EFFECT OF FINANCIAL SKILLS ON LOAN REPAYMENT: A CASE OF MICRO AND SMALL ENTERPRISES IN ELGEYO MARAKWET COUNTY, KENYA

AMOS KIPRUTO KIPTUM

A research project submitted to the Graduate School in partial fulfillment for the requirements of the Master of Business Administration degree of Egerton University

EGERTON UNIVERSITY

APRIL, 2019

DECLARATION AND RECOMMENDATION

Declaration

I the undersigned, declare that this is my original work and has not been submitted to any other university, college or institution of higher learning other than Egerton University for academic credit.

Signature: ____________________ Date____________________

Kiptum Amos Kipruto

CM11/00028/12

Recommendation

This Research Project has been submitted with my approval as University Supervisor.

Signature: ___________________ Date______________________

Ms. Mary Bosire

Lecturer,

Department of Accounting, Finance and Management Science,

Egerton University, Kenya.

COPYRIGHT

DEDICATION

I dedicate this research work to my parents Mr. & Mrs. Jonathan Chepkurui, my wife Abigail Matiy and our sons Allan Kipkemboi, Abel Kiprop and Adrian Kiprotich. Thank you for your love, sacrifice, and support.

ACKNOWLEDGEMENT

I would like to acknowledge the almighty God for his guidance, divine provision and protection during my studies. All praise and thanks are to God, the most Gracious, and the most Merciful, for giving me the strength to pursue and complete this work. My sincere gratitude's go to my supervisor Ms. Mary Bosire for your valuable time you gave me and for guiding me throughout the period of research project writing. May God bless you. Grateful acknowledgement is owed to my friends, my parents for their love, support and supplication. Without their encouragement and prayers, I could not have finished my study. I would like also to thank my wife for her help and support. Special thanks go to my lovely sons for their patience, endurance and help.

May God reward them all.

ABSTRACT

Lending to Micro and Small Enterprises (MSEs) remains a demanding and challenging activity as there are many factors influencing the performance, growth and sustainability of these ventures. Among them is lack of adequate business skills to manage the business operations effectively. The problem of poor loan repayment by MSEs is increasing. Financial skills are one of the ways which is supposed to assist MSEs to minimize the loan default rate. This study sought to establish the effect of financial skills on loan repayment by Micro and Small Enterprises in Elgeyo Marakwet County, Kenya. The specific objectives of the study were to establish the extent to which business financing skills, book keeping skills and budgeting skills affect loan repayment by Micro and Small Enterprises in Elgeyo Marakwet County. A descriptive survey design was adopted in conducting the study. The sample size was 84 MSE owners drawn from a sampling frame of 520 MSEs operating in Elgeyo Marakwet County. The study used primary data which was collected using self-administered structured questionnaire. Descriptive and inferential statistics were used to analyze data. Pearson Correlation and Multiple Regression were used to test hypothesis. Statistical Packages for Social Sciences (SPSS) was used by the researcher to facilitate the analysis and interpretation of data, and the results obtained was presented by the use of tables for easy interpretation. The result of the study indicated that at 5% significance level, financing skills and budgeting skills have a significant positive effect on loan repayment by Micro and Small Enterprises. However, book keeping skills does not significantly affect loan repayment by Micro and Small Enterprises. The study recommends that financial providers should train their clients on the importance and impact of negotiating with them for better loan repayment terms and enlighten them on the preparation of various types of budgets and how to follow up and compare the actual and the budgeted figures and determine the variances and also teach them to investigate the various causes of these variances.

TABLE OF CONTENTS

DECLARATION AND RECOMMENDATION .... **ii**

COPYRIGHT .... **iii**

DEDICATION .... **iv**

ACKNOWLEDGEMENT .... **v**

ABSTRACT .... **vi**

TABLE OF CONTENTS .... **vii**

LIST OF TABLES .... **x**

ABBREVIATIONS .... **xi**

CHAPTER ONE **1**

INTRODUCTION **1**

1.1 Background of the Study 1

1.2 Statement of the Problem 3

1.3.1 Purpose of the Study 4

1.3.2 Objectives of the Study 4

1.4 Research Hypothesis 4

1.5 Significance of the Study 4

1.7 Limitations of the Study 5

1.8 Scope of the Study 5

1.9 Operational Definitions of Terms 6

CHAPTER TWO **7**

LITERATURE REVIEW **7**

2.1 Theories Underpinning the Study 7

2.1.1 Dual Process Theory 7

2.1.2 Resource-Based View Theory 8

2.1.3 Theory of Planned Behaviour 9

2.2 Concept of Financial Skills 9

2.2.1 Measuring Financial Skills 11

2.2.1.1 Financing Skills 12

2.2.1.2 Book Keeping Skills 13

2.2.1.3 Budgeting Skills 15

2.3 Loan Repayment 16

2.3.1 Financial Skills and Micro and Small Enterprises 17

2.4 Empirical Reviews 18

2.5 Summary from Literature Review ... 23
2.6 Research gap ... 25
2.5 Conceptual Framework ... 26
CHAPTER THREE ... 28
RESEARCH METHODOLOGY ... 28
3.1 Research Design ... 28
3.2 The Target Population ... 28
3.3 Sample Size and Sampling Design ... 29
3.4 Data Collection Instrument ... 30
3.5 Data Collection Procedures ... 30
3.6 Validity and Reliability of the Instruments ... 30
3.7 Data analysis and Presentation ... 31
CHAPTER FOUR ... 33
RESULTS AND DISCUSSION ... 33
4.1 Response Rate ... 33
4.3 Mode of Business Financing ... 34
4.4 Frequency of Borrowing ... 34
4.5 Amount Borrowed ... 35
4.6 Loan Default ... 35
4.7 Reasons for Loan Default ... 36
4.8 Loan Repayment ... 36
4.9 Financial Skills and Loan Repayment ... 37
4.9.1 Financing skills and Loan repayment ... 37
4.9.2 Book keeping skills and loan repayment ... 41
4.9.3 Budgeting skills and loan repayment ... 44
4.10 Loan Repayment ... 46
4.11 Hypothesis Testing ... 48
4.12 Regression Analysis ... 49
4.13 Discussion of Research Findings ... 51
CHAPTER FIVE ... 53
SUMMARY , CONCLUSIONS AND RECOMMENDATIONS ... 53
5.1 Summary of key Findings ... 53
5.2 Conclusion ... 55
5.3 Recommendations ... 56

5.4 Suggestions for Further Research 56
REFERENCES 57
APPENDICES 64
APPENDIX I: INTRODUCTION LETTER 64
APPENDIX II: OWNER/MANAGER QUESTIONNAIRE 65
APPENDIX III: SAMPLE FRAME 73

LIST OF TABLES

Table 3. 1: Sampling Frame....28
Table 3. 2: Sample Size 29
Table 3. 3: Cronbach's Alpha Reliability Coefficients....31
Table 4. 1: Demographic Information 33
Table 4. 2: Mode of Financing Employed By MSEs....34
Table 4. 3: Frequency of Borrowing....35
Table 4. 4: Amount Borrowed 35
Table 4. 5: Loan Default 36
Table 4. 6: Reasons for Loan Defaulting....36
Table 4. 7: Frequency Distribution of Responses on Loan Repayment 37
Table 4. 8: Possession of Financing skills 38
Table 4. 9: Possession of Book Keeping Skills 42
Table 4. 10: Possession of Budgeting skills....45
Table 4. 11: Loan Repayment....47
Table 4. 12: Correlation Results 48
Table 4. 13: Model Summary 49
Table 4. 14: ANOVA Model 49
Table 4. 15: Coefficient of Estimate....50

ABBREVIATIONS

CMA : Capital Market Authority

ERS : Economic Recovery Strategy

FSD : Financial Sector Deepening

GDP : Gross Domestic Product

GOK : Government of Kenya

MFI : Micro Finance Institutions

MSEs: Small and Micro Enterprises

OECD: Organisation for Economic Cooperation and Development

R&D : Research and Development

SMEs: Small and Medium Enterprises

SPSS : Statistical Program Social Sciences

UN : United Nations

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial skills have attracted expanding consideration in both the developed and developing countries in recent years with the changing global business arena. Financial skills, financial knowledge, and financial education often have been used interchangeably both in the academic literature and in the popular media (Huston, 2010). Financial skills refer to the ability to make informed judgments and effective decisions regarding the use and management of money (Gavigan, 2010). According to Remund (2010), financial skills refers to the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning.

According to Greenspan (2002), financial skills helps to inculcate individuals with the financial knowledge necessary to prepare household budgets, set up savings plans, and develop strategic investment decisions. It helps in empowering and imparting knowledge to consumers so that they are knowledgeable about finance in a way that is relevant to their lives and enables them to use this knowledge to analyze products and make informed decisions. According to Hilgert, Hogarth, & Beverly (2003), financial knowledge is directly correlated with self-beneficial financial behavior. Financial skills aid the decision making processes such as payment of bills on time, proper debt management which enhances the credit worthiness of potential borrowers to improve their livelihoods, enhance economic growth, sound financial systems, and reduction of poverty. It also gives a greater control of one's financial future, more effective utilization of financial products and services, and reduced susceptibility to overzealous retailers or fraudulent schemes. However, Skeptics such as Lyons, Palmer, Jayaratne, & Scherpf (2006) have questioned the effectiveness of financial education in improving financial skills. In the study by Van Rooij, Lusardi, and Alessie (2007), on the Dutch adults, established that households with low levels of financial skills are more likely to base their behavior on financial advice from friends and are less likely to invest in stocks.

MSEs are confronted with complex financial decisions to turn around the fortunes of their businesses. They make financial decisions such as savings, investment and retirement planning. Financial skills therefore become important in business financing decisions and subsequent firm performance. Indeed, recent empirical studies suggest low levels of financial skills in both developed and developing economies and few people are able to understand and apply basic financial concepts (Lusardi & Mitchell, 2007b; Lusardi & Tufano, 2009; Cole, Sampson & Zia, 2009). This situation poses a challenge for micro and small firms to enhance their performance due to the increased attention to financial skills in the recent years by a wide range of major financial institutions, government agencies and other organizations.

Smaller scale business people frequently need adequate financial skills to make complex monetary choices they confront (Drexler, Fischer, & Schoar, 2010). This is tragic, since as indicated by Oseifuah (2010) financial proficiency among new business people contributes significantly to their enterprise abilities. Business people needing to begin new ventures need to be sure with their financial skills, and in addition the management of the new ventures (Kotzè & Smit, 2008). On the off chance that people are unskilled concerning their own accounts, their monetary administration of new pursuits will likewise be missing and will prompt diminished new pursuit creation and conceivable disappointments of SMEs (Kotzè & Smit, 2008). If people are illiterate in respect to their personal finances, their financial management of their business enterprises will also be lacking and thus reduction in new venture creation and possible failures of SMEs (Kotzè & Smit, 2008). It can therefore be seen that micro, small and medium enterprises are greatly affected by lack of financial skills and such deficiency undermines the chance of their business growth and survival.

There are evidences in Kenya that the SME segment assumes a crucial part in the Kenyan economy. According to Maina, (2006) SMEs in Kenya contribute a great deal in employment, whereby around 5.1 million individuals are occupied with the area, representing 74% of the aggregate national job, contribute around 88% of the aggregate employment creation, and contribute around 24.5% to the Gross domestic product. Specifically, SMEs provide the necessary foundations for sustained growth and rising income in the emerging and developed economies. Due to their contributions to the economy, it necessitates the advancement of SMEs as they make large scale, low cost business opportunities, utilize locally available resources and technologies, mobilize small and scattered private savings, enhance entrepreneurship, and amend the regional imbalance in trade and development that exists in many developing countries.

This important role of the MSEs can be harnessed and sustained through properly inculcated financial management skills of the business owners and managers. Brown *et al* (2006) agrees to the general principle of good business through financial skills. Good business practices lead to competitiveness in the globalized community (Borodich *et al.,* 2010). Lack of financial skills leads to shut down of the business (Niederauer, 2010). Therefore, a good financial foundation of the MSEs owners/managers is also a significant measure of the success and growth of the enterprises in an ever competitive business environment. Regardless of the indicated advantages of MSEs in Kenya, these enterprises experience the ill effects of a high mortality rate. As indicated by Kenya National Bureau of Statistics, (2007), 60% of new MSEs don't survive the initial five years from inception. This is because of absence of sufficient business skills (Wanjohi, 2011), bring down their strength to chance (CMA, 2010), Lack of planning, improper financing and poor management (Longenecker, *et al*., 2006), and Absence of credit (Oketch, 2000).

Drexler *et al.* (2010) points out that individuals as well as entrepreneurs are needed to make hard financial choices in many occasions in life, whether in their own individual accounts or as entrepreneurs. Cole and Fernando (2008) declare that there is relationship between financial skills, the ability to make good financial decisions and household well-being and business survival. A review of the literature on financial skills in Kenya reveals that few studies have empirically investigated the financial skills of the MSEs in Kenya. The main objective of the current study is to examine the effect of financial skills on loan repayment by Micro and small enterprises in Elgeyo Marakwet County.

1.2 Statement of the Problem

Business entities require financially literate individuals who can acquire resources, manage and make business decisions in order to enhance their performance. For big business, effective implementations of financial skills lead to improvement in business performance due to improved ability to track business events from the record system (Siekei, *et al.* 2013). However, owners of small business enterprises normally lack oversight and have limited competence in managing their business financial aspects (Lindeloef & Loefsten, 2005). With the growth of Microfinance sector in Kenya, most of the MSEs have been able to access loans. However, there has been a steady increase in the default rates and a slowdown in the loan repayment by SMEs (Equity Bank Group report 2013). This trend has consequences and implications on the operations and sustainability of Micro Financial Institutions (MFIs) as well as other financial institutions. The growth of these financial institutions is also threatened by non-repayment since they may not be in a position to issue loans and even when the problem is prolonged these financial institutions may fail to raise enough funds for the working capital and ultimately close down.

Studies done by Agarwal (2007), Gatakaa (2010), Mungai (2012), Barte (2012), Tuyisenge, Mugambi, and Kemirembe (2015) found that financial skills are an important determinant of loan repayment. Further, other studies found that respondents' financial capability had no significant impact on credit management by micro enterprises (Chong, 2010). Kariuki and Wanjiku (2015) carried out a study on financial literacy and loan repayment among clients of Ecumenical Loan Fund (ECLOF) Kenya and concluded that there was a negative relationship between all the constructs of financial literacy and loan repayment. Barua and Sane (2014) and Bay, Catasús and Johed (2014) found out that there was no relationship between financial literacy and loan repayment. They found that the people who received financial literacy training exhibited no difference with those who did not receive them. On the view of the above contradictions, the study sought to establish effects of financial literacy on loan repayment by MSEs.

1.3.1 Purpose of the Study

The main purpose of the study was to establish the effect of financial skills on loan repayment by Micro and Small Enterprises in Elgeyo Marakwet County.

1.3.2 Objectives of the Study

i. To establish the effect of financing skills on loan repayment
ii. To determine whether book keeping skills affect loan repayment
iii. To establish the effect of budgeting skills on loan repayment

1.4 Research Hypothesis

The following hypotheses have been formulated for the study;

H_{O1}: Financing skills do not have a significant effect on loan repayment

H_{O2}: Book Keeping skills do not have a significant effect on loan repayment

H_{O3}: Budgeting skills do not have a significant effect on loan repayment

1.5 Significance of the Study

The study findings herein are of great significance to various stakeholders. SME owners will have a clear understanding of the benefits that will be realized by acquisition of financial skills for effective financial management of their businesses, loan repayment and access to finance.

This will enhance their loan repayment and improve their credit ratings. Researchers and scholars will also find this study useful as they are now availed with additional literature on the concept of financial literacy and its impact on loan repayment by SMEs. The study will benefit Banks, Microfinance financial institutions and other credit agencies as there shall be readily available information on the effect of financial literacy on loan repayment by MSEs. The results of this study will be useful to the government in streamlining coordination of institutions implementing MSE activities. This will promote institutional structures necessary for effective MSE's policy design, implementation and monitoring of their activities for the benefit of the associations and entrepreneurs as well.

1.7 Limitations of the Study

The study to a limited extent was hindered by a number of challenges, like uncooperative respondents who feared exposing their literacy levels. However, the researcher assured the respondents that the study is for academic purposes only and that the information given by the respondents would be treated with utmost confidentiality. Further, the researcher obtained an introduction letter from the university indicating that the study was purely for academic purposes.

Other respondents said they did not have adequate time to take part in the study as a result of their busy schedules. This posed a serious challenge, as entrepreneurs in SME sector were the key respondents to the study. Proper prior arrangements were therefore done with the respondents to avail themselves for the study. Also, the researcher administered the questionnaire through a drop and pick later method so that the respondents filled the questionnaires at their own time.

1.8 Scope of the Study

This study was done in Elgeyo Marakwet County in Kenya. The study was conducted between September 2016 and May of the year 2017, in Elgeyo Marakwet County. Self-administered structured Questionnaires were used to collect primary data. A sample of 84 MSEs Owners was selected for the study. It involved establishing the effect of financial skills on loan repayment by Micro and Small Enterprises in Elgeyo Marakwet County. The study specifically dealt with the effect of financing skills, book keeping skills and budgeting skills on loan repayment by MSEs.

1.9 Operational Definitions of Terms

The following are the definition of the various terms used in this study:

Micro and Small Enterprises (MSEs): Are businesses enterprises in both formal and informal sectors employing between 1-50 workers and have a maximum annual turnover of KES 5 million (GOK, 2005).

Financial Skills: It is regarded as the ability of an MSE owner to make appropriate financial decisions and plan for future financial needs. Such skills include, financing skills, book keeping skills and Budgeting skills.

Financing skills: It is the ability of an MSE owner to obtain capital from outside sources with minimal cost and payoff obligation

Book keeping skills: It is recording of business financial transactions so that the financial position of an entity and its relationship to proprietors and outside persons can be readily ascertained. It involves recording of sales, purchases, income, receipts and payments by an individual or organisation.

Budgeting Skills: It is the possession of skills and knowledge to set financial goals, prepare and use budgets to monitor financial performance of a business.

Loans: Money which is given to members of financial institutions and they repay on periodic terms interest.

Loan default: It is the inability of a borrower to fulfil his/her loan obligation as and when due.

