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THE EFFECTS OF FINANCIAL LITERACY TRAINING ON BUSINESS PROFITABILITY IN COASTAL REGION: A CASE OF KWALE COUNTY SMEs

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ABSTRACT

The study aimed at identifying the effects of financial literacy training on business profitability by SMEs in coastal region using Kwale County as a case study. The study used a sample of 74 SMEs drawn from the 3 Sub-Counties of Kwale which included Kinang, Matuga and Msambweni. The research design used was descriptive survey method which involved the use of questionnaires and interviews. The population included SMEs who benefited from the training offered by World Bank through the Kenya Coastal Development Project in Kwale County. Simple random sampling method was used to determine the sample size. The findings established that financial literacy training positively influenced the performance of SMEs and hence profitability. Four variables were investigated: working capital management, savings, bookkeeping and financial accessibility skills, profitability being the dependent variable. The results were found to be statistically significant for all the variables although with negative relationship with bookkeeping and savings. Based on the findings, it was concluded that financial literacy affected profitability of SMEs. The recommendations made were, Financial institutions to provide training to the SMEs to capacity build them on the available financial products and how to access them, Location of banking facilities far away from areas where SMEs conduct their business. Financial institutions to look in to the issue and ensure that bank branches or Agents are located in places nearer to the SMEs for ease of accessibility, Financial institutions need to reduce stringent rules and requirements on lending to SMEs as this limits the chances of accessibility to credit, Positive Savings culture by SMEs needs to be encouraged to create a larger pool of savings which will then be utilised as loans to those who require credit facility. This would be achieved if the bank allow /reduces stringent rules on lending hence more saving and more lending.

Key terms: Working Capital, Savings Skills, Book Keeping, Financial Services, Accessibility Skills, Profitability

INTRODUCTION

Profitability of the firm is greatly depended on the financial knowledge of the business owners on decision making processes such as payment of bills on time, proper debt management which improve the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. The key to building great wealth is having great knowledge to act on and great wisdom to know which course of action is the best, (RichDad.com 2012).

Financial literacy is defined by the Government Accountability Office (GAO) as “the ability to make informed judgments and to take effective actions regarding the current and future use and management of money.” (National Financial Educators Council, 2012). According to Jump$tart Coalition, (2007) financial literacy is defined as; the ability to use knowledge and skills to manage one’s financial resources effectively for lifetime financial security.

Education is a powerful driver of development and one of the strongest instruments for improving business profitability. The World Bank has placed education at the forefront of its poverty-fighting mission, and is one of the largest external financiers of education in the developing world. (World Bank Millennium Development Goals). Financial literacy is one of the factors that enhances the growth and profitability of many successful firms. The key factor in financial success is the financial education programmes which teach the knowledge, skills and attitude required to adopt good management practices for earnings, spending, saving, borrowing and investing. Those entrepreneurs with stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 2002).

The Equity Group Foundation (EGF) Financial Literacy Program was founded in 2009 to address financial challenges affecting micro and small entrepreneurs. The bank steps up Ksh 1billion to boost financial literacy by providing financial education to youth and women micro entrepreneurs. (Equity Bank, 2012). The Finance Alliance for Sustainable Trade (FAST) in coordination with Coffee Development Fund also hosted a training seminar for SMEs in Nairobi. SMEs were trained using the FAST Financial Literacy Training Toolbox materials, a comprehensive education package aimed at building financial, accounting and business management skills. (Finance Alliance for Sustainable Trade, 2013)

Policy makers in both developed and developing countries are increasingly recognising the importance of financial literacy and investing resources in financial education programs. Comprehensive National Initiative Program funded by The World Bank and other donors have sprung up around the world. (World Bank Policy Research Working Paper 6107, 2012).

Coast Development Authority (CDA) is promoting business management skills to Small and Medium Enterprises (SMEs) in coastal region through Kenya Coastal Development Program (KCDP), a World Bank funded development programme. The financial literacy training was conducted by Strathmore University Business School at Kenya School of Government, Matuga Kwale County in April, 2013 where a total of 74 SMEs Groups were trained. The SMEs were equipped with financial knowledge on Stock Management, Savings, Cash flow Management, Book keeping skills, Business Plan preparation, Budgeting skills, Investment, Business Costing, Competitive pricing. (KCDP News Brief August 2013 Vol. 3 No 1)

Coast Development Authority (CDA) is implementing the micro-enterprise Development which involves promoting access to Business Development Services and financial services and enhances the investment capacity of the coastal communities. The SMEs business training will go a long way in empowering them to exploit their economic potentials by undertaking business ventures that will contribute to improved standards of living.

