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EFFECT OF FINANCIAL LITERACY ON GROWTH OF MICRO AND SMALL ENTERPRISES IN KITUI TOWN, KITUI COUNTY.

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A Research Project Report Submitted in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration in Finance of South Eastern Kenya University

NOVEMBER 2020

DECLARATION

I understand that plagiarism is an offence and I therefore declare that this research project report is my original work and has not been presented to any other institution for any other award.

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ABBREVIATIONS AND ACRONYMS

FSD	Foundation for Sustainable Development
KNBS	Kenya National Bureau of Statistics
KWFT	Kenya Women Microfinance Bank
KWFT	Kenya Women Finance Trust
KYEOP	Kenya Youth Empowerment Project
MFIs	Microfinance Institutions
MSE's	Micro and small enterprises
NSE	Nairobi Securities Exchange
OECD	Organization for Economic Co-operation and Development
R & D	Research and Development
SACCOs	Savings and Credit Cooperatives
SMEP	Small and Micro Enterprise Programme
SPSS	Statistical Package for the Social Sciences

DEFINITION OF TERMS

Financial literacy -OECD (2013) broadly defines financial literacy as knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial wellbeing of individuals and society, and to enable participation in economic life.

Debt Management Skills –Debt management skills is the ability to perform activities of a business within a budget. A plan is usually created to help people manage their debts especially those with too much debt, often referred to as debt management plan (Bankrate, 2010)

Micro and Small Enterprises –According to Kenya's Micro and Small Enterprises Act 2012, micro enterprises are defined as a firm, trade, service, industry or a business activity whose annual turnover does not exceed Kshs. 500,000 and whose total employees are less than 10 people.

Enterprises Growth – Business/ Enterprise growth is stage where the business reaches the point of expansion and seeks additional options to generate more profit. Gupta, Guha, & Krishnaswami (2013) suggests that growth can be measured by the use of quantitative features such as; value addition, revenue generation, volume of assets and volume of business or qualitative features like market position, quality of product, goodwill of the customers, productivity, sales revenue, total assets, the number of employees, investment in R & D, and other intangible assets have a more direct impact on enterprise's growth prospects.

ABSTRACT

Despite the significant contribution of Micro and Small Enterprises (MSEs) to the economy, MSEs have been faced by a number of issues affecting their growth. One of the issues relates to inadequate financial literacy which limits their growth and diminishes their contribution to sustainable development. Consequently, the growth of MSEs is inhibited in terms of liquidity and being unable to attend effectively to their daily business operations and investments commitments thus losing on business opportunities which builds up difficult to achieve their growth in terms of size and wealth accumulation. The general objective of the study was to establish the effect of financial literacy on growth of MSEs in Kitui Town, Kitui County. The study aimed at establishing the influence of debt management skills on the growth of MSEs in Kitui Town. The study was anchored on financial literacy theory and dual process theory. The study used descriptive research design. The target population of the study was 1448 MSEs. Stratified random sampling was used to select a sample of 313 MSEs. 313 questionnaires were dispatched with 213 being filled and returned yielding a response rate of 68%. The study found that debt management skills had a positive and significant effect on growth of MSEs. Descriptive analysis and findings indicate that multiple borrowing from formal and informal sectors adversely affect debt repayment which may hinder growth of MSEs. This study concludes that MSEs need to be trained on debt management. The study also concluded that MSEs should avoid accumulating debts through multiple borrowings from both formal and informal sector.

CHAPTER ONE

INTRODUCTION

This chapter provides the background of the study, statement of the research problem, research objectives and questions, justification of study, limitations and delimitations, scope of the study and assumptions that underpin the study.

1.1 Background of the Study

Micro and small enterprises (MSE's) are promoters of broad-based growth in competition, employment, entrepreneurship and offer economy-wide benefits such as innovation and aggregate productivity growth (Tarfasa, Ferede, Kebede, & Behailu, 2016). In Kenya, the Micro and Small Enterprises (MSE) industry has been defined by the number of workers, the turnover and assets of the enterprises. According to Kenya's Micro and Small Enterprises Act 2012, micro enterprises have been defined as a firm, trade, service, industry or a business activity whose annual turnover does not exceed Kshs. 500,000 and its total employees are less than 10 people. The same statute defines a small enterprise as a firm, trade, service, industry or a business activity that which has an annual turnover of between Kshs0.5 - 5 million, with the number of employees in the range from 10-50 people with total assets and financial investment subject to determination by the finance minister from time to time. In many African countries, Micro and Small enterprises. MSE's employment is almost twice the level of total employment in registered large-scale enterprises hence gives a green light that micro and small enterprises are a major source of livelihood for a large proportion of the population (Tarfasa, Ferede, Kebede, & Behailu, 2016). Although MSEs have a potential role in accelerating the growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. (Njoroge, 2014; Fatoki, 2014). Apart from access to capital and an enabling environment, the success of MSEs largely depends on the financial management skills of the managers. Individuals with financial literacy skills tend to make better financial decisions with fewer management mistakes than their correspondents who are financially illiterate (Njoroge, 2014; Fatoki, 2014).

Different definitions of financial literacy indicate that, researchers are yet to agree on a common definition and measurement of this concept. The current study shall embrace the definition of OECD (2013) because It acknowledges the need for understanding of financial concepts and risks, and the skills, motivation and confidence to use such knowledge and understanding in order to make effective decisions across a range of financial contexts. Financial literacy supports entrepreneurs with financial knowledge necessary to make budgets, initiate savings plans, and acquire financial knowledge and skills to meet their financial goals (Greenspan, 2002). The key competencies of financial literacy are: money basics, budgeting, saving and planning, borrowing and debt literacy, financial products, and recourse and self-help (Rooij, Lusardi & Alessie, 2007). Money basics comprehend the knowledge, skills and understanding required for the most essential day to day calculations. Examples include numeracy and money management skills (Rooij, Lusardi & Alessie, 2007). Numeracy skill is basically the skill which allows people to assess the suitability of expenses for themselves. Numeracy skill is the base of considering which financial products are cost effective. Also numeracy skills have been found to play an important role in influencing saving and even budgeting. Higher numeracy has been linked with higher levels of household wealth and good financial decisions while poor numeracy has been linked with unnecessary expenses (Rooij, Lusardi & Alessie, 2007).

Financial literacy is a growing concern around the world for every professional and there are different views and claims about evolution of the issue of financial education and literacy. Noctor, Stoney and Stradling (1992) as cited in a study by (Jariwala, 2013) have defined financial literacy as an informed judgment and capability of decision making of a person in money management. This is the first precise definition of financial literacy ever found. However, Sarigul (2014) states that the concept of financial literacy was first deliberated in 1997 by Jumpstart Coalition as a personal financial literacy survey. But, Remund (2010) argues that the exposition and research on financial literacy begun since 2000. Moreover, the focal point of financial literacy is closely associated with global financial crisis of 2007-09 and thereby it becomes a policy agenda in the financial sector. Aftermaths of global financial distress revitalized the area of financial literacy for policy makers all over the globe (Gupta & Kaur, 2014). Similarly, Miller, Reichelstein, Salas and Zia (2014) also highlight that the priority of financial literacy intensified after of global financial crisis that enlightened the financial system the cost of financial illiteracy, ignorance and unpremeditated financial behavior of financial institutions and consumers.

Wagner (2015) opines that global financial crisis raised the issue of financial literacy with higher priority and one of the reasons of the global financial crisis was the poor financial literacy of financial consumers. Ordinarily, the management of money abolished the barter system however; the concern of using money is closely linked with human but difficult to pinpoint the date and context of beginning of financial literacy (Wagner, 2015). The relationship of knowledge and management of money is inseparable to each other and it is worthwhile to study the issue as a normal phenomenon that is close to human beings. Being financially informed, conscious, rational and active person in financial matter, the agenda of financial literacy was established and developed with economic history (Wagner, 2015).

Individuals with less financial literacy are likely to face more challenges with regard to debt management, savings and credit access, and are less likely to plan for the future while those with higher financial literacy are better able to manage their money, participate in the stock market and perform better on their portfolio choice, they are likely to create and accumulate wealth, have better debt management skills and avoid high interest payments (Lusardi & Mitchell, 2008, 2011; FSD, 2009). Some of the challenges that micro and small enterprises encounter in debt management are the inability to perform accurate calculations and lack the level of numeracy skills especially for the elderly people, female and less educated population (Plakalovi, 2015). Every enterprise, however simple requires written records which are used by managers to guide the routine action, making of decisions, formulation of general rules and maintaining relationships with other organizations or with individuals (Frankwood, 2010). Frankwood (2010) 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 also help in business planning and are needed by lenders of business finance (Kalekye & Memba, 2015). Most small entreprises do not summarize records and they keep records in an informal manner (Kalekye & Memba, 2015).

Saving is also a necessary skill for micro and small entrepreneurs that want to advance their business skills. Individuals are said to be financially illiterate if they are unable to save (Behrman, Mitchell, Soo, & Bravo, 2012). However, Mandell & Klein (2009)argue that financial literacy does not necessarily mean one is savings-oriented and does not give better financial behavior. Savings groups and self help groups can strengthen people's resilience to financial challenges by helping them to plan, adapt to changes, and cope with shocks when they happen (Haworth, Frandon-Martinez, Fayolle, & Wilkinson, 2016).

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, 2005). The need for financial literacy has become significant with the deregulation of financial markets and the easier access to credit as financial institutions compete strongly with each other for market share, the rapid growth in development and marketing of financial products, and the Government's encouragement for people to take more responsibility for their retirement incomes (Beal & Delpachitra, 2005).

Financial literacy is considered an important for promoting financial inclusion and financial stability (Lusardi & Tufano, 2009). Both developed and developing countries are therefore focusing on programs for financial literacy/education. In India, the need for financial literacy is greater considering the existence of low levels of the formal financial loop (Lusardi & Tufano, 2009). Atkinson & Messy (2012) added that governments around the world are interested in finding effective approaches of improving financial literacy of their populations through developing strategies for financial education with the main aim of providing various learning opportunities on financial literacy. Nelson & Wambugu (2008) argue that financial literacy provides a stable foundation for managing money and is an indispensable skill in a world where microfinance products and services are proliferating with financial service providers who are ever ready to pressure the consumer. Mungai (2012) further highlighted the financial management aspects of financial literacy programs influenced the debt-management and savings behaviors.

In Kenya, within the financial context there exists a relationship between use of financial services and exposure to financial information (Xu & Zia, 2012). The most common sources of financial information is through radio, word of mouth from friends and family members, and the urban youth have greater access to television and other media (Xu & Zia, 2012). Despite successive policy interventions and , micro and small enterprises in Kenya face challenges that limit their growth and diminish their contribution to sustainable development. According to Lusimbo and Muturi (2016), the micro and small enterprises sector in Kenya has a distinct dual structure whereby at one extreme there exists a few large modern capital intensive enterprises while at the other extreme there exists micro enterprises that are informal, use very simple traditional technologies and serve a limited local market.

1.1.2 Micro and Small Enterprises Growth

Sound financial management practice is critical to the growth and performance of MSEs because financial literacy skills empower and educate investors so that they are able to evaluate financial products and make informed decisions that facilitate proper debt management which improves the credit worthiness of potential borrowers (MasterCard, 2011). Basically, firm growth has been operationalized in many ways and different measures have been used. This may be one reason for the contradictory results reported by previous studies (Weinzimmer, Nystron, & Freeman, 1998), though other explanations have also been presented (Delmar, Davidsson, & Gartner, 2003; Davidsson & Wiklund, 2000).

Enterprise growth can be measured in various ways. Gupta, Guha, and Krishnaswami (2013) suggests the use of quantitative features such as; value addition, revenue generation, volume of assets and volume of business or qualitative features like market position, quality of product, goodwill of the customers, productivity, sales revenue, total assets, the number of employees, investment in R & D, and other intangible assets have a more direct impact on enterprise's growth prospects. Consequently, enterprise growth may be achieved quickly, slowly, or not at all depending on the strength of the growth aspirations and growth-enabling factors of an enterprise (Mckaskill, 2013)

1.1.3 Kitui County

Kitui County lies in the Eastern part of Kenya and is located in Eastern province and constitutes 8 Sub-Counties which are: Kitui West Sub-County, Kitui Central Sub-County, Kitui Rural Sub-County, Kitui South Sub-County, Kitui East Sub-County, Mwingi North Sub-County, Mwingi West Sub-County, Mwingi Central Sub-County were mapped to this county for the purposes of generating county estimates (Republic of Kenya, 2010).

Geographically, Kitui County is positioned in eastern Kenya and borders several counties which include; Tharaka Nithi County and Meru County to the north, Embu County to the northwest, Machakos and Makueni County to the west, Tana River County to the east and southeast, and Taita Taveta County to the southern part of the Kitui county. Kitui County stretches from latitudes 0010' and 300'South and longitudes 37050' and 3900' East. It covers an area of

30,496.5Km2. It has a total population of 1,065,330 people, 205 491 Households. The Population density of people living in Kitui County is approximated as 33 persons per square kilometer. The Akamba people are the dominant habitants of Kitui County (KNBS, 2013). The local climate of Kitui County is semi-arid with a hilly terrain covering most parts of the county. The county has a beautiful natural vegetation cover and hilly scenery which is a perfect source of tourist related activities such as camping, hiking safaris, ecotourism and cultural tourism, dance and music festivals among others. A number of establishments exist to ensure the region has a well-rounded hospitality industry. Subsistence agriculture is practiced with Maize and drought-resistant crops such as sorghum and millet being grown in the area. However, the County also plays host to the open air market concept with major market days where large amounts of produce are traded such as fruits, vegetables and other food stuffs like maize and beans are sold in this market (KNBS, 2013).

In Kitui County, Micro and Small Enterprises operate within a number of sectors including trade, construction, welding and small scale metal fabrication, textile and tailoring, furniture manufacturing, light motor vehicle maintenance and transport business and many others where majority are traders of foodstuffs, household goods, and clothes (CGK, 2013). Many of those in trade sell similar goods and offer services often located next door. This means that an entrepreneur faces a lot of competition from similar businesses in the area. The county has a total of 68 small scale market centers spread throughout the County and most of the goods traded in these markets are foodstuffs and livestock (CGK, 2013). Basically, Micro and Small Enterprises are major sources of employment to the vulnerable population in Kitui county like the women, and youth. The Juakali, MSEs and retail businesses are the prominent employer which contributes marginally to the household income (Mutisya, 2016).