Loan repayment: It is the act of paying back money previously borrowed from a lender which usually takes the form of periodic payments that normally include part principal plus interest in each payment.

CHAPTER TWO
LITERATURE REVIEW

2.1 Theories Underpinning the Study

This study was guided by three theories ; Dual-process theories, Resource-based view theory and the theory of planned behavior (TPB) to explain loan repayment by Micro and Small Enterprises.

2.1.1 Dual Process Theory

Early dual process theories were developed by William James and has been and elaborated over time with the current view of this theory focused in the field of social psychology being formulated by Fritz Strack and Roland Deutsch in 2004. Dual-process theories argue that decisions can be driven by both intuitive and cognitive processes (Evans 2008). Intuitive processes can be characterized as fast, non-conscious, and tied to emotions whereas Cognitive processes can be characterized as slow, controlled, and conscious, responsible for analytical and rational thinking (Stanovich & West 2000). According to Chan, & Park (2013), Cognition is the mental processing that includes the comprehending, calculating, reasoning, problem solving and decision making. Individuals with high cognition are analytical and are better at retaining information and more likely to search out new information. This will help investors in shaping their investment portfolio composition since they use analytical process. Glaser and Walther (2013) point out that the positive effect of financial literacy on reasonable investment decisions is diminished by a high prevalence of intuition. Therefore, sub optimal investment decisions can be reached with increased use of intuition.

Dual process theories imply that individuals who are high on cognition will seek out for more information, evaluate thoroughly the quality of the information found, are more likely to rely on relevant messages and use wider variety of information from sources previously unknown. This means that MSEs owners decision making skills can be boosted by acquiring financial skills through training. Moreover, use of intuition may be reduced by provision of relevant information to support decision making through financial education since individuals tend to rely on intuition where relevant information is lacking. However optimal results may not be achieved where individuals trust their intuitions in decision making.

2.1.2 Resource-Based View Theory

RBV is an approach to achieving competitive advantage that emerged in 1980s and 1990s, after the major works published by Wernerfelt, B. (The Resource-Based View of the Firm), Prahalad and Hamel (The Core Competence of the Corporation), Barney, J. (Firm resources and sustained competitive advantage) and others. Resource-based theorists have explicit strategic resources as the defining attribute of assets that create sustained business competitive advantage (Barney, Wright, & Ketchen, 2001). RBT posits that resources are embedded in organizations and the standard carriers of resources are established firms and corporations. However, in the entrepreneurial context, the entrepreneur is the resource carrier whose personal resources, which exist as idiosyncratic and personalized collections of assets, impact upon the firm's competitive advantage and performance. Therefore, the RBV theorist places the entrepreneur at the heart of a firm's growth and posits that growth comes from how the owner perceives productive opportunities for the firm. Resources that can generate sustained competitive advantage include assets, capabilities, organizational processes, information and knowledge.

Okeyo (2013) used RBT to examine the relationship between entrepreneurial orientation, business environment, business development services and performance of small and medium manufacturing enterprises in Kenya. Thapa (2014) used the RBT to examine the influence of managerial foresight on microenterprise performance in Nepal and established that managerial foresight had a crucial role on enhancing microenterprise performance and that managerial foresight mediated the effects of several entrepreneur- enterprise and environment- related factors on microenterprise performance. Kinuthia (2011) used RBT to investigate the marketing strategies and factors influencing their implementation by garment- making micro-enterprises in Nakuru town and concluded that both internal and external resource factors influenced the implementation of marketing strategies in microenterprises. Mira *et al.,* (2013) used the RBT theory to examine the challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central Business District in Kenya. This study suggests that financial skills training can improve loan repayment by MSEs by improving the ability of the business owner to make sound financial decisions, raise the required capital and put in place appropriate financial performance measurement systems to monitor and measure performance of the business and take corrective action.

2.1.3 Theory of Planned Behaviour

The Theory of Planned Behaviour was proposed by Icek Ajzen in 1985. The theory was developed from the theory of reasoned action which was earlier developed by Martin Fishbein and Icek Ajzen in 1980. Theory of Planned Behaviour is based on the principle of understanding the person's choice of behaviour and to further examine the person's overall intention relating to that behavior (Ajzen, 1991). The stronger the intention to engage in a behavior the more likely should be its performance. According to TPB an individual intention to perform is determined by three variables: attitude, subjective norms and perceived behavioral control. Attitude refers to the strength of beliefs that the person holds towards a particular behavior. It refers to an individual's positive or negative evaluation of performing a behavior. Subjective norms refer to the perceived social pressures coming from important persons in his life that influence him to perform the behaviour. Perceived behavioral control refers to individuals' belief that they have control over certain factors that allow them to perform the behavior (Ajzen & Fishbein, 1980). According to the Theory of Planned Behaviour, immediate antecedent of behaviour is the intention. Intention, in turn, is predicted by the extent to which a student evaluates loan repayment, either positively or negatively. A person's attitude affects his capabilities and intentions. Influences from parents and peers have a great impact on students' decision to repay back the loans.

According to Ismail (2011), the Theory of Planned Behaviour is adopted in order to investigate the underlying processes, thereby leading to the decision to pay the loan. A survey on 1500 undergraduates at University of Putra Malaysia revealed that many students perceived education loan as a burden and a significant proportion of them had negative perception towards the loan repayment (Elistina *et al.*, 2006). Further, Nguyen (2007) states that, man as a social being, is often influenced by other persons and by a group he/she belongs or aspires to belong to. These may include family members, friends, neighbours, office colleagues and group members. Influence from these groups and media affects MSE owner perception towards loan repayment. The fear of being ostracized by group members could motivate a borrower to repay back the loan. Conversely, bad friends and group members could influence one to default repayment of loan facility extended to him or her.

2.2 Concept of Financial Skills

According to Huston (2010), financial skills have no universally accepted definition. Different scholars, strategists and organizations defined financial literacy in different ways. The Ontario

Working Group on Financial Literacy, (2010) defined financial literacy in terms of possessing the knowledge and skills in order to make responsible financial decisions competently and confidently. Organization for Economic Cooperation and Development (OECD) defined financial literacy as the combination of knowledge, behavior and attitude needed to make sound financial decisions and achieve individual financial well-being (OECD, 2011, Atkinson & Messy, 2012). Financial skills refer to the combination of consumer's understanding of financial products and services financial concepts and their ability and confidence to manage financial risks and opportunities, to make informed choices, to know where to go for help, and take other effective actions to improve their financial wellbeing (World Bank, 2009).

Financial literacy is the ability to understand matters of financial nature, consisting in the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finances. It is associated with the set of attitudes that are relevant for the financial decision-making, behavior and knowledge. These decisions include when to save, when to spend, managing a budget, choosing the right financial products and willingness to address other events, such as financing children's education and planning for retirement. Financial skills are critical to an individual in his personal as well as his business capacity. More financially literate individuals contribute to broader economic growth and development (Kefela, 2010). However, Mak and Braspenning (2012) argue that consumers generally do not have a sufficient level of financial literacy in order to enable them to make informed and rational decisions, concluding that behavioral biases have a distorting influence on consumer decision-making.

Whereas consumer financial skills focus on the individual and his ability to manage personal financial decisions, SME financial skills focuses on an individual's ability to translate financial skills concepts to business needs. According to Consumer and Financial Literacy Taskforce, (2004), the recent evolutions in financial markets, has become increasingly necessary for entrepreneurs and consumers to be more knowledgeable and competent in administering their finances. This is because changes in financial markets have resulted in the availability of a wider selection of financial products and services, making financial decisions multifaceted and more complicated. Easier access to credit facilities, deregulation of financial markets and technological improvements in the way financial services are distributed have undoubtedly left many entrepreneurs with a confusing array of investing opportunities and decisions to be made

Financial literacy skills enable individuals to navigate the financial world, make informed decisions about their money and minimize their chances of being misled on financial matters (Beal & Delpachitra, 2003; CBF, 2004b; Raven, 2005). The literature suggests that there is a strong relationship between financial literacy and entrepreneurs' welfare. Studies indicate that households with less financial knowledge or literacy, tend not to plan for their retirement (Lusardi, Mitchell, 2007a), receive lower asset levels (Lusardi, Mitchell, 2007a), and usually borrow at higher interest rates (Stango, Zinman, 2006). These results have convinced policy makers in both, developed and developing countries to increase efforts in advancing financial skills.

2.2.1 Measuring Financial Skills

There is no institutionalized measure of financial skills (Cole and Fernando 2008). As there is no single definition, there is no defined and consistent measurement for financial literacy. Different studies have used different variables to measure financial skills in-line with the respective definition they adopted. Atkinson & Messy, 2012, Bhabha *et al*., 2014, Potrich, Vieira, & Kirch, 2015, Firli, 2017) used similar proxies to capture financial literacy. They broke down financial literacy in to three components such as financial knowledge, behavior and attitude. The knowledge component as per OECD, (2011) incorporates awareness of basic financial concepts and issues such as numeracy, interest (simple and compound), time value of money, risk and return, risk management (diversifications and insurance), inflation, different financial products and services, financial institutions. Financial knowledge is important in undertaking activities such as following news about the economy and financial landscape, comparing financial products and services and thereby making informed financial decisions (OECD, 2017).

According to Koenen, *et al.*, (2016) and Lusardi, (2017) who defined financial literacy in terms of knowledge, financial knowledge can be measured though three concepts such as interest compounding, inflation and risk diversification. As per Lusardi, (2017) these concepts are important in every financial decision making. The other components making up measures of financial literacy such as behavior and attitude are mostly used in researches which adopted the OECD's definition and measurement of financial literacy. The financial behavior includes budgeting, making considered purchase, paying bills on time, keeping watch of financial affairs, saving, long term financial goal setting, choosing products, investing and borrowing to make ends meet (OECD, 2017). The other financial literacy component, financial attitude includes attitude towards money, saving, and planning for the future (OECD, 2017).

The United States Agency for International Development (2009) utilized fund related learning, (awareness of sources of finance, awareness of business finance technology and consumer financial skills) account related business aptitudes and data abilities to quantify budgetary proficiency for a business entrepreneur. Siekei *et al.* (2013) used competence in book keeping, credit management, budgeting skills and financial control to measure financial literacy. Oseifuah (2010) and Shrewd (2013) utilized scientific and PC proficiency, financial related behaviour, financial information and financial conduct to quantify financial skills. Obago (2014) in a study to determine the effect of financial literacy on management of personal finances of employees of commercial banks in Kenya used: money basics, budgeting, saving and planning, borrowing, debt literacy, financial products, recourse and self-help. Sucuahi (2013) used record-keeping, budgeting, savings, financing skills to measure financial skills. Fatoki (2014) used financial planning analysis and control, Book keeping, understanding of funding sources, Business terminology, use of technology and risk management (insurance) to measure the financial literacy of new micro entrepreneurs. This study utilized the following concepts to measure the financial skills of MSEs; financing skills, Book-keeping skills and budgeting kills.

2.2.1.1 Financing Skills

The financing skills refer to the ability to obtain capital from outside sources with minimal cost and payoff obligation. Interestingly, Assibey (2010) found out that most micro entrepreneurs are illiterate with respect to business financing. Prasad, Green and Murinde (2005) found that financing policy, capital structure and firm ownership are all strongly linked. Carpenter and Petersen (2002) argue that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth.

Small companies frequently suffer from a particular financial problem due to lack of a capital base. Small businesses are usually managed by their owners and available capital is limited to access to equity markets, and in the early stages of their existence owners find it difficult in building up revenue reserves if the owner-managers are to survive. A question concerns how small businesses determine sources of finance in such difficult circumstance. The varuban, (2009) examined small scale industries and its financial problems in Sri Lanka. He underscored that SMEs of small scale industries in Sri Lanka finds it extremely difficult to get outside credit because the cash inflow and savings of the SMEs in the small-scale sector is significantly low (Ganesan,1982; 2000). Hence, bank and non-bank financial institutions do not emphasize much on credit lending for the development of the SMEs in the small-scale sector in Sri Lanka. Due to the key importance of training SMEs entrepreneurs in order to reduce lenders risk, some banks together with SMEs organizations and the government have developed a series of training courses, for example, NatWest, in cooperation with the Federation of Small Business and local education Authorities offered training to entrepreneurs and those who completed the course were eligible to lower interest rates. Improving entrepreneurs' management skills and their financial awareness will make a vast improvement in their access to finance (Reuben Ricupero, 2002).

Pettit and Singer study underscored that financing is the most difficult problems of the SMEs in USA. External finance is more expensive than internal finance (Datta, 2010). Due to lack of access to external finance (private placements and initial public offerings of varying sizes), SMEs rely on bank loans as compared to their larger counterparts (Berger *et al.*, 2001; Bracker *et al*. (2006). Ssendaula (2002) lists factors that have discouraged banks from lending to SMEs. Among them are poorly compiled records and accounts; low levels of technical and management skills; out-dated technologies; lack of professionalism and networking; lack of collateral; lack of market outlets due to poor quality and non-standardized products; poor linkages and limited knowledge of business opportunities.

2.2.1.2 Book Keeping Skills

Larry and Cristopher (2009) define book keeping as "the art of recording all money transactions so that financial position of an undertaking and its relationship to proprietors and outside persons can be readily ascertained". Every enterprise, however simple requires written records which are used by managers as guides to routine action, taking of decisions, formulation of general rules and maintaining relationships with other organizations or with individuals (Frankwood, 2010).

Therefore a business without written records is like a blind man without his aid or a vehicle without a driver for it does not know which way it is going. Frankwood, (2010) identifies the following as the main benefits of keeping business records; They help in calculating business profits or losses, reveal value of debtors in terms of amount due and when payments are due so as to avoid heavy costs of bad debts, They reveal fast moving and slow moving goods and those about to expire, They also help in business planning and are needed by lenders of business finance etc. Hussein (1983) as cited by Ezejiofor, Ezenyirimba, & Olise (2014) notes that, a good accounting system is not only judged by how well records are kept but by how well it is able to meet the information needs of both internal and external decision-makers. Quality accounting information will enhance financial management as well as accessibility of finance by small businesses. Wise (2013) finds that increase in financial literacy leads to more frequent production of financial statements and such an entrepreneur who produces financial statements more frequently has a higher probability of loan repayment and a lower probability to voluntarily close his/her business. Ezejiofor *et al.*, (2014) in a study to establish the relevance of accounting records in small business performance in Nigeria found that MSEs that kept proper books of account were able to measure accurately the performance of their businesses. They also assert that business decisions with regard to expansion, maintaining a competitive edge, prevention of business failure and filling tax returns need to be supported by quality financial information which needs to be relevant, user friendly and available in a timely manner. They caution that accounting systems that generate the information should be simple in order not to impose unnecessary operative burdens.

Most micro-enterprises do not keep books of accounts that will allow them to extract useful accounting information due to lack of accounting knowledge (Fatoki, 2014; Agyei, 2011; Maseko & Manyani, 2011). In addition, these findings indicate that most micro-enterprises still use manual method instead of computers for operations which results to inefficient use of accounting information to support assessment of financial performance of their businesses. They propose the use of accounting software to improve accounting practices, albeit they lament the unavailability of medium-sized software for MSEs. Ezejiofor *et al*., (2014) opine that except for statutory demands, MSEs hardly give serious thoughts to the process of sound accounting, yet the inadequacy and ineffectiveness of accounting processes have been responsible for untimely collapse of a host of them. Most MSE owners prefer to recruit unskilled personnel especially clerical and accounting staff the product of which is business stagnation and winding up. This is because unskilled accounting staffs are not able to keep reliable accounting records and cannot correctly determine the profit or loss of the firm.

The Kenya Revenue Authority (KRA) commissioner general Waweru in his report on "Addressing the different tax policy and tax administrative challenges of micro, small and medium businesses" observed that, many small businesses in Kenya in the informal sector lack detailed business records as a strategy to avoid taxation (Waweru, 2007). He opines that imposing fines on such entities would discourage rather than enforce tax compliance. These entities may avoid taxation but this information asymmetry has a negative effect on the business as it makes it difficult for financiers to quantify accurately the level of risk involved in a business opportunity so as to fix accurate interest rates which results to high transaction costs due to high cost of information gathering, screening and monitoring of MSEs.

Consequently financiers tend to fix high premiums, high interest rates and demand excess collateral which makes it difficult for MSEs to comply. Such severe credit rationing for MSEs results to credit constraints making them miss out on projects that are profitable because they cannot raise the external capital necessary to fund them (G20 Seoul Summit, 2010). The G20 Seoul Summit (2010) also reports that low levels of financial literacy particularly book keeping skills have contributed to lost opportunities for a large number of MSEs worldwide. It affirms that information asymmetry arising from MSEs inadequate financial statements or business plans make it difficult for creditors to assess the creditworthiness of potential MSE proposals which makes most lenders reluctant to fund small firms especially those with new products. Mills and McCarthy (2014) confirm this and opine that assessing creditworthiness of small businesses is difficult due to information asymmetry because their transactions are largely informal. Through business training an entrepreneur can acquire basic skills of Book keeping which increases the transparency of his business and improves his credit standing.

2.2.1.3 Budgeting Skills

Budgeting refers to the expenditure planning and cash flow analysis (Uddin, Chowdhury & Zakir, 2009) which is very important to the success of the business operation and processes (Bragg and Burton, 2006). However, Torres (2008) found that small business owners are not concerned about budgeting; their concern is more of the cash flow. Studies done indicate that SMEs beneficiaries tend to acquire budgeting skills related to business planning for profit, financing and cash flow. The moderately low level of budgeting skills implies that, although the skills are emphasized during the training, the content may not be sufficient in handling the planning aspects in SMEs, or the focus was more on personal budgeting rather than business. Budgeting skills play a key role in enhancing the performance of SMEs. The budgeting skills acquired assist the entrepreneurs to increase their sales, and business profitability by providing a basis of establishing performance targets. Furthermore, the budgeting skills contribute towards ensuring smooth running of the business (Siekei, *et al*, 2013).

A budget is a plan that describes all future business activities expressed in financial terms. It is the yardstick by which an organization's performance is measured. Budgeting on the other hand is the process of preparing, compiling, and monitoring financial budgets (Nugus, 2006). Budgeting is a key management tool for planning and controlling departments within an organization. Budgeting is an aid to better management of an enterprise and helps to achieve higher profits and minimize losses. Siekei *et al*.,(2013) established that there is a positive relationship between budgeting skills acquired through financial literacy training and improved performance of MSEs in terms of increased sales and business profitability as it provides a basis of establishing performance targets. However, Fatoki (2014) established that most micro enterprises are survivalist they might have some form of budgeting and financial planning and control but on an informal basis a view that is corroborated by Abanis, Sunday, Burani & Eliabu (2013) who found that most small businesses do not engage in formal financial planning and control and budgeting.

