

**FINANCIAL SERVICES ACCESSIBILITY AND FINANCIAL
LITERACY BY ENTERPRENUERS IN THE SMALL AND MEDIUM
ENTERPRISES IN NYANDARUA COUNTY, KENYA**

BY

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DECLARATION

I declare that this research paper is my original work and has not been exhibited or published in any way and has not been presented for any academic awards in any institution. Where other sources of information have been used they have been acknowledged.

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DEDICATION

I dedicate this paper to my spouse Charles Ndegwa, My mother Dorcas Wanjiru and mother in love Ann Waguthie for their unwavering moral support in every step of the way and to my three sons Michael, Austin and Elvis, for inspiring me.

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ABSTRACT

The interest in the Kenya's SME sectors has increased in the recent years. In the recent past, a lot of resources have been dedicated to the sector by the financial services and other sectors of the economy. The important role the sector plays in economic development, promoting dynamism & innovation, accelerating industrial development and employment creation among others cannot be underestimated. The sector employs over 10.5 million Kenyans and it has capabilities of accelerating the achievement of the Kenyan vision 2030 as an economic pillar. Despite its potential the sector faces numerous challenges, most which relate to entrepreneurs financial illiteracy. This has been seen as one of the contributors to the failure of most of the SMEs in the first few years of their start up. Lack of financial literacy skills in business has been portrayed in different ways i.e. through lack of budgeting and planning, inaccessibility to loans, mixing personal and business finances and others. The aim of this study was to determine the nature of relationship between financial accessibility and entrepreneur's financial literacy in Nyandarua County Kenya.

Nyandarua County generally has a poor road infrastructure, low levels of literacy and has more farming oriented SMEs. This means it's more in agriculture or commercial based compared to other counties. This study aimed at finding out if entrepreneur financial literacy has an impact on access to financial services by the SME entrepreneurs. In order to achieve this objective, primary data was collected in the various major towns of Nyandarua County that were selected randomly. These towns included Njambini, Kwaharaka, Magumu Olkalau and Nyahururu towns. A questionnaire was administered to various owners of the SMES and/or their representatives to collect primary data. Information was collected from a sample of 100 SMEs which were selected randomly. The data was then analyzed using MS excel and EVIEWS packages. Descriptive statistics and regression analysis was used for data analysis.

The results of the data analysis showed clearly a direct positive relationship between financial literacy and accessibility of financial services by SME entrepreneurs in Nyandarua County. The study also concluded that younger entrepreneurs have more access to financial services than their aged counterparts. The interest rates on loan and requirement for collaterals and guarantees were major hindrances to financial accessibility. Entrepreneur gender and SMEs age had no significant impact on financial accessibility.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The SME (small & Medium Enterprises) is one of the major sectors in Kenya. There has been therefore increased interest and focus on this sector in the recent years. Discussions on how to strengthen the sector have become more frequent and robust. The objective mostly is to determine how this sector can access more trade finance in order to advance their businesses and eventually be able to tap into the more lucrative export markets. The SME Sector is estimated to contribute at least 45% of the Kenyan GDP and employs at least 85% of the Labour force. According to the Vision 2030, this sector is a major driver of social and economic development and a source of employment to the youth and women. It's also a key contributor in enhancing the country's global competitiveness (Ngui, 2014).

There is therefore an immense opportunity in the SMEs for individuals and businesses as well as the financial services sector. Therefore there is an emphasize of this sector by the financial services providers especially the banks. The banks are modeling themselves as 'SME banks' and/ or dedicating a complete section as SME banking section. According to (Business Monthly, 2016) even brands such as Barclays bank of Kenya which has for long been known to have a sharp focus on the corporate banking has substantially increased its activities in the SME sectors.

The SME sector is faced with numerous challenges. One such challenge is access to trade finance. According to the WTO, more than 80% of the world trade relies on trade finance. However due to some structural issues, it becomes quite difficult for the smaller financial services providers who are mostly involved in the SME sectors to provide this much needed service. Without proper trade finance, this sector which is a major Contributor of economic growth continues to perform dismally despite its potential.

With the current high levels of unemployment especially to the Youth, the SME requires emphasize. It's a major source of employment, taxes and drivers of innovation and dynamism in the economy. The sector contributes substantially to the private sector development. According to (Nyamute, 2014) this sector is a major enhancer of competition and entrepreneurship and therefore the external benefits are economy wide.

1.1.1 Financial Literacy

Financial Literacy refers to entrepreneur's ability to make financial decisions by individuals and businesses which are complex in order to maximize on returns for Investments. It involves the optimal use of financial knowledge and skills such as risks, diversification, rate of return, retirement among others. It covers financial areas to include the stock market, insurance, investments business and personal finance. The concepts covered under financial literacy include time value for money interest rates, loans and bank overdraft, accumulated interest Lusardi & Mitchell (2007).

According to Njoroge (2013) financial literacy plays a major role in decision making in these financial areas and concepts of basic finance. It calls for a higher understanding of the accounting fundamentals and the financial management basics. One of the pillars of the SME strategy is enhancing on financial Literacy. Currently, there is a financial Literacy programme aimed at enhancing financial Literacy within the SMEs at the county levels. Barclays bank and Faulu Kenya are some of the banks that have undertaken initiatives to train SME owners in Kenya on financial Literacy. This is based on the believe that there is a significant multiplier effect on our economy if the SME sector is adequately resourced and equipped in the areas of financial literacy.

Financial literacy as a subject is a major area of focus in the world. It has attracted immense attention both in the developed and the less developed economies of the world. There is an

upward trend towards improving financial levels from all levels of the world. There is also a financial Literacy council that offers grants and funding for initiatives aimed at developing financial Literacy in the world. Countries including Ghana, Nigeria & Indonesia have not been left behind. They have implemented financial literacy improvement programs for their citizen in order to reap the maximum benefits that come with financial literacy (Njoroge, 2013).

1.1.2 Financial Services accessibility

Financial services are the reason the robust finance sector exists to provide. The finance sector is wide and quite vibrant in Kenya. Financial Services is the provision of trade finance by banks, Insurance services by the insurance industry, credit by the credit card companies, stock exchange by the stock market, finance and accountancy companies, investment funds by various government sponsored enterprises (Mishkins F.S., 2010).

One of the key challenges that the SME sectors face while accessing financial services is the perception of risk. Rather than manage these risky sector of their clientele, the financial sector opt not to serve them altogether in order to minimize their own risks. A major part of the SME sector entrepreneurs therefore remain not served which has a major implication on trade. This is irrespective of their understanding that there is greater demand for these services in this sector, greater business opportunity as well as huge profits.

According to Barte (2012) the financial sector in Kenya is relatively well developed. It passes the test of a standard of a sound financial system since the requirements for a well-developed financial system are in place. The close regulation and supervision of this sector by Central bank of Kenya (CBK) that easily detect stresses in this system has enhanced stability of this sector and hence reliability.

The Kenya vision 2030 secretariat clearly sets out the main objectives of the finance services sector. These include provision of financial stability, increased access to these services and the accompanying products to the larger Kenyan population, provide credit and the much needed credit services and hence promote trade. According to the USAID/ DCA Kenya report (2013), financial services accessibility drastically increased from 17 percent to 29 percent between 2005 and 2010 respectively. The Sacco sectors in Kenya is one of the largest and most vibrant in Africa as it commands more than 60% of the total credit as well as deposits. The SACCOS are thus considered a key part of the financial services sector in Kenya.

Mobile banking is a vibrant financial innovation in Kenya. The Safaricom Mpesa services allow financial transfers to and from banks through the use of a mobile phone. It offers loan services through Mshwari and Mkopa hence improved cash flow management by individual and businesses. There are over 6.1 million Kenyans subscribed to the mobile telephony, the Mpesa is becoming an important financial transaction tool for SME's with the unbanked even turning it into a banking institution. (Konchella, 2013).

The Nairobi Securities Exchange (NSE) has experience significant growth in the recent past and has at least 60 listed firms from major sectors of the Kenyan economy. The commercial Banks in Kenya are at least 44 which operate at least 30 unit trusts. Insurance companies, fund managers and investment banks offer funds and investment options in Kenya (Siekei, 2012). Other active players in this market in Kenya include the fixed income market, the derivatives market, the Retirement benefits authority managing pension in Kenya and the Insurance market which has established retention capacity and underwriting policies (Siekei, 2012).

1.1.3 Financial literacy & Accessibility of Financial Services

According to (Isaiah, 2013) It is estimated that Over 50 percent of SME trade finance are not met. This is mostly contributed by the notion that this is a risky sector by the financial institutions, which is likely to be not more than a perception. The SME sector may want to counter this perception by increasing their risk profiles while the finance sectors may want to develop some unique risk assessment tools. This calls for a lot of collaboration between the SMEs and the finance services sector.

Government intervention is also a measure that should be put in place to increase financial services accessibility by the SMEs. The big role that the government can play is by increasing the ease of doing business and widening its tax base properly which will result in lowering individual tax rates. The government can improve the business environment and help reduce the risk for the SMEs leading to a lower cost of finance to them.

It's estimated that SMEs fail within the first three years of existence (Njoroge, 2013). Part of this failure is attributed to the fact that most SMEs are not financially literate especially with aspects such as cash flow management, risk, diversification and the importance of Ethic in business. According to (Nyamute, 2010), severally the financial services sector have partnered with the SMEs. However, immediately the banks advance funds, the SMEs easily divert the funds for personal use. This complicates the repayment of such funds and hence future accessibility. The finance services sectors therefore end up with a conclusion that their efforts to partner with the SME sector are not reaping the kind of results they want.

According to Bayer (1996), the less developed countries entrepreneurs were considered difficult to serve especially by the financial services sector. They did not have access to the products and services offered by this market. The SMEs were considered risky & costly to serve. The advancement of Information and Communications technology the sector has

realized significant opportunity in the SME sectors. It's thus considered as a profitable segment.

