kisumu. In the current study, Krejcie and Morgan table and formula (1970) were used to obtain the size of the sample.

Table 3.2: Krejcie & Morgan table (1970) on determining sample size

N	s	N	s	N	s
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note: N refers to size of population; **s** refers to size of sample.

Source: Krejcie & Morgan, 1970

According to Krejcie and Morgan formula;

$$\mathbf{s} = \frac{\mathbf{X^2NP(1 - P)}}{\mathbf{d^2(N - 1) + X^2P(1 - P)}}$$

Where; **s** = Size of sample

X – Critical value i,e 1.96 (95% confidence level)

N = Size of population

P– Population proportion assumed to be 50% or 0.5

d – Degree of accuracy 0.05 (5% margin of error)

Sample size was therefore calculated as follows;

$$\mathbf{s} = \frac{1.96^2 \text{x} 15000 \text{x} 0.5\ (1-0.5)}{0.05^2(15000-1) + 1.96^2 \text{x} 0.5\ (1-0.5)}$$

$$= \frac{14406}{38.4579}$$

$$= 374.59$$

$$\approx 375$$

The researcher therefore settled on a sample size of 375 respondents.

Table 3.3: Sampling Frame

Sector	Population	Proportional allocation (N_i) $N_i = (N_i \text{ X } n)/N$	Sample size
Boda-boda operators	4440	(4440x375)/15000	111
Green grocers	2160	(2160x375)/15000	54
Second hand clothes dealers	2800	(2800x375)/15000	70
Cereals sellers	1200	(1200x375)/15000	30
Front door tailors	1160	(1160x375)/15000	29
Salonists	2000	(2000x375)/15000	50
Barbers	1240	(1240x375)/15000	31
TOTAL	**15000**	**(15000x375)/15000**	**375**

Source: Author 2023

3.7 Data Collection Procedures and Research Instruments

3.7.1 Questionnaires

This study used quantitative data from primary sources by use of questionnaires. The questionnaires were divided into sections and according to the objectives of the study. The sections entailed questions on financial access, financial usage, financial products, financial literacy training and performance of micro and small enterprises. A five – point likert scale was used to measure different opinions of the respondents relating to financial access, financial usage, financial products, financial literacy training and performance of micro and small enterprises in Kisumu County. The likert scale was ranging from 5 (Strongly agree) to 1 (Strongly disagree). Two research assistants were trained and assisted in collecting primary data from sampled registered MSE owners while using self - administered structured questionnaires. The respondents were not required to write their names on the questionnaires in order to promote high response rate due to surety about confidentiality by the researcher. According to Mugenda and Mugenda (2012) high response rate is promoted by anonymity provided by questionnaires.

3.7.2 Interview Schedules

This study also used interview schedules to collect primary data from micro and small entrepreneurs. 375 registered and sampled owners of MSEs were interviewed. Interview schedules were necessary for gathering more information hence complimented the questionnaires and this constituted qualitative data. The interview schedules entailed questions on the objectives of the study and therefore covered financial access, financial usage, financial products, financial literacy training and performance of MSEs. The respondents were not required to have their names written down on the schedules and they were assured of this before being interviewed by the researcher and the assistants. This was to encourage honest responses from the entrepreneurs. Interview schedules were then used by directly asking questions to the respondents and they were expected to answer them as their responses were recorded by the researcher and/or assistants.

3.8 Piloting of Research Instruments

The study carried out a pilot test on the questionnaire and interview schedule in order to test for the reliability of the research instruments that were used in data collection and important corrections were made so as to easen answering of the questions by the respondents in the study. Piloting was carried out in Siaya County, which is neighbouring Kisumu County. Siaya County was chosen because it also has MSEs with similar characteristics like those of Kisumu County. Seven randomly stratified entrepreneurs of micro and small enterprises were used in the pilot tests to fill in the questionnaires. The seven entrepreneurs were chosen because categories of MSEs that were selected for the study included; green grocers, cereals sellers, secondhand clothes dealers, front door tailors, boda boda owners, salonists and barbers. Interview schedules were used by the researcher and assistants in order to get more information from the respondents concerning performance of their micro and small scale businesses. The questions in the schedules were therefore in line with the objectives of the study. The final interview schedule and questionnaire were therefore refined after pilot tests.

3.8.1 Reliability of the Instrument

Reliability is a measurement used to ascertain the degree to which a research instrument consistently obtains same results after repeated trials (Mugenda and Mugenda, 2003). The research instruments should be reliable so as to provide accurate results. In this study, Cronbach's alpha correlation coefficient was used to ascertain the questionnaire's and interview schedule's reliability. There is very high internal consistency and reliability when the coefficient is closer to 1.

In this study, the questionnaire which was the main instrument for data collection was tested for reliability using randomly stratified respondents that were also included in the study. Reliability of the research instruments was tested using Cronbach's Alpha Coefficient. Nunnally (1978) asserts that Cronbach' Alpha coefficient should not be less than 0.7. Table 3.4 presents the results. All statements were reliable as the Cronbach's Alpha Coefficients were found to be above 0.7, which were accepted. This also showed that there existed very good internal consistency and hence reliability. This therefore reflected opinions of the respondents on the study objectives.

Table 3.4: Reliability Statistics

Variable	Cronbach's Alpha	Cronbach's Alpha based on Standardized items	Comment
Financial Access	0.787	0.771	Accepted
Financial Usage	0.751	0.735	Accepted
Financial Products	0.779	0.756	Accepted
Financial Literacy training	0.734	0.722	Accepted

Source: Research Findings (2023)

3.8.2 Validity of the Instruments

According to Kimberlin and Winterstein (2008) validity of a research instrument refers to how well it measures what it is supposed to measure. Content validity is the extent to which a research instrument gives enough coverage of the questions being investigated (Kung'u 2015). Face validity is the extent to which a test appears to measure what it is supposed to measure. The questionnaires and interview schedules in this study were validated by my university supervisors who have the expertise knowledge in this area. Validity of a research instrument shows that it is free from both systematic and unsystematic errors thereby enabling results adoption from the tool. The research instruments were therefore found to be valid to be used in the field for data collection.

3.9 Data Collection Procedure

The researcher's proposal was approved by Jaramogi Oginga Odinga University of Science and Technology and there after a research permit was obtained from National Commission for Science, Technology and Innovation (NACOSTI) and the County Government of Kisumu. Before the actual data collection, two research assistants were trained on terminologies as used in the questionnaires and interview schedules. They were also trained on the administration of the questionnaires and interview schedules while in the field.

3.10 Data Analysis Techniques

This study employed both descriptive and inferential statistics. Descriptive statistics that were used included measures of central tendency and measures of variation. Under measures of central tendency the mean was used to indicate averagely the extent to which respondents agreed or disagreed with statements concerning financial access, financial usage, financial products, financial literacy training, intervening variable and performance of micro and small enterprises based on the given likert scale which ranged from 1 to 5 (Minimum to Maximum). Standard deviation was used as a measure of variation on the given likert scale. It showed how far data set values concerning the study variables were far apart (dispersed). The information was presented in tables. The unit of analysis was formed by the sampled owners of micro and small enterprises in Kisumu

County. Inferential statistics analysis was done by coding data into the Statistical Package for Social Sciences (SPSS), Regression and correlation analysis were also carried out to find relationships and correlation among the variables. These included Multiple Linear Regression, Karl Pearson's Correlation and Analysis of Variance (ANOVA).

3.10.1 Test of Statistical Hypotheses

The relationship that exists between study variables is tested by use of formulated hypotheses. Karl Pearson's Correlation (r) was therefore used in testing for statistical significance between the variables of the study which included financial access, financial usage, financial product, financial literacy training and performance of micro and small enterprises in Kisumu County. The value of ***r*** should range between -1 to +1, where +1 is considered to be the perfect correlation.

3.10.2 Multiple Linear Regression Model

Multiple Linear Regression results were presented inform of APA tables.

