# EFFECT OF FINANCIAL INCLUSION ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MOMBASA COUNTY, KENYA

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## DECLARATION

This research project report is my original work and has not been submitted to any other institution for any academic inclusion.

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**D61/21138/2019**

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This research project report has been presented with my approval as the University Supervisor

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# LIST OF ABBREVIATIONS

| | |
|---|---|
| **ANOVA** | Analysis of Variance |
| **ATM** | Automated Teller Machine |
| **CBK** | Central Bank of Kenya |
| **GDP** | Gross Domestic Product |
| **KWF** | Kenya Women Finance |
| **LPO** | Local Purchase Order |
| **MFI** | Microfinance Institutions |
| **MSMEs** | Micro Small and Medium Enterprises |
| **SACCOs** | Savings and Credit Co-operative Societies |
| **SME** | Small and Medium Enterprises |

## ABSTRACT

Research sought to determine the effect of financial inclusion on financial performance of SMEs in Mombasa. Specific objectives were anchored on financial access, quality, usage and service delivery. The development of mobile banking, microfinances, SACCOs and internet banking in Mombasa County was aimed at improving financial access, enhance finance quality, financial use and service delivery, however, small businesses are still failing in their performance. There was need to empirically study these problem and be able to understand how financial inclusivity can help the financial exhibition of Small and medium enterprises. The study theoretical framework comprised of Grameen Theory, Credit Rationing Theory and Financial Intermediation Theory. Research methodology comprised of a descriptive research approach, a target population of 3000 SME owners in Mombasa County from which a study sample of 300 SME owners was selected forming a 10% representation. Data was collected primarily using questionnaires which were then tested for reliability and validity before a full scale was done. Data obtained was subjected to diagnostic tests to check collinearity, linearity and significance. Inferential and descriptive statistics was used to analyse the variable relationships aide by SPSS. The study established; a weak positive relationship between financial access and financial performance of SMEs in Mombasa County, the effect of financial access was attributed to accessibility of commercial banks and mobile banking that are more convenient to SME owners; a weak positive relationship between financial quality and financial performance of SMEs in Mombasa, the impact of financial quality was ascribed to adaptability in credit reimbursement period and protection of advance in order to limit defaulting; a weak positive relationship between financial use and financial performance of SMEs in Mombasa, the effect of financial use was ascribed to appropriate usage of assets for organizations and infusing of individual budgets to help business and a positive relationship between service delivery and financial performance of SMEs in Mombasa, the influence of financial use was attributed to good preparation of financial institutions and their intermediaries to serve the SMEs and special service line to help SMEs overcome challenges. The conclusion reached by the study was that; financial inclusion, significantly influence the financial performance of small and medium enterprises in Mombasa County. The measures recommended by this study include; training of SMEs on use of mobile banking application as many were found to borrow from multiple applications and failed to payback; an action that affected their credit rating. SME owners also need to be trained on the importance of recording their transactions so they can track all income and expenses. This study recommends for another study to be done on SMEs once the economy fully recovers to test if a stronger relationship will be obtained. Furthermore, the study was done in Mombasa County which is a financial hub for the region, also, subsequently there is need for a study to be conducted in different counties like Kilifi and Kwale to make a comparison if similar results can be obtained.

# CHAPTER ONE
# INTRODUCTION

## 1.1 Background of the study

Adan (2017) defined financial inclusion as a means of financial conveyance at a reasonable expense for the majority of low income earners. The main goal of financial inclusion is to widen the degree of Financial administrations of the organized Financial framework to join people with low compensation (Ann, Hannah and Peter, 2016). Financial performance is a proportion of the financial wellbeing of an SME or indeed of any business enterprise as well as weigh its financial performance against some other businesses over time. Most countries that are still developing particularly in Africa are setting up initiative to enhance financial accessibility in a move to spur growth in the small and medium business sector.

The theoretical reason for this investigation was grounded on: The Grameen theory created by Muhammad Yunus from 1976 which glances at the pay expected by the institutions of finance from loans that has resulted from entrepreneurship (Babu, 2017); Credit apportioning theory by Stiglitz and Weiss (1981) whom contended those agency issues and the investors and data imbalances are the significant motivation behind why SMEs have compelled admittance to fund. Finally, we looked at the financial intermediation theory proposed by Douglas (1984) who contends that data deviation emerges in the financial framework and markets among borrowers and banks since borrowers by understand their speculation projects than money lenders do.

In Kenya roughly 32% of low pay population has a bank account, which shows that most Kenyans actually need to be admitted to be able to have basic financial services (Ketly & Kasi, 2015). The standard financial area neglects to convey financial services to a huge number of customers particularly those living in villages and remote areas. Banks are one-sided for as they concentrate on high earning and elite individuals because of huge costs of basic foundation and operational expenses plus low benefits while transacting businesses with the poor and low income earners. Financial institutions such as commercial banks have created LPOs to enable SME engaging in tendering be able to deliver their services.

### 1.1.1 Financial Inclusion

Financial incorporation is an alter in the outlook of financial specialists on the most proficient method to see cash and benefit. In the old mentality, when individuals see cash, what is to them is the means by which to get greater benefits (Bertram, Nwankwo and Onwuka, 2016). This causes the hole between poor people and the rich to become more extensive. With the attitude of financial incorporation what is generally anticipated to change is that financial user become more responsive that benefit is the point at which the financial user around become prosperous and the neediness hole limits. Financial incorporation is one of the projects for financial education, particularly to work on the local area's capacity to utilize financial administrations to get immediate effect from financial foundations (Sharma, 2016).

Financial inclusion is a multifaceted financial term that can be interpreted differently on how it affects the performance of an organization. Academic scholars suggested that financial inclusion has enhanced financial access to many people who were previously not served by commercial banks and other financial institutions. This research will utilize three metrics to measure financial inclusion in SMEs (Neaime & Gaysset, 2018). This study will attempt to measure financial inclusion in the SME sector by; assessing the ability to use formal financial services with focus on affordability and physical proximity; another measure will be an assessment of financial product attributes and how they meet the need of SME and frequency in usage of financial products.

### 1.1.2 Financial Performance

According to Sharma (2016) the term financial performance is utilized as an overall proportion of a company's financial wellbeing throughout a given timeframe, and can be utilized to think about comparative firms across a similar industry or to look at ventures or areas in entirety. There are different ways to evaluate financial performance, be that as it may, all activities take in social occasion for example subtleties like pay from enterprises, working compensation or pay from exercises can be used. Additionally, all the sales made in total can also be used. Other financial measures of performance also consider qualitative data especially in small business where individuals running the business do not keep records.

Many small and medium enterprises do not keep financial records hence use of financial metrics in assessing the overall performance SME was nearly impossible (Adeola & Evans, 2017). This study used non-financial measures to assess financial access, financial use, financial quality and service quality through surveys. The measures used in this study to assess productivity of SMEs in Mombasa were based on profitability, accumulated assets over a time period, return on investments and efficiency in operations adopted by SME owners before the commencement of the study.

### 1.1.3 Financial Inclusion on Financial Performance

Salman et al. (2015) assessed the effects of financial incorporation aspects on SME headway in Nigeria. The results show that financial inclusiveness with estimations of versatile banking, banking organizations, and banking entry has an immense advantageous result on the turn of events and improvement of SMEs. The investigation prescribed the need of enterprises to expand the limit and supports for SMEs that can prompt SMEs being very much overseen, reasonable, and a guarantee of credit from financial institutions like banks.

Nwanko and Nwanko (2014) did an exploration study on the manageability of financial inclusiveness on progress of SMEs in rural population in Nigeria. The review research plan adopted was a descriptive approach, the study also adopted content analysis. The study relied on sector reports from government authorities which gave a clear outlook of the sector and strategies adopted by the government to ensure that the SME grows. The research established improved inclusivity in the financial sector across the country of Nigeria, contributed positively to the improvement of the poor in rural areas that were previously not serviced by commercial banks.

### 1.1.4 Small and Medium Enterprises

SMEs are characterized by a small number of staff, limited operations and resources that management can use to meet the organizations financial obligations. SMEs are found in every sector of the economy, entrepreneurs normally start small to actualize their idea, getting funding then expand their operations to serve their target market. In Kenya, SME are majorly based in the Jua Kali sector where youth and un employed Kenyans engage in small scale income generating activities. The sector is a major employer of Kenyans and he government has created a number of funds targeting the youth, women and people with disabilities to ensure they have access to fund and support to succeed in their businesses. Commercial banks and other financial institutions have also in the recent past tailor-made financial products to meet the needs of these special groups.

Mombasa County is strategically placed and frames part of the enormous coast region (Mombasa County, 2019). The county has openings introduced by the seaport, a tremendous financially developing hinterland, different biological systems and the rich antiquated history. All these contribute towards giving the County potential as an appealing spot in which to contribute, work and live (Mombasa County, 2019). Majority of employment opportunities within the county come from the informal sector at 60%. These conventional work openings are found in Mvita, Changamwe, Jomvu, Likoni and Kisauni Sub-counties.