According to the USAID/ DCA Kenya report (2013), the solution to the Kenya SME sector challenges in terms of financial services accessibility is by building their capacity. This is by making it easier for them to adhere to reporting standards by financial literacy training of their staff, rooting out corruption and increasing the ease of doing business by clamping out on cartels. This study sought to determine the nature of relationship between financial Literacy and accessibility of financial services by entrepreneurs in the SME sector in Nyandarua County, Kenya.

1.1.4 Small and Medium Enterprises in Nyandarua County

Nyandarua County is located in the central part of Kenya with an area of 3, 245.2 square kilometers. The county borders several counties i.e. Laikipia to the north, Nyeri to the East, Kiambu to the south and Nakuru to the west. It is made up of 7 sub counties, 25 divisions and 70 locations. It is primarily an agricultural area with milk, potatoes and vegetables. The population was 656,348 people comprising of 321,593 males and 334,755 females,(Population Census, 2009). This was expected to grow at a rate of 2.4%. It's a county in the former central province with its capital largest town in olkalou. The Governor for Nyandarua County is H.E. Waithaka Mwangi while the M.P is Hon Wanjiku Muhia.

The County registered SME's totals 15,455, KNBS (2013). There is a total of 6 commercial banks, 3 microfinance institutions and 6 Insurance companies, NCIDP (2013). Nyandarua County has a great potential for economic growth as most members are SME owners and farmers. The farmers require financial access to process and market their produce. The mission of Nyandarua County is to uplift to higher levels of sustainable development through the provision of an enabling Social, economic & Political environment, NCIDP (2013).

Currently, the paradigm shift of empowering the Youth and Women in order to promote entrepreneurship and self-employment through table banking and financial Literacy lessons is in place, Muhia (2013).

1.2 Research problem

In the Kenyan economy SMEs contributes about 82.5% of total work force having employed over 10.5% people (economic survey 2013). This shows that the sector plays a vital role in job creation and hence economic development. It's a major driver of innovations and dynamism as well as tax revenue for the government. Even though the importance of this sector cannot be underrated, according to Konchella (2013), many of SMEs fail shortly after they are started the few that survive hardly break even. The biggest challenge of most of them is financial illiteracy which is portrayed in various ways such as house hold and business finances being mixed together, poor investment decisions, lack of proper budgeting among others. Therefore it's due to this fact that the study sought investigates the nature of relationship between SME entrepreneur's financial literacy and accessibility to financial services in Nyandarua County.

A study conducted by Njoroge(2013) on financial literacy and entrepreneurship success in Nairobi County showed that there is a strong relationship between financial literacy and entrepreneur success. A study conducted in Kisii County on the effects of working capital management practices on financial performance on SMEs found out that majority of the enterprises did not have business management knowledge and this led them to their failure. However these studies did not look at the linkages between the SMEs studied financial literacy and their accessibility to financial services.

Nyandarua county is a unique county in that most of the SMEs are farming oriented or the in agricultural sector. The county's road infrastructure is not well developed; the illiteracy level is also very high in comparison with other counties like Kiambu, Nairobi and Nyeri irrespective of free primary education offered by the government. This study therefore aimed at finding out if the results of this positive relationship between financial literacy and organizational success also apply to the county's SMEs. In addition the study sought to find out whether SMEs in Nyandarua County have access to financial services.

The objective of this study was to determine the kind of relationship between financial Literacy and Financial Services accessibility SME entrepreneurs in Nyandarua County. This study therefore aimed at establishing the contribution that financial literacy has on this state of this otherwise rich county. The question that this study aimed at answering therefore was "what is the nature of relationship between financial services accessibility and Financial Literacy by SME entrepreneurs in Nyandarua County?"

1.3Objective of the study

To determine the nature of relationship between financial Literacy and accessibility to financial services by SME Entrepreneurs in Nyandarua County, Kenya.

1.4Value of the study

Financial Services providers play a very important role in the development of any economy in the world. Therefore this study will help the financial institution realize how vital the SME sector is and thus price their products and services with an emphasize to the SMEs. The mismatch between products and the market will be addressed and the financial services sector will offer products that respond to the real needs of the SMEs. Eventually, entrepreneurs will record higher business success through access to trade finance. In return the financial

institution will benefit by tapping into this huge and lucrative sectors and hence making them more profitable irrespective of the move to cap interest rates by the government.

This study will assist various entrepreneurs in the county to know the role financial literacy on success of business through access and management of trade finance. According to the study more successful SMEs are the ones run by more financial literate entrepreneurs in Nyandarua County. By looking at these results the entrepreneurs will seek to be financial literate in order to achieve business success. This is beneficial more so in the long term.

This study also contributes to the body of knowledge on financial services accessibility and SMEs success. The government can also implement the polices recommended by the study. This will enhance the growth of SMEs and hence more create more employment to themany jobless young people. This in turn will increase the growth of GDP in the county and also the country. This will enable the government to achieve the vision 2030as an economic pillar.

Finally the results of this study add knowledge also to the academician. The information on financial literacy and success of SMEs in the country is scanty despite their importance in economic development. With the results the academician are able to come up with policies that enhance the growth of SMEs and share in the international forums.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This chapter presents studies conducted in an attempt to understand the kind of relationship between financial literacy and financial Services accessibility by SME entrepreneurs in Nyandarua County Kenya. We also seek a deeper in understanding of the concept of financial literacy and what it entails.

2.2 Theoretical Review

Financial literacy refers to the ability of entrepreneurs to understand and apply complex financial economic information and make informed decisions, plan their finances, accumulate wealth, manage their pensions and what they owe. Financial Literacy has been a major subject of discussion as well as the SME sector which is seen as a major driver for sustainable development. According to a study by Lusardi & Mitchell, (2014) entrepreneurs have quite low financial literacy skills. The global financial crisis notwithstanding, people are not taking any steps to avoid further financial risks in the future. Entrepreneur's ability to manage their finances and separate personal and business finances is wanting. Financial Literacy is Key in access to trade finance which is a major factor in opportunities exploitation, reduces income inequalities and hence increases the range of services available to individuals and their businesses as well. Financial services access offers security, reliability and privacy to individuals and businesses who want to invest wisely while saving regularly.

2.2.1 Prospect Theory

The adoption of this theory is expected to enable the understanding of the effects of

good decision making to financial performance. This theory was advanced by Kahneman and Tversky, (1981). He describes how individuals make and attach a value to a decision involving uncertainty and hence risk. It is a behavioral bias that explains how individuals make a choice between various alternatives whose nature is probabilistic and they involve uncertainty and hence risk and the probabilities of outcomes are known or can be determined. The theory supports the fact that individuals take decisions that are based on the potential value gains earned and losses incurred as a result and they are not guided by the final outcome of the decision. The decision makers use certain heuristics to evaluate their gains and losses.

This Prospects model is descriptive in nature since it models real-life choices made, instead of the optimal decisions made. This deviates from what normative models do. According to the prospect theory, people take certain choices based on potential gains or losses associated with such decisions which is often the purchase value of such choices and how they value the choices made. The gains/losses are valued based on an S- shaped utility function i.e. People feel more pain from a loss than the pleasure from a similar amount. This theory therefore holds that decisions made by owners should be done with some level of expertise and this requires financial literacy knowledge. The theories proposition to the study is that entrepreneurs in Nyandarua County with financial literacy knowledge are expected to be able to make more informed decisions, hence are able to perform better financially.

2.2.2 Transaction cost theory

Transaction theory as described by Polski et al, (2001) holds that organizations incur costs as they acquire, configure and utilize resources. These costs represent the economic costs to the organization that originate internally and externally. In addition to that, these costs are the

basis for measuring the efficiency of different institutional designs adopted in achieving economic outcomes in particular environments, Polski et al (2001). In order for an individual to effectively manage transactions, they ought to have financial management skills. Using the transaction theory framework, lack of financial skills will hereafter cause an increase in transaction costs, influencing negatively the performance.

It is the financial literacy skills which will enable the owner of the firm to identify transactions which will increase the financial performance of the firm. Also, the management will be able to avoid in appropriate loans and debt. This will be enhanced by proper record keeping of any financial transaction taking place Polski et al (2001). This theory is highly beneficial to the study in that, most SME owners in Nyandarua County, due to their financial illiteracy, are expected not to properly manage their transactions. This is due to their belief that they will 'remember' all the transactions and also transactions involving low amounts of money have no need to be monitored. This tends not to be true as it affects the financial performance & hence access.

2.2.3 The dual Process theory

This theory embraces the idea that decision makers are driven by different biases in making their decisions. These are referred to as the intuitive and cognitive processes. The first one is referred to as system 1 which is fast, non-conscious tied to intuition while the second is referred to as system two which is slow, controlled and conscious. The second process is the one responsible for analytical and rational thinking and it through this that a strategy for financial investment is crafted. The dual process theory is used in many psychological fields including social, cognitive and clinical psychology. The slow process is used for analytical and rational thinking, which is indeed useful for consistent implementation of financial literate and clear investment strategy, Nduku (2013). This theory when linked to financial

decision making shows that psychological biases and heuristic like narrow framing are associated with the fast process, Tversky & Kahneman, (1981). The dual process theory is important for this study as it will be useful in showing how far the Nyandarua county SME entrepreneurs are financially literate or otherwise in the issues of financial management, banking, investments, credits and insurance products and how much they use this knowledge and skills to plan, implement and evaluate financial decisions.

2.2.4 The Exchange theory

Exchange theory as proposed by Robson and Ladner, (2006) holds that interpersonal, interactional, procedural and informational factors are linked to literacy skills. Hence, the higher the interactions, the higher the level of literacy the individual will have. Lusardi and Mitchell, (2008) also supported this theory by their findings which indicated that financial literacy skills are more advanced in the working population, and in some cases the entrepreneurs as compared to the non-working category. Therefore the difference in literacy levels among individuals as shown in this theory is as a result of exchange of information between the more literate and the less literate, financial education that may be offered in the workplace and the skills acquired on the job. As a result, in order for one to be more financially literate, they have to increase their level of interactions with others.

