EFFECT OF FINANCIAL LITERACY ON PROFITABILITY OF SMALL SCALE ENTERPRISES IN KIBUYE OPEN AIR MARKET, KISUMU COUNTY, KENYA

BY

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ABSTRACT

Financial literacy occupies a center stage in the quest to achieve an overall degree of business performance and profit making in an organization. Thus, financial literacy or lack of it plays an important role in the success or failure of many businesses. While many studies have provided documentary evidence suggesting that financial literacy education is effective, there's little evidence to show that financial literacy is an important predictor of financial behavior in the developing world. Even though entrepreneurs in Kibuye market have some financial knowledge regarding financial management in their businesses, they still register losses, which then raise the concern of the use of knowledge they have acquired. Research findings in Kenya have shown that over 50% of small scale entrepreneurs continue to have deteriorating performance with three in every five small scale enterprises failing within months of establishment. The purpose of the study was to find the effect of financial literacy on the profitability on small scale enterprises in Kisumu County, Kenya. The specific objectives were: the extent to which financial literacy is adopted by the small scale enterprises, the effect of keeping accounting and financial records on the profitability of the small scale enterprises, the frequency of access to bank credit facilities on small scale enterprises and the effect of accessibility of bank credit facilities by small scale enterprises. Cross sectional survey research design was used in this study. The study was carried out in Kibuye market, Kisumu County; Kenya. Target population was 5000 small scale enterprises. A sample size of 356 was determined using simple random sampling technique. Data were collected using structured questionnaire. Validity of instrument was established by a team of experts in the area of the study while reliability of the instrument determined using Cronbach alpha coefficient method. Data were analyzed using descriptive statistics and inferential statistics and presented in statistical tables, bar graphs and pie charts. The results revealed that adoption of financial knowledge and access to financial services both have a positive and significant influence on the profitability (β=0.201, p=0.38; β=0.096, p=0.048) respectively. The findings also revealed that keeping financial records and frequency of access to financial Services also have a positive influence on the profitability (β=0.012, p=0.979; β=0.024, p=0.827) respectively. The findings conclude that financial literacy influences profitability in small scale enterprises. The findings are expected to contribute in the policy formulation in the industry and consider the appropriate training methods in financial training to the small business owners in Kenya.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Organization for the Economic Co-operation (2005), defined financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. Greenspan (2002) argues that financial literacy also helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plan, and make strategic investment decisions. Proper application of that knowledge helps households to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility. Small scale enterprises play important roles in the economic growth and development of every nation. They are a veritable vehicle for the achievement of national macro-economic objectives in terms of employment generation at low cost investment (Ebere, 2013).

The definition of small business varies depending on the purpose and the person defining it. Since there's no universal definition of Small and Medium-Sized enterprises (SME), what constitute an SME is generally based on the number of employees and turnover per annum OECD (2002). SMEs are a primary driver for job creation and Gross Domestic Product (GDP) growth. They greatly contribute to economic diversification and social stability and also play an important role for private sector development. Small scale enterprises cut across all sectors of a country's economy and provide one of the most prolific sources of employment not to mention the breeding ground for medium and large industries which are critical for industrialization. The macro and small enterprises are business in both formal and informal sectors, classified into farm and non-farm categories employing 1-50 members (GoK, 2005).

Presently, as part of the Millennium Development Goals (MDG's), a lot of effort is being made to reduce poverty rate in developing countries. Effort is also being made to reduce the reliance of people on government jobs. These are achieved through the growth and development of Small Scale Enterprises (SSEs), (Eneh, 2007). Greenspan (2002) argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate saving plans and make strategic investment decisions. Proper application of that knowledge helps households to meet their financial obligations, through wise planning and resource allocation so as to drive maximum utility. Even though Eneh (2007) and Greesnspan (2002) studied the importance of financial literacy, they did not establish the extent to which financial literacy was adopted by households or even SMEs. This study therefore fills the gap by investigating the extent to which financial literacy is adopted by SMEs in Kibuye market.

By considering the importance of SMEs in the Kenyan economy, SMEs need qualified accounting knowledge to support their decisions. Data from Entrepreneurs toolkit (2010) estimated that informal sector constitute 98% of all business in the country and absorbs annually up to 50% of new non-farm employment seekers. SMEs need accounting to improve their business because they have great ideas yet do not know how to manage finance records and seek finance information they need (Prasetyo, 2007). By practicing accounting such as making finance reports, adopting accounting bases and principles help small businesses to evaluate their performance. To small businesses, finance and accounting information has an important role in recording and reporting process related to transactions that happen. Warren *et al.* (2005) reported that by doing accounting process, information is produced for the sake of interested parties to make decisions on the business activities and conditions. Wanjohi (2010) stated that inadequate business skills among the SMEs in Kenya contributes to their loss, his main finding was that the use of financial and accounting records are still limited. In his study, Wanjohi (2010) found that inadequate skills especially use of financial and accounting records are still limited. However, his study did not examine the effect of keeping accounting and financial records. This study was therefore set to examine the effect of keeping accounting and financial records by the SMEs in Kibuye market.

The FinAccess survey carried out in 2006 by Steadman International on behalf of FSD Kenya stated that a range of factors can affect poor people's ability to use financial services-particularly formal ones. Cost is a number one factor so that minimum deposits, fees and charges mean that holding bank account for example, is too expensive for some. In addition to these financial costs, the cost of reaching a bank is also very important-hence distance from the bank implies transport cost or at least travel time and inconvenience (FSD, 2008). The study further stated that that education also presents a relatively clear influence on the spectrum of access. Educated people are significantly less likely to be excluded from utilizing financial services than those without formal education. Nunoo and Ando (2012) states that one indicator arising from the literature concerning low utilization of financial services by SMEs is the role of financial literacy. Findings from the FinAccess suggest that financial illiterate people will have difficulty in utilizing financial services, even the basic ones; therefore access to these services will be minimal (FSD Kenya, 2008). Scholars and the institution mentioned above studied the factors that affect people's ability to use financial services, particularly the formal ones. FSD (2008) pointed out that cost prevents people from utilizing financial services. Nunno and Anno (2012) categorized financial literacy as the biggest obstacle keeping people from utilizing financial facilities. They did not however determine the frequency of access of the credit facilities. This study therefore fills this gap by determining the frequency of access to credit facilities by the SMEs

Availing financial services to SMEs plays a key role in determining how they conduct their business as they need a range of enabling and sustaining financial services in order to enable them effectively exploit abundant resources in their field of specialization to realize full potential. Longeneker, Petty, Moore and Palich (2006) as cited by Kinyua (2012) stated that starting and operating a small business includes a possibility of success as well as failure. Improper financing and poor management coupled with lack of planning have been postulated as the main causes of failure of small entrepreneurs. Kinyua (2012) further stated that lack of credit facilities has also been identified as one of the most serious constraints facing SMEs and hindering their development. According to the findings of a study by Joeveer (2006) banks loans have a significant positive effect on most performance indicators of SMEs in the transition economies. GoK (2013) stated that SMEs have continued to face challenges related to accessing credit because commercial banks are still bargaining with the issue of collateral, therefore SMEs are greatly affected when they don't access credit facilities. Literature from the studies above stated that lack of credit facilities seriously constrains SMEs in development. However, despite the fact these studies focused on the importance of credit facilities, they left out the effect brought about by accessing credit facilities. This study was therefore set to fill this gap by examining the effect of accessing credit facilities by SMEs in Kibuye market.

