EFFECT OF FINANCIAL DEVELOPMENT INITIATIVES ON GROWTH OF SMALL AND MEDIUM AGRIBUSINESS ENTERPRISES IN MACHAKOS COUNTY, KENYA

BY

JOSHUA, K, KELU

MASTER OF SCIENCE IN DEVELOPMENT FINANCE

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Student Name: ____________________ Reg. No: 21/03998

Sign: ____________________Date: Date19th August 2025______________

I do hereby confirm that I have examined the master's dissertation of

Joshua Kitavi Kelu

And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

Sign: __________________ Date: 27th October, 205______________

Dr. Fanice Waswa

Dissertation Supervisor

ABSTRACT

Researchers and scholars have concluded that Small and medium-scale agribusiness enterprises (Agribusiness SMEs) play a crucial role in driving food security and economic growth, both in developed and developing economies. However, the growth of Agribusiness SMEs in developing countries, especially Africa, faces significant hurdles due to finance-related challenges, among other challenges. This study aimed to investigate the effect of financial development initiatives on the growth of Agribusiness SMEs in Machakos County. The study's specific objectives were: to investigate the effect of access to finance, pooling and mobilization of savings and capital allocation on the growth of agribusiness SMEs in Machakos County. The study was guided by the credit rationing theory, the neo-classical theory of a firm and the financial intermediation theory. The study's target population consisted of all the 7,882 licenced agribusiness SMEs in Machakos County. Data was collected from a sample of 380 agribusiness SMEs owners or managers. Data was collected using structured questionnaires. Descriptive analysis was used to analyse the demographic characteristics of the respondents and their perspectives regarding financial development initiatives and the growth of their enterprises. Correlation analysis was used to determine the relationship between the independent variables and the dependent variable. Regression analysis was used to determine the effect of independent variables on the dependent variable. From the analysis, access to credit had a strong positive correlation with growth ($r = 0.549$, $p < 0.001$). Similarly, mobilizing and pooling of savings also showed a strong positive correlation with growth ($r = 0.527$, $p < 0.001$). Further, allocation of capital was moderately and positively correlated with growth ($r = 0.348$, $p < 0.001$). Regression analysis yielded a coefficient of determination (R^2) of 0.470 which indicated that approximately 47% of the variation in the growth of the small and medium agribusiness enterprises in Machakos County can be explained by access to credit, mobilizing and pooling of savings and allocation of capital. Access to credit had the highest coefficient of $B = 0.234$ and $p = 0.000$**.** Mobilization and pooling of savings also had statistically significant effect on the growth of the small and medium agribusiness enterprises in Machakos County ($B = 0.208$**,** $\beta = 0.380$, $p = 0.000$). Allocation of capital had the smallest but still significant effect on the growth of small and medium agribusiness enterprises in Machakos County ($B = 0.111$, $p = 0.003$). The study concluded that access to credit, mobilizing and pooling of savings and allocation of capital had effect on the growth of the SMEs in the agribusiness sector. The financial institutions are therefore recommended to develop flexible and inclusive credit models that minimize reliance on traditional collateral in order to improve accessibility. The government and non-government actors are recommended to strengthen cooperative societies and village savings groups to support the pooling of resources among agribusiness SMEs. The financial institutions and support organizations are recommended to increase efforts to offer the business owners and managers targeted financial literacy programs on budgeting, capital investment planning, and working capital management. There is a need for other studies to focus on small and medium agribusiness enterprises in other regions in Kenya as well as SMEs in other sector, since the study only focused on agribusiness enterprises in Machakos County.

Key terms: *Agribusiness SMEs, Financial development initiatives, Growth of SMEs, SMEs*

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DEDICATION

I dedicate this dissertation to God for His grace and guidance throughout my academic journey. I also dedicate it to my family for their unwavering support and encouragement. Special appreciation goes to my friends and colleagues whose motivation and cooperation contributed to the successful completion of this study

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ACRONYMS AND ABBREVIATIONS

CBK	Central Bank of Kenya
CCA	Caucasus and Central Asia
CGAP	Consultative Group to Assist the Poor
CIDP	County Integrated Development Plan
FAO	Food and Agricultural Organization
FINTECH	Financial Technology
GDP	Gross domestic product
GHI	Global Hunger Index
IDSHA	Imani Development & Self-Help Africa
ITA	International Trade Administration
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
MFIs	Microfinance Institutions
NEPAD	New Partnership for Africa's Development
P-P	Probability-Probability
SACCOS	Savings and Credit Cooperatives
SMEs	Small and Medium enterprises
SMEs	Small and Medium Enterprises
USAID	United States Agency for International Development
VSLA	Village Savings and Loan Association

TERMS AND DEFINITION

Agribusiness SMEs	-Small and Medium agriculture enterprises (Agribusiness SMEs) are entities whose activities include the storage, transportation, collection and processing of agri-food products (Ilie, Hickey & Kelly, 2022). -Enterprises that play an important role of enhancing food security, poverty alleviation and nutrition (Mang'ana, Ndyetabula & Hokororo, 2023). This study defines agribusiness SMEs as such SMEs; whose roles include the storage, transportation, collection and processing of agricultural products.
Financial development Initiatives:	-Practices that increase availability and accessibility of financial services and products as well as promote the soundness and stability of enterprises (Njue, 2018). -Multifaceted approaches applied for the purpose of improving access to financial resources and management of available resources and risks (Mlachila et al., 2016). -This study defines financial development initiatives as multifaceted approaches that improve access to financial resources and facilitate the management of resources and risks.
SMEs	-Enterprises that are described based on their employee number, turnover or size of assets (European Commission, 2021) -For the purpose of this study, the term SME will encompass small scale enterprises with 5 to 49 employees and medium sized enterprises with 50 to 99 employees (KIPPRA, 2014).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The trajectory of Agribusiness Small and Medium Enterprises (SMEs) holds considerable influence on a nation's outcomes in socio-economic spheres. Mang'ana, Ndyetabula and Hokororo (2023) indicated that the sector's importance to economic development was undeniable as it contributed towards the achievement of food security, poverty alleviation and nutrition objectives of nations. However, the growth of these enterprises and their anticipated benefits are threatened by institutional failures, market complexities, infrastructural challenges, unsupportive regulatory environments and instability due to socio-political complexities (NEPAD, 2022).

One of the key specific challenges detracting the growth objectives of agribusiness SMEs is financial resource inadequacy, which is critical in ensuring continued productivity and mitigation of ever-present business and production challenges (Githinji, Kiragu & Kiai, 2019). For this reason, Kilimvi (2023) argues that agribusiness SMEs could unlock more significant levels of growth through targeted investments or financial arrangements. Further, Lemnge and Raphael (2023) found that financial development initiatives were vital engines of growth as through their application, extant financial systems could improve their level of financial depth, efficiency, stability and accessibility.

Globally, financial development initiatives are bridging credit accessibility gaps which restricted economic units such as agribusiness SMEs from achieving growth. According to Liu, Wang and Yu (2023), Chinese financial providers have adopted digitalised financial initiatives as mechanisms of improving credit accessibility among agribusiness SMEs. Through digitalization, credit barriers such as information asymmetries are mitigated as credit information on the enterprises is more readily available for efficient processing of credit requests.

However, the gains made in raising financial accessibility through streams such as technology have not been fully effective in non-developed nations compared to their developed counterparts. The reason for this, according to Elumah, Taiwo and Zubairu (2024), is that the quality of institutions has not improved and the extent of financial penetration is also low. Quality institutions, exemplified by implementation of laws and regulations that provide robust foundation for growth and financial service penetration, magnify the benefits of financial development initiatives, often hindered by exclusivity of financial opportunities.

Pandey and Gupta (2018) cited the level of support offered to Indian agribusiness SMEs, through means such as training and institutional support, as a determinant factor vital to the achievement of sustainable growth levels. Further, Nguyen (2021) noted that prior inaccessibility of credit by SMEs impeded future borrowing behaviour and that had an adverse impact on their growth prospects. Therefore, previous constraints placed on borrowers may very well be a factor impacting their future borrowing activities even when the financial development initiatives in place may aim to foster the utilization of financial and literacy resources.

In Africa, nations have taken steps to expand on the financial development initiatives on offer to groups such as SMEs. One such initiative found to be instrumental on the growth of Zimbabwean agribusiness SMEs was that of financial literacy programs (Gumbo, 2022). According to Gumbo (2022), the development initiatives served to curb the dearth in financial expertise among SMEs which occasioned the inefficient utilization of limited resources such as the borrowings.

Further, similar initiatives among Ugandan agribusiness SMEs were determined by Tomassi (2020) as being instrumental in the development of positive attitudes and financial management skills through which they could apply when making financial decisions vital to enterprise growth. However, Ahiakpor, Dasmani, Annim and Nordjo (2021) observed contrary outcomes with concern to the expansion of financial accessibility in Ghana; firms experienced lower than expected productivity even as more financial programs were being put in place. This implied that the perceived lack of financial access also impacted their efficiency potential. Institutional support is vital to counter the perceived notion that financial development initiatives are out of reach for those that have been previously marginalised from accessing finance. Additionally, Mawien (2022) indicated that the relationship lending practices of credit providers in Moshi, Tanzania had fostered acceptance by SMEs that raised their credit accessibility and the overall significance of institutional programs put in place to foster their growth.

Locally, financial development initiatives have been diverse in their application and they have set up varying outcomes in the growth of firms targeted by the programs. According to Nyambutora and Omwenga (2023), the growth of agribusiness SMEs benefitted from improvements in capital allocation expertise as they could better plan their spending, investments and savings. Further, Nyamu (2020) offered that credit accessibility for agribusiness SMEs had been boosted by proactivity among lending institutions in relaxing collateral demands and provision of favourable credit terms. However, Onyuma (2021) argued that an estimated 75%

Kenyan agribusiness SMEs still face challenges in accessing adequate financing and they also lack sufficient capacity to manage finance.

Dalberg (2018) suggested that denial to finance among agribusinesses by lenders was also instigated by several environmental and enterprise-specific reasons that did not match with the risk and associated expense of forwarding credit. Some of the environmental reasons include; government regulations, volatility in product prices and climate change, while enterprise-specific aspects such as managerial capacity and inadequate financial annals further negate the sector’s attraction to lenders. Resultantly, the quality of finance available is low as the credit available may be highly collateralized and that contributes to negative SME performance which hinders their growth prospects (Lokupu, Cherono & Simiyu, 2023).

Technology in Kenya, especially mobile money transfer and agency banking, has offered SMEs tools that facilitate financial development initiatives. Mobile technology is increasingly being applied for accessing credit and facilitating saving activities. It also allows users to mobilize and pool savings, especially among informal arrangements such as *Chamas and* merry-go-rounds (Chidziwisano, Wyche & Kisyula, 2020). Oliech and Bukachi (2021) noted that such informal savings arrangements were essential avenues for women-led- agribusiness SMEs to find financing when they found restrictions in formal arrangements. The probability of financing in savings groups depended on the level of activeness in savings and repayment. Technology is vital in raising financial knowledge levels, translating to better decision-making in agribusiness SMEs. Ngare (2019) indicated that increased levels of information were linked to higher financial awareness regarding financial products. This promoted the uptake of better-priced conventional credit instead of unregulated and risk-laden unconventional credit from sources such as shylocks.