According to this theory, the financial literacy of the SME owners will be more if they operate their businesses more and also increase their interactions. This will not only inform them of financial systems but also the trends and changes in the systems. This theory's proposition to the study is that it tends to explain the difference in financial literacy among people and it also suggests on how to improve the literacy levels. (Chamwanda, 2015). For the purpose of this study, this theory will be used to relate interactions of the Nyandarua

County entrepreneurs within themselves and with others and how these interactions influence their levels of financial literacy.

2.3 Determinants of Entrepreneur & SME Access to financial services

2.3.1 Collaterals & Guarantees

Collateral is the amount of assets committed to act as security for loans so as to shield the lender in case of default by the borrower. The collateral for loans come in the form of fixed assets e.g. Land, houses and in some cases share certificates. In case of default the security should be capable of being sold in the fair market at its value with minimal selling expenses. This precondition is a major limiting factor in entrepreneur accessibility to loans and other financial services. A major part of the players in this sector cannot afford these collaterals and therefore they do not meet this requirement. The SME sectors are perceived more risky therefore the financial institutions will always administer these criteria while assessing ability of the borrower. According to Basu (2005), the requirements of the banking to provide collateral for loans by the borrowers in order to counter the default risks is a universally accepted practice. It is primary requirement for lending.

Financial Institutions are mostly averse to risk while lending SMEs irrespective of the fact that it's a potential sector. They analyze the loan repayment ability based on the collateral offered for loans. This is a major limiting factor as most assets of the SMEs are not kept in a register, could be registered in the owner's names rather than business names or could be non existence. Therefore, although there has been a considerable progress in the lending to the SME's, financial institutions remain cautious based on this fact (Bayer, 1996).

2.3.2 Gender

There is a significantly large gender dispensation of financial literacy. Older men are considered more financially literate than their older women counterparts. Men are more likely to answer financial literacy questions as compared to women. Men are more likely than women to interact daily with financially knowledgeable individuals. Women are more discriminated against in the financial markets Nduku (2013). Women miss business opportunities when they arise. Due to the fact that women play a very crucial role in the management of the family, savings among women is low since the money saved in most occasion are the easiest to reach out to when there is a financial problem at family level. They also save through merry-go rounds which are informal type of saving and hence no interest earned on the money saved, Nduku (2013).

2.3.3 Education and entrepreneur literacy levels

There is a substantial difference in financial knowledge by education. Literacy level of entrepreneur's education and skills are needed to run a business. Those who are educated up to at least high school are more likely to understand financial management concepts such as risks, investments & diversifications. Those who are less educated also suffer from innumeracy. Complete, accurate and precise information is necessary for financial decisions including obtaining business loans. The literacy level of an entrepreneur is observed in the ability to have appropriate book keeping skills (Njoroge, 2013).

The banks often demand cash flows and other financial records as a prerequisite for approving of credit. Most of the financial products are offered in complicated banking language which discourages most entrepreneurs from applying for the loans. The inadequate financial management skills strategic planning and access to markets puts the SME's in a disadvantaged position in competing with large firms which are mostly run by more

financially literate professional managers who have more opportunities to access loans than the uneducated entrepreneurs. The SME entrepreneurs therefore prefer informal market loans than the formal market loans. (Konchella, 2013).

2.3.4 Entrepreneur & firm Age

Financial Literacy skills inadequacy is more prevalent among the youth and the old. According to Lusardi & Mitchell (2014) financial literacy declines with age. The middle aged age group is more self-assured regarding their finances and investment options and thus they have more confidence in their own financial decision making abilities. The working age groups are more likely to access financial services. People falling between the ages of 26-35 years are more constrained than those less than 26 years of age in terms of loans capacity.

Age of the SME denotes experience with the market (Moore, 2003). An SME that is advanced credit by its suppliers and have experience with the customers indicates stability, which in turn generates steady cash flows. Firms in the early stages of operation experience difficulties in access to debt finances because of information disparities. Credit reputation reduce moral hazard dilemma hence creating access to financial services.

2.3.5 Competition

The number of financial institutions offering financial services to SME's is a major factor determining accessibility to financial services. In Kenya, there are less than 50 commercial banks serving a population of 34 million people. Just 60% of Kenyans have access to banks or microfinance institutions with 30% of rural users having no access to banking services at all, according to the data by Financially Deepening Kenya (FSD), Business Daily 6th May (2011) this further shows shortage in supply of financial services including credit compared to demand.

Recently, this increase in demand for these services has led to the emergence of mobile telephone money transfer services with the introduction of the M-pesa and Zap services by mobile telephone companies, Safaricom and Airtel respectively. Konchella (2013).

2.3.6 Location of the SME

Location is the economic situation and economic per capita, an indispensable component in shaping and determining the success, failure and effectiveness of business activities and entrepreneurship, Chamwanda (2015). Therefore for an enterprise to be successful, strategic location is important. Strategic location may involve, good road network, availability of raw material and accessibility to the business premises. Many small business developments are located in areas which are conducive for their business to operate.

Strategic location is very important for firms, policy makers and business owner in their role in improving the financial performances of firms as posited by Siekei, (2012). It is therefore a crucial factor impacting firms' performance in that proper location of a firm will increase its sales, reduce transaction costs and boost its performance.

2.3.7 Legal Formation

Firm legal structure refers to the management characteristics that determine financial accessibility. These include issues related to the constitution of the firm e.g. ownership concentration and management style. Firm characteristics are considered significant in trying to access financial services. Konchella (2013) found a strong positive correlation between access to credit and a bigger concentration of the firm. A company directed by qualified personnel will have a more focused & reliable balance and strategic direction.

Proper accountability and financial records is a factor in access to financial services by SMEs. Proper books of account are very useful in accessing financial sector services as they show the performance & abilities of the SMEs. Most of the SMEs in Kenya lack proper financial records and thus access to formal financial services is difficult. A number of SMEs often keep multiple sets of books of accounts which are rarely audited based on reliable accounting standards (Kungu, 2011).

2.4 Empirical Review

Empirical review covers the evidence from a few studies addressing the impact financial literacy on entrepreneur accessibility of financial services in Kenya and internationally

2.4.1 International Review

Isaiah (2013) studied the impact of financial literacy on the profitability of some small scale enterprises in Calabar, Nigeria. He did an enquiry into their level of adoption of financial literacy and reviewed related literatures. A carefully structured questionnaire was used to collect data on the level of adoption of financial literacy and also a financial literacy test. Stratified random sampling was adopted to divide the small scale enterprises into ten (10) strata, thereafter random sampling technique was employed. A sample of one hundred and fifty (150) respondents was used to carry out the study, which encompasses the different strata. One way analysis of variance (ANOVA) and Dependent T-test at 5% level of significance was used in the analysis of the research data. The result showed that the level of adoption of financial literacy by small scale enterprises in Calabar Municipality is low and that utilization of accounting records significantly influences their profitability.

Nunoo et al (2012) studied financial literacy influences SMEs in Ghana. In his Conclusion, he found that it's a crucial factor in the growth and performance of the SME sectors.

Financially literate SMEs entrepreneurs managed their financial risks better; they saved more while utilizing the insurance products on offer. The results of the study showed that financial literacy has directly a positive relationship on SME's financial performance. A basic numeric and financial literacy skill that's provided by basic education increases the chance of SMEs survival.

Bruhn et al (2011) in a study on the impact of business and financial literacy for young entrepreneurs in Bosnia and Herzegovina found that business outcomes and practices is as a result of training on individuals applying them. They determined an above & below median financial literacy baseline. They found more financially literate entrepreneurs changed some of their financial practices including separating personal finances from business finances and investment strategies. Entrepreneurs with above average financial literacy skills at baseline reported better performance with more training. Financial training therefore act as catalyst in increasing business productivity and performance.

Moore (2003) studied financial literacy in a sample of Washington DC residents. The conclusion was that the sample studies had very little knowledge about financial instruments in the market. The respondents did not know the relationship between bonds prices and interest rates, mutual funds, conditions for guaranteed rate of return, risk, diversification as well as interest rates.

Wise (2011) studied the impact of financial literacy on new business sustainability in Canada. The study concluded that increases in financial literacy led to preparation financial statements which in return increased efficiency in proper management organizations.

2.4.2 Local Review

Sabana (2014) did a study to determine the relationship between financial literacy and financial access by Nairobi County micro enterprise entrepreneurs. The findings of the study

indicated that entrepreneur financial literacy had a statistically significant influence on enterprise performance therefore the hypothesis that financial literacy influences enterprise performance was supported. The study also established that financial literacy had statistically significant influence on financial access therefore the hypothesis that financial literacy influences financial access was supported.

Njoroge (2013) studied the relationship between entrepreneurial success and financial literacy among SME's in Nairobi County. The objective was to find out whether there is a relationship between entrepreneurial successes in SME's in Nairobi County. The findings concluded that the formal SME's entrepreneurs were more financially literate as compared to their informal counterparts. There was a positive correlation between financial Literacy and entrepreneurial success Nairobi County SME's.

Sieki (2013) undertook a study on financial literacy effects on performance of small firms in Njoro, Kenya. The objectives were to determine if at all book keeping, credit management and budgeting skills influenced the performance of these firms which were under the Equity group foundation program. The study concluded that indeed there was a significant improvement in financial performance of organizations whose managers attended this financial literacy training programme.

Simeyo et al (2011) undertook a study on the effect of provision of micro finance on the performance of Youth Micro Enterprises under Kenya Rural Enterprise Program (KREP) in Kisii County. The conclusion stated that training in micro enterprise investment had a significant positive impact on the performance of the enterprises. The study further concluded that a major part of respondents were very satisfied with the provision of basic business skills training in micro enterprise investment. The respondents significantly embraced the business

skills and business risk management trainings and committed to their application in their day to day running of their businesses.