Warue and Wanjira (2013) also attribute business failure to poor budgeting skills which is also common among Kenyans. FinAccess survey (FSD, 2009) revealed that although a large number of Kenyans are familiar with the concept of budgeting, over 51.2% felt they are not in control of their finances. These empirical studies reveal a positive relationship between financial literacy and human behaviors such as increased saving, wealth accumulation, investment portfolio choice and debt management and business survival. However, mounting evidence shows that there is a low level of financial literacy among adult population across countries worldwide. This illiteracy is also higher amongst women than men which negatively impacts on their businesses.

2.3 Loan Repayment

According to Anapum, B. Blavy, R. and Yulek, M. (2004), Kenya's microfinance is one of the oldest and most thriving in Africa but affected by loan repayment problems. Loan repayment refers to the ability of a borrower to service his/her loan effectively as to and when loan instalments fall due. According to Imbuga (2014), loan repayment refers to the total loans paid on time as stated in the loan agreement contract and loan repayment measures are based on the degree of arrears. Godquin (2004) posits that loan repayment is usually measured in term of in terms of binary variable based on an arbitrary definition of what constitutes repaying on time. As stated by Sungwacha *et al.*, (2014), borrowers are usually required to repay their loans in regular instalments, soon after loan disbursements. A delayed instalment is said to be delinquent and a repayment that has not been made is said to be in default. Loan default on borrowed funds could arise from unfavourable circumstances that may affect the ability of the borrower to repay the loan in time. Delays in loan repayment lead to non-refinancing of a large number of safe borrowers and the collection of late instalments by the loan officer driving to an increase of its loads without compensations in resources. Due to delay by some borrowers to repay the loan, other borrowers will be incited to also delay their loan repayment and even to negotiate with the institution the possibility to abandon the last part of the loan (Revan & Nelly, 2002).

The willingness to repay in the financial market is crucial to the existence of a healthy financial system. Brown *et al.*, 2004 posits that, since loan repayments are not third party enforceable, many borrowers default and lenders cannot profitably offer credit contracts. Loan repayment problems weaken the financial health of financial institutions since they handicap their missions while putting in danger their capitals. In addition, weak repayment rates affect negatively MSEs relations with the financial institutions and make them disinterested to engage in other financial transactions (Bassem, 2008). To mitigate the loan repayment problem financial institutions initiate loan recovery strategies. Loan recovery is one of the key objectives of financial institutions as it enables them to refinance and to reach more people. To have a positive impact on the economy of a country, the institutions must be able to loan out funds and recover the same to remain relevant in the finance industry. Loan recovery is a strategic activity for financial institution (Kiliswa & Bayat, 2014). Financial institutions also monitor the borrowers will aid in making sure that they are using the loans for the right purposes meaning that they can pay back their loans.

2.3.1 Financial Skills and Micro and Small Enterprises

Financial skills are recognized as important life skill for every individual. It can be more important for those running business. Financial literacy researches focusing on small business owners/managers are not adequate (Campo & Barnes, 2017). Some of them emphasize on measuring the financial accounting and record keeping aspect rather than financial aspect. Most of empirical evidences around the world show that financial literacy level of small and medium business owners is low for instance (Guliman, 2015).

Fatoki, (2014), assessed financial literacy level of the owners of new micro-enterprises in South Africa using descriptive method of data analysis. The study found micro-enterprise owners‟ level of financial literacy is low in areas such as, financial planning, analysis and control, book-keeping, understanding of funding sources, business terminology, finance and information skills, use of technology and risk-management to measure the financial literacy of entrepreneurs.

In additions, a study in the Republic of Srpska by Plakalović, (2015), indicated that though SMEs owners are expected to be financially literate to properly manage their financial matters, their level of financial literacy is very low. Particularly the study found out that the SMEs owners are not aware of the intangible values of their companies, not aware of financial analysis, and manage their liquidity spontaneously which will lead to illiquidity. Sucuahi, (2013), measured the financial literacy of 100 selected entrepreneurs in Davo city, Philippines and determined the factors that affect their financial literacy level. They measured financial literacy in terms of record keeping, budgeting, personal finance and savings. The result showed the financial literacy level of selected individuals is moderate. Educational attainment significantly affects financial literacy level of micro-entrepreneurs significantly but gender is not a significant factor. Micro-entrepreneurs with higher level of education have relatively higher financial literacy level.

Small and Medium Enterprise owners with higher business experience/years in operation and higher level of education are characterized by having relatively higher financial literacy level. In addition, financial training program can affect level of financial literacy positively i.e. those who took financial literacy program (Siekei, Wagoki, & Kalio, 2013) and (Bayrakdaroğlua & Şan, 2014).

2.4 Empirical Reviews

There are several empirical studies that were undertaken by different scholars concerning SMEs, both in developed and emerging economies. This are discussed as follows;

Barua and sane (2014) evaluated the impact of mandatory financial education program on female micro entrepreneurs of urban microfinance institution (MFI) headquartered in Mumbai, India. They exploited the variation in timing of financial literacy program across the branches to identify if there was an improvement in the loan payment performance. They found out that financial literacy led to decline in the total number of days taken to make loan repayments as well as the number of months in which the repayment was late.

Bruhn and Zia (2011) in their study on the Impact of Business and Financial skills for Young Entrepreneurs in Bosnia and Herzegovina found that business outcomes and practices is the difference in effects of the training on individuals with below and above median financial skills at baseline. They also found that both financial skills changed some of their business practices, such as separating personal accounts from business, and making investments in their business; increased in productivity and sales of a business and impacted on access and payment of loans.

Barte (2012), on a study on financial literacy in SMEs, found out that financial literacy was directly linked to performance. The study was conducted using descriptive research survey design. Data was analyzed using descriptive statics and simple regression analysis. The study found out that Entrepreneurs had low levels of financial literacy as demonstrated lack of financial records, lack of monitoring of profit and losses and lack of cash management practices. The vendors were also confined to high interest loan. The study however did not show the exact influence of financial literacy on these SMEs.

Chong (2010) assessed the credit management of micro-enterprises in East Malaysia using a descriptive design. The study employed a combination of simple random and snow balling technique to arrive at a sample size of 120 SMEs. The study used a regression model and the results showed that about 59 percent of the respondents did not pay their loans on time. Level of education attained by respondents reported a significant predictive power over their credit management practices. A higher level of education level attained implies better credit management. Besides, it was also found that there was a significant gap between genders in terms of credit management. Meanwhile, higher total liability per month was found to be significantly associated with a higher level of loan defaults. Finally, respondents' financial capability, represented by household income, was proved as not having any significant impact on the credit management of micro- enterprises.

Dawuda, (2015) in his study an assessment of financial records keeping behaviour of small scale businesses in Ghana found out that lack of education and high cost of hiring qualified staff made it very difficult for the owners to keep proper books of accounts. Some SMEs owners are ignorant of the value of keeping proper financial records and have perception that it is waste of time and resources to create finance and accounting department with qualified staff considering the scale of their operations. This may be true for businesses which are not generating much revenue. It could be argued from this evidence that, the volume and value of transactions can influence records keeping behavior of SMEs owners.

Oladebo and Oladeebo (2008) examined the determinants loan repayment among smallholder‟s farmers in ogbomoso Agricultural zone in Nigeria. His results from multiple regression analysis showed that amount of loan obtained by farmers, years of farmer‟s experience with credit farmers and farmer‟s level of education positively influenced loan repayment.

Mabhanda, (2016) explored the impact of financial illiteracy to SMEs in spite of various interventions to promote growth of SMEs. All the participants of this study were purposefully selected in line with qualitative research approach used in data analysis. The researcher employed a qualitative research approach where document analysis, focus group discussions, open-ended questionnaires and face to face interviews were used. The study revealed that several factors that include lack of financial education contributed further to poor management skills, poor budgeting skills, lack of business information, poor decision making and lack of non-business behavior. The study revealed a considerable low level of financial literacy among entrepreneurs and this has far reaching consequences to the management of their ventures. Such factors worsened the state of SMEs in Zimbabwe. The study therefore recommends that the government, stakeholders, banks, financial support institutions and individuals conduct financial literacy programmes to revive and strengthen the viability of SMEs.

Lusimbo and Muturi (2016) investigated the relationship between financial literacy and the growth of MSEs in Kenya. Descriptive cross sectional survey design was used. 306 MSEs were selected using stratified random sampling from a population of 1300 MSEs registered in Kakamega Central Sub County as of 2015. A questionnaire was used to collect primary data while document analysis was used for secondary data. Data was analyzed using percentages and frequencies using SPSS. Findings reveal that; although MSE managers had a fair knowledge of debt management literacy majority do not understand the effect of inflation and interest rates on loans they borrow and were not comparing terms and conditions before purchasing financial products, most managers have low book keeping literacy. Managers with low financial literacy have recorded minimal or no growth.

Ngek, (2016) sought to find out the impact of financial literacy on firm performance, as well as to examine the moderating effect of financial capital availability on the financial literacy – performance relationship, amongst SME in the Free State province of South Africa. The results showed that on average SME have low levels of financial literacy and financial capital availability. It was also observed that financial literacy positively influenced SME performance, and that the relationship is positively moderated by financial capital availability. It is, therefore, necessary for SME owners to develop financial literacy skills as an essential part of entrepreneurial activities. Likewise, since businesses rely on financial capital to invest, develop and grow, policy makers should put in place measures on how to bridge the access to finance gap, and, thus, ensure that entrepreneurs are relieved from financing constraints.

In the study done by Simeyo *et al* (2011) on the effect of provision of micro finance on the performance of youth micro enterprises under Kenya Rural Enterprise Program (KREP) in Kisii County found out that training in micro enterprise investment had a significant positive impact on the performance of the microenterprises. It was also established that majority of the respondents were very satisfied with the provision of capital investment and basic business skills training in micro enterprise investment. This suggests that the business skill training accompanying the provision of micro loans most likely improves the capacity of the entrepreneurs to use funds and hence impacts on business performance.

Nyamboga *et al*. (2014) investigated the influence of financial literacy on SMEs loan repayment. The specific objectives the study were to establish the impact of book keeping skills, credit management and budgeting skills influence loan repayment by the beneficiaries. The study was conducted among the beneficiaries of Equity Group Foundation Training Program on SMEs in Ngara, Nairobi County. A sample of 30 SMEs was selected for the study using stratified random sampling technique. The study used a descriptive survey research to investigate the factors influencing loan repayment among the beneficiaries. Questionnaires were used to collect primary data from a sample of selected beneficiaries and data was analyzed using descriptive and inferential statistics. The study established that bookkeeping; credit management and budgeting skills significantly influenced the ability of SMEs to repay loans and recommends that the SMEs should enroll in financial related programs to enhance their capacities. The study recommended that there is need to initiate more financial literacy programs to reach to many SMEs for proper credit management skills hence improvement of loans repayment.

Nyamute and Maina (2011) examined the personal financial practices that encompasses savings practices, expenditure practices, debt management, investment, cash management, retirement and unexpected practices of both employees who are financially educated verses those who are not. The results show that there is a significant difference between the personal financial management practices of the finance and the non-finance literate respondents. It can be concluded that entrepreneurs‟ financial literacy influences personal financial management practices.

The study by Ongesa *et al* (2014) on assessment of Financial Literacy on Loan Repayment by Small and Medium Entrepreneurs in Ngara, Nairobi County concluded that book keeping, credit management and budgeting skills significantly influenced the ability of SMEs to repay loans. They recommended SMEs to join financial related programs to enhance their capacities and they also emphasized the need to initiate more training programs to reach more SMEs.

Olima (2013) investigated on the effect of financial literacy on saving practices and social security planning of Kenya Revenue Authority employees. The study findings indicated that financial literacy impacts to a great extent on the financial management because financial education programs guide program development and refinement. The study findings indicate that generally financial literacy to a great extent affects personal financial management among the respondents. However, most participants considered retirement planning less important, were less aware of the effects of estate planning, insurance planning and tax planning.

According to Siekei (2013) credit management skills obtained through financial literacy programme enhance performance through acquisition of credit financing and management of loan portfolios to ensure that loan liability is minimized and interest expenses minimized. Budgeting skills are very significant in growing sales, profits and ensuring smooth running of the business. Financial literacy argues that the behaviour of people with a high level of financial literacy might depend on the prevalence of the dual process theories which are; intuition and cognitive theories (Evans, 2008).

Sagana (2014) conducted a study on entrepreneur financial literacy, financial access, transaction costs and performance of micro enterprises in Nairobi County, Kenya. A cross-section design was adopted for the study. The study population comprised of all microenterprises in Nairobi County, from which a representative sample of 396 microenterprises was drawn. The main study instrument was a questionnaire which comprised of likert-type scale questions on the main variables of the study. The data was analyzed using both descriptive and inferential statistics. The findings of the study indicated that entrepreneur financial literacy had a statistically significant influence on enterprise performance therefore the hypothesis that financial literacy influences enterprise performance was supported.

Nene (2014) investigated the factors hindering SMEs from committed and consistent credit repayments by focusing on SMES in Nairobi County. The specific objectives were to: identify conditions put by banks in offering loans to SMEs; assess whether or not SMEs are able to meet loan conditions put by banks; and establish the impact of loan conditions put by banks on growth and sustainability of SMEs. The study adopted a survey design method in determining the factors that affect SMEs in credit repayment. The target population comprised SMEs operating within Nairobi County and sampled 100 SMEs within Nairobi County. The study found that independent variable (Character, Capacity, Conditions, Security, Common Sense and Contribution) explains 63.3 percent change of credit repayment.

Kariuki and Wanjiku (2015) conducted study on financial literacy and loan repayment and they concluded that that there is a negative relationship between all the constructs of financial literacy and loan repayment of ECLOF Kenya clients. This position was clearly shown through the inference statistics which confirmed the existence of a significance level or the p values which were less than 5%.

2.5 Summary of Review Literature

The importance of financial literacy as a key life skill cannot be over emphasized. This has been brought about by the changing social economic environmental factors which place a higher responsibility of making financial decisions to an individual both in terms of personal finances as well as business finance. Consequently, there is need for individuals to strive to acquire financial management skills so as to be able to make sound financial decisions in managing personal or business finances. A dearth of literature on theories of enterprise growth mainly (Penrose, 1959; Greiner,1972; Churchil and Lewis,1983) concur that skills and competencies of the entrepreneur play a crucial role in attaining growth. Financial literacy education can thus improve the growth of MSEs by equipping the entrepreneur with skills to make sound financial decisions, raise the required capital and put in place appropriate financial performance measurement systems to monitor and measure performance of the business and take corrective action.

The high failure rate of MSEs can be attributed to the low level of financial literacy of the entrepreneur which results to poor planning, limited access to finance and poor financial management(Oluoch,2014;Agyei,2014; Njoroge,2012). Financially illiterate individuals are more susceptible to over indebtness, vulnerable to fraudulent schemes and are also likely to use expensive sources of finance which impact negatively on their business profitability (Siekei *et al*., 2013; Fatoki, 2014).Such individuals are likely to face more challenges with regard to debt management, savings and credit, and are less likely to plan for the future.(Lusardi & Mitchell, 2008, 2011; FSD 2009). Financial illiteracy has also been attributed to credit card behaviors that generate fees and interest charges. Lusardi and Tufano (2009a) found that although illiterate customers account for just 28% of card holders, they account for the bulk of money received by financiers from these fee inducing behaviors. On the contrary, Acquisition of credit management skills through financial literacy training enables MSEs to acquire loans and manage loan portfolios in a manner to ensure that loan liability and interest expenses are minimized (Siekei *et al*.,2013).

Although a positive relationship exists between budgeting skills and improved performance of MSEs in terms of increased sales and business profitability and better money management by individuals; A number of MSEs in Kenya fail due to lack of budgeting (Warue & Wanjira ,2013) and this poor budgeting skills are also common among Kenyans since over 51.2%of Kenyans who are familiar with the budgeting concept feel not in control of their finances.(FSD,2009). On the other hand, acquisition of financial literacy results to positive outcomes which include; better financial decisions with fewer management mistakes (Njoroge, 2014; Fatoki, 2014) which reduces the need and cost of government intervention and support for those who have made wrong financial decisions (Pisa,2013), improved quality of financial products and stability of financial institutions in the market(Wachira & Kihiu,2012) and enables a business to attract investors and access to loans (Wise, 2013; Mills & McCarthy, 2014). Whereas these studies reveal a positive relationship between financial literacy, household wellbeing and business performance, most studies in Kenya on financial literacy and business performance have dwelt on an impact assessment of MSEs that have undergone Equity Foundation Financial literacy training programme while others have focused on the relationship between financial literacy and individual money management. No study has attempted to establish the relationship between financial literacy of MSE managers in Elgeyo Marakwet County and loan repayment.

2.5.1 Research gap

Existing empirical literatures indicated that financial skills among MSEs is low and not adequate to make complex financial decisions in a dynamic business environment and competitive financial markets. Though many studies have been carried out on the issue of the relationship between financial literacy and loan repayment, so far there is no mainstream instrument that could be included in financial skills surveys around the world. From the studies conducted, there is mixed evidence about the effects of financial literacy on loan repayment. It is therefore, important for bankers, bank regulators, supervisors, investors and researchers to understand how financial literacy affects the loan repayment. It is through this fact that this study was carried out to fill this significant gap by providing systematic analysis of the effect of financial skills on loan repayment by MSEs. To achieve this goal, the researcher analyzed the data collected using self-administered structured questionnaires from sampled MSEs. Few researches had been conducted on the area of financial literacy especially on loan repayment of MSEs in Kenya and most had failed to show that there is a relationship between financial skills and loan repayment and this motivated the researcher to fill this gap in the literature.

2.6 Conceptual Framework

The Conceptual framework is a diagram representation o the relation ship between the study variables as stated in the objective.

