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An Assessment of Financial Literacy on Loan Repayment by Small and Medium Entreprnuers in Ngara, Nairobi County

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ABSTRACT

The SMEs form a great percentage of all enterprises in the world. The global economy is heavily dependent on the success of Small Medium Entrepreneurship (SME) which creates employment, poverty alleviation and balanced developments which brings about economic growth in rural and urban setups. The government of Kenya is determined to raise the middle class status of the nation by the year 2030 through the participation of SMEs. This initiative has received the support of the banking sector, particularly Equity Bank. These enterprises allow the marginalized groups to diversify their levels of income. Equity bank has established financial literacy programs to provide the SMEs with financial skills necessary to create efficiency and effectiveness in entrepreneurship. Despite all these, the SMEs in Kenya face challenges that hinder them from attaining economies of scale. They lack training and management capacity to manage the business resources effectively. Financial literacy therefore is regarded as one of the strategies used by bankers to provide knowledge and skills needed to change attitude and attract more potential users of agent banking. The purpose of this paper was to investigate the influence of financial literacy on SMEs loan repayment. The specific objectives of this study is to establish the impact of book keeping skills, credit management and budgeting skills influence loan repayment by the beneficiaries. The study was conducted among the beneficiaries of Equity Group Foundation Training Program (EGFTP) on SMEs in Ngara, Nairobi County. A sample of 30 SMEs was selected for the study using stratified random sampling technique. The study used a descriptive survey research to investigate the factors influencing loan repayment among the beneficiaries. The researcher used self administered structured questionnaires to collect primary data from a sample of selected beneficiaries. The collected data was coded and entered in computer software for analysis. Both descriptive and inferential statistics were used for data analysis. The study concludes that book keeping, credit management and budgeting skills significantly influenced the ability of SMEs to repay loans. The study recommends that the SMEs should enroll in financial related programs to enhance their capacities. The government and other industry players should emphasize on the importance of financial skills in to day running of their business. There is need also to initiate more financial literacy programs to reach to many SMEs for proper credit management skills hence improvement of loans repayment.

Key words: Financial Literacy, Small Medium Entrepreneurs, Equity Group Foundation

1.0 Background Information

SMEs form more than 99% of all enterprises in the world (Capital Markets Authority, 2010). These business enterprises allow the marginalized and vulnerable groups to diversify their incomes, create new sources of economic growth and generate additional employment, especially in rural areas. It is clear that the global economy dependents on the success of the SME sector. SMEs play a major role in economic growth in the OECD area, providing the source for most new jobs. Over 95% of OECD enterprises are SMEs, which account for 60%-70% of employment in most countries. As larger firms downsize and outsource more functions, the weight of SMEs in the economy is increasing. Additionally, economic growth is strongly influenced by the competition inherent in the entry and exit of smaller firms. Less than one-half of small start-ups survive for more than five years, and only a fraction develop into the core group of high performance firms which drive industrial innovation and performance. This underscores the need for reforming policies and framework conditions that have a bearing on firm creation and expansion, with a view to optimizing the contributions that these firms can make to growth (OECD Policy Brief, 2000). The member countries have agreed to introduce financial literacy training programs to provide individual life skills in a majority of economies to mitigate a similar future crisis on governments, micro and small enterprises. Financial literacy helps to provide entrepreneurs with financial knowledge necessary to make household budgets, initiate savings plans, and acquire financial knowledge and skills to meet their financial goals (Greenspan, 2002). The Governments of developed economies in G20 Summit equally recognized financial access as an accelerator to meet the Millennium Development Goals, particularly financial literacy. Nations expressed their concern on the influence of technology and diversification of financial products and services. The summit proposed that financial literacy can influence SMEs to increase their savings account and be able to access a variety of financial products to enhance their entrepreneurial growth (World Savings Bank Institute, 2010).

The significance of SME in developing Kenya's economy has continued to grow since the sector was first brought to the limelight by the International Labor Organization (ILO) in 1972. The SMEs in Kenya play an important role in the economic development of the country and provide one of the most important reliable sources of employment creation, income generation, poverty reduction and development of industrial base. It is estimated that there are 7.5 million SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy (CMA, 2010). The sector's contribution to the Gross Domestic Product (GDP) has also grown from 13.8 per cent in 1993 to about 40 per cent in 2008 and the sector continues to grow to date. According to Kenya Central Bureau of Statistics (2012) economic survey, employment within the sector increased from 7.942 million persons in 2008 to 9.272 million persons in 2011, and to 10.5 million people in 2012 accounting for 82.5% of total persons engaged in employment outside small scale agriculture and pastoralist activities. The sector also created 591.4 thousand new jobs in 2012 compared to 587.2 thousand jobs created in 2011 constituting 89.7% of all the new jobs created in 2012. The sector contributes 20% of the gross domestic product and provides goods and services, promotes creativity and innovation, and enhances entrepreneurial culture (Economic Survey, 2013).
The economic pillar of Kenya's Vision 2030 identifies SME development as a key strategy to propelling the country to a middle income economy by the year 2030 through equity and poverty elimination to reduce the number of people living in absolute poverty to the tiniest proportion of the total population. Other development partner involved in this initiatives include the United States Agency for International Development, International Fund for Agricultural development (IFAD), Germany Technical Institution (GTI), commercial banks, and microfinance institutions. In order to overcome some of the constraints associated with financial management in the SME sector, the government and other relevant stakeholders have designed programs and policies that are market driven and market non-distorting to support SMEs. Government has, for example, created stable macroeconomic conditions, liberalized the economy, and encouraged the growth of micro-financing business. Despite the role played by the sector, it continues to experience myriad constraints that have inhibited the realization of its potential. Kenya's Vision 2030 Arid and Semi Arid Lands (2008), shows that formal banking system reaches few SMEs. The report proposed financial services sector to promote financial services that are culturally acceptable to the needs of people. This calls for financial literacy intervention to train the SMEs on how to use the available means of accessing financial services to improve their enterprises and also reduce cost of doing business. Financial training is one of the factors that impact positively on growth of SMEs because entrepreneurs adequate financial literacy are better placed to adapt their enterprises to constantly changing business environments (King & McGrath, 2002).