1.2 Statement of the Problem

Micro-entrepreneurs are asked to make complex financial decisions in form of saving decisions or in business context as small business owners. However, a growing literature shows a large fraction of the Kenyan population is underprepared to make these decisions. Equity Group Foundation for example finds low levels of financial literacy in the Kenyan population. EGF estimates that there are close to seven million youth in need of finance training. In addition, eleven million people do not have access to financial services, especially the youth and those living in rural areas. In his report on the effect of accounting service on financial performance on small and medium enterprises in industrial area, Nairobi, postulates that despite the increasing importance attached to the SMEs in Kenya, it is surprising to note that no specific research has been undertaken to tap the potential benefits that SMEs can reap by adopting a good framework of financial and accounting routines. While many studies have provided documentary evidence suggesting that financial literacy education is effective, there's little evidence to show that financial literacy is an important predictor of financial behavior in the developing world. Although attempts have been made by Financial Deeping Sector (FDS) Kenya, to enable SSEs access financial services through financial knowledge in major cities like Nairobi, Kibuye open air market is exceptional for these services have not been provided to the SSEs in Kibuye market. A few SSEs in Kibuye benefit from practice of financial knowledge and have made significant profit, majority of SSE owners are affected by the lack of financial literacy for example, their inability to keep complete and accurate records make their business grow at a slow pace. It is for this reason that the researcher intended to carry out a research on the effect of financial literacy on the profitability of SSEs in the market.

1.3 Objective of the Study

General Objective

The general objective was to find out the effect of financial literacy on the profitability of small scale enterprises in Kisumu County, Kenya

Specific Objective

1) To examine the extent to which financial literacy is adopted by small scale enterprises.
2) To investigate the effect of keeping accounting and financial records on the profitability on small scale enterprises.
3) To determine the frequency of access to bank credit facilities by small scale enterprises.
4) To examine the effect of accessibility of bank credit facilities on small scale enterprises.

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1.4 Research Questions

1) To what extent is financial literacy adopted by small scale enterprises?
2) In which ways do keeping of accounting and financial records enhance the profitability of small scale enterprises?
3) What is the frequency of access to bank credit facilities by small scale enterprises?
4) What is the effect of accessing bank credit facilities on small scale enterprises?

1.5 Scope of the Study

The study covered Kibuye open air market within Kisumu County, Kenya. The study investigated SMEs owners within the market. Respondents comprised holders of SSEs within the market. In particular, the study focused on both men and women owning SMEs within the market. The study covered a period of 7 months beginning January 2014.

1.6 Justification of the Study

Financial literacy is yet to receive enough attention although there has been growing attention in the recent past. Levels of financial literacy across the world remain very low, although there is not much literature to support this assertion; however, OECD country level survey data confirms this view, with consumers consistently performing poorly on tests of financial literacy. As reported by Omulo (2012), Kibuye market is the biggest open air market in east and Central Africa serving the entire western region's grocery needs while providing an outlet for neighboring countries. However, its lofty status comes with appalling management in that businesses are not given opportunities to grow. While acknowledging the efforts by the Ministry of east African, Commerce and Tourism and personal initiatives to improve SSE sector, this study will also be important for policy formulation in the industry and, broaden the level of thinking in financial literacy training to consider the appropriate training vehicles to offer financial literacy training in Kenya. It will also contribute to the existing literature in the area of financial literacy and SSE performance.

1.7 Conceptual Framework

The conceptual framework shows the relationship between independent variables in financial literacy on the profitability of SMEs in Kibuye market. The independent variables are adoption of financial literacy, keeping accounting and financial records, access to financial services, utilization of credit facilities. The dependent variable is business performance. When these variables were manipulated, they brought effect on the dependent variable hence improve profitability on SME. The framework also included intervening variable such as available infrastructure and state of economy-inflation and GDP rates which may interfere with the research outcome and therefore must be controlled.

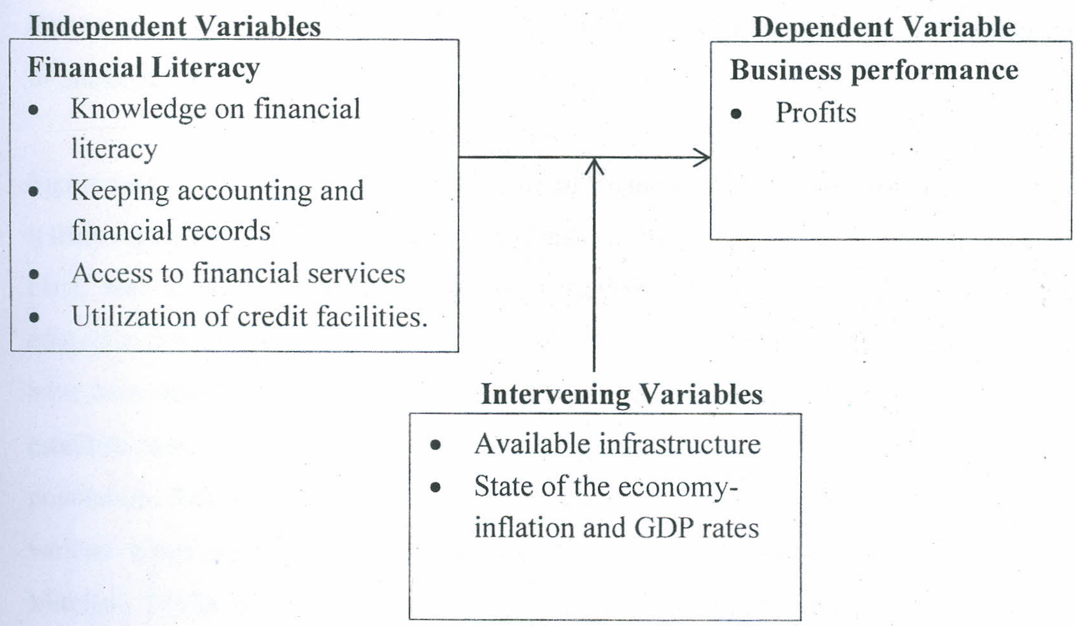

Fig 1: Conceptual Framework on the relationships among variables

Source: Own Conceptualization

CHAPTER TWO
LITERATURE REVIEW

Introduction

This chapter reviews the relevant literature to the study, both theory and empirical arranged into sub themes

2.1 Theoretical Review

Basu, (2005) as cited Nyamute and Maina (2010) defines financial literacy as the ability to make informed judgments and to take effective actions regarding the current and future use and management of money. Financial literacy also calls for wise spending. This means preparing budgets, tracking expenditures, paying bills are done on time (Lusardi, 2008). The financial systems of the 21st Century have been growing with speed, sophistication and becoming more complex (Hilgert and Hogarth, 2002). World over, the economic and social environment in which people take financial decisions has changed – and this change is set to continue with the dynamic and ever changing technology. Financial products and services have multiplied along with technological and other means of marketing them (Greenspan, 2005).

Significant debate continues about the role of financial literacy, the extent of the problem it truly represents, and the best way to address it. This debate arises for several reasons: First, real knowledge gaps persist about fundamental relationships between literacy, education and behavior, partly because researchers lack the appropriate data. Few studies have been able to construct sophisticated measures of financial literacy and definitively establish causal links between financial education, literacy and behavior across the world population. Researchers to date found that various segments of the U.S. population lack various types of financial skills (Hilgert, Hogarth and Beverly, 2003; Lusardi and Mitchell, 2007a, b). In 2004, only half of adults close to retirement age and older were able to correctly answer two simple questions regarding compound interest and inflation, and only one-third correctly answered these two questions and a question about risk diversification (Lusardi and Mitchell, 2006, 2007b). Furthermore, large discrepancies in measured financial literacy exist, potentially placing some economically vulnerable groups (the poor, the less-educated, and minority households) at further disadvantage. These measures have been linked to suboptimal behavior – Hilgert, Hogarth and

Beverley (2003) find that individuals with more financial knowledge are more likely to engage in a wide range of recommended financial practices, while Lusardi and Mitchell (2006, 2007a) find that among older adults, those who displayed better financial knowledge were more likely to plan, to succeed in planning, and to invest in complex assets However, other researchers argue that financial literacy is a secondary concern when it comes to decision making, partly because evidence on financial education programs has been mixed. Early evaluations, notably by Douglas Bernheim and a series of co-authors, suggested that workplace financial education initiatives increased participation in savings plans (Bayer et al., 1996; Bernheim 2003), while financial education mandates in high school significantly increased adult propensity to save (Bernheim et al., 2001). However, more recent research has found minimal impacts, particularly when benchmarked against other factors, including peer-effects and known behavioral biases like inertia (Duflo and Saez, 2004). This lack of consensus reflects the fact that, as noted in the 2006 report of the Financial Literacy and Education Commission, "a systematic method of evaluation of financial literacy programs does not exist."