Multiple Linear Regression Model used was;

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

Simple linear regression models were;

$Y = \beta_0 + \beta_1X_1 + \varepsilon$……………………..Model 1

$Y = \beta_0 + \beta_2X_2 + \varepsilon$……………………...Model 2

$Y = \beta_0 + \beta_3X_3 + \varepsilon$……………………...Model 3

$Y = \beta_0 + \beta_4X_4 + \varepsilon$……………………...Model 4

Where;

Y – Performance of MSEs

β_0 – Constant

β_1 – β_4– Regression coefficients (change induced in Y by each X)

$\mathbf{X_1}$– Financial access

$\mathbf{X_2}$– Financial usage

$\mathbf{X_3}$– Financial products

$\mathbf{X_4}$ – Financial literacy training

$\boldsymbol{\varepsilon}$ – Error term

Table 3.5: Test of Hypotheses using Correlation and Multiple Regression Model

Research objective	Hypothesis	Analysis	Model
Evaluate the effect of Financial access on Performance of MSEs in Kisumu County.	**H_{01}** Financial access doesn't have significant relationship with performance of MSEs in Kisumu County.	Karl Pearson's Correlation Regression	$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$
Examine the effect of financial usage on performance of MSEs in Kisumu County.	**H_{02}** Financial usage doesn't have significant relationship With performance of MSEs in Kisumu County.	Karl Pearson's Correlation Regression	$\mathbf{Y = \beta_0 + \beta_2 X_2 + \varepsilon}$
Determine the effect of Financial products on performance of MSEs in Kisumu County.	**H_{03}** Financial products do not have significant relationship with performance of MSEs in Kisumu County.	Karl Pearson's Correlation Regression	$\mathbf{Y = \beta_0 + \beta_3 X_3 + \varepsilon}$
Investigate influence of financial literacy training on performance of MSEs in Kisumu County.	**H_{04}** Financial literacy training doesn't have significant relationship with performance of MSEs in Kisumu County.	Karl Pearson's Correlation Regression	$\mathbf{Y = \beta_0 + \beta_4 X_4 + \varepsilon}$

3.11 Diagnostic Tests

3.11.1 Linearity Test

This test was done in order to differentiate each variable from the other. Linearity test therefore determines if bias changes across the reference values. For example, if data do not form a horizontal line on a scatterplot, then linearity is present. In this study, linearity was tested by use of graphical method. The straight lines formed 45 – degree slopes after plotting the functions on a graph to show linearity.

3.11.2 Normality Test

This was used in checking whether data had been obtained from a population that was distributed normally. According to Kathuku (2015) normality assumption is necessary in order to carry out single or joint hypothesis testing about the model parameters. One and two way ANOVA requires a sample population that is distributed normally. There exist different methods that can be used to test for normality of data. Methods that are common include skewness, kurtosis and mean with deviation.

This test was done to establish whether the variables were mesokurtic and non-skewed. According to Gujarati (2003) normal distribution should be neither too steep (leptokurtic) nor too flat (platykurtic), neither should it be positively nor negatively skewed.

3.11.3 Multi-collinearity

This refers to the high inter-correlations occurring among two or more independent variables in a multiple regression model. In this study, multi – collinearity was tested using Variance Inflation Factor (VIF). According to Fields (2009) collinearity tolerance above 2 and VIF values greater than 10 imply presence of multi – collinearity. Kothari (2004) asserts that multi-collinearity is where there exists an association of high degree between independent variables. This situation distorts coefficients of regression creating difficulty in interpretation leading to invalid significance tests (Cooper & Schindler, 2011). A coefficient of correlation higher than 0.8 reveals that multi-collinearity is present. During estimation, severity of multi-collinearity is more important than its presence.

3.11.4 Heteroscedasticity

This refers to scatter that is unequal. It is a procedural change in the spread of the residuals over a given range of the values measured. It was tested using scatter plot diagram. According to Wooldridge (2002) it is a situation that makes the standard errors biased leading to invalid test statistics and confidence levels hence misleading results.

3.12 Variables Description

Table 3.6: Variables Description Table

Variable		Indicators
Dependent Variable	Performance of MSEs	- Return on assets
		- Growth in sales volume
		- Growth in profits
Intervening Variable	- Micro and Small Enterprises Authority (MSEA)	
Independent Variables	Financial Access	- Banks & other financial institutions
		- Government funding
		- Innovation
	Financial Usage	- Unit trusts
		- Insurance
		- Investments
	Financial Products	- Customer satisfaction
		- Public image
		-Transaction costs
	Financial Literacy Training	- Savings mobilization
		-Records keeping
		-Lending

3.13 Ethical Consideration

In this study, the researcher observed high level of integrity. The researcher obtained a letter of authorization to undertake research study from ethics and review committee of Jaramogi Oginga Odinga University of Science and Technology. This letter was necessary because it verified the research topic and gave approval for the research to be conducted. Introductory letter was also obtained from Board of Post Graduate Studies Department (JOOUST) to enable the respondents identify with the researcher. National Commission of Science Technology and Innovation (NACOSTI) also issued permit which authorized for this research study to be undertaken since it had been found to be researchable. A letter of authorization to carry out research in Kisumu County was also obtained from the County Government of Kisumu. A letter of introduction was written by the researcher to the participants to accept to take part in the study. The participants were made to know that the information needed was for purposes of the study only. The researcher allowed for voluntary participation, as no respondent was forced to participate in the research study. The researcher therefore obtained consent of the participants before giving them the questionnaires to take part in the study and hence only willing micro and small entrepreneurs participated in the study. The participants did not lose time while filling in the questionnaires because those who did not have time to fill them in the presence of the researcher and/or the assistants were requested to find their own convenient time to do the same. The researcher or assistants then went back to the participants later in order to collect the questionnaires. Only those participants who had time to be interviewed participated because the interview schedules could not be left with the respondents to fill in at their convenient time.

The respondents were not expected to incur any transport costs that might have needed some form of compensation during this time because the researcher and her assistants travelled and delivered the questionnaires to them. Questionnaires which were left with the respondents were also collected back by the researcher or assistants. Confidentiality and anonymity were observed as no respondent was expected to note down his/her name in the questionnaire. They were also not expected to give their names during the time for interviewing. The rights and welfare of vulnerable participants were protected by the researcher. The researcher and assistants assisted respondents who didn't know how to read and write to fill in the questionnaires. The physically challenged like the blind and those with some deformities on their hands hence not able to write were assisted to write down the responses. The data collected were safely stored and analyzed by the researcher.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results and discussions with regards to the objectives of the study. These include general information, descriptive statistics, correlation analysis, diagnostic tests, regression analysis and hypothesis testing.

4.2 General information

This section is important to the study as it is very useful while providing information on the response rate, duration of MSEs operation, distribution of respondents by age, level of education, sectors of work and by workers employed in the business.

4.2.1 Response rate

In this study, a sample of 375 MSE owners was targeted. The researcher and the two trained research assistants delivered the questionnaires to the respondents. Results of the response rate are presented in table 4.1

Table 4.1: Response rate

Response	Frequency	Percentage (%)
Responded	348	92.8
Not responded	27	7.2
Total	**375**	**100**

Source: Research Findings

In table 4.1, a total of 348 respondents filled in and returned the questionnaires while 27 questionnaires were not returned. The response rate was therefore 92.8%. This was an excellent rate which conforms to Mugenda and Mugenda (1999) which rate 70% and above to be excellent rate

4.2.2 Duration of MSEs operation

The researcher had interest in knowing the duration that the MSEs had been in operation. This was then analyzed in table 4.2.

Table 4.2: Duration of MSE operation

Time	Frequency	Percentage (%)
1– 5 Years	143	41.1
6– 10 Years	111	31.9
11– 15 Years	49	14.1
16– 20 Years	29	8.3
Above 20 years	16	4.6
Total	**348**	**100**

Source: Research Findings

In table 4.2, it was clearly indicated that the majority of the respondents 41.1% had been in operation for between 1 to 5 years, 31.9% of the respondents indicated that their businesses had been in operation for between 6 to 10 years. 14.1% of the respondents had operated their businesses for between 11 to 15 years. Respondents who had operated their businesses for between 16 to 20 years were 8.3% while the minority had their businesses in operation for over 20 years and were represented by 4.6%. Duration of MSE operation was important because it showed the rate of survival of the micro and small businesses after start up. The findings were in conformity with those of Ojera et al (2011) who reported that 50% of SMEs in Sub – Sahara Africa registered decreasing performance five months after start – up.

4.2.3 Distribution of Respondents by Age

The study also sought to find out the ages of the respondents for purposes of fulfilling the objectives of the study with respect to financial access, financial usage, financial products and service delivery and financial literacy training. Distribution of respondents by age is presented in table 4.3.

Table 4.3: Distribution of Respondents by Age

Age (Years)	Frequency	Percentage (%)
18- 20	50	14.4
21 – 25	77	22.1

26 – 30	85	24.4
31 – 35	52	14.9
36 – 40	53	15.2
Above 40	31	8.9
Total	**348**	**100**

Source: Research Findings

In table 4.3, it is clear that the majority of the MSE owners were between 26 to 30 years old (85%), while a few respondents were above the age of 40 years as shown in the table. This therefore portrays the presence of young and energetic entrepreneurs who can work hard in their enterprises to satisfy their customers, bring about customer loyalty, and in the long run contribute to good performance and growth of their businesses. These young and energetic entrepreneurs would also be able to pay for insurance premiums regularly because they understand the importance of insurance in business. Age of an entrepreneur was also an important factor in performance of a business because in financial access, banks and other financial institutions can only give loans to persons above 18 years old. Financial literacy training may be very suitable for entrepreneurs who are above majority age because the minority age (below 18 years) may not understand many issues touching on financial matters in the economy.

4.2.4 Distribution of Respondents by Level of Education

The respondents also indicated their level of education, where the majority of the respondents indicated that their level of education was secondary school level and was represented by 41.1%. This was followed by 33.3% respondents who had primary level. Those with higher level of education were 20.1% while 5.5% of the respondents indicated that they had not acquired education at any level. Table 4.4 presents the results.

