ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 11, Issue 2, pp: (146-152), Month: April - June 2024, Available at: www.paperpublications.org

Evaluating the Effect of Financial Access on Performance of Micro and Small Enterprises in Kisumu County, Kenya

Joyce Obiero Ouya [1], Dr. Edwins Baraza [2], Dr. Simeyo Otieno [3]

Jaramogi Oginga Odinga University of Science and Technology [1]

School of Business and Economics of Jaramogi Oginga Odinga University of Science and Technology

Jaramogi Oginga Odinga University of Science and Technology [2]

Jaramogi Oginga Odinga University of Science and Technology [3]

DOI: https://doi.org/10.5281/zenodo.11241951

Published Date: 22-May-2024

Abstract: **The objective of this study was to evaluate the effect of financial access on performance of micro and small enterprises in Kisumu County. This study used theories that support independent variable which included; Grameen Model theory, Transaction costs theory and Financial capital/ Liquidity theory. This research was conducted in Kisumu County, where 15,000 Micro and Small Enterprises owners were targeted by use of stratified random sampling from, different trading sectors which included; boda-boda operators, green grocers, cereals sellers. Second-hand clothes dealers, front door tailors, salonists and barbers. Sample size of 375 MSEs was arrived at by use of the Krejcie and Morgan formula and table to represent the whole population. Self- administered structured questionnaires and interview schedules were used to collect primary data which were distributed to the respondents in Kisumu County. The study therefore used Descriptive survey research design. Data collected were organized in tables in order to enable easy analysis using Statistical Package for Social Sciences (SPSS) Version 27. The research instruments' reliability was tested by use of Cronbach's Alpha and the coefficient was found to be 0.7 which was accepted while validity of the instrument was proved by my supervisors who have expertise knowledge in this. Multiple linear regression model, Karl Pearson's correlation and ANOVA were used in data analysis. 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. The study recommended that banks and other financial institutions should reduce their lending interest rates in order for loans to be affordable to MSEs, The study finally concluded that financial access has highest effect on performance of MSEs as it was found to have p – value of 0.000 < 0.05.**

Keywords: **Micro and small enterprises, financial access, financial inclusion and financial management.**

1. INTRODUCTION

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). 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 (Demirgüç-Kunt *et. al*, 2008). Savings and small amounts of loans may contribute significantly to the elevation of individuals and households economically. 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

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 11, Issue 2, pp: (146-152), Month: April - June 2024, Available at: www.paperpublications.org

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). 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). 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. 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. 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.

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). The introduction of initiatives like Women Enterprise Fund (WEF) and Youth Enterprise Development Fund (YEDF) by the Kenyan government was meant to empower women and the youth in entrepreneurship by enabling them to be more self-reliant and developed to participate in the country’s economic development. Many organizations have in the recent past joined the government by coming up with programs and interventions that are geared towards promoting financial access of MSEs. These include, NGOs, donors, international public institutions, charity organizations, business associations and private organizations.

Specific micro and small entrepreneurs in Kisumu County 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 MSEs lack access to finance including formal loans may be because of lack of security for the loans. MSE owners largely depend on the merry – go rounds for savings while most of them don’t save their finances in banks, hence do not have bank accounts.

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 MSE owners in various sectors. The MSE sector includes ‘bodaboda’ operators, green grocers (mama mbogas), second hand clothes dealers, cereals sellers, front door tailors, salonists and barbers which form larger percentage of poor/disadvantaged part of the society. This section of the community may be unable to access useful and affordable financial services, save, satisfy customers, control transaction costs due to financial illiteracy and lack of collateral among other reasons. The MSE owners may also encounter challenges that interfere with their businesses that require financial assistance. Financial access by this section of the community may help in improving performance of their businesses and standards of living while promoting poverty alleviation. It is for this reason that the researcher found it useful to carry out a study to evaluate effect of financial access on performance of MSEs in Kisumu County, Kenya.

Objective:

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

Hypothesis:

H_0 Financial access does not have significant effect on performance of micro and small enterprises in Kisumu County

2. LITERATURE REVIEW

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 (main theory). Grameen model 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. According to this

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 11, Issue 2, pp: (146-152), Month: April - June 2024, Available at: www.paperpublications.org

theory, two borrowers are given money and if 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. 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. This theory was important to this study as it helped explain availability of capital that is necessary for acquisition of other resources by MSEs.