In 1700s, people were concerned about budgeting and financial literacy. In 1800s, Ellen H. Richard created the profession of home economics. Her literature posed ideas in educating the citizenship about subjects such as budgeting and consumer skills. In 1950, the issues of financial management, income and expenditure, security and retrenchment, housing, budgeting and savings composed of fifty percent of the research that was done in the field of home economics. (Israelson, 1991).In 2000s, US Department of Treasury has been a leader in encouraging the development of financial education. Through their efforts, office of Financial Education was developed in 2002. The Department of Financial Literacy and education communication has been working to develop financial education for all people in United States. (United States Department of Treasury, 2009). In the year 2008, President George W. Bush created a President's Advisory Council on Financial Literacy which recognized the need to help Americans to understand Financial Matters. (Financial Literacy, 2008). The Financial Literacy Campaign was launched in Namibia in 2012, aimed at increasing financial education to small and medium entrepreneurs and low-income earners in the country. (Financial Corps, 2014). The Organization for Economic Co-operation and Development (OECD) and Russia's G20 Presidency issued a report on Advancing National Strategies for Financial Education, detailing progress by the governments of the world's major economies in implementing national strategies for improving financial education. (Financial Corps, 2014).

Profitability of an entity is what every business venture would like to experience. If individuals are illiterate concerning their personal finances, their financial management of new ventures will also be lacking and will lead to reduced new venture creation and possible failures of SMEs, (National Financial Capability Strategy, 2005). SMEs require essential information when making financial decisions; seeking for finances in terms of where, when and how to source for finances, savings, working capital management, record keeping for effective management of their business entities. According to Greenspan (2002), Financial Literacy helps to provide entrepreneurs with financial knowledge necessary to make household budget, initiate savings plans and acquire financial knowledge and skills to meet their financial goals.

From the previous studies, it is indicated that financial literacy is still an obstacle to business profitability. Lack of financial knowledge leads to low self–confidence and self-reliance by entrepreneurs to engage in business. Chege(2013), found out that women entrepreneurs with low-level of education lack leadership capacity due to lack of financial knowledge. Also, from the report of (Equity Bank Group, 2013), It was found out that there was a steady increase in the default rate in the loan repayment by SMEs, this was attributed to lack of financial literacy by the borrowers of the funds. When SMEs are equipped with necessary knowledge and skills on financial management through financial literacy training, they make sound financial decisions in terms of cash flow management, savings, debts management, sourcing of finances and record keeping which then leads increased profits to the entities.

The Kenyan government, investors and the business stakeholders have not looked into details the effects of financial literacy training in measuring the profitability of the firm, they assume that attribution of profitability are not related to the financial knowledge of the firm managers. It is on this note that The World Bank through the Kenya Coastal Development Project (KCDP) conducted financial literacy training to SMEs in Kwale County in 2013.

Research objectives

In achieving this broad objective, the following specific objective would be considered:

- To determine the effects of working capital management training skills on business profitability by SMEs in Kwale county
- To find out the effects of savings skills on business profitability in Kwale County
- To establish the effects of book keeping skills on business profitability by SMEs in the county
- To ascertain the effects of financial services accessibility skills on business profitability by SMEs in Kwale County.

RELATED LITERATURE

Theoretical Framework

Life Cycle theory of savings and consumption

The theory was developed by Franco Modigliani and, Richard Brumberg in 1954 based on the observation that people make consumption decisions based both on the resources available to them over their lifetime and on which is their current stage of life. Modigliani and Brumberg observed that individuals build up assets at the initial stages of their working lives. (Amune J. B. et al 2015) Later on during retirement, they make use of their stock of assets. The working people save up for their post-retirement lives and alter their consumption patterns according to their needs at different stages of their lives. While based on an examination of individual behaviour, this theory provided important predictions for the economy as a whole. It predicts that the aggregate saving of a country is dependent on the rate of growth of national income, not its level. Also, the stock of wealth in an economy is related to the length of retirement span.

The life-cycle hypothesis implies that individuals plan their consumption and savings behaviour over their life-cycle. They intend to even out their consumption in the best possible manner over their entire lifetimes, doing so by accumulating when they earn and dis-saving when they are retired. The key assumption is that all individuals choose to maintain stable lifestyles. This implies that they usually don't save up a lot in one period to spend furiously in the next period, but keep their consumption levels approximately the same in every period, (Annamaria L. & Olivia S. Mitchell, 2013).

The study intends to find out the saving patterns of SMEs as a result of the financial literacy training offered to them by the World Bank though KCDP. As the firm’s profits increases, savings is also expected to increase and likely expected to increase investments.

Dual-Process Theories

The dual process theory is a cognitive psychology theory that explains the different levels of information processing in individuals. Dual-process theories (Evans 2008) embrace the idea that decisions can be driven by both intuitive and cognitive processes. Although dual-process theories come in many different forms, they all agree on distinguishing two main processing mechanisms. One of the processes can be characterized as fast, non-conscious, and tied to intuition (System 1), and the other as slow, controlled, and conscious (System 2), System 2 is responsible for analytical and rational thinking (Stanovich and West 2000) which is needed to consistently implement a financially literate investment strategy, both systems are processing for learn and process information. In social psychology dual process is used in judgments about situations and other people who can influence stereotypical thinking and beliefs in the accuracy of information learned from others. A clear understanding of book keeping and its value in business working environment, enables managers effectively respond to problem.