Chamwanda (2015) studied the influence of financial literacy on the financial performance of SMEs in Kibera Slums, Nairobi County. A descriptive survey design was adopted in conducting the study. The study population entailed the SME's in Kibera slum of which a representative sample was selected through simple random sampling technique. The study found that financial literacy levels remained low among the SME owners. The study further found out that financial literacy and size of the firm to had significant positive influence on the financial performance while the influence of the amount of capital invested had insignificant influence. The results of the multiple regressions revealed that there is a significant strong positive relationship between financial literacy, capital invested, size and financial performance of SME's.

From the results, the study concluded that high levels of financial literacy, capital invested and size of the SMEs led to higher financial performance. The study recommends that the County government to invest in instilling financial literacy knowledge to SMEs owners and the SMEs owners also to ensure that they be financially literate so as to improve the financial performance of the SMEs. Future research was recommended to be done using longitudinal study designs in order to provide a better assessment of how the study variables change over time.

2.5 Summary of Literature review

From the above literature review, its clear that the nature of relationship between financial services accessibility by the SME entrepreneurs is positively correlated. However, the

existing studies do restrict themselves to a small number in the country. In particular, most studies have restricted themselves to other non-farm oriented areas unlike Nyandarua County. The findings of these studies may not be generalized to Nyandarua County SME entrepreneurs specifically. There is therefore a gap in literature as regards financial services accessibility and Financial Literacy by SME entrepreneurs in Nyandarua County. This is the gap that this particular study is seeking to bridge.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The aim of this chapter was to explain the research methods and design used, research variables, the geographical area of study the population and sampling technique. It also explains the sampling method, sample size instruments that were used for research, the data collection and analysis techniques.

3.2 Research Design

The purpose of this study was to establish the nature of relationship between accessibility of financial services and financial literacy by SME entrepreneurs in Nyandarua County Kenya.

The research design used was both quantitative and qualitative.

3.3 Data Collection

The aim of this study was to answer the research question asking the nature of relationship between financial services accessibility and financial literacy by SME entrepreneurs in Nyandarua County, data was collected in random firms in Nyandarua County. This was done by the researcher. A structured questionnaire was administered to the target respondents who were SME Directors and/ or their representatives. Questionnaire as a data collection was used for data collection which was administered by the researcher. Financial Literacy was measured by the average score of the six simple financial literacy questions on the questionnaire whereas financial accessibility was measured by the entrepreneur having taken a business loan in a financial institution.

3.3 Population

The population is the whole set of objects having the characteristic of interest (Fisher et al, 1943). The target population for this study was the 15, 459 SMEs in the 313 trading centers and the 4 urban centers namely Mairo Inya, Njambini, Olkalou and Nyahururu in Nyandarua County (NCIDP, 2015).

3.4 Sample

The sampling plan was done from the total number of firms in Nyandarua County. Due to the requirements for economy, representativeness and manageability, a random sample of 100 firms was selected. The results of this sample were generalized to all the firms in Nyandarua County. The respondents for this study were the SME entrepreneurs or their managers/representatives. The questionnaires were administered to the respondents to ensure credibility.

3.6 Data Analysis

The data collected was coded, entered in a data sheet and then summarized. The analysis was done using descriptive & inferential statistics. EVIEWS package was used to analyze the simple regression model that was estimated using the ordinary Least squares (OLS) model. Financial Literacy was measured by the average score on financial Literacy questions. A higher average meant that the entrepreneurs were more financially literate and vice versa.

3.6.1 Analytical Model

The study involved the use of linear regression analysis. The regression equation was;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \varepsilon$$

Where; Y_1 - SME accessibility to financial services (measured by loans taken), α was the Constant of the model, $\beta_1 \dots \beta_8$ were the Coefficients of different independent variables.

X_1 was financial literacy, measured by scoring financial literacy questions, X_2 was entrepreneur Age, X_3 was Gender, X_4 is entrepreneur level of Education, X_5 was the limiting factor to loan accessibility and X_6 is the firm's management characteristics, X_7 was the age of the firm and X_8 was the size of the firm and ε the error term that takes care of other factors that affect SME accessibility to financial services but were not in the model.

This simple regression was analyzed using E-VIEWS Package. All the coefficients were interpreted at various significance levels. They are used to show the direction of the relationship between SME's accessibility to financial services and various independent variables.

3.6.2 Test of significance

Significant relationship between financial accessibility and the various independent variables were taken at different levels of significance i.e. 1%, 5% and 10%. If the p-value was much less than 0.01, we reject the null hypothesis that $\beta = 0$. Hence there was no significant relationship between the variables in the linear regression model.

CHAPTER FOUR

DATA ANALYSIS, RESULTS & INTERPRETATION

4.1 Introduction

This chapter focuses on the data analysis, interpretation and presentations of the findings. The main purpose of the study was to examine the nature of relationship between financial services accessibility and financial literacy by SME's in Nyandarua County Kenya. The data was gathered using a questionnaire, as the research instrument which was administered by the researcher. The results were first presented using descriptive statistics and then the regression model was analyzed.

4.2 DESCRIPTIVE STATISTICS

4.2 .1 Response Rate

This data was collected within two weeks in the month of August 2016. The researcher administered the questionnaire to the respondents while explaining the importance of the study and clarifying the requirements for different questions to the respondents. In total, 100 questionnaires were distributed to the SME entrepreneurs and/or their representatives in major towns of Nyandarua County including Njambini, Olkalou, Mairo Inya and Nyahururu. The response rate is presented as below;

Table 4.1 Response rate

Response	No. of questionnaires	Percentage	Cumulative percentage
Complete	94	94%	94%
Incomplete	4	4%	98%
Non response	2	2%	100%
Total	100		

Source: Researcher data

As shown in table 4.1 above, a total of one hundred questionnaires were administered out of which 94 were accurately complete equivalent to a response rate of 94%. This was considered adequate for analysis and presentations of the findings of the study. According to Mugenda & Mugenda (2003), a response rate of above 50% is adequate to present the findings. 4 (4%) of the questionnaires were incomplete thus rejected. 2 of the questionnaires were not returned/ completed which represented 2%. The above result shows that respondents from Nyandarua County were willing to give their views on the study.

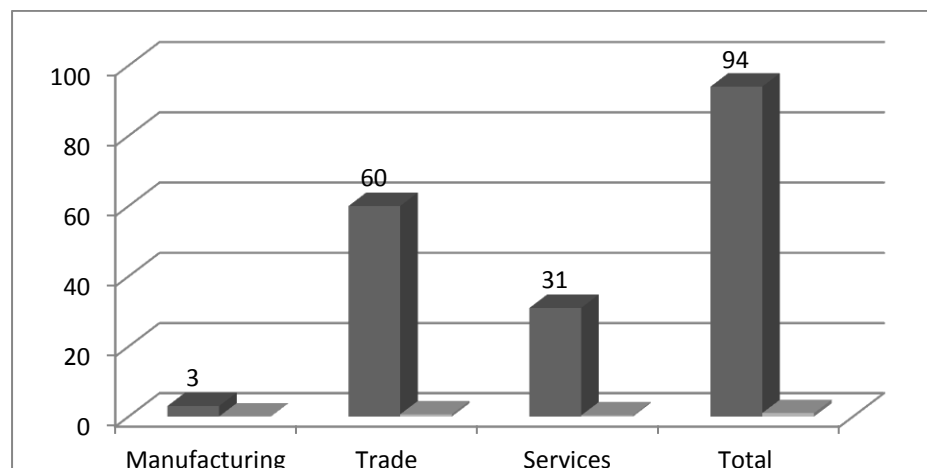
4.2.2 Background Information

The study sought to determine the background information of the SMEs. This entailed; the sector into which the SMEs belonged to, the duration of operation, the legal formation and the number of employees in the each SMEs. This enabled more understanding of the research variables.

4.2.2.1 SME Sector

The study sought to establish the business sector into which the SMEs in Nyandarua County belonged. Respondents were required to indicate their business sector on the questionnaire. The results are represented in the figure below

Figure 4.1 SMEs Sector



Source: Researcher, 2016

The findings as illustrated by figure 4.1 show that 3% of the SMEs belonged to the manufacturing sector, 64% to the trade sector and 33% to the services sector. This shows that majority of the SMEs belonged to the trading sector. This included the small business and retail shops. A number belonged to the service sector including schools, hospitals and beauty outlets, while only few belonged to the manufacturing sector. The least number of SMEs was in the manufacturing sector which included milk processing & Timber sawing. The high number of SMEs in the trading industry can be attributed to the fact that the amount of capital required to start this SMEs is less as compared to the other industries. The trading SME's deal with household and daily use items therefore there is ready market for them. The trading industry has wide and available market from the locals hence the most common sector. Manufacturing sector requires heavy capital outlay in terms of Machinery and expertise which are highly capital intensive. There is no cash crop e.g. tea, coffee in Nyandarua County.

4.2.2.2 Age of the SME

The study aimed at establishing the age of the SMEs based on the number of years they had been in operation. The table below shows the results from the study

Table 4.2 Age of the SME

Age of SME	No. of Firms	Percentage	Cumulative Percentage
Below 2 years	17	18%	18%
2-4 years	28	30%	48%
5-8 years	21	22%	70%
8-10 years	10	11%	81%
Above 10 years	18	19%	100%

Source: Researcher, 2016

The findings show that 18% had been in operation for a period of less than 2 years, 30% for 2-4 years, 22% for 5 – 8 years, 11% for 8-10 years and 19% for more than 10 years as

shown in fig 4.2 below. This shows that majority of the SMEs were in operation for over two years but less than 4 years while few SMEs were operational for 8-10 years. This is a proof that most SME's hardly fail in the first few years of operation (KNBS, 2012). This is portrayed by the sharp drop from 30% to 11% between 2 – 4 years and 8-10 years. There is an increase after 10 years survival from 11% to 19% for the firms above 10 years. This could imply after 10 years in business, entrepreneurs have learnt the dynamics of the market and are therefore more accomplished and stable in their businesses.