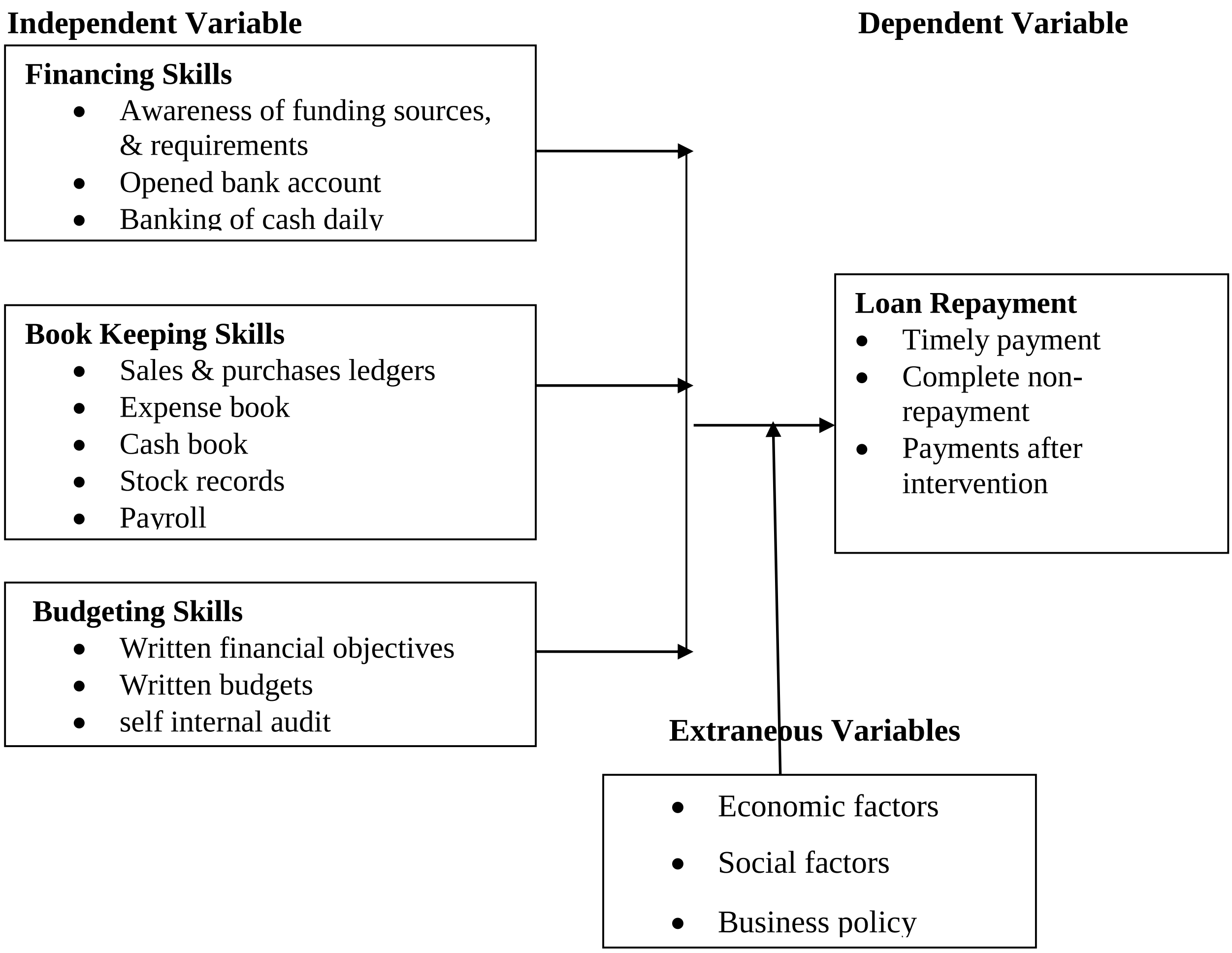

Figure 1: A Conceptual Framework describing the relationship between Financial Skills and Loan Repayment

Source: Reviewed Literature

Figure 1: is a Conceptual framework model that shows the relationship between the study variable. The independent variable is financial skills while the dependent variable is loan repayment. The independent variables consist of financing skills, book keeping skills and budgeting skills. These have been conceptualized as the independent variables in the diagram above. The dependent variable is loan repayment, which is affected by the above independent variables. The study sought to establish the effect of changes in independent variables on the dependent variable which is loan repayment. Loan repayment in this study includes timely payment, complete non-repayment and payments after intervention. Loan repayment is the

dependent variable which attempts to indicate the total effect arising from the influence of the independent variables. The extraneous variables namely social factors, economic factors and business policies may affect the dependent variable, but in this study the extraneous variables have been held at a constant or at zero meaning they will not have an effect on the dependent variable.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

Descriptive survey design was used for this study. It involves collection of data that describes events and then organizes, tabulates, depicts and describes the data (Babbie, 2002; Kothari, Ramanna, & Skinner, 2010). Gay (2009) also argues that Descriptive survey design involves collecting data in order to test hypothesis or answer questions concerning to current status of the subject of study. This design involved selecting a sample that was representative of the population, conduct the research on it and then draw conclusions about the entire population from the sample. It involved collection of information from MSE owners from the target population.

Descriptive survey design was used, because it does not allow an attempt to control or manipulate the variables. This method determines and reports the way things are. It attempts to gain insight about the subject as possible behavior, attitudes, values and characteristics, Mugenda (2008). Descriptive survey design was suitable because it described the effect of financial skills on loan repayments. Descriptive design is suitable method for collecting original data for purposes of describing a population (Vlok, Wilson, and Tett, (2008).

3.2 The Target Population

The population for this study were all the 520 MSEs licensed by Elgeyo Marakwet County in 2016 (Elgeyo Marakwet County, Department of Trade, 2016). The MSEs was classified into categories on the basis of heterogeneous SME sectors found in Elgeyo Marakwet County. The sectors were hardware businessmen, clothes dealers, general retail traders and others. This is represented by a sampling frame as shown in the Table 3.1 below.

Table 3. 1: Sampling Frame

Category	Population
Hardware business men	60
Clothes dealers	144
General retail traders	170
Others	146
Total	**520**

3.3 Sample Size and Sampling Design

The sample size of the study was 84 MSEs operating within Elgeyo Marakwet County. The sample size was computed as shown by the Nassiuma (2000) formula below;

$$n = \frac{Nc^2}{c^2 + (N-1)e^2}$$

$$n = \frac{130}{0.25 + (519)0.0025} = \frac{130}{1.5475}$$

$$n = 84$$

Where, n=Sample size, N=Population, c=covariance (0.5), e= standard error (0.05).

Using this formula, a sample of 84 MSEs were selected. The relevant sample sizes for each specific strata were computed using Yamane's formula (1967) as shown below.

ni = (Ni/N)*n

Where

Ni is the population of category i

N is the overall population size

n is the desired sample size (84 MSEs).

Table 3. 2: Sample Size

Category	**Population**	**Sample Proportion**	**Sample**
Hardware business men	60	11.9%	10
Clothes dealers	144	27.4%	23
General retail traders	170	32.1%	27
Others	146	28.6%	24
Total	**520**	**100**	**84**

The sample size consisted of 10 hardware businessmen, 23 clothes dealers, 27 General retail traders and 24 were other MSEs. This gave a total of Eighty-Four (84) respondents which was deemed to be a good representation of the population.

The study employed random stratified sampling method to obtain a representative sample. The technique ensured that each member of the target population had an equal and independent chance of being selected (Oso & Onen, 2005).

3.4 Data Collection Instrument

Primary data was collected using self-administered structured questionnaires. The questionnaire was divided into two sections; background information and research questions. It had closed–ended questions which were objective questions that the study would like to find out relating to the research topic. The objective questions were meant to reduce ambiguity and ensure that the respondents were more likely to answer the questions as required by the study. The study used this mode of data collection because with closed ended questions, they were easy to process due to uniformity in structure and being objective, the questions were easy to code them for data analysis.

3.5 Data Collection Procedures

In this study, the primary data was collected using a self-administered structured questionnaires and the drop and pick method was used to administer questionnaires. This gave the respondents ample time to think through the questions before answering them. This ensured that the data were not interfered with work constrains. The questionnaires were then collected after one week for data processing and analysis.

3.6 Validity and Reliability of the Instruments

Validity is the degree to which results obtained from analysis of the data actually represent the phenomenon under study (Best & Khan, 1993). It is the accuracy and meaningfulness of inferences, which are based on research results. It means the agreement between value of measurements and its true value. Validity is quantified by comparing measurements with values that are as close to the true values as possible. Poor validity also degrades the precision of a single measurement, and it reduces the ability to characterize relationships between variables in descriptive studies. The researcher ensured the content validity of the questionnaire by giving to the supervisor and other research experts to ensure that the questions test or measure what they are supposed to measure.

Instrument reliability is the measure of the degree to which a research instrument yields constant results from subsequent trials (Mugenda, 2008). The study ensured that the instrument was reliable in collecting the required information by pre-testing the instrument. The researcher administered the research instruments to the other MSEs in Elgeyo Marakwet County but not included in the sample before actual research began. A pretest was used to help the researcher to discover potential misunderstandings, errors or biasing effects (Kombo and Tromb, 2006). The necessary adjustments were done before administering actual research questionnaires. The

Cronbach's coefficient alpha was applied on the results obtained to determine how items correlate among them in the same instrument. Cronbach's coefficient Alpha of more than 0.7 was taken as the cut off value for being acceptable which enhanced the identification of the dispensable variables and deleted variables. The results showing Cronbach's Alpha coefficients are presented in the Table 3.3 below.

Table 3. 3: Cronbach's Alpha Reliability Coefficients

Variable	Cronbach's Alpha	No of Items
Financing Skills	0.794	4
Book Keeping Skills	0.892	4
Budgeting Skills	0.787	4
Overall	0.882	12

3.7 Data analysis and Presentation

The study involved collection of primary data. The data collected was then organized, coded, and entered in the computer for analysis using Statistical Package for Social Science (SPSS) software. The study used both descriptive and inferential statistics techniques for data analysis. Descriptive statistics was applied to establish patterns, trends and relationships and to make it easier to understand and interpret the implications of the study. Computation of mean and standard deviation helped in conveying information about the average and make inference about the population. By use of standard deviation, it was easy to know the dispersion of a random variable from its expected value or mean and able to infer about its relationship to the mean (Kothari, 2011). To establish relationships between variables, regression and correlation tests were carried out and results presented in tables. The multiple linear regression model was used to determine the relative importance (sensitivity) of each independent variable in affecting the loan repayment by MSEs. The correlation analysis was used to give correlation coefficients between the three independent variables measured using five-item Likert scales. The correlation coefficients indicate the strength of the association between the variables. The regression model is shown below and thereafter the definition and measurement of the variables.

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon$

Where;

Y – MSEs loan repayment

α – Constant Value

X1 – financing skills

X2 – book keeping skills

X3 – budgeting skills

Ɛ – Error term

β1- Coefficient of Financing skills, indicating change in loan repayment due to 1 unit increase in financing skills.

β2- Coefficient of Book keeping skills, indicating change in loan repayment due to 1 unit increase in Book keeping skills.

β3- Coefficient of Budgeting skills, indicating change in loan repayment due to 1 unit increase in Budgeting skills

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Response Rate

Eighty-four (84) questionnaires were distributed to the respondents. Out of the 84 questionnaires issued to the respondents, 75 were filled and returned translating to a response rate of 89.3%. The response rate was above the minimum recommended of 50-70% therefore deemed adequate for analysis and reporting (Mugenda & Mugenda, 2003; Nulty, 2008).

4.2 Demographic of the Respondents

Respondents were asked to provide information regarding their demographic profile which included highest level of education, sector of business and duration in business. This information was deemed relevant in assessing the effect of financial skills on loan repayment by Micro and Small Enterprises since these characteristics could have some effect on this relationship. Any important trends noted were highlighted to draw out lessons on what might facilitate loan repayment by the Micro and Small Enterprises. The table 4.1 below is a summary of the responses given.

Table 4. 1: Demographic Information

		Frequency	**Percent**
Sector	Formal	56	74.7
	Informal	19	25.3
	Total	**75**	**100**
Highest level of education	No certificate	26	34.7
	Form four	32	42.7
	Diploma	8	10.7
	Degree	9	12
	Total	**75**	**100**
Duration of being in business	0-5	16	21.4
	7-10 yrs	46	61.3
	Over 10yrs	13	17.3
	Total	**75**	**100**

The table 4.1 above demonstrates that, concerning the sector in which the business operates, 74.7% (56) of the respondents noted that their business is in the formal sector while 25.3% (19) of the respondents ascertained that their business is in the informal sector.

In terms of the highest level of education, 42.7% (32) of the respondents have form four as their highest level of education,34.7% (26) of them have no certificate,12% (9) have a degree and 10.7% (8) have a Diploma. This implies that most of the MSE managers in the study area totaling to 88.1% had less than College education.

The results on how long the respondents have been in business revealed that 61.3% (46) of the respondents have been in business for 7 to 10 years, 21.4% (16) for 0 to 5 years and 17.3% (13) for over 10 years. On the whole, most of the business has been in operation for more than 7 years hence the MSE owners are able to provide responses based on a wider knowledge base of the Micro and Small Enterprises' operations.

4.3 Mode of Business Financing

The study sought information on the type of financing that the SMEs employ financing the business. The responses are tabulated as shown in table 4.2 below.

Table 4. 2: Mode of Financing Employed By MSEs

	Frequency	**Percent**
Informal borrowing	24	32
Internal savings	30	40
Formal borrowing	21	28
Total	**75**	**100**

The results in table 4.2 indicate that the means of financing business are internal savings (40%), informal borrowing (32%) and formal borrowing (28%). Generally, the Micro and Small Enterprises largely rely on internal savings. This could be detrimental to their overall performance since such financing is not adequate in meeting the financial requirements of running the Micro and Small Enterprises.

4.4 Frequency of Borrowing

The study sought to establish the number of times the respondents have borrowed money. The Table 4.3 illustrates the responses given by the respondents.

Table 4. 3: Frequency of Borrowing

	Frequency	Percent
Once	17	22.7
Twice	20	26.7
Three times	21	28
More three times	17	22.7
Total	**75**	**100**

Table 4.3 shows that, 22.7% (17) of the respondents have borrowed money once, 26.7% (20) twice, 28% (21) three times and 22.7% (17) of the respondents have borrowed money more than three times.

4.5 Amount Borrowed

The study intended to determine the total amount borrowed. The responses are illustrated in the Table 4.4 below.

Table 4. 4: Amount Borrowed

	Frequency	Percent
Between Kshs 1000 to Kshs 10000	11	14.7
Between Kshs 11000 to Kshs 20000	31	41.3
Between Kshs 21000 to Kshs 30000	23	30.7
Kshs 31000 and Over	10	13.3
Total	**75**	**100**

From the Table 4.4 above, 41.3% (31) of the managers borrowed between Ksh11000 to Ksh20000, 30.7% (23) of them borrowed between Ksh21000 to Ksh30000, 14.7% (11) of them borrowed between Ksh1000 to Ksh10000 and 13.3% (10) of the managers borrowed Ksh31000 and over.

4.6 Loan Default

The study sought to establish if there was failure to repay the borrowed money by the Micro and Small Enterprises. The Table 4.5 below is a summary of the responses given.

Table 4. 5: Loan Default

	Frequency	Percent
Yes	37	49.3
No	38	50.7
Total	**75**	**100**

Source: Data Analysis (2017).

From the findings in table 4.5, majority (50.7) of the managers were able to repay the borrowed money. However, 49.3% (37) of the owners were unable to repay the borrowed money.

4.7 Reasons for Loan Default

The study intended to establish the reasons for loan default. Table 4.6 illustrates the results.

Table 4. 6: Reasons for Loan Defaulting

		Frequency	Percent
Influence by group members not to repay	yes	24	32
	no	51	68
	Total	**75**	**100**
Poor management of loans due to lack of training	yes	39	52
	No	36	48
	Total	**75**	**100**
Market failure due to lack of prior market survey	yes	45	60
	No	30	40
	Total	**75**	**100**
Unavailability of funds due to low liquidity of the enterprise	yes	37	49.3
	No	38	50.7
	Total	**75**	**100**
Failure to other reasons not mentioned above	yes	38	50.7
	No	37	49.3
	Total	**75**	**100**

The table above demonstrates that the reasons for loan default were; market failure due to lack of prior market survey (60%), poor management of loans due to lack of training (52%), unavailability of funds due to low liquidity of the enterprise (49.3%) and the influence by group members not to repay (32%).

4.8 Loan Repayment

The study sought to establish how the loan was finally repaid. The results are presented in Table 4.7 below.

Table 4. 7: Frequency Distribution of Responses on Loan Repayment

	Frequency	Percent
Group members auctioned my assets to recover the loan	18	24
My savings were used to offset the loan	23	30.7
The loan was repaid through insurance	17	22.7
The loan was written off	12	16
The loan is still outstanding	5	6.7
Total	**75**	**100**

From the findings in table 4.7 above, for 24% (18) of the respondents, their group members auctioned their assets to recover the loan, 30.7% (23) of them used their savings to offset the loan and 22.7% (17) of the respondents repaid their loan through insurance. However, for 16% (12) of the respondents, their loan was written off and for 6.7% (5) of the respondents they still have an outstanding loan.

4.9 Financial Skills and Loan Repayment

The researcher assessed the respondents on the financial literacy skills which included Financing skills, book keeping skills and budgeting skills and how it has affected his/her loan repayment. The results are broken down for each variable based on descriptive statistics.

4.9.1 Financing skills and Loan repayment

The respondents were asked the extent to which they possess various financing skills. The scale of measurement was 1. Never 2. Rarely 3. Sometimes 4. Often 5. Always. Table 4.8 highlights the results.