1.1 Equity Group Foundation Financial Literacy Program in Kenya

In response to the financial challenges affecting the SMEs, EGF financial literacy program was born. Equity Group Foundation was founded in 2009 with its main purpose being to develop and grow initiatives with significant social impact by harnessing Equity Group's banking capabilities and capacities and through effective partnerships with SMEs. The EGF's overall goal was to transform the socio-economic status of 50 million people in Africa over the next five years. One of these initiatives by the EGF is to provide financial education and entrepreneurship training to low income people groups across the country. Equity Bank has been providing financial education to youth and women micro entrepreneurs in their Group Lending Program (GLP) thereby mainstreaming it to cover groups that were not part of the group lending program)**.**The program has been implemented since 2009 providing basic financial information with a view to enabling those that address the financial challenges; provide a platform for enterprise performance, growth, and sustainability. The target of the EGFs financial literacy program was the banked population and none banked who lacked financial literacy skills. The bank had indentified specific challenges with these two groups. When applying for loans, SME owners were frequently unable to provide accurate, reliable financials and non financial information to support their applications. It was also evident from field visit to the SMEs that the resources extended to them were not applied as intended, hence prompting the bank to come up with the financial literacy program. According to the EGF report, Equity bank of Kenya initiated a free of charge training project dubbed Financial Knowledge for Africa (FIKA) to provide business management skills to willing organized groups and individuals. Through the project valued at Kshs 1billion, Equity Group Foundation in conjunction with the Master Card Foundation have set out to train more than 1million Kenyans particularly the youth in the next three years. Several participants have graduated after undergoing a comprehensive 12-week financial education program - covering budgeting, savings, debt management, financial negotiations and banking services. Today, there are a good number of graduates comprising of small scale traders in several parts of Nairobi County. It has been observed that Equity Group Foundation helped to build capacity particularly among the small scale entrepreneurs who are actively playing a key part in eradicating poverty. The training and equipping of entrepreneurs act as a launch pad for economic independence which also translates to social growth. The training programs are strategically geared at setting the foundation for financial access and inclusion. The training program by EGF is aimed at ensuring that the community appreciates the dynamics of finances particularly now that immense resources are being channeled to youth, women and even SME's. It's not enough to provide financial resources, it's even more important to ensure that the recipients of all the loans and funds are sufficiently trained to employ these loans and related financial resources to the best possible use while reaping maximum benefits. Equity Bank has set aside Kshs 30 billion in addition to the Government's MSE fund. The financial literacy programs are therefore expected to provide a pool of financially literate Kenyans who can guarantee the sustainability of financial resources such as the Youth Fund, Women Enterprise Fund and the new MSE Fund. In partnership with the Ministry of Finance's MSE Fund, the Bank unveiled its value added package where clients will not only receive affordable loans in line with the Ministry's guidelines, but will also offer free business advisory services, and financial education as well as mentoring and networking support. Over the years, women and youth in Kenya have faced difficulties with regard to employment, access to finance and business knowledge. Training these two key demographic groups in financial literacy is aimed at providing them with financial advisory services, supportive networks and knowledge that will facilitate their path to accessing finance to start and grow their businesses. This program delivers these critical tools and empowers people to change their own lives. FIKA program has been deliberately designed to appeal to the youth in recognition of the fact that 75% of Kenya's population are in the 18 to 35 years age bracket. This segment comprises of the specific population hard hit by economic challenges such as unemployment and lack adequate business management skills (Equity group Foundation, 2009).

Kenyan government is committed to attain middle income status by the year 2030. The initiative was popularly dubbed "vision 2030". The SMEs were identified to be essential elements to achieve this initiative. Equity bank supported the government effort in this idea and commissioned a subdivision to manage credit advances to SMEs. The bank however realized that it was both important to advance credit and training opportunities on financial literacy to help promote the activities of SMEs. This paper therefore seeks to evaluate the effectiveness of financial skills on loan repayment of SMEs in reference to EGF literacy program in Ngara, Nairobi County.