A large part of this debate may be linked to the fact that a great deal of variation continues to exist in how researchers define and measure financial literacy itself.

Previous surveys that are purposively designed to measure financial literacy (such as the Washington Financial Literacy Survey, the Jump$tart Coalition Survey, or the Survey of Consumer Finances 2001 module) rarely also collect sufficiently detailed information on individuals' financial education and variables related to financial decision making. In some instances (notably in the 2004 Health and Retirement Survey), more complete information has been successfully obtained, but the sample has been restricted to particular subgroups such as adults over 50, young people, or the subject pool for a particular program evaluation. In the policy and research literature, previous studies relating literacy to education and/or behavior have therefore been constrained either to the use of rudimentary literacy measures or to samples that are not population representative. While a "consensus" definition has been provided by PACFL (2008), it is unclear how widely accepted this definition is.

2.2 Empirical Review

2.2.1 Adoption of Financial Literacy

A growing literature has documented the low level of financial literacy in the general population and its impact on individual decision making. Lusardi and Mitchelle (2006) argue that there's prevalent lack of financial literacy among large sections of the US population, especially among people with low levels of education, women, and ethnic minorities. This lack of financial literacy is associated with poor financial decision making, poor borrowing decisions and participation in the formal financial systems.

The findings from the study of the OECD (2005) show that financial illiteracy is a common feature in many other developed countries including European countries. Lusardi and Mitchell (2006) established that financial illiteracy is widespread and is particularly among specific groups of the population, such as women, the elderly and those with low education. Agarwal, Driscoll, Gabaix and Laibson (2007) further show that financial mistakes are prevalent among the young and the elderly who display the lowest level of financial knowledge. These findings are confirmed in the work of Christelis, Jappelli and Padula (2006), which uses micro data from European countries, finds that most respondents in Europe score low on financial numeracy.

Financial literacy is yet to receive enough attention although there has been growing attention in the recent past. Studies reveal that levels of financial literacy across the world remain very low, although there is not much literature to support this assertion. OECD country level survey data however confirms this view, with consumers' regularly performing poorly on tests of financial literacy. Bernheim and Garrett (2003) and Vitt, *et al.* (2000) stated that 75 percent of consumer financial literacy programs started in the late 1990s or 2000. Through regression evidence, higher education levels were found to be significantly related to equity ownership by households. Educated Swedish households were found to diversify their portfolios than less educated households. Greenspan (2000) argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions. Proper application of that knowledge helps households to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility.

Financial literacy has consequently attracted attention in both the developed and developing world due to its role in financial decision. For example, in January 2008, the United States government set up a President's Advisory Council on Financial Literacy. The council was tasked to promote programs that would improve financial education at all levels of the economy. This was to improve access to and utilization of financial services. In the developing world, the Indonesian government declared 2008 as "the year of financial education" with a stated goal of improving access to and use of financial services by increasing financial literacy. Similarly, in India, the Reserve Bank of India launched an initiative in 2007 to establish Financial Literacy and Credit Counseling Centers throughout the country which would offer free financial education and counseling to urban and rural populations. In Ghana, the financial literacy week celebrated each year shows the recognition the government of Ghana accords financial literacy. In Kenya, the Kenya Financial Education Center (KEFEC) is an institution that promotes financial literacy, intelligence and capability. It also offers financial education to employees, business people, entrepreneurs in financial and micro-finance institutions serving the SME sector.

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Despite their significance to economic growth, SMEs across the world still face numerous challenges that inhibit entrepreneurial growth. Apart from SME funding and access to finance, the Global Entrepreneurship Monitor (GEM) reports (2001-2010) noted that SMEs also suffer from poor management skills which are a result of adequate training and education. This results in high rates of business failure. In Kenya, a study research by Agri-profocus (2011) show that when people are not financially literate, they will make poor decisions that can harm their families and their business. Prasetyo (2007) further states that SMEs need accounting to improve their business because they usually have great ideas yet do not know how to manage finance records and to seek finance information they need. Studies done in the United States of America by various researchers have shown that relatively few households implement recommended financial management practices. These practices may be used to define personal financial management. These include budgeting and cash flow management, account ownership, use of credit, savings behavior, and asset accumulation (Davis and Carr, 1992).

Adoption of financial literacy facilitates the decision making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes (Miller et al., 2009). Kenya Equity bank (2012) in an article dubbed Equity Bank steps up its Kshs 1 Billion bid to boost financial literacy has details on a project carried out by Equity Group Foundation in conjunction with the MasterCard Foundation that was started to impart personal and business finance skills to more than 1 million Kenyans particularly the youth. The training project dubbed Financial Knowledge for Africa (FIKA) exposes participants to basic economic concepts and helps them to gain an understanding of how to use a range of financial services – such as savings, insurance and credit products. The program builds their financial capacity through a comprehensive financial education program- covering budgeting, savings, debt management, financial negotiations and banking services.

There are different views among researchers and scholars on the adoption of financial literacy on business performance; the extent of the adoption of the financial knowledge has been missing in their findings. This study was therefore set to fill this gap by examining the extent of the adoption of the financial knowledge by the SMEs in Kibuye market.

2.2.2 Accounting and Financial Record.

This section will review literature on the effect of keeping accounting and financial records on profitability of SSEs.

Accounting systems provide a source of information to owner and managers of SMEs operating in any industry for use in the measurement of financial performance. An accounting system records, retains and reproduces financial information relating to financial transaction flows and financial position. Financial transaction flows encompass primarily inflows on account of incomes and outflows on account of expenses. Elements of financial position, including property, money received, or money spent, are assigned to one of the primary groups i.e. assets, liabilities, and equity. Within these primary groups each distinctive asset, liability, income and expense is represented by respective "account". An account is simply a record of financial inflows and outflows in relation to the respective asset, liability, income or expense. The process of recording these financial transactions is known as bookkeeping (Pinson *et al*, 1993). While these systems may be seen as "real" bookkeeping, any process that involves the recoding of financial transaction is a bookkeeping process.

Bookkeeping and accounting share two basic goals which focus on the enhancement of profitability namely; to keep track of income and expenses, which improve chances of making a profit, and secondly it collects the financial information necessary for filing various tax returns. There is no requirement that records be kept in any particular way, as long as your records accurately reflect the business use a certain method of creating their accounts: the cash method or accrual method. Depending on the size of the business and amount of sales, one can create own ledgers and reports, or rely on accounting (Williams *et al* 1993).The double entry accounting system records financial transactions in relation to asset, liability, income or expense related to it through accounting entries. The double entry bookkeeping system ensures that the financial transaction has equal and opposite effects in two different accounts. All these accounting entries when properly kept can enhance profitability of the SMEs. While most business maintains a record of all transactions based on the double-entry bookkeeping system, many small, simple businesses maintain only a single-entry system that records the "bare-essentials." In some cases only records of cash, accounts receivable, accounts payable and taxes paid may be maintained. Records of assets, inventory, expenses, revenues and other elements usually considered essential in an accounting system may not be kept, except in memorandum form. Single-entry systems are usually inadequate except where operations are especially simple and the volume of activity is low.

Bookkeeping system is a single book arrangement where only important notes have full records. Transactions made in here are recorded in logbooks and subsidiary books (Tunggal 1997). These books have an important role in recording process related to transactions that happen, to discover the company's development, its internal state and its profit at a certain time. Small business enterprises use three financial records which include statement of cash flow, income statement and balance sheet. Statement of cash flow describes the inflows and outflows of cash equivalent (Lien 2009). Income statement reports revenues during a certain period of time. Balance sheet records the total assets, liabilities and owner's equity during a certain period of time (Warren *et al* 2008). The application of these records can help small business owners to evaluate their business performance hence improve their profitability.