1.2 Statement of the Problem

Financial literacy is massively playing a role in financial reforms across the world (Lusardi & Mitchell, 2007). Variant financial crisis are being faced by all generations in the past and today who are expected to make and take increasingly vital and complex choices on budgeting for consumption, savings and investing, debt management and handling crisis (Lusardi & Mitchell, 2007). Modern technology, globalization and liberalization have made new financial products and services widely available leaving majority of the MSEs less equipped to make informed financial choices or to evaluate complex financial products (Lusardi & Mitchell, 2007).

The MSEs in Kenya play an important role in the socio-economic development of the country. The significance of the Micro and Micro enterprises can be seen in terms of contribution towards economic growth, employment creation, poverty reduction and development of an industrial base. Despite the significant contribution of Micro and Small Enterprises (MSEs) to the economy, MSEs have been faced by a number of issues affecting their growth. One of the challenges MSEs face relates to inadequate financial literacy which hinders their flexibility to diversify risk thus preventing them from growing and attaining economies of scale. Consequently, the growth of MSEs is inhibited in terms of liquidity and being unable to attend to their daily operations and investments commitments thus losing on business opportunities which make it difficult for them to achieve growth in terms of size and wealth accumulation. Statistics show that 3 out of 5 small and micro-enterprises fail to make it to the second year of operation and those that continue only 20% reach the fifth year (KNBS, 2007). Mullei & Boken as cited by Wambugu (2005) stated that very few small and micro enterprises have experienced growth and transitioned into medium or large a formal organization which is an adverse scenario that is apparently common among Small and Micro enterprises in Kenya.

Financial literacy has been found to be a major determinant in the growth of enterprises. This has been blamed on the MSEs managers lacking the financial literacy skills to steer their businesses to growth. According to Mutegi and Phelister (2015) banks like Equity and micro finance institutions like Faulu, SMEP and KWFT have established separate units to be more responsive to the financial literacy needs of their MSE clients, in realization of the fundamental differences that arise between MSEs, consumer and corporate clients. Such is the perceived magnitude of the problem that banks and micro finance institutions have apportioned internal budgetary resources to assist MSEs through the extension of training services (Equity Bank, 2013). The researcher therefore sought to investigate the effect of financial literacy on growth of Micro and Small enterprises in Kenya with a specific reference on Kitui Town.

1.3 Research Objectives

The study was guided by the following general and specific objectives.

1.3.1 General Objective

To establish the effect of financial literacy on growth of MSEs in Kitui Town

1.3.2 Specific Objectives

i. To establish the influence of debt management skills on the growth of MSEs in Kitui Town.

1.4 Research Questions

i. What is the influence of debt management skills on the growth of MSEs in Kitui Town?

1.5 Justification of the Study

The aim of the study was to establish the effect of financial literacy on growth of MSEs in Kitui Town and thus to address a gap in the literature. This study contributes to the literature on financial literacy of MSEs in five ways. First, the research draws on two theoretical perspectives, namely financial literacy theory and the dual –process theory, to describe the importance of financial literacy in the MSE sector. Second, the research expands knowledge of financial literacy because it investigated the relationship between financial literacy and MSEs' growth. Third, although it is widely accepted that financial literacy is very crucial in the context of personal finance decisions, the concept of firm-level financial literacy is less well understood and researched, especially in developing countries. This study addresses this gap through exploring firm-level financial literacy in the Kenyan MSEs sector. Fourth, the research generated a framework that could be used by MSEs to sustain their firm's growth. Fifth, the findings of this study should assist policy makers to design and initiate programs to enhance financial literacy, including programs specifically tailored to the needs of MSEs. If the relevant agencies were to offer more robust, more specific training programs it would boost the financial literacy of key players in the MSEs Sector. This research also contributes to research on a particular geographical region, namely Kitui Town-Kitui County, and the findings should help to enhance the sustainability and growth of MSEs in Kitui County.

The research is therefore significant in various ways to various stakeholders interested in MSEs operations such as individuals/MSE owners, County government of Kitui, researchers and academicians. To individuals/MSE owners it has highlighted the key financial literacy skill areas that need capacity building and development as well as the benefits that would be realized by acquisition of financial literacy skills to improve the financial management of their businesses and growth prospects. It will also to help MSE owners to take initiatives to save enough to provide adequate income for growth and expansion, while avoiding high levels of debt that might result in bankruptcy, default and foreclosures.

The research results will help the county Government of Kitui and policy makers such as the Micro and Small Enterprise Authority (MSEA) to formulate positive financial policies on a framework that is relevant and sensitive that would guide financial literacy among MSEs to achieve great success and sustainability. Further, this study will also to be significant to researchers and academicians in that, academically it adds to the existing knowledge of effective financial literacy thus forming part of academic reference.

1.6 Limitations and Delimitations

Limitation is any situation that may influence the results negatively but over which the researcher has no control (Mugenda & Mugenda, 2010). The researcher met respondents with different attitudes but he promised them of confidentiality and benefits they were to gain after the research was complete. The researcher also faced time constrains but this was catered for by training research assistants who assisted in data collection.

1.7 Scope of the Study

This study was limited and focused on establishing the effect of financial literacy on growth of Micro and Small enterprises in Kitui Town. This study was also limited and focused on the variable of study that was debt management skills and the growth of MSEs in Kitui Town.

1.8 Assumptions of the Study

The study assumed that the respondents were to be available during the administration of the questionnaires, fill them and returns to the researcher in good time and that the owners of MSEs were to continue operating their business in the foreseeable future to enable effective completion of the study.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

The study was informed by a comprehensive review of the relevant theoretical and empirical literature to build an in depth understanding of the current body of knowledge on financial literacy and growth of MSEs. From a synthesis of the literature reviewed, a conceptual framework on effect of financial literacy on growth of MSEs was developed showing the relationship between independent variable of debt management skills and the dependent variable growth of MSEs. The chapter was organized in the following main sections: theoretical review, empirical review, conceptual framework and research gap.

2.1 Theoretical Review

According to Stem (2007), a theory is a group of logically organized sentences of a relationship that comprises of a set of observations. The theories indicate the importance of relationship-building in explaining how and why specific phenomena will occur (Stem, 2007). This section reviews the various theories related to financial literacy and will help guide the study.

2.1.1 Financial Literacy Theory

Financial literacy theory is an emerging theory that draws theoretical perspectives from other theories including economics, psychology, sociology and management to explain the financial behaviour of individuals. Financial literacy was first supported by the Jumpstart coalition for personal financial literacy in its introductory study of financial literacy among high school students (Hastings, Karlan, & Zinman, 2013). As operationalized in academic literature, financial literacy is a multi-dimensional construct consisting of knowledge of financial products, knowledge of financial concepts, having the mathematical skills or numeracy necessary for effective financial decision making and financial behaviour such as financial planning (Wise, 2013).

Early literature on financial literacy began by documenting important links between financial literacy and several economic behaviours such as money management, debt and saving behaviours, retirement planning, asset ownership and participation in financial markets (Xiao, 2008, Van Rooij, Lusardi, & Alessie, 2011). Economic psychologists posited that factors associated with retirement saving and asset ownership behaviours are both economic and psychological (DeVaney, & Chien, 2001; DeVaney, Anong, & Whirl, 2007). Various behavioral theories have as well been used in the study of financial literacy and financial behaviors.

Hilgert, Hogarth, & Beverly (2003) formed a financial practices index based upon self-benefiting behaviour in cash-flow management, credit management, saving and investment practices and established that there was a positive relationship between financial literacy scores and Financial Practices Index scores thus validating that financial knowledge is related to financial practices. The theory of planned behavior, often used to understand and predict human behaviour, has been applied to online shopping behaviour, investment behaviour and debt reducing behaviours (Xiao, 2008).

The trans-theoretical model of change (TTM), which is used to understand how consumers eliminate undesirable behaviours and develop positive behaviours, has been applied to saving and debt reducing behaviors (Xiao, Newman, Prochaska, Leon, Bassett, & Johnson, 2004). The self determination theory which posits that goals contribute to human well-being based on the extent of their contributions to the core human psychological needs of competence and autonomy has as well been applied to study money motivation and attitudes (Stone et al., 2008).

Existent literature has established a relationship between financial literacy and several different financial behaviors and outcomes such as paying bills on time, tracking expenses, budgeting, paying credit card bills in full each month, saving out of each paycheck, maintaining an emergency fund and diversifying investments (Hilgert, Hogarth, & Beverly, 2003). Subsequent research has found that financial literacy is positively correlated with planning for retirement, savings and wealth accumulation, market participation and better financial diversification (Van Rooij, Lusardi, & Alessie, 2011; Lusardi et al, 2006; 2007).

Financial literacy theory can be linked to this study as it incorporates key aspects of financial concepts and the economic environment implicitly assuming that people are able to formulate and execute saving and spend-down plans, all of which require expertise in dealing with financial markets, knowledge of purchasing power, and the capacity to undertake complex economic decisions.

2.1.2 The Dual –Process Theory

This theory asserts that financial decisions can be guided by both intuitive and cognitive processes which mean that financial literacy may not always yield optimal financial decisions. The Dual Process Financial literacy theory argues that the behavior of people with a high level of financial literacy might depend on the pervasiveness of the two thinking styles: intuition (system 1) and cognition (system 2) (Lusardi & Mitchell, 2011; Glaser & Walther, 2013). Intuition is the potential to gain knowledge without inference or the use of reason. Intuition gives views, understandings, judgments, or beliefs that cannot be empirically verified or rationally justified. Taylor (1981) as cited by Chan & Park (2013) asserts that individuals who rely on intuition prefer to use mental short cuts as they make decisions which tend to be largely influenced by their emotions. Glaser &Walther (2013) identified that the positive effect of financial literacy on reasonable investment decisions is reduced by a high prevalence of intuition. Therefore, the rising use of intuition results to sub optimal investment decisions.

Cognition on the other hand is the undertaking by which the sensory input is converted, reduced, elaborated, stored, retrieved, and utilised. Cognition is the mental processing that includes the comprehending, calculating, reasoning, problem solving and decision making (Chan & Park, 2013). High cognition individuals enjoy thinking, are analytical and are better at keeping information and more probable to search out new information. They are more likely to be influenced by a relevant message and not by irrelevant information such as endorser's appearance or use of humor (Chan & Park, 2013). Since the need for cognition sets off the use of analytical process, it can directly shape investment portfolio composition. Such investors will therefore more likely use the systematic approach of capital budgeting when evaluating investment opportunities and are more likely to diversify investments compared to those with a low need for cognition.

Dual process theory is of relevance in this study because it implies that individuals who are high on cognition will seek out for information and are more likely to be influenced by a relevant message while 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.

2.2 Empirical Review

Several scholars and researchers have studied the concept of financial literacy both globally and locally;

2.2.1 Debt Management Skills and Growth of MSEs

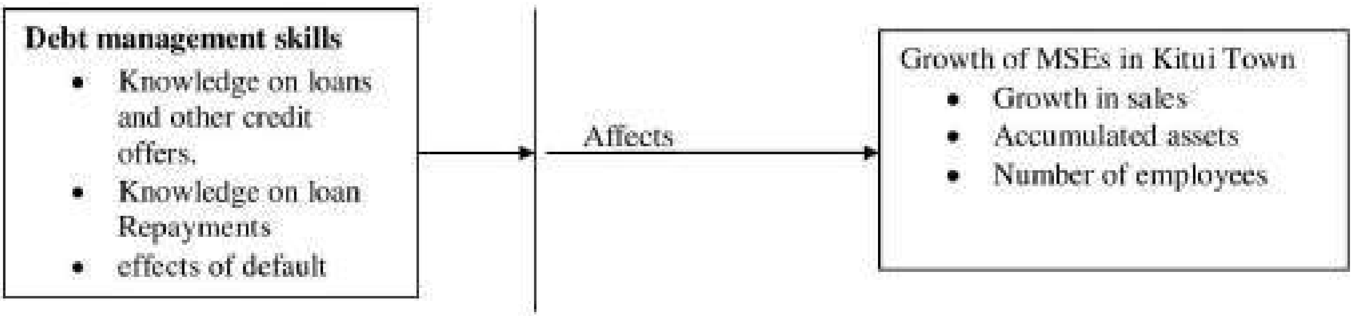
Kibui (2013) sought to find out the effect of financial literacy and financial management of the youth enterprise development fund in Konoin Constituency Kenya. A cross sectional descriptive survey approach was used to find out the financial literacy and financial management of the youth enterprise development fund in Konoin constituency. A representative sample of 250 respondents was chosen using random sampling approach. The study adopted primary data which was collected from the respondents by use of a detailed questionnaire which consisted of both open ended and close ended questions. Data was then analyzed by use of regression analysis and descriptive statistics was presented using mean, correlation, standard deviation and percentages as well. The analysis results were then visually presented in graphs, frequency tables and charts. Based on the findings financial literacy greatly influenced the respondent's ability to manage debts. Most respondents indicated to fall behind with some bills and commitments while others were able to keep their bills and commitments which show that there was low financial literacy which caused it hard for respondents to control debts effectively. Some of the respondents provided that they experienced challenges in getting out of debts which were represented by 3.80 indicating that financial literacy was still low among the respondents. The results on the frequency the respondents paid their bills on time were indicated by 3.60. On how often respondents repaid the money they owe on time was represented by 3.00 of the respondents which shows that respondents had problems managing their finances.