Table 4. 8: Possession of Financing skills

Statement		N	R	S	O	A	Mean	SD
I have a personal bank account	Freq	25	8	5	11	26	3.07	1.735
	%	33.3	10.7	6.7	14.7	34.7		
I have a business account	Freq	15	16	13	21	10	2.93	1.359
	%	20	21.3	17.3	28	13.3		
I regularly bank my takings on a daily basis	Freq	39	8	18	10		2.36	1.608
	%	52	10.7	24	13.3			
I invest the cash balance in my account	Freq	13	20	8	21	13	3.15	1.583
	%	17.3	26.7	10.7	28	17.3		
I have skills on why i should choose Micro finance	Freq	11	19	10	26	9	3.04	1.299
	%	14.7	25.3	13.3	34.7	12		
I have skills on why i should choose Stokvel	Freq	39	7		20	9	2.37	1.6
	%	52	9.3		26.7	12		
I have skills on why i should choose Business angels	Freq	26		20	13	16	2.91	1.561
	%	34.7		26.7	17.3	21.3		
I have skills on why i should choose venture capitalist	Freq	17	17	3	14	24	3.15	1.617
	%	22.7	22.7	4	18.7	32		
Am aware of the requirements of commercial banks in lending money to businesses	Freq	28	8	3	8	28	3	1.801
	%	37.3	10.7	4	10.7	37.3		
I ever checked the websites of commercial banks for me to see the credit products and their requirements?	Freq	13	20	8	21	13	3.01	1.4
	%	17.3	26.7	10.7	28	17.3		
I often prepared a business plan	Freq	41	5	16		13	2.4	1.685
	%	54.7	6.7	21.3		17.3		
Am aware of some government agencies that can provide financial and non-financial assistance to you	Freq	28	18	11	18	75	2.88	1.619
	%	37.3	24	14.7	24	100		
Financing skills							2.8619	0.73496

N=Never, R=Rarely S=Sometimes O=Often, A=Always

The table 4.8 above shows that that 34.7% (26) of the respondents always have a personal bank account, 14.7% (11) of them often have a personal bank account, 6.7% (5) sometimes have a personal bank account, 10.7% (8) of them rarely have a personal bank account and 33.3% (25) of them do not have a personal bank account. The results from the study also showed that this item reported a mean of 3.07 and the standard deviation of 1.735.

The study also sought to establish if the managers have a business account. The results from the study indicated that 13.3% (10) of the respondents always have a business account, 28% (21) of them often have a business account, 17.3% (13) of them sometimes have a business account, 21.3% (16) of them rarely have a business account and 20% (15) of them do not have a business account. The item reported a mean of 2.93and standard deviation of 1.359.

The respondents were further asked to give their opinion on whether they bank their takings on a daily basis. The results were such that 13.3% (10) of the respondents often bank their takings on a daily basis, 24% (18) of them sometimes bank their takings on a daily basis, 10.7% (8) of them rarely bank their takings while 52% (39) of them never bank their takings. The item realized a mean of 2.36 and standard deviation of 1.608 meaning that the owners of the micro and small enterprises rarely bank their takings on a daily basis.

Further to financing skills, the study also sought to find out if the owners of the small and micro enterprises invest the cash balance in their bank account. Results in the table indicated that 17.3% (13) of the respondents always invest the cash balance in their bank account, 28% (21) of them often invest the cash balance in their bank account,10.7% (8) sometimes invest the cash balance in their bank account,26.7% (20) of them invest the cash balance in their bank account and 17.3% (13) of them invest the cash balance in their bank account. The results showed a mean of 3.15 and a standard deviation of 1.583.

In order to establish how the owners of MSEs finance their business, results from the study showed that 12% (9) of the respondents always get their finance from microfinance institutions,34.7% (26) often get their finance from microfinance,13.3% (10) sometimes get their finance from microfinance,25.3% (19) of them rarely get their finance from micro finance and 14.7% (11) of them never get their finance from microfinance institutions.

Further on the source of finance for the business,12% (9) of the respondents always get their finance from Stokvel,26.7% (20) often get financing from Stokvel,9.3% (7) of them rarely get financing from Stokvel and 52% (39) of the owners of MSEs never get their financing from Stokvel. The mean value of 2.37 indicates that the owners of MSEs have not made use of Stokvel as alternative to financing.

Still on the source of finance for the business,21.3% (16) of the managers always use business angels,17.3% (13) often use business angels,26.7% (20) sometimes use business angels while 34.7% (26) of them never use business angels to finance the business. The item realized a mean of 2.91 and standard deviation of 1.546.

Furthermore, 32% (24) of the respondents always use venture capitalist to finance their business,18.7% (14) often use venture capitalists,4% (3) sometimes use venture capitalists,22.7% (17) rarely use venture capitalists and 22.7% (17) of the respondents never use venture capitalists to finance their business. The results summed up to a mean of 3.15 and standard deviation of 1.617.

The study further enquired from the respondents if they are aware of the requirements of commercial banks in lending money to businesses,37.3% (28) of them are always aware of the requirements of commercial banks in lending money to businesses,10.7% (8) of them are often aware of these requirements,4% (3) are sometimes aware,10.7 (8) of them are rarely aware of the requirements of commercial banks and 37.3% (28) of the managers are never aware of the requirements of commercial banks in lending money to businesses. The item realized a mean of 3 and standard deviation of 1.801.

The study further sought to know whether the owners of MSEs have ever checked the websites of commercial banks for them to see the credit products and their requirements. Results from the study indicated that,17.3% (13) of them always check the websites of the commercial banks,28% (21) often check the websites,10.7% (8) sometimes check the websites,26.7% (20) rarely check the websites and 17.3% (13) of the owners of MSEs have ever checked the websites of commercial banks for them to see the credit products and their requirements. The results on the item revealed a mean of 3.01 and standard deviation of 1.4.

The study also sought to find out whether the owners of MSEs have ever prepared a business plan. The results from the study showed that 17.3% (13) of them always prepare a business plan,21.3% (16) of them sometimes prepare a business plan,6.7% (5) of them rarely prepare a business plan and 54.7% (41) of them never prepare a business plan. The item realized a mean of 2.4 and standard deviation of 1.685.

Finally, 100% (75) of the respondents are always aware of some government agencies that can provide financial and non-financial assistance,24% (18) of them are often aware,14.7% (11) are sometimes aware,24% (18) are rarely aware and 37.3% (28) of them are never aware of some government agencies that can provide financial and non-financial assistance. The mean for the item was 2.88 and the standard deviation of 1.619.

On the whole, financing skills summed up to a mean of 2.8619 and standard deviation of 0.73496 meaning that the owners of the MSEs were not entirely in agreement with the items on financing skills. In a nutshell, most of the MSE owners make use of microfinance to finance their business. MSE owners' awareness of business angels, venture capitalist and Stokvel is limited thereby limiting their access to credit. Consistently, Demirguc - Kunt *et al.* (2006), posit that external equity in the form of venture capital or the stock exchange is usually not available for MSEs. Similarly, the MSEs are unaware of government agencies that offer credit. MSEs must thus primarily rely on debt when raising external funds. Blumberg and Letterie (2008) agree that the lack of venture capital funds makes many new MSEs dependent on bank loans, overdrafts and suppliers credit for early-stage financing. The results suggest that there is lack of knowledge on financing among the MSE. The finding also corroborates that of Assibey (2010) alluding that most micro entrepreneurs are illiterate with respect to business financing.

4.9.2 Book keeping skills and loan repayment

The respondents were asked the extent to which they possess various book keeping skills. The scale of measurement was 1. Never 2. Rarely 3. Sometimes 4. Often 5. Always. Table 4.9 highlights the results on book keeping skills.

Table 4. 9: Possession of Book Keeping Skills

Statement		N	R	S	O	A	M	SD
I keep the Sales & Purchase ledgers	Freq	16	13	5	13	28	3.32	1.62
	%	21.3	17.3	6.7	17.3	37.3		
I maintain the debtors & creditors ledgers	Freq	21	13	1	13	27	3.16	1.709
	%	28	17.3	1.3	17.3	36		
I keep Expenses book	Freq	29	11	8	13	14	2.63	1.583
	%	38.7	14.7	10.7	17.3	18.7		
I maintain an Fixed assets register	Freq	15	18	14		28	3.29	1.634
	%	20	24	18.7		37.3		
I keep record of your Stock	Freq	23	18	13		21	2.71	1.592
	%	30.7	24	17.3		28		
I maintain a Cash book	Freq	17	40		18	75	2.49	1.474
	%	22.7	53.3		24	100		
I maintain a payroll for all your employees?	Freq	20	30	6	13	6	2.4	1.273
	%	26.7	40	8	17.3	8		
Am able balance the ledgers & trial balance and prepare financial statements at the end of the year	Freq	19	25	6	13	12	2.65	1.438
	%	25.3	33.3	8	17.3	16		
I have computers to record your transactions?	Freq	21	21	10	13	10	2.6	1.405
	%	28	28	13.3	17.3	13.3		
Book keeping skills							2.806	0.618

N=Never, R=Rarely S=Sometimes O=Often, A=Always

The results in table 4.9 above showed that 37.3% (28) of the respondents always keep the sales and purchase ledger, 17.3% (13) of them often keep the sales and purchase ledger, 6.7% (5) sometimes keep the sales and purchase ledger, 17.3% (13) of them rarely keep it and 21.3% (16) of the respondents never keep the sales and purchase ledger. The item realized a mean of 3.32 and standard deviation of 1.62.

The study also sought to establish whether the owners of MSEs maintain the debtors and creditors ledgers. Of the total respondents, 36% (27) of the respondents always maintain the debtors and creditors ledgers,17.3% (13) of them often maintain the debtors and creditors ledgers,17.3% (13) of them rarely maintain the debtors and creditors ledgers and 28% (21) of them never maintain the debtors and creditors ledgers. The item summed up to a mean of 3.16 and standard deviation of 1.709.

In a bid to find out if the owners of MSEs keep expenses book, the results showed that 18.7% (14) of the respondents always keep the expenses book,17.3% (13) of them often keep the expenses book,10.7% (8) sometimes keep the expenses book,14.7% (11) rarely keep the expenses book and 38.7% (29) of them never keep the expenses book. The item summed up to a mean of 2.63 and standard deviation of 1.583.

The owners of MSEs were further asked if they maintain a fixed asset register. Of the total respondents,37.3% (28) always maintain a fixed asset register,18.7% (14) sometimes maintain a fixed asset register,24% (18) rarely maintain a fixed asset register and 20% (15) of them never maintain a fixed asset register. The item realized a mean of 3.29 and a standard deviation of 1.634.

Further on book keeping skills, the study enquired from the respondents whether they keep record of their stock. The results revealed that 28% (21) of them always keep record of their stock,17.3% (13) of them often keep stock, 24% (18) rarely keep stock and 30.7% (23) never keep record of their stock. The item realized a mean of 2.71 and standard deviation of 1.592.

The owners of MSEs were also asked if they maintain a cash book. The findings revealed that 100% (75) of them always maintain a cash book, 24% (18) often maintain a cash book, 53.3% (40) rarely maintain a cash book and 22.7% (17) of them never maintain a cash book. The results showed a mean of 2.49 and standard deviation of 1.474. Also, as part of book keeping skills, the study sought to establish if the owners of MSEs maintain a payroll for all their employees, 8% (6) of them always maintain a payroll for all their employees, 17.3% (13) of them maintain a payroll for employees, 8% (6) of them sometimes maintain a payroll, 40% (30) rarely maintain a payroll and 26.7% (20) of them never maintain a payroll for all their employees. The item realized a mean of 2.4 and standard deviation of 1.273.

Furthermore, 16% (12) of the respondents always balance the ledgers & trial balance and prepare financial statements at the end of the year, 17.3% (13) of them often balance the ledger and trial balance, 33.3% (25) of them rarely balance the ledgers and trial balance and 25.3%

(19) of them never balance the ledgers & trial balance and prepare financial statements at the end of the year. The item realized a mean of 2.65 and standard deviation of 1.438. Finally, 13.3% (10) of the respondents always have computers to record their transactions, 17.3% (13) of them often have computers to record the transactions, 13.3% (10) of them sometimes record the transactions while 28% (21) of them do not have computers to record their transactions. The item had a mean of 2.6 and standard deviation of 1.405.

On the whole, book keeping skills summed up to a mean of 2.806 and standard deviation of 0.618 meaning that it was not fully established if the Micro and Small Enterprises keep the Sales & Purchase ledgers, maintain the debtors & creditors ledgers, maintain a fixed asset register, keep record of their stock and have computer to record their transactions. Consequently, it becomes a challenge to run the business since there is poor book keeping skills exuberated by not maintain a payroll for all the employees and maintaining a cash book. The results tally with that of Agyei- Mensah (2011) and Maseko and Manyani (2011) that most of business entrepreneurs do not keep complete accounting records because of lack of accounting knowledge. As a result there is inefficient use of accounting information in financial performance measurement. Access to finance by small businesses depends largely on their quality of accounting information. Quality accounting information will enhance financial management as well as accessibility of finance by small businesses. Further supports to the study findings is by Amoako (2013) who echoes that most MSEs do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records and are contented with mental records about their costs, revenue and debt which is detrimental to their overall performance. Thus, the application of accounting information to support assessment of financial performance by SMEs is not efficient**.**

4.9.3 Budgeting skills and loan repayment

Lastly the researcher assessed the respondents on various budgeting skills. The scale of measurement was 1. Never 2. Rarely 3. Sometimes 4. Often and 5. Always. Table 4.10 highlights the results on budgeting skills.

Table 4. 10: Possession of Budgeting skills

Statement		N	R	S	O	A	Mean	Std. Deviation
I have a written financial objectives of what you want to achieve in a year for your business	Freq	28	5	6	0	36	3.15	1.872
	%	37.3	6.7	8	0	48		
I prepare a written budget of income and expenditure	Freq	41	12	0	0	22	2.33	1.766
	%	54.7	16	0	0	29.3		
I compare your financial objective to your performance	Freq	21	13	0	6	35	3.28	1.79
	%	28	17.3	0	8	46.7		
I carry out a self-internal audit to track budget implementation enabled you to track financial leakages?	Freq	58	12	0	0	5	1.43	1.029
	%	77.3	16	0	0	6.7		
Budgeting skills							2.40	0.624

N=Never, R=Rarely S=Sometimes O=Often, A=Always

Table 4.10 above highlights the findings on budgeting skills. The study enquired from the respondents whether they have written financial objectives of what they want to achieve in a year for their business, 48% (36) of the respondents always have written financial objectives,8% (6) sometimes have written financial objectives,6.7% (5) rarely have written financial objectives and 37.3% (28) of them have written financial objectives of what they want to achieve in a year for their business. The item realized a mean of 3.15 and standard deviation of 1.872.

In an attempt to establish if the respondents prepare a written budget of income and expenditure,29.3% (22) always prepare a written budget,16% (12) rarely prepare a written budget and 54.7% (41) of them have never prepared a written budget of income and expenditure. On the whole, the item realized a mean of 2.33 and standard deviation of 1.766.

Furthermore, to establish if the respondents compare their financial objective to their performance, 46.7% (35) of them always compare their financial objective to their performance,8% (6) often compare their financial objective to their performance while 28%

(21) have never compared their financial objective to their performance. The item revealed a mean of 3.28 and standard deviation of 1.79.

Finally, 6.7% (5) of the respondents always carry out a self-internal audit to track budget implementation enabled you to track financial leakages,16% (12) rarely carry out self-internal audits and 77.3% (58) of them carry out a self-internal audit to track budget implementation enabled you to track financial leakages. The item realized a mean of 1.43 and standard deviation of 1.029.

In general, budgeting skills summed up to a mean of 2.4 and standard deviation of 0.624 meaning that the budgeting skills for the Micro and Small enterprises were generally poorly. This is supported by the fact that the MSE owners are unable to prepare a written budget of income and expenditure as well as carry out a self-internal audit to track budget implementation. In line with the study findings, Torres (2008) found that small business owners are not concerned about budgeting; their concern is more of the cash flow. Further supports to the study findings is by Abanis *et al*. (2013) who found that most small businesses do not engage in formal financial planning, budgeting and control. These results are consistent with the findings of FSD (2009) and Warue and Wanjira (2013) who found that there is limited use of budgeting among MSEs which impacts negatively on their business performance. Uwonda *et al*. (2013) find that failures in many SMEs can be linked to inadequate cash flow management.

4.10 Loan Repayment

The researcher sought to explore and determine the status of loan repayment by MSEs. The information relating to time in paying the loan, delay in paying loan, honoring terms and conditions of the loan and ways of repaying defaulted loan is as shown in table 4.11 below.

Table 4. 11: Loan Repayment

Statement		N	R	S	O	A	Mean	Std. Deviation
I pay my loan in time	Freq	29	11	8	13	14	3.75	0.742
	%	38.7	14.7	10.7	17.3	18.7		
I delay in paying my loan	Freq	19	25	6	13	12	4.45	0.677
	%	25.3	33.3	8	17.3	16		
I do not honor terms and conditions for the loan when repaying my loan	Freq	16	13	5	13	28	3.91	0.582
	%	21.3	17.3	6.7	17.3	37.3		
I pay my loan with a lot of pressure	Freq	28	8	3	8	28	3.89	0.506
	%	37.3	10.7	4	10.7	37.3		
I pay my loan through loan from another Micro finance institution	Freq	13	20	8	21	13	3.85	0.557
	%	17.3	26.7	10.7	28	17.3		
Loan Repayments							**3.87**	**0.344**

From table 4.11 above, loan repayment status, delay of loan repayment among MSEs was ranked first, respondents agreed that they delay in paying their loan (mean 4.45 with standard deviation of 0.677), lack of honoring terms and conditions for the loan when repaying the loan among borrowers was ranked second as shown by mean of 3.91 and standard deviation of 0.582), paying loan with lot of pressure was ranked third, respondents agreed that they pay their loan with loan with lot of pressure (mean = 3.89 and standard deviation of 0.506). Respondent further, agreed that they pay their loan through loan from another Micro finance institution (mean = 3.85 and standard deviation of 0.557). Interestingly, paying loan in time was ranked last implying that respondents were neutral on whether they pay their loan in time or not (mean of 3.75 and standard deviation of 0.742).

4.11 Hypothesis Testing

The study was guided by three hypotheses. The hypotheses state that financing skills, book keeping skills and budgeting skills do not have a significant effect on loan repayment. The correlation coefficients between financing skills, book keeping skills and budgeting skills were obtained to help determine whether to accept or reject the hypotheses. The results of the correlation analysis are presented in table 4.12 below.

Table 4. 12: Correlation Results

		Loan Repayments	Financing Skills	Book Keeping Skills	Budgeting Skills
Loan repayments	Pearson Correlation	1			
	Sig. (2-tailed)	1			
Financing skills	Pearson Correlation	.295*	1		
	Sig. (2-tailed)	0.01			
Book keeping skills	Pearson Correlation	-0.227	.247*	1	
	Sig. (2-tailed)	0.05	0.033		
Budgeting skills	Pearson Correlation	.642**	0.076	-.285*	1
	Sig. (2-tailed)	0.000	0.519	0.013	

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

HO1. Financing skills do not have a significant effect on loan repayment

According to the result in Table 4.15, the correlation coefficient (β_1) of 0.295 ($r = 0.295$, $P < 0.05$) exist between financing skills and loan repayment. This indicates that for each unit increase in financing skills, there is 0.361 units increase in loan repayment. Therefore, we reject the null hypothesis stating that there is no significant effect of financing skills on loan repayment.