1.1.1 Financial Development Initiatives

Financial development initiatives are the multifaceted approaches applied to improve access to financial resources and manage available resources and risks (Mlachila et al., 2016). Financial resources include the assortment of financial instruments from formal and informal money circles available to an enterprise. On the other hand, risks are the inherent challenges relating to existing asymmetries in monetary relationships. As explained by Njue (2018), financial development initiatives are practices that increase availability and accessibility of financial services and products as well as promote the soundness and stability of enterprises. Therefore, enterprises engage in activities that will place them in good stead to access credit, mobilize and pool savings and improve their capital allocation efficiency. For this reason, financial development initiatives may hold critical and valuable significance to agribusiness SMEs in Kenya with concern to mitigating the view they are volatile and risky forward financing.

Access to credit refers to a firm's or an individual's ability to get external financing (Munguti & Ngali, 2020)**.** According to Wandiri, Nyangau and Ochieng (2020), accessibility of credit facilities is raised for enterprises when the terms by which financial products and services are offered are deemed as manageable. Terms such as collateral requirements, repayment periods, and transaction fees all factor as potential issues influencing credit access. Furthermore, Toromo (2020) indicated that the cost of the credit, as determined by interest rates, penalties and fees, further influenced access to credit. Access to finance is made possible when credit-specific factors are favourable so that users do not encounter challenges in meeting the terms of the offer. Accessibility is also enhanced when there is the ability and flexibility to have ideal terms increasingly available. This is made possible when information asymmetries between the parties are reduced.

Information asymmetry is magnified when there are non-existent or scanty credit histories. The CBK (2023) report indicated that this was one of the causes of the high rejection rate of loans and low processing speed of loan applications. According to Song, Yu and Lu (2018), credit providers could bridge this gap by working with enterprises to reduce ex-ante information asymmetry. This is possible through the collection and assessment of transaction and business credit information from SMEs. Assessing borrowers' historical state reduces the possibility of lenders accruing losses from lending (Mhalanga, 2021) while reinforcing accountability among enterprises as they have to instil good accounting practices (Song, Yu & Lu, 2018). The net effect therefore is that enterprises and banks can mutually benefit from borrower-lender relationships.

Mobilizing and pooling savings is the process by which voluntary savings are accumulated, protected and managed in ways favourable to savers (Jembe, 2021). Savings mobilization and pooling initiatives, such as savings groups, community-based savings and credit schemes, can benefit SMEs by providing them with a reliable source of funding. Therefore, savings groups can help agribusiness SMEs access credit and build their financial management skills. Notably, financial intermediaries such as commercial banks, microfinance banks and SACCOS all depend on functioning mobilization and pooling savings systems. According to Mwobobia (2022) savings as a culture is enhanced by promotion of financial literacy due to savers having increased insight and risk awareness.

Further, Mpaata, Koskei & Saina (2020), indicated that social influences play key role in determining whether SME owners adopt savings and pooling behaviours, and recognised that belonging to social influence such as a development or savings group increased saving behaviours of micro and small enterprises owners. Asiedu et al. (2021) similarly found that pooling of resources among SMEs in Ghana facilitated access to finance, market information, and business opportunities, leading to increased sales and profits.

Further, Makobe and Kavuma (2019) in their study conducted in Kenya concluded that resource pooling among SMEs in Kenya help to reduce transaction costs, improve bargaining power, and increase access to credit, leading to improved performance and growth. Therefore, as an initiative, mobilization and pooling of savings allows agribusiness SMEs to derive added value in ways such as financial literacy classes and encouragement of group memberships.

Allocation of capital refers to activities concerned with the administration, re-distribution and investment of financial resources to maximize profits (Saalmuler, 2022). The process encapsulates the decision-making activities related to investing, financing and operating decisions connected to using funds (Kusu & Pavithra, 2020). The efficiency by which managers of enterprises can make these decisions determines the level by which a firm can meet its objectives, as capital is finite and restricted. Efficient allocation of capital ensures that agribusiness SMEs productively distribute capital to areas leading to value creation opportunities. Enhancement of allocative efficiency as a financial development initiative ensures that financial resources are also utilized as intended.

Gumbo (2022) observed that poor capital allocation skills, such as diverting capital to personal needs, led to unproductive use of capital resources among agribusiness SMEs. The distribution of capital to the areas that would lead to the most productivity was determined by Njue (2018) to be associated with activities such as working capital management, risk diversification and project viability assessments.

Emmanuel and Asoro (2023) cited the entrepreneurial nature of business owners as a vital aspect influencing how decisions were made concerning capital usage. Entrepreneurial education facilitated better decision-making skills in capital allocation. The provision of knowledge improved the levels of self-efficacy and confidence of enterprise owners in dealing with business challenges. Contrastingly, high entrepreneurial orientation, reflected by high risk-taking behaviours, had a high probability of leading to inefficient decision-making. Nyambutora and Omwenga (2023) similarly indicated that learning and training for agribusiness SMEs on good capital budgeting practices promoted their capital allocation competencies. Additionally, developing financial plans and applying good budget practices further enabled enterprises to use borrowed and self-financed funds efficiently. These practices also positioned agribusiness SMEs positively to lenders as the documentary evidence indicated they would apply capital management practices to use the borrowed capital productively.

1.1.2 Growth of Small and Medium Agribusiness Enterprises

Growth is generally considered as a process through which an entity is able to find stability and balance in its general performances. Kangangi (2020) described growth of SMEs as the increase in an enterprise's scope in terms of engagement and activities. This increase was as a result of increments in sales, profits and assets. Further, Mwaniki (2019) cited expansion in internal factors such as the increase in number of employees, product line expansion and market share as key pointers for growth in SMEs as the sector traditionally found it challenging to expand in these areas.

Eton et al. (2021) indicated that growth for SMEs was seen in how effective they became over time to take advantage of arising opportunities such as utilizing networks, maintaining customer relations and embracing business accountability. Therefore, growth of Small and Medium Agribusiness Enterprises (Agribusiness SMEs) is a critical factor in promoting rural development, poverty reduction, and food security in many countries, especially in Africa

Challenges are a common feature in business and for SMEs; seemingly small issues could not only disrupt growth but also lead to business collapse. Gherghina et al. (2020) explained that while established firms would be more inclined towards solving problems primarily concerned with competitive edge, SMEs problems were immediate and could impact business survival. Challenges related to finance scarcity, little or no collateral, scarce or non-existent credit history and overpriced transaction costs factor greatly on daily operations. Business challenges in SMEs mainly originate from financial difficulties as product competitiveness, human capital and technology are dependent on the financial health of enterprises (Naradda Gamage et al., 2020).

1.1.3 Financial Development Initiatives and Growth of SMEs

Financial development initiatives are deliberate efforts, programs and policies that are designed to strengthen the accessibility, efficiency, and inclusiveness of financial systems for enterprise development (Levine, 2021). These include the improvement to access to credit, promotion of savings mobilization and improvement of capital allocation capacity among the agribusiness SMEs. These initiatives act as enablers that bridge the gap between financial institutions and SMEs by facilitating affordable financing, financial literacy, and effective utilization of financial resources.

Access to credit determines the ability of the enterprises to invest in productive assets, adopt technology and expand their operations (Widyastuti et al, 2023). When enterprises are offered diverse, flexible and affordable credit channels, they are better positioned to improve productivity and achieve sustainable growth. On the other hand, credit challenges that often occur as a result of collateral requirements and unfriendly lending policies limit the capacity of the businesses to scale up and innovate (Singh, 2024). Therefore, policies and programs that improve credit accessibility directly influence enterprise development and competitiveness within the SME sector.

Savings mobilization and pooling is another key financial development initiative. When SMEs and entrepreneurs save either individually or collectively through savings groups or cooperatives, their financial stability and resilience are improved (Agbasi et al, 2024).). With savings, the businesses are able to self-finance short term operations, buffer against financial shocks, and reinvest profits to stimulate growth. A strong savings culture also promotes financial inclusion by linking informal savings mechanisms to formal financial institutions which broaden the scope of credit access and capital circulation within the economy (Phil-Ugochukwu, 2024).

Capital allocation is equally crucial in making sure that financial resources available to SMEs are utilized optimally (Bamidele et al, 2024). It involves making informed decisions on how resources are distributed across various business activities such as production, marketing, and expansion. When SMEs have effective financial management skills and access to advisory support, they can allocate capital more efficiently, improve their operational efficiency and long-term growth prospects (Bakare et al, 2024).

1.1.4 Small and Medium Agribusiness Enterprises

Small and Medium Enterprises across the globe are recognized as the backbone of economic growth and job creation. According to the World Bank (2023), these ventures account for approximately 90% of businesses and over 50% of employment worldwide with agribusiness SMEs forming a key segment in sustaining global food systems. According to The Food and Agriculture Organization, SMEs in the agribusiness sector are key enablers of food security, innovation, and value chain efficiency, especially in developing countries where they link smallholder farmers to markets and processing industries (FAO, 2022). However, these enterprises face persistent challenges that limit their growth and sustainability such as limited access to affordable credit, high operational costs, inadequate infrastructure among others.

In Africa, particularly in the Sub Saharan region, SMEs in the agribusiness sector contribute significantly to rural employment and economic transformation. However, these enterprises remain constrained by weak institutional frameworks, limited technological adoption, and financing gaps. The African Development Bank reports that SMEs in Africa face a financing shortfall estimated at over USD 330 billion, with agribusinesses accounting for a significant proportion of the deficit (African Development Bank, 2025). Furthermore, the East African Community (EAC, 2025) highlighted that while the agricultural sector in the region employs over 65% of the population, in the agribusiness sector, productivity of SMEs remains poor as a result of fragmented value chains, limited access to formal credit, and inadequate training in modern agribusiness management practices.

In Kenya, SMEs are central to national development. They contribute approximately 33% to the Gross GDP and employ over 80% of the workforce (KNBS, 2023). The Ministry of Agriculture and Livestock Development (2023) reported that SMEs in the agribusiness sector play a pivotal role in supporting food security, reducing rural poverty, and driving Agri-industrialization under Kenya's Agricultural Sector Transformation and Growth Strategy (Ministry of Agriculture, 2025). However, despite these contributions, many agribusiness SMEs in Kenya continue to experience stagnation and failure within their early years of operation due to financial constraints, limited market access, and inadequate technical skills. The Central Bank of Kenya (2022) further reported that nearly 45% of agribusiness SMEs struggle with credit accessibility due to collateral demands and inconsistent cash flows, which affects their capacity for expansion and sustainability.

1.1.5 Machakos County, Kenya

Machakos County is one of Kenya's 47 counties in Kenya. It is located in the Eastern region and shares a western border with Nairobi and Kiambu, a northern border with Embu, a northern-western border with Murang'a and Kirinyaga, an eastern border with Kitui, and a southern border with Makueni and Kajiado (Machakos County Government, 2025). The county serves as a strategic economic corridor between Nairobi and the lower eastern region, benefitting from improved infrastructure such as the Nairobi-Mombasa Highway and the Standard Gauge Railway. The County's population is estimated to be 1.5 million people (KNBS, 2024). It has a diverse economy encompassing agriculture, manufacturing, trade, transport, and construction. The county's proximity to Nairobi has spurred growth in real estate, light industries, and service sectors which has positioned it as a key player in Kenya's regional economic development.

Agriculture remains one of the dominant economic activities in Machakos County, contributing substantially to household income and employment (Kyalo et al, 2023). Despite its semi-arid climatic conditions, the county supports mixed farming, including the cultivation of maize, beans, fruits, vegetables, and livestock rearing. The government and development partners have increasingly promoted agribusiness as a pathway to value addition, employment creation, and poverty reduction. Agro-processing industries, such as those focusing on mangoes, dairy, and poultry, have emerged in various sub-counties, reflecting growing private sector participation (Ngiri, 2023). However, recurrent droughts, water scarcity, and limited access to financial and technological resources continue to hinder agricultural productivity and commercialization efforts.