In a study of company failures in South Australia, Peacock (1987) reviewed the bankruptcy reports of 418 unincorporated businesses for four years (from 1981 to 1985) and found that 50.5 percent of this used single entry system of bookkeeping, 32.8 percent used bank and taxation records whereas only 2.1 percent utilized double entry systems. He recommended further research to be done on double entry systems of recording in companies. In another study Peacock (1988) found a significant element in the failure of many businesses failed were found to have no records or any bank and taxation records. Peacock's (1987 and 1988) findings are very important as examining the impact of bookkeeping system practices on profitability of SMEs. He recommended for further research study on bookkeeping and performance of companies.

Williams (1986) in his evaluation of the adequacy of accounting records for 10,570 failed and surviving small enterprises operating throughout Australia found that a significant proportion of owner-managers kept inadequate accounting records. He recommended for further investigation on the record keeping practices in small enterprises in Australia. The government of Kenya has placed a lot of emphasis on the development of SMEs as a means of encouraging self-employment, poverty reduction and accelerating economic growth. However, (William 1993) states that it is hard for the SMEs to access finances from the financial institutions since the lack proper financial records as a requirement.
It can be seen therefore, that there's a connection on the effect of keeping accounting records and financial performance in any business. William et al (1993) in his study gave emphasis on the advantages of proper bookkeeping. Tungal (1997) also stated that proper bookkeeping indicates a company's development in terms of profit making. However, they did not evaluate the effect of bookkeeping on the SMEs. This paper therefore was set to fill the gap by investigating the effect of keeping accounting and financial records.

2.2.3 Access to Bank and Credit Facilities

Overseas development institute (2010) defines access to financial services as the ease with which an individual can use financial services if they want to. It is thus distinct from usage; an individual may have access to financial services but choose not to use them. It is also possible for an individual to face access constrains even if they are using a financial service. For example, an individual may have a bank account but may face constrain to using it actively because the nearest bank branch or ATM is so far from their home. In addition Andoh and Nunoo (2011) argue that access to finance and use of financial services do not meant the same thing. Whereas "access" refers to the availability of a supply of reasonable quality financial services, "use" refers to the actual consumption of financial services. In a standard demand-supply framework, it can be said that access refers to supply, whereas use is the intersection of supply and demand schedules. Despite the dependence of SMEs on debt finance, access is very limited for new SMEs, especially in developing countries (Mengistae *et al* 2010).

Objective indicators of access used by the World Bank Enterprises Survey of 2008 include whether the firm has any credit products (e.g. overdrafts, loans or line of credit), loan applications and rejections, percent of finance for working capital and investment, and interest rate., subjective indicators of access include whether the firm claims access is one of the top three obstacles and whether the firm states "no need for a loan" as a reason for not applying for loan. Barbosa and Moraes (2004) point out that borrower-specific factor include variables largely controllable by a firm such as managerial competencies, quality of business information, availability of collateral and networking. Other factors that negatively impact SMEs' ability to access funding include: (1) the variability that SMEs experience in their earnings which can fluctuate significantly on an annual basis; (2) the low survival rate of SMEs; and (3) the difficulty of separating small business owner's personal finances from that of business. Providers of finance will also want to monitor the SME to ensure that the terms of the contract are being followed, to follow the progression of the SME and have the means to oblige the SME to act in supplier of fund's best interests. This is more difficult for smaller forms thus increasing the probability that the loan will be repaid (OECD, 2006).

Microenterprises are more likely to report access to finance as one of the top three obstacles to growth, are less likely to have a bank account, and less likely to have access to any of the credit products (loans, overdrafts or lines of credit). As firms grow larger, access becomes easier (Mengistae *et al* 2010). Related to size, SMEs tend to seek finance for relatively small amounts. The costs involved in the credit assessment and monitoring of a loan or investment make it disproportionately more expensive to provide funds to an SME (Falkena *et al*, 2004).

Following the changing perception about the SME sector, several products and services being developed by both existing and newly established financial institutions are mostly designed to meet the needs of SMEs. The evidence that several information savings, credit, and insurance markets have merged and functioning reasonably well in emerging markets Besley, Coate, and Loury (1993), and Townsend (1994) prove the point that the availability (supply) of financial services is really not the issue now. Provision of formal financial services may remain ultimate goal for policy and several informal savings, credit and insurance markets have emerged. While William (1993) states in his findings that SMEs find it hard to access funds from financial institutions, attempts from the GoK puts a lot of emphasis on the SMEs especially run by youth to access finds. These findings do not however focus the frequency of the SMEs accessing funds. This paper therefore sought to fill this gap by determining the frequency of accessing credit facilities by the SMEs.

2.2.4 Effect of Accessing Bank Credit Facilities

Abiola (2011) defines credit facilities as contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date. SMEs are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by financial institutions. This is because the SMEs cannot provide the necessary collateral security demanded by these formal institutions. The banks also find it difficult to recover the high cost involved dealing with small firms (Quaye, 2011). Statistically, SMEs are reported to have high failure rates making it difficult for lenders to asses accurately the viability of the enterprise.

Sievers and Vanderberg (2004) hold the view that accesses to financial services are important for growth and development of SMEs. Financial services provided to SMEs include financial products and services such as savings, credit, insurance and payment systems. The predominant credit facility available to the SMEs is short term loan. Accessing finance has been identified as a key element for SME to succeed in their drive to build productive capacity, to compete, create jobs and contribute to the poverty alleviation in developing countries. A report by UNCTAD (2002) holds the view that SMEs in Africa can rarely meet the conditions set by financial institutions, hence without finance SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms.

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Several scholars have studied the relationship between the effects of financing on the performance of SMEs, for instance Pissaides and Svejnar (2006) looked at bank lending and performance of SMEs using evidence from Bulgaria, Georgia, Russia and Ukraine and established that the effect of loans on the performance indicators varies somewhat across countries. In Nigeria, Idowe (2012) found that the impact of finance on SMEs establishes positive contributions on their performance. Findings from a case study of SMEs in Mbarara Municpality by Akisirime (2010) revealed that there exists a positive relationship between credit terms and SMEs performance.

In Kenya, a case study of village bank model in Bomet District by Langat (2009) established that income of credit participants was higher than that of none-participants. Nabuitu (2013) observed the factors affecting the performance of SMEs traders at the City Park Hawkers Market in Nairobi County Kenya and concluded that access to business information services affected the performance of the business to a great extent. George (2008) states that when clients borrow multiple sources, that is, Micro Finance Institutions (MFIs) and other formal and informal providers, juggling repayment schedules and making sure that the credit is used to its best advantage adds to a level of complexity that can be very challenging to manage. Under such circumstances, forward looking strategies are necessary, and these require specific knowledge, skills and attitudes about financial management. Anticipated outcomes include changes in client behaviors and practices in money management such as saving regularly making a budget and working towards a financial goal.

According to Kimenyi and Ndung'u (2009) a large body of evidence shows that access to financial services and that indeed overall financial development is crucial to economic growth and poverty reduction. They further stated that Kenyan households did not have bank accounts and relied on informal sources of finance. This inaccessibility to financial services including credit facilities has made SMEs vulnerable to economic loss thereby making them economically unproductive. A crucial element in the development of SME sector is the access to finance, particularly to bank financing. Studies done by World Bank reveal that access to finance are perceived as one of the main obstacles in doing business (World Bank 2008). A number of studies have also shown that financing is a great obstacle for SME that it is for large forms, particularly in the developing world, and that access to finance adversely affect the growth of SME sector (Schiffer and Weder, 2001; Beck et al, 2005; Beck et al, 2006)

Kimenyi and Ndung'u (2009) in their findings, give evidence that shows that access to financial services is crucial to economic growth. While other scholars have also emphasized that credit facilities impact positively on the performance of SMEs, what remains unclear is the effect brought about by accessing bank credit facilities. This study therefore sought to fill this gap by examining the effect of accessing bank credit facilities in Kibuye market.