HO2. Book keeping skills do not have a significant effect on loan repayment

According to the result in Table 4.15, the correlation coefficient (β_2) of 0.227 ($r = -0.227$, $P > 0.05$) exist between book keeping skills and loan repayment. This implies that a unit increase in book keeping skills leads to 0.227 unit decrease in loan repayment. Therefore, we accept the null hypothesis since the relationship is negative but not significant.

HO3. Budgeting skills do not have a significant effect on loan repayment

The results in Table 4.15, the correlation coefficient (β_3) of 0.642 ($r = 0.642$, $P < 0.05$) exist between budgeting skills and loan repayment. This indicates that for each unit increase in budgeting skills, there is up to 0.685 units increase in loan repayment. Therefore, we reject the null hypothesis stating that there is no significant effect of budgeting skills on loan repayment.

4.12 Regression Analysis

According to Kingoriah (2004), the correlation coefficient r, gives the relationship between variables, but coefficient of determination (r2) derived from regression analysis, explains how much of the variation within the dependent variable (loan repayment by MSEs) is caused by the variation of each of the independent variables, in exact percentage terms. Therefore, the researcher employed regression analysis approach to study the magnitude of change of loan repayment due to a unit change in financing skills, book keeping skills and budgeting skills. The study determined the combine effect of financing skills, book keeping skills and budgeting skills on loan repayment. For the regression purposes, mean representing each of the independent variables (financing skills, book keeping skills and budgeting skills) was obtained and regressed against loan repayment mean as shown in table 4.13.

Table 4. 13: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.730a	0.533	0.513	0.328	2.085

a Predictors: (Constant), Budgeting skills, Financing skills, book keeping skills
b Dependent Variable: loan repayments

Table 4. 14: ANOVA Model

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	8.697	3	2.899	27.002	.000b
Residual	7.623	71	0.107		
Total	16.32	74			

a Dependent Variable: Loan repayments
b Predictors: (Constant), Budgeting skills, Financing skills, book keeping skills

Table 4. 15: Coefficient of Estimate

	Unstandardized Coefficients		Standardized Coefficients			Correlations	Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Zero-order	Tolerance	VIF
(Constant)	0.979	0.281		3.48	0.001			
Financing Skills	0.231	0.054	0.361	4.256	0.000	0.295	0.916	1.092
Book keeping Skills	0.043	0.067	0.057	0.65	0.518	-0.227	0.846	1.182
Budgeting Skills	0.515	0.064	0.685	7.997	0.00	0.642	0.896	1.116

a Dependent Variable: Loan repayments

From the table 4.15 above the coefficients of the independent variables β0, β1, β2 and β3 are 0.979, 0.231, 0.043 and 0.515 respectively. Hence the model adopted for this study can be fitted as, Yi=0.979+0.231$X1i$+0.043$X2i$+0.515$X3i$

Table 4.12 shows that multiple correlation coefficient of 0.730(R=0.730) exist between the observed loan repayment and those predicted by the model. In terms of variability in observed loan repayment, the model account for 0.533 (Adjusted R2=0.533) or 53.3% of the total variability in loan repayment.

The multiple regression coefficient of 0.361 (β_1= 0.361, p-value = 0.000 which is less than α = 0.05) exist between financing skills and loan repayment. This indicates that for each unit increase in financing skills, there is 0.361 units increase in loan repayment. The relationship is positive and significant. Furthermore, the effect of financing skills was stated by the t-test value = 4.256 which implies that the standard error associated with the parameter is less than the effect of the parameter.

In addition, the multiple regression coefficient of 0.057 (that β_2 = 0.057, p-value = 0.551 which is more than α = 0.05) exist between book keeping skills and loan repayment. It suggests that a unit increase in book keeping skills leads to 0.057 units increase in loan repayment. The effect is not significant and implies that book keeping skills determine loan repayment however not significant. The effect of bookkeeping skills is shown by the t-test value of 0.65 which implies that the effect of bookkeeping skills surpasses that of the error.

Further, the multiple regression results indicates that budgeting skills standardized beta coefficient is 0.685(β_3 = 0.685 (p-value = 0.000 which is less than α = 0.05). This implies that a unit increase in terms of the budgeting skills leads to 0.685 units increase in loan repayment. The effect is positive and significant. This suggests that an improvement in MSEs owners budgeting skills significantly lowers rate of loan default.

The ANOVA model in table 4.14 showed that the regression model was also adequate. The effect size of the regression model was shown to be over 27 times that contributed by the residual mean sum of squares. The F-ratio was 27.002 at 5 degrees of freedom which are the three factors. This represented the effect size of the regression model and was significant with a p-value of 0.000.

To ascertain for multi collinearity, a test was carried out and variance inflation factor (VIF) and Tolerance value were checked. From table 4.15, the VIF for all the estimated parameters was found to be less than 4 which indicate the absence of multi-collinearity among the independent factors. This implies that the variation contributed by each of the independent factors was significant independently and all the factors should be included in the prediction model.

4.13 Discussion of Research Findings

The study sought to establish the effect of financial skills on loan repayment by Micro and Small Enterprises in Elgeyo Marakwet County. The study focused on financing skills, book keeping skills and budgeting skills as the main categories of financial skills. Relevant questionnaire was given to the respondents under study. The result so obtained assisted in interpretations of the direction and significance of the relationships among the variables of the study.

The research results found out that, there is a significant relationship between financing skills and loan repayment. The correlation coefficient of 0.361 between financing skills and loan repayment with sig value of 0.000 indicates a strong significant positive association between financing skills and loan repayment among Micro and Small Enterprises. This further suggests that when Micro and Small Enterprises gain financing skills their loan repayment improves. The coefficient of regression for financing skills was found to be 0.231 with a significance of 0.000 which is less than 0.05. This implies that a one unit change in financing skills brings a 0.231 change in loan repayment in the same direction. The results are in conformity with a study on financial literacy on loan repayments which showed that the clients with financial negotiation literacy had no problems with loan repayments while most of the clients who did not have financial negotiation literacy had problems in loan repayment (Miller, Godfrey, Lavesque, & Stark, 2009). However a similar study by on situating financial literacy negates these findings as it showed that the respondents most clients who paid in time did not have financial negotiation literacy (Bay *et al*., 2014)

The study found out that there is no significant relationship between book keeping skills and loan repayment among Micro and Small Enterprises. The relationship is negative but not significant. The correlation analysis results show that the correlation coefficient between book keeping skills and loan repayment is 0.057 with sig value of 0.518. This suggests that book keeping skills has a weak association with loan repayment. The regression coefficients result further indicate that the coefficient of book keeping skills is 0.043 which implies that if book keeping literacy increase by one unit, loan repayment will increase by 0.043 units. Therefore, book keeping skills does not have a significant effect on loan repayment. These findings are contrary to the ones of Tuyisenge (2015) who found a positive significant effect of book keeping skills on loan repayment in Rwanda but are similar to the findings of Kariuki and Wanjiku (2015) who found that all the facets of financial literacy does not have any significant influence on loan repayment.

The research results found out that, there is a significant relationship between budgeting skills and loan repayment. The correlation coefficient of 0.685 between budgeting skills and loan repayment with significance value of 0.000 indicates a strong significant positive effect between budgeting skills and loan repayment among Micro and Small Enterprises. This further suggests that when small medium entrepreneurs gain budgeting skills their loan repayment improves. The coefficient of regression for budgeting skills was found to be 0.515 with a significance of 0.000 which is less than 0.05. This implies that a one unit change in budgeting skills brings a 0.515 change in loan repayment in the same direction. These results are similar to those of Ongesa *et al.* (2014) who found positive significant relationship between budgeting skills and loan repayment among small medium entrepreneurs in Ngara, Nairobi County. However the study findings go against the findings of Kariuki and Wanjiku (2015). The results confirm a study carried out on household budget and debt managing which shows that those households which budgeted had repaid their loans in time compared to those that did not have budgets (Phillip, 2010). Tuyisenge *et al*., 2015 in their study on the role of financial literacy on loan repayment had also a similar result on budgeting literacy where they reported that planning skills influenced loan repayment to a great extent.

CHAPTER FIVE

SUMMARY , CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of key Findings

The main objective of the study was to establish the effect of financial skills on loan repayment by Micro and Small Enterprises in Elgeyo Marakwet County. The target populations for the study were owners of Micro and Small enterprises. The study also made inferences on the hypotheses that there is no significant effect of financing skills, book keeping skills and budgeting skills on loan repayment by Micro and Small Enterprises.

According to the study findings concerning the demographic attributes of the respondents, majority of the respondents ascertained that their business was in the formal sector. In terms of the level of education, majority of the respondents had form four certificates. In addition, most of the MSEs had been in operation for more than seven years hence the MSE owners were able to provide responses based on their wider knowledge base of the Micro and Small Enterprises' operations. Majority of the Micro and Small Enterprises largely relied on internal savings. The study found that MSEs have at least borrowed money for business operations and have had difficulties in repaying the loan with majority of them citing market failure and poor management of the loan being the reasons for loan default. Most of the MSEs repaid defaulted loans through their internal savings and assets auctioned to recover the loan.

The findings on financing skills revealed that a few of the MSEs owners have a personal and business account. The MSE owners rarely bank their takings on a daily basis and invest the cash balance in their bank account. Furthermore, microfinances are a common source of financing for the Micro and Small Enterprises while Stokvel are rarely made use as a source of financing for the business. On average, a number of the MSE owners are aware of the requirements of commercial banks in lending money to businesses and have checked the websites of commercial banks to see the credit products and their requirements. However, a few of the MSE owners are aware of some government agencies that can provide financial and non-financial assistance. Besides, majority of the MSE owners have not prepared a business plan.

The findings on book keeping skills revealed that most of the MSE owners keep the sales and purchase ledger as well as maintaining the debtors and creditors ledgers. Also, most of them maintain a fixed asset register and an expense book. However, records of stock are rarely kept. Moreover, MSE owners rarely balance the ledgers & trial balance and prepare financial statements at the end of the year. This was also the same with keeping records of transactions in the computer. As well, a payroll for all the employees is rarely maintained same with maintaining a cash book.

The findings on budgeting skills revealed that most of the MSE owners write financial objectives of what they want to achieve in a year for their business. They also prepare a written budget of income and expenditure and compare their financial objective to their performance. However, they do not carry out a self-internal audit to track budget implementation. Therefore, they are unable to track financial leakages.

The first objective of the study was to determine the effect of financing skills on loan repayment. The association between the loan repayment and financing skills were positive significant. Thus, the null hypothesis was rejected and alternate hypothesis was accepted. Further, the regression results indicate that positive significant effect exists between the financing skills and loan repayment. The study established that financing skills determine the loan repayment.

The second objective of the study was to determine the effect of book keeping skills on loan repayment. The results indicate that the second null hypothesis was accepted since the association between book keeping skills does not have a significant relationship with the loan repayment variable. The relationship is negative but not significant. Further, multiple regression coefficient confirm the study results that book keeping skills does not have a significant effect on loan repayment.

Lastly, the study established the relationship between budgeting skills and the loan repayment. Both correlation and regression analysis results were obtained. The correlation coefficient results indicate a positive significant association between book keeping skills and loan repayment. The null hypothesis was rejected and alternate hypothesis was accepted that book keeping skills have a significant effect on loan repayment. The multiple regression results confirm the result that there is a positive strong relationship between book keeping skills and loan repayment.

5.2 Conclusion

The overall objective of the study was to investigate the effect of financial skills on loan repayment among Micro and Small Enterprises in Elgeyo Marakwet County. Several questions were given to the respondents through self-administered structured questionnaires to assist derive facts and information on the financial skills and loan repayment. The study sought to explore the various forms of financial skills by looking at what constitutes financial skills and their effects on loan repayment. From the above findings and empirical evidences, the researcher came up with the following conclusions;

First, there is a significant effect of financing skills on loan repayment among Micro and Small Enterprises. When SMEs possess book keeping skills there is likelihood that their loan repayment pattern will change for the better, in other words they will be able to repay their loan on time without default. In the event that MSE owners have acumen on business financing, they will be aware of their financial obligation upon taking loans and thereby repay the loan before the MSE accrues high interest and high debts. The implication is that growth of the MSE is not hampered. The challenge however is that the targeted Micro and Small Enterprises are unaware of the requirements of commercial banks in lending money and have limited knowledge on the sources of financing. The result is that the Medium and Small Enterprises have limited access to credit and are unlikely to meet their financial obligations.

Secondly the study established that book keeping skills have no significant effect on loan repayment by the Micro and Small Enterprises. However, book keeping skills are important in the running of Micro and Small Enterprises. The challenge is that the MSE owners have limited book keeping skills. Precisely, MSE owners lack the knowledge on balancing the ledgers & trial balance and preparing financial statements at the end of the year. Lack of these book keeping skills are detrimental to the performance of the business. The implication is that the MSE owners are unable to make management decisions to enhance their overall performance. In light of the foregoing, the study established that book keeping skills have no significant effect on loan repayment by the Micro and Small Enterprises.

Finally, the study has established that there is close relationship between budgeting skills and loan repayment among MSEs. Budgeting skills improves the ability of MSEs to pay loan on time without default since they are able to do forecasting and internal audit to identify errors in their books of account hence enabling them to make necessary changes in good time. Through the budgeting skills, owners of Micro and Small Enterprises make use of finances by using their set of skills to drive sales upwards and business performance by establishing performance targets. Besides, well written budget of income and expenditure makes accounting for business operations easier hence the MSEs are able to meet their financial obligations.

Lastly the study generally found significant relationship between financial skills and loan repayment among MSEs. Financial skills are very important for any entrepreneur who wants to grow the business through loan financing since he/she will be able to have easy time in servicing the loan.

5.3 Recommendations

Based on the results of this study, the researcher came up with the following recommendations Based on the significant and positive relationship between financing skills and loan repayment, I recommend that MSE owners should undergo training on business financing so that they can enhance their knowledge on the sources of finance, how they can effectively access credit and negotiate for better loan terms which includes interest rates reduction and period of repayment among others. Also, they can gain knowledge on how to prepare a business plan to guide them on their business operation. For the MSE owners, it is recommended for them to bank their takings on a daily basis and invest the cash balance in their bank account. Furthermore, other than depending only on microfinance and commercial banks, MSE owners can source credit

From the studies, the significant and positive relationship between budgeting skills and the loan repayment by Micro and Small Enterprises, I would suggest that financial providers teach their MSEs on the preparation of various types of budgets and how to follow up and compare their financial objective to their performance and determine the variances and also teach them to have self-internal audit to track budget implementation.

5.4 Suggestions for Further Research

The study shows that only 53.3% of the variations in dependent variable are explained by the independent variables meaning that 46.7% of the variations are explained by other factors other than financial skills. Further research can be conducted to establish other factors that may affect loan repayment. Further, this research was basically based on Micro and Small Enterprises in Elgeyo Marakwet County, Kenya. Further research can be conducted on Micro and Small Enterprises in other counties in Kenya so that a comparable conclusion can be reached. Also, the study has established that book keeping skills have no significant effect on loan repayment. There is thus need for further studies to establish if the study findings hold.

REFERENCES

Abanis, T., Sunday, A., Burani, A., & Eliabu, B. (2013). Financial management practices in small and medium enterprises in selected districts in Western Uganda. *Financial Management*, *4*(2), 2Abreu M, Mendes V (2010) Financial skills and Portfolio Diversification. *Quant. Finance* 10(5):515-528.

Agyei, K. N. (2014). Small scale businesses practice of basic financial management with regards to liquidity. *International Journal of Research in Social Sciences*, *4*(5), 77-85.

Agarwal, S., Driscoll, J. C., Gabaix, X., & Laibson, D. (2007). The age of reason: Financial decisions over the lifecycle.

Ajzen, I. (1991). The theory of planned behavior. *Organizational behavior and human decision processes*, *50*(2), 179-211.

Association of Chartered Certified Accountants 2014. Financial Education for Entrepreneurs: What Next? From <http://www.accaglobal.com/content/dam/acca/ global/PDF-technical/small-business/pol-tp-fefe.pdf> (Retrieved on 27 March 2015).

Atkinson, A., & Messy, F. A. (2012). Assessing financial literacy in 12 countries: an OECD/INFE international pilot exercise. *Journal of Pension Economics & Finance*, *10*(4), 657-665.

Authority, C. M. (2010). Capital raising opportunities for SMEs: The development of micro-cap securities markets in Kenya. *Nairobi: Capital Markets Authority*.

Bayrakdaroğlu, A., & Şan, F. B. (2014). Financial literacy training as a strategic management tool among small–medium sized businesses operating in Turkey. *Procedia-Social and Behavioral Sciences*, *150*, 148-155.

Bay, C., Catasús, B., & Johed, G. (2014). Situating financial literacy. *Critical Perspectives on Accounting*, *25*(1), 36-45.

Bhabha, J. I., Khan, S., Qureshi, Q. A., Naeem, A., & Khan, I. (2014). Impact of Financial Literacy on Saving-Investment Behavior of Working Women in the Developing Countries. *Research Journal of Finance and Accounting*, *13*(5), 118-122.

Barney, J. B. (2001). Resource-based theories of competitive advantage: A ten-year retrospective on the resource-based view. *Journal of management*, *27*(6), 643-650.

Barua, R., & Sane, R. (2014). Repayment in microfinance: The role of financial literacy and caste. *Discussion papers in Economics*, *14*(6), 1-25.

Barte, R. (2012). Financial literacy in micro-enterprises: the case of Cebu fish vendors. *Philippine Management Review*, *19*.

Bassem, B. S. (2008). Determinants of successful group loan repayment: An application to Tunisia. *Journal of Sustainable Development in Africa*, *10*(2), 766-800.

Blumberg, B. F., & Letterie, W. A. (2008). Business starters and credit rationing. *Small Business Economics*, *30*(2), 187-200.