Table 4.4: Distribution of Respondents by Level of Education

Level of Education	Frequency	Percentage (%)
None	19	5.5
Primary	116	33.3
Secondary	143	41.1
Tertiary	70	20.1
Total	**348**	**100**

Source: Research Findings

Level of education was important to the study because it would reflect the respondents' knowledge of financial access, usage and general financial management. Their level of education would also indicate their level of service delivery and amount of financial literacy that they had gathered and may also need. An educated entrepreneur is knowledgeable enough to have wider access to finance, can apply modern/latest technology to perform financial transactions of the business geared towards high performance of the business.

A well-educated entrepreneur may also know how best to satisfy his or her customers in order to obtain high customer loyalty and ultimate good performance of the business.

4.2.5 Distribution of Respondents by Sectors of Work

The respondents also indicated their engagement elsewhere other than in the business. The findings were that only 46% respondents were employed elsewhere, while the majority represented by 54% of the respondents was not engaged in other sectors. Table 4.5 presents results for distribution of respondents by sectors of work,

Table 4.5: Distribution of Respondents by sectors of work

Sector	Frequency	Percentage (%)
Private	75	21.6
Public	85	24.4
Not employed	188	54.0

Total	**348**	**100**

Source: Research Findings

A total of 21.6% respondents registered working in the private sector while 24.4% of them are engaged in the public sector. The study found it necessary to gather information on entrepreneurs' engagement elsewhere outside their businesses in order to ascertain how best the businesses can perform whether the owners are present fulltime or partially. The information was also necessary for this study in terms of knowing the different sources of finance that are available to various categories of MSEs for better performance.

4.2.6 Distribution of Respondents by Workers Employed in the Business

The respondents also indicated whether they employed other people to work in the business or not. 50.0% of the respondents indicated that they had not employed any worker to assist them in the business. 48.6% however indicated that they had employed some workers in the business, with the majority employing 2 or 3 workers.

Table 4.6 shows the results on distribution of respondents by workers employed in the business.

Table: 4.6: Distribution of Respondents by Workers Employed in the Business

Response	Frequency	Percentage (%)
Yes	169	48.6
No	174	50.0

Source: Research Findings

Results in table 4.6 were important to this study because they would show expansion of the business, for example the number of MSEs who have employed other workers to assist in the business for better service of the customers which may lead to customer satisfaction, loyalty and ultimate good performance of the business. Having other workers in the business is also a good gesture showing creation of employment by MSEs. The findings are in line with those of Oguta et al. (2014) recommended that funds be outsourced in order to support women, the youth and all those unemployed in a bid to create employment. Other workers employed in the business would also portray availability of finance to pay wages and salaries to the workers.

4.5 Descriptive Statistics

4.5.1 Financial Access and Performance of MSEs

The first objective of the study was to evaluate the effect of financial access on performance of MSEs. Respondents were requested to indicate their level of satisfaction by responding to statements that were presented in a Likert scale, where 1 = Strongly disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A) and 5 = Strongly agree (SA). The respondents' opinions on each statement are presented in table 4.7.

Table 4.7: Financial access and performance of MSEs

Statement	N	MinImum	Maximum	Mean	Std Deviation
Easy financial access	348	1.00	5.00	3.630	1.341
Collateral requirement	348	1.00	5.00	3.593	0.860
Borrowing using mobile Phone	348	1.00	5.00	3.728	1.092
Personal savings is better	348	1.00	5.00	4.394	1.060
Better performance due to different financial providers	348	1.00	5.00	3.434	0.980
Average				**3.756**	**1.067**

Source: Research findings

From the findings on table 4.7, the respondents to a large extent agreed that personal savings is better than borrowed capital and this may be due to the fact that savings are easily accessible (Mean = 4.394, SD = 1.06). The findings also reveal that many MSE owners borrow using their mobile phones, portraying easy financial access (Mean = 3.728, SD = 1.092). Results further indicate that there is general easy access to finance as agreed by the respondents (Mean = 3.630, SD = 1.341). The respondents also agreed that collateral is required when borrowing finance as revealed by the findings (Mean = 3.593, SD = 0.860). Results further indicated that respondents moderately agreed that their businesses perform better due to different financial providers (Mean = 3,434, SD = 0.980). Items on financial access summed up to a mean of 3.756 and that implies that the mentioned factors on average would improve financial access greatly.

4.5.2 Financial Usage and Performance of MSEs

The second objective was to examine the effect of financial usage on performance of MSEs. The respondents were therefore asked to indicate the extent to which they disagreed or agreed with the statements on the effect of financial usage on performance of MSEs. Table 4.8 presents the results in terms of means and standard deviation.

Table 4.8: Financial Usage and Performance of MSEs

Statement	N	MinImum	Maximum	Mean	Std Deviation
Business saves with Old Mutual	348	1.00	5.00	2.963	1.431
Business risks are well taken care of	348	1.00	5.00	3.053	1.502
Bigger % of profit is used to expand the business	348	1.00	5.00	3.537	1.225
Business invests in development projects	348	1.00	5.00	3.588	1.231
Business profits not Saved	348	1.00	5.00	3.240	1.451
Average				**3.240**	**1.368**

Source: Research Findings

Research findings presented in table 4.8 revealed that most respondents agreed that their businesses invest in development projects (Mean = 3.588, SD = 1.231) and that bigger percentages of their profits are used to expand their businesses (Mean = 3.537, SD = 1.225) respectively, hence making good usage of finances. The respondents moderately agreed that the business profits are not saved, perhaps because they channel the profits to different development projects (Mean = 3.240, SD = 1.451). A few respondents indicated that their businesses' risks were well taken care of (Mean = 3.053, SD = 1.502) and this may be due to very few entrepreneurs valuing insurance services. The findings also revealed that very few MSE owners save their finances with unit trusts like the Old Mutual (Mean = 2.963, SD = 1.431). The average as revealed in table 4.8 is 3.276, indicates that the respondents agreed with the statements about financial usage and performance of MSEs.

4.5.3 Financial Products and Performance of MSEs

The third objective was to determine the effect of financial products on performance of MSEs. The respondents indicated their levels of agreement with the statements on effect of financial products on performance. The results are presented on table 4.9 concerning mean and standard deviation.

Table 4.9: Financial Products and Performance

Statement	N	MinImum	Maximum	Mean	Std Deviation
The business has maintained good public image over the years	348	1.00	5.00	3.971	1.211
All customers are highly satisfied	348	1.00	5.00	3.635	1.257
The business has very many customers due to good service delivery	348	1.00	5.00	3.723	1.251
The business has branches in other areas	348	1.00	5.00	3.074	1.282
The business incurs high transaction costs	348	1.00	5.00	3.131	1.344
Average				**3.507**	**1.269**

Source: Research Findings

The study findings presented in table 4.9 revealed that the respondents attested to the fact that their businesses had maintained good public image over the years (Mean = 3.971, SD = 1.211). Majority of the respondents also agreed that they had many customers due to good service delivery and that all their customers were highly satisfied (Mean = 3.723, SD = 1.251) and (Mean = 3.635, SD = 1.257) respectively. The respondents moderately agreed that their businesses were incurring high transaction costs (Mean = 3.131, SD = 1.344). Results also indicated that some MSEs had branches in other areas (Mean = 3.074, SD = 1.282), implying that majority of the entrepreneurs don't have branches in other areas. Results in table 4.9 revealed an average of 3.507. This mean indicates that the respondents agreed with the statements on financial products and performance of MSEs.

4.5.4 Financial Literacy Training and Performance of MSEs

The fourth objective was to investigate the influence of financial literacy training on performance of MSEs. Respondents were also expected to give their opinion by agreeing or disagreeing with the statements provided. Table 4.10 presents the findings in terms of means and standard deviations.

Table 4.10: Financial Literacy Training and Performance of MSEs

Statement	N	MinImum	Maximum	Mean	Std Deviation
Training in records keeping is very important	348	1.00	5.00	3.714	1.250
The business makes good use of borrowed finances	348	1.00	5.00	3.440	1.254
I have been fully trained on how to access & use financial services	348	1.00	5.00	3.334	1.194
I can now handle my finances better than before	348	1.00	5.00	3.604	1.356
Average				**3.523**	**1.264**

Source: Research Findings

The research findings in table 4.10 revealed that training in records keeping is very important, according to the respondents' agreement (Mean = 3.714, SD = 1.250). Results also indicated that majority of the respondents could now handle their finances better than before training (Mean = 3,604, SD = 1.356). Averagely the respondents cited the fact that their businesses could make good use of borrowed finances and that they had been fully trained on how to access finances and use financial services (Mean = 3.44., SD = 1.254) and (Mean = 3.334, SD = 1.194) respectively. The results also revealed that the average score is 3.523, implying that the respondents agreed with the statements on financial literacy training and performance of MSEs.