Lusardi and Tufano (2008) researched on Debt Literacy, Financial Experience and Over-indebtedness in America. The survey was fielded in and the data were collected via a phone interview from a sample of 1,000 U.S. residents. Weights were established to make the final sample representative of the U.S. population with reference to income, gender, age, and other evident traits such as household size, region, and market size. Data was analysed and findings made. The findings showed that there are sharp differences between male and female debt literacy levels. In every three questions, women were much unlikely to respond correctly than men would, sometimes by as much as 20 percentage points. Furthermore, majority of women indicated that they did not know the answer to the literacy questions. Since the survey covered the entire age group, it also investigated gender differences among those respondents below the age of 30 and those older than 65. The study established that gender differences were significant among the young and the old therefore validating the findings in other research about the low levels of literacy of women in youthful and aged generations (Lusardi and Mitchell, 2008; Lusardi, Mitchell, and Curto, 2008). The findings also indicated that changes in debt over time and across individuals would not certainly show that anyone was "overlevered" or "underlevered." Yet imperfections in financial markets and shocks might lead individuals to deduce that their debt level was sub optimal. Some may suffer from credit constraints and loose the power to borrow as much as they would like. Others may be hit by unforeseen negative shocks and carry higher debt loads than they might otherwise prefer. The existing literature has largely failed to consider that some may accumulate too much debt by being ignorant of the consequences of the choices they make.

Nyamboga, Nyamweya, and Njeru (2014) conducted an assessment of the role of financial literacy on loan repayment by small and micro enterprises in Ngara, Nairobi County. A descriptive research design was used and a sample of 30 MSEs was selected using stratified random sampling technique. The population of the study was in various strata which included; hardware businessmen, clothes dealers, general retail traders and others. A self administered structured questionnaire was utilized to collect primary data from the respondents. Data analysis was carried out using both descriptive and simple regression analysis. The study found out that financial literacy training program had a direct influence on credit management skills of the beneficiaries. The findings showed that financial literacy increased the MSEs capacity to maintain invoicing and billing records over the years as indicated by a mean of 3.6667 and standard deviation of 0.5164. The study also shows that self assessment of customer credit risk increased at a mean of 4.5 and a standard deviation of 0.54772. The financial literacy initiative assisted the MSEs to capture a great number of different customer groups. The study assumed a direct linear relationship between entrepreneur financial literacy and loan repayment and also focused on only one area in Nairobi County.

2.3 Conceptual Framework

A diagrammatic representation of the both independent and dependent variables is known as conceptual framework (Camp, 2001). In the current study financial literacy was operationalized as debt management skills, budgeting skills, book keeping skills, savings skills, and the dependent variable growth of MSEs operationalized as growth in sales revenue, accumulated assets, and number of employees



(Independent variables) (Dependent variable)

Figure 2.1: Conceptual Framework

2.3.1 Debt Management Skills

Debt management is the capability to undertake activities of an enterprise within a budget. A plan is usually created to help people manage their debts especially those with too much debt, often referred to as debt management plan (Bankrate, 2010). Sucuahi (2013) found out that debt management skill is an essential financial literacy measure that provides entrepreneurs with the capacity to secure capital at a minimum cost. Researchers have established that majority of Micro and Small enterprises owners/managers have inadequate financial literacy when it comes to the aspect of accessing credit for their enterprises (Assibey, 2010). However, the findings of Sucuahi suggested that micro entrepreneurs are very much aware of the consequences and penalties that come with poor debt management. One of the challenges that micro and small enterprises owners/managers encounter in debt management is the inability to carry out accurate calculations and low the level of numeracy skills mostly for the aged, female and less educated population (Plakalovi, 2015).

Lusardi and Tufano (2009) in a study on Debt Literacy, Financial Experiences, and over indebtedness among Americans found that only one-third of respondents in the target population could apply concepts of interest rates compounding to daily situations or understand the workings of credit cards. Financially illiterate individuals are prone to borrowing too much and generally use more expensive sources of finance that may impact negatively on their enterprises performance and are also more likely to report excessive debt position or have the inability to measure their debt position (FSD, 2009; Mastercard, 2011).

2.3.2 Growth of Micro and Small Enterprise

There is a little agreement in the existing literature on how to measure growth hence most previous studies have used a variety of distinct measures such as total assets, sales, employment, Earnings/income, capital, and others (Berkham et al., 1996; Davidsson & Wiklund, 2000; Holmes & Zimmer, 1994). Growth of a firm is generally measured using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins. It serves as an measure of success of the entrepreneur and the company as a whole, and it is also a measure of the economic contribution of the firm to common good (Dunkelberg and Cooper, 1982). Moreover, firm growth is measured through relatively objective and measurable attributes such as growth in sales turnover, total assets and employment size. These measures are comparatively incontestable, the data tend to be easily accessible and it increases the scope for cross study comparability (Freel & Robson, 2004). Hence, the measurement of growth in terms of changes in the numbers of employees is objective. Interestingly, Olawale & Garwe, (2010) reports that estimates using employment size is similar to those that use sales besides growth in sales and growth in the number of workers are highly correlated. In addition, sales growth is also easier to measure compared with some other indicators and is much more likely to be recorded. Sales are a good indicator of size and growth (Olawale & Garwe, 2010). Delmar, Davidsson, & Gartner (2003), however supports the importance of using multiple growth indicators when studying firm growth.

2.4 Research Gap

The main objective of this chapter was to review both the theoretical literature and empirical literature on financial literacy. Several researches such as those done by Kibui (2013), Lusardi & Tufano (2008), Nyamboga, Nyamweya, & Njeru (2014) , Lusimbo (2016), Siekei *et al* (2013), Fatoki (2014) , Sucuahi (2013), Ahmed (2017), Barte (2012), Atandi (2017) offer some evidence that financial literacy is an important determinant in the performance and growth of Micro and Small Entreprises.

Based on the findings by Kibui (2013) financial literacy greatly influenced the respondent's ability to manage debts. Lusardi and Tufano (2008) also argued that imbalances in debt over time and across individuals would not certainly show that anyone was "over levered" or "under levered." Yet imperfections in financial markets and shocks may lead individuals to conclude that their debt level were minimal. Some may suffer from solvency constraints and be unable to borrow as much as they would like. Others may be faced by unforeseen negative shocks and convey huge debt loads than they might otherwise prefer. Barte (2012) indicated that most enterprises had low levels of financial literacy as revealed by inadequate financial records, inadequate monitoring of profit and losses as well as lack of sound cash management practices. The vendors were also constricted to high interest loans. Nyamboga, Nyamweya, and Njeru (2014) in their research findings indicate that financial literacy increased the MSEs ability to maintain invoicing and billing records over the years. Siekei, Wagoki, and Aquilars (2013) established that Training in financial analysis, budgeting and credit management improved the performance of micro-enterprises. A lot has been written on financial literacy as shown in the foregoing. These studies were carried out mainly in developed countries and developing countries in Africa. A critical review of literature show that several conceptual and contextual gaps exist in the discourse of this subject. Existence of these conflicting findings creates the need for further study which motivates this research study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter will discuss the way the study was planned, conducted and the procedures and techniques utilized to address the research problem. It will also describe the tools used for carrying out the study. Specifically, it will address: the research design, the target population, sample design which contains sampling techniques, data collection instruments and procedure, pilot test, and data analysis and presentation.

3.2 Research Design

Descriptive survey design was employed in carrying out this study to achieve the set objectives. According to Kothari (2008) descriptive research encompasses of surveys and fact-finding inquiries and describes the state of affairs as it exists at present. A descriptive research design helps to ascertain and describe the characteristics of the variables of interest in a situation, portrays the characteristics of a particular situation and it has the advantages of accuracy and flexibility.

Descriptive survey research designs are used in preliminary and exploratory studies to enable researchers to gather information, summarize, present and interpret it for the aim of clarification (Neuman, 2011). Mugenda & Mugenda (2003) on the other hand give the aim of descriptive research as determining and reporting the way things are.

3.3 Target Population

A target population is every member of a group of individuals, objects or items from which samples are taken for measurement (Cooper & Schindler, 2006). The target population of this study was 1448 MSEs operating in Kitui Town as per the records of County Government of Kitui Business Data Bank, Kitui Town (as shown in appendix ii)

3.4 Sample and Sampling Technique

Sample size is a given number of members or cases from the target population which is carefully selected so as to be a representative of the whole population with the relevant characteristics. A sample is consequently a smaller group obtained from the available population (Mugenda & Mugenda, 2003). The MSEs in Kitui are not homogeneous and thus stratified sampling was used. The strata were the business categories from which the sample was selected.

The researcher used simple random sampling to pick MSEs from the specified strata that was involved in the study. The simple random sampling procedure was preferred because this concept grants unbiased sampling and gives the research work more scientific feature thereby making the validity of the research findings more concrete. Sample size in each business category was determined by the proportion of the total in each category to the total population as shown in the table 3.1 below.

Table 3.1: Sample Size

Business Category	Business Code	Population	Sample size	Category Percentage
100	101,103,104,105,106,107….199	655	142	45
200	200,205,210,215……..258	403	87	28
300	304,305,306,309,313,314,…320	19	4	1
400	401,402,403,404,	0	0	0
500	504,505,506,512,515,517,518,524,527, 532	203	44	14
600	601,602,605,607,608,610,611,612,613	112	24	8
700	703,704,705,706,707,708,709,710...718	29	6	2
800	804,805,807,808,809	27	6	2
Total		**1448**	**313**	**100**

Computation of sample size

$$n = \frac{N}{1 + N(\alpha)^2}$$

Where,

N- Population, α-Margin of error and Confidence level of 95% and total population of 1448 MSEs, the sample size is 313 calculated as follows

$$n = \frac{1448}{1 + 1448(0.05)^2}$$

$=313$

3.5 Data Collection Instruments and Procedures

For the purposes of this research, data was collected by use questionnaires. The questionnaires were administered to the respondents at the point of encounter with the respondent by research assistants that were trained by the researcher. The respondents were owners in charge of the various MSEs. The data collection tools allowed a trade-off between cost, speed, accuracy, detail, comprehensiveness, response rate, clarity and anonymity which were useful for validity and reliability. Permission to distribute questionnaires was sought through an introduction letter.

3.6 Pilot Test

Pilot testing was aimed at establishing the reliability and validity of the research instruments. Reliability is a measure of the extent to which a research instrument yields consistent results or data after repeated trials (Borg, Gall & Gall, 2003). Kothari (2004), states that validity is the degree to which an instrument measures what it is supposed to measure. A pilot test of instruments was carried out prior to the actual administration of questionnaires on study respondents to ascertain validity and reliability. The test was carried out on 15 MSEs in Machakos Town where the instruments were administered to the owners of the MSEs randomly selected to test the reliability of the instruments in terms of achieving the researchers intended objectives before the main data collection kicked off. The precision of data to be collected largely depends on the data collection instruments in terms of validity and reliability (Cooper and Schindler, 2003).

3.6.1 Reliability

Reliability is about stability, consistency and dependability of data; this is when the measurements are not only accurate but also trustworthy, in such a way that somebody else using the same measuring instruments should obtain same or similar results (Neuman, 2003). In other words, a reliable instrument is one, which if consistent produces the same results if used with same respondents on different occasions. Thus, reliable data is replicable; the study can be repeated and yield same findings (Neuman, 2003). Cronbach's alpha was used to test reliability of the data collection instrument.

3.6.2 Validity

Validity is the magnitude to which inferences made on the basis of numerical scores are appropriate, meaningful and useful. Validity of the study is assessed depending on the purpose, population and environmental characteristic in which measurement takes place (Cohen, Manion, & Morrison, 2000). Kothari (2004), states that validity is the most critical criterion and shows the extent to which an instrument measures what it is supposed to measure. Cohen et al. (2000) states that to demonstrate content validity the research instrument must convey that it fairly and exhaustively covers the domain or items that it purports to cover. To assess the validity, the researcher consulted the supervisor to determine the validity of the instruments who offered suggestions on content. The data collection instrument was edited appropriately as per the supervisors' recommendations.

3.7 Data Analysis and Presentation

Data analysis refers to examining what has been collected and making inferences and conclusions, (Kombo and Tromp, 2006). Qualitative data was analyzed which involved summarizing key findings, with the researcher focusing on frequent responses to the issues.

Quantitative data analysis involved data sorting, separation of the responsive questionnaires to those which were not. Data was then edited and coded so as to minimize errors during data entry and processing. This was done using Statistical Package for the Social Sciences (IBM SPSS) version 24(and means and standard deviations of the various variables generated. Data presentation involved organizing and assembling the selected data into diagrammatic displays which were presented in the form of percentages, pie charts and tables using descriptive statistics.

The analytical model that was used was in the conformation of a regression model.

$Y = \alpha + \beta_1 X_1 + \mathcal{E}$ (Muller & Stewart, 2006)

Where:

Y = MSEs Growth, α= Constant/the intercept point of the regression line and the y-axis, β= the slope/gradient of the regression line, X_1= Debt management skills and $\mathcal{E}$ = Error term

MSEs Growth = $\alpha + \beta_1$ (Debt management skills) $+\varepsilon$

The strength of the relationship between the dependent and the independent variable was measured by carrying out f-test and student's t-distribution test at 5% level of significance and 95% level of confidence. The test was to determine whether the coefficients β_1 was significantly different from zero and if so, it was concluded that there is a strong positive relationship between the dependent and independent variables.

CHAPTER FOUR

RESULTS

4.1 Introduction

The chapter presents the results of data analysis and findings in line with the objectives of the study. The data was analyzed using the Statistical Program for Social Sciences (SPSS) version 24, by use of both descriptive and inferential statistics. Descriptive statistics such as frequency distributions, percentage, mean and standard deviation were used. Tests on the data for the assumptions of linear regression were conducted and results were within the limits necessary for further statistical tests.

4.2 Response Rate

The study targeted a sample size of 313 respondents from which 213 filled in and returned the questionnaires making a response rate of 68 percent. This response rate was sufficient to draw conclusions for the study. The response rate was representative and good for analysis and reporting. According to Mugenda & Mugenda (2003), a rate of response of 50 percent is sufficient for analysis and reporting at a rate of 60 percent is good and a rate of response of 70 percent and over is excellent. From that assertion, the response rate was considered to be good.

4.3 Reliability Tests

The pilot study sampled 15 MSEs in Machakos Town where the instruments were administered to the owners of the MSEs randomly selected to test the reliability of the instruments in terms of achieving the researchers intended objectives before the main data collection kicked off. This was to ensure that the instrument collects reliable and valid data. Reliability analysis was also done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct.