Significant businesses in the County incorporate the hotel business, delivery business, state owned enterprises and different private organizations. The County has more than 38 banks and host a few microfinance foundations. Regardless of large number of individuals residing from the sub-counties of Nyali and Likoni, they do not have any significant industry (Stephen & Sibert, 2014). This may clarify the general high pervasiveness of crime percentage, youth radicalization and evident help to secessionist bunches in Likoni and Kisauni sub-counties. SME owners within the county have individually or through groups accessed loans financing from Faulu bank, Jubilant Kenya limited, Yehu, KWF etc. which had a strong presence in the county.

## 1.2 Research Problem

Economic surveys conducted to look into the financial performance has obtained mixed results over the time (Chauvet & Jacolin, 2017). Majority of SMEs fail to take offer and many have a hard time through the growth cycle, many factors have been found to be the contributors to the failure of small business with financing recorded as the most cause of failure. As many individuals start their business using their own savings or contribution from friends and relatives, failure to gain additional capital from financial institution has led to stagnation and closure of small businesses. A number of strategies adopted by financial institutions and the government at large are yet to make it easy for small businesses to access quality financial services that meet their financial needs.

Scholars have established that 33% to 41% of SMEs globally do not celebrate their fifth birthday (Okello et al, 2018). In Kenya, many small businesses fail to meet the third birthday, the high mortality rate is attributed to strained inclusivity of the financial sectors as many individuals in the SME sector have no guarantee of accessing finances from formal financial establishments. Notwithstanding the development of the financial area in the last decade, small businesses in the informal sector still face challenges in accessing finances as compared to big businesses (Babu, 2017). The development of mobile banking, microfinances, SACCOs and internet banking in Mombasa County was aimed at improving financial access, enhance finance quality, financial use and service delivery, however, small businesses are still failing in their performance. There was need to empirically study these problem and be able to understand how financial inclusivity can help the financial exhibition of Small and medium enterprises.

Studies done by researcher across the world have established varied results, for example; Samuel & Mbugua (2019 assessed the impact of financial inclusiveness on women owned SMEs in Nairobi County. The review discoveries showed that; financial inclusiveness and start-up capital influences the presentation of Kenyan Women Small and Medium Enterprises. Ibor, Offiong and Mendie, (2017) explored the effect of financial inclusiveness on MSMEs performance in Nigeria. Discoveries of the review set up that financial inclusiveness has a positive and huge impact of the usefulness of small and medium enterprises, in any case, small and medium venture proprietors actually need to make a trip significant distances to their next financial customer facing interaction. Bertram, Nwanko and Onwuka (2016) inspected the relationship that exist between financial inclusiveness and its job on the improvement of financial administrations in Nigeria. The discoveries of the review uncovered a positive and critical relationship between financial inclusiveness and financial turn of events. The study reviewed have focused on increased profitability of small businesses as a result of easy accessibility of finances. Many SME owners do not keep proper financial records hence using profitability ratios by previous researchers does not give accurate reflection of SME performance. Findings of the study proved that financial access, financial quality, financial use and service delivery affect SME financial productivity. Study findings filled the identified information gaps by providing an answer to the following question; What was the effect of financial inclusion on SME financial productivity?

### 1.3 Study Objective

The study sought to determine the effect of financial inclusion on SME financial performance in Mombasa County.

## 1.4 Significance of the Study

Policy makers can gain requisite information on which to consider while formulating policies that are designed to improve SME business environment and spur the development of SMEs thereby enhancing job creation, poverty alleviation and economic growth generally.

The results of this investigation maybe of paramount help to the financial institutions, formal and informal alike in developing better quality financial products that well address the needs of SMEs. Financial institutions can better understand the SME market and expand their portfolio for SMEs service provision.

Researchers and students in finance and banking management may benefit from the discoveries of this as a wellspring of reference. They may further understand the underlying reasons why financial inclusion is highly encouraged and how it contributed to involvement of more people into the financial systems, furthermore, they may in a better position to tell whether financial inclusion has made any contribution to performance of businesses.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1 Introduction

Chapter Two carries a review of study Theories, Empirical review, Conceptual review, Conceptual framework, Summary and Literature gaps that were filled by the research exist and finally the summary of all the literature that aligns to this study will also be studied here.

## 2.2 Theoretical Review

This review explored the Grameen Theory, Credit Rationing Theory and Financial Intermediation Theory.

### 2.2.1 Grameen Theory

Muhammad Yunus in 1976 made an attempt to create a financial framework that accommodate the poor and small business entrepreneurs through micro-finance services (Ozili, 2018). Proponents of the theory believe that, this framework has revolutionised the financial lending system by proving that the poor and people in rural area previously unbanked are better credit managers especially when done in groups. Through the theory, bank managers have been forced to relook their operations and accommodate all types of customers through specialised products, although the Micro-finance institutions and SACCOs are still more friendly to low income earners and small business entrepreneurs in many countries.

Furthermore, the application of the theory in various settings has proved that the model is effective and has managed to bring many of the unbanked into the financial system (Neaime & Gaysset, 2018). In this manner, banks are urged to see the low-pay borrowers as the best type of customers they should focus on as they borrow at short intervals and support each other through groups hence minimising loan defaults. Development of better financial strategies that attract more people despite the income they have and their ability to borrow is seen as the game changer today. With the advent of Fintech services, it's easy to screen and approve small scale borrowers with the help of mobile money service providers.

Some researchers e.g Chauvet & Jacolin (2017) discovered that the theory doesn't fit well onto Financial inclusion research since it overlooks the impact of big league salary workers in the general public. Kim, Yu & Hassan (2018) are of the view that loans given to helpless families by schemes of groups that give loans only makes them consume more than their normal consumption yet there is not much gain in their enterprises. This theory was helpful in clarifying the importance of enabling financial access to all people regardless of their economic and social status across the county and the utilization of bank agents in the provision of assistance to SMEs in the area.

### 2.2.2 Credit Rationing Theory

Quite possibly, the main theory that is zeroed in on the analysis of the financing hole is the credit apportioning theory by Stiglitz and Weiss (1981). In forming this theory, Stiglitz and Weiss (1981) contended that organization issues and the investors and data imbalance are the significant motivation behind SMEs having difficulties in accessing funds. They further contended that the real financial structure of SMEs is only best known to them, the genuine strength of the venture project, challenges in balancing between business financial needs and personal needs as they use business income to meet personal expenses. This brings up the problem of failing to payback money borrowed from financial institutions (Ndiaye, Razak, Nagayev et al, 2018).

Difficulties in access of funds from Financial institutions' rationing of the credit of the borrowers may not be effective as borrowers may misrepresent data to be able to access credit from lenders. Failure by credit officers to undertake thorough assessment of applicants may lead to underfunding or excessive funding that bring into misuse of borrowed finances (Gabor & Brooks, 2017). Especially with mobile banking, lenders rely on third party information such as Mpesa records of the credit reference bureau to assess the credit worthiness of applicants. Most people especially with low financial literacy have no understanding that their payment behaviour may affect their credit worthiness.

Most people starting and running small business are youth whom create a way of earning a living (Ahamed & Mallick, 2019). Also, there might be some deviations emerging from locality and as well the area of the economy. For instance, proprietors of SMEs in remote areas may confront trouble with getting access to financial institutions like banks for funds. Small organizations are bound to be proportioned as they are viewed as especially hazardous (Aksoy, 2017). This theory was useful in this study in explaining financial quality and financial use through comprehension of the loaning necessities by financial organizations, SME proprietors have a higher possibility of getting funds.

### 2.2.3 Financial Intermediation Theory

Douglas (1984) states that information asymmetry arises in the financial structure and markets among borrowers and moneylenders since borrowers have more information on the endeavours that they take part in than the loan specialists. Financial intermediation is considered to be how much Financial foundations bring lack spending unit and abundance spending units together (Aksoy, 2017). Contentions bring up that, banks can successfully monitor borrowers and accordingly assume the role of monitoring borrowers in delegations.

Intermediaries offer types of assistance by giving auxiliary Financial assets for purchase of primary Financial resources (Ghosh & Vinod, 2017). In the event that a mediator offered no types of assistance, financial backers who purchase the auxiliary securities given by the intermediary would by the essential securities straightforwardly and save the expense that would be spent on the intermediary. Theories that focus on business ventures, Financial market defects decide the degree to which skilled yet helpless individuals can resource and funds to start projects. Consequently, the advancement of Financial evolution, development and intergenerational pay elements are firmly interwoven (Wang & Guan, 2017). Funds impact not just the effectiveness of asset distribution all through the economy yet additionally the near financial chances of people from moderately rich or helpless families. The theory was useful in explaining service delivery by financial institutions and how it contributed to the financial performance of small scale business owners in Mombasa County.

## 2.3 Determinants of financial performance

This section gives a conceptual review of the determinants and their possible link to the study dependent variable.

### 2.3.1 Financial Access

Financial inclusion is geared towards enhancing access of financial administrations to the unbanked, low pay earners and the rural population located in areas away from financial reach (Musah, Gakpetor & Pomaa, 2018). With reduction in distances to access a point where an individual can get financial services, individuals spend less money and time while alternatively gaining more time to take care of their business operations. Commercial banks, Micro-finance institutions have developed a number of products and platforms that enable consumers save, deposit and withdraw their finances without being physically present in the banking hall or travelling to urban centres to transact businesses (Maksimov, Wang & Luo, 2017).

