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Influence of Financial Access on Performance of SMEs of Fish Trading along Lake Victoria Region Kenya

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ABSTRACT

Purpose: Examine the effect of access to finance on performance of small and medium enterprise of fish trading along Lake Victoria region Kenya.

Methodology/Approach: The study was anchored on positivism philosophy while credit rationing theory was used as a guide to the study. Mixed design was used. Target population of 4,500 respondents with a sample size 173 of traders was selected using the Yamane formula. Questionnaire as data collection instrument. The study data were analyzed using descriptive and inferential statistics which include mean and mode. Descriptive statistics was computed to summarize data before regression analyses. This was presented using tables.

Findings: Simple linear regression results showed financial access had a significant effect on performance of SMEs of fish trading along Lake Victoria region (Coefficient of correlation 0.403, p=0.000<.005, t=5.499). The study rejected the null hypothesis.

Implications: The study recommends that business owners should seek funding inclusion to enable performance.

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Introduction

The ability to get financial services such as demand deposits, credit, payments, or insurance is referred to as access to finance (Massa, 2013; Beck & Honohan, 2017). The necessity of financial access may be affected by factors such as physical accessibility and pricing. Access indicators can be classified as demographic or geographic. Measures of geographic access include the quantity of ATMs and bank branches per square kilometer. While the indicators of demographic access are numbers of bank branches per given number of people and number of bank ATMs per given adults (Sarma & Pias, 2021, Beck. et. al, 2016). AFI (2020), notes that it should be quantified as the number of access points per adult at the national level, broken down by administrative unit and kind. Greater density of ATMs and branches per square kilometer indicates greater geographic access and a shorter distance to the closest physical bank outlet. Beck et al. (2016), avers that per capita estimates of branches and ATMs always represent the average number of individuals served by each physical location; so, larger numbers indicate fewer clients per branch or ATM, or simpler access.

Carpenter et al (2012) states that financial institutions offer credit facilities. Where there is constraint on the access to finance then this always limits the firm growth. Survey by Fin (2020) indicates that when there is insufficient funds access is a problem as a result of lack of capital to purchase raw materials and pay workers while a study by Shepherd et al (2017) indicated that access to finance is the significant obstacles to business growth and performance. Financial institution has resulted to reluctance by financial institution to offer loans to SMEs (Ramed, 2020). Cook and Nixson (2005) also note that the lack of resources to address a range of operational and investment needs limits the growth of SMEs. Fish dealers' access to banking and credit facilities is a challenge, it is imperative that it be carried out to ascertain the impact of bank accessibility on the performance of SMEs.

SMEs are typically classified as having between 50 and 249 employees, whereas micro-sized businesses are typically characterized as having up to 49 employees. Firm size is determined using financial data from the European Union. SMEs firms are defined as businesses with a sales turnover of between EUR 2 million and EUR 50 million. Companies are categorized as micro companies if their sales turnover is less than EUR 2 million and as major enterprises if their sales turnover is more than EUR 50 million. An additional crucial factor in classifying a business size category is the ownership structure of the company. Depending on their turnover or workforce size, subsidiaries of big businesses that fit into the micro firm or SME classifications must be handled differently from standalone micro firms or SMEs. Hence, for the purposes of organizational theories, value contributed or workforce size is a more appropriate indicator of a company's size than assets or revenue.

Statement of the Problem

A survey on SMEs business sponsored by the Danish government in 2020 and discharged to Kenya recognized that players in the sector were discontented with access to finance particularly from the established financial institution in Kenya. About 65% of SMEs investors in Kenya, in line for survey, the owners of SMEs say that they failed to receive any monetary help from financial institution through tough economic times(SMEs Report, 2023). Even though much has been done on financial inclusion, little has been done on developing countries more so in Africa. Various researches has highlighted the importance of knowledge financial as developing persons towards financial stability. Kushnir, (2020) conducted a study on private sector financial accessibility indicating a sectoral gap whereas Mainelli and Giffords' (2020) were based on large business in comparison to SMEs for this study. Access of financial products in Kenya and the relationship between it and performances in SMEs has not been researched exhaustively, as part of Kenya still remains financially excluded and this means that there exist financing gaps when it comes to SMEs funding. This is the context in which the research looked at how access of financial products financial inclusion affects SMEs' performance on SMEs' performance in fish trading along Kenya's Lake Victoria region.

Objectives of the Study

Influence of financial access on performance of SMEs of fish trading along Lake Victoria region Kenya.