Family resource management theory

Family resource management theory by Deacon and Firebaugh (1981) based in systems theory, to understand the financial management practices of college students. Deacon and Firebaugh developed the family resource management theory as a management process with a systems orientation where management is the process of using resources to achieve goals. The four stages (inputs, throughputs, outputs, and feedbackloop) in the family resource management model explain how people make financial decisions and develop financial behaviours. Socially earning theory helps explain the environmental influences college students have had that shape them into who they are today. As students learn over the years through social interaction they begin to understand and form their values, knowledge, and attitudes about finances. Family, friends, school, community, nation, church and media shape college students' knowledge and attitudes overtime (Bubolz & Sontag 1993).The environment influences the attitude, knowledge and personal characteristic of an individual when making financial decisions. Similarly for business firms, the surrounding environment is a key element by SMEs when making decision on financial accessibility services.

Working Capital Management by SMEs

Working Capital Management is all about managing current assets and current liabilities of a company. Managers who have the ability to innovate and adopt new technologies can be more productive. (Magoutas et al. 2012). SMEs need to pay particular attention to the control and monitoring of working capital because of their higher proportion of current assets, less liquidity, volatile cash flows and reliance on short-term debt relative to larger firms.(Peel et al. 2000).

Most SMEs do not engage their working capital in such a way as to enjoy maximum profits and their contribution of debtors' management strategy, cash management, creditors Management and stock management strategies leave a lot to be desired. Also most SMEs do not care about the working capital position and lack credit standard policy. (Sunday, K. 2011).

Lack of financial education on proper management of working capital is seen to be a major problem facing SMEs. SMEs encounter high rate of insolvency, problem of paying all from cash earnings and also experience situations where sales cycle is shorter than the average age of accounts payables leading to trade debts building up in an ever increasing manner until a point is reached when it cannot be paid off in due date. Qazim &Ramiz (2011) indicated the importance of liquidity management for every organization that means to pay current obligations on business that include short term operating and financing expenses. (Nazmil and Shamen, 2012) argues that the liquidity, profitability and solvency position of most of the firms are in average position with the causal factor behind this position being unsound financial management, inadequate working capital, slow conversion of receivables and inventory into cash.

Savings skills by SMEs

According Michael B. et al (2009), having good communication skills is necessary in any business. This is mainly because of the personalized services that most customers anticipate when dealing with small business owners or managers. Financial management knowledge is also considered as key. Studies by Sameroynina et al. (2005) and Schrooten and Stephan (2003) showing that income positively influences saving. Hence, low savings level is as a result of low income levels. An improvement in credit access is expected to have a negative impact on saving. SMEs can benefit from business advisory services once they operate savings account or utilizes loan facilities with financial institutions.

However, according to the study by Rogg (2000), there is a likelihood of savings increasing with an increase in credit access due to a shift of saving from cash and near-liquid assets to deposit accounts. This is due to the fact that service charge likely corresponds to the security of the saving by the saving institution. This concurs with Shem (2002) in that increase in service charge implies improved security of the saving and hence increased saving. Personal savings seem to be the most important source of finance available to entrepreneurs in creating new ventures (GEM, 2003:13). Owing to the extremely high debt ratios of consumers, savings have been left behind and almost forgotten.

Several fundamental concepts lie at the root of saving and investment decisions as modelled in the life cycle. Three such concepts are: numeracy and capacity to do calculations related to interest rates, such as compound interest; understanding of inflation; and understanding of risk diversification. Translating these into easily-measured financial literacy metrics is difficult, but Lusardi and Mitchell (2008, 2011b, c) have designed a standard set of questions around these ideas and implemented them in numerous surveys in the United States and abroad. The growing sophistication of financial markets means consumers are not just choosing between interest rates on two different bank loans or savings plans, but are rather being offered a variety of complex financial instruments for borrowing and saving with a large range of options. (OECD Policy Brief, 2006).

The government of developed economies in G20 Summit recognised financial access as an accelerator to meet Millennium Development Goals, particularly financial literacy. They proposed that financial literacy can influence SMEs to increase their savings accounts and can be able to access a variety of financial products to enhance their entrepreneurial growth. (World Savings Bank Institute, 2010).

Book keepings skills by SMEs

According to Onoh. S. (2011) fundamental accounting skills are those competencies in basic accounting required by a person to function competently and successfully in the process of carrying out ones functions of recording daily business transaction which includes skills in book keeping, budgeting, keeping of accurate receipts, sales records, customer records among others. Siekei., et al. (2013) states that Effective implementation of financial literacy skills leads to improvement in business performance due to improved ability to track business events from the record system.