For the past decade, financial access was much more difficult for Kenyan SME owners as the financial sector was yet under developed (Muneer, Ahmad & Ali, 2017). Small business owners were at a big disadvantage as compared to big businesses in accessing finances, their inability to repay made it an attractive for financial service providers to extend financial services to their reach. With the advent of technology, many avenues are now available that make it easy to participate in the financial sector, however, many still find it difficult to make sound financial decisions (Acosta, Crespo & Agudo, 2018). For example, the presence of mobile loan apps has improved the uptake of credit by small scale business owners or individuals who have ended up defaulting and declared uncredited worthy and listed in credit reference bureaus.

To measure financial access, the study designed financial access review information to appraise the conveyance paces of store account proprietorship and admittance to credit inside Mombasa County. From the filled in gauges we created the sums for store accounts, and the breakdown by every area. We then, at that point, use family reviews to appraise the normal number of records per account holder which permitted the review to assess the quantity of banked and unbanked people in the SME sector.

### 2.3.2 Financial Use

Majority of SME owners rely on personal finances as a source of start-up capital (Ezeagba, 2017). Personal savings and contribution from friends are normally used to meet the initial cost then additional finances sort to either meet more expenses or expand the business after a period of operations. According to scholars, this has worked to the advantage of those enterprises small scale trade while it has given negative consequences to individuals who under-estimated the financial requirement of the business (Maziriri, Mapuranga & Madinga, 2018). Insufficiency of starting capital has led to loss of savings as businesses fail to start.

It has likewise been seen that, numerous SME access financial administrations from commercial banks, microfinance institutions and SACCOs, but most of them fail to fully utilize and grow their businesses (Abdulaali, Alnoor & Eneizan, 2019). The biggest problem that many individuals have failed to effectively manage is the separation of finances meant for their business and money needed for their financial needs. This leads to misappropriation of funds as a result they fail to meet all the business requirements needs, default in repaying the loans and earn penalties or auctioning of their properties to recover debts (Majama & Magang, 2017). To address this problem and other related issues that small business owners face, financial institutions offer financial training to individuals and groups so that they can equip them with the necessary skills that can help them manage their businesses more effectively. Financial use was assessed by tracking the financial decisions made by individual SME owners in allocating the finances obtained with focus on percentage allocated to the businesses versus amount used for personal needs.

### 2.3.3 Financial Quality

Innovation in financial services has led to development of financial products that has made it easy and simpler for individuals to transact businesses with commercial banks, SACCOs, microfinance institutions and other institutions in the financial sector (Quartey, et al. 2017). The advent of Fintech has made it possible to access finances over mobile devices and over the internet at any point that a business is carried out. With the advent of technology especially, money finances can be deposited, withdrawn and transferred at any time of the to the convenience of any individual with little technical knowhow. In the rural areas, table banking has enabled members of the community to rally together and support each other in improving the livelihoods of members of the society through joint saving and financing of member's businesses.

The introduction of mobile money services by in Kenya Safaricom has gone a step further to change cash withdrawals, deposits and payments (Constable, 2017). With a simple mobile gadget, an individual can make all transaction without stepping into a bank. The service is more convenient for its available all the time, it's cheap in terms of transaction costs and has minimal expenses in travelling to get an agent. With more development, the service is now accessible worldwide, making it easy to transact with people in far areas of the continent and the globe at large. One of the best features in mobile banking that has greatly influenced financial inclusion is mobile loaning that is less cumbersome and fast in approving and granting loan as per lenders assessment. Mobile loans do not require security although at the start a borrower only has access to small amount of cash, that grow based on payment pattern. Financial quality was measured by looking at the number of products offered by financial institutions that SME owners have access to and financial product features such as interest period and repayment period that were conducive to SME owners.

### 2.3.4 Service Delivery

Small business faces a number of challenges in their daily transactions which has led to many business, banks and other financial organizations to make extraordinary administrations to address the issues of small businesses (Muhmad et al. 2020). In traditional banking halls, it was common to witness empty tellers, unprofessional conduct from staff and long ques that made one to wait for a long time to be served. Financial institutions have developed a variety of platforms that have revamped service delivery and improved satisfaction levels, loyalty and continuity of small businesses (Khan, 2017). Tailor made products and special line services by financial institutions have gone a long way to reduce frustrations by a majority of small business owners.

High competition in the financial sector has contributed to the better improvement of products offered to individuals offered to small business owners (Erdogan, 2018). Through financial intermediaries, financial institutions have created platforms that more than one institutions can share as the interact with customers. For example, in Kenya, MPESA has its own client base to serve however, banks have partnered with Safaricom to offer their products to their customers through mobile devices (Delija, 2017). With improved development of the financial sector, small business has access to low interest loans, less stringent requirements and quick disbursement which has made it possible to take care of financial emergencies. In this study, service delivery was assessed through a survey of distance covered in accessing a financial point, time taken to receive a financial service, number of intermediaries available in an area and support offered to SME owners in using financial products.

## 2.4 Empirical Review

Samuel & Mbugua (2019) examined the effect of financial inclusiveness drives on ladies possessed small and medium enterprises in Nairobi County. The researchers chose an example of 377 SMEs owned and operated by female entrepreneurs in Nairobi CBD. From the target population, a sample of 65 SMEs was obtained. The gathered information was dissected both subjectively and quantitatively. The outcome of the investigation showed that; reasonable financial inclusion affects the financial performance of Kenyan women claimed SMEs.

Ibor, Offiong & Mendie (2017) completed a review on the effect of financial incorporation on efficiency of small and medium enterprises in Nigeria, West Africa. The review took on an overview research configuration, to gather information from the respondents, researchers distributed questionnaires which were filled with primary data and data provided used in analysis and presentation. The authors used Pearson Chi-square technique for information examination. The review uncovered that financial inclusiveness has a huge and positive relationship with perfomance of small and medium enterprises, nonetheless, inclusivity is still to a large extent being affected by long distance to physical financial points.

Bertrand, Nwanko & Onwuka (2016) examined the impact of financial incorporation on advancement and improvement of financial administrations in Nigeria, West Africa. The review utilized a distinct examination technique, information was gathered through polls from managers of commercial Banks, registered Insurance companies, financial regulators, and mobile money service providers and financial administrators such as; investment funds, credit, insurance, and payment not forgetting adequate training and support to help clients use sound judgment for themselves. The investigation uncovered that Financial inclusion is an intense advance towards economic development that is all inclusive.

Mutinda, Jagongo & Kenyanya (2017) examined Financial inclusion inventions embraced by business banks in Kenya. The populace focused on was 42 business banks that had already been licensed by 2010. Time series data from the CBK was utilized together with the Kenyan Bankers' Association report that is produced annually by supervisors (2010-2016). Information examination was finished by numerous relapse demonstrating and relationship investigation. The exploration uncovered a solid positive relationship between financial fuse techniques and financial performance.

Ahodode, Okala and Bayiha (2020) led a comparative analysis of conducted a comparative analysis of financial incorporation and financial invention effects on (MSMEs) performance in Cameroon.  Data was analyzed using selection model by Heckman. The investigation outcomes show that utilization of mobile banking boosts general turnover and administration turnover which is not the case with banking. Likewise, the relationship between mobile funds and microfinance promotes the possibility of MSME exports, contrary to their relationship with bank finance.

Hillary (2016) reviewed key factors of inclusivity in the financial sector and its effect on micro-business growth and productivity in the county of Nairobi. The researcher was based on a survey and small business owners were provided with questionnaires to give research data while financial institution officials and government officials were engaged through interviews. The study findings established that financial innovation such as mobile banking, online banking and financial applications have enhanced inclusivity and SME owners have been able to transact businesses. As a result, SME productivity has greatly improved over the years. Further, the investigation established additionally uncovered that development included stages like mobile cash movement, ATMs and office banking facilitated and guaranteed inclusion.