1.2 Challenges facing SMEs

The SMEs suffer from constraints that lower their resilience to risk and prevent them from growing to attain economies of scale. Internally, most SMEs lack training and management skills to enable to manage funds effectively. Externally, SMEs lack the necessary collateral and have the capacity to absorb only small amount of funds from financial institutions. This prevents the enterprises from accessing adequate credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts. Several initiatives have been advanced by the state and non state sectors to broaden access to affordable credit, and financial management to enable SMEs to manage finances efficiently. However, it is not clear whether financial literacy initiatives have translated to better financial management, enterprise performance, improved access to loan capital, and loan repayment of SME borrowers (CMA, 2010; Wanjohi, 2011).
Data on loan repayment as at 30th December 2013 for Equity bank Limited is as shown below:

Table: 1Loan repayment as at 30th December 2013

Year	Amount Disbursed(millions)	Amount repaid	% Repayment
2008	**600**	**360**	**60**
2009	**800**	**560**	**70**
2010	**900**	**630**	**70**
2011	**1000**	**600**	**60**
2012	**1050**	**550**	**50**
2013	**1050**	**550**	**50**

Source (Equity Bank, 2014)

1.3 Statement of the problem

Today many nations both developed and less developed, bank their hopes on small and medium enterprises to create jobs and drive economic growth. Indeed, the Kenyan government and the private partners have spent a lot of money to promote this sector. Yet the many years of state and non state support for SMEs have produced disappointing results. Much of this poor outcome is due to a failure to understand the needs of SMEs. There exists blanket policies approach towards the management of the SME sector. The SMEs businesses face severe obstacles to growth that indicate poorly conceptualized strategies for enterprise development; developed by policy makers bent on supporting enterprise start-ups without any notion of the external factors that will inhibit the growth of these businesses once they become established. Obstacles to SME lending include lack of adequate information, the most important deterrent to banks' involvement with the SME segment. The banks have established separate units to be more responsive to the needs of their SME clients, in recognition of the inherent differences between SMEs and consumer and corporate clients.. Such is the perceived extent of the problem that the banks have allocated internal budgetary resources to assist SMEs through the extension of training services (African Development Bank, 2012).Some banks are allocating resources to provide training to their SME clients to improve their management skills and financial reporting (Rocha, 2011). Financial literacy influences loan repayment of the finances obtained from different sources. This means that SMEs with financial education will have the motivation to go for loans and have them repaid as scheduled. All the efforts put by banks are meant enable SMEs to access loans, and have their loans repaid as scheduled without default. However, there is a steady increase in the default rates and a slowdown in the loan repayment by SMEs (Equity Bank Group Report, 2013). Cumulatively Equity bank has advanced ksh.5.4 billion over six year period (2008 - 2013). However recovery rate remained below70% for the four out of six years. It is only two years that the recovery rate was equal to 70%. The banks tolerable default rate is about 5%. This means that over the entire period, the SMEs loan default rates have remained significantly high. Preliminary investigations by the bank indicated possibility of a linkage between lack of financial literacy and the loan default rates. This study therefore seeks to evaluate the impact of Equity Group Foundation financial literacy training Program on loan repayment by Small and Micro Enterprises.

2.0 LITERATURE REVIEW

2.1 Financial Literacy Theory

This study was guided by financial literacy theory of financial management. Financial literacy theory argues that the behavior of people with a high level of financial literacy might depend on the prevalence of two thinking styles according to dual-process theories: intuition and cognition. Dual-process theories embrace the idea that decisions can be driven by both intuitive and cognitive process. Dual process theories have been applied to several fields, including reasoning and social cognition (Evans 2008).Financial literacy has attracted attention in both developed and developing economies, and has elicited much interest in the recent past with the rapid change in the finance landscape. Financial literacy covers the combination of investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being (Atkinson & Messy, 2005).

Financial literacy empowers investors by educating them to acquire relevant knowledge and skills in financial management. Financial knowledge helps to overcome most difficulties in advanced credit markets. Financial literacy allows the investors to encounter difficult financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance. More importantly, financial literacy enhances decision making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. Financial literacy leads to more effective use of financial products and services, greater control of one's financial future and reduced vulnerability to overzealous retailers. Facing an educated lot, financial regulators are forced to improve the efficiency and quality of financial services.

Financially literate investors are able to create competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively. Investors are able to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage, so as to make optimal decisions (Miller, Godfrey, Levesque, & Stark, 2009). Greenspan (2002) argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions. Proper application of that knowledge helps investors to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility.