Proper book keeping skills can be seen in financial literacy as it facilitates the decision making processes such as payment of bills on time, proper debt management etc. This enables the business owner to control the financial future, effective use of financial products and services available among Banks or SMEs. This is because financially literate investors 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. Bookkeeping act as guide when making inventory decisions hence leading to improved sales and profitability. Investors on their part 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 et al., 2009). Consumers who spend more than they earn, who do not keep financial records and do not plan and implement regular investment programs, are individuals who make flawed financial decisions.

Financial Services Accessibility skills by SMEs

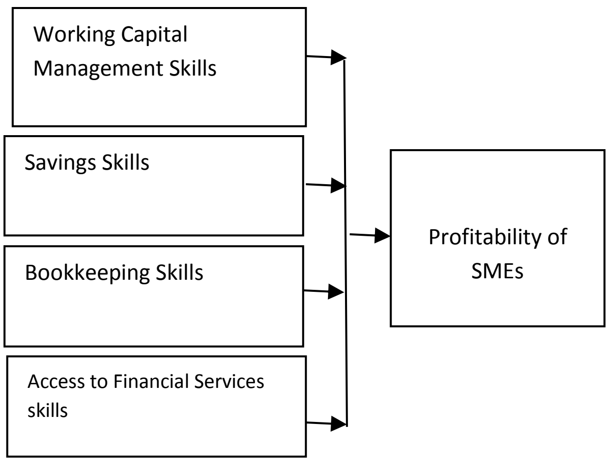
There are a number of factors that influence the decisions of SMEs' operators and mangers before deciding the source and amount of finance to finance business investments to invest in business activities. Prasad, Green and Murinde (2005) found that financing policy, capital structure and firm ownership are all strongly linked. Carpenter and Petersen (2002) argue that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. Similarly, UWFT (2005) found that majority of SMEs that accessed adequate funds from microfinance institutions increased their volume of sales and the profit. However, small increase in the volume of sales and business profitability may not be significant without the business managers acquiring the knowledge and skills in financial management.

Small companies frequently suffer from a particular financial problem due to lack of a capital base. Small businesses are usually managed by their owners and available capital is limited to access to equity markets, and in the early stages of their existence owners find it difficult in building up revenue reserves if the owner-managers are to survive. A question concerns how small businesses determine sources of finance in such difficult circumstance.

In an attempt to explain small firm financing behaviour, other scholars have relied on agency theory. Agency theory holds that investors who have equity or debt in a firm require costs to monitor the investment of their funds by management or the small business owner (agency costs). This view suggests that financing is based on the owner-manager being able to assess these agency costs for each type of financing, and then select the lowest cost method of financing the firm's activities. The varuban, (2009) examined small scale industries and its financial problems in Sri Lanka. He underscored that SMEs of small scale industries in Sri Lanka finds it extremely difficult to get outside credit because the cash inflow and savings of the SMEs in the small-scale sector is significantly low (Ganesan,1982; 2000). Hence, bank and non-bank financial institutions do not emphasise much on credit lending for the development of the SMEs in the small-scale sector in Sri Lanka. Due to the key importance of training SMEs entrepreneurs in order to reduce lenders risk, some banks together with SMEs organizations and the government have developed a series of training courses, for example, NatWest, in cooperation with the Federation of Small Business and local education Authorities offered training to entrepreneurs and those who completed the course were eligible to lower interest rates. Improving entrepreneurs' management skills and their financial awareness will make a vast improvement in their access to finance. (Reuben Ricupero, 2002)

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

Conceptual Framework



Independent Variables **Dependent Variable**

Fig 1: Conceptual Framework

Source: Researcher (2016)

RESEARCH METHODOLOGY

The study used descriptive survey method (Orodho, 2007). The study picked 100% from the population under study which was used during the research as the target population. This means the target population was 74.

The sample size was 100% of the target population which gives a total of 74 trained SME groups. The study adopted the following model.

Y= f(B0+B1X1+B2X2+B3X3+B4X4+E)

Whereby

Y= Profitability of SMEs

f= function of

Bo= constant variable

X1= Working Capital Management

X2= Savings Skills

X3= Bookkeeping Skills

X4= Access to Financial Services

RESEARCH FINDINGS

The Question of the duration or existence of the SME group for the interviewed people shows a range people fell between 7 -11 which accounts for 53% of the total people interviewed, it was followed by those within the range of 12 years and above accounting of 36%. There was a minority group with less than 6 months accounting for 11%of the total number of responses. The research showed that majority of the people interviewed stated the reason for joining SME as to the need to borrow for person development with 32 out of 70 positive responses. This was a positive scale considering that the aim of most of the projects from Government or Non-Governmental organization were working hard to encourage borrowing and saving towards both short term and long term development of individual as well as the society. There was a strong correlation between borrowing for personal development and aim of saving as a key reason for joining SME, this supported Kothari (2003) correlation analysis studies between the independent variables and the dependent variable. A good number too of 20 out 70 showed that their interest was to save money, others were for assist in problems (11) and minority were for social reasons.