While agriculture remains the backbone of the local economy of Machakos County, the growth rate of agribusiness SMEs in the county remains modest, with many enterprises struggling to transition from small-scale subsistence to commercially viable operations. Recent reports from the Machakos County Department of Agriculture (2023) reveal that many agribusiness SMEs experience low growth and high closure rates (Naeku & Irungu, 2023). Therefore, although agribusiness SMEs remain vital for Kenya's and Machakos County's economic transformation, their potential is undermined by challenges that are both structural and financial in nature. These limitations emphasize the significance of examining how financial development initiatives can improve the growth of agribusiness SMEs in Machakos County.

1.2 Statement of the Problem

Kenya continues to face serious food security challenges. The 2024 Global Hunger Index placed Kenya in the serious hunger category with a score of 25.0 and the country was ranked 100th out of 127 (Global Hunger Index, 2024). Also, according to Jong et al (2024), widespread and persistent hunger and malnutrition remain a serious challenge in some parts of the country where a significant proportion of

Kenya and are severely or moderately food insecure. By 2023, over 70% of the population was moderately or severely food insecure (Jong et al, 2024). This situation indicates the need and urgency to strengthen Kenya's agricultural and food value chains to improve livelihood outcomes and national resilience.

Agribusiness SMEs play a crucial role in the Kenya's food system and in the general economy. These enterprises are key actors in production, value addition and distribution and they contribute around one third of the Kenya's GDP (Diao et al, 2023). However, despite the key role played by these enterprises, their growth and sustainability remain weak. This is the case in Machakos County whereby, the available research indicates many agribusiness SMEs struggle to expand beyond the micro level with a large proportion of them closing down with a short period of operation (Machakos County Economic Review, 2023).

County Integrated Development Plans (CIDP, Machakos, 2023) also highlight persistent financing challenges among agribusiness entrepreneurs, including limited uptake of microcredit, underdeveloped SACCO structures, and poor linkage between financial institutions and SMEs. Studies by Ndunda and Muema (2021), and Wambua (2022) further show that many county-level financial initiatives are poorly aligned with SME needs, leading to low growth and weak competitiveness in agribusiness value chains. The high failure rate of these enterprises points to broader institutional and structural gaps that continue to undermine their growth and stability. It is against this backdrop that financial development initiatives have emerged as potentially transformative mechanisms for supporting the growth of agribusiness SMEs. However, less evidence exists on how broader financial development initiatives influence the growth of agribusiness SMEs in the county.

The existing studies have largely generalized SME growth findings across sectors and not much research has focused on agribusiness SMEs. For example, Kasivu, Kilonzo and Sang (2020) analysed the influence of access to credit, innovation and growth of SMEs in Machakos County, Rambo (2025) focused on the influence of risk assessment on performance of SME projects in Machakos county, Kenya and Njoroge, Arasa, and Nganu (2022) analysed influence of focus strategy on performance of SMEs in Machakos Town. For the studies that focused on agribusiness SMEs, Mullu (2023) focused on the factors influencing the participation of youth in agribusiness in Kiambu and Machakos towns and Gor, Kalei and Kilonzo (2024) analysed the effects of Covid-19 Pandemic on the performance of agribusiness MSEs in Machakos County. The reviewed literature pointed to critical research gap whereby, while numerous financial development initiatives exist, their direct influence on the growth and performance of agribusiness SMEs, particularly in Machakos County, remains underexplored, which created the rationale of this study.

1.3 Objectives

This study was guided by the following objectives:

1.3.1 General Objective

The general objective of this study was to determine the effect of financial development initiatives on the growth of small and medium agribusiness enterprises in Machakos County.

1.3.2 Specific Objectives

The specific objectives of this study were:

i. To determine the effect of access to credit on the growth of small and medium agribusiness enterprises in Machakos County

ii. To determine the effect of mobilizing and pooling of savings on the growth of small and medium agribusiness enterprises in Machakos County

iii. To determine the effect of allocation of capital on the growth of small and medium agribusiness enterprises in Machakos County

1.4 Research Questions

The study research questions were:

i. What is the effect of access to credit on the growth of small and medium agribusiness enterprises in Machakos County?

ii. What is the effect of mobilizing and pooling of savings on the growth of small and medium agribusiness enterprises in Machakos County?

iii. What is the influence of allocation of capital on the growth of small and medium agribusiness enterprises in Machakos County?

1.5 Justification of the Study

Agricultural and agricultural-related activities are critical to Kenya for their contribution to food security, poverty alleviation and economic development. Agribusiness SMEs can only contribute towards these outcomes if they can sustain their long-term operations by being economically efficient. This study came at an opportune time when growing opportunities in agriculture with local and foreign export markets have led to the increased formation of enterprises. The enterprises' longevity depends on whether they can instil practices that promote sustainable growth. Therefore, a study on financial development initiatives was justified as it would lead to insight into whether access to credit, pooling and mobilization of savings and allocation of capital could significantly affect the growth of agribusiness SMEs in Machakos County and Kenya in general.

1.6 Significance of the Study

The findings from this research would be relevant to various groups which include policy makers, agribusiness SMEs and the academic community.

1.6.1 Policy Makers

The findings from this study would be relevant to policy makers in Kenya seeking to expand the business environment for agribusiness SMEs. The results might be applied at the national and county level to craft policies that promote the establishment of financial development initiatives, especially regarding creating avenues to support growth of agribusiness SMEs and the SME sector in general. Furthermore, the insight collected on agribusiness SMEs' performance might be used by state corporations tasked with agricultural expansion to develop policies that serve to reduce their sector-specific challenges and promote their growth.

1.6.2 Agribusiness SMEs

The study's findings would also be relevant for agribusiness SMEs. The study would reveal which financial initiatives have the most impact on agribusiness SME growth. It would also help enterprise owners to identify what forms of activities among capital allocation and pooling of savings are necessary for improved growth prospects. Therefore, the study would be valuable to enterprises as they would seek to join financial institutions that possess the initiative, raising their growth prospects. Financial providers might also use the findings to develop financial products and services that give agribusiness SMEs greater access to credit and encourage positive savings behaviours.

1.6.3 Academic Community

The study would also be relevant to academicians and researchers. The considered pool of literature and the methods used to conduct the study would be valuable to researchers seeking to conduct studies on various aspects of the investigation. Researchers might apply the findings as a basis for future research. They could use it as part of their empirical review to identify what further aspects need to be discussed in connection to the concepts covered. The academic field would find the study's insights valuable in their studies on the subjects of financial development initiatives and the growth of enterprises. The theoretical explanations offered by the survey would provide academicians with insight into how the concepts are connected.

1.7 Scope of the Study

The study's emphasis would be on investigating the link between financial development initiatives and growth of SMEs. Additionally, the study would consider the role of access to credit, mobilizing and pooling of savings and allocation of capital as constituents of financial development initiatives. While a number of sectors exists that contain SME presence, this study focused its attention on the agribusiness sector and the specific locality chosen for the study was Machakos County. The study was poised to start in 2024 and complete in 2025.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers a review of literature related to financial development initiatives and growth. The section covers the theoretical review, the empirical review, the research gap section, the conceptual and variable operationalization.

2.2 Theoretical Review

The theories that supported this study are the credit rationing theory, Neo-classical theory of the firm and the financial intermediation theory.

2.2.1 Credit Rationing Theory

The credit rationing theory was advanced by Jaffee and Modigliani in 1969 and enhanced by Stiglitz and Weiss in 1981. According to Jaffee and Modigliani (1969), credit rationing occurred when the supply of loans was lower than the demand at the prevailing interest rates. Borrower demands for further loans are therefore left unsatisfied as lenders are unwilling to offer credit at any interest rate. Jaffee and Modigliani (1969) argued that this occurrence indicated a supply-side imperfection as loans given would be smaller than the required loan size demands. Stiglitz and Weiss (1981) contributed another dimension of credit rationing by evaluating lender actions noting that it occurred when lenders completely rationed out some prospective loan applications while they agreed to other applications from almost similar applicants. Further, lending was restricted to identifiable groups as they could not obtain credit at any interest rates regardless of the available supply. This created the credit rationing equilibrium interest rate.

The credit rationing theory proposed that lenders rationed credit due to adverse selection challenges. Jin and Zhang (2019) indicated that lenders could not efficiently differentiate between good and bad borrowers due to information asymmetry. This posed a challenge in lending at the equilibrium interest rate as risky but potentially bad borrowers could take up credit instead of safe and potentially sound borrowers. Rationally, lenders preferred safe investments as opposed to higher-return risky investments. Therefore, lenders credit rationed to risky borrowers who would view the potential upside gained from borrowing as opposed to losing collateral as worthwhile. Contrastingly, safe borrowers would not find the credit rationing rates worthwhile, choosing to consume or utilize their endowments instead of risking them as collateral. Therefore, when credit rationing occurred, risky groups such as SMEs faced difficulty getting credit access as lenders rationed them out (Andries et al., 2018).

The credit rationing theory was relevant in this study because it explains why credit access to risky groups such as agribusiness SMEs is not so easily achieved. Agribusiness SMEs could potentially have high-risk-high return projects that could lead to potential benefits. However, lending has a high probability of suffering from adverse selection. Therefore, lenders ration out risky borrowers to minimise the possibility of selecting projects with a high chance of failure. Ndegwa et al. (2020) illustrated that risk-credit rationing discouraged credit demand which could mean prospective borrowers would avoid seeking credit altogether. Agribusiness SMEs without adequate finance would find it difficult to improve their operations, leading to a low probability of their enterprises finding growth. The theory also highlights the value of financial development initiatives enhancing access to credit as it reduces information asymmetry and raises the perception that agribusiness SMEs are risky lending options.

2.2.2 Neo-classical Theory of a Firm

The Neoclassical theory of the firm was postulated to explain the motivation of firms and how they related to the market. Neoclassical economists such as Coase (1937), Commons (1932) and Knight (1921) advanced the claim that due to firms being rational actors, they had the primary motivation of maximizing their profits up until their resources could allow and it was also impertinent that they minimized their costs and also maximised production. According to Coase (1937), the choices made by a firm were determined either by the market, such as the movement of prices, or by the hierarchy in the firms, such as what the managers preferred to do in light of current information. Therefore, choices such as what quantity to produce or what steps to take to maximize the efforts of labour and capital would determine whether the firm would maximize its profits.

As assumed by the neoclassical theory, agribusiness SMEs also have to make rational decisions to ensure they place themselves in the best position to maximize their profits and facilitate growth. Sohilauw, Nohong and Sylvana (2020) linked decision-making rationality to SME growth, indicating that skilled investment and financial decisions were crucial for enterprise growth. Investment decisions determine whether capital can be productively used, while financing decisions determine whether enterprise managers select the best financing options. The firms could decide to retain their returns or seek to save in institutions or pooling facilities to enhance borrower-lender relationships. Herr and Nettekoven (2018) observed that increased savings led to more excellent borrower-lender relationships facilitating better credit relationships between SMEs and savings institutions.

The neoclassical theory was valuable to this study as it presented the case for mobilizing and pooling savings and efficient allocation of capital to facilitate growth in agribusiness SMEs. The theory assumes that rational decision-making facilitates profit maximization and, ultimately, the firm's growth. Responsible use of constrained resources, chiefly capital, determines the progress of the agribusiness SMEs. Therefore, managers must allocate capital efficiently while considering how best to leverage available assets to benefit from relationships. The theory also captures the popularity of savings and pooling behaviour among capital-constrained groups. Through mobilization and pooling of savings, agribusiness SMEs can build trust with formal and informal lending channels. Various network benefits such as access to training, peer contacts and potential markets can also accrue, which favours enterprise growth.