Table 4.1: Reliability Test Results

Research variables	Number of items	Cronbach's Alpha Coefficient α
Growth of SMEs	3	.724
Debt management skills	6	.839

Table 4.1 shows the reliability test results. Debt management skills had α=0. 839 and the Cronbach's Alpha coefficient value of debt management skills was greater than 0.7. From these findings, It can be concluded that the data collection instrument had adequate reliability for the subsequent stages of analysis since the Cronbach's alpha value was greater than 0.7.

4.4 Background Information

The background information of respondents work experience, level of education and form of business ownership was sought to establish ability of the respondents to give satisfactory information on the effects of financial literacy on growth of small and micro enterprises in Kitui Town, Kitui County.

4.4.1 Education Level of Respondents

Details about the education levels of respondents were obtained in order to establish whether the respondents would fill the questionnaire and internalize the intended purpose with ease. The results are presented in the Figure 4.1

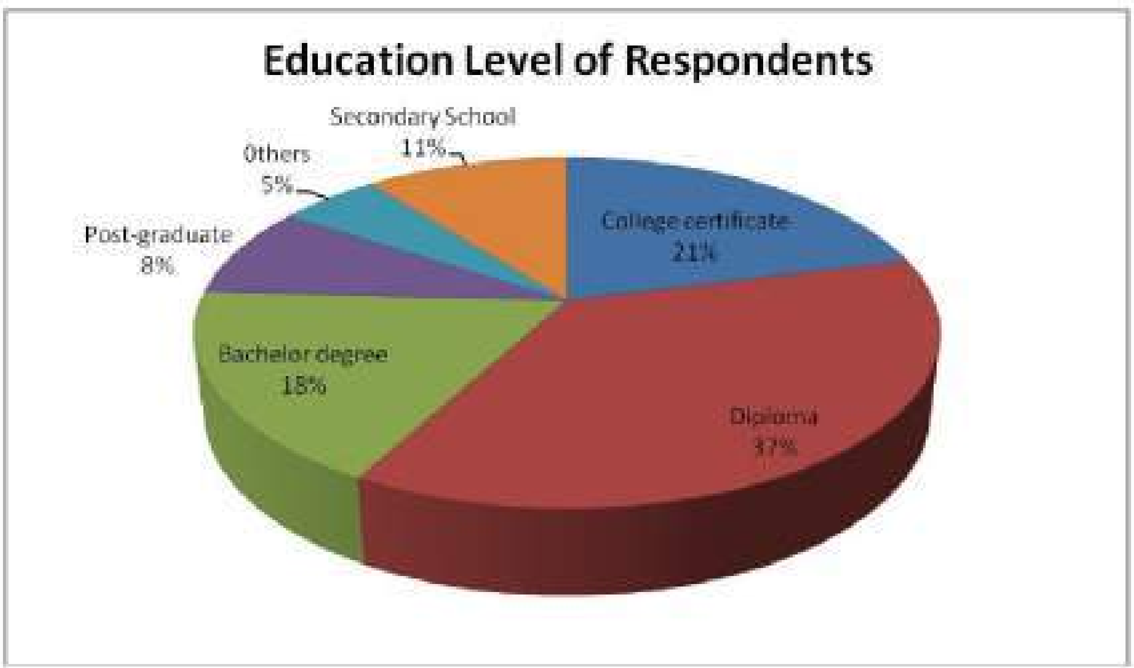


Figure 4.1: Education Level of Respondents

The findings in Figure 4.1 indicate that, 21% of the respondents were college certificate holders, 37% diploma, 18% were degree holders and 8% were post-graduate degree holders which is equivalent to 84% of total respondents.11% indicated secondary school level and 5% indicated others whereby 3% were Technical and Vocational Training level and 2% indicating primary

23

school level. Based on the results of the study with regard to the educational levels of the respondents, it is fair to allude that the respondents were well educated. This implied that they could read and understand the questions asked by the researcher as well as provide detailed and in depth information that would greatly improve on the results of the study on the effects of financial literacy on growth of Micro and Small Enterprises.

4.4.2 Period of Operation

The study sought to establish the period the respondents have operated the enterprise. This information was considered relevant given that the longer the period they had worked in Micro and Small Enterprises, the more familiar they would be with the effects of financial literacy on growth of Micro and Small Enterprises.

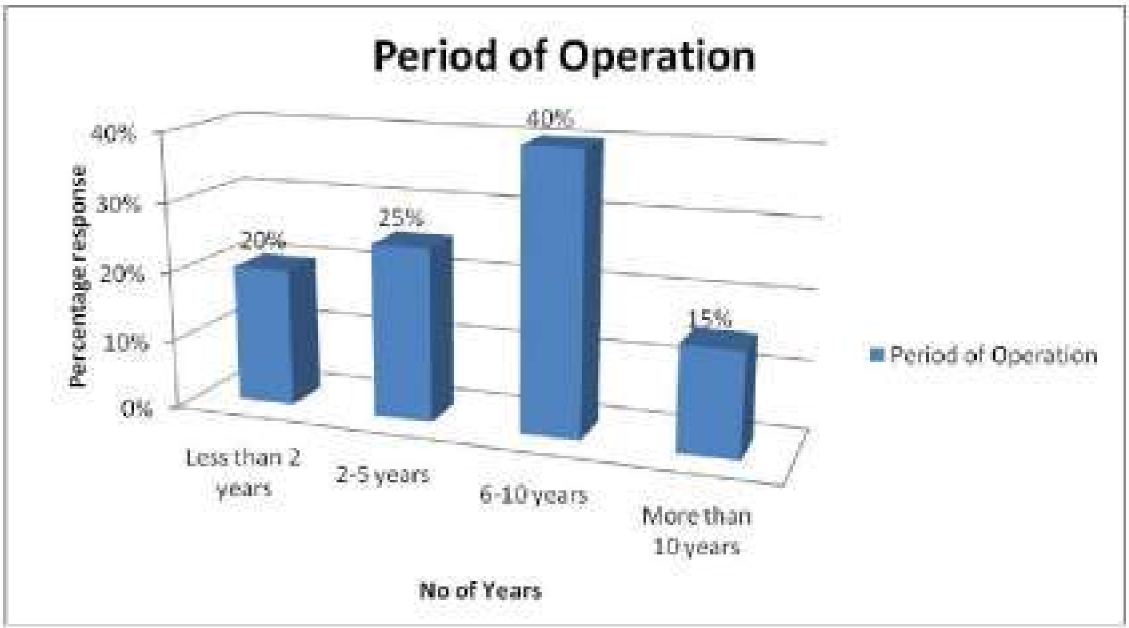


Figure 4.2: Number of years the Enterprise has operated.

Based on Figure 4.2 above, slightly more than half of the respondents indicated that they had operated Micro and Small Enterprises for a period of more than 6 years which accounted for 55%. This implies that they have gained essential knowledge and experience to operate the enterprises. 45% of the respondents alluded that they had operated MSEs for a period of less than 5 years. The findings indicated that the respondents had been in business for a period long enough that they could be able to gauge the effects of financial literacy on growth of Micro and Small Enterprises.

4.4.3 Form of Business Ownership

The study sought to ascertain the form of business ownership of Micro and Small Enterprises in Kitui Town, Kitui County. As shown in Figure 4.3 below, the findings revealed that majority of the respondents 78% operated sole proprietorship business. This implies that most Micro and Small Enterprises' entrepreneurs prefer owning their business individually as opposed to co-ownership through partnership or incorporating into limited company and joint ventures which was represented by 10%, 8% and 4% respectively. This may be attributed to ease of establishing and running sole proprietorship business though the growth is limited to capital invested.

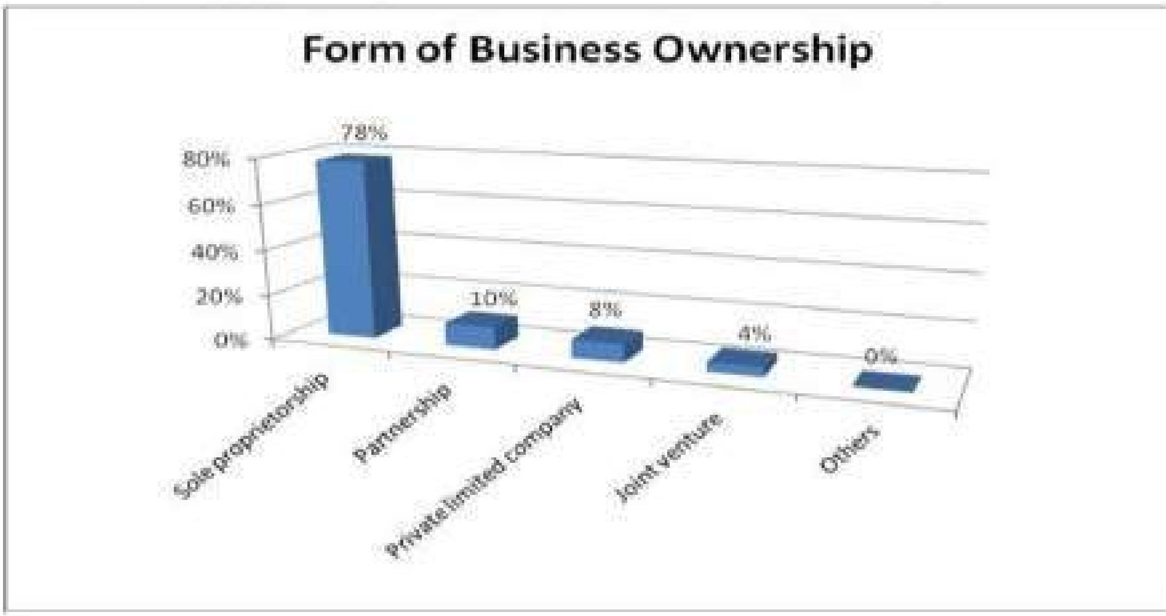


Figure 4.3: Form of Business Ownership

4.4.4 Number of Employees

The study also sought to find out the number of full time and part time employees the respondents had. Results are as depicted in figure 4.4 below.

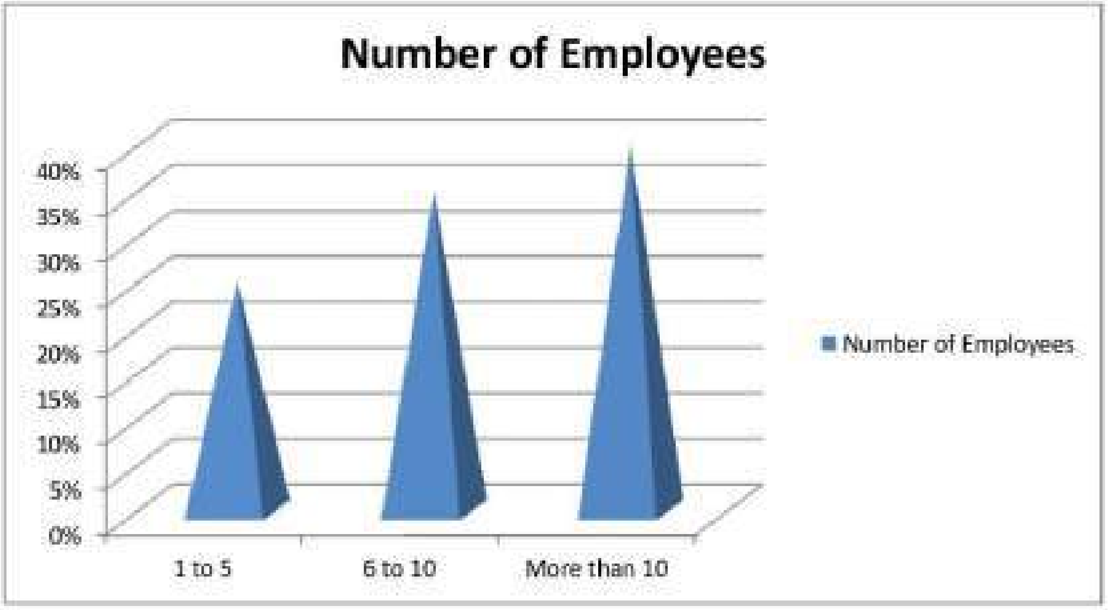


Figure 4.4: Number of Employees

From the findings, 60% of the respondents as shown above indicated that they had between 1 to 10 both part time and full time employees, 40 % of the respondents indicated that they had more than 10 employees both part time and full time employees.

4.4.5 Gender of Employees

The study also sought to find out the gender of employees involved in operation of the MSEs. Results are as depicted in figure 4.5

Figure 4.5: Gender of Employees

From the findings, 58% of the employees were females of which 36% among them were in Micro enterprises and 22% of them in Small enterprises. 42% of the employees were Males operating the MSEs of which 28% of them were in Micro enterprises and 14% of them in the Small enterprises.

4.5 Descriptive Statistics

Descriptive analysis included an assessment of the MSEs financial literacy, debt management skills. Descriptive measures included mean, standard error of estimate, standard deviation, skewness and kurtosis. Mean is a measure of central tendency used to describe the most distinctive value in a set of values. Standard error of mean is a measure of reliability of the research results. It is equal to the standard deviation of the population divided by the square root of the sample size calculated as: SE= (SD) (of the population)/square root (n). Standard deviation indicates how far the distribution is from the mean. Skewness is the computation of the asymmetry of probability distribution of an authentic valued random variable around its mean. Kurtosis shows the height and sharpness of the central peak, in correlation to that of a standard bell curve. Skewness and kurtosis are used to test the normality of a given data set or whether a data set is modeled for normal distribution.

4.5.1 Debt Management Skills and Growth of MSEs

Objective one of the study sought to establish the influence of debt management skills on the growth of MSEs in Kitui Town. Descriptive statistical analysis was done to determine the effect of each factor of debt management skills on the growth of MSEs.

4.5.1.1 Access Credit from Financial Institutions

The study sought to establish whether the respondents have accessed credit from financial institutions.