4.5.5 Performance of MSEs

Descriptive statistics on the performance of MSEs were presented on table 4.11

Table 4.11: Performance of MSEs

Statement	N	SA	A	N	D	SD
Good return on assets has been realised	348	19.9%	49.7%	4.9%	16.7%	8.9%
Business experiences high sales volume	348	8.9%	47.1%	8.3%	23.3%	14.4%
Growth in profits has been realised	348	8.6%	43.4%	10.9%	20.4%	16.4%
All business goals have been achieved	348	4.9%	42.0%	1.1%	25.0%	27.0%
Business performs very well	348	32.2%	55.7%	1.7%	7.8%	2.6%

Source: Research Findings

Results in table 4.11 revealed that 69.6% of the respondents agreed that they realize good return on assets. These findings were in agreement with those of Olawale (2010) who found a positive relation between Return on Assets and profitability. Only 8.9% of the respondents strongly disagreed with the statement. The results also revealed that only 8.6% of the respondents strongly agreed with the fact that their businesses experience high sales volumes. 52% of the respondents also agreed that growth in profits had been realized in their businesses. Results further revealed that 46.9% of the respondents agreed and strongly agreed that all the business goals had been achieved, while 1.1% were not sure about the same. From the results, it is noted that 32.2% and 55.7% of the respondents strongly agreed and agreed that their businesses were performing very well respectively.

4.6 Correlation Analysis

Correlation analysis enabled further analysis by use of regression models. Correlation analysis was therefore used to explore the relationship that exists between the variables of study. The degree of relationship between variables is measured by use of correlation coefficient. In this study, Pearson's correlation coefficient was used.

4.6.1 Financial Access and Performance of MSEs

Correlation analysis was conducted between financial access (independent variable) and performance of MSEs (dependent variable). The results are presented in table 4.14.

Table 4.14: Correlation Matrix

		Financial Access	Performance
Financial Access	Pearson Correlation	1.000	0.294
	Sig(2-tailed)		0.000
Performance	Pearson Correlation	0.294	1.000
	Sig(2-tailed)	0.000	

Results in table 4.14 showed that there existed positive and significant correlation between financial access and performance of MSEs ($r= 0.294$, $P= 0.000$). The findings thus agree with those of Mushumiyamana (2008) who conducted a research study in order to establish relationship between access to finance and performance of business, whose study revealed that the entrepreneurs were able to recruit more workers and increase financial performance due to available finance.

4.6.2 Financial Usage and Performance of MSEs

Correlation analysis was done between financial usage (independent variable) and performance of MSEs (dependent variable). Table 4.15 shows the results.

Table 4.15: Correlation Matrix

		Financial Usage	Performance
Financial Usage	Pearson Correlation	1.000	0.408

	Sig(1-tailed)		<0.001
Performance	Pearson Correlation	0.408	1.000
	Sig(2-tailed)	<0.001	

Results in table 4.15 indicated that there was a positive and significant correlation between financial usage and performance of MSEs (r = 0.408, p <0.001). These findings are in agreement with that of Nunoo *et al.* (2012) who found positive and statistical significance between financial utilization and performance of SMEs in Ghana.

4.6.3 Financial Products and Performance of MSEs

Correlation analysis was conducted between financial products (independent variable) and performance of MSEs (dependent variable). The results are presented in table 4.16.

Table 4.16: Correlation Matrix

		Fin Products	Performance
Fin Products	Pearson Correlation	1.000	0.419
	Sig(1-tailed)		0.000
Performance	Pearson Correlation	0.419	1.000
	Sig(1-tailed)	<0.001	

Results in table 4.16 showed that there was a moderate positive and significant correlation between financial products and performance of MSEs ($r = 0.419$, $p < 0.001$). These findings are in agreement with that of KIPPRA (2010) which posits that performance of MSEs is poor because of low quality products and customer preference that is skewed.

4.6.4 Financial Literacy Training and Performance of MSEs

Correlation analysis was conducted between financial literacy training (independent variable) and performance of MSEs (dependent variable). The results presented in table 4.17.

Table 4.17: Correlation Matrix

		Fin Literacy Training	Performance
Fin Literacy training	Pearson Correlation	1.000	-0.009
	Sig(1-tailed)		0.000
Performance	Pearson Correlation	-0.009	1.000
	Sig(1-tailed)	<0.001	

Results in table 4.17 showed that there was a weak negative correlation between financial literacy training and performance of MSEs ($r = -0.009$, $p < 0.001$). The findings were not in agreement with those of Sabana (2014) who found a strong positive correlation between financial literacy and performance of micro enterprises.

4.7 Diagnostic tests

Diagnostic tests were done on the data, which included Linearity, Normality, Multi-collinearity and Heteroscedasticity tests. The results were then presented in tables and figures.

4.7.1 Linearity Test

This test was done in order to differentiate each variable from the other. Linearity test therefore determines if bias changes across the reference values. For example, if data do not form a horizontal line on a scatterplot, then linearity is present. In this study, linearity was tested by use of graphical method. The straight lines formed 45 – degree slopes after plotting the functions on a graph. Figure 4.1 presents the results.

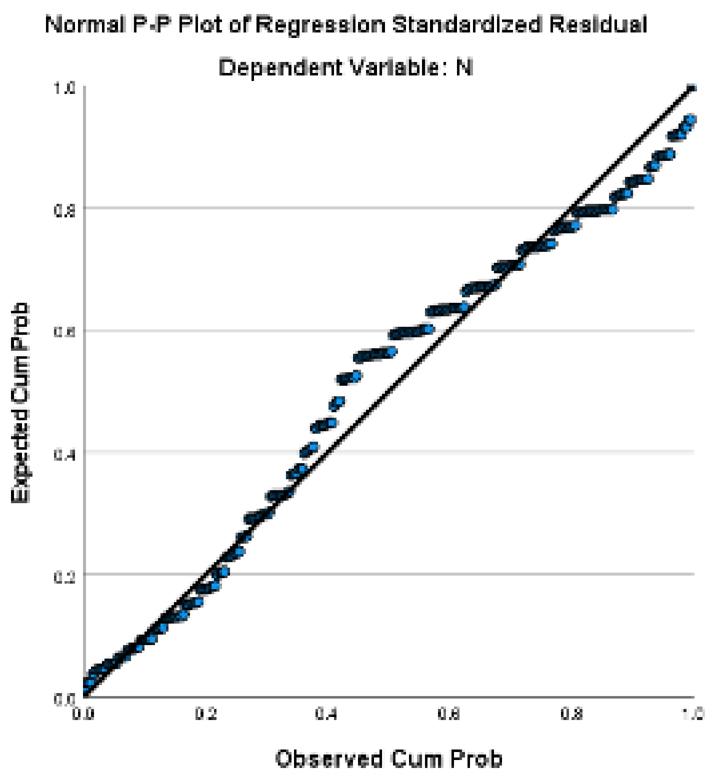


Figure: 4.1 Linearity Test
Source: Research Findings

4.7.2 Normality Test

This test was done to verify if data was drawn from normally distributed population. In this study, this was done by use of graphical method as shown in figure 4.2. The residuals indicate normal distribution in the figure.

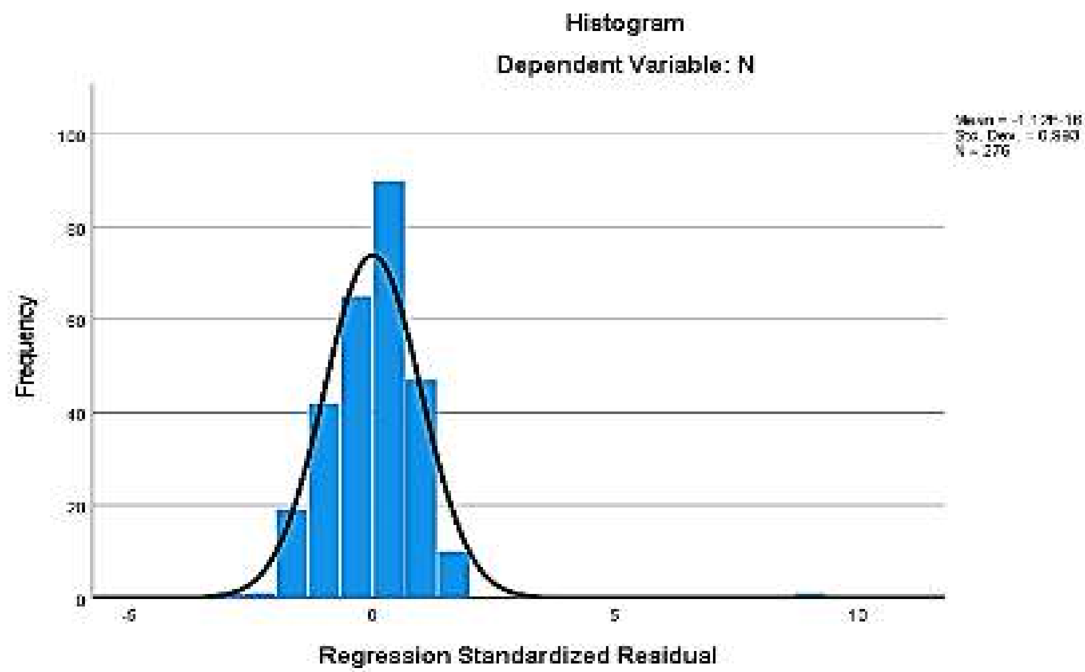


Figure 4.2: Normality Test

Source: Research Findings

4.7.3 Multi-collinearity Test

Multi-collinearity test is another assumption of a linear regression which assumes that independent variables of the study are not correlated. When there is a strong correlation between two or more independent variables, then Multi-collinearity exists. Fields (2009) asserts that if VIF exceeds 10, then multi-collinearity exists.