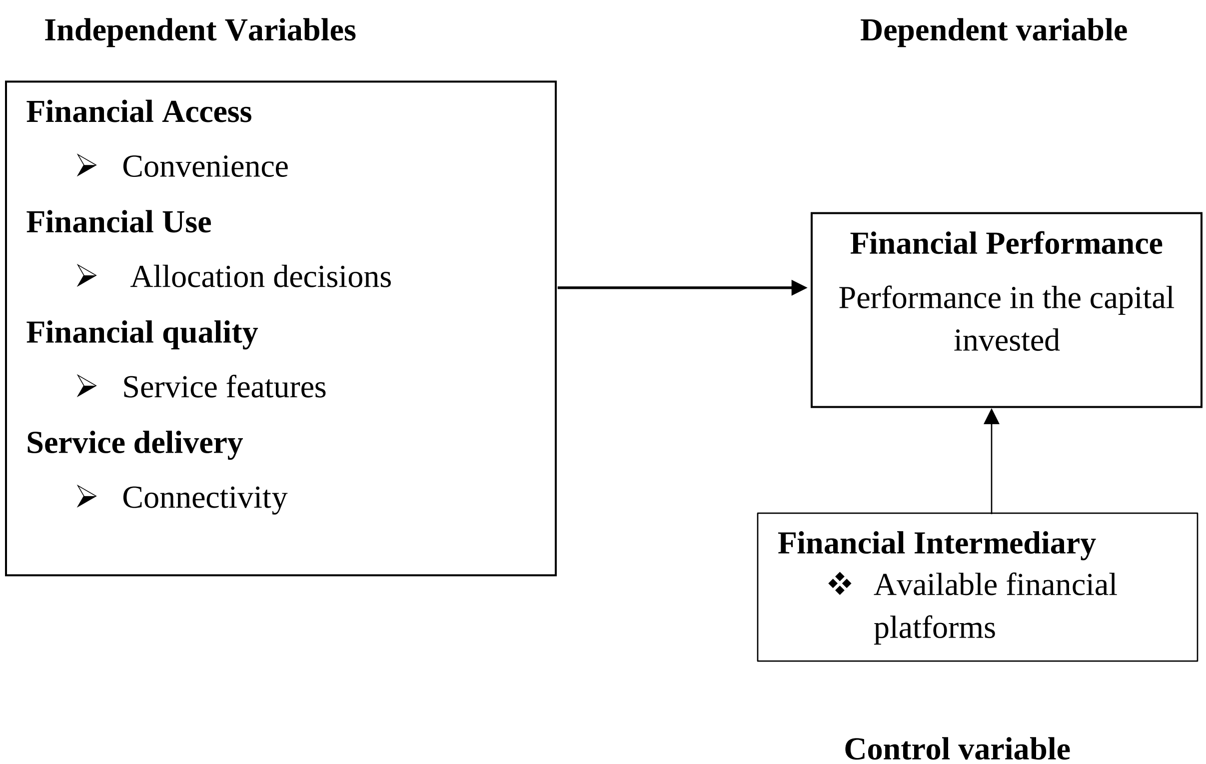
Chirchir (2017) considered the determinants of Financial accessibility by SMEs in Eldama Ravine Sub–County in Baringo County, Kenya The exploration plan that was used was the cross-sectional review. The sample was selected from the population that could be found by using the stratified random sampling. Information was assembled by utilization of surveys which were semi organized and were given out by the researcher to the respondents. The conclusion of the research was that exchange costs that are large raise the cost of loans and consequently barring businesses from getting funds from external funds for some groups of borrowers.

## 2.4 Summary of Literature and Gaps

Research undertook an in-depth exploration of the relationships that existed between the study variables. For example; Samuel & Mbugua (2019) examined the effect of financial incorporation drives of female owned micro businesses operating in the county of Nairobi. The outcome of the investigation showed that; reasonable financial inclusion influenced female owned SMEs productivity levels, however, the review only focused on women owned SME and was done in the county of Nairobi. Ibor, Offiong & Mendie (2017) researched the impacts of financial joining on SMEs performance in Nigeria. The results show that financial inclusiveness impacts the tasks and improvement of SMEs, the review was not in Kenya henceforth discoveries are not relevant for this situation. Bertram, Nwankwo and Onwuka (2016) surveyed financial incorporation as a fundamental for inclusiveness financial improvement in Nigeria. The examination uncovered that Financial incorporation is an extraordinary development towards financial advancement that is comprehensive. The review neglected to address the instance of SME financial performance. Hillary (2016) overviewed the determinants of financial inclusiveness and performance of SMEs in Nairobi City District. Engaging examination configuration was used. The review uncovered that M-PESA, Mshwari and Organization banking as the most basic improvement factors which had urgent influence in their business. The findings of the studies reviewed did not address the aspect cost and its effect of financial performance and mostly addressed financial accessibility, a research gap that existed.

## 2.5 Conceptual Framework

This comprise of a structure which the specialist accepts can best clarify the flow of the information to be contemplated. It was organized in in a sensible construction to help give an image or visual display of how thoughts in an investigation identified with each other.



# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.1 Introduction

Chapter three entails the research design, target population, sample of the study and technique adopted by the study, data collection, pilot tests for reliability and validity, data analysis and presentation, diagnostic tests and operationalization of study variables.

## 3.2 Research Design

Mugenda & Mugenda (2010) defined a descriptive research design as a design which aided in collection of information from a population so as to examine the prevailing status of the population in regards to one or more than one variable. The study adopted a descriptive approach as it was appropriate and allowed for analysis of non-quantified data given that most SMEs did not keep financial records and the study relied on survey questionnaires.

## 3.3 Target Population

As per Kothari (2010), the terminology stands for subjects or people whom the researcher is interested in summing up the aftereffects of the exploration to. The objective populace for this exploration was 3,000 proprietors of SMEs that had operating licences in Mombasa County from various sectors as indicated below were involved.

**Table 3.1:** Target Population

| **Sector** | **Population** |
|---|---|
| Information technology | 370 |
| Transport and logistics | 450 |
| Agriculture | 600 |
| Entertainment and sports | 590 |
| Tourism | 390 |
| Trade | 400 |
| **Total** | **3,000** |

**Source:** Mombasa County, Department of trade (2021)

### 3.4 Sample Size and Sample Technique

Stratified sampling is the technique that this research used to get the sample that was utilized. As per Mugenda and Mugenda (2010), if the sample size is about 10-30% of the population, selected using the best technique such that it is a well reperesentation of the qualities of interest from the population and has elements above 30,then it is deemed fit for the research. The research used 10% of the study population as the sample, which is 300 respondents.

**Table 3.2:** Sample Size

| Sector | Population | Sample |
|---|---|---|
| Information technology | 470 | 47 |
| Transport and logistics | 450 | 45 |
| Agriculture | 600 | 60 |
| Entertainment and sports | 590 | 59 |
| Tourism | 490 | 49 |
| Trade | 400 | 40 |
| **Total** | **3,000** | **300** |

**Source:** Mombasa County, Department of trade (2021)

### 3.5 Data Collection Procedures

Since the research mainly used primary information, questionnaires helped in collection of information. Questionnaires are sets of inquiries put down on paper to be answered as instructed to enable information collection on a subject matter (Kumar, 2014). The questionnaires were favored on the ground that they go about as a source of reference consequently was utilized in the future to demonstrate that the research was conducted. Questionnaires allowed for the assortment of information from part of the populace at a short duration and it was also a less expensive method of carrying out an investigation and excluding names from the respondents filling the questionnaire which assisted them with being confident on giving crucial information that assisted the study. To ensure that data was collected in a short duration of time, questionnaires were administered through SME associations for each group as illustrated in the sampling table above. Respondents were given a limit of 14 days to fill and return the surveys for examination and understanding.

### 3.6 Research Reliability and Validity

#### 3.6.1 Research Validity

Validity suggested how much the actions used in the surveys are genuinely assessing the normal thought and not something other than what's expected and join internal legitimacy and external authenticity. Estimating legitimacy manages whether or not an action can really give truth of an idea, (Bryman and Chime, 2011). Inward legitimacy insinuated the limit of an assessment instrument to check what it is intended to measure while outside legitimacy implies how much outcomes or discoveries of one review can be moved to a comparative circumstance. It likewise chose if the instrument truly measures what it is intended for and thusly a sign of how honest the exploration results will be.

#### 3.6.2 Research Reliability

Unwavering quality of an instrument is an extent of how predictable the delayed consequences of a test are. In our assessment, the unwavering quality of the examination instruments was finished by pilot test utilizing 10% of study respondents in Kwale district before a full scale study. Furthermore, Kumar, (2014) suggests that where Cronbach Alpha was used for dependability test, a basic principle was moreover used that communicated that Cronbach upsides of the item in examination should not to be lower than 0.7. To support the dependability of the study, this examination used Cronbach's Alpha for discrete spaces of the survey.

#### 3.6.3 Diagnostic Tests

Regression model used in this study was tested for multicollinearity and autocorrelation through a t-tests. Using analysis of variances, t-values was used to check if data obtained gave a measure of statistical significance of each variable from the targeted population. Once data was collected normality tests was conducted to prove the suitability of data that was used in analysis, normality tests aided the researcher in identifying mismatch in error terms across the observation that the researcher made. It’s was expected that the error term would be the same and applied to all observation, if this test failed it would be assumed that data obtained was of poor quality or exhibiting heteroscedasticity. Co-efficient of connection was utilized to learn the nature, bearing and size of the connection between concentrate on factors.

### 3.7 Data Analysis

Gathered information was coded and altered by research prerequisites to recognize errors and oversights for most outrageous precision and exactness. Subjective information that was produced was examined by the assistance of engaging and inferential measurements with the guide of Statistical Package for Social Sciences (SPSS). Inferential estimations were in form of both Pearson's correlation coefficient and various relapse. The model below was utilized in analyzing the analysis of data at (5% significance level)

$$Y= \alpha + \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where: Alpha ($\alpha$) is the constant, $\beta_{0,}\ \beta_{1,}\ \beta_{2,}\ \beta_{3,}\ \beta_{4,}\ \beta_5$) are coefficients.

$Y$ = Financial Performance

$X_1$ = Financial Access

$X_2$= Financial Use

$X_3$ = Financial Quality

$X_4$ = Service Delivery

$\varepsilon$ = error term.