Equity bank (2012) in an article dubbed "Equity Bank steps up its Kshs 1 Billion bid to boost financial literacy" has details on a project carried out by Equity Group Foundation in conjunction with The MasterCard Foundation to impart personal and business finance skills to more than 1million Kenyans particularly the youth. The training project dubbed Financial Knowledge for Africa (FIKA) exposes participants to basic economic concepts and helps them to gain an understanding of how to use a range of financial services - such as savings, insurance and credit products. The program builds their financial capacity through a comprehensive 12-week financial education program; covering budgeting, savings, debt management, financial negotiations and banking services. This program pioneered by Equity Group Foundation is aimed at ensuring that the community appreciates the dynamics of finances particularly now that immense resources are being channeled to youth, women and even

SMEs. PNB (2011), in a corporate social responsibility report on realizing the objective of achieving financially inclusive growth, says that the biggest challenge is on improving financial literacy so that borrowers could take informed decisions. Bank's extensive financial literacy programs overcome this problem by reaching thousands of customers and small entrepreneurs. As per the RBI guidelines, each Lead Bank is expected to open a Financial Literacy and Credit Counseling Centre (FLCCCs) in every district where it has lead responsibility.

Financial counseling through face-to-face interaction with interested individuals is provided at these centers. Financial education imparted includes importance of responsible borrowing, financial planning and information about various financial products and services. Besides, debt counseling is provided for amelioration of debt-related distress of any individual. G20 Seoul Summit (2010) states that information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans also makes it difficult for creditors to assess the creditworthiness of potential SME proposals. As the lack of financial literacy, operational skills, including accounting and finance and business planning represents formidable challenge for MSE borrowers. For this, banks could either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centers (FLCs) set up by them, as per their comparative advantage. We have also stated that the bank staff should be trained through customized training programs to meet the specific needs of the sector. Berry (2006) said that although the external environment presents some of the key challenges in SME financing, such businesses' internal resources must not be overlooked. Of these, perhaps the most important is the knowledge and social capital that exists within each business.

It is important to remember that while levels of education often influence entrepreneurial ambition - with the more educated likely to have a higher desire to start a business - this ambition does not translate to higher levels of education among the actual business owners, as education improves their employment prospects (Zwan et al., 2010). In fact, management training is rare among business owners, creating a significant skills gap common in both developed and less developed economies. This skills gap invariably affects owners' ability to obtain finance including knowing how to present a business plan and being able to navigate through the available financial products, to knowing how to apply business skills and acumen to manage and develop their business with a strategic approach to its operations, and ultimately finance. There is a significant role for the accountancy profession in addressing this challenge. Applying their broad-based knowledge in accounting and business, accountants are perfectly placed to work with governments and other relevant institutions, such as SME bodies, to provide financial literacy and management training for owner-managers. George (2008) state that when clients borrow multiple loans from multiple sources, that is, MFIs and other formal and informal providers, juggling repayment schedules, and making sure that the credit is used to its best advantage adds a level of complexity that can be very challenging to manage. Under such circumstances, forward looking financial strategies are necessary, and these require specific knowledge, skills and attitudes about financial management. Most people learn to manage personal and household finances by trial and error. Financial education teaches the knowledge, skills and attitudes that are required for adopting good money management practices associated with spending, earning, saving, borrowing and investing money. Anticipated outcomes include changes in client behaviors and practices in money management such as saving regularly, making a budget, and working towards a financial goal. The changes lead to increased savings, reduced debt and less financial stress. The aim of the Financial Literacy is to increase the members' assets, reduce liabilities and therefore increase their net-worth. Lack of business and management skills can magnify financial barriers for SMEs. Low levels of financial literacy can prevent SMEs from adequately assessing and understanding different financing options, and from navigating complex loan application procedures. Similarly, the fact that SMEs' accounting and financial statements are often not transparent makes them risky borrowers and thus less attractive to lenders. Capacity building of SMEs in terms of preparing financial statements and business plans, as well as improving their financial literacy and management training, is shown to have positive impact on SME development. Furthermore, strengthening the horizontal linkages with other SMEs and vertical linkages with larger firms would improve SMEs' market access (Hogarth et al. 2002).

2.3 Book Keeping in SMEs

Studies conducted reveals that kook keeping skills acquired through the EGFFL program are average in all the skills explored. This program helps entrepreneurs to master skills in general establishment of business records and analysis on how to establish business performance. However, most entrepreneurs lack adequate skills on setting up financial control systems and developing accuracy in transaction recording suggesting lack of practicability of the skills obtained from financial literacy trainings. Effective implementations of financial literacy skills lead to improvement in business performance due to improved ability to track business events from the record system (Siekei, et al. 2013). Most new business owners are daunted by the mere idea of bookkeeping and accounting. Bookkeeping and accounting share two basic goals: to keep track of income and expenses, this improves chances of making a profit, and to collect the financial information necessary for filing various tax returns. There is no requirement that records be kept in any particular way as long as your records accurately reflect the business's income and expenses. There is a requirement, however, that some businesses use a certain method of crediting their accounts: the cash method or accrual method. Depending on the size of the business and amount of sales, one can create own ledgers and reports, or rely on accounting. An accounting system records, retains and reproduces financial information relating to financial transaction flows and financial position. Financial transaction flows encompass primarily inflows on account of incomes and outflows on account of expenses. Elements of financial position, including property, money received, or money spent, are assigned to one of the primary groups i.e. assets, liabilities, and equity. Within these primary groups each distinctive asset, liability, income and expense is represented by respective "account". An account is simply a record of financial inflows and outflows in relation to the respective asset, liability, income or expense. Income and expense accounts are considered temporary accounts, since they represent only the inflows and outflows absorbed in the financial-position elements on completion of the time period (There are account types that include real accounts which represent physically tangible things in the real world and certain intangible things not having any physical existence. Examples of tangible things are: plant and machinery, furniture and fixtures, computers and information (Williams et al., 1993; Williams et al., 2008).