Table 4.18: Multi-collinearity results using VIF

Variable	Collinearity Tolerance	VIF
Financial Access	0.667	1.499
Financial Usage	0.669	1.432
Financial Products	0.645	1.550
Financial Literacy Training	0.847	1.181

Dependent variable: Performance of MSEs

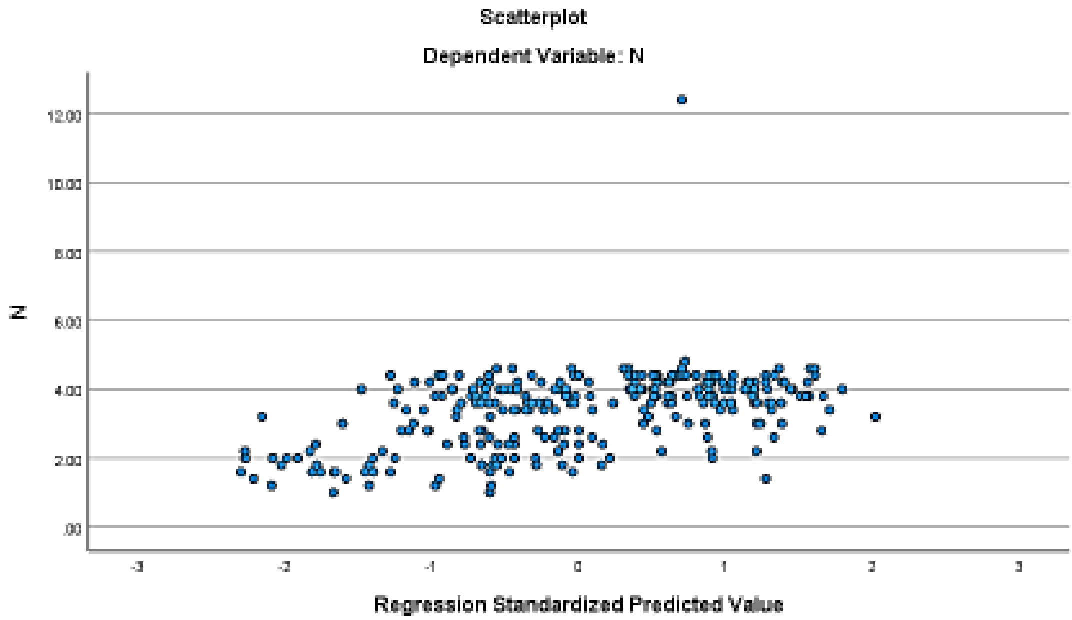
Source: Research Findings

Variance Inflation Factor (VIF) results are presented in table 4.18. The collinearity tolerances are below 2.00 while VIF are less than 10. According to Fields (2009) VIF less than 10.00 and tolerance below 2.00 indicates that no multi-collinearity exists. Tolerance values are greater than 0.1, showing that there is non-existence of multi-collinearity. It was also concluded that there existed no collinearity between the independent and dependent variables since the VIF are less than 10. It was therefore concluded that all independent variables were good for regression analysis.

4.7.4 Heteroscedasticity Test

Heteroscedasticity refers to scatter that is unequal. It is the procedural change in the spread of the residuals over a given range of the values measured. This was tested and results presented in figure 4.3.

Figure 4.3 Scatterplot



Source: Research Findings

Data points were equally distributed on both left and right hand side of zero as revealed by the scatter plot in figure 4.3. Therefore heteroscedasticity assumption was not met.

4.8 Regression Analysis

Linear regression analyses were carried out in order to test for hypotheses. Test for Linear regression results were performed at the 95% confidence level as presented in section 4.8.1- 4.8.4.

4.8.1 Regression Analysis for Financial Access

The model fitness that was used of the regression model while explaining the model phenomenon is presented in table 4.19. Financial access was found to be a satisfactory variable while explaining performance of MSEs. R – Square of 8.6% (Coefficient of determination) supported the fact. This implies that financial access explains 8.6 % of the variations in the dependent variable which in this study was performance.

Table 4.19: Model Summary of Financial Access and Performance of MSEs

Model	R	R Square	Adjusted R Square	Std Error of the estimate
1	0.294	0.086	0.083	1.0287

The results on Analysis of variance are represented in table 4.20

Table 4.20 Analysis of Variance of Financial Access and Performance of MSEs

	Sum of Squares	**df**	**Mean Square**	**F**	**sig**
Regression	32.584	1	32.584	30.790	<0.001
Residual	344.994	326	1.058		
Total	377.578	327			

Table 4.20 provides the results on the ANOVA. The overall model was statistically significant as indicated by the results. The independent variable i.e financial access is also a very good predictor of performance as indicated by the results of F statistic of 30.790 and the resultant P – Value (<0.001) which was less than 0.05 significance level (conventional probability).

Table 4.21: Regression of Coefficients of Financial Access and performance of MSEs

	B	Std Error	t	Sig
(Constant)	1.211	0.390	3.105	0.002
Financial Access	0.583	0.105	5.549	<0.001

Regression of coefficients showed that financial access had a positive and significant relationship ($r = 0.583$, $P < 0.001$). These results were consistent with those of Olawale and Garwe (2010) who found strong positive and significant relationship between access to finance and enterprise performance in Sub – Saharan Africa. $Y = 1.211 + 0.583X_1$. From the regression equation, when financial access changes by 58.3%, performance changes by 1% implying that there is a positive relationship between the two variables.

4.8.2 Regression Analysis for Financial Usage

The model fitness used in explaining the study phenomena is presented in table 4.22. Financial usage was discovered to be a good variable in explaining performance of MSEs. This was supported by Coefficient of determination (R – Square 16.7%). That implies that financial usage explains 16.7% of the variations in the dependent variable which was performance.

Table 4.22: Model Summary of Financial Usage and Performance of MSEs

Model	R	R Square	Adjusted R Square	Std Error of the estimate
1	0.408	0.167	0.164	0.9896

Results on Analysis of Variance are presented in table 4.23.

Table 4.23: Analysis of Variance of Financial Usage and Performance of MSEs

	Sum of Squares	**df**	**Mean Square**	**F**	**sig**
Regression	61.437	1	62.437	63.753	<0.001
Residual	312.414	319	0.979		
Total	374.852	320			

The results of ANOVA are presented in table 4.23. Results indicate that the overall model was statistically significant. The results also show that the independent variable i.e. financial usage is a good predictor of performance of MSEs. This was clearly supported by F Statistic of 63.753 and P - Value of <0.001 that was reported. The P - Value was also less than 0.05 significance level (conventional probability).

Table 4.24: Regression of Coefficients of Financial Usage and Performance of MSEs

	B	Std Error	t	Sig
(Constant)	1.654	0.218	7.582	<0.001
Financial Usage	0.514	0.064	7.985	<0.001

Regression of coefficients showed revealed that financial usage and performance of MSEs had a positive and significant relationship ($r = 0.514$, $p < 0.001$). The results were consistent with those of Sabana (2014) who found a positive relationship between financial usage and performance of micro enterprises in Nairobi County, Kenya. $Y = 1.654 + 0.514X_2$. From the regression equation, when financial usage changes by 51.4% performance changes by 1% showing that there is a positive relationship between the two variables.

4.8.3 Regression Analysis for Financial Products

The model fitness used in explaining the study phenomena is presented in table 4.25. Financial products was discovered to be a good variable in explaining performance of MSEs. This was supported by Coefficient of determination (R – Square 17.5%). This implies that financial products explain 17.5% of the variations in the dependent variable which was performance.

Table 4.25: Model Summary of Financial Products and Performance of MSEs

Model	R	R Square	Adjusted R Square	Std Error of the estimate
1	0.419	0.175	0.173	0.9777

Results on Analysis of Variance are presented in table 4.26.

Table 4.26: Analysis of Variance of Financial Products and Performance of MSEs

	Sum of Squares	df	Mean Square	F	sig
Regression	66.197	1	66.197	69.255	<0.001
Residual	311.606	326	0.956		
Total	377.803	327			

The results for ANOVA are presented in table 4.26. Results indicate that the overall model was statistically significant. The results also show that the independent variable i.e financial products is a good predictor of performance of MSEs. This was clearly supported by F Statistic of 69.255 and P - Value of <0.001 that was reported. The P - Value was also less than 0.05 significance level (conventional probability).