4.2.2.3 SME Legal formation

This question sought to establish the legal formation of the SMEs in Nyandarua County. The results were as represented in table 4.3 and figure 4.3

Table 4.3: SME Legal formation

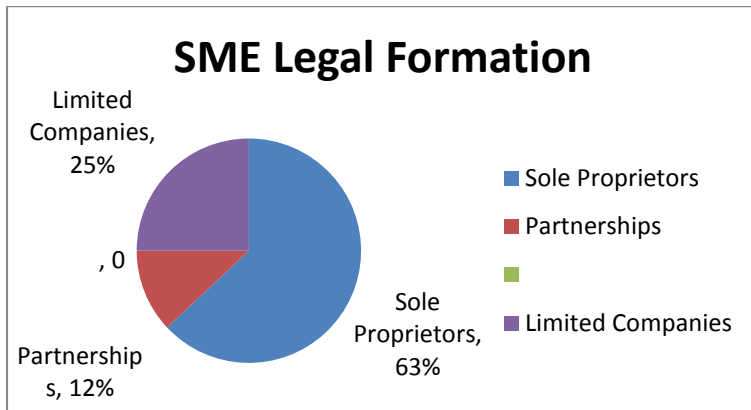
Legal Formation	No. of Firms	Percentage	Cumulative Percentage
Sole Proprietor	59	63%	63%
Partnership	11	12%	75%
Limited Company	24	25%	100%
Total	94	100%	

Source: Researcher, 2016

The results show that 63% of the SMEs were sole proprietors, 12% were partnership while the remaining 25% were limited companies as illustrated by figure 4.4 below. This implies that most SMEs are formed by one person and the least preferred kind of the SME are the partnerships. This can be attributed to the ease at which formation by a sole proprietor enjoys as it requires less legal procedures. A sole proprietor entrepreneur is able to exercise full control over the business while making decisions without many consultations. The respondents therefore were mostly business owners and /or their immediate representatives

and were the most appropriate for the study. This information is also represented in figure 4.2 as below.

Figure 4.2 SME legal formations

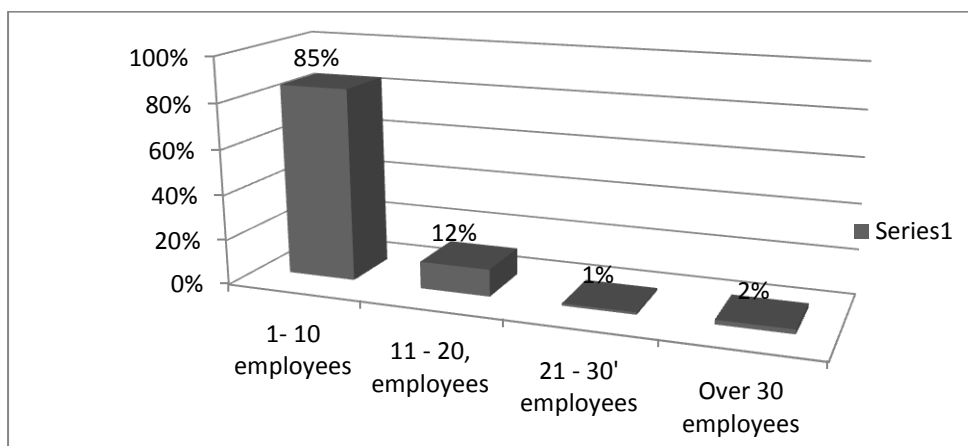


Source: Researcher 2016

4.2.2.4 Current number of employees

The study sought to determine the number of employees working in the SMEs. The findings are as shown by the figure 4.3

Figure 4.3: number of Employees



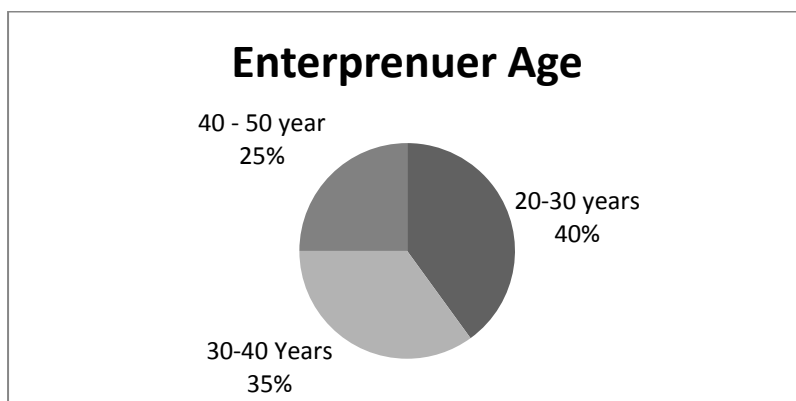
Source: researcher Data

Figure 4.3 above shows that 80 (85%) of the SMEs had less than 10 employees, 11 (12%) had 10-20 employees, 1(1%) had 20-30 employees and 2 (2%) had over 30 employees. This shows that most SMEs had less than 10 employees (85%) and which may be due to the magnitude of operations and the fact that their operations are less complex. Items of trade are freely available that are traded in the form they were acquired without much value addition. They are therefore less Labor intensive and therefore the owners play a big role in running the SMEs themselves.

4.2.2.5 Age of the SME entrepreneurs

The figure below (Figure 4.4) represents the study findings of the researcher on the SME entrepreneur age brackets.

Fig 4.4 Ages of SME Entrepreneurs



Source: Researcher, 2016

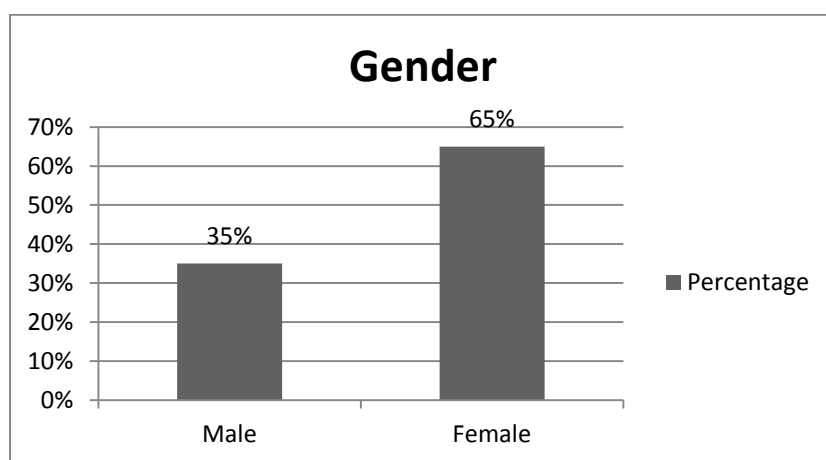
The study shows that most entrepreneurs who participated aged between 20-30 years were 38 (40%), Followed by 33 who were aged between 30 – 40 years (35%) and 23 (25%) aged 40 - 50 years. The last group of participants (40 -50 years) and those above 50 years were found to be more reluctant in participation. This could be attributed to the fact that the 40 years and

above entrepreneurs were more accomplished in business and had the younger people working for them in their business.

4.2.2.6 Entrepreneur Gender

The researcher determined gender of the respondents as shown in the figure 4.7 below.

Figure 4.5 entrepreneur gender



Source: Researcher 2016

The findings of the study indicated that the dominant group the female representing 65% while their male counterparts accounted for 35%. On gender, the findings of the study showed that there were more women in the SME sector than men. Women were found to be more friendly, approachable and outgoing in participating in the study. This was considered a winning attitude in business.

4.2.2.7 Entrepreneur level of education

The study also found it of importance to determine the level of education of the participants.

The results of the findings are as represented in table 4.8 below.

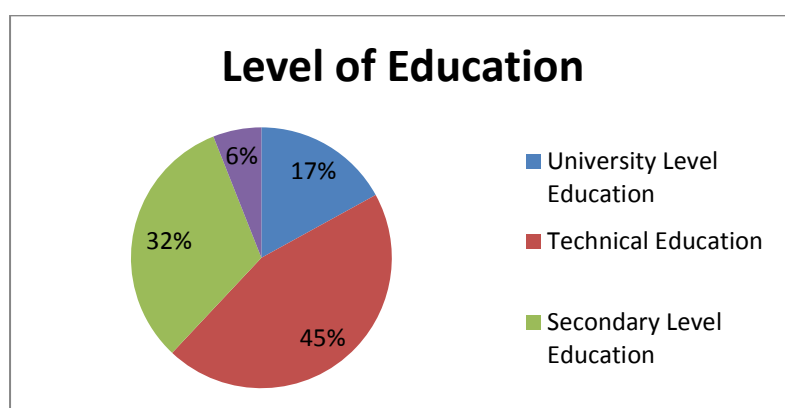
Table 4.4 Entrepreneur level of education

Level of Education	Frequency	Percentage	Cumulative Percentage
University Level Education	16	17%	17%
Technical Education	42	45%	62%
Secondary Level Education	30	32%	94%
Primary Level Education	6	6%	100%

Source: Researcher, 2016

The study revealed that most respondents had technical education beyond secondary school accounting for 45%, 17% had university level education, 32% had the secondary schools level of education while 6% indicated that they had only primary school education. The findings of the study show that some of the respondents did not have reasonable education to execute the roles assigned to them effectively and efficiently and make prudent financial decisions. These results are further depicted in the figure 4.6 below.