2.3 Summary of Literature Review

This chapter has highlighted some of the relevant literature by scholars and researchers on the subject and knowledge about finance literacy and financial performance in SME. The purpose of this literature review was to identify key factors that play a role in the failure of small business. In summary, the above studies show that a lot of research has been done on the adequacy of accounting records for small enterprises, and the survey of accounting formation requirements of small enterprises. Other related studies have been conducted in other countries which post different circumstances from the available in Kubuye open air market. For the studies done in Kenya, they concentrated on other markets (Kinyua, 2014). This study therefore sought to fill this gap by determining effect of financial literacy on the profitability of SMEs in Kibuye market.

CHAPTER THREE

METHODOLOGY

This chapter focuses on the research techniques adopted for this study with the aim of achieving the research objectives.

3.1 Research Design

This study adopted a cross-sectional survey research design. This design was selected because it provides a numeric description of the fraction of the population – the sample - through data collection process, using a questionnaire and observation guide at one point in time, with the findings being generalized to a population (Creswell, 2009).

3.2 Study Area

Kibuye, popularly known as Kenya's retail paradise is home to thousands of small scale traders who deal with everything from vegetables, clothes to utensils and even furniture. Kibuye is located on Kisumu Kakamega road approximately 4 km from Kisumu city on coordinates 0.5'34"N 345°46'6"E it borders Kondele and Shaurimoyo estate. Traders as far as Uganda, Tanzanmia and other parts of Kenya converge in Kibuye market to take part in business activities. Kibuye market, also known as melting pot of Kisumu attracts approximately 5000 traders and 100,000 customers on Sundays. (ibid). Kibuye market is the main retail outlet for all the agricultural produce that flows from the entire Nyanza region and beyond (ibid). This made it a good area for this study.

3.3 Model specification

The regression model below was applied to establish the relationship between study variables.

$$\underset{(0.827)}{P = 1.835} + \underset{(0.096)}{0.201\,FL} + \underset{(0.447)}{0.012\,AFR} + \underset{(0\ 110)}{0.024\,AFS} + \underset{(0.107)}{0.096\,EAFS}$$

3.4 Target Population.

The population comprised of 5000 men and women with small size enterprises in Kibuye market, aged between 18 and 45 years (Omulo, 2012). These were residents within the area of study.

3.5 Sample Size Estimation

A sample size of 356 was determined using Kotharis's formula denoted by:

$$n = \frac{Z^2 pq.N}{e2\,(N-1) + Z^2\,.p.q}$$

Where n = Sample

Z = Standard variate at a given confidence level

P = Sample proportion of success, q = 1- p

q = Proportion sample that has desired characteristics.

N = Size of the population

e = Accepted error

$$n = \frac{(1.96)^2\,(0.5)\,(5000)}{(0.05)^2\,(5000-1) + 1.96^2\,(0.5)\,(0.5)}$$

$$= \frac{4802}{13.4579}$$

$n = 356$

Simple random sampling was then to extract the sample from the population. This sampling technique allows all the individuals in the defined population to have an equal and independent chance of being selected as a member of the sample (Kombo and Tromp, 2006). Gender parity was observed while drawing up the list of respondents.

3.6 Data Collection Procedure

The researcher issued questionnaires prepared for the respondents. Questionnaires were used to collect information according to objectives and research questions. Before data collection, the researcher sought permission from the relevant authorities to collect data; the researcher then visited the County commissioner office and sought permission to visit the respondents within the area of study. The researcher then contacted the respondents, explained to them the reason for the study for the research and familiarized himself with the area of study. He then personally issued questionnaires to the respondents which were collected after two weeks. The questionnaires were constructed to enable the researcher to collect information on the SSEs owner/managers basic financial knowledge and the performance of their enterprises among others. On the collection days, the researcher checked the incomplete question items with the respondents.

3.6.1 Sources of Data

The researcher used both primary and secondary information. Primary information was obtained using questionnaires, while secondary information was from internet, journals and books.

3.6.2 Instrument for Data Collection

Data was collected using questionnaires. Questionnaire was constructed in both open ended and close ended questions. Open ended questions enabled the researcher to collect data on any emerging themes. The questionnaire was used to collect data on the relevance of business management skills, credit management skills and finance management skills. The questionnaire consisted of structured questions and the questions were organized according to objectives.

3.6.3 Reliability Test for Data Collection Instrument

Reliability of the instrument was determined using Cronbach's alpha coefficient method. This was carried out on 10 people of the population and the reliability coefficient of 0.838 was attained, the instrument was considered reliable (Umbach 2005).

3.6.4 Validity for Data Instruments

Validity of the instrument was established by giving the instrument to two experts in the area of study for scrutiny. They determined that the instrument measured what they purported to measure. The results after reliability and validity were factored into reconstruction of objectives and research questions.

3.7 Data Analysis and Presentation

Data analysis and interpretation are the central steps in the research process. The aim of analyzing data is to summarize the collected data in such a way that they provide answers to the questions that motivated the research. Interpretation on the other hand is the search for the broader meaning of the research findings (Gwako, 2012). In this case, the questionnaires were modified for the purposes of checking completeness, clarity and consistency in answering the objectives of the research. The analyzed data were presented by way of tables and frequency distributions and bar graphs and pie charts.

CHAPTER FOUR

RESULTS AND DISCUSSSIONS

4.1RESULTS

This chapter presents the results of the research questions based on the responses received from the SSEs owners sampled.

Table 4.1: *Descriptive Statistic on Dependent and Independent Variables*

	N	Min.	Max.	Mean	Std. Dev.	Skewness		Kurtosis	
	Statistics	Statistics	Statistics	Statistics	Statistics	Statistics	Std error	Statics	Std error
FL	140	1	5	2.62	1.315	-.078	.206	-1.522	.408
AFR	140	1	5	1.10	.302	2.682	.206	5.271	.408
AFS	140	1	5	2.77	1.171	.826	.209	-.310	.414
AFS	140	1	5	3.33	1.274	-.32	.209	-.464	.414
P	140	1	5	2.71	1.452	.210	.205	-1.375	.407

FL- Financial Literacy

AFR- Effect of Accounting and Financial Records

AFS- Frequency of Access of Financial Services

AFS- Access to Financial Services on profitability

P- Profitability

Mean measures the average of the responses as given by the respondents. The descriptive statistics in the table above reveal that most of the respondents acknowledged that they were indeed making profits but their profits were not adequate. The responses with regards to financial literacy were at 2.62. This shows that majority of the respondents had some level of financial knowledge which could have been received either from family/friends or media or professionals and or knowledge from self-experience. With regards to access to financial services, most of the response recorded was at 2.77 and shows that the respondents access financial services. As pertains to access to financial services on profitability, the respondents reiterated that the financial services have moderate effect of the business and lastly, with regards to records, the businessmen acknowledged that they keep records of their business transaction.

Pearson's Correlation

Correlation is the measure of the degree of association between the variables. The study used Pearson Correlation and the results were tabulated below:-

Table 4.2: *Correlation of Dependent and Independent Variables*

		P			
P	Pearson Correlation	1			
	Sig. (2-tailed)				
FL	Pearson Correlation	.206*			
	Sig. (2-tailed)	.015			
AFR	Pearson Correlation	-.019	-.121		
	Sig. (2-tailed)	.826	.161		
AFS	Pearson Correlation	.103	.095	-.217*	
	Sig. (2-tailed)	.235	.274	0.12	
AFS	Pearson Correlation	-.034	.049	.129	-.355**
	Sig. (2-tailed)	.689	.570	.137	.000

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

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

P- Profitability

FL- Financial Literacy

AFS- Financial and Accounting Records

AFS- Accessing Financial Services.