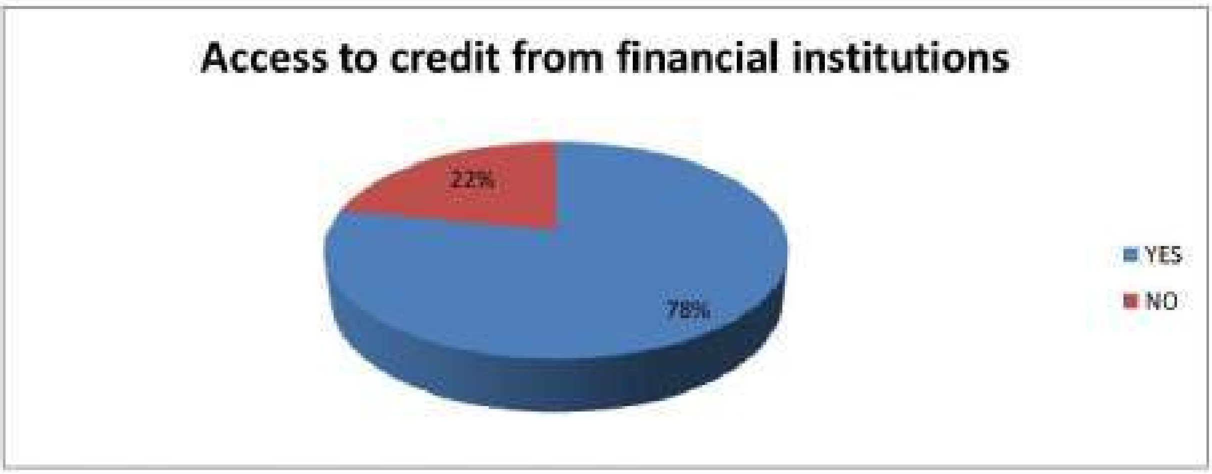


Figure 4.6: Access credit from financial institutions

From the results, majority of the respondents, 78.0% said that they have accessed credit from financial institutions while 22.0% have not accessed credit from financial institutions. This implies majority of MSEs have access to credit from financial institutions.

4.5.1.2 Training on Debt Management Skills

The study sought to establish whether the respondents had been trained on debt management skills. As shown in Figure 4.7 below, 35% of the respondents indicated that they had been trained on debt management skills. 65% of the respondents indicated that they had not been trained on debt management skills.

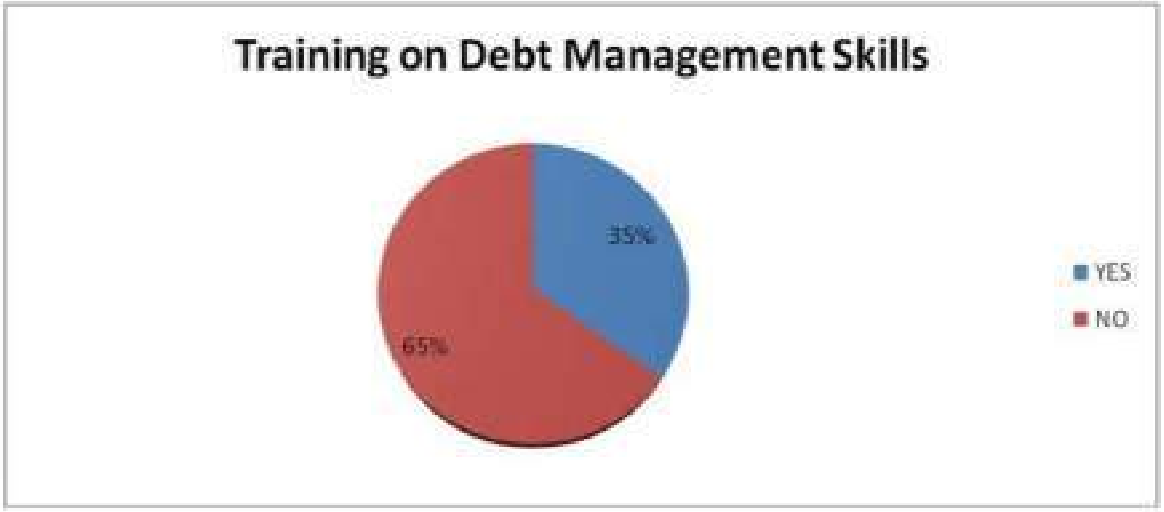


Figure 4.7: Training on Debt Management Skills

4.5.1.3 Ratings on perception of respondents' level of debt management skills

The study sought to establish the perception of respondents' level of ability in debt management.

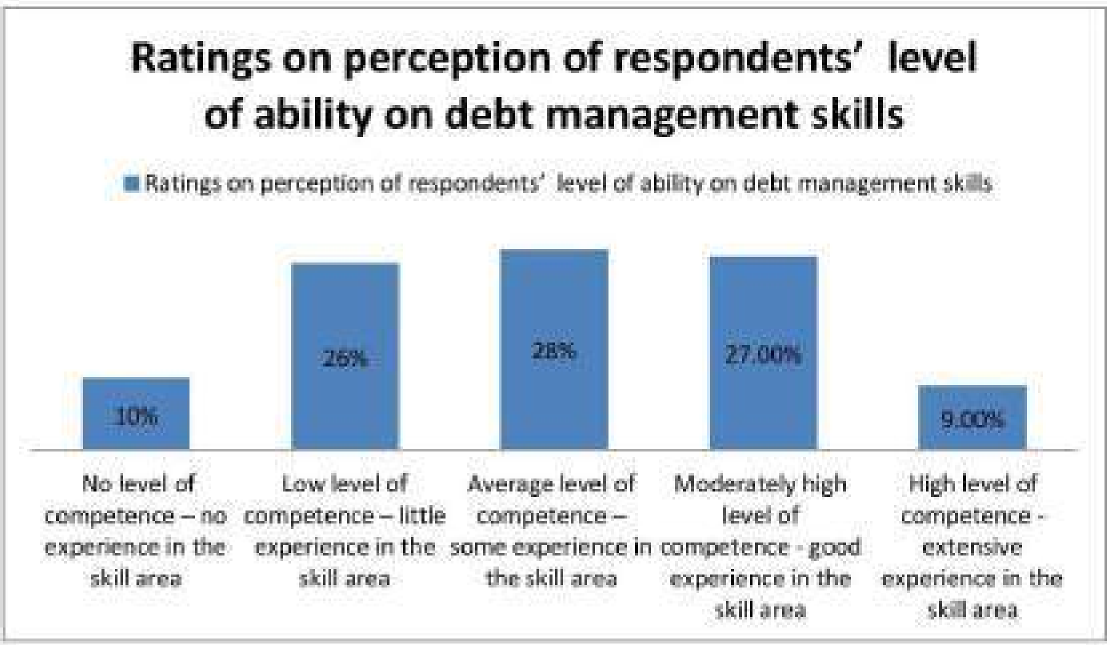


Figure 4.8: Ratings on perception of respondents' level of debt management skills

From Figure 4.8 above, the results indicate 10% of the respondents rated their perception on their level of ability on debt management skills as no level of competence – no experience in the skill area, 26% rated their perception on their level of ability on debt management skills as low level of competence – little experience in the skill area, 28% rated their perception on their level of ability on debt management skills average level of competence – some experience in the skill area, 27% rated their perception on their level of ability on debt management skills as moderately high level of competence - good experience in the skill area and 9% rated their perception on their level of ability on debt management skills as high level of competence - extensive experience in the skill area. This implies that MSEs competence and experience on debt management skills is not adequate enough hence a deliberate effort is required to equip MSEs with adequate debt management skills to enable them to borrow and repay wisely.

4.5.1.4 Descriptive Statistics on Debt Management Skills and Growth of MSEs

This section provides results of parameters used to ascertain the level of debt management skills. Questionnaire items per objectives were put down in the form of statement using a 5-point Likert-type scale ranging from (1) strongly disagree to (5) strongly agree. The mean score for each parameter was derived using SPSS and the associated standard deviation based on the range of responses. The results were as tabulated below

Table 4.2 Descriptive Statistics showing Debt Management Skills

Debt Management Skills	Minimum	Maximum	Mean	Std. Dev
Debt is inevitable in a business	1.00	5.00	3.3788	1.1293
My debt management skills have enabled me to access various sources of credit for my business	1.00	5.00	2.2348	1.3917
I compare the terms and conditions of various financiers before buying their products and services for my business.	1.00	5.00	4.3409	.9949
I am able to determine accurately the total debt position of my business to date.	1.00	5.00	2.4394	1.4317
Multiple borrowing from formal and informal sectors affect my debt repayment	1.00	5.00	4.1818	.7599
I know the effect default on the loans I borrow for my business.	1.00	5.00	4.1338	.8079

The results of the study as shown in Table 4.2 revealed that the majority of the respondents of the study concurred that they compare the terms and conditions of various financiers before buying products and services for their business. In addition, most of the respondents alluded that multiple borrowing from formal and informal sectors affect debt repayment. More than half of respondents that is 67% alluded that debt was inevitable in their business while 48% of respondents' ability to determine accurately the total debt position of their business was questionable. This suggests that accumulation of debt through multiple borrowings and failure to adhere to the purpose of the loan adversely affects debt repayment which may hamper growth of MSEs.

4.6 Growth of MSEs

The general objective of the study was to establish the effect of financial literacy on growth of MSEs in Kitui Town, Kitui County. In order to ascertain the growth of MSEs, the study sought to establish how the respondents businesses performed in relations with sales revenue, Accumulated Assets and number of employees for the last four years.

Table 4.7: Average Annual Sales Revenue for the Last 4 years

Average Annual Sales Revenue for the Last 4 years	Frequency	Percent
below 10000	26	12.2
between 10001 – 20000	47	22.0
between 20001 – 30000	47	22.0
between 30001 – 50000	39	18.3
above 50000	54	25.4
Total	**213**	**100**

As shown in table 4.7, the study finding revealed that on average 12.2% of the respondents operating MSEs alluded that average annual sales revenue for the last four year was below 10,000. 22.0% indicated that their sales revenue range between 10,001- 20,000 and 20,001 to 30,000. 18.2% alluded that their sales revenue range between 30,001- 50,000 and a quarter of the respondent's sales revenue was above 50,000.

Table 4.8: Accumulated Value of Assets for the Last 4 years

Value of Assets (KSh)	Frequency	Percent
0<50,000	79	37
50,001<100,000	75	35
100,001<500,000	34	16
500,001<1,000,000	21	10
Over 1,000,000	4	2
Total	**213**	**100**

Findings in Table 4.8 indicate that 72% of the MSEs surveyed had asset value of less than KSh100, 000/= with only 12% operating with asset value of over 500,000/=.

Table 4.9: Duration in Business *Value Assets Cross Tabulation

		Value of assets					
		0 <50,000	50,001 <100,000	100,001 <500,000	500,001 <1,000,000	Over 1,000,000	Total
Duration in Business	0-2	57	33	14	4	0	108
	2-5	24	22	15	5	1	67
	6-10	10	9	8	4	0	31
	Over 10	1	4	2	0	0	7
Total		**113**	**114**	**54**	**31**	**1**	**213**

A cross tabulation of duration in business and value of assets in Table 4.9 indicates a stagnation in growth which may impact negatively on business survival. Of the businesses that had been in operation for 2-5 years 68.65% had not grown their assets beyond 100,000, of those that had operated for 6-10 years 61.29% still have assets below KSh.100,000 while of the 7 businesses that had operated for more than 10 years only 2 (28.57%) have assets with a value of more than 100,000. These results further indicate that of the 213 respondents only 32 (15.02%) have grown their assets to 500,000 and above. This implies that volume of assets has not grown proportionately with duration in business indicating stagnation.

Table 4.10: Number of Employees for the Last 4 Years

Number of Employees	Frequency	Percent
Below 5 employees	108	51
Between 6 - 10 employees	88	41
More than 11 employees	17	8
Total	**213**	**100**

As shown in Table 4.10, the study findings revealed that 51% of the MSEs had an average of less than 5 employees for the last four years, 41% indicated that the number of employees range between 6-10 years while 8% indicated that the number of employees were more than 11 employees.

Table 4.11: Assessment of the Overall Growth of MSEs

Overall growth of your Enterprise	Minimum	Maximum	Mean	Std. Dev
Sales Revenue	1.00	4.00	2.1818	.67471
Accumulated Value of Assets	1.00	5.00	2.9848	1.08413
Number of Employees	1.00	5.00	2.9091	1.24456
Valid N (listwise)				

The overall assessment of the growth of MSEs over the last four year was undertaken by rating the growth of MSEs in terms of Sales revenue, Accumulated Value of Assets and number of employees. Questionnaire items per objectives were written in the form of statement using a 5-point Likert-type scale ranging from (1) very low to (5) very high. The mean the finding of the study revealed that growth of Sales revenue; Accumulated Value of Assets and number of employees were moderately rated between a range of 2.18 to 2.98. This implies that the MSEs growth for that last four years has been moderate.

4.7 Regression Analysis

This section sought to establish the relationship between financial literacy and growth of Micro and Small enterprises in Kitui Town, Kitui County. Regression analysis was applied using mean score to determine the effect of independent variable (debt management skills) on dependent variable (growth of MSEs). This was performed using the field data and the results interpreted according to the R values, R^2 values, the beta values and F ratio at the 0.05 level of significance. Explanation and interpretation of the findings was given.

4.7.1 Model Summary

The study used a regression model to determine the correlation coefficient (R) and coefficient of determination (R^2) of independent variables on the dependent variable.

Table 4.13: Regression analysis model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.477[a]	.228	.204	1.03227

a. Predictors: (Constant), Debt Management Skills

The results for model summary indicated in Table 4.13, the Pearson's Simple Correlation of 0.477 indicates that financial literacy has a fairly strong positive correlation with growth of MSEs in Kitui Town, Kitui County. The findings further indicated that financial literacy explains 22.8% of the changes in growth of MSEs when other factors are held constant (R squared =

0.228). Hence, Growth of the MSEs is mainly explained by other factors not part of the current study.

4.7.2 ANOVA Table

Analysis of variance (ANOVA) was used to evaluate whether statistical model could be fitted to a data set from which the data were sampled.