Figure 4.6 Entrepreneur level of education



Source: Researcher, 2016

4.2.3 Basic Financial Literacy Knowledge

As indicated in the table 4.5 below, the analysis of the positive responses for the 6 basic financial literacy questions to test their knowledge of the stock market in Kenya, composition of financial market, investments, risk and diversification. From the findings, only 42 (45%) of the respondents answered the securities market question correctly, 58 (61%) were knowledgeable about the composition of the financial market. This is an indicator of little knowledge of the securities market within the SME sector of Nyandarua County. 44 (47%) were positive about savings & investment options otherwise the rest of the respondents in this question indicated that they spend their extra income. 75 (80%) of the respondents indicated that they would invest in shares and other financial assets. This is an indicator of a gap in financial literacy education interventions in Nyandarua County. Only 27 (30%), and 47 (50%) of the respondents were knowledgeable of risks & Diversifications.

Table 4.5 Analysis of Level of Financial Literacy Knowledge

Measure of Financial Literacy	No. positive Responses	Percentage
The name of the stock market in Kenya	45	47%
Financial Market Composition	62	66%
View on savings & Investments	47	50%
Shares & financial assets	80	85%
Risk Knowledge	29	31%
Diversification Knowledge	50	53%

Source: Researcher, 2016

4.2.4 Analysis of entrepreneur Financial Accessibility

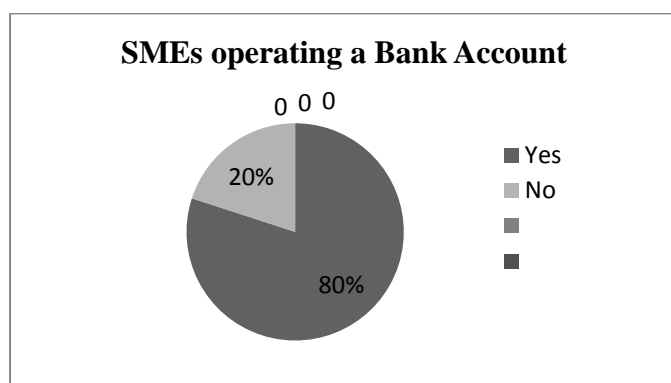
The study sought to establish whether the SMEs operated bank accounts, whether they borrowed loans on the strength of such accounts, the amounts of loans borrowed and the limiting factor in borrowing Nyandarua County. The findings are as represented below such

loans. The acquisition of loans was considered the measure of financial services accessibility by SMEs in:

4.2.4.1 SME operating a bank Account

The SME respondents were required to indicate whether they operated a bank account in any of the banks in Nyandarua County. The results were as follows

Figure 4.7 SME operating bank account



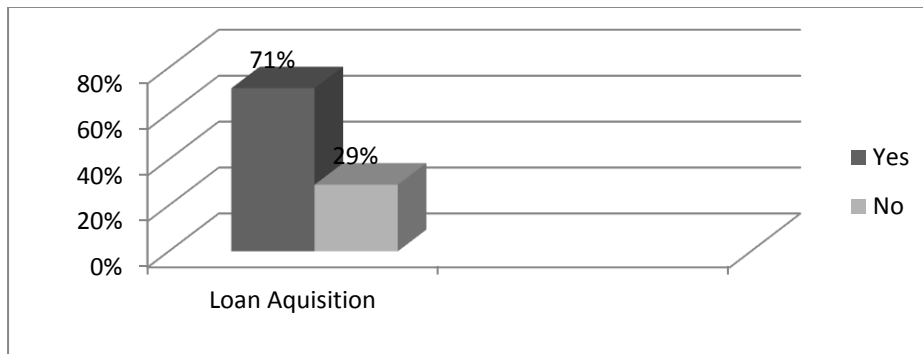
Source: Researcher, 2016

The result shows that 75 firms (80%) of the firms operated bank accounts. This indicates stability and access to financial sector services by those firms. The other 19 firms (20%) of the firms indicated that they did not operate a bank account. This could indicate financial illiteracy in terms of risks associated with holding liquid cash and financial mismanagement in terms of mixing personal and business money (Nyamute, 2010)

4.2.4.2 SME Loan Acquisition

The study sought to establish whether the entrepreneurs who operated bank accounts had at any time acquired a business loan. The findings are as represented in the figure below

Figure 4.8 SME Loan Acquisition



Source: Researcher, 2016

From the figure 4.8 above, 71% of the respondents had borrowed a loan from the bank at one time or the other. This was assumed to be loan taken for business startup or expansion. 29% of the SMEs had not borrowed loans from the bank. This indicates lack of access to financial sector services including the many loan products that banks offer.

4.2.4.5 Amount of Loan borrowed

The study sought to establish the amounts of loan borrowed by the SME entrepreneurs. The findings are as represented by table 4.7 below:

Table 4.6 Amounts of Loan borrowed

Amount of Loan	No of SMEs	Percentage	Cumulative Percentage
less than Kshs.100,000	17	30%	30%
Kshs. 100,000 – Kshs. 500,000	23	40%	70%
Kshs. 500,000 – Kshs. 1,000,000	13	23%	93%
over Kshs. 1000,000	4	7%	100%
Total	57		

Source: Researcher, 2016

The table 4.6 above indicates that out of the 57 SMEs who had borrowed a bank loan, 17 of them representing 30% had borrowed an amount of less than Kshs. 100,000. This could indicate the small size of the firm and/ or small scale operation. 23 of them representing 40% of the firms borrowed between Kshs. 100,000 – 500,000 with 13 (23%) of the firms borrowing between Kshs. 500,000 – 1000,000. A small percentage of 7% (4 SMEs) had borrowed over Kshs. 1000,000. This could be an indicator of stability, more secure legal formation which is a limited company and more knowledgeable about business and wider Markets.

4.2.4.6 Loan Limiting Factors

The study sought to establish the highest limiting factor to SME Loan acquisition. The results were as shown in the table 4.12 below:

Table 4.7 Loan limiting Factor

Loan Limiting Factor	No. Responses	Percentage	Cumulative Percentage
No Obstacles	16	17%	17%
Insufficient collateral/ Guarantees	26	28%	45%
Interest rates too high	52	55%	100%
	94		

Source: Researcher, 2016

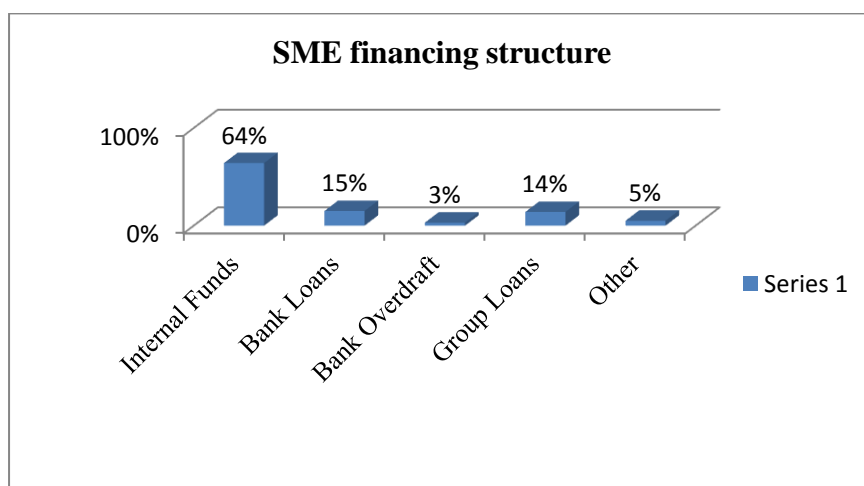
The results indicate that 17% of the respondents did not consider taking a loan to be having obstacles. This could be attributed to lack of sufficient information of the process of taking a loan. 26% of the respondents considered insufficient collateral or guarantees as the main factor that limits them from taking a loan. This confirms the study by (Njoroge, 2013) where SMEs are considered too risky by the financial institutions due to lack of sufficient collateral and guarantees. 55% of the respondents considered high rates of interest charged by the

banks as the limiting factor towards loan acquisition. The capping of interest rates by the central bank could therefore be a welcome move by these SME entrepreneurs.

4.2.4.7 Firm Financing Structure

The research sought to establish the firm financing structure for the SMEs in Nyandarua County. The responses were analyzed in the figure 4.13 below:

Figure 4.9 SME financing structure



Source: Researcher 2016

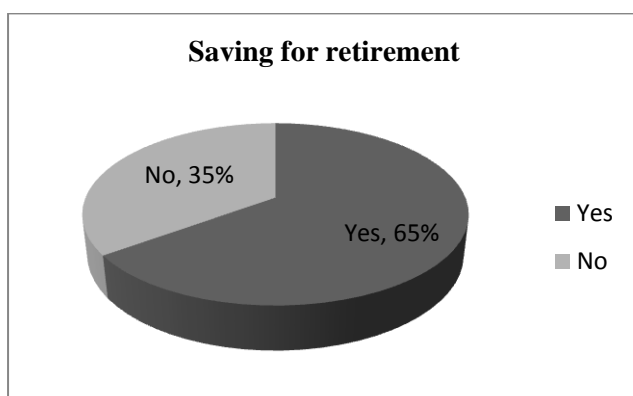
From the Figure 4.9 above, 64% of the respondents indicated that they used internal funds to finance their SMEs. This could be from family, friends and maybe sale of assets in order to raise finances for startups and for operations. 15% indicated that they had used bank loans in combination with other funds for financing. Bank overdraft was represented by only 3% as a financing source for SME, s in Nyandarua County. This could be attributable to the cost of this type of financing and its riskiness. Group loans as a source of financing represented 13%. This shows group loans were almost equally as popular as the bank loans. This could be attributable to the emergence of micro finances that led loans in groups with the group

members guaranteeing each other. 5% indicated that they had other sources of financing. These included inheritance and grants from personal sources.

4.2.4.8 Saving for retirement

The study sought to determine whether the respondents saved for retirement. The results of the study are as shown in the figure 4.10 below:

Figure 4.10 Saving for retirement



Source: Researcher 2016

The results indicate that 61 respondents representing 65% were saving for retirement at the time of this study. This was mostly the age group of 40 years and above. 33 of the respondents representing 35% indicated that they were not saving for retirement. This was mostly the young respondents who were below 30 years. This could be attributable to the fact that this population were quite naïve about retirement and were not aware of the saving for retirement options.