Research Hypothesis

H_{01}: Financial access has no statistically significant influence on performance of SMEs of fish trading along Lake Victoria region Kenya.

Literature Review

Credit Rationing Theory

Credit rationing do occur when lenders freeze lending due to uncertainties. Information and control restrictions in financial markets are the root cause of this issue. Credit rationing is always seen to be an extreme manifestation of the more widespread issue of fund or resource misallocation in the capital market. To put it another way, credit rationing describes any circumstance in which lenders refuse to provide any more money to any borrower.

Jaffee and Modigliani (1969) essentially views credit rationing as a supply-side issue, wherein the lenders' supply function eventually becomes totally price inelastic. However, it is important to distinguish between a scenario in which a lender eventually limits the amount of credit it will offer to any given borrower and one in which "rationed" borrowers are completely denied credit if the projects being supported by the loan are not scalable. This is a phenomenon that appears when lending is not scalable. The credit rationing hypothesis is thus pertinent to the research on access to finance since it facilitates the assessment of whether fish traders have simple access to credit facilities or face obstacles to doing so.

Empirical Review

Oshora, Betgilu, Desalegn, Hegyes, Farkas, and Zeman (2021) investigated the factors influencing financial inclusion in Ethiopian small and medium-sized businesses. The study used a mixed research methodology, gathering material from both primary and secondary sources. According to the study's findings, the firm's ability to obtain financing is positively impacted by market potential, supply-side and demand-side variables, and collateral requirements. However, the costs associated with borrowing and the institutional structure has a detrimental impact on the firm's ability to obtain financing. This research suggests that in order to end extreme poverty and hunger and maintain rapid and inclusive economic growth, authorities must establish a robust, effective financial market system that offers SMEs affordable and long-term financial services.

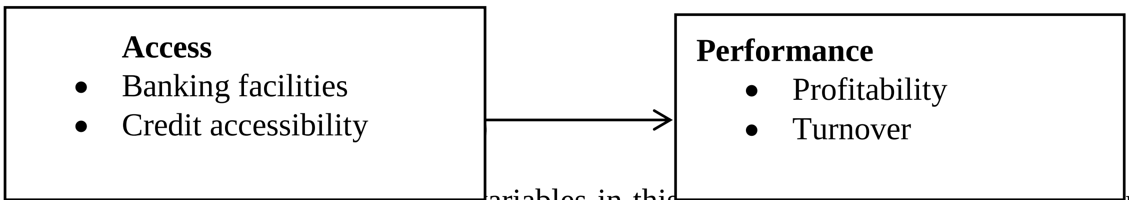
Marus, Mwosi, Okello, Turyehebwa, and Uwonda (2021) looked at empirical data from a few districts in the Lango sub-region to analyze financial inclusion and the expansion of SMEs in Uganda. Policymakers and experts around the world have debated the success and failure of small and medium-sized businesses. Basically this study assessed the contributions made by SMEs, identify the issues that these businesses face, investigate the ways in which financial inclusion fosters the expansion of SMEs, and establish the connection between financial inclusion and the expansion of SMEs. The study employed a descriptive design, augmented by inferential statistics. In addition, lower capital costs should be implemented to promote borrowing, and small and medium-sized enterprises (SMEs) should develop commodities that are competitive in both home and foreign markets.

Forster et al (2016) found financial access was relatively few where organizations were reaching out to the region and that those that did were mostly focused on lending money to SMEs that were already well-established. The paper continues by establishing that microfinance institutions' principal business strategy was the provision of basic. According to a study by Okurut, Banga, and Mukungu (2014), money lenders provided start-up financing for SMEs in Malawi; but, because these individuals lacked the necessary collateral, the money lenders refrained from lending to the most impoverished members of the society.

National Bank (2020) study also emphasizes financial access as the only engine of business success, and that ability and aptitude are critical in comprehending the various aspects that define the favorable settings and situations in which a firm should thrive. Inter Trade Ireland (2013), financial access is the second most important funding source for SMEs in Ireland, including seed money, venture capital, and business angel financing. Nonetheless, it primarily focuses on a restricted number of industries, including medical devices.

Conceptual Review

Independent variables **Dependent variable**



This depicts the association among variables in this context access to finances and performance of SMEs. The access to finance is a financial inclusion attribute (Sarma & Pais, 2018).

Methodology

Study Design

The study used mixed research design involving casual and explanatory research designs. According to Kothari (2020), in causal research studies, the case and effect relationship is determined in that a change in independent variable can lead to a change in dependent variable. According to Saunders and Thornhill (2013), explanatory studies are used when trying to explain the relationship between numbers of variables.