Empirical Literature Review

This review is based on previous research studies by different scholars concerning both financial access (independent variable) and performance of micro small enterprises (dependent variable) of the study. 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).

Mwobobia (2012) carried out a study on the challenges faced by small scale women business owners in Kenya using computer research study. The findings were that those MSEs face very serious challenges like lack of education, finance and the challenge of multiple duties. It recommended that women be accepted and financially supported while more capacity building be availed to them. The current study relied on primary data from the field by use of questionnaires and interview schedules for better results.

Oguta, Onyango, Nyagol and Onyango (2014) conducted 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. Questionnaires were used to collect primary data. 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 however failed to cover a wide range of other MSEs as it only focused on few financial institutions and artisan enterprises. The current study however covered various types of MSEs and not artisan enterprises only.

Ibor, Offiong and Mandie (2017) carried out a study to investigate the impact of financial inclusion on the micro, small and medium enterprises (MSMEs) performance in Nigeria. The study 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. The study adopted survey research design while current study adopted descriptive survey design.

ElDeeb, Halim and Kamel (2021) conducted a study to identify the main pill ars of financial inclusion for SMEs in Egypt. They outlined limitations of their paper which included 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. The study failed to give a standard and clear definition of SME in their study as only banks featured in the research study. The current research study filled the gap left because financial access was discussed with respect to banks and other financial institutions, government funding and innovation.

The Government of Kenya's Vision 2030 is very much committed to improving performance of MSEs and innovation (MPNDV2030). Most banks in Kenya offer mobile banking services. 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 MSEs, 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 by transacting through airtel money, Mpesa (Mshwari & KCB Mpesa). They can send money, borrow some money (Fuliza) and pay their debts (Lipa na Mpesa) comveniently

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 11, Issue 2, pp: (146-152), Month: April - June 2024, Available at: www.paperpublications.org

without travelling 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.

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 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 recommended 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 was majorly conducted on 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 only.

3. RESEARCH DESIGN

This consists of procedures that were used by the study so as 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 qualitative and quantitative research designs and since collection of data was done by use of questionnaires and interview schedules, descriptive survey design was found to be appropriate.

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 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 4000 barbers.

Sampling Frame and Sample Size

According to Mugenda & 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 current study, Krejcie and Morgan table and formula (1970) were used to obtain the size of the sample.

According to Krejcie and Morgan formula;

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

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;

$$\mathbf{s} = \frac{1.96^2 x15000x0.5\ (1\text{-}0.5)}{0.05^2(15000\text{-}1) + 1.96^2x0.5\ (1\text{-}0.5)}$$

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

$$= 374.59$$

$$\approx 375$$

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

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 11, Issue 2, pp: (146-152), Month: April - June 2024, Available at: www.paperpublications.org

Table 3.1: 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	4000	(4000x375)/15000	31
TOTAL	**15000**	**(15000x375)/15000**	**375**

Source: Author 2023

Reliability and validity of the Research Instruments

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 questionnaire should be reliable so as to provide accurate results. In this study, Cronbach's alpha correlation coefficient was used to ascertain the questionnaire's reliability and was found to be 0.7, which was accepted. The questionnaire and interview schedule in this study were validated by my university supervisors who have the technical expertise knowledge in this.

Data Collection and Analysis

Structured questionnaires and interview schedules were used to collect primary data. Sections consisted of questions relating to financial access. This study employed both descriptive and inferential statistics. Descriptive statistics that were used included measures of central tendency (mean) and measures of variation (standard deviation). The information was presented in tables. 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.

Statistical model specification

Simple linear Regression Model was used to analyze data; $\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$

Y – Performance of Micro and Small Enterprises

$\boldsymbol{\beta_0}$ – Constant

$\boldsymbol{\beta_1}$ – Regression coefficient (Change induced in Y by each X)

$\mathbf{X_1}$ – Financial Access

ε - Error term

4. FINDINGS AND DISCUSSIONS

Correlation analysis was conducted between Financial access (independent variable) and performance (dependent variable). The results are presented in Table 4.1

Table 4.1: 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	

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 11, Issue 2, pp: (146-152), Month: April - June 2024, Available at: www.paperpublications.org

Regression Analysis

Model fitness of regression model was used in explaining the phenomena and results presented in Table 4.2. 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 was performance.