2.4 Credit Management in SMEs

Credit is the lifeline of business. Small businesses lack access to capital and money markets. Investors are unwilling to invest in proprietorships, partnerships or unlisted companies. As risk perception about small businesses is high. So is the cost of capital, institutional credit, when available, requires collateral which in turn makes the owner of the unit even more vulnerable to foreclosure. Credit guarantee funds which assist lending institution in advancing loans or mutual guarantee systems involving common guarantees from a group of people have not emerged in a significant manner. Unit finances come under severe stress whenever an occasional event such as a large order, rejection of consignment, and inordinate delay in payment occurs. The common stereotype about a banker lending an umbrella in sunshine and wanting it back as soon as it rains gets reinforced in their dealing with small enterprises. It is, therefore, not surprising, that small enterprises prefer to first tap own resources or loans from friends and relatives and there's look for external finance.

Many of small manufacturing enterprises do not access bank finance and only about 16% of total bank credit finds its way to the sector. Despite being a priority sector for lending, small manufacturing enterprises get just about 8% of their annual turnover as working capital requirements, as against normative requirements of 20%. Even for this, cost of credit is high. The problem is recognized and is sought to be addressed through various ways. In today's world, small enterprises can hardly match the advertising support or distribution reach of a large corporation. In countries like small units sell best in limited or neighborhood markets or when they are meeting a low volume specialized demand which no large player can effectively take care of. Increasingly, now the endeavor is to build the marketing activity of small units around their competitive advantage i.e., products which are labor intensive, items which cater to niche markets, low volume high margin products, sub assembly tasks, outsourcing jobs. Sub-contracting exchanges are being established through Government and Industry associations to promote such interface (Hamid, 2013*)*.

Idowu (2010) claims that the major barrier affecting rapid development of the SMEs sector is the shortage of both debt and equity financing. Accessing finance has been identified as a key element for small and medium enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small businesses especially in Africa can rarely meet the conditions set by financial institutions, which see small and medium enterprises as a risk because of poor guarantees and lack of information about their ability to repay loans .Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms According to Cork and Nixon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses. Given the myriad of challenges faced by SMEs and the central role played by their managers, having sound credit management skills cannot be over emphasized. A number of researchers such as García (2005) and Pansiri and Temtime (2008) have found that lack of appropriate skills for SME owner managers is one of the main causes of failure for SMEs.

Fatoki and Odeyemi (2010a) define managerial competencies as sets of skills, attitudes, behaviors and knowledge that contribute to the effectiveness of an individual. According to these two authors, managerial skills play a key role in the success of small enterprises as they determine its growth. Likewise, (Fatoki and Asah, 2011) point out that lack of managerial skills, personal qualities and skills are major contributors to the failure of firms. Lack of managerial competence reduces the ability to develop sound plans and strategies for effective management of SMEs. Fatoki and Odeyemi (2010a) explain that managerial skills influence business planning as well as the ability of the firm to obtain knowledge regarding sources of finance and means of obtaining it. As such, managerial skills do affect access by new small firms to financing.

2.5 Budgeting Skills in SMEs

Studies done indicate that SMEs beneficiaries tend to acquire budgeting skills related to business planning for profit, financing and cash flow. The moderately low level of budgeting skills imply that, although the skills are emphasized during the training, the content may not be sufficient in handling the planning aspects in SMEs, or the focus was more on personal budgeting rather than business. Budgeting skills play a key role in enhancing the performance of SMEs. The budgeting skills acquired assist the entrepreneurs to increase their sales, and business profitability by providing a basis of establishing performance targets. Furthermore the budgeting skills contribute towards ensuring smooth running of the business (Siekei, et al, 2013).

The liberalization of economic policies in the last two decades and intensifying market competition tend to be a cause of policy concern for the survival of SMEs in emerging economies as these firms account for the largest chunk of industrial units and employment. Given their limited financial and intangible resources, the promotion of R&D among SMEs has become a very important policy parameter. Existing scenario shows that SMEs have lowest incidence of doing in-house R&D and their R&D intensities have fallen in the last decade. A number of factors that play important role in determining SME R&D have been identified based on the ground aspects. In the ongoing globalization process of national markets, the role of technological capabilities becomes critical for firms' survival and growth. The disappearance of inward FDI and import barriers that once protected national markets and the introduction of product patent regime recently have vastly expanded the strategic role of technology in the evolving competitive environment of national markets. While the large firms are well positioned to face these globalizing competitive challenges with their better strategic asset bundle, the resource-starved small and medium enterprises are expected to be at greater risks.