Target Population

Depicted as illustrated

Table 1: Target Population

County	Dry fish sellers target population	Fresh fish sellers target population
Kisumu	254	379
Siaya	454	512
Homa Bay	579	640
Migori	391	517
Busia	322	452
Total	2020	2500

(Source: Department of Trade and Fishery Kisumu, Homa Bay, Siaya, Migori and Busia Counties 2023)

Sample size

A sample of 173 fish trading SMES were selected using Yamane' (2017)

Table 2: Sample Size Distributions

Strata	Target population	Sample Population
Dry fish sellers	2020	77
fresh fish sellers	2500	96
Total	4500	173

Source: Department of Trade and fishery Kisumu, Homa Bay, Siaya, Migori and Busia County 2022)

In the study, N = 4,500, e = 5 % (at 95% confidence level). The sample size was 173 traders.

Data Analysis

Data responses were first entered, coded, and correctness checked. To analyze the data, both quantitative and qualitative methods were employed.

Table 3: Hypothesis Testing

Hypothesis	Test Statistic	Accept/ Reject Criteria

$H0_1$There is no access to finance on financial performance of SMEs	Regression analysis $y=\beta_{01}+\beta_1X_1+\varepsilon_i$,	Accept $H0_1$ if $p \geq 0.05$ or reject if $p \leq 0.05$

Source: Research study (2023)

Results and Discussion

Response Rate

A total of 173 participants, or 158 respondents thus 91.32% for this study formed the response rate. Table 4 below summarizes the percentage of completed questionnaires.

Table 4 Response

	F	%
Fully responded	158	91.32
Non response	15	8.68
Total	173	100.00

Source: (Researcher, 2024)

This is inside the parameters of a large sample size and indicates a questionnaire return rate of 91.32% of the sample size (Mugenda & Mugenda, 2013). As a result, we deduced that our sample was representative of the research population because it fell within an acceptable range.

Table 4: Accessibility to finance

		Frequency	Percent
Is there any banking facility within your area of operation	Yes	100	63.3
	No	58	36.7
Is the facility easily accessible	Yes	95	60.1
	No	63	39.9
Number of financial service providers available around the business premise	One	13	8.2
	Two	25	15.8
	Three	49	31.0
	four and above	71	44.9

Source: (Researcher, 2024)

From Table 5, 100(63.3%) of the respondents agreed that there are banking facilities within their area of operation. In terms of the accessibility of the banking facilities, 95 (60.1%) of the facilities agreed that the facility was easily accessible. The number of financial service providers available around the business premise were mentioned by 71 (44.9%) to be four and above, while 49 (31.0%) mentioned to be above three. This shows that there is more accessibility of the credit facilities within the study area. Though bank facilities were available it was not a guarantee for access of credit. Oshora et al (2021) while establishing financial inclusion among SMEs in Ethiopia reported that presence of a credit facility does not imply access to credit.

Table 6: Responses on accessibility

	N	SA	A	U	D	SD	Mean	Std Dv
Have a bank account with financial institution	158	57(36.1)	82(51.9)	5(3.2)	7(4.4)	7(4.4)	1.892	.981
Have bank located at convenient distance from your reach	158	48(30.4)	90(57.0)	8(5.1)	9(5.7)	3(1.9)	1.918	.867
Take loan regularly from my financial source with relative ease	158	53(33.5)	80(50.6)	4(2.5)	10(6.3)	11(7.0)	2.025	1.117
Collateral is required on loans	158	32(20.3)	93(58.9)	11(7.0)	10(6.3)	12(7.6)	2.221	1.081
Make remittance and transfer of cash digitally i.e using mobile or internet	158	43(27.2)	93(58.9)	7(4.4)	6(3.8)	9(5.7)	2.019	.9934

Credit terms is not tight	158	18(11.4)	64(40.5)	54(34.2)	14(8.9)	8(5.1)	2.557	.9807
Access credit with financial institution with no hidden charges that effect the business	158	37(23.4)	85(53.8)	7(4.4)	20(12.7)	9(5.7)	2.234	1.118

Source: Researcher (2024)

On accessibility, 82 (51.9%) of the respondents concurred that had a bank account with financial institution, while 90 (57.0%) agreed that their bank is located at convenient distance from their reach. In terms of frequency of uptake of loans, 80 (50.6%) opined that they regularly took loans from their financial sources with ease. To be given the loans, 98 (58.9%) of the respondents agreed that collateral is required on the loans. Though 64 (40.5%) of the respondents agreed that credit terms are not tight, 93 (58.9%) agreed that they should make remittance and transfer of cash digitally (using mobile or internet). Lastly, 85 (53.8%) of the respondents agreed that they accessed credit with financial institutions with no hidden charges that affect the business. This findings agrees with Marus et al (2021) who found access to finance as significant on performance. It disagrees with Oshora, (2021) who established the determinants of financial inclusion in SMEs in Ethiopia reporting access to finance as insignificant on performance.