Bragg, S.M. 2010. *The Ultimate Accountants' Reference: Including GAAP, IRS & SEC Regulations,Leases and More*. 3rd edition. John Wiley & Sons Inc

Bruhn, M., & Zia, B. (2011). *Stimulating managerial capital in emerging markets: the impact of business and financial literacy for young entrepreneurs*. The World Bank.

Bruhn, M., Karlan, D., & Schoar, A. (2010). What capital is missing in developing countries?. *American Economic Review*, *100*(2), 629-33.

Chan, C. S. R., & Park, H. D. (2013). The influence of dispositional affect and cognition on venture investment portfolio concentration. *Journal of Business Venturing*, *28*(3), 397-412.

Cole, S., & Fernando, N. (2008). Assessing the importance of financial literacy. *ADB Finance for the Poor*, *9*(2), 1-6.

Cole, S. A., Sampson, T. A., & Zia, B. H. (2009). *Financial literacy, financial decisions, and the demand for financial services: evidence from India and Indonesia* (pp. 09-117). Cambridge, MA: Harvard Business School.

Drexler, A., Fischer, G., & Schoar, A. (2010). Financial literacy training and rule of thumbs: evidence from a field experiment. *CEPR Discussion Papers*, (7994).

Equity Bank (2013). *Equity Bank Steps Up Its 1 Billion Bid To Boost Financial skills* .Retrieved from http://equitygroupfoundation.com on 13th February 2014

Evans, J. S. B. (2008). Dual-processing accounts of reasoning, judgment, and social cognition. *Annual Review of Psychology*, *59*, 255-278.

Ezejiofor, R. A., & Olise, M. C. (2014). The relevance of accounting records in small scale business: The Nigerian experience. *International Journal of Academic Research in Business and Social Sciences*, *4*(12), 69.

Fatoki, O., & Odeyemi, A. (2010). The determinants of access to trade credit by new SMEs in South Africa. *African Journal of Business Management*, *4*(13), 2763-2770.

Fatoki, O. (2014). The financial literacy of micro entrepreneurs in South Africa. *Journal of Social Sciences*, *40*(2), 151-158.

Firli, A. (2017, March). Factors that Influence Financial Literacy: A Conceptual Framework. In *IOP Conference Series: Materials Science and Engineering* (Vol. 180, No. 1, p. 012254). IOP Publishing.

Imbuga, B. M. (2014). *An Assessment of The Effect of Inflation on Loan Repayment among Commercial Banks In Kenya* (Doctoral dissertation, Doctoral Dissertation, School Of Business, University Of Nairobi).

Kenya, F. S. D. (2009). FinAccess National Survey 2009: Dynamics of Kenya's changing financial landscape.

G20 Seoul summit (2010): Scaling-Up SME Access to Financial Services in the Developing World. *International Finance Corporation (IFC,) World Bank Group, Octombrie*.

GoK (2005): Sessional Paper No.2 of 2005; Development of Micro and Small Enterprises for Wealth Creation, Employment Generation and Poverty Reduction. Nairobi: Government Printers.

Gay, L. R., Mills, G. E., & Airasian, P. W. (2009). *Educational research: Competencies for analysis and applications*. Merrill/Pearson.

Glaser, M., & Walther, T. (2013). Run, walk, or buy. *Financial Literacy, Dual-Process Theory, and Investment Behavior From< http://www. busman. qmul. ac. uk/newsandevents/events/eventdownloads/bfwgconference2013 acceptedpapers/114912. pdf>(Retrieved on 18 March 2014).*

Greenspan, A. (2002). Financial literacy: A tool for economic progress. *The Futurist*, *36*(4), 37.

Godquin, M. (2004). Microfinance repayment performance in Bangladesh: How to improve the allocation of loans by MFIs. *World development*, *32*(11), 1909-1926.

Guliman, S. D. O. (2015, February). An evaluation of financial literacy of micro and small enterprise owners in iligan city: Knowledge and skills. In *9th Global Business Conference* (pp. 17-23).

Hilgert, M. A., Hogarth, J. M., & Beverly, S. G. (2003). Household financial management: The connection between knowledge and behavior. *Federal Reserve Bulletin.*, *89*, 309.

Huston, S. J. (2010). Measuring financial literacy. *Journal of Consumer Affairs*, *44*(2), 296-316.

Ismail, S. (2012). Mediation Effects of Educational Loan Repayment Model Shafinar Ismail, Satwinder Singh and Aqilah Nadiah Md Sahiq b. *British Journal of Economics*, *5*, 1.

Kefela, G. T. (2010). Promoting access to finance by empowering consumers-Financial literacy in developing countries. *Educational Research and Reviews*, *5*(5), 205-212.

Kenya National Bureau of Statistics. (2007). *Basic report on well-being in Kenya: based on Kenya integrated household budget survey, 2005/06*. Government Press.

Koenen, T. B., Lusardi, A., Alessie, R., & Van Rooij, M. (2017). How financially literate are women? An overview and new insights. *Journal of Consumer Affairs*, *51*(2), 255-283.

Kombo, D. K., & Tromp, D. L. A. (2006). Proposal and thesis writing. Nairobi. *Pauline's publication Africa*.

Wanjiku, K. J., & Muturi, W. (2015). Effect of financial literacy on loan repayment a case of ecumenical churches loan fund, Kenya. *International Journal of Social Science and Information.*Vol.3, (2).

Karlan, D., & Valdivia, M. (2010). Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions. New Haven, CT, USA, and Lima, Peru: Yale University, Economic Growth Center; and GRADE.

Kotzé, L., & Smit, A. (2008). Personal financial literacy and personal debt management: the potential relationship with new venture creation. *The Southern African Journal of Entrepreneurship and Small Business Management*, *1*(1), 35-50.

Lusardi, A., & Mitchell, O. S. (2006). Financial literacy and retirement planning: implications for retirement wellbeing. *Pension Research Council Workin g Paper*.

Lusardi, A., & Peter. (2009). Debt literacy, financial experiences, and over indebtedness. *National Bureau of Economic Research (No. 14408).*

Lusardi M, Mitchell O 2013. The Economic Importance of Financial skills Theory and Evidence. From <http://arno.uvt.nl/show.cgi?fid=129675> (Retrieved on 18 March 2015).

Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of economic literature*, *52*(1), 5-44.

Lusardi, A., & Mitchelli, O. S. (2007). Financial literacy and retirement preparedness: Evidence and implications for financial education. *Journal of Business economics, 42*(1), 35-44.

Lusardi, A., & Mitchell, O. S. (2011). *Financial literacy and planning: Implications for retirement wellbeing* (No. w17078). National Bureau of Economic Research.

Lusimbo, N. E., & Muturi, W. (2015). Financial Literacy and The Growth of Small Enterprises in Kenya: A Case of Kakamega Central Sub-Country, Kenya. *International Journal of Economics, Commerce and Management*, 828-845.

Mabhanda, W. (2015). Lack of financial literacy exacerbates SMEs' appalling state in Gweru city. *Journal of Business Management Science*, *1*(12), 11-29.

Mak, V., & Braspenning, J. (2012). Errare humanum est: Financial literacy in European consumer credit law. *Journal of consumer policy*, *35*(3), 307-332.

Miller, M., Godfrey, N., Levesque, B., & Stark, E. (2009). The case for financial literacy in developing countries: Promoting access to finance by empowering consumers. *World Bank, DFID, OECD and CGAP Joint Note, Washington, DC*.

Maseko, N., & Manyani, O. (2011). Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura). *Journal of accounting and taxation, 3*(8), 158-161.

Mungai, N. W. (2012). Effect of Financial Literacy Programs on The Survival of Women Entrepreneurs in Kawangware. *unpublished MBA thesis,* Kenyatta University.

Mugenda, A. G. (2008). Social Science Research: Theory and Principles. Nairobi. *Kijabe printers*.

Nene, D. M. (2014). An Evaluation of the Main Factor Affecting Credit Repayment in Small and Medium Enterprises: A Case of Nairobi County. *Unpublished MBA Project*, 144-153.

Neneh, B. N. (2016). Performance implications of financial capital availability on the financial literacy–performance nexus in South Africa. *Investment Management and Financial Innovations Journal*, *13*(2), 39-47.

Nguyen &, C. H. (2007). Access to Credit and Borrowing Behaviour of Rural Households in a Transition Economy.

Njoroge, R. M. (2013). Relationship between financial literacy and entrepreneurial success in Nairobi County Kenya. *Unpublished MBA Project). University of Nairobi, Nairobi, Kenya*.

Nyamute, W., & Maina, J. K. M. (2011). Effect of financial literacy on personal financial management practices: A case study of employees of finance and banking institutions. *University of Nairobi Electronic Repository,[online] http://erepository. uonbi. ac. ke, 8080*.

Nyamboga, T. O., Nyamweya, B. O., Abdi, A. M., Njeru, F., & George, G. E. (2014). An assessment of financial literacy on loan repayment by small and medium entrepreneurs in Ngara, Nairobi County. *Research Journal of Finance and Accounting*, *5*(12), 181-192.

Nunoo, J., & Andoh, F. K. (2011). *Sustaining small and medium enterprises through financial service utilization: does financial literacy matter?* (No. 323-2016-11592).

Obago, S. O. (2014). Effect of financial literacy on management of personal finances among employees of commercial Banks in Kenya. *University of Nairobi*, 1-21.

INFE, O. (2011). Measuring financial literacy: Core questionnaire in measuring financial literacy: Questionnaire and guidance notes for conducting an internationally comparable survey of financial literacy. *Pariz: OECD*.

Oso, W. Y., & Onen, D. (2005). A general guide to writing research proposal and report: A handbook for beginning researchers. *Kisumu, Kenya: Option Press and Publishers*.

OECD (2017a), Financial education for micro, small and medium sized enterprises in Asia. www.oecd.org/finance/Financial education for MSMEs in Asia.pdf

Plakaloviæ, N. (2015). Financial Literacy of SMEs Managers. In *Managing Intellectual Capital and Innovation for Sustainable and Inclusive Society: Managing Intellectual*

Capital and Innovation; Proceedings of the MakeLearn and TIIM Joint International Conference 2015 (pp. 409-416). ToKnowPress.

Potrich, A. C. G., Vieira, K. M., & Kirch, G. (2015). Determinants of financial literacy: Analysis of the influence of socioeconomic and demographic variables. *Revista Contabilidade & Finanças*, *26*(69), 362-377.

Oluoch, J. O. (2014). *An Assessment Of The Impact Of Working Capital Management Practices On The Performance Of Small And Medium Enterprises: A Survey of SMEs in Eldoret Central Business District* (Doctoral dissertation, Kisii University).

Oladeebo, J. O., & Oladeebo, O. E. (2008). Determinants of loan repayment among smallholder farmers in Ogbomoso agricultural zone of Oyo State, Nigeria. *Journal of Social Sciences*, *17*(1), 59-62.

Olima, B. (2013). Effect of financial literacy on personal financial management on kenya revenue authority employees in Nairobi. *Unpublished MBA Project). University of Nairobi, Nairobi, Kenya*.

Ongesa *et al*.(2014). An assessment of financial literacy on loan repayment by small and medium entrepreneurs in Ngara, Nairobi County. *Research Journal of Finance and Accounting*, *5*(12), 181-192.

Oseifuah, E. K (2010). Financial literacy and youth entrepreneurship in South Africa. *African journal of Economic and management studies*, *1*(2), 164-182.

Penrose, E., & Penrose, E. T. (1959). *The Theory of the Growth of the Firm*. Oxford university press.

Raven, F. (2005). Financial Literacy: A Basic Skill for Social Mobility [online], Digital Divide Network, 25 May,[accessed 18 October 2005].

Remund, D. L. (2010). Financial literacy explicated: The case for a clearer definition in an increasingly complex economy. *Journal of consumer affairs*, *44*(2), 276-295.

Siekei, J., Wagoki, J., & Kalio, A. (2013). An assessment of the role of financial literacy on performance of small and micro enterprises: Case of Equity Group Foundation training program on SMEs in Njoro District, Kenya. *Business & Applied Sciences*, *1*(7), 250-271.

Stanovich, K. E., & West, R. F. (2000). Individual differences in reasoning: Implications for the rationality debate?. *Behavioral and brain sciences*, *23*(5), 645-665.

Sucuahi, W. T. (2013). Determinants of financial literacy of micro entrepreneurs in Davao City. *International Journal of Accounting Research*, *42*(826), 1-8.

Tuyisenge, H. J., Mugambi, F., & Kemirembe, O. M. (2015). The role of financial literacy on loan repayment among small and medium entrepreneurs in Rwanda case study: Urwego opportunity bank. *International Journal of Small Business and Entrepreneurship Research*, *3*(5), 33-66.

The United States Agency for International Development 2009. development of strategy options for SME financial literacy. From <http://pdf.usaid.gov/pdf_docs/PNADP093.pdf> (Retrieved on 22 March 2016).

Van Rooij, M., & Lusardi, A. (2007). R. Alessie, 2007."Financial Literacy and Stock Market Participation". *Journal Financial Economics*, *8*(14), 14-22.

Van Rooij, M., Lusardi, A., & Alessie, R. (2011a). Financial literacy and stock market participation. *Journal of Financial Economics*, *101*(2), 449-472.

Van Rooij, M. C., Lusardi, A., & Alessie, R. J. (2011b). Financial literacy and retirement planning in the Netherlands. *Journal of Economic Psychology*, *32*(4), 593-608.

Wanjohi, A. (2011). Kenya Vision 2030 and Youth Agenda; Kenpro Papers Portal: Available http://www.kenpro.org/tag/sme-sector-in-kenya/ retrieved on 30th March 2013.

Wanjohi, A. M. (2011). Kenya Vision 2030 and Youth Agenda. *KENPRO Online Papers Portal. Available [Online]: http://www.kenpro.org/tag/sme-sector-in-kenya (June, 22, 2016).*

Warue, B. N., & Wanjira, T. V. (2013). Assessing budgeting process in small and medium enterprises in Nairobi's central business district: A case of hospitality industry. *International journal of information technology and business management*, *17*(1), 1-11.

Wise, S. (2013). The impact of financial literacy on new venture survival. *International Journal of Business and Management*, *8*(23), 30.

World Bank (2009). *The case of Financial Literacy in Developing Countries 2008/2009: From the World Bank Africa Database*. World Bank Publications.

Yamane, T. (1967). Statistics: an introductory analysis Harper and row. New York, Evanston and London and John Weather Hill. *Inc., Tokyo*.

APPENDICES

APPENDIX I: INTRODUCTION LETTER

EGERTON UNIVERSITY
NAKURU TOWN CAMPUS COLLEGE

Tel: (051) 215648/215798
Fax: (051) 62527
E-mail: ntc@egerton.ac.ke

P.O Box 13357,
Nakuru

OFFICE OF THE DEAN
FACULTY OF COMMERCE

Ref: CP121/60134/13 Date: 16th September, 2016

TO WHOM IT MAY CONCERN

RE: RESEARCH UNDERTAKING - AMOS KIPRUTO KIPTUM – CM11/00028/12A

This is to certify that the above named person is a bona fide student of Egerton University undertaking Masters in Business Administration programme (*Accounting Option*) offered in the Department of Accounting, Finance and Management Science. He has passed all coursework examinations and the research proposal for the partial fulfilment of the requirement of the degree.

The title of his Research Proposal is ***"Effect of Financial Literacy on Loan Repayment by Micro and Small Enterprises in Iten, Elgeyo Marakwet County".***

The purpose of this letter is to request you to allow her collect data from your organization. The information and data given will only be for research purposes and will be treated with utmost confidentiality.

Any assistance accorded to him will be highly appreciated.

EGERTON UNIVERSITY
DEAN'S OFFICE
15 SEP 2016
P. O. Box 536
EGERTON
FACULTY OF COMMERCE

Dr. F.M. Kalui, Ph.D.
Ag. DEAN, FACULTY OF COMMERCE

"Transforming Lives Through Quality Education"
Egerton University is ISO 9001: 2008 Certified

APPENDIX II: OWNER/MANAGER QUESTIONNAIRE

This questionnaire is designed to assist in collecting data to establish the effect of financial skills on loan repayment by MSEs in Elgeyo Marakwet County.

Please note that the findings of this research are solely meant for academic purposes and all the responses will be treated with utmost confidentiality. Your cooperation and support will be highly regarded.

Section 1: General Information

Name of MSE---

Sector (tick where appropriate)

[ ] Formal

[ ] Informal

Business location ----------------------------

Designation (optional)----------------------

Section 2: Demographic Information

2.1 What is your highest level of education?

[ ] No certificate

[ ] Form four

[ ] Diploma

[ ] Degree

2.2 How long have you been in business?

[ ] 0- 5yrs

[ ] 6- 10yrs

[ ] Over 10 years

SECTION 3: Loan Repayment

3.1 How do you finance your business?

[ ] Informal borrowing

[ ] Internal savings

[ ]Formal borrowing

3.2 How many times have you borrowed money?

[ ] Once [ ] Twice

[ ] Three times [ ] More three times

3.3 How much have you borrowed in total?

[ ] Between Ksh. 1000 to Ksh 10000 [ ] Between Ksh 11000 to Ksh 20000

[ ] Between ksh 21000 to Ksh 30000 [ ] kshs 31000 and over

3.4 Have you ever failed to repay a loan you took?

[ ] Yes [ ] No

3.5 If yes, what were the reasons for defaulting?

[ ] Influence by group members not to repay

[ ] Poor management of loan due to lack of training

[ ] Market failure due to lack of prior market survey

[ ] Unavailability of funds due low liquidity of the enterprise

[ ] Failure due to other reasons not mentioned above

3.6 How was your loan finally repaid?

[ ] The loan was repaid by group members

[ ] Group members auctioned my assets to recover the loan

[ ] My savings were used to offset the loan

[ ] The loan was repaid through insurance

[ ] The loan was written off

[ ] The loan is still outstanding

Section 4: Aspects of Financial skills influencing MSEs loan repayment

To what extend do the aspects listed below influence loan repayment in your MSE. Rate them on the scales provided below:

5 - Always
4 - Often
3 - Sometimes
2 - Rarely
1 –Never

		Never	Rarely	Sometimes	Often	Always
i)	**Financing Skills**					
	I have a personal bank account					
	I have a business account					
	I regularly bank my takings on a daily basis					
	I invest the cash balance in my account					
	I am aware I can get finance from Micro finance to finance my business					
	I am aware i can get finance from stokvel to finance my business					
	I am aware i can get finance from business angels to finance my business					
	I am aware i can get finance from venture capitalist to finance my business					
	I am aware of the requirements of commercial banks in lending money to businesses					
	I have checked the websites of commercial banks for me to see the credit products and their requirements					
	I prepare a business plan					
	I am aware of some government agencies that can provide financial and non-financial assistance to you					
ii)	**Book Keeping Skills**					
	I keep the Sales & Purchase ledgers					
	I maintain the debtors & creditors ledgers					
	I keep Expenses book					
	I maintain an Fixed assets register					
	I keep record of my Stock					
	I maintain a Cash book					
	I maintain a payroll for all my employees					
	I balance the ledgers & trial balance and prepare financial statements at the end of the year					
	I have computers to record my transactions					
iii)	**Budgeting Skills**					

	I have a written financial objectives of what i want to achieve in a year for my business					
	I prepare a written budget of income and expenditure					
	I compare my financial objective to my actual performance					
	I carry out a self-internal audit to track budget implementation which enabled me to track financial leakages					
iv	**Loan Repayments**					
	I pay my loan in time					
	I delay in paying my loan					
	I do not honor terms and conditions for the loan when repaying my loan					
	I pay my loan with a lot of pressure					
	I pay my loan through loan from another Micro finance institution					

Thank you for your co-operation.