The research showed that majority of the interviewed people used the proceeds for business and they had stated as: selling Fish, start a shop within the areas, start poultry farming, and buy land/plots and there was a reasonable number which stated that they used the funds to pay school fees for their children in Secondary school, colleges or in universities. This arisen from the fact that when such needs were faced by the family when they have No other source of funds then they resort to using the same to pay fees. there was a high confidence level among women who have started selling fish from the funds with a good level of success, similarly for men, some have started Poultry farming to a greater level of success using the funds from SMEs. Although there was a group which stated that they have used the same to buy land or plots, non-demonstrated a level of success as seen from other categories. This could be attributed to the fact that land or plots are a long-term investment which can give return on Investment after a long period unlike other enterprises stated.

WORKING CAPITAL MANAGEMENT

Extend of maintaining cash budget for daily business activities

The research showed that majority of the people had retained cash to a greater extend as cash funds for daily business, subsequently followed closely by a group which maintained cash to some extent. This showed that most of the people here prefered having cash budget for daily business activities.

The research showed that majority of the people interviewed agreed that their Income did not cover their living costs with 43 out 70 people interviewed. Similar there was a smaller number of 23 out of 70 which did not agree or according to them, the income arising from the business or activities from funds sourced from SMEs were sufficient to generate enough income to cover their living cots, this was positive indication that there were some good side to SMEs in the society especially those with saving culture and a small group which did not see any difference changes in positive or negative way.

Making End Meets

The research showed that majority of the people interviewed borrow from Friends and Family members, this could be attributed to long list of requirements before one borrow from a bank or Financial institution, family or friends only required a certain level of trust and quite often they were involved with small money. From the findings a good number of people made use of the existing resources which was a positive view for SMEs within the locality. It was also clearly seen from the findings that borrowing from Financial institution was so low and most due to lack of knowledge by locals on the role of banks in saving and borrowing, fear of loan by the locals and lack of security as per the most banks requirement of Assets in order to get loan from them.

Effective Debts management in business

There was a greater level of responsibility when it comes to management of debts in the business, this was seen in the research which showed that majority of the people to a greater extend seriously managed debt within the business and closely followed by a team which says debt management it to some extent, it showed that people were conscience on debt which were likely to affect the business if not well managed. There was a small group on the opposite side with 6 out of 70 people interviewed which did not think of managing of debt in the business was essential.

To what extend do you do proper stock management in terms of stock take, ordering, issuing and pricing?

Management of stock in general was still a new concept in the area, the research showed that majority of the people interviewed did very little on management of Stock taking, ordering, issuing and pricing with 34 out of 70 people interviewed stating that they did little in that area. This view was much attributed to low level of education and little experience in business practice or lack of role model in successful running of business. There was a correction between the number of education and the people who do proper Management of stock as seen from the finding of this research.

SAVINGS SKILLS MANAGEMENT

Do you always spend within your budget

The research gave an interesting feedback that the people interviewed have a saving culture within. The research showed that majority at 60% have saving Skills Management and spend within their budget. This was an important skill required for any business person or potential business person to have saving skills management by spending within limits or capabilities. There is a direct correlation between the finding on the extend on management of debts effective in the business which too return a greater number of people interviewed does to a greater extend (Figure No. 11 above). The finding make it stronger when those who spend within the budget at 60% and those who does it sometimes at 25% return a greater positive results when compared with those who do not at 11% and those who do not know at 3%.

Do you have a bank Account

The research showed that majority of the interviewed people had a bank account with at least79% responses indicating affirmative to the question meaning that for any SME programme in the area, there is a likelihood of success since many people have bank account. There is a small group of 11% without bank account which means the likelihood of influencing the few to open bank account still in high if there will be able to see the benefits from the majority who have it.

How often do you send money to the bank?

For those who stated that they had a bank account, they were asked further on how often do they send the money to the Bank and the research shows that majority of the interviewed people at 33 out 55 send weekly. This a positive indicator and the inability to do daily could be attributed to the fact that Banks might be far away from their resident or place of doing business and since they are saving small money, they prefer to accumulated to a reasonable amount before taking them to bank. The number was closely followed by those who does it monthly at 14 out 55 people interviewed. The same reason like above could be making them delay banking services. This could be dangerous for business or saving management or culture as the person could be tempted to use the money since he/she has direct access within. The group which does banking daily was so low at 4 out 55 people interviewed. This could be the group which lives near banking services or those who does business which makes them travelling daily to centre with banking services. Although there are modern ICT baking service and agency centre currently open all over Kenya. The local people still do not understand or related the same to real banking service done in banking halls.

For those who stated that they do not have a bank account, they were asked further on where do they save their money and the research shows that majority of the interviewed people at 7 out 15 say they save cash at Home, another group of 5 of 15 people interviewed say they save in Chama groups. These results also shown a positive culture towards saving or managing cash money, although those saving at home are not gain proper security or gain from saving but those saving with Chama groups are better and can easily be encourage to open

Bank Accounts. There was a minority group which does not save at all or spend all the proceeds this is serious lot which is dangerous for SMEs concept in the rural are or for any project started or to be started in future.