4.2.4.9 Ways of saving for retirement

The study sought to establish whether the respondents were aware of the different ways of saving for retirement available. The findings are represented by table 4.8 below:

Table 4.8. Ways of saving for retirement

Ways of saving for retirement	No. of responses	Percentage	Cumulative Percentage
Accumulating Assets	28	29%	29%
Contribution in a saving scheme	30	32%	61%
Keeping money	8	10%	71%
No Saving	28	29%	100%
Total	94		

Source: Researcher 2016

From the results presented in the table above, 28 representing 29% of the respondents saved for retirement by accumulating assets. This could be long term assets such as land and buildings. The respondents who saved for retirement by contributing into a savings scheme were 30 representing 32%. These were mostly the medium enterprises who were registered and had more than 10 employees working for them. 8 respondents representing 10% said they keep the money for retirement themselves in bank accounts and in fixed deposits. 28 representing 29% were not saving for retirement. This was mostly the youth who considered themselves to have more years to work and postponed saving for retirement.

4.2.4.10 Possibility of being listed in the stock exchange.

The researcher aimed to determine if the respondents considered the possibility of their firms being listed in the stock exchange. All the 94 respondents representing 100% of the firms indicated that they did not consider their firms will be listed in the stock exchange. The Table 4.9 below analyses the reasons that were cited as to why not list in the stock exchange market

Table 4.9 Reasons for not listing in the stock exchange

Reason for not listing	No. o Responses	Percentage	Cumulative percentage
Firm is too small	77	81%	81%
Cost of listing	8	9%	90%
reporting requirements	7	8%	98%
Loss of control	2	2%	100%
Total	94		

Source: Researcher, 2016

The reasons cited for not listing in the stock exchange were the size of the firm where 77 of the respondents representing 81% indicated that the SME was too small to be listed in the stock exchange. 8 respondents representing 9% considered it too costly to be listed in the stock exchange. 7 respondents indicated that the reporting requirement by the regulatory body were out of hand for them while 2 of the respondents representing 2% indicated that listing in the stock exchange would amount to loss of control over time.

4.3 REGRESSION RESULTS

The study involved the use of linear regression analysis. The regression equation was;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \varepsilon$$

Where; Y_1 - SME accessibility to financial services (measured by loans taken), α is the Constant of the model, $\beta_1 \dots \beta_8$ are the Coefficients of different independent variables.

X_1 is financial literacy, measured by scoring financial literacy questions, X_2 is entrepreneur Age, X_3 is Gender, X_4 is entrepreneur level of Education, X_5 is the limiting factor to loan accessibility and X_6 is the firm's management characteristics, X_7 is the age of the firm and X_8

δ is the size of the firm and ε the error term that takes care of other factors that affect SME accessibility to financial services but are not in the model.

This simple regression was analyzed using EVIEWS Package. The results are as represent in table 4.12 below:

Table 4.10 Regression Analysis

Dependent Variable: SME Loan Access O
 Method: Least Squares
 Date: 09/14/16 Time: 15:26
 Sample: 1 94
 Included observations: 94

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	2.643596	0.469771	5.627410	0.0000
Financial Literacy	0.050682 **	0.039617	1.279291	0.0203
Entrepreneur Age	-0.150850**	0.065390	-2.306919	0.0235
Gender	0.161997	0.112083	1.445333	0.1520
Level of Education	0.025875**	0.074670	0.346518	0.0798
Loan Limiting Factor	-0.166086*	0.054154	-3.066901	0.0029
SME Management Characteristic	0.131995*	0.070438	1.873917	0.0644
SME age	0.020084	0.043062	0.466408	0.6421
SME size	0.052601**	0.108725	0.483798	0.0298
R-squared	0.66306	Mean dependent var		1.361702
Adjusted R-squared	0.57253	S.D. dependent var		0.545777
S.E. of regression	0.488995	Akaike info criterion		1.497918
Sum squared residual	20.32488	Schwarz criterion		1.741425
Log likelihood	-61.40213	Hannan-Quinn criter.		1.596277
F-statistic	3.856515	Durbin-Watson stat		2.250667
Prob(F-statistic)	0.000648			

***, ** and * Significant at 1%, 5% and 10%

Source: Researcher data, 2016

The study sought to determine the effects of financial literacy on accessibility of financial services by Nyandarua County SME entrepreneurs. It involved assessing the significance of

eight relevant independent variables which included Financial Literacy, age of the entrepreneur, entrepreneur gender, level of education, Loan limiting factor, the SME management characteristic, age of the SME and its size. From the Table 4.10 above, the coefficient for financial literacy was positive at 5% level of significance. This meant that it was a factor that influences accessibility of financial services by SME entrepreneurs in Nyandarua County. From table 4.10 above, an increase in Financial Literacy by one unit, it would increase financial accessibility by 0.05. This meant that the financially literate entrepreneurs were more likely to access financial services than those who were not. This could be because entrepreneur financial literacy influences the ability to grasp advanced financial concepts such as risks & diversifications. This is supported by (Njoroge, 2013) who concluded that complete, accurate and precise information is necessary for financial decisions including obtaining business loans.

From the table 4.10 above, it was observed that the coefficient for entrepreneur age was negative and significant at 5%. This shows that entrepreneur age was negatively related to financial accessibility by SME entrepreneurs in Nyandarua County. This meant that the younger the entrepreneur the higher the chances of accessing financial Services as compared to older entrepreneurs. A decrease in age by I unit increases financial services accessibility by 0.15 units. This contradicts the study by Lusardi& Mitchell (2014) which states financial literacy declines with age, financial Literacy being a significant factor in accessibility of financial services. This could be attributed to the fact that young people in Nyandarua County are more innovative, open to new ideas and have a positive view of bank loans.

The coefficient for gender and SME age were not significant factors in financial services accessibility by entrepreneurs in Nyandarua County. This meant that whether male or female, this did not determine accessibility of financial services. In addition the advancement of

financial institutions has rendered age of the SME as an insignificant factor in financial services accessibility in Nyandarua County.

Level of education was a significant factor at 10% level of significance. This meant that the level of education had a strong influence on accessibility of financial services by SMEs in Nyandarua County. The more educated entrepreneurs were more likely to access financial services. Increasing the level of education by one unit, accessibility of financial services increased by 0.03 units. This supports Njoroge (2013) study which concluded that entrepreneurs who have acquired at least high school education were more likely to grasp advanced financial concepts such as risks & diversifications.

Loan limiting factor looked at factors including security and guarantee for loans, loan interest rates, and availability of funds. This factor had a negative correlation to financial accessibility at 1% level of significance. This meant that the higher the limiting factor, the lower the accessibility of financial services. From the table 4.10 above, increasing the loan limiting factor by one unit, accessibility to financial services decreased by 0.16. The higher the security for loan and the interest rates, the lower the accessibility of financial services.

SME management characteristic looked at the SME legal formation including limited companies, Partnerships or sole proprietorship. The coefficient for SME management characteristic from the table 4.10 above is significant at 10% level of significance. This meant that the firm management characteristic influenced accessibility of financial services by Nyandarua County SME entrepreneurs. This supports the study by Konchella (2013) which found a strong positive correlation between access to credit and a bigger management concentration of firms. Limited companies are therefore considered to have more access to financial services than sole proprietors.

From the table 4.10 above its clear that the size of the SME had a positive correlation with financial services accessibility by SME entrepreneurs in Nyandarua County at 5% level of significance. Results show that increasing the size of the firm by 1 unit increased accessibility of financial services by 0.052 units. The results were supported by a study by Mugendi (2014) which found that large firms performed in accessibility of financial services. Large manufacturing firms were more likely than small firms to introduce both product and process innovation hence higher requirements for financial services than the small firms.

The value of R squared explains the degree to which the model explains the independent variables. In this case, R squared is 0.6631 meaning it explains 66.31% of the independent variables which is acceptable.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMEDATIONS

5.1 Introduction

This chapter is a presentation summary of the key conclusions of the study, major findings discussion and results. It further presents the conclusions arrived at by the research findings as well as recommendations and suggestions for further research.

5.2 Summary of the Findings

The study sought to investigate the nature of the relationship between financial services accessibility and financial literacy by SME entrepreneurs in Nyandarua County Kenya. Specifically, the study investigated the effect of financial literacy levels on financial services accessibility, age of the firm and of the entrepreneur, gender, level of education, size of the firms, management characteristic represented by legal formation of the firm and the loan limiting factor. A sample size of 100 SMEs from Nyandarua County was used. The primary data was obtained through administering of questionnaires by the researcher. The findings established that a higher financial literacy score, education level of the entrepreneur, loan limiting factor, size and SME management characteristic had a positive effect on accessibility of financial services. Gender and SME age were not significant factors in financial services accessibility by SME entrepreneurs in Nyandarua County.

5.3 Conclusion of the findings

This study concludes that the nature of relationship between financial services accessibility and financial Literacy in Nyandarua County by the SME entrepreneurs is positively correlated. The more successful and sustainable SMEs are the ones run by more financially literate entrepreneurs who understand key financial concepts including risk management,

interest rates, time value for money, the dynamics of the financial markets among other concepts. Financial literacy is a factor in better decision making skills that results to more informed borrowings, controlled risk taking, application of diversifications, and investments analysis.

The study also concludes that younger entrepreneur have higher chances of accessing financial Services than their aged counterparts. This could be attributed to the fact that young people are more innovative, open to new ideas and have a positive view of bank loans. The youth therefore have an opportunity in the financial services sector. Loan limiting factor including interest rates, collateral demands and repayment terms have a negative correlation with financial services accessibility by SME entrepreneurs in Nyandarua County. The higher the security for loan and the interest rates, the lower the accessibility of financial services.