It is no longer feasible for SMEs to use the competitive strategy of reverse engineering and innovative cost-effective processes to survive under the new technology policy regime. SMEs cannot take refuge in policy protection as current economic openness policies saw the removal of special treatment to SMEs in industrial policies like exemption from price controls, product reservation, preference in government procurement, etc. Therefore SMEs are required to develop or acquire necessary competitive resources like new technologies to compete with large national firms, foreign firms and cheap imports. Rapidly changing consumer preferences, shorter product life cycle and growing quality consciousness clearly call for SMEs to upgrade their technological assets. Finding and retaining qualified workers is the most significant challenge to the growth and survival of a business. Using people without the right skill sets is not only waste time, but also waste of resources. Many people hired turn out to be unreliable or incompetent or both. Many entrepreneurs have a lot of knowledge their products or businesses, but do not how to promote these products or services. A good product is not enough if nobody knows about it. The entrepreneur must also learn creative marketing, and targeting public relations to spread awareness of his product and services. It is hard to start a business when the economy is in bad. When there is high unemployment, business and consumers may have tight budget and are unlikely to take risk to try a new product or service. Furthermore, it is harder to get a loan. Technology moves really fast. There is always new software or devices out in the market that can help in your business. Even though some of these may be essential, being able to afford them and choosing the right tools and using new technology to help your business grow can be very tough. Some businesses require large amounts of capital to function. Undercapitalization may inhibit the growth and sometimes even be cause a company to fail. Entrepreneurs who are not well connected or do not have a track record may find it very difficult to find capital. Some businesses need very specific talents which are hard to find or expensive. If specific talents to the business are important, research should be done to see if they are available before starting the business. The founders are usually the ones that do everything. They come out with the ideas, the capital and everything else necessary to start. As a result, some of these companies cannot function without their founders, and it poses a great threat to scalability and growth. Once the company is stable, the employees should play a bigger role in the company. Many businesses are family owned businesses as it is easy to find family members and start a company (Hamid**,** *2013*).

2.6 Research Gaps.

From the studies conducted, there is mixed evidence about the effects of financial literacy on the performance of SMEs. It is therefore, important for bankers, bank regulators, supervisors, investors and researchers to understand how financial literacy affects the performance of SMEs in terms of loan repayment. The researcher's main purpose in this study was to fill this significant gap by providing systematic analysis of the effects of financial literacy on the performance of SMEs in line with loan repayment. Additionally, few researches have been conducted on financial literacy and the performance of SMEs in Kenya. Studies conducted have not exhaustively shown the relationship between loan repayment and the performance of SMEs in Kenya. This is the gap researcher intended to fill.

3.0 RESEARCH METHODOLOGY

3.1 Research design

This study used a descriptive survey research design to collect and analyze the opinions of the beneficiaries on their experience on financial literacy and loan repayment. This design refers to a set of methods and procedures that describes variables. It involves gathering data that describes events, organizes, tabulates, describes and depicts data (Kothari, Ramanna, &Skinner, 2010).The target population included all 300SMEs who had benefited from EGF in Ngara region. A sample of 30 SMEs was selected using stratified random sampling technique. The study population was stratified as hardware businessmen, clothes dealers, general retail traders and others. A self administered structured questionnaire was used to collect primary data from the respondents. The process of data analysis involved several stages. The study used both descriptive and inferential statistics techniques for data analysis. Descriptive statistics was applied to establish patterns, trends and relationships and to make it easier to understand and interpret the implications of the study. Data collected was then organized, coded, and entered in the computer for analysis using SPSS software. Correlation coefficient and regression analysis were used to explain the relationship between the independent and dependent variables. The regression equation of the form of $Y=\beta_0+ \beta_1X_1+ \beta_2X_2 +\beta_3X_3+ E$; where Y=performance of SMEs on loan repayment; X1=credit management skills; X2=book keeping skills; X3=budgeting skills, and E=Error term in the equation was used for inferential analysis. Data collected was presented using suitable tables, figures and percentages.

4.0 Findings

The study identified the following findings:

4.1 Book keeping perspective of financial literacy

The findings established that the beneficiaries had acquired financial literacy skills in book keeping that enabled them to maintain debtors and creditors ledgers resulting in a positive business expansion prospects as shown by a mean of 4.667 and standard deviation of 0.5164. The findings indicated that the maintenance of purchases and sales ledgers skills increased leading to effective heightened competitiveness, evidenced by a mean of 4.1667 and a standard deviation of 0.75277. The findings also show that the respondents agreed that the ability to maintain the payroll improved their business efficiency and effectiveness, illustrated by a mean of 4.0000 and a standard deviation of 0.63246. The study findings further reveal that financial literacy provides skills to beneficiaries enabling many to learn on how to balance the ledgers and trial balance leading to growth in loan repayment plans as indicated by a mean of 4 and standard deviation of 0.63246. The study further established that SMEs met the core capital requirement preparation of final financial statements as shown in the exhibit 2 below with a mean of 4.3333 and a standard deviation of 0.5164 which greatly enabled them to be potential receivers of loans in the future.