2.2.3 Financial Intermediation Theory

Propounded by Gurley and Shaw (1960) and advanced by McKinnon (1973), the financial Intermediation theory postulates that intermediaries serve the vital function of minimizing the adverse effects that arise from markets imperfections caused by information asymmetry and transaction costs. The existence of information asymmetry between units of capital surplus and capital deficient units means that capital allocations decisions are subject to adverse selection. Further, costs accrue when transactions occur, raising the cost of capital and ultimately contributing to market inefficiency. Intermediaries play a central role in reducing friction caused by these market imperfections. According to Gurley and Shaw (1960), financial intermediaries facilitate friction reduction by acting as delegated monitors of allocated capital. Further, intermediaries possess scale which allows them to contribute to cost reductions in financial markets by applying cost-sharing mechanisms and absorbing risks.

The financial intermediation theory argues that financial intermediaries are critical in ensuring capital is allocated cost-effectively and efficiently. Further, Ratnaawati (2020) stated that intermediaries played an expanded role as they contributed to developing financial initiatives that benefited parties using their services. Apart from being providers of financial products, financial intermediaries invest in the financial skills of their customer base by offering literacy training and providing guidance that improves their decision-making when allocating borrowed capital. Mathai (2021) added that as monitors for savers, intermediaries encourage savings behaviour, which translates to the development of diverse ways to save activities. Therefore, groups such as agribusiness SMEs can find various ways to save and use services such as group savings and group guarantorship through which they could maximize the productivity of their capital resources.

The financial intermediation theory was relevant to this study as it explains the second and third objectives. Intermediaries act as monitors of allocated capital, encouraging savings behaviours which translate to developing various savings products tailored for groups such as Agribusiness SMEs. Through such initiatives, enterprises benefit from pooled capital and additional benefits that accrue to being members of savings groups. Furthermore, financial intermediaries extend their financial provisioning roles further by offering programs through which enterprise owners can learn skills to facilitate better capital allocation decisions. Resultantly, improved enterprise owners get skills such as using financial budgets, developing financial plans and managing cash accounts from intermediary-created financial development initiatives.

2.3 Empirical Review

This section covers a review of past studies related to the effect of financial development initiatives on the growth of agribusiness SMEs. The key three dimensions covered here include access to credit, mobilization and pooling of savings, and allocation of capital.

2.3.1 Access to Credit and the Growth of Agribusiness SMEs

Findings from prior studies that focused on evaluating the role of access to credit on enterprise growth on SMEs suggest a stalemate, as some point out to a significant influence and some indicate an insignificant influence. Cao and Leung (2020) found that credit access significantly determined the growth of Canadian SMEs in an estimation that applied leverage and liquidity ratios as indictors of credit constraints. Further, Sadiki, Vwima and Lebailly (2020) found that credit access was a significant factor influencing growth of agribusiness SMEs in South Kivu DRC Congo. However, in a study of Myanmar agricultural SMEs, Gabriel (2018), concluded that credit access was a non- significant factor influencing growth of the agricultural enterprises. The contrasting findings may have been as a result of how credit access was conceptualised since the Canadian study evaluated the books of accounts of the enterprises to identify constraints. However, the latter studies evaluated access to credit through theory derived constructs that were evaluated through the quantitative-questionnaire methodology.

Studies on credit access and their resultant influence on aspects such as enterprise growth have assessed credit access from several viewpoints. One of them is that of institutional dysfunctions and weaknesses within channels or programs that have a resultant influence on indicators of credit access such as terms of credit. A study based on Becker's theory of economic discrimination and utilizing a logistic model for analysis, Voznakova, Civelek & Hlawiczka, 2023) concluded that institutional weaknesses are one of the reasons borrowers may be hindered by discriminatory practices when accessing credit. Further to this, De Andres, Gimeno and de Cabo (2021), found evidence of women-led enterprises in Spain being at risk of higher failure rates compared to men-led enterprises. The study De Andres et al. demonstrated that application of discriminatory practices by lenders on newly set-up women led enterprises, exposed them to tougher credit terms, such as higher rates, to mitigate their probability of default. Resultantly, the enterprises had low growth rates as they majorly failed soon after being founded.

Although there exists an argument that tougher credit terms on borrowers are vital in minimizing moral hazard and the risk of the lender losing out on returns due to concealed creditor information (Dougherty, Gallenstein & Mishra, 2021), Akram, Iqbal and Afzal (2023) provided that favourable credit terms are instrumental on business performance which reduces non-repayment of business credit. However, in a varying conceptualisation of credit terms and credit access, (Widyastuti, Ferdinand & Hermanto, 2023) indicated that the relationship was one where credit access was interdependent on credit terms. The study, which focused on a sample of 100 creative industry MSMEs in Indonesia, further found that favourable credit terms did not directly influence the growth of enterprises. Instead, they directly influence credit accessibility which impacts performance and resultant enterprise growth.

Enterprises may find accessibility to funding a challenge due to the perception that they lack sufficient resources that may cushion lenders from the impact of potential default and resultantly, credit access may determine their growth potential as determined by Amadasun and Mutezo (2022) in a Lesotho-based study on impact of credit access on SMEs. The study, which was underpinned by the credit constraint theory and utilizing descriptive-correlation research paradigm, also found that credit access significantly impacted SMEs growth. In another exploration of credit access and enterprise growth, Nombare (2021) identified collateral demands as a deterrent to credit access by enterprises, in Ghana in a study that applied an explanatory-quantitative methodology.

However, the results indicated that collateral demands did not negate the effect of credit accessibility as its effect on enterprise growth was positive but not significant. The findings suggested that the SMEs that could access credit largely benefitted while deterrence from access did not cause negative outcomes on enterprise growth. Similarly, Gichichi, Mukulu and Odhiambo (2019), in their study that sought to determine whether access to entrepreneurial credit facilitated an increase in performance and growth in coffee-producing agribusiness SMEs within Murang’a County in Kenya, indicated that access to entrepreneurial finance led to positive and significant performance levels hence growth of coffee-producing SMEs. This necessitates further studies on other Counties as it only considered coffee-producing agribusiness SMEs within Murang’a County. Therefore, this study will seek to conduct a general investigation on all forms of agribusinesses in Machakos County.

A balance in demands placed on enterprise borrowers is necessary if enterprises are to benefit from their access to credit. However, when such a balance is absent, Muhire and Olyanga, 2022) found that the effect of credit access to Ugandan SMEs sustainability was positive but insignificant. Using a cross-sectional design and quantitative approach, the study identified that the repayment periods afforded to the enterprises were unfavourable and a contributor to credit non-payment.

Giving further insight on the vital role that repayment schedules afforded have on growth of agribusiness SMEs, Mbithe (2023) found that the repayment periods provided were influential on the choice of credit utilised and that loans from formalised sources were associated with improved enterprise outcomes such as growth. The study, which applied a correlation analysis, found evidence of credit accessibility being positively and significantly associated with agribusiness SMEs growth. However, the study did not indicate whether the repayment period offered contributed to increased credit allocations to agribusiness SMEs when loans were successfully settled.

Building on the insights from Mbithe (2023) which highlighted the influence of repayment structures and lending policies, a study by Kirop (2023) reported that loan agreement terms, collateral, and business capital significantly impacted credit accessibility for SMEs in Nairobi's Central Business District. Although the study did not focus on agribusiness SMEs, its findings emphasised the persistent role of institutional credit requirements in shaping financing outcomes for Kenyan enterprises, a factor that is particularly relevant for agribusiness SMEs in Machakos County.

2.3.2 Mobilization and Pooling of Savings and Growth of Agribusiness SMEs

Financial development initiatives, whose target is raising the financial capabilities of SMEs, are vital to their productivity and growth. As per the findings of Ahiakpor et al. (2021), SMEs may experience real variance in performance and growth when financial development initiatives play a funding function as well as advisory function that encourages the illustration of financial behaviours such as savings mobilization. Indeed, Kimunga (2022) concluded that the financial performance of SMEs owned by persons with disabilities was positive and significant due to the training and advocacy services provided by microfinance institutions. However, while these services were provided in groups, the study was not clear on whether group membership in savings groups played a contributing role to the resultant financial behaviours that facilitated positive and significant changes in SMEs performance and growth.

Mohammed, Boateng and Freeman (2022) investigation focused on the effect of the financial support offered by Ghanaian Microfinance Institutions (MFIS) to women agribusiness SMEs. The cross-sectional based study identified a significant difference in financial performance among women enterprise groups that utilised the support offered by MFIs to mobilize and pool savings from those that did not take advantage of the support. The findings further indicated that membership in groups that facilitate mobilization of savings was also a positive predictor of the women owned agribusiness SMEs growth. However, the study did not illustrate whether the savings were group-influenced or were supported by group guarantorship.

Additionally, Nakabugo, Muathe and Mwasiaji (2022) determined that savings mobilization, as well as other factors such as financial inclusion and microcredit, had a positive and significant impact on Ugandan coffee SMEs. The pooling and savings initiative given by MFIs was identified in the study as relying on social collateral facilitated by in-group lending practices. The study recommended further exploration of concepts such as savings mobilization in different groups to further examine how they could facilitate growth among agribusiness SMEs.

Savings mobilization and pooling was also determined by Nakato (2021) as being instrumental in facilitating financial inclusion between groups and financial providers. The study evaluated a sample of 3,234 savings groups from thirty-one nations and found that, while the groups had a higher saving rate per member, there was a reduction in savings utilization. However, the lower utilization was attributed to improvement in credit linkages that saw the group members rely more on credit sources. The study's findings did not illustrate whether the increased levels of financial inclusion and credit linkages were related to substantial variations in enterprise growth hence need for further studies.

Additionally, Nnagana (2021) findings indicated that participation in group savings mobilization was a positive and significant predictor of SMEs growth and development, in a study that focused on women enterprises in the Niger state. Vital to savings mobilization's effect was the proximity of financial providers to its customers. However, the study did not identify whether group guarantorship was instrumental in SMEs growth and development similar to group membership and institutional facilitation. This therefore necessitates need for further studies to investigate to investigate the effect of group quarantorship on growth SMEs in various economic sectors including agriculture and in different jurisdictions.

Further, Njuguna and Ali (2022) examined the role of savings mobilization and group-based pooling among SMEs in Changamwe Sub-County, Mombasa County. Their descriptive survey found that small business owners who formed group savings arrangements under microfinance institution supervision were more able to access micro-credit facilities, thereby improving their performance. Although the study did not exclusively target agribusiness enterprises, it reinforced the importance of group savings behaviour and resource-pooling as part of financial development initiatives.

2.3.3 Allocation of Capital and Growth of Small and Medium Agribusiness

The characteristics of SMEs owners such as innovativeness and risk-taking are linked to their allocation of capital. In their study, utilizing a descriptive survey plan, Wandiri, Nyangau and Ochieng (2020) found that capital allocation, indicated by effectiveness in evaluation of project viability, risk diversification and fund adequacy, was positive but insignificant on SMEs growth while that of savings pooling and mobilization was significant. The study's conceptualization of capital allocation assumed that enterprises possessed the skills needed to effectively allocate capital. However, in a qualitative analysis-based study of agribusiness SMEs in Khomas, Namibia Kamati (2021), the researchers determined that financial expertise was one of the qualities most absent among SMEs hence contributing to their underperformance and low growth rates. As the findings were qualitatively determined, this study will quantitatively evaluate the role of capital allocation on agribusiness SMEs growth.