Entrepreneur gender and SME age are not significant factors in financial services accessibility by SME entrepreneurs in Nyandarua County. Financing is available even for startups. Firms with formal management structures, more so limited companies are more likely to access financial services compared to small firms, sole traders and partnerships who do not have formal structures for decision making.

5.4 Policy Recommendations

The financial services sector should be focused on developing products that are responsive to the real needs of the SMEs. There is need for policy formulations, administration and implementation by the government and its partner agencies to promote this vital sector. There should be continuous trainings of this sector on financial literacy, business planning, finance basics, handling cash flows and the importance of ethics in Business. There should be

discussions not only on finance but also on capacity building. Development agencies should also offer support where they can.

Enhancement of functions like formulating and reviewing policies and programs for small and medium enterprises should be emphasized. These policies should be favorable for SME growth addressing their financing limitations. These financing limitations include the high interest rates on loans offered by financial institutions. Most of the SMEs especially in Nyandarua County are on a low margin type of businesses and thus high interest loans are out of reach for them. Developing infrastructure for these enterprises. This infrastructure includes the road network and marketing services. The road network in Nyandarua County is in dire need of attention by the government as it's in a wanting state. The feeder roads are almost impassable especially during the rainy season. This will enable market access by the entrepreneurs and thus stimulate more production.

There should be efforts in Promoting product development and innovation in Nyandarua County. This can be done through trade fairs and other government sponsored programs. Capacity building programs facilitating technology development, acquisition and transfer. There should be programs to promote general education levels and in particular financial literacy education. Acquisition tools and programs for collection of comprehensive data disaggregated by region, legal structures and age among others in partnership with the key stakeholders. This will facilitate proper planning for the development of this vital sector.

5.5 Limitations of the study

Some of the respondents were reluctant to answer the questions for this study with some entrepreneurs and/ or their representatives treating the researcher with suspicion. They were

reserved with financial data and wanted to confirm the motivation behind the study. Some questionnaires administered were never filled and/or were not objectively and reliably done.

This study covered Nyandarua County only. There was no comparison done with other counties to determine if Nyandarua County situation was an isolated case. Nyandarua County is predominantly a rural area and the results could be different for an urban area.

In some cases, the respondents were the entrepreneur representatives whose level of financial literacy would be below that of the entrepreneur themselves. This was a limitation of the study as it could fail to capture the actual decision making criteria and level of the more financially literate entrepreneur.

5.6 Recommendations for further research

There is need for further research that will cover other Counties in Kenya apart from Nyandarua County. The study also covered multi-sector i.e. retail, manufacturing and wholesale. The results were generalized to all the sectors. There is need to conduct the study in one business sector only e.g. manufacturing in order to compare and contrast the results.

This study covered only basic financial literacy summed up with other variables in order to come up with the results. There is need to study a single variable e.g. the effect of level of education on financial services accessibility.

There is need to carry out a further research on the trade finance for export markets only to determine if the lucrativeness of this sector amounts to more accessibility of financial services by these entrepreneurs.

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APPENDICES

APPENDIX 1: Questionnaire

This questionnaire is designed to assist in collecting data to determine the nature of relationship between financial literacy and Accessibility of financial services by SME Entrepreneurs in Nyandarua Count, Kenya. Please feel free to answer the questions the best way you can. Also note that the findings of this research are solely meant for academic purposes and all the responses will be treated with utmost confidentiality.

Section A: General Information

1. Name of SME-----

2. What is your SME business sector

1	2	3
Manufacturing	Trade	Service

3. How long has your SME been in operation?

1	2	3	4	5
Less than 2 years	2-4 years	5-8 years	8-10 years	More than 10 years

4. SME legal formation

1	2	3
Sole proprietorship	Partnership	Limited company

5. Current number of employees

1	2	3	4
1-10	11-20	21-30	Over 30

6. Business location -----

7. Designation of the respondent -----

8. What is your age bracket?

1	2	3	4	5
Up to 20 years	20- 30 years	30-40	40-50 years	Above 50 years

9. Gender (Respondent)

1	2
Male	Female

10. What is the highest educational level that you have attained?

1	2	3	4	5
University-level education	Technical education beyond secondary school level	Completed secondary school	Completed primary school	No formal education

SECTION B: BASIC FINANCIAL LITERACY

11. What is the name of stock market in Kenya.....

12. Are you aware of composition of financial market in Kenya?

1. Yes	2. No

13. What do you do with the money that remains after paying all your expenses?

1	2	3
Saving	Spending	Investing

14. What is your view on investment in shares and other financial assets?

1	2	3	4
Can always invest	Can invest but have to compare with other investment options	Can hardly consider it as an investment	Never can I invest in such

15. It is usually possible to reduce the risk of investing in the stock market by buying a wide range of stocks and shares

1	2	3
True	False	Don't Know

16. It is less likely that you will lose all of your money if you save it in more than one place.

1	2	3
True	False	Don't Know

SECTION C: ACCESSIBILITY TO FINANCIAL SERVICES

17. Do you operate a Bank Account?

3. Yes	4. No

18. Have you ever tried to/ acquired a loan?

1. Yes	2. No

19. What amount of loan have you acquired or would you aim to obtain?

1	2	3	4
Less than Kshs. 100,000	Kshs. 100,000- 500,000	Kshs. 500,000 – 1000 000	Over Kshs. 1000 000

20. What do you see as the most limiting factors in getting a bank loan

1	2	3	4
There are no obstacles	Insufficient collateral or guarantees	Interest rates or price too high	Finances not available at all

21. With respect to the financing structure of your firm, you can use internal funds and external financing. For each of the following sources of financing, could you please indicate whether you used them OR NOT during the past 6 months?

	1	2	3	4
Source	Internal Funds	Bank Loans	Bank Overdraft	Group Loans & Merry go rounds
Used fully				
Not used at all				
Used in combination				

22. Do you save for retirement?

1.	2.
Yes	No

23. If your answer in Question22 above is yes, how do you do the saving?

1	2	3	4
Accumulating assets	Paying an amount every month to an retirement benefit scheme	Keeping the money myself	I do not save for retirement

24. Does your company aim to be listed in the stock market in the next 2 years?

1.	2.
Yes	No

25. What do you consider as the main obstacles for your company being listed in the stock Market?

1	2	3	4
The firm is too small	Its too expensive to list	Reporting requirements would be too heavy	Loss of control over time

26. Please indicate any other information relevant to you/ Organization in the contest of this study

Your Answers are appreciated, thank you.



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TO WHOM IT MAY CONCERN

The bearer of this letter ... Elizabeth Wairagui

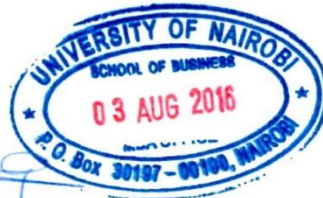
Registration No... D611744473/2014

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.




**PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS**

APPENDIX III: LIST OF SME'S IN NYANDARUA COUNTY

1	Yunny Enterprises	43	Commercial Builders Hardware
2	Emerge Hardware & Tools	44	Navids Agroveter Centre
3	Metto Victorious Shop	45	Papemus Insurance
4	Wa Joy General Shop	46	Olkalou Feed Stores
5	Islets Supplies Ltd	47	Stan Bookshop
6	Good Samaritan Medical Centre	48	ELNino Electronics & Furniture
7	Dibon Enterprises	49	Payless Electronics
8	Olkalou Farmers Sacco	50	Nyandarua Enterpreneurs Sacco
9	Muki Sacco Society Ltd	51	City Link Hardware
10	Waziri Enterprises	52	Rahisi Wholesalers
11	Grace Shop	53	Sabugo Pharmaceuticals
12	Sapena Investments Bookshop	54	Kakiu Veterinary Services
13	Benign Animal Feeds	55	Rubyland Ltd
14	Acacia Hotel	56	Chribet Construction Co. Ltd
15	Mwihoko Supermarket	57	Keito Kenya Distributors
16	Sokoni Hardware	58	Leverkusen Enterprises
17	Kanini Baraka Supermarket	59	Sumajar Investments
18	Mwendani Boutique	60	Daclem Genesis Ventures
19	Pillar Traders Saccos	61	Mawakar Enterprises
20	Mama Muraya Cereals Evergreen Petrol Station &	62	Doptsa Kenya Ltd
21	Restaurant	63	Angelytt Enterprise
22	Visions Quick Services	64	Johagez enterprises
23	Joyafana Investments	65	Smart Link ICT Solutions
24	Kongoni Bookshop	66	Jinko Young Enterprises
25	One way to open door Boutique	67	Mac & Brite Co. ltd
26	Saka Equity	68	macha general suppliers
27	Kimshop Dealer	69	Milje Merchants Ltd Nature Construction Company
28	Supa Duka	70	Limited
29	Joymof General Hardware	71	Niagra Ltd
30	Plumbing & Machinery	72	Peer Ventures
31	Gateway Farm Supplies	73	Ranchern Co. Ltd
32	Banlous Boutique	74	Stelny Enterprises Limited
33	Agape Bookshop	75	Tarekhe Solutions
34	Micro tech Computer Service	76	Waima General Supplies
35	Blessed New Boutique	77	Wakimbo Enterprises
36	Altas General Hardware	78	Wambu Tailoring & Supplies
37	The Master Shop	79	bobland I.T enterprise
38	Samcom Comp Ltd	80	Brixton Solutions Ltd
39	Upendo Electronic	81	Caxy Ventures
40	Family Business	82	Centsoline investments
41	hotel Bullhead	83	crine enterprises
42	Jamaa Supermarket	84	Design Jet Copies

- 87 flamenco engineers enterprise
- 88 Gagnanats B & C Lts
- 89 General Solution Investment
- 90 Gitkamart general suppliers
- 91 Jaynet Printers Olkalou
- 92 Jewesh General Merchants
- 93 Julisa investment ltd
- 94 Kencos Engineering Limited