Spending of savings in bank account

For those who stated that they have a bank account, they were further asked on how do they spend their saving in Bank and the research shows that majority of the interviewed people at 31 out 55 say they Re Invest in the business, a closer number of 14 out 55 say they start a new business. This result shows positive benefits of having a Bank Account and the saving culture as many of them will be able to see an expansion in their business and other closely opening of new business from the money saved in bank account. There was a minority group of 4 out of 55 which stated that they loan it to friends, it was not clear if they loan it at a higher interest rate than banks which can be beneficial to them or if they are loaning to friends at no benefit or returns to them in the long run. Another small group too of 6 out of 55 leave the money to accumulate at the bank, this group are assured of security of their money but they might not benefit much when compared with those who used their saving to start business.

BOOK KEEPING SKILLS MANAGEMENT

Do what extend do you maintain asset records of your business?

On the book keeping skill management, they were asked on what extend they maintain assets records of their business. This results shows a positive findings with majority of 41 out of 70 doing it to a greater extend, according to most of those who do in to a greater extend and those doing it to some extend which was 19 out of 70 people interviewed, they attribute this positive figure to some of the training which was provided by coast Development Authority sometime back, it shows that the impact done earlier on book keeping has yield some results which have been transfer to several other activities in SMEs function. The group which do little or those which do nothing in record keeping could be attributed to those who did not attended the mentioned training or if they attended then they did not actualised the benefit or understood the benefits at all.

Extend of maintaining business expenditure in line with the budget.

Similarly, on the book keeping skill management, they were asked on what extend they maintain their expenditure in line with the budget. This result shows a positive finding with majority of 29 out of 70 doing it to a greater extend, this was followed closely by those which do it to some extend at 25 out of 70 people interviewed and those who does it to a little extend at 13 out of 70 of the people interviewed. All the above positive indicators have a direct correlation with the earlier training provide as stated above. The group which does little or those which does nothing is so minimal at 3 out of 70 people interviewed.

Prepare accounts for business including the cash flows and income statements and balance sheets.

A similarly question on the book keeping skill management was to what extend do they prepare accounts for business such as the Cash flows, Income statement and balance sheets. Here the majority at 46% say No to it and when combined with those who do not know at 11% then they give it a large majority in the feedback. This could be attributed to the fact that such issues like preparing books of account are done by professional who could be lacking in the area or it could be expensive for the people interviewed to pay for these services from those professionals. Small minority of 26%

gave affirmative response to it and another group of 13% which they do it sometimes; when the two groups are put together still they are a minority among the whole group.

Challenges you face when preparing your business books of accounts

On the book keeping skill management some of the challenges which were given by the people interviewed vary from individual, it means challenges were cross cutting such that some were affecting other but not all of them. The list provided here shows challenges which affect:- poor book keeping concepts, lack of knowledge on basic accounts, poor/incomplete records for all transaction done in the business, collection of debt from those who have borrowed with promises to return and separating family usage and business consumptions.

FINANCE ACCESSIBILITY

The source of finance

On Finance accessibility. A question was asked on where do they get their Finance and the results shows that majority borrow from friends & family members with majority of 33 out of 70 of the people interviewed. The research attribute this trend to lack of security as required by most banks such as land title which most of them do not have or if they have they do not trust giving it out with the fear of likely losing it if they default in repaying the loan. Another reason as found by the research is that most of the women do not have land title deeds and when the family have, it is in the name of the father or husband hence using it become difficult unless they get consent from the father or the husband which is not easy to agrees as per the research findings. The finding also show a wide diversity on the sourcing for funds as there is a good number of 17 out of 70 which borrow from banks, 12 out of 70 which do self-financing and this could be attribute to few successful businessman or those who had started business earlier than others and are now established or comes from well and able families to be able to do self-financing. There small group which do through purchase of credit which show a high level of confidence from both side and advance understanding of mode of sourcing for Finance unlike majority.

When making decision on the finance products, which sources of information do you feel most influenced you about finance products you chose?

Similarly, on the Finance accessibility, they were asked on the source of information when making decision on the finance products which influence their choice of finance product. This result shows that friends have a greater influence with majority of 37 out of 70, it means social influence of friends have a direct impact on the business finance. This is now where the type of service offered by SMEs or Banks has a direct influence of future customers, if the customer care is poor, it means negative information will be extended by the customers to friends and hence affecting the performance of the SMEs or bank in the area. This is further supported by the finding where the results is closely followed by those who used personal opinion at 18 out of the 70 people interviewed. The results also have a significance influence from Media such as local radio, newspaper etc. at 12 out of 70 people.