APPENDIX III: SAMPLE FRAME

	Name Of Business		Name Of Business		Name Of Business
1	ABC Hardware	175	Iten Puncture Repair	349	Modern Hair Salon
2	Advanced Poshomill	176	Iten Quality Furnitures	350	Moitab Keiyo Stores
3	Alice Tea Room	177	Iten Shoe Repair/Shinner	351	Moobile-Phone Accessories/Repair
4	Amazon Computer	178	Iten Shoes Shop	352	Mooi Empronder Designer
5	Anin Polythene Shop	179	Iten Stationers & Suppliers	353	Mororia Electrical/Services
6	Anin Studio Services	180	Iten Uniform Centre	354	Mosop Kiosk
7	Anne Hair Salon	181	Iten View Retail Kiosk	355	Motor-Bike Spares/Accessories
8	Apple Cyber Café	182	Iten Watch Repair	356	Mulwo General Retail Kiosk
9	Armalo Investments M-Pesa	183	Itens Mini Boutique	357	Muno Kiosk
10	Arror Eating House	184	Jacob's Butchery/ Tea Room	358	Muskut Retail Kiosk
11	Arror Mini Boutique	185	Jane Market Stall	359	Mutinda Kinyozi
12	Arror Mini-Hardware	186	Janet Mini Boutique	360	Mwaura Mini Boutique
13	Arror Retail Kiosk	187	Jasmin Boutique	361	Mzalendo Hotel
14	Atlanda Studio	188	Jekelde Posho Mill	362	Nafuu Supermarket
15	Baibaiyet Auto-Spares	189	Jerusalem Hotel/Tea Room	363	Nancy Market Stall
16	Bandaptai Kiosk	190	Jesca Boutique	364	Nancy's Boutique
17	Baraka Boutique	191	Jewellery Kiosk	365	Nancy's Mini Boutique
18	Baraka Café	192	Joice Hair Salon	366	Ndovu Auto-Spares
19	Barrack Carpentry Workshop	193	Joy Printers	367	New Arrival Boutique
20	Belio Mini Boutique	194	Joy Shop	368	New Clothes - Mark
21	Beliomoo Kiosk	195	Joyce Boutique	369	New Clothes/ Mitumba Iten
22	Bestee Eating House	196	Juakali Welding	370	New Clotheschirchir
23	Bicycle Repair	197	Judith Market Stall	371	New Iten Auto-Spares
24	Blessing Mini Boutique	198	Judy Fashion	372	New Mini Boutiqueiten
25	Boit Auto-Spares	199	Juliana Mini Boutique	373	New Phone Accessories
26	Boundary Auto-Spares	200	Juma General Shop	374	New Selection Boutique
27	Boutique Kiosk - Salina	201	Jumbo Mini Boutique	375	New-Clothes Retail Shop
28	Brilliant Studio	202	Jumbo Tea Room	376	New pool katalel
29	Budget Kinyozi	203	Kabali Car Wash	377	News view Newspaper
30	Bugar Boutique	204	Kabelo Retail Shop	378	Ngelel Kiosk
31	Bugar General Shop	205	Kaboiyo Kiosk	379	Nyaru Auto-Spares
32	Bunei Kiosk	206	Kabokbok Kiosk	380	Nyote Retail Shop- Cereals
33	Calaifornia Tea Room	207	Kabukto Kiosk	381	Ogengo Mini Boutique
34	Capital Airtime M-Pesa	208	Kabukto Mini Hardware	382	Old Clothes Dealers
35	Carol Mini Boutique	209	Kalwal Retail Kiosk	383	Old Clothes Fashions
36	Chamgaa Kiosk	210	Kalya Retail Shop	384	Osman Kinyozi
37	Chamgaa Workshop	211	Kalyet Boutique	385	Phone Accessories Solutions
38	Chamusha Tea Room	212	Kalyet Mini Supermarket	386	Phone Art Solutions M-Pesa
39	Charles K.Kinyozi	213	Kamagoi Poshomill	387	Phone Home LTD. M-Pesa
40	Chebara Mini Boutique	214	Kamariny Auto-Spares	388	Pkk Kinyozi
41	Chebara Pool	215	Kamariny Kiosk	389	Pool -Game
42	Chebiemit Retail Kiosk	216	Kamasis Retail Shop	390	Pool Table(One)
43	Chebior Shoe Shiners	217	Kamelil Kinyozi	391	Power Saw Repair Shop

44	Chebororwa Retail Shop	218	Kamelil Kiosk	392	Printing & Photocopy
45	Cheboss Enterprises-Tailoring	219	Kamelil Retail Kiosk	393	Prompt Logidic Comm M-Pesa
46	Chebulbai Retail Shop	220	Kamoi Retail Kiosk	394	PT Auto Spares
47	Chegilet Kiosk	221	Kamosong Retail Kiosk	395	R Kelly Kinyozi
48	Chepkit Tea Shop(Tailoring)	222	Kamwosor Mini-Hardware	396	Rafiki Shop
49	Chepkoo Retail Kiosk	223	Kangumu Bakers	397	Relax Pool Table
50	Chepkorio Boutique	224	Kangumu Mini Bakery	398	Relax Tea Room
51	Chepkorio Hardware	225	Kano Market Stall	399	Retail Shop(Boutique) - Mary
52	Chepkorio Mini-Hardware	226	Kapche Mini Boutique	400	Rickom Servicers
53	Chepkoriopool Table	227	Kapche Power Saw Repair	401	Rimoi Pool Table
54	Cheptebo Kiosk	228	Kapcherop Hardware	402	Roadside Food Kiosk
55	Cheptebo Mini Boutique	229	Kapcherop Kinyozi	403	Rokocho Mini Boutique
56	Cheptongei Carpentry	230	Kapcherop Market Stall	404	Rono Salon
57	Cheptongei Mini Boutique	231	Kapcherop Mini Boutique	405	Rorok Academy
58	Cheptongei Retail Kiosk	232	Kapcherop Retail Shop	406	Royal Designers Tailoring Shop
59	Cherunya Kiosk	233	Kapcherop School Uniforms	407	Sach Auto-Spares
60	Chesitek Mini Hardware	234	Kapil-Bakery	408	Sach Four Kinyozi
61	Chesitek Shoe Shiners	235	Kapkatui Electronics	409	Sainaik Tech M-Pesa Services
62	Chesoi Auto-Spares	236	Kapkayo Mini-Hardware	410	Sajoma Kiosk
63	Chesoi Hardware	237	Kapsor New Shoe Shining	411	Sajoma Kiosk
64	Chris Mini Boutique	238	Kapsowar Auto Spares	412	Sakiki Studio
65	Connector Tea Room	239	Kapsowar Boutique Kiosk	413	Salaba Kiosk
66	Corner Hardware	240	Kapsowar Cosmetics	414	Salaba Kiosk
67	Corner Mini-Hardware	241	Kapsowar Eating House	415	Salina Technic Ltd M-Pesa
68	Corner Tea Room	242	Kapsowar Garage	416	Sallys Mini Boutique
69	County Inn Teashop	243	Kapsowar Kinyozi	417	Sambirir Retail Shop
70	County Team Room Shop	244	Kapsowar Mala Shop	418	Sammy Capentry
71	D.G Motor Cycle Spares	245	Kapsowar Market Stall	419	San Diego General Shop
72	Degitech Typesetting	246	Kapsowar Market Stall	420	San Diego General Shop
73	Delgan Traders	247	Kapsowar Mini-Hardware	421	Sangurur Eating Room
74	Design Clothes Iten	248	Kapsowar New Kinyozi	422	Saniak Technologies
75	Devolution Mini Boutique	249	Kapsowar Phone Accessories	423	Sawich Retail Kiosk
76	Digital Art Design	250	Kapsowar Pool	424	Sawytee Mobile Accessories
77	Dorris Mini Boutique	251	Kapsowar Pool-Game	425	School Uniforms Centre Iten
78	Dubai Electronics	252	Kapsowar Shoe Shining	426	School Uniforms Shop
79	Dublin Welders	253	Kapsowar Shoe-Shop	427	Sego Auto-Spares
80	East Corner Workshop	254	Kapsowar Uniform Dealers	428	Sego Retail Kiosk
81	East Corner Mini Boutique	255	Kaptagat Cyber-Café	429	Sergoit Enterprise
82	Ebenezzer Café	256	Kaptagat Retail Shop	430	Sergoit Mini-Hardware
83	Eldocate M-Pesa Services	257	Kaptarakwa Cycle Repair	431	Sergoit Ukulima Stores
84	Eldoret Mini Boutique	258	Kaptarakwa Eating House	432	Shantai Mini Boutique
85	Electrical Appliances	259	Kaptarakwa Pool Table	433	Sheilah Boutique
86	Elgeyo Supermarket	260	Kaptarakwa Retail Shop	434	Shiners Cosmetics
87	Elgon-View Tea Room	261	Kapteren Auto-Spares	435	Shinners Kinyozi

88	El-Roi Laundry	262	Kapteren Pool Table	436	Shoe Shining - Kapsowar
89	Embobut Retail Shop	263	Kapteren Posh-Mill	437	Siagi Candy Shop
90	Emilys Mini Boutique	264	Kapteren Shop	438	Siagi Candy Shop
91	Emmys Mini Boutique	265	Kaptiony Retail Kiosk	439	Silker Hardware
92	Emoigaa Stores	266	Kapyego Auto Spares	440	Silkmal Comm. Iten M-Pesa
93	Emoo Kiosk	267	Kapyego Retail Shop	441	Simotwo Retail Kiosk
94	Emosio Shop	268	Kechem Boutique	442	Sitet Auto-Spares
95	Empire Kiosk	269	Kemeloi Retail Shop	443	Small Tea Room
96	Emsea Kiosk	270	Kerio View Kiosk	444	Soin Enterprise
97	Emsoo Kiosk	271	Keriova Hardware	445	Soin Kiosk
98	Enego Mini Boutique	272	Kew Kiosk	446	Soisoi M-Pesa
99	Erot Shoe Repair	273	Kibet Kinyozi	447	Soko Bora Hotel
100	Esther Hair Salon	274	Kilosmini-Hardware	448	Sokoiwa Mobile Charging
101	Esther Mini Boutique	275	Kim Phone Accessories	449	Somok Shop
102	Eten Solution Cyber Café	276	Kimaru Mini Boutique	450	Somok Shop
103	Fair Deal Supplies M-Pesa	277	Kimnai Auto Spares	451	Sossiot Retail Kiosk
104	Faith Mini Boutique	278	Kimnai Eating House	452	Soup-Making/Catering Sergoit
105	Fanice Mini Boutique	279	Kimnai Phone Services	453	Sports Fashions Boutique
106	Farm Stores Inputs	280	Kimnai Pool	454	Stationery Shop
107	Fast Food Kiosk	281	Kimnai Puncture Repair	455	Studio
108	Fatuma Mini Boutique	282	Kimoi Kiosk	456	Sub County Mini Boutique
109	Faulu Mini Boutique	283	Kimoloi Kiosk	457	Sumat Selection Centre
110	Flax Boutique	284	Kimoloi Retail Shop	458	Super Café
111	Flax Cycle Mat	285	Kimwarer Hardware	459	Susan Market Stall
112	Flax Garage	286	Kipsabu Hardware	460	Talai Kiosk
113	Flax Mini Bakery	287	Kipsoen Kiosk	461	Tambach Auto-Spares
114	Flax Phone Accessories	288	Kipsoen Mini-Hardware	462	Tambach Mini Boutique
115	Flax Photocopier	289	Kipsum Spares Retail Shop	463	Tambach Uniform Stores
116	Flax Pool Table	290	Kiptabach Retail Kiosk	464	Tanah Canteen
117	Florence Mini Boutique	291	Kipteber Retail Kiosk	465	Tanui Kinyozi
118	Frankam Intergrated M-Pesa	292	Kocholwo Mini-Hardware	466	Tayari Kiosk
119	Fresh Food Kiosk	293	Koila Market Stall	467	Tea Room(Kiosk) Marko
120	Friends Cycle-Mat	294	Kokwo Kiosk	468	Tea Room(Kiosk)-Maiyo
121	Frncisca Market Stall	295	Kolol Kiosk	469	Tea Room/Mini Butchery Kipsoit
122	Generation Kinyozi	296	Kolol Mini Boutique	470	Teber Mini Store
123	General Kinyozi	297	Kombo Kiosk	471	Teber Retail Kiosk
124	Generation Mini Boutique	298	Komen Mini-Hardware	472	Technology Mobile Accessories
125	Generation Music Store	299	Kondabilet Retail Shop	473	Teclea Computers
126	Generationhardware	300	Kong'asis Kinyozi	474	Tekelde Retail Shop
127	Geomaka Electrical Shop	301	Kongoris Enterprises	475	Tembea Mini Boutique
128	Gesha General Agencies	302	Koptugen Tea Room	476	Tenden Retail Shop
129	Gester Salon	303	Korir Mini Boutique	477	Tendwo Retail Shop
130	Gester Tailoring Shop	304	Korongoi Retail Kiosk	478	Tilsons Workshop
131	Getty's Enterprises Photocop	305	Kosgei Pool Table	479	Timber Workshop
132	Giddy Mini Hardware	306	Koyumgaa Retail Shop	480	Tims Kiosk

133	Gilgal Photocopy	307	Kumbululu Butchery/Tea R	481	Tin Smith
134	Glado Mini Boutique	308	Kurui Pool	482	Tolosio M-Pesa
135	Gladys Mini Boutique	309	Kwalel Workshop	483	Tolosio Retail Shop
136	Glory Tailoring Shop	310	Kwetu Kiosk	484	Tomno Car Wash
137	Great Harvest Tailoring	311	Ladies Mini Boutique	485	Toro Carpentry Workshop
138	Guest Kinyozi	312	Leah Mini Boutique	486	Tugul Kiosk
139	Herbal Services M-Pesa	313	Lekich Mini Boutique	487	Tuimini Suits And School Uniforms
140	Highway Kinyozi	314	Lelan Retail Shop	488	Tuka Tai Retail Shop
141	Highway Line Boutique	315	Lelin Campsite Animal Feeds	489	Tumaini Café
142	Highway Mini Boutique	316	Lengo Radio Repair	490	Tumaini General Stores
143	Highway Retail Kiosk	317	Lenny Hair Salon	491	Tumoo Retail Kiosk
144	Highway Salon	318	Lillies Kiosk	492	Turesia Mini Boutique
145	Hill Side Tea Room	319	Lillys Mini Boutique	493	Turessia Kiosk
146	Hilro Mini-Hardware	320	Limo's Salon	494	Unison Electronics
147	Homeground Cleaners	321	Lindi Curio Kiosk	495	Unity Salon
148	Hope Studio	322	Liter Retail Kiosk	496	Upendo Retail Kiosk
149	Hospital Kiosk	323	Lizs Mini Boutique	497	Valine Salon
150	Humprey Kinyozi	324	M/S Basematt Shop	498	Valley General Shop
151	Imani Shoe Shiner	325	Maggy Boutique	499	Valley View Kiosk
152	Inforlink Cyber	326	Maize Poshomill	500	Valley-Springs Hotel
153	Isiah Worker Workshop	327	Mama Jumba Saloon	501	Valley-View Printers
154	Iten Alpha Café	328	Mama Mercy Salon	502	Victory Bakery
155	Iten Animal Feeds	329	Mambo Mini Boutique	503	View Poin Mini Boutique
156	Iten Auto-Spares	330	Marich Kiosk	504	View Point Auto-Spares
157	Iten Boutique	331	Marichor M-Pesa	505	Wafula Shoe Repair/Shinner
158	Iten Corner Pool	332	Mariny Mini-Mart	506	Waiyay Logistics M-Pesa Services
159	Iten Electrical Appliances	333	Market Stall	507	Wanainchi Mobile Phone Accessories
160	Iten Food Kiosk	334	Markey Poshomill	508	Wendy Mini Boutique
161	Iten General Retail	335	Maurine General Retailer	509	West Line Mini Boutique
162	Iten Highway Auto-Spares	336	MC Boutique	510	West Pool
163	Iten Kangumu Bakers	337	Mens Wear Mini Boutique	511	Willy Shoe Repair/Shinner
164	Iten Lillys Pool	338	Mercy Hair Salon	512	Workshop (Kipkundul)
165	Iten Milimani Hardware	339	Mercy Kiosk	513	Yano Market Stall
166	Iten Mini-Hardware/Auto	340	M-Hardware	514	Yashin Hotel
167	Iten Mini-Spares	341	Milka Shop	515	Yassin Eating House
168	Iten Mobile Charging/Acces	342	Millenium Mini Boutique	516	Yassin Retail Shop
169	Iten Motor-Bike Spares	343	Mindililwo Kiosk	517	Yatoi Auto-Spares
170	Iten Nafuu Kiosk	344	Mini Supermarket	518	Yatoi Retail Shop
171	Iten Photocopier	345	Mini-Hard Ware	519	YD Hotel
172	Iten Pool	346	MN Mini Boutique	520	Zam Zam Tea Room
173	Iten Poshomill	347	Mobile Charging/Accessories		
174	Iten Poshomill	348	Mobile Charging/Accessories		