Table 4.14: Regression analysis ANOVA table

Model		Sum of Squares	df	Squares of Mean	F	Sig.
1	Regression	39.968	4	9.992	9.377	.000b
	Residual	135.328	127	1.066		
	Total	175.295	131			

a) Dependent Variable: Growth of MSEs

b) Predictors: (Constant), Debt Management Skills

An F statistics of 9.377 was significant at 95% level of confidence (p value = 0.000 <0.05) which indicates that the model was significant in predicting growth of MSEs.

4.7.3 Coefficient Table

Beta coefficients were used to determine the causal effect of the independent variables on the dependent variable. Table 4:15 below shows the values as extracted from SPSS.

Table 4.15: Regression Analysis Coefficient table

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	β	Std. Error	Beta		
(Constant)	.802	1.502		.534	.594
Debt Management Skills	.281	.082	.281	3.431	.001

a. Dependent Variable: Growth of MSEs

The beta coefficient in Table 4.15 indicated a positive relationship between debt management skills and growth of MSEs in Kitui Town, Kitui County with β_1=0.281. A regression model adopted by this study was $Y = \beta_0 + \beta_1 X_1 + \mathcal{E}$

From the data in the above table 4.15 the established regression equation was Y= 0.802+ $0.281X_1$. Whereby Y = the dependent variable (growth of MSEs)

X_1 = Debt Management Skills

$\mathcal{E}$ = error term

From the regression equation it was revealed that holding debt management skills to a constant zero, Growth of MSEs in Kitui Town would be at 0.802, a unit increase in debt management skills would lead to increase in growth of MSEs in Kitui Town by a factor of 0.281. The study found that p-value was less than 0.05 for debt management skills which indicated that debt management skills influence growth of MSEs in Kitui Town.

The optimal regression equation for this study was stated as: $Y= 0.802+ 0.281\ X_1$. Where X_1 = debt management Skills. This implies that increasing the debt management Skills by one unit would increase the growth of MSEs by 0.281

4.8 Research Questions Results and Discussion

The research questions that the study sought to answer is addressed in this section based on regression analysis coefficient output on Table 4.15 above.

4.8.1 Debt Management Skills and the Growth of MSEs

The study findings revealed that debt management skills had positive and statistically significant effect on growth of MSEs in Kitui Town with $\beta1=0.281$ at P value 0.001 which is less than 0.05. It is on this basis that debt management skills were found to have significant effect on growth of MSEs in Kitui Town.

CHAPTER FIVE

5.0 DISCUSSIONS

Based on the study results, this study made various discussions concerning MSEs financial literacy and growth in Kitui Town, Kitui County. The discussions were in line with the objectives of the study and the results disagreements or agreements with past studies were shown.

5.1 Debt Management Skills and Growth of MSEs

The first objective of the study was to establish the influence of debt management skills on the growth of MSEs in Kitui Town. Descriptive analysis indicated that three quarter of the respondents had accessed credit from financial institutions although majority had not received training on debt management. These results differ with various studies which indicate lack of access to financial services as one of the main problems facing MSEs in Kenya. There have been several attempts to explain the limited access to credit by MSEs in Kenya. These attempts have mainly taken two arguably complimentary perspectives. The first highlights the prevalence of factors internal to MSEs such as the limited capacity, outreach and linkages by financial intermediaries as the main impediment to MSEs access to credit (Atieno, 2001). Unfriendly legal and regulatory framework for financial services underlies such impediments (Government of Kenya, 2005). The second perspective also acknowledges the issue of macro level constraints, but highlights the greater explanatory powers of the relatively weakly MSEs Capacities including inadequate tangible security and limited human capital (Kimuyu & Omiti, 2000). Arguably, both perspectives have enhanced the understanding of the factors that affect the likelihood of MSEs to access credit. However, focusing on either perspective has resulted to different conclusions on the probable determinants of access to bank credit by MSEs. From the results of the study, majority of MSEs who indicated to have accessed credit from financial institutions implied that they had limited internal and macro level constrains. Also this could be attributed to the educational levels of the respondents as well as those who had limited company registration because they have the capacity to liaise with financial institutions for credit advancements. The results of the study regarding the educational levels of the respondents showed that the respondents were well educated. This implied that they could read and understand the credit terms and requirements offered by the financial institutions since various financial institutions such as the micro finance institutions have been advancing credit to MSEs and individual borrowers through organized groups which act as guarantors for the credit provided. This concept of group lending adopted by micro finance institutions has also led to increased consumption of micro finance products and the in depth information that micro finance institutions offer to those MSEs and other clients greatly improves on the uptake of the financial products. Also this could be attributed to various Banks, digital mobile loan providers, Micro finance institutions, Sacco's, NGOs and government agencies efforts to support access to credit by MSEs whereby some of these financial institutions have tailor made products which suit MSEs credit needs.

The analysis further revealed that the majority of the respondents of the study compare the terms and conditions of various financiers before buying products and services for their business. In addition, most of the respondents alluded that multiple borrowing from formal and informal sectors affect debt repayment. A number of respondents were indifferent on whether debt was inevitable in their business and were not in a position to accurately determine their business debt position. This could have been attributed to MSEs being unable to separate personal debt and business debt appropriately especially those MSEs with multiple borrowing and those that have accessed credit for their business and used it to cater for personal expenses.

The study findings revealed that debt management skills had positive and statistically significant effect on growth of MSEs in Kitui Town. The study concurred with Lusardi and Mitchell (2011) who studied the impact of literacy levels on entrepreneurs' performance which revealed that persons of limited financial literacy are more prone to exploitations when it comes to debt management, savings and credit, and are not able to administer their resources competitively. This suggests that accumulation of debt through multiple borrowings and failure to adhere to the purpose of the loan adversely affects debt repayment which may hinder growth of MSEs. The study also concurs with Kibui (2013) who sought to find out the effect of financial literacy and financial management of the youth enterprise development fund in Konoin Constituency Kenya. Based on the findings financial literacy greatly influenced the respondent's ability to manage debts. Most respondents indicated to fall behind with some bills and commitments while others were able to keep their bills and commitments which show that there were low debt management skills which made it difficult for respondents to manage debts.

CHAPTER SIX

6.0 CONCLUSSIONS AND RECOMMENDATIONS

6.1 Conclusions

Based on the study results, this study made various conclusions concerning MSEs financial literacy and growth in Kitui Town, Kitui County. The study concluded that majority of the MSEs have accessed credit from financial institutions. These results differ with various past studies which indicate lack of access to financial services as one of the main problems facing MSEs in Kenya. From the results of the study, majority of MSEs who indicated to have accessed credit from financial institutions implied that they had limited internal and macro level constrains. Also this could be attributed to the educational levels of the respondents as well as those who had limited company registration because they have the capacity to liaise with financial institutions for credit advancements. The results of the study regarding the educational levels of the respondents suggested that the respondents were well educated. This led to conclusions that they could read and understand the credit terms and requirements offered by the financial institutions since various financial institutions such as the micro finance institutions have been advancing credit to MSEs and individual borrowers through organized groups which act as guarantors for the credit provided. This concept of group lending adopted by micro finance institutions has also led to increased consumption of micro finance products and the in depth information that micro finance institutions offer to those MSEs and other clients greatly improves on the uptake of the financial products. Also this could be attributed to various Banks, digital mobile loan providers, Micro finance institutions, Sacco's, NGOs and government agencies efforts to support access to credit by MSEs whereby some of these financial institutions have tailor made products which suit MSEs credit needs.

The study concluded that most MSEs lack training on debt management skills. This is because MSEs competence and experience on debt management skills is not adequate enough to enable them to borrow and repay wisely. The study findings show that majority of the respondents compare the terms and conditions of various financiers before buying products and services for their business and also undertakes multiple borrowing from formal and informal sectors which affects MSEs debt repayment. The study concluded that accumulation of debt through multiple borrowings and failure to adhere to the purpose of the loan adversely affects debt repayment which may hinder growth of MSEs.

6.2 Recommendations

Based on the findings and conclusions that accumulation of debt through multiple borrowings and failure to adhere to the purpose of the loan adversely affects debt repayment which may hinder growth of MSEs, the study recommends that financial providers, Micro Finance Institutions and government agencies including Kenya Youth Employment and Opportunities Project (KYEOP), National Industrial Training Authority (NITA), Women Enterprise Fund (WEF), Youth Enterprise Development Fund (YEF) and Uwezo Fund should train their MSEs clients on the importance and impact of negotiating with for better terms and enlighten them on the different areas that they can seek negotiations. These areas would comprise of interest rates reduction, period of repayment among others. They should also train MSEs on loan utilization and repayment which will have an advantage in the efficiency of the business and money utilization. Under- and over-financing of specific purpose more likely encourages borrowers to divert the loan to other purposes such as personal use, thereby undermining repayment performance. Moreover, the loan usage also affects the repayment rate. If the entire loan is used for the intended activities, the repayment will be enhanced. By devoting the whole loan for running a business, it is possible to generate income and perform the business in a better way. But, if the loan is used for unintended purpose like home consumption or repayment of other loans for those MSEs with multiple loans, it will hinder the repayment performance of the MSEs.

6.3 Suggestions for Further Studies

The following are the recommended as areas of further research;

In order to enhance the external validity in terms of generalization of the study findings, it is recommended that this study be replicated in MSEs drawn from other Counties in Kenya.

Further research can be done testing the effects of other variables such as money basics include numeracy and money management skills, portfolio choice and spending behaviors, financial products, and recourse and self-help to ensure more reliability and accuracy of the data as well as the results.

There is need to conduct a study of this kind but targeting the medium enterprises. Given that the need for accurate book keeping and debt management increases with the expansion of growth in size of a business and therefore there is need to find out how the medium enterprises are performing in terms of the debt management.

This study focused generally on Micro and Small enterprises in Kitui Town whereby gender of MSE operators was not factored in any other aspect of the study. There is need to carry out a study of this kind but targeting the MSEs operated by either gender that is men or women in Kitui Town to find out: is it possible that women have better savings skills than men? Or men are better financial planners than women? and vice versa.

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APPENDICES

Appendix i: Permission to Proceed for Data Collection

SOUTH EASTERN KENYA UNIVERSITY
OFFICE OF THE DIRECTOR
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Our Ref: D61/KIT/20270/2013 **DATE** 12th November, 2019

Sakayi Dennis Muathya
Reg. No. D61/KIT/20270/2013
Masters of Business Administration
C/O Director, Kitui Campus

Dear Muathya

RE: PERMISSION TO PROCEED FOR DATA COLLECTION

This is to acknowledge receipt of your Master in Business Administration Proposal document entitled: *"Effect of Financial Literacy on Growth of Micro and Small Enterprises in Kitui Town, Kitui County"*.

Following a successful presentation of your Masters Proposal, the School of Business and Economics Board of Examination in conjunction with the Directorate, Board of Postgraduate Studies (BPS) have approved that you proceed on and carry out research data collection in accordance with your approved proposal.

During the research work, you will be closely supervised by Dr. Kevin Wachira. You should ensure that you liase with the supervisor at all times. In addition, you are required to fill in a Progress Report *(SEKU/ARSA/BPS/F-02)* which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection exercise as a critical stage in your Master of Business Administration.

Prof. Felix N. Kioli
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs (Note on File)
Dean, School of Business and Economics
Chairman, Dept. of Business and Entrepreneurship
Director, Kitui Campus
Dr. Kevin Wachira
BPS Office - To file

ARID TO GREEN ISO 9001: 2015 CERTIFIED TRANSFORMING LIVES

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Appendix ii: Questionnaire

PART 1: GENERAL INFORMATION

1. Name of the business ……………………………………………………(optional)
2. What is your highest level of educational qualification?

    Post-graduate ☐

    Bachelor degree ☐

    Diploma ☐

    College certificate ☐

    Secondary School ☐

    Others (specify) ………………………………………………

3. What is your designation in the business……………………………
4. How long has your business been in operation?

    Less than 2 years ☐

    2 -5 years ☐

    6 -10 years ☐

    More than 10 years ☐

5. What is the form of your business organization?

    Sole proprietorship ☐

    Partnership ☐

    Private limited company ☐

    Joint venture ☐

    Others (specify) ………………………..

6. How many employees does your business currently have?

Full-time: Male………………… employees

Female………………… employees

Part-time: Male ………………… employees

Female………………… employees

PART II: SECTION A: Debt Management Skills

7. Have you ever accessed credit from any financial institutions?

YES ☐

NO ☐

8. Have you received any training on debt management skills?

YES ☐

NO ☐

9. Please indicate your perception of your level of ability on debt management skills using the following scale: 5 = High level of competence - extensive experience in the skill area 4 = moderately high level of competence - good experience in the skill area, 3 = Average level of competence – some experience in the skill area, 2 = Low level of competence – little experience in the skill area, 1 = No level of competence – no experience in the skill area

High level of competence ☐

Moderately high level of competence ☐

Average level of competence ☐

Low level of competence ☐

No level of competence ☐

10. Please indicate the most appropriate number that describes your business position in terms of debt management on the scale of 1-5: 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree

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S/No:	**Debt management Skills**	1 Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
1.	Debt is inevitable in a business					
2.	My debt management skills have enabled me to access various sources of finance for my business					
3.	I compare the terms and conditions of various financiers before buying their products and services for my business.					
4.	I am able to determine accurately the total debt position of my business to date.					
5.	Multiple borrowing from formal and informal sectors affect my debt repayment					
6.	I know the effect default on the loans I borrow for my business.					

SECTION E: Measuring MSE Growth

11. How did your business perform in the following area for the last four years?

i) Average Annual Sales Revenue in Kshs

Below 10,000
Between 10,001-20,000
Between 20,001-30,000
Between 30,001-50,000
Above 50,000

ii) Accumulated Value of Assets in Kshs

0<50,000
50,001<100,000

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100,001<500,000 ☐

500,001<1,000,000 ☐

Over 1,000,000 ☐

iii) Number of Employees

Below 5 Employees ☐

Between 6-10 Employees ☐

More than 11 Employees ☐

12. Please give your assessment of the overall growth of your organization over the last 4 years on a scale of 1-5: 1 = Very Low 2 = Low 3 = Moderate 4 = High 5 = Very High

	5	4	3	2	1
Sales Revenue					
Accumulated Value of Assets					
Number of Employees					

13. What measures have you adopted within your business to encourage financial literacy in your business?

………

…………………………………………………………………………………………………..