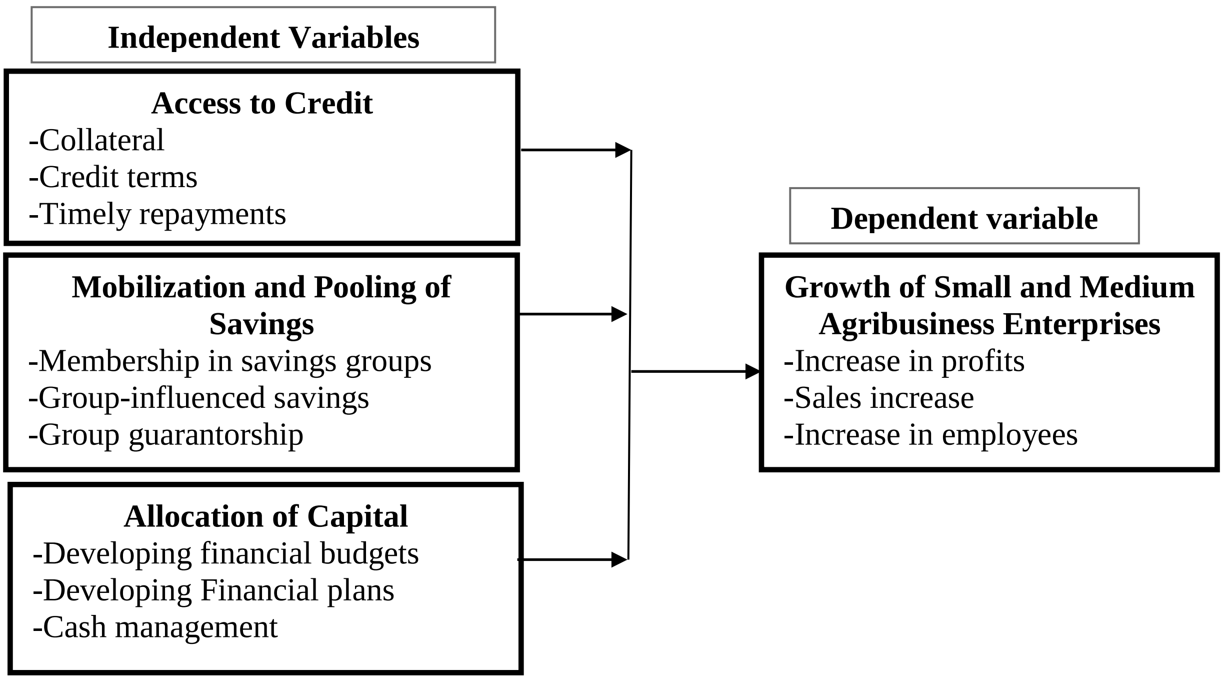
Additionally, several studies have investigated the role of capital allocation in SMEs growth. In Nigeria, Emmanuel and Osoro (2023) found that the education given to entrepreneurs was significantly and positively influential on agribusiness SMEs growth. While the study's findings pointed to the influential role financial development initiatives have on enterprise financial expertise, the results were contextualised to Nigerian agribusinesses and not Kenyan enterprises. Findings by Tanui (2021), which were based on a Kenyan agribusiness SMEs indicated that, training services given by MFIs to SMEs positively and significantly impact their growth. Notably, the study established that the training services that targeted the capital management capacity of the agribusiness SMEs' owners and managers enabled them to be better placed to effectively carry out capital allocative decisions.

Financial development Initiatives whose target is improving the knowledge levels in agribusiness SMEs are significantly essential to the enterprises' development since market conditions restrict their labour options to those that are inexperienced or possessing inadequate skillsets (Surya et al., 2021). Confirming this view using a qualitative methodology in a study involving Indonesian SMEs, Maksum, Rahayu and Kasumawardhani (2020), determined that unskilled labour, especially among the SMEs owners and managers, was a determinant of the SMEs growth hence capacity improvements were necessary if the enterprises were to raise their growth prospects. However, when utilizing a quantitative methodology in evaluating SMEs in Botswana, Okurut et al. (2016) found that capacity training was not significantly influential on SMEs growth. Instead, aspects such as credit access, experience of the SME owner, capital productivity and labour efficiency had greater significance on SME growth. However, the mentioned studies were not specific on the forms of training offered to SMEs and whether they specifically targeted improving the allocative efficiency of the enterprises.

Specific evaluations of trainings that targeted capital allocation practices among SMEs in extant literature suggest a variance in terms of how they impact the growth of the enterprises. In a study of Ghanian SMEs, Possumah and Appiah (2018) found that institutional support, evaluated through; accounting and bookkeeping instructions, had direct positive but insignificant influence on SMEs growth. Conversely, cash management, inventory management, accounts receivables and accounts payable practices were determined by Omar et al (2021) as being directly and significantly influential on the performance of SMEs in Kenya. In a Nigerian analysis of the role of capital structure decisions on SME growth, Adeoye (2023) found that these decisions positively and significantly influenced growth, with short-term and long-term planning, commitment to work procedure and application of formal plans being some of the determinants of capital allocative efficiency. The study's conceptualisation of capital allocation was not generalised while this study will focus on specific activities such as utility of financial budgeting and financial planning.

2.4 Conceptual Framework

FIGURE 1
Conceptual Framework



2.5 Research Gaps

The examination of previous studies on financial development initiatives suggested the existence of various gaps that this study sought to address. From studies that evaluated the effect of access to credit on SMEs, it emerged that there was inconsistency with concern to whether its influence on the growth of SMEs was significant or insignificant (Cao & Leung, 2020; Gabriel, 2018; Muhire & Olyanga, 2022). Further, in most of the studies the role of credit accessibility on growth was covered in contexts such as manufacturing SMEs, women-led enterprises and creative MSMEs which left a gap in evaluating how the various aspects of credit accessibility impacts the growth of agribusiness-SMEs especially in Kenya.

Furthermore, the variance in results may have been as a result of the varying methodologies applied by the studies. For instance, Nombare (2021), on his exploratory study of credit access and enterprise growth, found that the collateral demand was deterrent to credit access among SMEs, consequently having insignificant positive influence on growth of the SMEs while Amadasun and Mutezo (2022) applied a descriptive correlation paradigm and found the influence to be positive and significant on SME growth. The descriptive methodology adopted by this study served to harmonise the contrast in the findings.

The findings also indicated the presence of gaps with regard to the role of mobilization and pooling of savings which this study will aim address. Studies such as that of Ahiakpor et al. (2021) and Kimunga (2022) implied that group trainings offered by financial institutions had a positive impact on growth but neglected to determine whether group membership similarly factored significantly on SMEs' growth. Further, Mohammed, Boateng and Freeman (2022) fell short in providing insight on the role of group guarantorship as one of the initiatives offered by institutions in financial development. Further, while Nakabugo, Muathe and Mwasiaji (2022) asserted the positive impact of mobilization and pooling of savings and how in-group guarantorship played a role, the study did not indicate whether group-influenced savings similarly played a role on SMEs growth.

The allocation of capital was also indicated in the empirical review as a vital practice in influencing the growth outcomes of SMEs. However, a contrast in the findings emerged as Wandiri, Nyangau and Ochieng (2020) found its influence as being positive but insignificant while Tanui (2021) determined that capital management capacity training positively and significantly impacted the growth of SMEs. Additionally, Okurut et al. (2016) found the role of capacity training as being insignificant but its conceptualization was narrow as it did not explicate which forms of training were offered to the SMEs.

Further, in the study by Possumah and Appiah (2018), conceptualization of capital allocation practices focused on accounting and bookkeeping instruction and the results showed its effect on SME growth was indirect. A contrasting approach to capital allocation was covered by Omar et al. (2021) and it indicated that practices such as cash management, inventory management, accounts receivable management and accounts payable management significantly influenced the growth of SMEs. This study sought to address the gaps left in examining the role of capital allocation by particularly evaluating cash account management practices along with the development of financial budgets and plans.

2. 6 Operationalization of Variables

The study's measurement of study variables was guided by table 1 below.

TABLE 1
Operationalization of Variables

Variable	Indicators	Scale of Measure
Access to credit	-Collateral -Credit terms -Credit worthiness	Five-point Likert Scale
Mobilizing and pooling of savings	-Membership in savings groups -Peer-influenced savings -Group guarantorship	Five-point Likert Scale
Allocation of capital	-Developing financial budgets -Developing Financial plans -Cash account management	Five-point Likert Scale
Growth of Agribusiness SMEs	-Increase in profits -Sales increase -Increase in employees	Five-point Likert Scale

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the study's methodology which was used to meet the study's objectives. The sections covered are the research design, target population, sampling methodologies, instrumentation, instrument reliability and validity, data collection procedures, analysis, and diagnostic testing.

3.2 Research Design

The study applied the descriptive research design. Sileyew (2019) describes the descriptive research design as a study plan that allows for an accurate portrayal of situations or phenomena through the collection of perspectives from individuals. The design also lends itself to the collection of quantitative data, which may be applied in testing how variables of interest to a study naturally influence the occurrence of the phenomenon being evaluated (Sharma et al., 2023). The study used a descriptive research design as it intended to assess the research objective through the collection of perspectives from respondents.

3.3 Target Population

A population refers to the entire group, set of subjects or total number of entities that possess attributes that are of interest to a study (Joseph & Eleojo, 2019). The study's population consisted of all agribusiness SMEs owners or managers in Machakos County. According to the data provided by the Machakos County government, there are 7,882 licenced agribusiness SMEs in Machakos County (Machakos County Government, 2025). Therefore, the target population was 7882 agribusiness owners/managers which is presented on table 2;

TABLE 2
Population of the Study

Sub-County	No of Enterprises	Percentage
Machakos	904	11%
Kangundo	1059	13%
Kathiani	677	9%
Mavoko	895	11%
Yatta	748	9%
Masinga	1001	13%
Matungulu	1429	18%
Mwala	1170	15%
Total	**7,882**	**100%**

3.4 Sampling Design

Sampling entails the selection of cases to be covered by a study. According to Tsindos (2023), sample findings aid in deriving material conclusions related to the entire population from where samples are derived. Sampling is conducted when a study is unable to cover an entire population due to constraints in time, resources and manpower. According to Slovin's formula (2012), a known population N (7,882), with a margin of error (5%), gave a sample size n of 380 agribusiness SMEs as indicated below:

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{7882}{1 + 7882(0.05)^2}$$

$n = 380$ agribusiness SMEs.

The study stratified the population according to sub-counties, as presented on table 3

TABLE 3
Sample Size

Sub-County	No of Enterprises	Percentage	Sample Size
Machakos	904	11%	44
Kangundo	1059	13%	51
Kathiani	677	9%	33
Mavoko	895	11%	43
Yatta	748	9%	36
Masinga	1001	13%	48
Matungulu	1429	18%	69
Mwala	1170	15%	56
Total	**7,882**	**100%**	**380**

The study stratified the sample using sub-counties as Table 3 indicates. To minimize sampling errors, the number of samples to be derived from each stratum was determined by proportionate sampling. These strata were the basis through which Agribusiness SMEs got selected to participate in the study which was done through stratified random sampling. Therefore, each enterprise in the eight sub-counties in Machakos County had an equal opportunity to participate in the study.

3.5 Instrumentation and Data Collection Procedures

The study collected first-hand information from respondents using structured questionnaires. The questionnaires consisted of three sections, each collecting information on aspects relevant to the research. Section A of the research tool retrieved background information of the respondents and enterprises. Section B gathered information concerning the study's independent variable, financial development initiatives. Section C collected data on the growth of agribusiness SMEs. The information collected in Sections B and C was based on a 5-point Likert scale where the least score of 1 indicated strong disagreement, 2 connoted disagreement, 3 indicated neutral, 4 connoted agreement and 5 indicated strong agreement with the statements.