Table 4.27: Regression of Coefficients of Financial Products and Performance of MSEs

	B	Std Error	t	Sig
(Constant)	1.430	0.233	6.131	<0.001
Financial Products	0.538	0.065	8.322	<0.001

Regression of coefficients revealed that financial products and performance of MSEs had a positive and significant relationship ($r = 0.538$, $p < 0.001$). The results were consistent with those of Kotler (2010) who found a positive and significant relationship between financial products, service delivery and performance of businesses and also concluded that businesses should have right products for customers in order to maintain high customer satisfaction and loyalty. $Y = 1.430 + 0.538X_3$. From the regression equation, when financial products changes by 53.8% performance changes by 1% showing that there is a positive relationship between the two variables.

4.8.4 Regression Analysis for Financial Literacy Training

The model fitness used in explaining the study phenomena is presented in table 4.28. Financial literacy training was discovered not to be a good variable in explaining performance of MSEs. This was supported by Coefficient of determination (R – Square

0.00%). This implies that financial literacy training explains 0.00% of the variations in the dependent variable which was performance.

Table 4.28: Model Summary of Financial Literacy Training on Performance of MSEs

Model	R	R Square	Adjusted R Square	Std Error of the estimate
1	0.009	0.000	0.003	1.0734

Results on Analysis of Variance are presented in table 4.29.

Table 4.29: Analysis of Variance of Financial Literacy Training on Performance of MSEs

	Sum of Squares	**df**	**Mean Square**	**F**	**sig**
Regression	0.032	1	0.032	0.027	0.868
Residual	377.928	328	1.152		
Total	377.960	329			

The results for ANOVA are presented in table 4.29. Results indicate that the overall model was statistically insignificant. The results also show that the independent variable i.e. financial literacy training is not a good predictor of performance of MSEs. This was clearly supported by F Statistic of 0.027 and P - Value of 0.868 that was reported. The P - Value was also found to be more than 0.05 significance level (conventional probability).

Table 4.30: Regression of Coefficients of Financial Literacy Training on Performance of MSEs

	B	Std Error	t	Sig
(Constant)	3,386	0.246	13.747	<0.001
Financial Literacy training	-0.011	0.058	-1.166	0.868

Regression of coefficients revealed that financial literacy training and performance of MSEs had a negative and insignificant relationship ($r = -0.011$, $p < 0.001$). The results were inconsistent with those of Njoroge (2013) who asserted that business owners that have very good skills in financial literacy usually make sound financial decisions, good financial usage and service delivery than the ones who are financially illiterate. Y = 3.386

– $0.011X_4$. From the regression equation, when financial literacy training changes by -1.1% performance changes by 1% showing that there is no positive and significant relationship between the two variables.

4.13 Correlation Analysis for Primary Data

Correlation analysis results for primary data are shown in table 4.31.

Table 4.31: Correlation Analysis for Primary Data

	Fin Ac	Fin Usage	Fin Products	Fin Literacy
Fin Access Pearson Cor	1	0.427**	0.479**	0.368**
Sig (2- tailed)		< 0.001	<0.001	<0.001
Fin Usage Pearson Cor	0.427 **	1	0.517**	0.122*
Sig (2- tailed)	< 0.001		<0.001	0.033
Fin Products Pearson Cor	0.479**	0.517**	1	0.294**
Sig (2- tailed)	< 0.001	<0.001		<0.001
Fin Literacy Pearson Cor	0.368**	0.122*	0.294**	1
Sig (2- tailed)	<0.001	0.033	<0.001	

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

*Correlation is significant at the 0.05 level (2-tailed)

4.14 Hypotheses Testing

In this study, the hypotheses were tested using multiple linear regression model. Results presented indicated that financial access, financial usage and financial products had positive and significant effect on performance of MSEs while financial literacy training had negative effect on performance of MSEs. The overall model was therefore statistically significant as indicated by the results. The results also imply that financial access, financial usage and financial products are good predictors of performance as was reported by the p - values which appeared to be less than 0.05 significance level (conventional probability). The specific models were;

$Y = 1.211 + 0.583X_1$

$Y = 1.654 + 0.514X_2$

$Y = 1.430 + 0.538X_3$

$Y = 3.386 – 0.011X_4$

Where;

Y = Performance

X_1= Financial Access

X_2= Financial Usage

X_3= Financial Products

X_4= Financial Literacy Training

4.14.1 Hypothesis Testing for Financial Access

The null hypothesis H_{01} was that financial access does not have significant relationship with performance of MSEs. Multiple linear regressions were used to test for hypothesis. Acceptance/rejection criteria was that when p-value is less than 0.05, then reject the null hypothesis and when the p-value is greater than 0.05 then the null hypothesis is accepted. The results in table 4.14 indicated that the p-value was $0.000 < 0.05$, hence the null hypothesis was rejected. There is therefore positive and significant relationship between financial access and performance of MSEs. The findings are in agreement with those of Cooper (2012) who found a strong and positive correlation between services of MFIs and growth of SMEs.

4.14.2 Hypothesis Testing for Financial Usage

The null hypothesis H_{02} was that financial usage does not have significant relationship with performance of MSEs. Multiple linear regressions were used to test for hypothesis. Acceptance/rejection criteria was that when p-value is less than 0.05, then reject the null hypothesis and when the p-value is greater than 0.05 then the null hypothesis is accepted. The results in table 4.15 indicated that the p-value was <0.001 which was less than 0.05, hence the null hypothesis was rejected. There is therefore significant relationship between financial usage and performance of MSEs. The findings are in agreement with those of

Akanji (2009) who concluded that it would be easy to re – invest in business if savings could be used as collateral to secure loans.

4.14.3 Hypothesis Testing for Financial Products

The null hypothesis H_{03} was that financial products do not have significant relationship with performance of MSEs. Multiple linear regressions were used to test for hypothesis. Acceptance/rejection criteria was that when p-value is less than 0.05, then reject the null hypothesis and when the p-value is greater than 0.05 then the null hypothesis is accepted. The results in table 4.16 indicated that the p-value was <0.001 which was less than 0.05, hence the null hypothesis was rejected. It was therefore revealed that there is positive and significant relationship between financial products and performance of MSEs. The findings are in agreement with those of Samundengu (2014) who found out that ability to use financial products and services contribute to enterprise success.

4.14.4 Hypothesis Testing for Financial Literacy Training

The null hypothesis H_{04} was that financial literacy training does not have significant relationship with performance of MSEs. Multiple linear regressions were used to test for hypothesis. Acceptance/rejection criteria was that when p-value is less than 0.05, then reject the null hypothesis and when the p-value is greater than 0.05 then the null hypothesis is accepted. The results in table 4.17 indicated that the p-value was 0.868 which was greater than 0.05, hence the null hypothesis failed to be rejected. It was therefore revealed that there is no positive and significant relationship between financial literacy training and performance of MSEs. The findings are in disagreement with those of Akanji (2006) whose study concluded that training is an important tool as it provides skills and experience needed for business' growth. The findings however were in agreement with those of Eurasia – Eke and Reith (2013) whose study on the relationship between entrepreneurship financial literacy and expansion of businesses in South Africa, concluded that there was no significant relationship between financial literacy and the development of micro, small and medium enterprises.

Table 4.32: Summary of Hypothesis Testing

Hypothesis	P- value	Result
H_{01}: Financial access has no significant effect on performance of MSEs	0.000	Positive & significant (Reject H_{01})
H_{02}: Financial usage has no significant effect on performance of MSEs	< 0.001	Positive & significant (Reject H_{02})
H_{03}: Financial products have no significant effect on performance of MSEs	< 0.001	Positive & significant (Reject H_{03})
H_{04}: Financial literacy training has no significant effect on performance of MSEs	0.868	Not significant (Accept H_{04})

Source: Research findings

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings, conclusions and recommendations of the study in line with the objectives of the study.

5.2 Summary of findings

5.2.1 Financial Access and Performance of MSEs

The first objective of the study was to evaluate the effect of financial access on performance of MSEs in Kisumu County. The results revealed that most MSE owners can easily access certain financial services even using their mobile phones. From the results; it was also evident that most financial providers require collateral before giving out loans. The results also revealed that most MSE owners preferred personal savings to borrowed capital. Most entrepreneurs agreed that access to different financial services led to better performance of their businesses as revealed by the results. Most MSEs attested to the fact that they do not receive government funding. The findings also revealed that loans from MFIs have high interest rates even though some give loans at relatively low interest rates as compared to commercial bank loans to some extent. Regression results revealed that financial access has the highest positive and significant effect on performance of MSEs.

5.2.2 Financial Usage and Performance of MSEs

The second objective of the study was to examine the effect of financial usage on performance of MSEs in Kisumu County. The results revealed that majority of the MSEs don't save their money with unit trusts like the Old Mutual. The findings also revealed that very few MSE owners have insured their businesses against various risks with some insurance organizations. Results further revealed that a few entrepreneurs invest in other development projects. Regression results revealed that financial usage has positive and significant effect on performance of MSEs.