AFS- Accessing Financial services on profitability

From this table, the variables were correlated but the degree of correlation is very low. A correlation of more than 0.5 considered high irrespective of whether the direction of association is negative or positive. From the table, the association between P and FL is 0.206 meaning that a unit change in FL leads to a positive change of 0.206 in P. It is also significant at 5% since the significant level is at 0.015. The association between P and accessing financial services is positive too, though the degree is low at only 0.103 and it is not significant at 5% level since the profitability of association is more than 0.05 at 0.235. The degree of association between P and frequency of accessing financial services and P and accounting and financial records was at 0.019 and 0.034 respectively and the directions were all negative. There association was also not significant at 5% level since the corresponding probabilities were 0.826 and 0.689 respectively.

Regression Equation

Table 4.3: *Correlation of the Independent Variables*

	Unstandardized Coefficients	Standardized Coefficients	Correlations		Collinearity					
			Zero-							
		Std.								
Model	B	Error	Beta	T	Sig.	Order	Partial	Part	Tolerance	VIF
1 (Constant)	1.835	.827		2.220	.028					
FL	.201	.096	.183	2.099	0.38	.189	.182	.181	.977	1.023
FR	.012	.447	.002	.027	.979	.035	.002	.002	.887	1.127
AFS	.124	.110	.020	.022	.827	-.022	.019	.019	.938	1.066
AFR	.096	.107	.084	2.380	.048	.097	.079	.078	.857	1.167

a. Dependent Variable:

Profitability

FL- Financial Literacy

FR- Financial Records

AFS- Frequency of Accessing Financial Services

AFR- Effect of Financial Accounting Records

Table 4.3 gives the coefficients of the independent variables. The results show that the coefficient of FL, EFR, FAFS and EAFS are 0.2021, 0.012, 0.024 and 0.096respectively. This indicates that a unit change in FL, EFR, FAF and EAFS results in 0.201, 0.024 and 0.096 change in profit respectively. However, and with regards to the test of significance, only the constant, FL and EAFS are statistically significant at 5% level. The rest are not. This therefore means that they are the only parameters that are important in the ultimate determination of performance in so far as the independent variable chosen are concerned. The table shows that all the independent variables (FL, EFR, FAFS and EAFS) are positively related to profitability meaning that as the businesses increase their financial literacy, keeping of accounting and financial records and accessing financial services, the profits increase.

Looking at the Collinearity statistics, and using the VIF, the conclusion is that the variables are not multicorrelated. A serious Multicollinearity exits if the VIF exceeds 10. In this case, none is greater than 1.2.

Table 4.4: *Model Summary of Regression of the Independent Variables*

Model	R	R Square	Adjusted R Square	Std. of Estimate	Change Statistics Error R the Square Change	F Calculated	df1	df2	F	Durbin Watson
1	.775[a]	.602	.572	1.114	.602	68.580	4	129	Critical 5.65	1.897

Predictors:(Constant), FL, EFR, FAFS, EAFS

. Dependent Variable: Profitability

FL- Financial Literacy

EFR- Effect of Financial Records

FAFS-Frequency of Accessing Financial Services

EAFS-Effect of Accounting and Financial Records

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Table 4.4, R measures the coefficient of correlation which is a measure of the linear correlation between two variables whereas the R^2 is the coefficient of determination which is a measure of how well the Regressors explain the regressed. It is at 0.602 meaning that the variable chosen only explains 60.2% of profitability. The differences of 39.8% of the variables that affect profitability were left out. The probability of the F-statistics, which is the measure of the goodness of fit, has a calculated figure at 68.580. This is greater than the F calculated which stands at 5.65. Since the F- calculated is greater than F- critical, then the goodness of fit is significant meaning that the variables can be used to explain the true population.

By combining the results in table 4.4 and table 4.5, a regression equation was then constructed as below:-

$$P = \underset{(0.827)}{1.835} + \underset{(0.096)}{0.201}\, FL + \underset{(0.447)}{0.012}\, AFR + \underset{(0.110)}{0.024}\, AFS + \underset{(0.107)}{0.096}\, EAFS$$

P- Probability

FL- Financial Literacy

AFR- Accounting and Financial Records

AFS- Access to Financial Services

EAFS-Effect of Access and Financial Records

4.1.1 Extent to which financial literacy is adopted by small scale enterprises

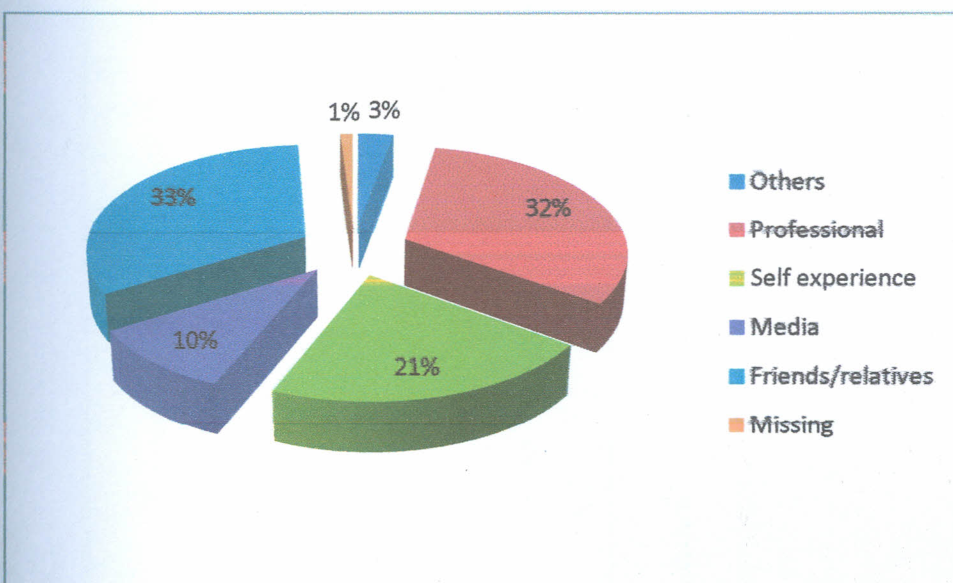
Table 4.5

	Frequency	Percent	Cumulative percentage
Little Adoption	90	41.0%	41.0%
Moderate Adoption	30	32.0%	73.0%
Great Adoption	16	20.0%	93.0%
Very Great Adoption	4	7.0%	100.0
Total	140	100%	

Source: Study 2014

From table 4.5, 32% of the small scale traders sampled moderately adopted finance knowledge. 41% on the other hand adopted financial knowledge to a little extent, while

27% recorded great and very great extent of adoption of financial knowledge in their businesses. Even though 32% of SMEs in Kibuye moderately adopted financial literacy, this percentage is not the best, but it cannot also be said to be bad. These findings therefore lend support to the findings of OECD (2005) that recorded that financial illiteracy is still a common feature in many developing countries. However, it is in contrast with the findings of Lusardi and Mitchelle (2006) that recorded prevalent and serious lack of financial literacy in developing countries. 32% indicates that a fair number of SSEs in Kibuye have adopted financial knowledge.



Pie chart 1: Sources of financial knowledge

According to the pie chart above, the results show that business owners who acquired financial knowledge from families/friends were 32.86%. This was followed closely by business owners who acquired financial knowledge from professionals at 32.14%. This indicates that a fair number of business owners have good and relevant knowledge to manage their businesses and are also able to make informed financial decisions. Business owners who relied on self experience knowledge were at 21.43%, while those who relied on media for financial knowledge stood at 10%, and lastly other means constituted 2.86%.The finding lends support to the findings of OECD (2005) that stated that general financial literacy remains low across the world.