14. What recommendations would you make to promote financial literacy among MSEs?

………

…………………………………………………………………………………………………….

Thank you very much for sacrificing your precious time to answer my questions.

Appendix iii: List of MSEs In Kitui Town, Kitui County

COUNTY GOVERNMENT OF KITUI
BUSINESS DATA BANK
KITUI TOWN

1. SINGLE BUSINESS PERMITS (SBP)

BRIM CODE	TRADE LICENSES	KITUI COUNTY HEADQUARTERS	PROPOSED 2016/2017	PROJECTED REVENUE PER BRIM CODE	SUBCOUNTY HEADQUARTERS/ UPCOMING COMMERCIAL CENTRES	PROPOSED 2016/2017	PROJECTED REVENUE PER BRIM CODE	ALL OTHER TOWNS	PROPOSED 2016/2017	PROJECTED REVENUE PER BRIM CODE
	FINANCIAL YEAR	NUMBER OF BUSINESSES			NUMBER OF BUSINESSES			NUMBER OF BUSINESSES		
100	GENERAL TRADERS,WHOLE SALE,RETAIL,STORES,SHOPS,PERSON									
	Mega store /Hypermarket, Departmental & Supermarkets stores									
101	supermarket with over 25 workers and Premises over 3000m2, Registered as ltd company to trade as supermarket(which ever	2	50,000	100,000		20000	0		10000	0
102	Supermarket with between 5-25workers and Premises between 500- 3000m2, Registered as ltd company to trade as	[illegible]	25,000	0		8000	0		6000	0
103	supermarket with less than 5 workers and premises below 500m2 Registered as ltd	5	12,500	62,500		6000	0		4000	0
	Wholesaler and retail stores			0			0			0
104	Wholesalers/ Retailers with over 5 workers or premises of over 100m2 (Which	6	12,500	75,000	3	8000	24000	2	5000	10000
105	Wholesalers/ Retailers with 1- 4 workers or premises of 50-100m2 (Which ever is	25	10,000	250,000	3	5000	15000	1	3500	3500
106	Ordinary Traders,retail shops,general	131	5,000	655,000	152	3000	456000	70	2500	175000
107	Mamali stores /shops (varieties) wholesalers/ retailers with 2 or more	14	10,000	140,000	6	5000	30000	2	4000	8000
108	Mamali stores /shops (varieties)	66	5,000	330,000	10	3000	30000	20	2500	50000
	Hardwares ,Timber yard,Charcoal yards and sand/ballast yards			0			0			0
109	Hardware with timber yard dealing in both retail and wholesale with over 8 employees or premises with over 200m2 (which ever is	1	20,000	20,000		12000	0		8000	0

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110	Hardware with timber yard with 5-8 and above employees or premises with 150-	2	15,000	30,000	1	10000	10000	1	8000	8000
111	Hardware with timber yard with 1-5 employees or premises with 100-	5	13,000	65,000	1	8000	8000		7000	0
112	Hardware with timber yard with 2-5employees or premises withover 50(which	5	12,500	62,500		7500	0		5000	0
113	Hardware with over 5 employees or premises with over 100m2(which ever is	20	12,000	240,000	6	7000	42000	2	5000	10000
114	Timber Yards (stand alone) of over 100m2	1	10,000	10,000		6000	0		4000	0
115	Timber Yards less than 100m2	3	8,000	24,000		5000	0	1	3000	3000
116	Charcoal Yards/store over 50bags or premises with over 100m2(which ever is		6,000	0		4500	0		2500	0
117	Charcoal Yards/store between 20-50 bags or premises between 50-100m2(which ever	1	5,500	5,500		4000	0		2000	0
118	Charcoal Yards/store below 20bags or premises with less than 50m2(which ever is	2	5,000	10,000		3500	0		2000	0
119	Sand/ballast/blocks Yards situated in towns,road reserves,other areas	1	10,000	10,000	3	5000	15000		3000	0
	Bookshops,chemists,securicol			0			0			0
120	Bookshops wholesalers,retailers with over	4	10,000	40,000		6000	0		5000	0
121	Bookshops wholesalers,retailers with	11	6,000	66,000		4000	0		3000	0
122	Mobile bookshop dealer	1	2,500	2,500		1500	0		1000	0
123	Chemists Wholesellers & Retailers -	2	12,000	24,000		7500	0		5000	0
124	Chemists Retail Shop	6	10,000	60,000	1	6500	6500		4000	0
125	Chemists with Agrovet with between 1-5	3	15,000	45,000	1	8000	8000		5000	0
126	Chemists with Lab with over 5 employees		15,000	0		8000	0		5000	0
127	Chemists with Lab with between 1-5		12,500	0		7000	0		4000	0
128	Agrovet with over 3 employees	1	12,000	12,000		8000	0		5000	0
129	Agrovet with 1-3 employee	2	10,000	20,000	2	6000	12000		4000	0
130	Animal feeds shop	1	2,500	2,500		2000	0		1500	0
131	Securicor Firms - With National presence		10,000	0		10000	0		10000	0
132	Securicor Firms - County based		5,000	0		5000	0		5000	0
133	Parcel/goods Delivery Services and booking		15,000	0		10000	0		8000	0
134	Booking Offices	7	15,000	105,000		10000	0		5000	0
135	Parcel/Goods Delivery Services	1	10,000	10,000		7500	0		5000	0
	Tailoring shops		15,000	0			0			0
136	Uniforms and materials selling on wholesale and retail combined under same roof	4	10,000	40,000		6000	0		3000	0
137	Large Tailoring shops Over 5 machines in	2	10,000	20,000		6000	0		3000	0
138	Tailoring shops with 3-5 machines in formal	16	7,000	112,000	1	3500	3500		2000	0
139	Tailoring shops with 1-2 machines in formal	46	2,500	115,000	16	1500	24000	7	1000	7000

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140	Tailoring on a verandor corridor temporaily	10	1,500	15,000	2	1000	2000	1	1000	1000
	Water dealers			0			0			0
141	Water Wholesalers (Packaged)		5,000	0		3000	0		2000	0
142	Water Boozers over 10000 Lts		10,000	0		10000	0		10000	0
143	Water Boozers below 10000 Lts		7,000	0		7000	0		7000	0
144	Water Refillers		6,000	0		6000	0		6000	0
145	Private Boreholes		5,000	0		3000	0		2000	0
146	Private water kiosk		3,000	0		2000	0		2000	0
	Dry cleaners,studio and dhobis&gym			0			0			0
147	Drycleaners & Laundry with machine	2	10,000	20,000		3000	0		3000	0
148	Studio	4	6,000	24,000	1	4000	4000		3000	0
149	Mobile photographer-each		2,000	0		2000	0		2000	0
150	Dhobis		2,000	0		1200	0		1000	0
	Garages ,Jua kali sector ,spares,tyre			0			0			0
151	Enclosed Garages with over 5 employees	1	12,000	12,000		8000	0		6000	0
152	Enclosed Garages with below 5 employees	2	10,000	20,000		5000	0		4000	0
153	Open Garages with over 5 employees		10,000	0		6000	0		4000	0
154	Open Garages with below 5 employees	2	8,000	16,000		5000	0		4000	0
155	Motorbike Garage	2	3,000	6,000	1	2000	2000		1800	0
156	Metal stock dealer with welding services	4	10,000	40,000		5000	0	1	3000	3000
157	Welding services	22	4,500	99,000	7	2500	17500	3	1500	4500
158	Blacksmiths/ Jua kali	6	2,000	12,000		1500	0		1000	0
159	Sign Writers/ artists	1	2,000	2,000		1500	0		1000	0
160	Tyre Dealers - New tyres and second hand	2	12,000	24,000		6000	0		5000	0
161	Tyre Dealers - New tyres and Second hand	1	10,000	10,000		6000	0		5000	0
162	Tyre Dealers - Second hand tyres and	4	6,000	24,000		3500	0		2500	0
163	Automobile parts both Vehicle &motor bike	5	12,000	60,000		6000	0		5000	0
164	Automobile parts dealer (kiosk)both Vehicle	5	10,000	50,000		6000	0		5000	0
165	automobile parts mini dealer both Vehicle	11	6,000	66,000		4000	0		3000	0
166	Motor bike spare parts	25	5,000	125,000	4	3000	12000	1	2000	2000
167	Machine Dealers (Water pumps, posho	1	12,000	12,000		8000	0	1	7200	7200
168	Motorbike Showrooms,yards,shops-	5	15,000	75,000		10000	0		5000	0
169	Motorbike Showrooms,yards,shops-local	1	12,000	12,000		8000	0		7000	0
170	Motor Vehicles show rooms(over 5		15,000	0		15000	0		15000	0
171	Showrooms -furniture & equipment of over 200m2 or with employees above 5(which	1	12,000	12,000		9000	0		7200	0
172	Showrooms -furniture & equipment of below 100m2 or with between 1-	5	10,000	50,000	1	6000	6000		5000	0
	Hire puchase shops ,electrical shops&water accessories shops			0			0			0
173	Hire Purchase shops	1	12,000	12,000		8500	0		7000	0

174	Electricals/Electronics with over 3 employees or premises with over	2	15,000	30,000		10000	0		7000	0
175	Electricals/Electronics with less than 3 employees or premises with below	19	10,000	190,000	1	6000	6000	1	4000	4000
176	Electronic repairs Radio, Phone, Fridge,	11	3,000	33,000	2	1500	3000		1000	0
177	Mobile phone accessories/Electronic Shops	9	10,000	90,000		6000	0		4000	0
178	Mobile phone accessories/Electronic Shops	14	5,000	70,000		4000	0		3000	0
179	Telephone Bureau, Mobile phone repair and	7	3,500	24,500		2500	0		2000	0
180	Mobile phone Shops with battery charging	3	3,500	10,500	2	2500	5000	1	2000	2000
181	Battery charging	3	2,000	6,000	1	1500	1500		1000	0
182	Mobile phone Dealers,top box TV dealers	5	10,000	50,000		6000	0		4000	0
183	Computer Services/Cybercafés with over 3	20	5,000	100,000		2000	0		1000	0
184	Computer Services/Cybercafés with below	20	3,000	60,000	2	1000	2000		1000	0
185	Plumbing & related accessories Shop	4	10,000	40,000		6000	0		3000	0
	Cereals,Agro vet,slaughter house&			0			0			0
186	Farm produce stores (cereals) over 50 bags or premises with over 150m2(which ever is		10,000	0		6000	0		4000	0
187	Farm produce stores (cereals) with 30-49 bags or premises with 100-150m2(which		9,500	0		5000	0		3000	0
188	Farm produce stores (cereals) with 10-29 bags or premises with 50-100m2(which	2	8,000	16,000	1	4000	4000	1	2500	2500
189	Farm produce stores (cereals) with 5-9 bags or premises with 20-50m2(which ever	2	5,000	10,000	1	3000	3000		2000	0
190	Farm produce stores (cereals) with less than 5 bags or premises with less than		3,000	0		1500	0		1000	0
191	Cereal boards including national cereal		15,000	0		15000	0		15000	0
192	Agro vet and farm implements with more than 5 employees-both retail and		15,000	0		8000	0		5000	0
193	Agro vet and farm implements with	3	10,000	30,000	1	6000	6000		4000	0
194	Private slaughter house		8,000	0		4000	0		3000	0
195	Private Public Toilets,mobile toilets		6,000	0		4000	0		2000	0
	Bakeries,soft drinks,Egg &cigarette			0			0			0
196	Bakeries for breads biscuits	2	15,000	30,000		10000	0		8000	0
197	Soft/alcoholic drink distributors depot	2	20,000	40,000		10000	0		5000	0
198	Confectionary,cookies and snacks shops	2	2,500	5,000		1500	0		1000	0
199	Bread distributors	5	5,000	25,000		3000	0		2000	0
200	Egg wholesalers and retailers	2	4,000	8,000		3000	0		2000	0
201	Stationeries Shops	13	3,500	45,500		2500	0		2000	0
202	Dairy shop	4	3,000	12,000		2000	0		1000	0
203	Dairy shop with cooler	1	5,000	5,000		1000	0		2000	0
204	Green Grocers wholesalers/retailer	6	3,000	18,000		3000	0		2000	0

205	Fruit Vendors/shops	5	3,000	15,000	1	2000	2000		1000	0
206	Green Grocers market stall	7	3,000	21,000	3	2000	6000	1	1800	1800
207	Millers for maize flour or wheat flour or salt or both with registered trade mark		50,000	0		50000	0		50000	0
208	Posho mill for various grains and cereal	3	3,500	10,500	8	2000	16000	8	1500	12000
	Boutiques,cloth dealers, beauty shops, salons and barber shops			0			0			0
209	Boutiques (dealers in clothes,shoes,travelling bags and other	32	10,000	320,000	3	6000	18000		5000	0
210	Boutiques (dealers in clothes,shoes,travelling bags and other	74	6,000	444,000	4	4000	16000	2	2000	4000
211	Beauty shops with hair products and beauty	23	6,000	138,000	3	4000	12000		2000	0
212	Beauty shops with either hair products or	8	3,000	24,000	5	1000	5000		1000	0
213	Cloth dealer,shoes and assorted goods in	21	3,000	63,000	2	1500	3000	2	1000	2000
214	Salons with barber shop and massage		6,000	0	1	4000	4000		3000	0
215	Executive Barber shops/kinyozi and	3	5,000	15,000		4000	0		3000	0
216	Salons with beauty shop	4	6,000	24,000	3	4000	12000	1	3000	3000
217	Salons with barber shop		6,000	0		4000	0		3000	0
218	Salons with more than 2 dryers	3	5,000	15,000	1	3500	3500		3000	0
219	Salons with 1-2 dryers	86	4,000	344,000	9	2500	22500	6	2000	12000
220	Ordinary Barber shops/kinyozi	23	3,000	69,000	6	2000	12000	5	1500	7500
221	Salon without a drier	14	2,000	28,000	19	1000	19000	6	500	3000
	INFORMAL SECTOR			0			0			0
222	Temporary structures kiosks	7	1,500	10,500	1	1000	1000	3	1000	3000
223	Video dens,computer games, Amusement	5	2,500	12,500	2	2000	4000		1500	0
224	General Livestock dealers		3,500	0		3500	0		3500	0
225	Livestock Dealers - Cattle		3,000	0		3000	0		3000	0
226	Livestock Dealers - Goats		2,500	0		2500	0		2500	0
227	Livestock Dealers - Chicken		2,500	0		2500	0		2500	0
228	Livestock Dealers - Brokers		2,500	0		2500	0		2500	0
229	Pool Table		3,000	0	2	2000	4000	1	1500	1500
230	Draughtsman		2,000	0		1000	0		800	0
231	Kenya charity sweepstake (Kiosk)		2,500	0		1500	0		1000	0
232	Hawker with motor vehicle		6,000	0		6000	0		6000	0
233	Hawker without motor vehicle	12	1,500	18,000		1500	0		1500	0
234	Branded Umbrella/Parasols		5,000	0		4000	0		2000	0
235	Shoe shine, Shoe repair, Street vendors	2	1,200	2,400		800	0		600	0
236	Shoe shine under shade		1,200	0		800	0		600	0
237	Herbalists/ Alternative medicine with		3,000	0		3000	0		3000	0
238	Herbalists/ Alternative medicine without		2,400	0		2400	0		2400	0
239	Herbalists/ Alternative medicine with a shop	1	5,000	5,000		5000	0		5000	0