5.2.3 Financial Products and Performance of MSEs

The third objective of the study was to determine the effect of financial products on performance of MSEs in Kisumu County. The results revealed that majority of the MSEs have good public image. This was evident due to the fact that most MSEs boasted of high customer loyalty and retention mainly because of satisfied customers. The findings also revealed that very few MSEs have branches in other areas, hence there was evidence of low business expansion. It was also evident from the results that most MSEs incur high transaction costs because they don’t have their own means of transportation. Regression results revealed that financial products and service delivery has positive and significant effect on performance of MSEs.

5.2.4 Financial Literacy Training and Performance of MSEs

The fourth objective of the study was to investigate the influence of financial literacy training on performance of MSEs in Kisumu County. The results revealed that most MSE owners don’t save their finances with formal institutions. It also revealed that training in records keeping is important and that most businesses make good use of borrowed capital. The results further revealed that only a few entrepreneurs had been fully trained on access and usage of financial services. The findings further revealed that those who had been trained were the ones who could therefore handle their finances better than before though regression results revealed that financial literacy training does not have positive and significant effect on performance of MSEs.

5.3 Conclusions of the study

The study findings concluded that financial access, financial usage and financial products and service delivery have positive and significant effect on performance of MSEs in Kisumu County, while financial literacy training does not have positive and significant effect on performance of MSEs. The study also concluded that financial access has highest effect on performance of MSEs as it was found to have P – value of $0.000<0.05$. The study therefore concluded that financial inclusion has positive and significant effect on performance of MSEs in Kisumu County, Kenya.

5.3.1 Financial Access and Performance of MSEs

Results from primary data revealed that most entrepreneurs indicated that personal savings is better than borrowed capital. The results also revealed that a good number of entrepreneurs can easily access financial services even using their mobile phones, It was therefore concluded that such innovations like use of mobile phones has been embraced by a good number of entrepreneurs and this has helped to easily access financial services, even though other innovations like use of Western Union, paypal and Real Time Gross Settlement (RTGS) in money transfer haven't been embraced yet by the MSEs. Majority of the MSEs also hailed mobile borrowing to be one of the quickest means to obtain finance. The results further revealed that most financial providers require collateral before giving out loans which most MSE owners may not have at the time of need. The study therefore concluded that the issue of collateral has made the MSEs to shy away from taking loans with most financial institutions. From the results, it was revealed that most MSE owners preferred personal savings to borrowed capital. The study therefore concluded that personal savings is the easiest way of obtaining capital amongst the MSEs. The findings also revealed that loans from some MFIs like SACCOs have low interest rates to some extent and most MSEs may prefer taking loans with the SACCOs than to go to banks whose interest rates are higher. The study hence concluded that MSEs prefer low interest rate loans that do not make them to strain financially. The results also revealed that access to different financial services led to better performance of MSEs. It can therefore be concluded that MSEs can do better if they access finances from various sources, ranging from internal to external.

5.3.2 Financial Usage and Performance of MSEs

Primary data results revealed that very few MSE owners save their money with Unit trusts like Old Mutual while the majority does not. The study therefore concluded that lack of savings by the MSEs may be one of the causes of their poor performance. Results also revealed that a few businesses invest in development projects and that bigger percentages of their profits are used to expand their businesses. Results also revealed that very few MSE owners have insured their businesses against various risks with some insurance organizations. The study concluded that generally most entrepreneurs have not embraced the importance of insuring their businesses. The study therefore concluded that this may be due to the fact that most MSEs are not able to get high profits and hence a higher percentage of entrepreneurs have not invested in other areas perhaps due to lack of finance.

5.3.3 Financial Products and Performance of MSEs

Results from primary data revealed that most of the businesses have got good public image. The study therefore concluded that good public image of the business depended on how well the entrepreneurs handled customers i.e business - customer relationship and generally good service delivery to the customers. Most of the MSEs attested to the fact that they had many customers due to good service delivery. The study concluded that good service delivery is important to a business in order to uphold customer loyalty and retention by the business. According to the study findings, it can be concluded that most MSEs' customers are highly satisfied. Most MSE owners accepted the fact that they incur very high transaction costs as revealed by the study findings. In this respect, the study concluded that the entrepreneurs haven't learnt cheaper means of transporting their goods to and from the market. Most of the entrepreneurs have not also learnt cheaper ways of advertising their products in order to attract many customers. The results further revealed that just a few MSEs have got branches in other areas while most of them do not have branches in other areas. The study therefore concluded that most MSEs do not invest so much in terms of business expansion.

5.3.4 Financial Literacy Training and Performance of MSE

Results from primary data revealed that most of the entrepreneurs could handle their finances better than before they were trained. The study concluded that proper training in financial literacy amongst the entrepreneurs helped their businesses to grow because of better handling of finances. According to the results, majority of the trained entrepreneurs could make good use of borrowed finances even though proper savings mobilization amongst the MSEs had not been conducted. It was evident that most MSEs were not saving their finances with formal institutions. A few MSE owners indicated that they had been fully trained on how to access and use financial services as revealed by the study. Most MSEs had not been exposed to lending by formal financial institutions. Even though the MSE owners that had received financial literacy training offered by banks, MFIs and government officials talked of importance of training to them, the study concluded that financial literacy training was found not to have positive and significant effect on performance of MSEs.

5.4 Recommendations of the study

5.4.1 Policy makers

The Kenyan government should come up with laws and regulations that are favourable to the micro and small enterprises in order to encourage their activities geared towards their growth and development. The government should also be in the fore front to offer relevant financial literacy training like on savings mobilization, records keeping and lending to the micro and small entrepreneurs, given that the MSEs activities help in wealth creation, creation of employment, innovation and in turn industrialization hence they are the backbone of the country's economy. The study also recommended that the government should reduce the different amounts of taxes that the MSEs are always compelled to pay. The study further recommended that the government should provide good security and enabling environment as a whole to the MSEs for better performance. The study further recommended that the Central Bank of Kenya should reduce lending interest rates to the commercial banks in order to in turn make loan borrowing by MSEs affordable. This will attract the micro and small enterprises to take loans in order to expand and develop their businesses leading to better performance.

5.4.2 Stakeholders

The study recommended that MSEs should have access to different financial services in order to enhance their performance in the long run. It further recommended that commercial banks and non - bank financial institutions to lower their lending interest rates so that the MSEs can afford to borrow. The study also recommended that micro and small entrepreneurs should embrace personal savings of their income with different organizations and SACCOs to capture wider capital. The study further recommended that MSEs should embrace mobile phone borrowing when in need of quick cash so as to avoid lengthy procedures of borrowing from financial institutions when in need of some small amounts of money. Mobile phone borrowing could also save their time, some other transaction and travelling costs.

The study recommended that MSEs be insured to cater for compensation should any risk occur to the business. This is because a larger percentage of the MSEs were found to be lacking insurance covers even though they were experiencing various challenges and risks that require insurance. The study also recommended for savings with some organizations and insurers like the Old Mutual through creation of awareness amongst the micro and small enterprises. The study further recommended that business owners to invest in other development projects which may assist in the expansion and growth of the MSEs. The study recommended that MSEs should embrace the use of modern technology in making payments and receiving money from customers in order to improve their performance and also venture into regional and international businesses.

The study recommended that MSEs should avoid high transportation costs that pull them down for example an entrepreneur can buy a motor bike or pick – up to use in the business rather than hiring the same each time he/ she is moving with the goods to the market or bringing in more stock. This would assist in avoiding high transportation costs that were mentioned by most respondents. MSEs should also embrace use of modern technology like mobile phones in order to advertise their goods and services cheaply and easily. The study also recommended that there should be need for enhanced relationship between MSE owners and the customers for better performance of businesses through customer satisfaction and loyalty. This also maintains good public image. The study further recommended that MSE owners should strive to have enough stock also in order to maintain customer loyalty and satisfaction.

The study recommended that MSE owners be trained more in records keeping and financial management in general in order to have more impact on performance hence different organizations, financial institutions and the government should intensify their training of MSE owners on various financial management skills in order to realize growth and development.

5.4.3 Areas for further research

Similar studies should be conducted in other counties using the same variables as in this study in order to compare what happens in different counties in terms of MSEs performance. Research study should be conducted separately on women owned only and men owned only MSEs in order to ascertain which ones are performing better in terms of financial access, financial usage, financial products and service delivery and financial literacy training. Similar study should also be conducted on medium and large scale businesses, while using same variables as in this study. Finally, thorough research should be carried out on effect of use of modern technology on performance of MSEs in Kenya.

5.5 New knowledge generated from the study

Modern technology is fast becoming the cornerstone of any business in Kenya and around the globe today even though most businesses have not embraced it or if they have, they have not engaged in its applications substantially and to the fullest. New knowledge from this study emanate from the study gaps. This current research study departs from previous research studies by stressing on the application of mobile phones and mobile phones in general to facilitate payments and receipts through the use of such platforms as Mpesa, Paypal, Agency banking, e Bay, Western Union, Real Time Gross Settlement (RTGS), Society for Worldwide Interbank Financial Telecommunications (SWIFT) among others, to borrow funds, receive and make payments to customers, advertise for goods and services both locally and internationally. These services steered by modern technology help boost performance of businesses and should be embraced by both MSE owners and large scale entrepreneurs. The current study therefore stresses on use of innovation by the MSEs. Some studies reviewed by this current study were found to have used small sample sizes (few respondents). This study therefore advocates for use of reasonable sample size for better generalization.