What is the average loan you got from Micro Finance Institutions

Similarly, on the Finance accessibility, they were asked what is the average loan they get from Micro Finance Institutions and the research shows that majority of the interviewed people at 50% go for an average loan of between Ksh 20,001/= to Ksh 49,999/=, this shows that they are an average lot which are not so rich or so poor, this is correlated with the fact that the option given was having a higher figure than that and a similarly a lower figure too. The next lot were people which takes an average look of between Ksh 1 up to Ksh 20,000/= at 33%, this a significant number which is important for Micro Finance Institutions as most of the beginner or those trying to test the market or ability to repay the loan are within this group. Those who are classified as well-off or established groups are a small minority but they have a significant number of 11%, this is also a good number for banks or Micro Finance Institutions as they will have a lead role in influencing the others groups to think of taking the loan if they are successful then they will act as role model for banks etc. The minority group of all the categories are those which take an average loan of above kshs 100,000 and by all means this are most well-established individual which are most having more than one source of revenue or well-established businesses.

Extend the loan providers provide training on Financial Management before advancing the money.

Similarly, on the Finance accessibility, they were asked what extend do the loan providers provide training on Financial Management before advancing the money and the research shows that majority of 38 out of 70 people interviewed agrees that to a great extent they are provided with training on Financial Management before advancing money by Banks or Micro Finance Institution. This was closely followed by other positive responses on provision of the same training to some extend with 19 out 70 people interviewed. There was a minority with responses of to No extend of 5 out 70 people and to little extend with 8 out 70 people interviewed. The overall results show that Provision of Training on Financial Management before advancing money is done as a serious commitment by banks and Micro Finance Institutions.

When taking a loan, what form of security do you offer to the bank.

On the same area of Finance accessibility, they were asked when taking a loan, what form of security do they offer to the bank and the research shows that majority of 45 out of 70 people interviewed gives out the building as a security for the loan. This demonstrate the fact that there is a lot of trust on what they are going to use the loan to an extent where you give out a whole building as a security which is accepted by Banks or Micro Finance Institution. There was a significance number which offer land title deed as security though there is a lot of fear among many on giving out land title if they are not sure of future of the business they want to start. Majority of the lands in the area do not have title since the land is unregistered. Other used business stock and few take non- secured loan.

Some of the difficulties faced when accessing bank loans

It was acknowledged by many interviewed during this research that there are difficulties encountered when trying to access the bank loan. The response provided below was listed based on difficulties which affect the SMEs. Some of them lack information on finance (bank loans)which was considered to be a major constraint, literacy level among the SMEs is aslo a major constraints to growth or the need for business expansion, Lack of security for the loans , competition from well organised established firms hence banks do not listen to the lowly or small scale business people, poor or low saving culture among the locals and lack of banking facilities within their areas make it difficult for people to start saving or seek credit for start-up costs for a business.

INFERENTIAL STATISTICS

Regression Analysis

Table 1: below shows a model summary that is used to measure how well a regression model fits the data.

Table 1: Regression Analysis

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.88a	.78	.60	.07

The above model has an R Squire of .78 meaning that the independent variable explains 78 % of the variability of the dependent variable. R is used to measure the quality of the prediction of the dependant variable, 0.88 indicates a good level of prediction. The adjusted R .60 is the measure of shrinkage ration that will be observed if the model is applied to a different sample. It shows the amount of predictive loss of the model. The Standard Error ("Std Error "), of .07 is an indication of the reliability of the mean. It shows an indication that the sample mean is a more accurate reflection of the actual population mean

Statistical Significance

ANOVA finding in the table below indicates a Significance of 0.000. It indicates that there is a correlation between the predictor variable (Working Capital Management Skills, Savings Skills, Bookkeeping Skills and Access to Financial Services skills) and dependant variable (Profitability of SMEs) hence the regression Model is a good fit for the data.

Table 2: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.076	4	.338	4.346	.004*
Residual	.022	25	.037		
Total	**.098**	**29**			

Predictors: (Constant): Working Capital Management Skills, Savings Skills, Bookkeeping Skills, Access to Financial Services skills

Dependent Variable: Profitability of Small and Medium Enterprises.

This study used ANOVA to establish the significance of the regression model with a significant error level of .004. The model was statistically significant in the effects of financial literacy training skills by SMEs with factors such as working capital management, savings, book-keeping and access to financial services skills in determining their profitability given that the regression model had a probability of less than 0.04% of giving a wrong prediction hence high reliability of the results. The dependent variable F (4,25)=4.346,P<0.0005 i.e the regression is a good fit for the data.

Correlation Analysis

A bivariate correlation test that computed Pearson's correlation coefficient was carried out to establish the existence of linear association between two variables. The correlation coefficients (r) range from 0 to 1. 0.1 to 0.29 is considered weak, 0.3 to 0.49 is considered medium whereas above 0.5 is too strong. The table below represents the findings.