Table 7: Responses on performance

	N	SA	A	U	D	SD	Mean	Std Dv
Business sales turnover has increased as a result of mobile and internet banking	158	0(0.0)	0(0.0)	0(0.0)	91(57.6)	67(42.4)	4.424	.4957
Low bank charges can improve business profitability	158	65(41.1)	93(58.9)	0(0.0)	0(0.0)	0(0.0)	1.589	.4937
Agency banking can result to increase in business profitability	158	0(0.0)	0(0.0)	0(0.0)	84(53.2)	74(46.8)	4.468	.5001
Improve sales turnover in the business has been as a result of increased in the number of accounts	158	0(0.0)	0(0.0)	16(10.1)	77(48.7)	65(41.1)	4.310	.6474
Financial awareness can improve business sales turnover	158	81(51.3)	77(48.7)	0(0.0)	0(0.0)	0(0.0)	1.487	.5014
The understanding of risk aversion can result to business profitability	158	81(51.3)	77(48.7)	0(0.0)	0(0.0)	0(0.0)	1.489	.5013

Source: (Researcher, 2024)

The respondents 91 (57.6%) disagreed that business sales turnover has increased as a result of mobile and internet banking as depicted by a mean of 4.424 and standard deviation of .4957. Respondents concurred at 93 (58.9%) that low bank charges can improve business profitability; they disagreed 84 (53.2%) that agency banking can result to increase in business profitability. Those who disagreed 77 (48.7%) that improvement on sales turnover in the business has been as a result of increased in the number of accounts; 81 (51.3%) of the respondents agreed that financial awareness can improve business sales turnover, additionally 81 (51.3%) of the respondents agreed that the understanding of risk aversion can result to business profitability. This findings agrees with Vijayakumar et al., (2020) and Serrasqueiro et al., (2018) who found size of business moderation on financial inclusion and performance as positive and significant on MSEs performance. However it disagrees with Becker et al., (2020) and Niresh et al (2014) who fund that inclusion and profitability in listed manufacturing companies as insignificant.

Regression Analysis

Table 8 Regression Analysis

Model Sum

Model	R	R Sq	Adj R Sq	Std. Err of the Est
1	.403[a]	.162	.157	.67645

ANOVA[a]

Model		Sum of Sq	df	Mean Sq	F	Signif.
	Regression	13.835	1	13.835	30.234	.000[b]
1	Residual	71.384	156	.458		
	Total	85.218	157			

a. Financial performance
b. Access

Coefficients

Model		Unstandized Coefficients		Standized Coef	t	Signif.
		B	Std. Err	Beta		
1	(Const)	1.766	.339		5.201	.000
	Access	.485	.088	.403	5.499	.000

Source: Researcher (2024)

R^2 of 0.162 thus 16.2% of performance of SMEs of fish trading along Lake Victoria region Kenya was explained by access to finance. Access to finance was important in predicting performance of SMEs of fish trading along Lake Victoria region ($p=0.000< 0.05$). Access to finance significantly affected performance of SMEs of fish trading along Lake Victoria region (t-statistic=5.499).

This shows that for every unit added in access to finance there was a corresponding increase in financial performance among SMEs of fish trading along Lake Victoria. The regression model equation:
Y= 1.766+0.485Access to finance
Financial access had a statistically significant effect on the performance of SMEs in the fish trading industry along Lake Victoria in Kenya. This finding is consistent with Marus et al. (2021), who discovered that access to money has a significant impact on performance. It conflicts with Oshora (2021), who identified the factors of financial inclusion in Ethiopian SMEs and found that access to credit had no substantial impact on performance.

Conclusion

Financial access is an inclusion criterion that improves performance of traders. It has a direct influence and hence institutions make it a necessity for traders. This has a direct effect on SMEs of fish trading along Lake Victoria region, Kenya.

Recommendations

The study recommends a similar study of access to finance and performance but on general SMEs since current study was on SMEs of fish trading. Furthermore the effect of financial inclusion on performance of SMEs can be studied. The study recommends other moderator for other studies such as age of the business to establish its moderation on access to finance and performance of SMEs.

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