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240	Herbal clinic with lab		10,000	0		7000	0		5000	0
241	Herbal Clinic with over 3 employees		8,000	0		5000	0		3000	0
242	Herbal Clinic with 3 and below employees	1	4,000	4,000		2500	0		2000	0
243	Miraa/Kangeta/Muguuka (Khat)		15,000	0		15000	0		15000	0
244	Miraa/Kangeta/Muguuka (Khat) whole		10,000	0		10000	0		10000	0
245	Miraa/Kangeta/Muguuka/ Khat retailers -	3	7,000	21,000	1	7000	7000		7000	0
246	Miraa/Kangeta/Muguuka Khat retailers -	10	4,000	40,000	4	4000	16000	2	4000	8000
247	Honey Dealers		3,000	0	1	3000	3000		3000	0
248	Semi- Permanent informal sector trade operating in veranda or temporary	3	1,000	3,000		500	0		500	0
249	Knitting		1,000	0		500	0		500	0
250	Car wash, tyre centre including repairs with		5,000	0		4000	0		3000	0
251	Car Wash with a machine	15	2,000	30,000	3	1200	3600		1000	0
252	Car Wash without a machine	2	1,000	2,000		800	0		600	0
253	Saw mill		4,000	0		4000	0		4000	0
254	Bicycle repair	1	1,000	1,000		500	0		500	0
255	Glass mart shops	6	6,000	36,000		4000	0		3000	0
256	Empty cans,tins,gunny bags and drum,tank makers gutter-each of the above	3	1,000	3,000		500	0		500	0
257	scrap metal stores		3,000	0		2000	0		1500	0
258	Hides and skin dealers		5,000	0		2500	0		2000	0
300	**TRANSPORT,STORAGE AND**			0			0			0
301	Large Transportation Company over 30		40,000	0		40000	0		40000	0
302	Medium Transport Company from 6 to 29		15,000	0		15000	0		15000	0
303	Small Transport company with 2-5 vehicles		10,000	0		10000	0		10000	0
304	Independent Transport Operator 1 Vehicle	2	7,500	15,000		7500	0		7500	0
305	Large petro filling Station Over 6 pumps with garage, gas cylinders,workshop / retail	2	20,000	40,000		15000	0		10000	0
306	Medium petro filling Station with 3 to 5 pumps with garage gas	3	15,000	45,000		10000	0		6000	0
307	Small petro filling Station with less than 3 pumps with garage,gas cylinders, workshop		10,000	0	1	6000	6000		5000	0
308	small petro filling Station with less than 3 pumps without garage, gas		6,000	0	2	4000	8000		3000	0
309	Gas cylinder agents	3	4,000	12,000		3000	0		2000	0
310	Petrol/Kerosene shops/dealers		3,000	0		2000	0	5	1000	5000
311	petrol/Kerosene dealers in a semi		1,000	0	1	500	500		500	0
312	Large Storage facility over 5000m2, Go		20,000	0	2	15000	30000		10000	0
313	Medium Storage facility from 1000 to	2	12,000	24,000		8000	0		6000	0
314	Small Storage Facility up to	1	6,000	6,000		4000	0		3000	0

315	Communication Company-GSM providers e.g safaricom,airtel,orange etc	3	100,000	300,000		100000	0		100000	0
316	Media house -Radio/TV stations,print	1	15,000	15,000		15000	0		15000	0
317	Newspaper Distributors		15,000	0		15000	0		15000	0
318	Newspaper Agents	1	5,000	5,000		5000	0		5000	0
319	Newspaper Vendors	1	1,000	1,000		1000	0		500	0
320	Media Agencies		5,000	0		5000	0		5000	0
400	**AGRICULTURE,FORESTRY & EXPLOITATION OF NATURAL**			0			0			0
401	Mining or Natural Resource Extraction		150,000	0		150000	0		150000	0
402	Mining or Natural Resource Extraction Operation with less than 15 Employees		100,000	0		100000	0		100000	0
403	Mineral Prospecting License per sub county		50,000	0		50000	0		50000	0
404	Fish dealers		2,500	0		1000	0		500	0
500	**ACCOMMODATION AND CATERING**			0			0			0
501	Large-High Standard Lodging House /Hotel D Class Over 100 Rooms		50,000	0		40000	0		30000	0
502	Medium-High Standard Lodging House /Hotel D Class from 50 to 99 Rooms		40,000	0		30000	0		25000	0
503	Medium-High Standard Lodging House /Hotel D Class from 31 to 49 Rooms		35,000	0		20000	0		15000	0
504	Small-High Standard Lodging House /Hotel	3	25,000	75,000		15000	0		10000	0
505	Large Lodging House with Restaurant& Bar class B&C . Basic standard over 15 rooms	3	22,500	67,500		12000	0		8000	0
506	Medium Lodging House with Restaurant& Bar class B&C . Basic standard from 6 to 15	11	17,500	192,500	4	10000	40000		7000	0
507	Small Lodging House with Restaurant& Bar class B&C . Basic standard up to 5 rooms	4	10,000	40,000	1	6000	6000		5000	0
508	Large lodging house B&C Class basic	2	15,000	30,000		10000	0		7000	0
509	Lodging house B&C Class basic Standard	8	10,000	80,000		7500	0		5000	0
510	Lodging house B&C Class basic Standard		7,500	0		4000	0		3000	0
511	Cottages in tourist destinations		15,000	0		15000	0		15000	0
512	Large Restaurant with Bar/ Membership Club with over 30 customers seating	2	15,000	30,000	2	10000	20000	1	7500	7500
513	Medium Restaurant with Bar/ Membership Club from 11 to 30 customers seating	7	10,000	70,000	6	6000	36000		4500	0
514	Small Restaurant with Bar up to 10	6	5,000	30,000	3	4000	12000	1	3000	3000
515	Wines and spirit-wholesale/retail	5	8,000	40,000		6000	0		5000	0
516	Wines and spirit-Retail	13	5,000	65,000	7	3000	21000		2500	0

517	Large Eating House, Snacks Bar, Tea House Hotel", No Lodging , No Alcohol	6	10,000	60,000	3	6000	18000		4000	0
518	Medium Eating House, Snacks Bar ,Tea House "Hotel", No Lodging , No Alcohol	16	8,000	128,000	7	4000	28000	5	3000	15000
519	Small Eating House, Snacks Bar Tea House "Hotel", No Lodging , No Alcohol Served up	40	6,000	240,000	27	2000	54000	13	1000	13000
520	Large butchery selling both beef,goat meat with a kitchen, over 400kg per day		10,000	0		6000	0		4500	0
521	Medium butchery selling both beef ,goat meat with a kitchen, between 200 - 400kg	3	8,000	24,000		4000	0		3000	0
522	Ordinary butchery selling both beef ,goat meat with a kitchen, between 100 - 200kg	1	6,000	6,000	3	4000	12000	1	3000	3000
523	Small butchery selling either beef, goat, pork, poultry & all other meats with or	36	4,000	144,000	22	3000	66000	6	2000	12000
524	Meat outlets selling soups, matumbo, 'mathaiyo',vichwa, mifupa, roasted	3	2,500	7,500	2	1500	3000	2	1000	2000
525	Bar/Traditional Beer Seller over 50	2	7,500	15,000		8000	0	1	4000	4000
526	Bar/Traditional Beer Seller 16 to 50	4	6,000	24,000	3	4000	12000	4	3000	12000
527	Bar/Traditional Beer Seller up to 15	18	4,000	72,000	3	2500	7500	8	2000	16000
528	Night Club/Casino Over 500 m2 with		25,000	0		20000	0		15000	0
529	Night Club/Casino from 101 to 500 m2 with seating capacity of between 30 to 50	1	15,000	15,000	2	12500	25000		10000	0
530	Night Club/Casino up to 100m2 with seating		10,000	0		8000	0		6000	0
531	Cafeteria	8	3,000	24,000	5	2000	10000		1000	0
532	Other Catering and Accommodation	1	4,000	4,000	1	3000	3000	1	2500	2500
533	Outside Catering		5,000	0		3000	0		2000	0
534	Hire of tents and chairs business		5,000	0		3000	0		2000	0
535	Recreational gardens/halls		10,000	0		10000	0		10000	0
600	PROFESSIONAL,FINANCIAL& TECHNICAL SERVICES INSTITUTIONS			0			0			0
601	Large Professional Services Firm over 10 Practitioners & or International Affiliation	1	45,000	45,000		35000	0		30000	0
602	Medium Professional Services Firm from 3	1	22,500	22,500		20000	0		10000	0
603	Small Professional Services Firm up to 2	2	10,000	20,000		7500	0		6000	0
604	Independent Technical Operator 1 person		3,500	0		2000	0		1500	0
605	Other Professional & Technical Services	1	3,500	3,500		1500	0		1000	0
606	National utility service provider e.g K.P.L.C,KETRACO,KENGEN,WATER		50,000	0		50000	0		50000	0
607	Insurance offices	6	10,000	60,000		6000	0		4000	0
608	Estate Agents	4	4,000	16,000		3000	0		2000	0

609	Financial Services Over 25 employees or premises over 300m2(which ever is higher)		200,000	0		200000	0		200000	0
610	Medium Financial Services from 6 to 25	8	200,000	1,600,000		150000	0		150000	0
611	Small Financial Services up to 5 employees	12	35,000	420,000		25000	0		20000	0
612	mobile money services e.g mpesa and airtel	72	5,000	360,000	11	4000	44000	8	2000	16000
613	Bank Agents eg coop kwa jirani ,k.c.b	5	10,000	50,000		8000	0	1	5000	5000
700	**PRIVATE EDUCATION /INSTITUTIONS**			0			0			0
701	Private Universities and colleges affiliated		25,000	0		25000	0		25000	0
702	Private colleges offering certificates and diplomas with over 100 students		25,000	0		15000	0		10000	0
703	Private colleges offering certificates and	1	20,000	20,000	1	12500	12500		8000	0
704	Private colleges offering certificates and	5	8,000	40,000	3	4000	12000		3000	0
705	Industrial and allied training institutions(catering,mechanic,baking	1	2,500	2,500		1500	0		1000	0
706	Private schools With over 100 Pupils/students of Fees Over Ksh 50,000	2	15,000	30,000	4	12000	48000	2	10000	20000
707	Private schools from 31 to 100 Pupils/students or Fees from kshs 30,000 to	2	12,000	24,000	2	6000	12000		5000	0
708	Private schools Institution up to 30 pupils/students or Fees up to 30,000 per	1	5,000	5,000	4	3000	12000	1	2000	2000
709	Driving schools	3	10,000	30,000		6000	0	1	5000	5000
710	Tailoring schools	1	5,000	5,000	1	3000	3000		2000	0
	HEALTH SERVICE PROVIDERS			0			0			0
711	private health facility hospital clinic nursing home providing overnight accommodation	2	35,000	70,000		25000	0		15000	0
712	health facility providing from 10-20beds and	1	22,500	22,500		15000	0		10000	0
713	Private Health Facility with less than 10	1	15,000	15,000		10000	0		8000	0
714	Health facility providing out patient services	3	5,000	15,000	2	4000	8000		3000	0
715	Laboratory services	2	7,500	15,000	2	6000	12000	1	4000	4000
716	Traditional Health Services Herbalist	1	4,000	4,000		2500	0	2	2000	4000
	FUNERAL SERVICES			0			0			0
717	Private morgues/mortuary	1	10,000	10,000		6000	0		4000	0
718	Hearse services-funeral transport	2	5,000	10,000		5000	0		5000	0
800	**INDUSTRIAL PLANTS, FACTORIES,WORKSHOPS,**			0			0			0
801	Industrial Plant over 50 workers or		50,000	0		50000	0		50000	0
802	Industrial Plant from 16 to 50 workers or Premises from 100 m2 to 2500m2		40,000	0		40000	0		40000	0
803	Industrial Plant with less than 16 workers		20,000	0		20000	0		20000	0
804	Workshop with Over 10 workers or	1	20,000	20,000		10000	0		5000	0
805	workshop with less than 10 workers or	21	10,000	210,000	1	6000	6000		5000	0

806	Contractor Class NCA 1-2		50,000	0		50000	0		50000	0
807	Contractor Class NCA 3-4	1	10,000	10,000		10000	0		10000	0
808	Contractor Class NCA 5-6	3	8,000	24,000		8000	0		8000	0
809	Contractor Class NCA 7-8	1	7,000	7,000		7000	0		7000	0
810	Contractor Class NCA 9-15/locally trained		2,500	0		2500	0		2500	0
		1,448		11,361,400	453		1,535,100	217		509,500

Source: County Government of Kitui Office of Business Licensing: Business Data Bank