The coefficient 'β0' means the Y capture; while β1, β2, β3 and β4 indicate the net change in Y for each difference in X1, X2, X3and X4. The mistake term is an irregular variable with a mean of nothing, which represents the effects on the Y variable of factors that are not measured in this research. The study findings were presented in tables, charts and graphs.

### 3.8 Operationalization of Variables

| Variable | Definition | Measure | Supporting Literature |
|---|---|---|---|
| Financial performance | General measure of a firms overall financial health over a given period of time | Performance in the capital invested | Adan (2017) |
| Financial access | Defined in this study as ability of an individual to borrow finances from a financial institution after meeting all requirements set by the | Access surveys | Aksoy (2017) |
| Financial use | Defined in this study to mean the allocation of acquired finances to all business expenses and utilization as per the approved budget | Total funds invested | Delija (2017) |
| Financial quality | Defined in this study as the product and services with features that meet the needs of small business people. | Responsiveness | Lu (2018) |
| Service delivery | Defined in this study as the different ways financial institutions interact with customers when transacting business. | Service quality | Sharma (2016) |

### 3.9 Test of Significance

The study use ANOVA investigation to test the meaning of the relationship between financial inclusiveness and financial performance. The F-test was conducted jointly for all determinants of financial performance while T-test was done for each variable separately.

# CHAPTER FOUR

# DATA ANALYSIS, INTERPRETATION AND PRESENTATION

## 4.1 Introduction

Covered in this chapter is the study pilot test results, Respondents background information, Descriptive analysis of study variables (Financial access, Financial use, Financial quality and Service delivery), Diagnostic tests, Correlation analysis, Model summary, ANOVA analysis and regression results.

## 4.2 Response rate

The review determined the reaction rate to get the proportion of the quantity of members in a review to the quantity of members who were approached to take part.

**Table 4.1:** Response rate

| Unit | Frequency | Percentage |
|---|---|---|
| Responded | 213 | 71% |
| Not responded | 87 | 29% |
| **Total** | **300** | **100** |

**Source:** Research Data (2021)

As illustrated in the table of all the 300 questionnaires administered 213 were filled and returned for investigation, giving 71% response rate. The rate was viewed as adequate for information examination and speculation of study discoveries.

## 4.3 Pilot Test Results

The study conducted a pilot test by administering 25 questionnaires that accounted for 10% of the study sample. The data from the questionnaire was analysed to ascertain reliability and validity and the results are as illustrated and discussed below.

### 4.3.1 Reliability Test

Test was conducted to check Cronbach alpha for each independent variable used in the study. Furthermore, the analysis obtained an average Cronbach alpha value to give a collective determination on the reliability of the research instruments used.

**Table 4.2:** Reliability test for each variable

| Variable | Item | Cronbach alpha |
|---|---|---|
| Financial Access | 4 | 0.7012 |
| Financial Use | 4 | 0.7320 |
| Financial Quality | 4 | 0.7900 |
| Service Delivery | 4 | 0.7083 |

**Source:** Research Data (2021)

Each variable had a Cronbach alpha of more than 0.7 which are over and above the recommended alpha of 0.7, this proves the study assumptions that the instruments adopted for the study were reliable. Galli (2018) argued that a Cronbach's Alpha value of between 0.70 and 1.0 indicated high levels of consistency in research instruments.

### 4.3.2 Validity Test

In analysing the validity of the research instruments, the study adopted the Kaiser-Meyer-Olkin method of analysing validity of data used in the study and decide the extent of change in factors that may be brought about by under-lying factors. It's accepted that, sampling adequacy near 1.0 show that an element examination might be helpful with concentrate on information.

**Table 4.3:** Validity test results

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of | Sampling Adequacy | .509 |
| | Approx. Chi-Square | 86.917 |
| Bartlett's Test of Sphericity | df | 24 |
| | Sig. | .017 |

**Source:** Research Data (2021)

The analysis obtained a sampling adequacy of 0.509 and significance level of 0.017, its concluded that data obtained was valid and good enough to be used in the study.

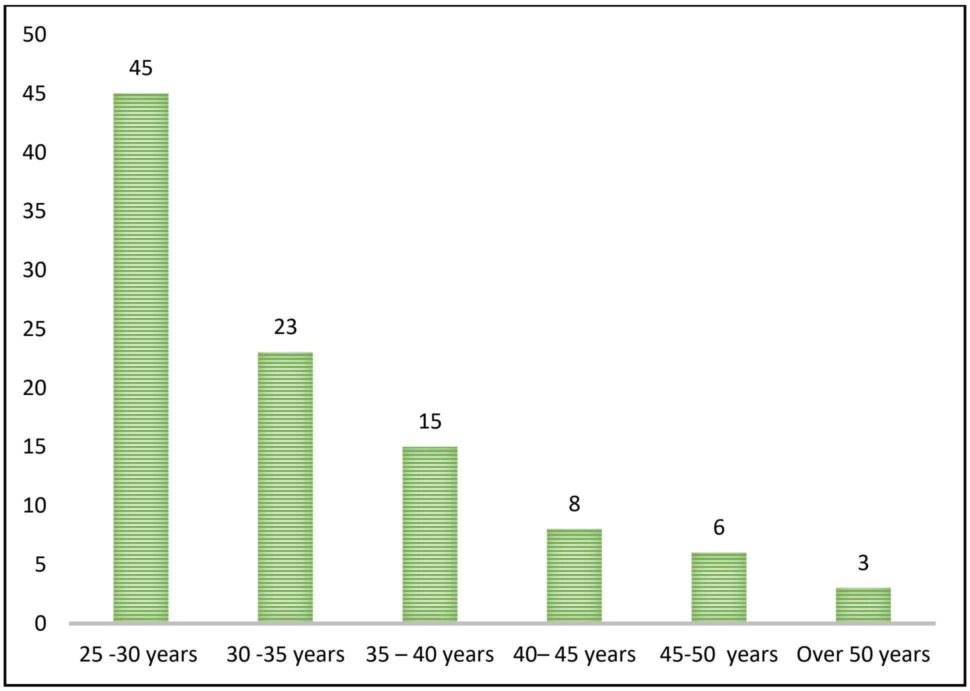
### 4.4 Respondents Background Information

Data relating to respondent's background information specifically on; Age, Employment status, Period of operating business, Level of education, Source of starting capital was analysed and presented as follows.

#### 4.4.1 Respondents Age

Respondents were approached to show their age in the age sections gave in the poll and their Responses were as introduced in figure 4.1 below;

**Figure 4.1:** Respondents Age

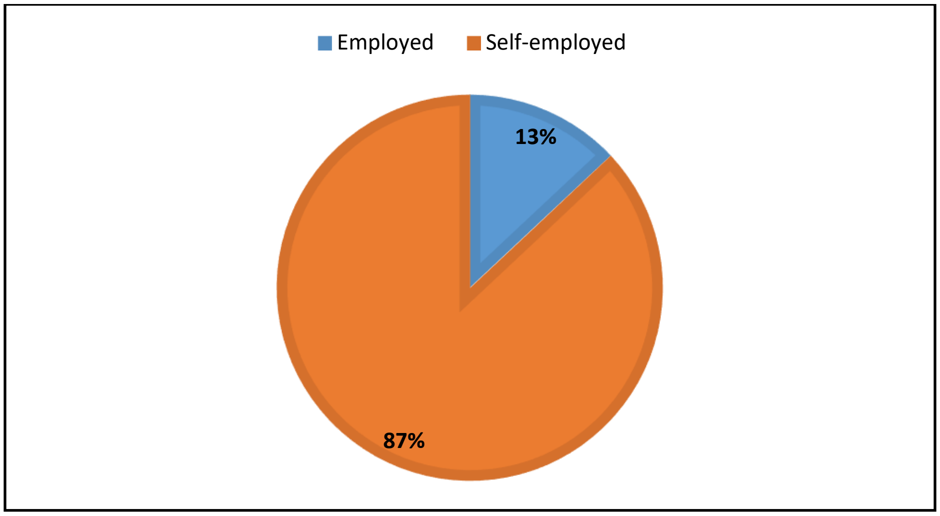



Age group 25-30 years had 45%, 30-35 years had 23%, 35-40 years had 15%, 40-45 years had 8%, 45-50 years had 6% while over 50 years had 3%. As observed, majority of the respondents are youthful individuals engaging in small and medium businesses.