The questionnaires were administered to the respondents through the "pick and drop" mode. This ensured the participants had adequate time to complete the questionnaires. The researcher also collected the respondents' contact details to remind them to complete the surveys to ensure the study gains a high response rate. Further, the collection of contact details allowed the researcher to assist the respondents if the need for clarification arises.

3.6 Pilot Study

A pilot survey was done to facilitate the testing of the research instrument. Van Khuc (2021) stated that pilot assessments allow studies to determine the viability of the main survey as it allows for the study design to be tested, thereby increasing the likelihood of success. The study conducted pilot testing on 16 Agribusiness SMEs determined through purposive sampling. The study surveyed two agribusiness SMEs from each sub-county. This approach enabled the researcher to familiarize with the study area and map out how potential challenges in the main survey would be mitigated. The study targeted the owners or managers of the agribusiness SMEs.

3.7 Validity and Reliability

A survey can rely upon an internally consistent research tool to reliably capture the information being sought. According to Hajjar (2018), internal consistency affirms an instrument's capability of giving similar measurements regardless of the number of iterations it has been subjected to. The study assessed the reliability of the questionnaire by deriving the Cronbach alpha of each study variable. According to Esiebugie, Richard and Emmanuel (2018), a coefficient above 0.7 implied that an instrument had internal consistency and could be deemed reliable in collecting its intended data**.**

A vital attribute of a research instrument is its validity, as it should be accurate and credible in measuring its purported constructs. According to Rahardja, Aini, Graha and Lutfiani (2019), a research tool's validity may be determined through content validity. This analysis evaluated how well the items contained in the tool aligned with the concepts from which they are drawn in extant literature. The study affirmed the research tool's validity through content validity. This was achieved by objective expert analysis conducted by the research supervisor and the University's research panel.

3.8 Data Analysis

Data analysis commenced once the study had successfully retrieved questionnaires from the study participants. The first phase of data analysis was data entry where the collected information was entered into Excel for coding, cleaning and evaluation of data accuracy. The cleaned data was transferred to the Statistical Package for Social Sciences (SPSS), where data analysis was done. Two forms of data analysis were conducted and they comprised of descriptive and inferential computations. Descriptive computations aided in deriving basic insight concerning the agribusiness SMEs and the respondents providing information. The derived statistics included means, frequencies, standard deviations and percentages.

Inferential computations aided in understanding how the study's variables are related. This was achieved through regression analysis. The statistics derived from regression analysis such as the coefficient of determination (R-square), coefficient of correlation (R) and the beta coefficients helped the study rate the extent to which financial development initiatives affect the growth of agribusiness SMEs. Further, the beta coefficients helped the study in determining whether the influence of the variables was positive or negative. The study also derived p-values from regression that assisted in identifying whether financial development initiative variables have a significant effect at a 95% confidence level. A p-value below 0.05 indicated a significant finding while a p-value above 0.05 indicated a non-significant result. The model below was adopted to illustrate how the variables covered by the study interrelate.

$Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$

Where;

Y= Growth of agribusiness SMEs

X_1= Access to credit

X_2= Mobilizing and pooling of savings

X_3= Allocation of capital

α= Constant term

β_1, β_2 &β_3= derived regression coefficients (+/-)

ε=error component of model

3.9 Diagnostic Tests

The study diagnostic tests confirm whether the data meets the assumptions necessary for parametric testing through regression. The tests conducted included test of normality, multicollinearity and autocorrelation.

3.9.1 Normality Test

The first assumption tested was that of normality. Ambarwati et al. (2022) state that normality tests indicate whether a data's distribution follows a normal distribution. When data deviates from normality, transformation is applied to correct the issue. In this study, the Shapiro-Wilk test was employed to assess normality. According to Okoye and Hosseini (2024), this test is appropriate for samples ranging from 50 to 2000 observations. A p-value above 0.05 was interpreted as an indication that the data followed a normal distribution.

3.9.2 Multicollinearity

Multicollinearity refers to a condition in regression analysis where two or more independent variables have high degree of correlation (Shrestha, 2020). This correlation complicates the determination of each variable's contribution to the dependent variable. In this study, multicollinearity was evaluated using the Variance Inflation Factor (VIF) and tolerance statistics. Tolerance values above 0.1 and VIF values between 1 and 10 were considered acceptable (Shrestha, 2020).

3.9.3 Autocorrelation

Autocorrelation occurs when the value of a variable at a given time point is influenced by its previous values (Turner, Forbes, Karahalios, Taljaard, & McKenzie, 2021). It is tested to determine whether the residuals of a regression model exhibit correlation across time or sequential observations. If not properly addressed, autocorrelation can result in inefficient parameter estimates and misleading conclusions. In this study, the Durbin-Watson statistic was used to test for autocorrelation, with a value of 2 indicating no presence of autocorrelation (Samantaraya, 2024).

3.10 Ethical Considerations

The steps taken during a research exercise to evaluate and organize schemes through which potential risks to research participants may be mitigated is known as ethical considerations (Schutte et al., 2023). The study ensured that it satisfied a high threshold in research by taking several steps. First, the study collected an introduction letter from the School of Graduate Studies and Research that was presented to potential research participants to clarify the intent of the research process as being purely academic. Secondly, the study notified the respondents that participation would be entirely voluntary and they were able to opt-out of the exercise at any moment. Furthermore, the research ensured that the respondents' right to privacy and confidentiality was maintained. Finally, the information collected would only be accessible to the researcher and the collected data was stored in a secure storage device.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, results, interpretation and discussions. The first section presents the response rate and the second section presents demographic findings. The other sections are arranged in line with the objectives.

4.2 Response Rate

The researcher distributed 380 questionnaires to agribusiness SMEs in Machakos County, with 302 fully completed questionnaires returned, achieving a strong response rate of 79.5%. According to Mugenda and Mugenda (2003), a response rate above 60% is considered adequate for reliable research findings, indicating that this study's high participation rate provided robust data for analysing the impact of financial development initiatives on SME growth. The high response can be attributed to the study's stratified sampling approach ensuring broad representation across sub-counties, the good rapport the researcher created with the respondents and the well-structured questionnaire which was easy for the respondents to fill. The results are presented on table 4.

TABLE 4

Response Rate

Response	**Frequency**	**Percent**
Response	302	79.5%
Nonresponse	78	20.5%
Total	**380**	**100**

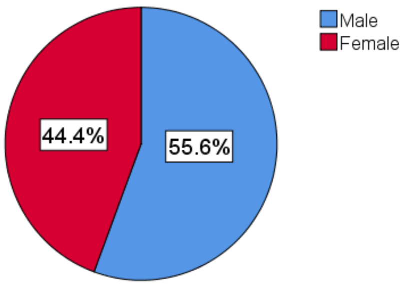
4.3 Demographic Analysis

Analysis in this section sought to determine the demographic characteristics of the respondents. The variables analysed here included gender, age, education level, the number of years the agribusiness owner has been in operation, the agricultural background in terms of education or training and the activities the agribusiness SMEs mainly focus on.

4.3.1 Gender

Analysis was done to determine the distribution of the agribusiness owners by gender. This was crucial as it gave valuable insights into the demographic composition of agribusiness SME owners and managers participating in this study. The findings are presented on figure 2;

FIGURE 2
Gender of the Respondents



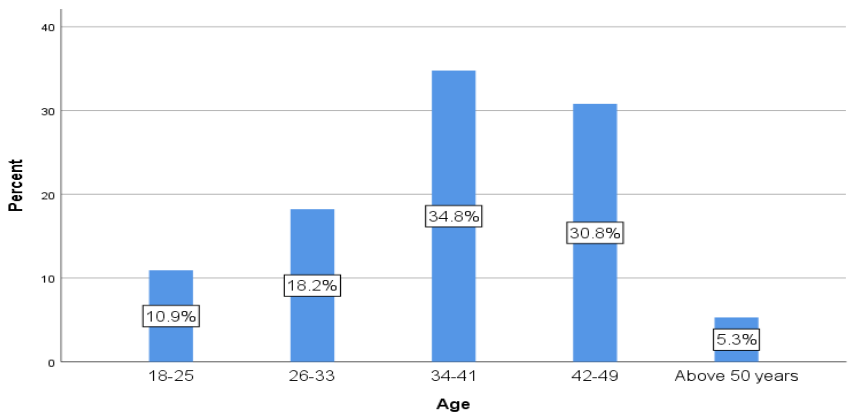
The analysis findings indicated that 55.6% of the respondents were males and 44.4% were females. The findings indicate that the majority of the respondents were males. However, the difference between males and females was small. Although the male respondents were more, the substantial proportion of female respondents suggests growing gender inclusivity in the agribusiness SMEs in Machakos. The findings align with the existing studies showing male dominance in agribusiness ownership, though with notable regional variations. The observed male dominance in Machakos County compares with Omondi et al.'s (2022) national findings whereby 48% of the

SMEs were owned by males and only 31.4% were female-owned. This pattern is consistent with broader literature documenting women's disproportionate challenges in agricultural commercialization, including cultural barriers, limited access to finance and training (David, 2021), and their concentration in labor-intensive subsectors like horticulture and dairy production (Wanjiru, 2021; Galiè et al., 2022). While the gender gap persists, Machakos' relatively higher female participation rate suggests some regional progress toward gender inclusivity in agribusiness entrepreneurship compared to national averages and the broader Sub-Saharan African context where women often remain confined to small-scale operations (Alunga & William, 2023).

4.3.2 Age

The purpose of the analysis was to determine the age of the respondents. This helped to assess whether financial development initiatives are effectively reaching different generational cohorts, from youthful entrepreneurs to more experienced business owners. The findings are presented on figure 3;

FIGURE 3
Distribution of the Respondents by Age



The study found that the majority of agribusiness owners/managers in Machakos County are aged between 34-41 years accounting for 34.8%, 30.8% were aged between 42-49 years, 18.2% were aged between 26-33 years, 10.9% were aged between 18-25 years and 5.3% were aged above 50 years. These findings suggest that the SMES in the agribusiness sector in Machakos County are dominated by middle-aged entrepreneurs.

4.3.3 Education Level

Analysis in this section sought to determine the education of the respondents. The findings are presented on the table below;

4.3.4 Number of Years the Agribusiness Owner Have Been in Operation

Analysis in this section sought to determine the number of years the agribusinesses have been in operation. The findings are presented on table 5;

TABLE 5
Number of Years Agribusinesses Have Been in Operation

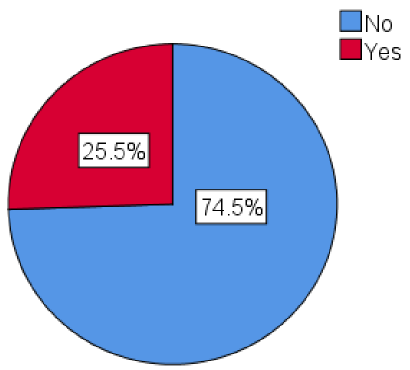
Number of years in operation	Frequency	Percent
1-6 years	123	40.7
7-12 years	107	35.4
13-18 years	33	10.9
Above 18 years	29	9.6
Less than 1 year	10	3.3
Total	**302**	**100.0**

The findings indicate that 40.7% of the agribusinesses have been in operation for 1-6 years, 35.4% had operated for 7-12 years, 10.9% reported that they had operated for 13-18 years, 9.6% of enterprises have been operational for over 18 years and 3.3% reported that their businesses have been in operation for less than 1 year. These results suggest that Machakos County's agribusiness sector is predominantly composed of relatively young enterprises, with over three-quarters (76.1%) operating for 12 years or less. The limited number of long-standing businesses and few startups may indicate either high turnover rates in the sector or significant barriers to both entry and sustainability. The concentration of businesses in the 1–12-year range implied they are likely at critical growth stages where financial development initiatives could have substantial impact on their expansion and maturation.