Table2: Aspects of Book Keeping

Aspects of Book Keeping	Mean	Std. Deviation
Have the debtors and creditors maintenance ledger skills helped you to expand your business?	4.6667	0.51640
Has the training in maintaining purchasers and sales ledgers increased your business competitiveness?	4.1667	0.75277
Has the training in maintaining payroll improved your business efficiency and effectiveness?	4.0000	0.63246
Has your ability of balancing ledgers and trial balance and preparing financial statements improved your loan award qualifications?	4.3333	0.51640

(Source: field data, 2014)

4.2 Credit Management perspective of financial literacy

The study established that financial literacy training program had a direct influence on credit management skills of the beneficiaries. The findings indicate that financial literacy increased the SMEs ability to maintain invoicing and billing records over the years as reflected by a mean of 3.6667 and standard deviation of 0.5164. The study also reveals 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 helped the SMEs to capture a great number of different customer groups as shown by the mean of 4.000 and standard deviation of 0.63246 as shown in the table3 below:

Table3: Aspects of credit management

Aspects of credit management competitiveness	**Mean**	**Std. Deviation**
SMEs maintenance of invoicing and billing	3.6667	0.51640
Self assessment of customer credit risk	4.5000	0.54772
The financial ability to capture great number of customer groups	4.0000	0.63246

(Source: field data, 2014)

4.3 Budgeting Perspective of financial literacy

The findings showed the different extents to which the respondents agreed with different statements about the efficiency of financial literacy on loan repayment. The respondents agreed that financial literacy regarding the maintenance of a budget committee reduced the SMEs running costs and ultimately enabled advance planning on loan repayment as shown by a mean of 4.5 and a standard deviation of 0.54772. The research equally indicated that the service costs reduced and enabled proper allocation of adequate loan repayment resources as indicated by a mean of 4.0 with no standard deviation. However, the study found no positive relationship whatsoever between the presentation and approval of budget by owners and the possibility of improved loan repayment prospects. Respondents agreed to a large that after financial literacy training, the ability to do a self-internal audit enabled them to identify resource leakages and proper channeling of adequate resources towards loan repayment, as shown by a mean of 4.3333 and a standard deviation of 0.5164. The study further shows that salaries and operating costs reduced at a mean of 4.5 and a standard deviation of 0.54772 while improved presentation skills increased innovation and invention enhancing probability of meeting customers' unique needs as shown by a mean of 4.0 and a standard deviation of 0.63246. Finally, the study findings indicate that internal audit to track budget implementation reduced chances of defaulting on loan repayment as shown with a mean of 4.8333 and a standard deviation of 0.40825.

Table4. Aspects of budgeting perspective of financial literacy

Aspects of budgeting efficiency	Mean	Std. Deviation
Has the maintenance of a budget committee reduced running costs and enhanced loan repayment?	4.5000	0.54772
Has your ability to collect budget inputs reduced costs and necessitated on loan repayment?	4.0000	0.00000
Has your ability to carry out internal audit enabled you to track financial records?	4.3333	0.51640
Have salaries and operating costs been reduced?	4.5000	0.54772
Has the presentation skills increased innovation to meet customers' unique needs?	4.0000	0.63246
Has internal auditing reduced loan defaulting?	4.8333	0.40825

(Source: field data, 2014)

4.2 Regression Model

The researcher conducted inferential statistics to establish the extent to which the independent variable affects the dependent variable. In this regression analysis and correlation matrix were derived. The multiple regression analysis was conducted to determine the relationship between performance of SMEs on loan repayment and the three independent variables i.e. credit management skills, book keeping skills, budgeting skills.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.937	0.878	0.865	0.65244

Predictors :(constant), credit management skills, book keeping skills and budgeting skills
(Source: field data, 2014)

The coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of the variation in the dependent variable (performance of SMEs) that is explained by all the three independent variables (credit management skills, book keeping skills, budgeting skills).The independent variables studied explain only (87.8%) of the effects of financial literacy on the performance of SMEs in Kenya as represented by R^2. This means that the other variables not studied in this research contributed (12.2%) and thus further research should be conducted to investigate these other effects of financial literacy on the loan performance of SMEs in Kenya.

Table 6: Coefficient of determination

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.843	.175		4.847	.000
Credit Management	.642	.082	.586	7.835	.024
Book Keeping Skills	.212	.083	.246	-2.806	.006
Budgeting skills	.167	.063	.223	2.583	.011

(Source: field data, 2014)

From the figures generated above, the equation ($Y=\beta_0+ \beta_1X_1+ \beta_2X_2 +\beta_3X_3+ \varepsilon$) becomes $Y=0.843+ 0.642X_1 + 0.212X_2 +0.167X_3+E$ .This regression equation shows that taking all the factors into account (credit management skills, book keeping skills, and budgeting skills) at constant zero then performance on loan repayment is 0.843. However taking all the independent variables at zero, then a unit increase in credit management will lead to 0.642 increases in performance, the same way a unit increase in book keeping skills will lead to 0.212 increases in performance. Again a unit increase in budgeting skills will increase performance by 0.167 respectively. This depicts that credit management continues to have the leading effect on SMEs performance, followed by book keeping skills, then budgeting skills which show a positive relationship between financial literacy and loan performance of SMEs. At 5% level of significance and 95% level of confidence, then credit management skills, book keeping skills, budgeting skills are significant in explaining the relationship between financial literacy and the performance of SMEs in Kenya since their levels of significance are below the base significance level of 0.05.