4.2.2 Keeping Accounting and Financial Records

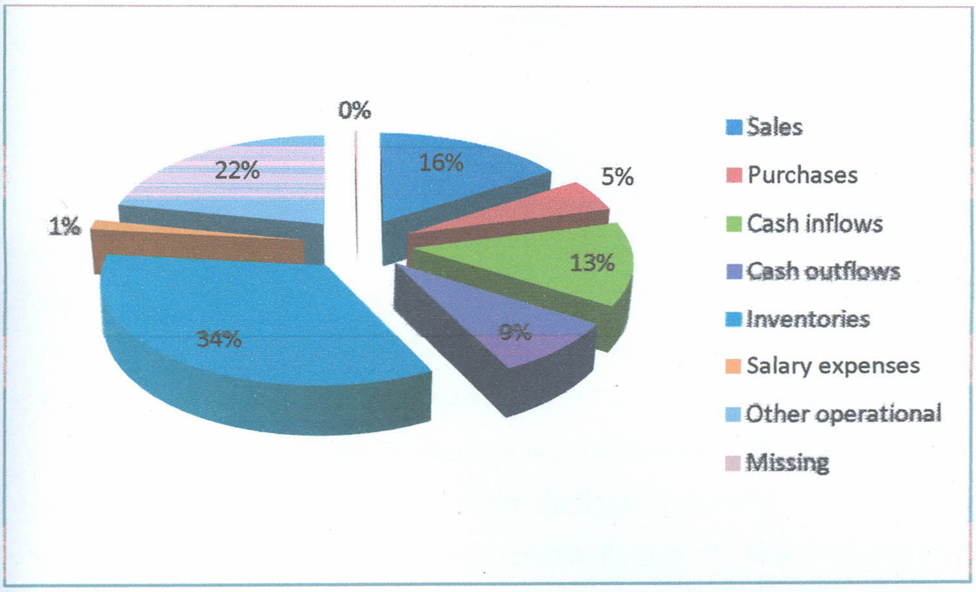
Table 4.6: *Statistics on Keeping Financial Records*

	Records	Duration	Effect	Effect kind	Transac record	Trans record effect	Kind of effect	Fin doc	Fin doc countr	Status mont	Fin a rec	How Often
Mean	1.10	2.31	3.60	1.08	4.31	3.74	1.07	1.83	2.76	1.46	2.0	2.25
Mode	1	2	4	1	5	4	1	1[a]	3	1	1	3
Std. Deviation	.302	1.122	1.088	.272	2.014	.894	.417	1.072	.856	.515	.886	.968
Skewness	2.682	.800	-.955	3.138	-.289	-.980	7.414	1.846	-.443	.314	.231	.172

a. Multiple modes exist. The smallest value is shown

From the table above and regarding the various questions administered to the businessmen, majority indicate that they do keep financial records and how often these records are kept. However, most of them indicated that they do this on a weekly basis but acknowledged that keeping these records have little effect on the profitability of their businesses. The kinds of records that these businesses keep are mainly those related to stock/inventories.

The pie chart below indicates the distribution.



Pie Chart 2: Distribution of cash

From the figure above, 33.57% of businesses indicated that they keep inventories records. It was followed by other operational expenses at 21.43%, sales at 15.71%, cash inflow at 12.86%, cash outflows at 8.57%, purchases at 5%, and lastly salaries at 1.43%.

With regards to the financial documents that the businesses kept, majority of the \respondents acknowledged that they keep receipts of major expenses and bank statements. Statements of cash flows are what help the businessmen in managing their money.

Table 4.7: *Rate of the Profitability*

	Frequency	Percent	Valid percent	Cumulative percentage
Valid 0-5000	42	30.0	30.0	30.0
5001-10000	27	19.3	19.3	49.3
10001-15000	21	15.0	15.0	64.3
15001-20000	30	21.4	21.4	85.7
> 20000	20	14.3	14.3	100.0
Total	140	100.0	100.0	

Source: Study 2014

From the profitability table 4.7 above, 64.3% (30%+19.3%15.0%) of the SMEs make profits of between Kshs 0-15000 and 35.7% (21.4%+14.3%) make profits of 15001 and above. This shows that there's a strong relationship between profitability and records kept. Majority of respondents who do not keep complete transactions realize low profits. These findings confirm the work of Peacock (1987 and 1988) which found that a significant element of failure of many businesses was inefficient or absence of accounting records. These findings also lend support to the findings of Prasetyo (2007) who established that SMEs need accounting and financial records to improve their business and evaluate their performance. In overall, the regression results suggest that keeping financial records positively affects profitability but is insignificant in profitability determination.

4.2.3: Frequency of access to bank credit facilities by small scale enterprises

Table 4.8: *Statistics on Access of Financial Literacy*

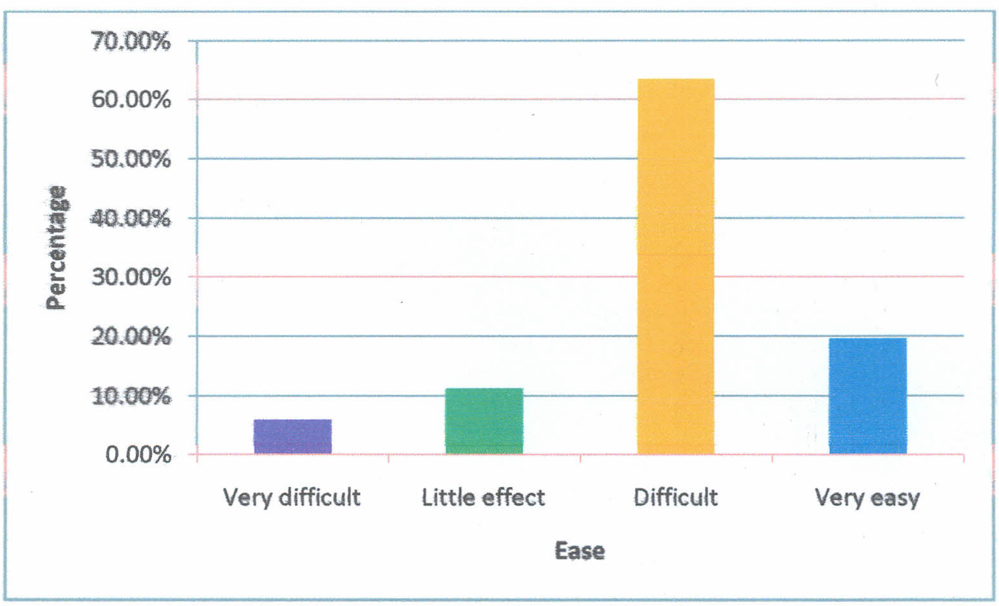
	Business age	Assets	Profits	Collateral	Another	Extent	Freq.	Ease
Mean	3.41	3.67	3.77	3.51	2.66	3.66	2.77	2.96
Mode	4	4	4	4	2[a]	4	2	3
Std. Deviation	.995	.888	.846	1.064	.885	.921	1.171	.740
Skewness	-.452	-.541	-.517	-.237	.164	.-661	.826	-.845
Std. Error of Skewness	.209	.209	.209	.209	.269	.208	.209	.209

a. Multiple modes exist.

The smallest value is shown

Table 4.8 indicates the statistics as posted to the questions regarding the frequency access to financial services. Most of the traders indicated that there is little effect with regards age of the business as a determinant to the frequency of access to credit. The same response was received with regards to size of the business, profits made, and availability of collateral. However, the respondents acknowledged that there are some other factors that contributed towards the frequency of access to credit and these factors greatly affect their access to credit. Unfortunately, what these factors are could not be revealed by the respondents.

The results also revealed that the respondents frequented banks on a weekly basis to get bank services. However, the respondents acknowledged that getting the bank services are difficult. This result was captured in the graph below:



Bar Graph 1:Rate of ease from the bank

From the above, it portrays that access to financial services are not easy since 6% of the businesses acknowledge that accessing these services are very difficult, 11.2 % said the access to financial services are easy whereas 63.4% experiences difficulty in accessing the financial services. Only 19.4% said that accessing the financial services is very easy. These findings confirms the work of Mengistae *et al*(2010) who recorded that frequency of access to finance is limited and that microenterprises report that they access credit facilities few times in a year. These findings are however in contrast with the findings of Falkena *et al* (2004) that recorded that as the firm grows larger the frequency of access also increases. Regression analysis results reveal that access to financial services is positively related to profitability. A unit increases in access to financial services leads to a 2.4% increase in profitability. However, this variable is not statistically significant at 5% level. The probability is at 82.7% which is far greater than 5% level.