4.3.5 Agricultural background

This section analyses whether respondents had any form of agricultural education or training prior to or during their involvement in agribusiness. Understanding the level of agricultural knowledge among SME owners and managers was important, as it can influence how effectively they manage their enterprises, adopt innovations, and respond to challenges such as market fluctuations and production risks. The findings are presented on figure 4.

Figure 4
Agricultural Background in Terms of Education or Training

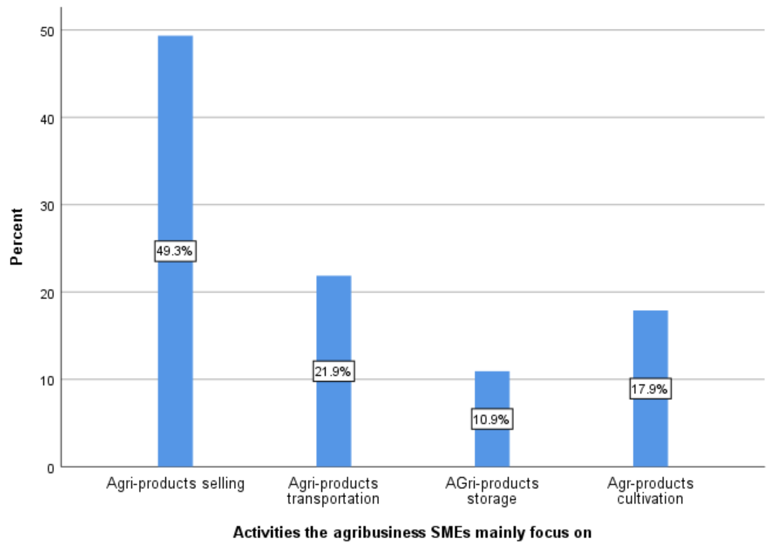


The findings indicated that 74.5% reported that they do not have agricultural background in terms of education or training and 25.5% reported that they have agricultural background in terms of education or training. The findings implied that most SME owners/operators lack agricultural education or training. In this study, the dominant proportion of the respondents were involved in Agri-products selling and formal agricultural qualifications may not be a prerequisite for participation.

4.3.6 Activities Agribusiness SMES mainly Focus on.

This section presented findings on the primary operational focus of the agribusiness SMEs that participated in the study. The findings are presented on figure 5;

FIGURE 5
Activities Businesses Mainly Focus On



The findings revealed that a significant proportion of the enterprises are engaged in Agri-products selling, which accounted for 49.3% of the responses. This suggested that nearly half of the SMEs operate at the market-facing end of the agricultural value chain. Agri-products transportation was the second most common activity, reported by 21.9% of the respondents. This indicated a considerable number of SMEs are involved in logistics and supply chain operations, highlighting the role of transportation in linking producers to markets. Agri-products cultivation accounted for 17.9% of the responses which indicated that some SMEs are involved directly in agricultural production. Agri-products storage was the least reported primary activity at 10.9%, suggesting limited engagement in post-harvest handling and warehousing among SMEs.

These findings suggest that most agribusiness SMEs in Machakos County are concentrated in downstream activities such as selling and transport rather than in primary production or storage, which may have implications for the type of financial development initiatives they require. For instance, sellers and transporters may prioritize working capital and short-term credit, while cultivators and storage operators may need more substantial, long-term investment financing.

4.4 Growth of small and medium agribusiness enterprises

This section presents findings on the growth of small and medium agribusiness enterprises in Machakos County, focusing on key indicators such as profit levels, sales performance, and employment changes. Understanding these growth parameters is essential for assessing the overall development and sustainability of agribusiness SMEs in Machakos County. The findings are presented on table 6;

TABLE 6
Growth of Small and Medium Agribusiness Enterprises

Statement	N	Mean	SD
The enterprise has had a considerable increase in profits this year.	302	3.0993	1.03593
The enterprise has seen slightly more sales this year.	302	3.3444	.95789
The enterprise has increased the number of employees this year.	302	2.3245	1.21753

Regarding profitability, the respondents neither agreed nor disagreed that the enterprises have had considerable increase in profits (Mean=3.0993, SD=1.03593). The neutral response suggested that, on average, the participants did not hold a strong opinion on whether their profits had improved. It implied that while some agribusiness SMEs may have recorded profit growth, others did not experience noticeable changes which in turn resulted in an overall mixed perception. The findings could suggest that profitability trends among agribusiness SMEs in Machakos County were not uniform whereby, some enterprises may be stable or struggling to grow, while others are performing slightly better.

Regarding sales, the respondents neither agreed nor disagreed that the enterprises have seen slightly more sales (Mean=3.3444, SD = 0.95789). This neutral position suggests that, on average, the respondents were uncertain or divided about whether sales performance had improved. The findings implied that although some agribusiness SMEs may have experienced modest increases in sales, others reported little to no change. Regarding employment, the respondents disagreed that the enterprises have increased the number of employees this year (Mean=2.3245, SD =1.21753). This implied that workforce expansion remains stagnant for most SMEs in the agribusinesses sector.

Generally, the mixed results on profitability and sales and stagnant employment levels, suggested that although some agribusiness SMEs in Machakos County are achieving modest revenue growth, this improvement has not translated into proportional expansion of their workforce. This pattern implies that financial gains may be reinvested primarily in maintaining operations rather than hiring additional staff.

4.5 Access to Credit and Growth of Agribusiness SMEs

The analysis in this section sought to examine how access to credit influences the growth of small and medium agribusiness enterprises (SMEs) in Machakos County. Access to credit is a critical factor in enabling SMEs to expand operations, invest in agricultural inputs, and improve productivity. The analysis focused on key aspects such as the availability of unsecured credit, the affordability of credit terms, and the perceived link between timely repayment and future loan accessibility. The results are presented on table 7;

TABLE 7
Access to Credit and Growth of Agribusiness SMES in Machakos County

Statement	N	Mean	SD
The enterprise has been able to receive credit without the need for security or collateral.	302	2.2550	1.02683
The credit terms demanded by credit providers are reasonable and affordable.	302	3.2682	1.00046
Timely repayment of credit facilitates increases in future loan awards.	302	4.0397	.76797

The analysis findings indicated that the respondents disagreed that the enterprises have been able to receive credit without the need for security or collateral (Mean=2.2550, SD=1.02683). This indicated that most agribusiness SMEs still face challenges in accessing unsecured credit, implying that traditional collateral-based lending remains a major barrier to financial inclusion for these enterprises. Agribusiness SMEs in Machakos face collateral challenges mainly because a large number of them operate on small-scale or family-owned land without formal title deeds that can be used as loan security. Limited asset ownership, informal business registration, and low capital accumulation further limit their ability to meet stringent collateral requirements imposed by financial institutions. As a result, many entrepreneurs are excluded from formal credit systems and rely instead on informal lending or savings groups to finance their operations.

The findings are in tandem with the results of Nombare (2021) who conducted a study in Ghana and identified that collateral requirements posed a barrier to credit access for the SMEs. While the study found that the presence of collateral demands limited credit access for the SMEs, it also revealed that for those who managed to access credit, the impact on enterprise growth was positive. Similarly, Widyastuti, Ferdinand, and Hermanto (2023), in their study of creative industry MSMEs in Indonesia, found that the growth of enterprises was directly influenced by favourable credit terms. The study concluded that favourable terms significantly improved credit accessibility, which in turn improved performance and supported enterprise growth.

Regarding credit terms, the respondents neither agreed nor disagreed that the credit terms demanded by credit providers are reasonable and affordable (Mean=3.2682, SD=1.00046). The findings implied that, on average, agribusinesses in Machakos County had moderate views regarding the affordability of credit. The respondents were generally undecided which reflected a balance between the business owners who find the credit reasonable and those who do not find the terms reasonable. While some respondents may have found the credit acceptable, others found the terms more restrictive terms depending on the specific financial institutions they engage with. This indicated that there are differences in institutional lending policies.

The findings were contrary to the results of Widyastuti, Ferdinand, and Hermanto (2023), who, in a study of creative industry MSMEs in Indonesia, found that the growth of enterprises was not directly influenced by favourable credit terms. Instead, such terms significantly improved credit accessibility, which in turn improved performance and supported enterprise growth. Similarly, De Andres et al. (2021) demonstrated that the application of discriminatory practices by lenders on newly established women-led enterprises exposed them to tougher credit terms, such as higher interest rates.

Regarding repayment time, the respondents agreed that timely repayment of credit facilitates increases in future loan awards (Mean=4.0397 SD=0.76797). This indicates a strong understanding among respondents of the importance of timely loan repayment in building creditworthiness and improving future access to financing. The findings also suggest a level of financial discipline and awareness among agribusiness SMEs in the county. The findings are in tandem with the results of Muhire and Olyanga, 2022) who in a study on the effect of credit access to Ugandan SMEs sustainability identified that the repayment periods afforded to the enterprises were unfavourable and a contributor to credit non-payment.

4.6 Mobilizing and Pooling of Savings and Growth of Agribusiness SMEs

The purpose of the analysis in this section was to determine the effect of mobilizing and pooling of savings on the growth of SMEs in the agribusiness sector in Machakos county. The findings are presented on table 8;

TABLE 8
Mobilizing and Pooling of Savings and Growth of Agribusiness SMEs.

Statement	**N**	**Mean**	**SD**
Financial institutions facilitate membership in savings groups.	302	3.2881	1.02775
Group membership influences savings behaviours positively.	302	4.2252	.87923
Financial institutions allow savings group members to guarantee their member's loans.	302	3.3808	1.05214

Based on the analysis, the respondents neither agreed nor disagreed that financial institutions facilitate membership in savings groups (Mean-3.2881, SD=1.02775). This indicates a generally neutral perception among respondents regarding the role of financial institutions in supporting access to saving groups. Although some institutions may actively support this function, the high standard deviation suggests that experiences vary considerably. This variability implies that support for group membership is not uniformly offered across financial institutions, and that the facilitation of such membership is not consistent. Therefore, although the infrastructure for supporting savings group formation may exist, its reach and application are not even which indicates the need for more deliberate efforts by financial institutions to promote savings group participation in a more systematic and inclusive manner.

The findings are contrary to the results of Nnagana (2021) who identified that participation in group savings mobilization was a positive and significant predictor of growth and development of women enterprises in the Niger state. The mobilization was facilitated by the proximity of the businesses to the financial providers. The results were also contrary to the results of Nakato (2021) who, in survey of 3,234 savings groups from thirty-one countries, concluded that savings mobilization and pooling were instrumental in facilitating financial inclusion between groups and financial providers.

The respondents agreed that group membership influences savings behaviours positively (Mean=4.2252, SD=0.87923). The findings implied that savings groups are effective mechanisms for encouraging financial discipline, primarily through peer influence, mutual accountability, and structured saving routines. The low standard deviation suggested that this benefit is consistently experienced across different types of agribusinesses which emphasize the value of group-based financial models as a reliable strategy for promoting savings culture in the agribusiness sector.