#### 4.4.2 Respondents Employment Status

Respondents were approached to show their work status and their Responses were as introduced in figure 4.2;

**Figure 4.2:** Respondents employment status

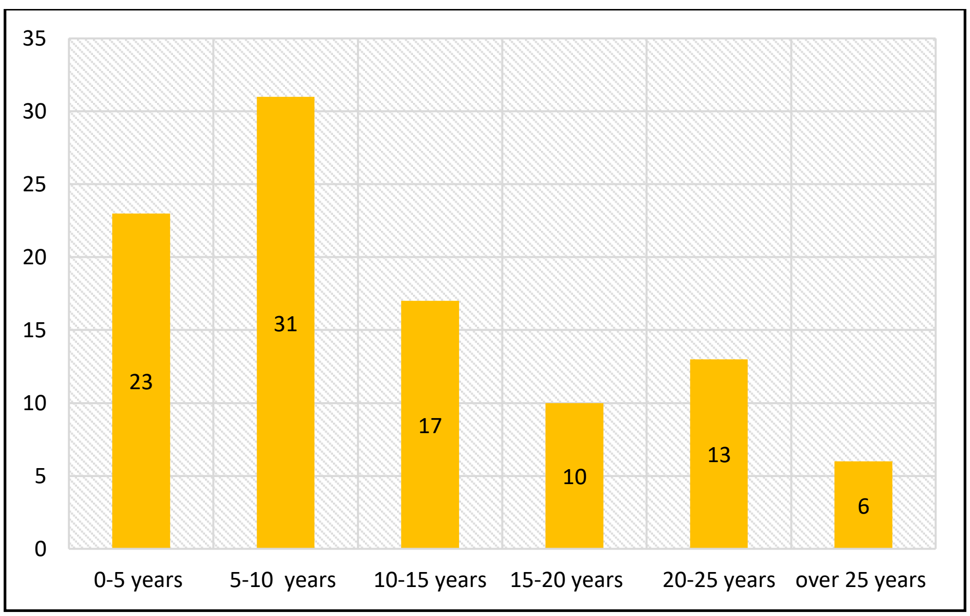



Respondents who were employed were at 13% while self-employed were at 87%. It was observed that, majority of the SME owners in Mombasa County were self-employed.

### 4.4.3 Period of operating Business

Study participants were required to indicate length of time they have worked in the Organization with an intention of understanding the level of experience they had in dealing with SMEs.

**Figure 4.3:** Period of operating business



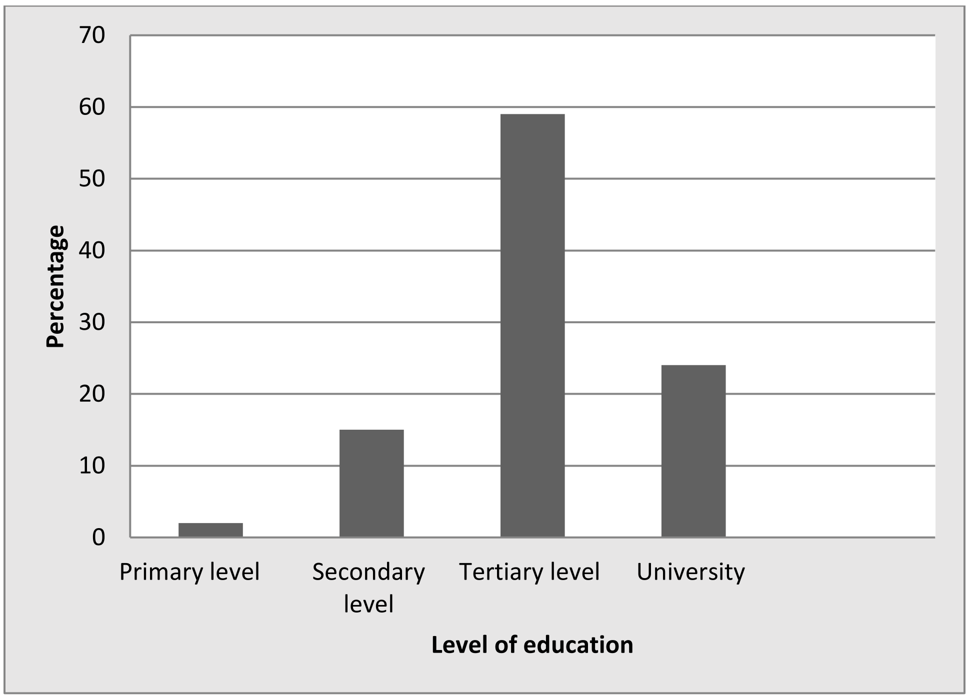

**Source:** Research Data (2021)

A period of 0-5 years had 23%, 5-10 years had 31%, 10-15 years had 17%, 15-20 years had 10%, 20-25 years had 13% while over 25 years had 6% representation. It was observed that, majority of the small and medium enterprises close down after 10 years of operating.

### 4.4.4 Level of Education

Study participants were required to indicate their level of education to help the researcher understanding their comprehension of the topic under study.

**Figure 4.4:** Education Level



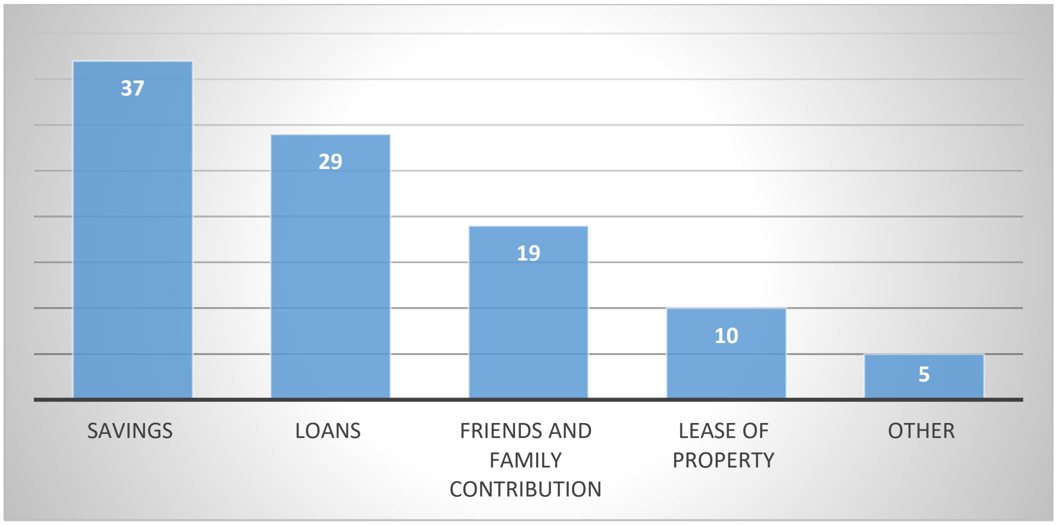

**Source:** Researcher (2021)

As illustrated above, 2% of the respondents had essential degree of training, 15% had auxiliary degree of schooling; 59% had tertiary degree of instruction while 24% of the respondents had college level of schooling. It was seen that, greater part of the small and medium enterprise owners had high literacy levels.

### 4.4.5 Source of Starting Capital

Respondents were approached to show their wellsprings of beginning capital and their Responses were as introduced in figure 4.5;

**Figure 4.5:** Source of starting capital




**Source:** Researcher (2021)

As illustrated above; respondents who relied on savings had 37%, loans had 29%, friends and family contribution had 19%, lease of property 10% and other sources had 5%. As observed, majority of SME owners relied on savings as a source of starting capital for their businesses.

## 4.5 Analysis of Variables

### 4.5.1 Financial Access

The review dissected the effect of financial access on financial performance of SMEs in Mombasa Kenya, in view of various statements given, their responses are as introduced in table 4.4;

**Table 4.4:** Financial access

| Statement | Mean | Std. Dev |
|---|---|---|
| I access finances through commercial banks | 4.28 | .942 |
| I access finances through microfinance | 3.64 | 1.005 |
| I access finances through mobile banking | 3.75 | 1.014 |
| I access finances through SACCOs | 2.98 | .944 |
| **Average** | **3.66** | |

**Source:** Research data (2021)

The statement I access finances through commercial banks had an average score of 4.28; I access finances through microfinance had an average score of 3.64; I access finances through mobile banking score had an average score of 3.75 while I access finances through SACCOs had an average score of 2.98. The analysis had an average score of 3.6625, it showed that respondents concurred that financial access influences the financial performance of SMEs in Mombasa County.

### 4.5.2 Financial Quality

The analysed responses given on financial quality and its effect on their Responses are as illustrated in table 4.5;

**Table 4.5:** Financial Quality

| Statement | Mean | Std. Dev |
| --- | --- | --- |
| Finances provided have lower interest rates | 3.25 | .788 |
| Finances provided are tailor made to meet business needs | 3.31 | .865 |
| Finances provided have flexible payment period | 3.99 | .739 |
| Finances provided are insured to minimize defaulting | 3.97 | .723 |
| **Average** | **3.63** | |

**Source:** Research data (2021)

As illustrated in the table above: statement on finances provided have lower interest rates had an average score of 3.25; finances provided are tailor made to meet business needs had an average score of 3.31; finances provided have flexible payment period had an average score of 3.99 while finances provided are insured to minimize defaulting had an average score of 3.97. The study had a mean of 3.63, it showed that respondents agreed that financial quality impacts the financial performance of SMEs in Mombasa Area.

### 4.5.3 Financial Use

The study analysed the effect of financial use on financial Small and medium enterprises in Mombasa County Kenya, based on a number of statements given, their responses are as presented in table 4.6;

**Table 4.6:** Financial Use

| Statement | Mean | Std. Dev |
|---|---|---|
| I allocate a large part of finances to the business | 3.47 | .880 |
| All expenditures are correctly recorded | 3.54 | .859 |
| Borrowed money is mainly for investment | 3.79 | .736 |
| Personal finances are sometimes injected into the business | 3.98 | .624 |
| **Average** | **3.695** | |

Statement on; I allocate a large part of finances to the business had an average score of 3.47; all expenditures are correctly had an average score of 3.54, borrowed money is mainly for investments had an average score of 3.79 and statement on personal finances are sometimes injected into the business had an average score of 3.98. The study had a mean of 3.695, it showed that respondents agreed that financial use influences the financial performance of SMEs in Mombasa County.