4.2.4 The effect of accessibility of credit facilities on Small Scale Enterprises

Table 4.9: *Statistics on the Effects of Financial Services on Profitability*

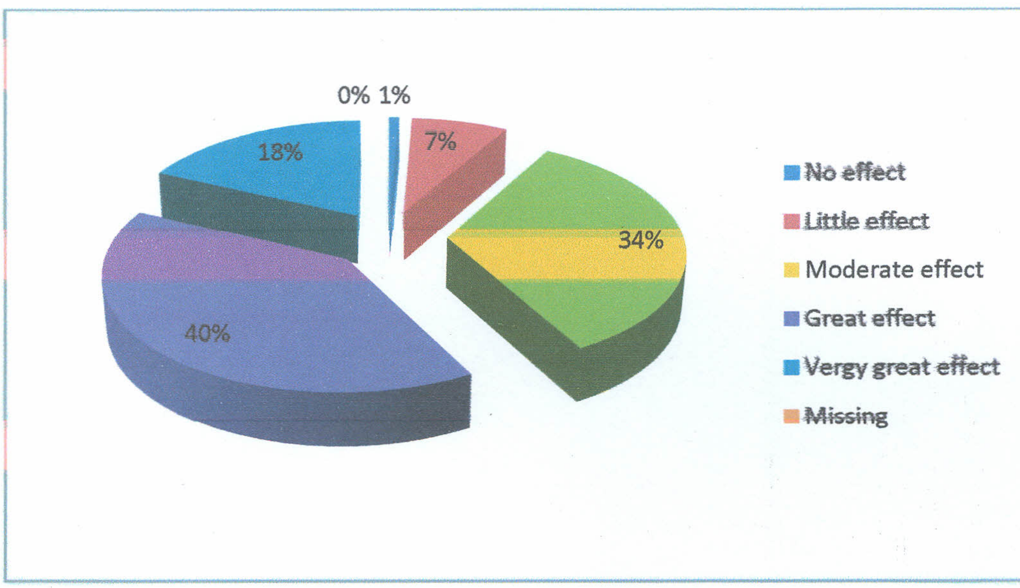
	Support	Support effect	Effect finance	Competition	Taxation	Corruption	High Comp	Any other	Cond effect	Kind effect
Mean	1.33									
Mode	1	4	4	4	4	2[a]	4	3	4	1
Std. Deviation	.796	1.274	.580	1.137	1.011	1.116	1.078.	.922	.885	.239
Skewness	2.747	-.832	3..61	-.328	-.253	.045	-.256	.187	-.227	3.742
Std. Error of Skewness	.233	.209	.212	.212	.212	.212	.212	.279	.210	.210

a. Multiple modes exist.

The smallest value is shown

Table 4.9 gives the statistics on the effects of access to financial services upon profitability. With regards to the kind of financial support the respondents get from the bank, most of them indicated that they get loans. On the effect of the financial support on their businesses; the respondents cited little effect though it is positive. On the condition that has a greater effect on the accessibility to financial services, competition, taxation and high compliance all had little effect, corruption had a great effect while other costs not captured by the questionnaires had moderate effects.

With regard to the effect of financial support of the business, the responses were captured on the pie chart below: -



Pie Chart 3: Effect of Financial Services on profitability

From the figure above, majority of the respondents indicated that access to financial services has a great effect on their businesses. This stood at 37.86%. Response on moderate effect was at 32.14%, very great effect was at 17.14%, little effect was at 7.14%, no effect was at 0.72%.

These findings lend support to the findings of Joeveer (2006) who stated that bank loans have a significant positive effect on the performance on SMEs. These findings also confirms the work of Sievers and Vanderberg (2004) who argued that access to financial services are important for growth and development of SMEs.

Regression model in indicates that the effect of financial support is also very significant in the determination of profitability at 5% level of significance. They are positively related and an increases of financial access by a unit leads to an increase in profitability increases by 9.6%.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

This chapter gives a brief summary of the findings, recommendations arising from the findings of the study. A summary of the findings of this research are as explained below.

Objective one sought to examine the extent to which financial literacy is adopted by the SMEs. The study revealed that adoption of financial literacy has a positive and significant influence on the profitability of SMEs. This implies that as SMEs increase in adoption of financial literacy, their profitability also increases. A unit increases in the level of financial literacy leads to 18% increase in profitability.

Objective two sought to investigate the effect of keeping accounting and financial records on the profitability of the SMEs. The study revealed that keeping accounting and financial records has a positive but insignificant influence on profitability. This implies that whenever SMEs keep financial and accounting records, the overall effect is profitability improvement.

Objective three sought to determine the frequency of access to credit facilities by the SMEs. The study revealed that frequency of access to credit facilities has a positive but insignificant influence on the profitability determination. This implies that as SMEs frequently access credit facilities, their profitability also increases. A unit increase in frequency of access to credit facilities leads to 2.4% increase in profitability

Objective four sought to examine the effect of accessing credit facilities on the SMEs. The findings revealed that access of credit facilities have a positive and significant influence on the profitability determination. This implies that as SMEs access credit facilities, their profits also increase. A unit increase of credit facilities leads to an increase in profit by 9.6%

5.2 Conclusion

The purpose of the research was to study the effect of adoption financial literacy on the profitability of small scale enterprises in Kibuye market, Kisumu County. From the findings, it can be concluded that:

From the finding of the first objective, that there exist a positive and significant influence between adoption of financial literacy and profitability, it can be concluded that whenever SMEs adopt financial literacy, their profits also increases.

Secondly, from the findings of the second objective that there exists a positive though insignificant influence between keeping accounting and financial records and profitability, it can be concluded that when SMEs keep complete accounting and financial records, their profits also increases.

Thirdly, from the findings of the third objective, that there exists a positive but insignificant influence between frequency of access of credit facilities and profitability, it can be concluded that the more SMEs access credit facilities, the more their profits increases.

And lastly, from the findings of the fourth objective that there exists a positive and significant influence between access of credit facilities and profitability, it can be concluded that access to credit facilities contribute positively to the profits of SMEs

5.3 Recommendations

The following recommendations were made from the research findings.

Based on the conclusion of objective one, that there exists a positive influence between adoption of financial literacy and profitability, the study recommends that SMEs adopt and apply financial knowledge to ensure profit maximization.

Based on the conclusion of objective two, that there exists a positive influence between keeping accounting and financial records, the study recommends that SMEs should endeavor to keep complete accounting and financial records to help them the financial status of their business.

Based on the conclusion of the third objective, that there exists a positive influence between frequency of access of credit facilities and profitability, the study recommends that the SMEs put serious considerations and, access credit facilities as often as possible to boost their performance.

And lastly, based on the conclusion of the fourth objective, that there exists a positive influence between accessing credit facilities and profitability, the study recommends that SMEs take the advantage of accessing and utilize affordable credit facilities to achieve financial performance.

5.4 Limitations of the Study

Due to limited resources available to the researcher in terms of finance, time and material, the study was limited to Kibuye market where the concentration of SMEs is high. The researcher also realized that SMEs in Kibuye were much chocked with research work. This made most of the SMEs owners tired with responding to questionnaire every so often, as a result some of the SMEs could not complete questionnaire in good time while others were lackadaisical in their approach to responding to the questions from the researcher. The researcher countered these limitations by having two research assistants to help cover the large market within a reasonable time.

5.5 Suggestion for Further Study

Due to inadequate time and funds, the researcher only covered Kibuye Open air market in this study. The study also concentrated on small scale enterprises category only. This left out grounds for further study in related areas. Consequently, the study suggests the following areas for further study.

Effect of implementations of accounting in small scale enterprises and to factors affecting the adoption of formal accounting by small scale enterprises.

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