This study also reveals the importance of use of specific aspects of independent variables. For example in financial access, this study chose to use specifically banks and other financial institutions, government funding and innovation.

The current study also advocates for use of wider locations for research. Some previous studies used eg particular town centres or just one sub - county. The results thus may not be used to make generalizations for the entire country. This study also suggests the use of both questionnaires and interview schedules in primary data collection because most earlier studies used questionnaires only. This study discovered the use of secondary data only and computer research studies amongst some researchers which may not give the researcher proper picture of events as they unfold at that particular time. This study therefore advocates for primary data collection.

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APPENDICES

APPENDIX I: Letter of Introduction

Dear Respondent,

RE: FINANCIAL INCLUSION AND PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN KISUMU COUNTY.

I am a PhD student at Jaramogi Oginga Odinga University of Science and Technology currently carrying out a research study towards improving performance of micro and small enterprises in Kisumu County. This is part of the requirement for my program and the information provided in the questionnaire will not be used for any other purpose other than research. Please fill in the questionnaire honestly to enable successful completion of this study because the information provided will be treated with a lot of confidentiality.

Your cooperation is highly appreciated.

Yours faithfully,

Joyce Obiero Ouya

Reg. No: B161/4074/2020

APPENDIX II: Questionnaire for MSEs

Dear Respondent………………………………..

This research is carried out towards improving performance of micro and small enterprises in Kisumu County, Kenya. The questionnaire will not be used for any other purpose other than research. Please fill in the questionnaire accordingly because the information provided will be treated with a lot of confidentiality.

Part A: Demographic information

a) When did this business start its operations? (Please tick√).

- 1-5 years ago [ ]
- 6-10 years ago [ ]
- 11-15 years ago [ ]
- 16-20 years ago [ ]
- More than 20 years ago [ ]

b) How old are you?

- 18-20 years [ ]
- 21-25 years [ ]
- 26-30 years [ ]
- 31-35 years [ ]
- 36-40 years [ ]
- Above 40 years [ ]

c) What is your level of education?

- None [ ]
- Primary [ ]
- Secondary [ ]
- Tertiary [ ]

d) Do you work elsewhere other than in this business?

- Yes [ ]
- No [ ]

e) If yes, which sector do you work in?

- Private [ ]
- Public [ ]

f) Have you employed any worker in this business? (Please tick√).

- Yes [ ]
- No [ ]

g) If yes, how many?...

PART F: Please match the given statements with your opinion by ticking (√) the appropriate box. The table is based on Likert scale of 1 - 5, where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree.

Statement	**SA 5**	**A 4**	**N 3**	**D 2**	**SD 1**
Financial Access					
The business easily accesses finance					
Most providers of finance require collateral					
I can easily borrow money using my mobile phone					
Money from personal savings is better than borrowed capital					
Access to different financial services has led to better performance of the business					
Loans from MFIs have very low interest rates					
Financial Usage					
The business saves money with Old Mutual Insurance					
Business risks are well taken care of by insurer					
The business doesn’t save any money from profit					

I use bigger percentage of profits to expand the business					
The business invests in other development projects					
Financial Products					
The business has maintained its good public image over the years					
All customers of the business are highly satisfied					
The business has very many customers due to good service delivery					
The business has branches in other areas					
The business incurs high transaction costs					
Financial Literacy Training					
Training in records keeping is very important					
The business makes good use of borrowed finances					
I have been fully trained on how to access and use financial services					
I can now handle my finances better than before					
Micro and Small Enterprises Authority					
We pay taxes to the government					
I can locate my business anywhere I want					
Prices of our products are controlled by the government					
We get loans at very high interest rates					
We are restricted on the amount of loans to take from banks					
Performance of MSEs					
Good return on assets has been realised					
Business experiences high sales volume					
Growth in profits has been realised					
All business goals have been achieved					
Business performs very well					

THANKS FOR YOUR COOPERATION

APPENDIX III: Interview Schedule for MSEs

Financial inclusion and performance of micro and small enterprises in Kisumu County, Kenya.

Section A: General information

1. When did you start this business?...

2. What is your marital status?..

Section B: Interview Questions

Please provide information concerning your business

Interview questions	Follow up questions
1. I would like to know about your financial access	a) What is the source of finance for your business? b) In case of borrowing, what are the major requirements by financiers? c) Why would you want to borrow money?
2. What has enabled your business to survive up to now?	a) Have you ever incurred any risks in the business? b) Have you insured your business and if yes, how much premium do you pay per month? c) Do you save money with any pension's scheme provider?
3. Let us talk about your financial products. How have you managed to retain your customers?	a) What means of payment do you use in making transactions? b) What are some of the expenses that you incur more often? c) Do you incur high transaction costs in the business?

	d) Are your customers satisfied and if yes, what brings about their satisfaction? e) How do you know if the customers are satisfied?
4. Tell me about how you handle your finances. Have you been trained on financial management?	a) If you have been trained on financial management, which institutions have trained you? b) You have been trained on which topics?
5. What can you say about the general performance of your business?	a) Can you gauge your business to be highly profitable? b) Does the business incur a lot of debts & if so averagely how long do you take to settle the business debts? c) Do you save profits from the business with any financial institution? d) Do you plan to expand your business or rather open branches in other areas?

Thank you very much for your time

APPENDIX IV: Letter of Authorization from JOOUST

APPENDIX V: Kisumu County Office Letter of Authorization

REPUBLIC OF KENYA

THE COUNTY GOVERNMENT OF KISUMU

Office of the County Secretary, Head of County Public Service and Secretary to the Executive Committee

CGK/CS/ADM/14/VOL.I/140 **24/02/2023**

JOIYCE OBIERO OUYA
P. O. BOX 14 - 40601
BONDO

REASEARCH AUTHORIZATION

This is to inform you that the County Government of Kisumu has authorized you to conduct research and collect data on Performance of MSEs in Kisumu County. The research is in fulfilment of the award of PhD degree of Jaramogi Oginga Odinga University of Science and Technology.

By copy of this letter, the relevant departments are requested to accord him the necessary assistance.

JOHN O. AUMA
COUNTY SECRETARY

CC: CECM Trade, Tourism, Industry & Marketing
Ag. Chief Officer Trade, Tourism, Industry & Marketing

Prosperity House (Former Nyanza Provincial Headquarters Building) 2nd Floor
P.O. Box 2738-40100 Kisumu, E-mail: countysecretary@kisumu.go.ke

APPENDIX VI: ERC Letter from JOOUST

JARAMOGI OGINGA ODINGA
UNIVERSITY OF SCIENCE AND TECHNOLOGY

DIVISION OF RESEARCH, INNOVATION AND OUTREACH
JOOUST-ETHICS REVIEW OFFICE

Tel. 057-2501804 P.O. BOX 210 - 40601
Email: erc@jooust.ac.ke **BONDO**
Website: www.jooust.ac.ke
OUR REF: JOOUST/DVC-RIO/ERC/E5 **23rd October, 2023**

Joyce Obiero Ouya
B161/4074/2020
JOOUST

Dear Ms. Ouya,

RE: APPROVAL TO CONDUCT RESEARCH TITLED "FINANCIAL INCLUSION AND PERFOMANCE OF MICRO AND SMALL ENTERPRISES IN KENYA: A CASE OF SELECTED MICRO AND SMALL ENTERPRISES INKISUMU COUNTY"

This is to inform you that JOOUST ERC has reviewed and approved your above research proposal. Your application approval number is **ERC 40/10/23-23/01.** The approval period is from 24th October, 2023 – 23rd October, 2024.

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations and violations) are submitted for review and approval by JOOUST IERC.
iii. Death and life threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to NACOSTI IERC within 72 hours of notification.
iv. Any changes, anticipated or otherwise that may increase the risks of affected safety or welfare of study participants and others or affect the integrity of the research must be reported to NACOSTI IERC within 72 hours.
v. Clearance for export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days upon completion of the study to JOOUST IERC.

Prior to commencing your study, you will be expected to obtain a research permit from National Commission for Science, Technology and Innovation (NACOSTI) https:oris.nacosti.go.ke and also obtain other clearances needed.

Yours sincerely,

Prof. Francis Anga'wa
Chairman, JOOUST ERC
Copy to: Deputy Vice-Chancellor, RIO Director, BPS SBE

APPENDIX VII: NACOSTI Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **315250**

Date of Issue: **09/November/2023**

RESEARCH LICENSE

This is to Certify that Jaramogi Oginga Odinga University of Science and Technology, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in in Kisumu on the topic: Financial Inclusion and Performance of Micro and Small Enterprises in Kenya: A case of Selected Micro and Small Enterprises in Kisumu County. for the period ending : 09/November/2024.

License No: **NACOSTI/P/23/31211**

315250

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

APPENDIX VIII: Map of Kisumu County