### 4.5.4 Service Delivery

The review dissected the effect of service delivery on financial performance of Small and medium ventures in Mombasa, in light of various statements given, their Responses are as introduced in table 4.7;

**Table 4.7:** Service Delivery

| Statement | Mean | Std. Dev |
|---|---|---|
| Availability of financial services is good | 3.82 | .740 |
| Financial institutions and intermediaries are prepared to serve SMEs | 3.61 | .871 |
| Special counters are provided for SME businesses | 3.73 | .993 |
| Training services are provided to improve customer knowledge | 3.28 | .942 |
| **Average** | **3.61** | |

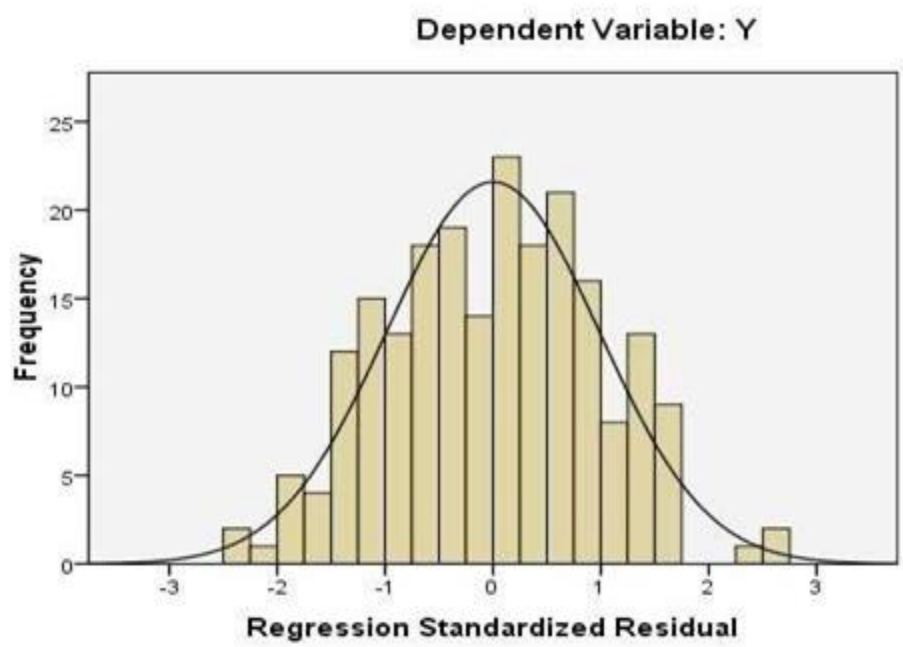
**Source:** Research data (2021)

Statement on; availability of financial services is good scored average score of 3.82; financial institutions and intermediaries are prepared to serve SMEs scored a mean of 3.61; special counters are provided for SME businesses average score of 3.73 while training services are provided to improve customer knowledge average score of 3.28. The study had a mean of 3.61, it showed that respondents agreed that service delivery influences financial productivity.

### 4.6 Diagnostic Tests

The study undertook diagnostic tests to check data normality and presence of multi-collinearity in the study variables. Test for significance produced a p-value of 0.023 as illustrated in table 4.10, the p-value of 0.023 is less than 0.05, the relationship between study variable as analysed using the model is significant.

**Table 4.8:** Test for Normality




The study assessed the normality of data distribution using a histogram as illustrated above. As shown, plotting of model residual resulted in a normal distributed curve hence the assumption of normal distribution is upheld.

**Table 4.9: Collinearity**

The assumption of the study was that variables do not have multicollinearity, this was tested as stated below using collinearity statistics. The study obtained a Variance Inflation factor of

1.136, 1.029, 1.121 and 1.021 which are less than a variance inflation factor of 10, hence, no multicollinearity was detected in the use of the model.

| Collinearity Statistics | |
|---|---|
| Tolerance | VIF |
| - | - |
| .880 | 1.136 |
| .972 | 1.029 |
| .892 | 1.121 |
| .789 | 1.021 |

**Table 4.10 Test for Autocorrelation**

In testing for Autocorrelation between study variables, the analysed assed the values obtained in the model summary for Durbin-Watson which indicated a value of 0.870 which lies between the values 0 and 4, hence, Auto-correction is non-existent.

| Model R | R-Square | Adjusted R Square | Std. Error | Sig. | Durbin-Watson |
|---|---|---|---|---|---|
| .741a | .549a | .302 | 2.03894 | .023 | .870 |

**Source:** Research Data (2021)

## 4.7 Correlation Analysis

The study correlated financial access, Use, Quality and service delivery on financial productivity. Research results approve the assumptions that financial inclusion influence financial performance of SME in Mombasa County.

**Table 4.11:** Correlation analysis

| | | FP | FA | FQ | FU | SD |
|---|---|---|---|---|---|---|
| **FP** | Pearson Correlation | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| **FA** | Pearson Correlation | .251** | 1 | | | |
| | Sig. (2-tailed) | .001 | | | | |
| **FQ** | Pearson Correlation | .348** | .547** | 1 | | |
| | Sig. (2-tailed) | .000 | .000 | | | |
| **FU** | Pearson Correlation | .225** | .481** | .525** | 1 | |
| | Sig. (2-tailed) | .003 | .000 | .000 | | |
| **SD** | Pearson Correlation | .303** | .265** | .351** | .279** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | |

**Source:** Research data (2021)

**FP**: Financial Performance

**FA**: Financial Access

**FQ**: Financial Quality

**FU**: Financial Use

**SD:** Service Delivery

As illustrated in the table above, it's clear that there was a solid positive straight relationship between financial access, financial use, financial quality, service delivery and financial performance of SMEs in Mombasa Area. This infers that, a more inclusive financial system will result in better financial performance.

### 4.8 Model summary

Results of the analysis revealed the magnitude of the relationship between financial access, financial use, financial quality, service delivery and financial performance of SMEs in Mombasa County.

**Table 4.12:** Model Summary

| Model R | R-Square | Adjusted R Square | Std. Error | Sig. | Durbin-Watson |
|---|---|---|---|---|---|
| .741a | .549a | .302 | 2.03894 | .023 | .870 |

**Source:** Research Data (2021)

a. **Predictors:** (Constant), Financial Access, Financial Use, Financial Quality, Service Delivery

b. **Dependent Variable**: Financial Performance

From table 4.12 above; the model summary gave an Adjusted R-Square of 0.302 which indicates that financial access, financial use, financial quality and service delivery can explain financial performance in small and medium enterprises by 30.2%. It's obvious that different elements influence financial performance of SMEs in Mombasa County which were not accounted at 69.8%.

### 4.9 Regression Analysis

The indication of every coefficient demonstrates the heading of the relationship between an indicator variable and the reaction variable.

**Table 4.13:** Regression Co-efficient

| | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| **Model** | | **B** | **Std. Error** | **Beta** | **T** | **Sig.** |
| 1 | (Constant) | .713 | .411 | | 1.736 | .084 |
| | **FA** | .071 | .107 | .058 | .667 | .050 |
| | **FQ** | .196 | .075 | .197 | 2.619 | .010 |
| | **FU** | .243 | .115 | .196 | 2.119 | .036 |
| | **SD** | .134 | .060 | .104 | 2.233 | .008 |

**Source:** Research data (2021)

**Keys:**

**FP**: Financial Performance

**FA**: Financial Access

**FQ**: Financial Quality

**FU**: Financial Use

**SD:** Service Delivery

From table 4.10 above, the analysis of regression between the study variables gave a constant value of 0.713 which implies a one unit change in the independent variables will cause a change in financial perfomance by .713; a unit change in financial access will prompt an adjustment of financial performance by 0.071; a unit change in financial quality will prompt a unit change in financial performance by 0.196; a unit change in financial use will prompt a unit change in financial performance by 0.243 while a unit change in service delivery will prompt a unit change in financial performance by 0.134. Every one of the factors have a positive relationship with financial perfomance as their p-values are ≤ 0.05.

$$Y = .713\beta_0 + .071\, X_1 + .196X_2 + .243X_3 + .134X_4 + \varepsilon$$

### 4.10 ANOVA Analysis

ANOVA investigation was done to actually look at the meaning of the relationship between the reliant variable and autonomous variable. ANOVA was viewed as critical as p-esteem was less or equivalent to 0.05.

**Table 4.14:** ANOVA Analysis

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | **Regression** | 18.148 | 4 | 4.537 | 8.754 | $.000^b$ |
| | **Residual** | 87.070 | 208 | .418 | | |
| | **Total** | 105.217 | 212 | | | |

**Source:** Research data (2021)

**a. Dependent Variable:** Financial performance

**b. Predictors: (Constant):** Financial Access, Financial Use, Financial Quality, Service Delivery

As illustrated in the table above; The model had a P-value of 0.000 which is within the range of 0.000 < 0.05; thus fit in clarifying the relationships between financial inclusiveness and financial perfomance of SMEs in Mombasa Area.