Table 3: Pearson's Correlation Analysis

		Working Capital Management	Savings Skills	Bookkeeping Skills	Access to Financial Services skills
Working Capital Management Skills	Pearson Correlation	1	.360	-.171	-.522
	N	74	74	74	74
Savings Skills	Pearson Correlation	.360	1	-.132	.331
	N	74	74	74	74
Bookkeeping Skills	Pearson Correlation	-.171	-.132	1	-.189
	N	74	74	74	74
Access to Financial Services skills	Pearson Correlation	-.522	.331	-.189	1
	N	74	74	74	74

Pearson correlation between Savings Skills and Working Capital Management Skills.360. This is a positive medium correlation that indicates that one unit increase of saving skills will lead to an increase in working capital skills by 13% . Pearson correlation between Bookkeeping Skills and Working Capital Management Skills was -.171 (3%) indicating there exist a weak negative correlation between the two independent variables. Pearson correlation between Access to Financial Services skills and Working Capital Management Skills was a strong -.522 (27%) suggesting that increased in Access to financial services skills will lead to a notable increase in Working Capital Management Skills in the opposite direction. Pearson correlation between Bookkeeping Skills and Savings Skills was -.132 (2%) suggesting a weak negative correlation. Pearson correlation between Access to Financial Services skills and Savings Skills was .331 (11%) suggesting a fair positive correlation. Pearson correlation between Access to Financial Services skills and Bookkeeping Skills is a weak -.189 (4%)

indicating a fairly weak negative relationship between the two variables.

CONCLUSION

The working capital needs of most of the concerns fall between the two extreme requirements of trading firms and public utilities. Such concerns have to make adequate investment in current assets depending upon the total assets structure and other variables. Majority of the interviewed SMEs maintain a budget for daily business operations. But on liquidity positions a larger number of them admit that their income does not cover their living costs. This is attributed to the fact that accessibility of loans from financial institutions is still a challenge. Debt is well managed by a majority of SMEs but stock management is done to a smaller extend.

79% of the interviewed SMEs have a bank account and send their proceeds to the bank on a weekly basis. These savings at the bank is later on spend on re-investment in the business. 60% of the SMEs spend within their budgets an indication that the SMEs have a positive culture of saving.

Majority of the interviewed SMEs maintain a register of their assets with a smaller group not maintaining the records. Most of them have a cash book and a register for recording their assets. They have a challenge of preparation of accounts, 46% of them do not prepare the accounts citing reasons that the accounts require a professional to prepare them.

Lack/inadequate information on finance (bank loans) and lack of banking facilities within their areas. This contributed to larger proportion of loans coming from friend and relatives. Majority of businesses stagnate due to lack of funds since sourcing it from friends depends on their ability to lend.

The hypothesis stated that, Profitability of SMEs is independent of Financial Literacy Training. Data to the hypothesis was collected from SMEs who benefited from financial literacy training by World Bank Funded Programme through Coast Development Authority and was analysed using both statistical models (Pearson's Coefficient, ANOVA, and Regression Analysis) and descriptive analysis using Pie charts and Tables. A relationship between Profitability of SMEs and Financial literacy was found to be statistically significant and this led to rejection of Null hypothesis in favour of the alternative hypothesis. Factors like skills on working capital management, savings, bookkeeping and accessibility to financial services were found to have a significant effect on profitability of SMEs at varying levels of significance.

The study was able to achieve its objectives and concludes that:, Profitability of Small and Medium Enterprises depend on working capital management skills, Saving Skills, Bookkeeping skills and Access to Financial services skills.

AREAS FOR FURTHER RESEARCH

Further research needs to be done on other skills that contribute to profitability of SMEs other than (working capital management skills, savings skills, bookkeeping skills and financial accessibility skills).

RECOMMENDATIONS

- The local people still do not understand, trust or related well with Mpesa banking or Banking agency within and hence a lot has to be done by the financial institutions to build confidence on e-banking, Agency banking etc
- Financial institutions to provide training to the SMEs to capacity build them on the available financial products and how to access them.
- Location of banking facilities far away from areas where SMEs conduct their business.

Financial institutions to look in to the issue and ensure that bank branches or Agents are located in places nearer to the SMEs for ease of accessibility.

- Financial institutions need to reduce stringent rules and requirements on lending to SMEs as this limits the chances of accessibility to credit. This is evidenced from the findings that most of the loans are from friends and Chamas while smaller proportions from MFIs and banks.
- Further training needs to be done to equip the SMEs with more knowledge on preparation of accounts and bookkeeping by the Government, Donors and Financial institutions. They also need training on the principles of controlling expenditure such as a) They should be trained on how set priority on what to spend their money on, b) Budget preparations to operate on and c) They should match their expenditure within their income.
- Men contribute to 34% of the SMEs in the area, hence the need for capacity building training by County Government, MFIs and donors for them to contribute positively to economic development.
- Positive Savings culture by SMEs needs to be encouraged to create a larger pool of savings which will then be utilised as loans to those who require credit facility. This will be achieved if the bank allow /reduces stringent rules on lending hence more saving and more lending.

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