Table 4.2: Model Fitness

Variable	Coefficients
R	0.294
R – Square	0.086
Adjusted R – Square	0.083
Std Error of the Estimate	1.0287

Table 4.3: Analysis of Variance

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

Table 4.4: Regression of Coefficients

	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 significance between access to finance and enterprise performance in Sub – Saharan Africa. $Y = 1.211 + 0.583X_1$. From the regression equation, when financial access change by 58.3%, performance changes by 1% implying that there is a positive relationship between the two variables.

5. CONCLUSION

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, This shows that innovation has been embraced by entrepreneurs and it has helped to easily access financial services. Majority of the MSEs also find 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 hence they may shy away from taking loans with such financial institutions. The study concluded that loans from MFIs have low interest rates to some extent and most MSEs may prefer taking loans with MFIs than to go to banks whose interest rates are higher.

6. RECOMMENDATION

The study recommended that MSEs should have access to different financial services in order to enhance their performance in the long run. The study also recommended that micro and small entrepreneurs should embrace personal savings of their income with different organizations and SACCOs for wider capital. The study further recommended that MSEs should embrace innovations that are geared towards easy access to finance such as mobile phone borrowing when in need of quick cash so as to avoid lengthy procedures of borrowing from financial institutions.

Suggestion for further research

Similar studies should be conducted in other counties using the same variable as in this study in order to compare what happens in different counties in terms of MSEs performance. Research study should be conducted on women owned only and men owned only MSEs in order to ascertain which gender is performing well in terms of financial access. Similar study should also be conducted on medium and large scale businesses.

REFERENCES

[1] Abdullahi, M. S., Ghazali, P. L., Awang, Z., Tahir, M. I., & Salim, N. A. (2015). The Effect of Finance, Infrastructure and Training on the Performance of Small and Medium Scale Enterprises in Nigeria. *International Journal of Business and Technopreneurship, 5*(3), 421 – 452.

[2] Ajigo, T., Baraza, E., & Wuádongo, J. (2021). The Effects of Interest Income on the Financial Performance of Commercial Banks: The Moderating Role of Virtual Banking. *International journal of education and research, 9(*4).

[3] Central Bank of Kenya annual Report, 2012/2013 at http://www.centralbank.go.ke

[4] ElDeeb, M. S., Halim, Y. T., & Kamel, E. M. (2021). The Pillars Determining Financial Inclusion among SMEs in Egypt: Service Awareness and Usage Metrics and Microeconomic Policies. *Future Business Journal,* 7(32).

[5] Government of Kenya (2012). The Micro and Small Enterprise Act No. 55 Nairobi: Government Press.

[6] Memba, S.F., Gakure, W.R., & Karanja, K. (2012). Venture Capital: It's Impact on Growth of Small and Medium Enterprises in Kenya, *International Journal of Business and Social Sciences, 3(*6*).*

[7] Mugenda, A. G., & Mugenda, O. M. (2003).*Research methods: Quantitative and qualitative approaches*. Nairobi, Kenya: Acts Press.

[8] Oguta, K., Onyango, M., Nyagol, M., & Onyango, J. (2014).The Role of Financial Support on Growth of Mses.A Case Study of Artisan Enterprise in Oyugis Township, Homabay County. *International Journal of Advanced Research, Vol. 2, Issue 1-10.*

[9] Ojera, P., Simeyo, O., Lumumba, M., Nyabwanga, R., &Odondo, A. J. (2011). Effect of Provision of Micro Finance on the Performance of Micro Enterprises: A study of Youth Micro Enterprises under Kenya Rural enterprise program (K – REP), Kisii County, Kenya. *African journal of business management, 5*(20), 8290 – 8300.

[10] World Bank (2014). Global Financial Development Report 2014: Financial Inclusion. Washington, D.C: World Bank Group.