5.0 Conclusion

From the findings of this study, it can be concluded that the performance of SMEs is indeed affected by skills related to book keeping, credit management, and budgeting. On book keeping skills, the findings indicated that skills regarding to the maintenance of debtors and creditors ledgers increased after financial literacy training and this had a positive effect in business in terms of expansion prospects. Regarding the budgeting skills**,** the findings pointed out that financial literacy regarding the maintenance of a budget committee reduced the SMEs running costs and ultimately enabled advance planning on loan repayment. In addition, it was established that financial literacy training, enhanced the ability to do a self internal audit that enabled beneficiaries to identify resource leakages and ensure proper channeling of resources towards loan repayment. This revelation appears to compliment Miller's (2009) argument that financial literacy helps in empowering and educating investors so that they are knowledgeable about finance in a way that is relevant to their business and enables them to use this knowledge to evaluate products and make informed decisions. It is widely expected that greater financial knowledge would help overcome recent difficulties in advanced credit markets. Financial literacy prepares investors for tough financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance. Financial literacy facilitates the decision making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also provides greater control of one's financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes. As regards to credit management, it is evident that financial literacy was able to offer differentiated products to their customers. On the differentiated products and services, the financial literacy training program was able to provide SME loans, budgeting skills, book keeping skills, financial statements preparation and self internal auditing. Further findings indicated that the growth and expansion attracted qualified professionals and eliminated inefficient management through job descriptions and specification reviews, trainings, seminars and workshops. This is in line with Greenspan (2002) who argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate saving plans, and make strategic investment decisions. Proper application of that knowledge helps investors to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility.

5.1 Recommendations

The study recommends that SMEs should consider enrolling in EFG program or any other related programs to enhance their capability. The study recommends the formation of mergers for those SMEs facing constraints in the market in order to remain competitive in the market. SMEs need physical access to markets and help with registration, assistance in finding staff and managing cash flow. Furthermore, access to finance is not necessarily a route to success for micro enterprises. Crucially, they need mentorship and business skills transfer to make the transition to becoming established in the formal sector. Without the capacity to take on the next level of business practice, micro business owners will continue to be much more comfortable in the informal sector. Small businesses need different interventions. Access to finance and a healthy cash flow are vital if they are to thrive. Yet they are often required to manage their cash flows on a knife's edge in an economy where the tendency to pay late, both by government and big business, has become the norm. The providers of various financial literacy programs should consider implementing a program which fits the culture and traditions of the context targeted and avoid one size fits all because different MSEs have different experiences. Financial literacy programs to achieve better results should be provided by neutral providers who may not have any other interest to derive from the program apart from benefiting the target beneficiaries. The providers of various financial literacy programs should consider implementing a program which fits the culture and traditions of the context targeted and avoid one size fits all because different MSEs have different experiences. Financial literacy programs to achieve better results should be provided by neutral providers who may not have any other interest to derive from the program apart from benefiting the target beneficiaries. The provision of technology based financial services must be preceded with the necessary infrastructures to make its implementation realistic like electricity, network connectivity, general improvement of local population literacy levels and identification of business opportunities and ways of exploitation for the entire population to be economically active and then can discern the relevance of finance al literacy training and its influence in usage of technology based financial services and products. More should be done to improve on training and mentoring through designing of an Enterprise Development Training program targeting the beneficiaries. Now that The Micro and Small Enterprise Act, 2012 is now in place, mechanisms of delivering the policies affecting the sector should be immediately actualized. There should be more collaboration between the various association affecting different sectors. This will enable the MSEs achieve a better and bigger effort in their marketing of their products, improved competition and promotion of technological exchange and improved skills on individual members. There should be more focus on the secondary education where technical and vocational training should be done to develop artisans, entrepreneurs and managers for the informal sector in both rural and urban centers. Linkages between the MSEs should be developed especially within the associations to enable better operation, coordination and collective benefits. BDS providers should link up, develop products and mechanisms to ensure that their services area accessed and taken up by entrepreneurs who are members of the association. Support organizations should identify market segments and market opportunities and collaborate with other associations so that entrepreneurs can access these more lucrative markets. Networking events for entrepreneurs should be established by the associations to enable them to share experiences and marketing information. There is a need for structures and safe and secure market areas through which entrepreneurs of associations can be able to market their products and services, e.g. incubators, display venues, market stall and trade fairs. There is need for the government to work towards streamlining coordination of institutions implementing MSE activities. This will promote institutional structures necessary for effective policy design, implementation and monitoring of MSE activities for the benefit of the associations and entrepreneurs as well.

5.2 Suggestions for further Research

The same study should be carried out in other firms in different industries to find out if the same results would be obtained. A further study should be carried to find out the challenges facing the formation of SMEs in Kenya. Further studies should also be done to establish other factors of financial literacy that could affect performance of SMEs in loan repayment since the study only covered 87.8% of the factors. A study should be done to identify ways of structuring loans to ease SMEs' payment ability.

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