### 4.11 Discussion of Findings

A basic investigation of the relationship between financial access and financial performance of SMEs in Mombasa district uncovered that, financial access is emphatically related with r = .251 and p-worth of 0.001, Regression (β= 0.071; P-value = 0.005). The findings reveal a positive relationship between financial access and financial performance of SMEs in Mombasa province. Comparable discoveries were set up by Hillary (2016) who overviewed the determinants of Financial inclusiveness and performance of SMEs in Nairobi City Area. Results set up a huge connection between performance levels of SMEs and Financial inclusiveness. Moreover, the review set up that financial inclusiveness has been improved by advancement in portable money, ATMs and microfinance establishments.

Financial quality was found to be highly influenced by adaptability in advance reimbursement period and protection of advance to limit defaulting. A basic examination of the relationship between financial quality and financial performance of SMEs in Mombasa area uncovered that financial quality is positively related with r = .348 and p-worth of 0.000, Regression (β= 0.196; P-value = 0.010). The findings reveal a positive relationship between financial quality and financial performance of SMEs in Mombasa area. These discoveries identify with that of Samuel and Mbugua (2019) which examined the effect of financial inclusiveness drives on ladies possessed small and medium ventures in Nairobi Province. The result of the examination showed that; sensible financial incorporation influences the financial presentation of Kenyan ladies asserted Small and Medium Enterprises.

Financial use was found to be highly influenced by the appropriate use of assets for organizations and infusing of individual budgets to help business. A basic examination of the relationship between financial use and financial performance of SMEs in Mombasa area uncovered that financial use is positively associated with r = .225 and p-worth of 0.003, Regression (β= 0.243; P-value = 0.036). The findings reveal a positive relationship between financial use and financial performance of SMEs in Mombasa province. These discoveries decidedly identify with that of Ibor, Offiong and Mendie (2017) whom did a review on the effect of financial incorporation on efficiency of small and medium enterprises in Nigeria, West Africa. The review uncovered that financial incorporation has a huge and positive relationship with performance of small and medium enterprises, notwithstanding, inclusivity is still generally being impacted by significant distance to actual financial focuses.

Service delivery was found to be highly influenced by acceptable readiness of financial organizations and their mediators to serve the SMEs and exceptional assistance line to assist SMEs with conquering difficulties. A basic examination of the relationship between service delivery and financial performance of SMEs in Mombasa area uncovered that help conveyance is positively corresponded with $r = .303$ and p-worth of 0.000, Regression ($\beta = 0.134$; P-value = 0.008). The findings reveal a positive relationship between service delivery and financial performance of SMEs in Mombasa district. These discoveries are in inconsistency to that of Chirchir (2017) whom considered the determinants of Financial availability by SMEs in Eldama Gorge Sub–Province in Baringo District, Kenya. He set up that trade costs that are huge raise the expense of credits and thus banning organizations from getting assets from outer assets for certain gatherings of borrowers

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

The chapter entails study Summaries, Study conclusion, Study Recommendations and Suggestions for Further research.

## 5.2 Summary of Research Findings

The study established a strong positive relationship between financial access and financial performance of SMEs in Mombasa. The effect of financial access was attributed to accessibility of commercial banks and mobile banking that are more convenient to SME owners. Similar findings were established by Hillary (2016) who overviewed the determinants of financial incorporation and performance of SMEs in Nairobi City Province. Results uncovered a quick association between performance levels of SMEs and Financial incorporation. Further, the investigation discoveries additionally uncovered that development included stages like mobile cash movement, ATMs and office banking facilitated and guaranteed inclusion.

The study established a strong positive relationship between financial quality and financial performance of SMEs in Mombasa. The effect of financial quality was ascribed to adaptability in credit reimbursement period and protection of advance in order to limit defaulting. These discoveries identify with that of Samuel and Mbugua (2019) which explored the effect of financial inclusiveness drives on ladies claimed small and medium enterprises in Nairobi Region. The result of the examination showed that; sensible financial inclusiveness influences the financial presentation of Kenyan ladies guaranteed Small and Medium Enterprises.

The study established a moderate positive relationship between financial use and financial performance of SMEs in Mombasa. The impact of financial use was ascribed to appropriate usage of assets for organizations and infusing of individual budgets to help business. These findings positively relate to that of Ibor, Offiong and Mendie (2017) which established that financial inclusiveness has a huge and positive relationship with performance of small and medium ventures, but, inclusivity is still to a large extent being affected by long distance to physical financial points.

The study established a moderate positive influence of service delivery. The influence of financial use was attributed to good preparation of financial institutions and their intermediaries to serve the SMEs and special service line to help SMEs overcome challenges. These findings are in contradiction to that of Chirchir (2017) whom considered the determinants of Financial accessibility by SMEs in Eldama Ravine Sub–County in Baringo County, Kenya. The conclusion of the research was that exchange costs that are large raise the cost of loans and consequently barring businesses from getting funds from external funds for some groups of borrowers.

### 5.3 Conclusion

Study concluded that financial inclusion positively influences the financial productivity of SME in Mombasa County. It was concluded that access, quality, usage and service delivery positively influenced productivity of the targeted SMEs. The overall effect of inclusion was however discovered to be weak as many small scale businesses were experiencing economic hardship as a results of lockdowns brought about by the COVID pandemic.

### 5.4 Recommendations

Findings established that financial inclusion has a positive and significant influence on financial performance of small and medium enterprises in Mombasa County, however, there is need for an improvement in financial inclusion to ensure that, better financial performance is realized. The measures recommended by this study include; training of SMEs on use of mobile banking application as many were found to borrow from multiple applications and failed to payback; an action that affected their credit rating. SME owners also need to be trained on the importance of recording their transactions so they can track all income and expenses.

### 5.5 Suggestions for Further Research

The study was conducted during the Corona pandemic, majority of small and medium enterprises had just started their operations. Variables under investigation were found to have a weak correlation with SME performance hence the need for further studies to identify the cause of such a relationship. This study recommends for another study to be done on SMEs once the economy fully recovers to test if a stronger relationship will be obtained. Furthermore, the study was done in Mombasa County which is a financial hub for the region, also, subsequently there is need for a study to be conducted in different counties like Kilifi and Kwale to make a comparison if similar results can be obtained.

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## APPENDIX 1: INTRODUCTION LETTER

Dear; Sir / Madam

**RE: RESEARCH PROPOSAL**

My name is Diana a student at the University of Nairobi pursuing a Master's Degree in Finance. I write to you to request for your time in filling the attached questionnaires of my research titled; the effect of financial inclusion on the financial inclusion on the financial performance of SMEs in Mombasa County. This letter is intended to gain necessary data needed in analysing the above topic. Your assistance in attending to the questionnaire will be highly appreciated and data provided will be highly protected and confidentiality upheld.

Thank you.

Yours faithfully

Diana

# APPENDIX II: QUESTIONNAIRE

This questionnaire seeks to collect data about the effect of financial inclusion on the financial perfomance of SMEs in Mombasa County. The data collected will be used for academic purposes only, please take your time and answer the questions that follow; Please tick (√) or provide your own answers where applicable.

**Demographic data**

1. Age.

   25-30 years ( ) 30-35 years ( ) 35-40 years ( )

   40 – 45 years ( ) 45-50 years ( ) above 50 years ( )

2. Please state whether you own the business or you are employed.

   Self-employed ( ) Employed ( )

3. How long has the business been in operation?

   0-5 years ( ) 5-10 years ( ) 10-15 years ( ) 15-20 years ( )

   20-25 years ( ) over 25 years ( )

4. What is your highest level of education?

   Primary education ( ) Secondary education ( )

   Tertiary ( ) University ( )

5. What was the source of your starting capital?

   Savings ( )

   Loan ( )

   Friends and family contributions ( )

   Lease of property ( )

   Other ( )

**Section B: Questions for Research Objectives**

**a. Financial Access**

| **Statement** | **5** | **4** | **3** | **2** | **1** |
|---|---|---|---|---|---|
| I access finances through commercial banks | | | | | |
| I access finances through microfinance | | | | | |
| I access finances through mobile banking | | | | | |
| I access finances through SACCOs | | | | | |

**b. Financial quality**

| **Statement** | **5** | **4** | **3** | **2** | **1** |
|---|---|---|---|---|---|
| Finances provided have lower interest rates | | | | | |
| Finances provided are tailor made to meet business needs | | | | | |
| Finances provided have flexible payment period | | | | | |
| Finances provided are insured to minimize defaulting | | | | | |

### c. Financial Use

| Statement | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| I allocate a large part of finances to the business | | | | | |
| All expenditures are correctly recorded | | | | | |
| Borrowed money is mainly for investment | | | | | |
| Personal finances are sometimes injected into the business | | | | | |

### d. Service delivery

| Statement | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Availability of financial services is good | | | | | |
| Financial institutions and their intermediaries are well prepared to serve SMEs | | | | | |
| Special counters are provided for SME businesses | | | | | |
| Training services are provided to improve customer knowledge | | | | | |

**e. Financial Performance**

| Statement | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| There is improved value of assets | | | | | |
| There is improved performance in the Capital invested | | | | | |
| Smooth business operation | | | | | |
| Performance in the number of services | | | | | |