The results are in tandem with the results of Mohammed, Boateng, and Freeman (2022), who in a study on Ghanaian women agribusiness SMEs, a conclusion was made that enterprise groups which mobilized and pooled savings with the support of microfinance institutions exhibited significantly better financial performance than those that did not. Similarly, the findings align with Nakabugo, Muathe, and Mwasiaji (2022), who established that savings mobilization, especially when supported by social collateral through in-group lending, had a significant positive impact on Ugandan coffee SMEs.

The respondents neither agreed nor disagreed that financial institutions allow savings group members to guarantee their member’s loans (Mean=3.3808, SD=1.05214). The findings implied that, while some businesses benefit from such arrangements, others do not, as a result of either institutional policies or lack of awareness. This suggested that although the concept of group loan guarantees exists and is somewhat accepted, it has not yet been widely implemented or standardized across financial institutions. The results are contrary to the results of Nnagana (2021), who in a study on women-owned enterprises in Niger State emphasized overall positive role of group participation in driving growth. However, the study identified that the use of savings group members to guarantee their member’s loans was low.

4.7 Allocation of Capital and Growth of Agribusiness SMEs

The analysis in this section sought to examine how the allocation of capital influences the growth of small and medium agribusiness enterprises in Machakos County. Effective capital allocation is essential for SME sustainability, expansion, and resilience, particularly in the agribusiness sector, which is often exposed to seasonal income fluctuations and market uncertainties. The findings are presented on table 9;

TABLE 9
Effect of Allocation of Capital on Growth of Agribusiness SMEs

Statement	N	Mean	SD
Financial institutions aid enterprises in developing financial budgets.	302	3.2185	1.18065
Enterprises receive financial planning guidance from financial institutions.	302	3.6159	1.16631
Enterprises receive cash management guidance from financial institutions.	302	3.9669	1.16947

From the analysis, the respondents neither agreed nor disagreed that financial institutions help enterprises in developing financial budgets (Mean = 3.2185, SD = 1.18065). This suggests that while budget development support is available, it is not consistently provided across all institutions. The relatively high standard deviation also indicated differences in how different SMEs in the agribusinesses sector experience institutional assistance in budgeting. This indicated unequal access to advisory services or differences in institutional capacity.

The findings are contrary to those of Tanui (2021), whose study on Kenyan agribusiness SMEs revealed that financial budget development training services offered by microfinance institutions significantly and positively influenced enterprise growth. Specifically, the study found that capacity-building initiatives targeting capital management skills among SME owners and managers improved their ability to make effective capital allocation decisions. The results were also contrary to the results of Mang'ana, Ndyetabula and Hokororo (2023), who identified that training-based financial initiatives significantly improved knowledge levels among SME personnel, resulting in improved performance and long-term growth. Their study emphasized that initiatives focused on working capital management, capital budgeting, and financial reporting were crucial in enabling SMEs to make sound financial decisions.

Regarding financial planning guidance, the responses agreed that the agribusiness enterprises receive financial planning guidance from financial institutions (Mean = 3.6159, SD = 1.16631). This indicated that agribusiness SMEs generally perceive financial institutions to offer relatively better support in planning compared to budgeting. This shows that although the SMEs are receiving some level of strategic financial advice, the inconsistency remains a concern, as reflected in the continued high variability among responses. The findings are in agreement with Possumah and Appiah (2018), who, in a study of Ghanaian SMEs, found that institutional support specifically in the form of accounting and bookkeeping instructions had a direct positive influence on SME growth.

Regarding cash management guidance, the respondents agreed that enterprises receive cash management guidance from financial institutions (Mean = 3.9669, SD = 1.16947). This implies that cash flow management is a more commonly supported area by financial institutions. The relatively higher mean, accompanied by a high standard deviation indicated that more agribusinesses benefit from short-term liquidity guidance than from long-term planning services. The findings are in agreement with the findings of Possumah and Appiah (2018), who established that institutional support through accounting and bookkeeping instructions had a direct positive influence on SME growth. The findings also in tandem with Omar et al. (2021), whose study on Kenyan SMEs found that practices such as cash management, inventory management, accounts receivables, and accounts payable had a direct influence on SME performance.

4.8 Diagnostic Test

Diagnostic tests were done before conducting regression analysis to determine the suitability of the data. The tests conducted included normality tests, multicollinearity, and autocorrelation tests.

4.8.1 Normality tests

Normality tests was done to determine whether the data followed a normal distribution. This was done using Shapiro-Wilk test. The results are shown on table 10.

TABLE 10
Normality Tests

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.042	302	.200*	.995	302	.489

The results showed a Shapiro-Wilk statistic of 0.995 and a p-value of 0.489, which is greater than 0.05. This indicates that the residuals are normally distributed. Similarly, the Kolmogorov-Smirnov test yielded a p-value of 0.200 which is greater than 0.05 which further supports the conclusion that the residuals do not significantly deviate from a normal distribution.

4.8.2 Multicollinearity test

A multicollinearity test was conducted to determine whether any of the independent variables were highly correlated with each other. This was done using the Variance Inflation Factor (VIF) and tolerance values. Tolerance values greater than 0.1 and VIF values above 1 but not exceeding 10 were considered acceptable. The findings are presented on table 11;

TABLE 11
Multicollinearity Test

Model	Collinearity Statistics Tolerance	VIF
Access to credit	.874	1.145
Mobilizing and pooling of savings	.889	1.125
Allocation of capital	.886	1.129

The results indicated that all tolerance values were above 0.1, and all VIF values ranged between 1.125 and 1.145, which are above 1 and less than 10. These findings indicate that there was no significant multicollinearity among the independent variables. This implies that each variable contributes independently to the regression model and the estimates are reliable.

4.8.3 Autocorrelation

Autocorrelation test was conducted to determine whether the residuals from the regression model were correlated across observations. This was done using Durbin-Watson statistic. A Durbin-Watson value close to 2 was taken to suggest absence of autocorrelation. The results are presented table 12.

TABLE 12
Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.685[a]	.470	.464	.35115	2.048

From the analysis, the Durbin-Watson statistic obtained 2.048 was close to 2.0 which suggest that there was no significant autocorrelation in the residuals, and therefore the independence of observations assumption holds. This indicated that the overall model was a good fit and statistically appropriate for analysing the influence of the selected financial variables on growth of the SMEs in the agribusiness sector.

4.9 Inferential Analysis

Inferential analysis was done to determine the relationship between the independent variables and the dependent variables and the effect of the independent variables on the dependent variable. This was done using correlation and regression analysis.

4.9.1 Correlation Analysis

Correlation analysis was done to determine the relationship between the independent variables and the dependent variable. The results are presented table 13;

TABLE 13
Correlation Analysis

		Access to credit	Mobilizing and pooling of savings	Allocation of capital
Growth	Pearson Correlation	.549**	.527**	.348**
	Sig. (2-tailed)	.000	.000	.000
	N	302	302	302

The results indicated that the independent variables had statistically significant relationship with the dependent variable as all the Pearson Correlation coefficients were positive and the p values were less than 0.05. Specifically, access to credit had a strong positive correlation with growth ($r = 0.549$, $p < 0.001$), suggesting that increased access to credit is associated with higher levels of growth. Similarly, mobilizing and pooling of savings also showed a strong positive correlation with growth ($r = 0.527$, $p < 0.001$) which indicates that improved savings mobilization efforts are associated with improved business growth. Allocation of capital was moderately and positively correlated with growth (r = 0.348, $p < 0.001$) which implies that effective capital allocation contributes to growth.

4.9.2 Regression analysis

Regression analysis was done to determine the effect of access to credit, mobilizing and pooling of savings and allocation of capital on the growth of small and medium agribusiness enterprises in Machakos County. The findings are presented on table 14;

TABLE 14
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.685[a]	.470	.464	.35115

The regression model yielded a coefficient of determination (R^2) of 0.470. This indicates that approximately 47% of the variation in the growth of the small and medium agribusiness enterprises in Machakos County can be explained by access to credit, mobilizing and pooling of savings and allocation of capital. The remaining 53% can be attributed to other factors outside the model. The multiple correlation coefficient (R) was 0.685 which indicates strong positive relationship between the combination of independent variables and the dependent variable.

Analysis of Variance (ANOVA) was used to assess the overall significance of the regression model. The results are presented on table 15;

TABLE 15
ANOVA Results

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	32.560	3	10.853	88.022	.000[b]
	Residual	36.744	298	.123		
	Total	69.305	301			

The ANOVA results indicated that the regression model was statistically significant, with an F-value of 88.022 and a p-value of 0.000. This p-value was less than 0.05 which confirmed that the combined effect of the independent variables on the dependent variable was statistically significant. The regression coefficients were analysed and presented on table 16;

TABLE 16
Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.413	.102		4.048	.000
Access to credit	.234	.026	.405	8.972	.000
Mobilizing and pooling of savings	.208	.024	.380	8.486	.000
Allocation of capital	.111	.037	.136	3.039	.003

The regression constant was B = 0.413 which indicated that when all independent variables are held constant, the growth of the small and medium agribusiness enterprises in Machakos County would be 0.413 units. This value was statistically significant as the p-value obtained (0.000**)** was less than 0.05.

Among the independent variables, access to credit had the highest standardized beta coefficient ($\beta = 0.405$), with an unstandardized coefficient of B = 0.234 and p = 0.000**.** This implies that access to credit had a strong and statistically significant positive influence on the growth of the small and medium agribusiness enterprises in Machakos County. Holding other factors, for every unit increase in access to credit, the growth of the enterprises would increase by approximately 0.234 units, assuming all other factors are held constant.

Access to credit strengthens the resilience of agribusiness SMEs by enabling them to invest in inputs, technology, and infrastructure that boost productivity and competitiveness. With adequate financing, these enterprises can expand operations, manage seasonal fluctuations, and recover more quickly from losses caused by droughts or market disruptions. Credit also allows agribusiness SMEs to take advantage of emerging opportunities, such as bulk purchasing and value addition, which improve profitability. Therefore, reliable access to credit supports business growth and enhances the ability of agribusinesses SMEs to adapt and remain sustainable in challenging economic conditions.

Mobilization and pooling of savings also had statistically significant effect on the growth of the small and medium agribusiness enterprises in Machakos County ($B = 0.208$**,** $\beta = 0.380$, $p = 0.000$). This indicates that effective saving practices and group financial mechanisms significantly contribute to the growth of the enterprises. Practically, groups savings influence the resilience of agribusiness SMEs by providing a reliable source of collective financial support and security. Through rotating savings and credit associations, members pool small but regular contributions, which they can access for business reinvestment, emergencies, or to offset income fluctuations caused by weather or market instability. These groups also build trust, social networks, and shared responsibility which creates a form of social collateral that enables members to access funds without formal security. As a result, group savings enhance financial stability, adaptability, and recovery capacity among agribusiness SMEs facing uncertain operating conditions.

Allocation of capital had the smallest but still significant effect on the growth of the small and medium agribusiness enterprises in Machakos County ($B=0.111$, $p=0.003$). This indicated that better capital allocation practices have significant contribution to the growth of the enterprises. Efficient allocation of capital improves the resilience of agribusiness SMEs by ensuring that limited financial resources are directed toward high-impact and productivity-enhancing activities. When entrepreneurs prioritize investments in modern inputs, technology, and value addition rather than non-productive expenditures, they strengthen their capacity to withstand market shocks and sustain growth. Proper capital allocation also enables diversification of income sources, improved cash flow management, and better long-term planning, which collectively increase the financial stability and adaptability of agribusiness enterprises in a competitive and resource-constrained environment.

Generally, the findings implied that the growth of small and medium agribusiness enterprises in Machakos County is significantly influenced by financial development initiatives. Access to credit emerged as the most influential factor which suggest that when agribusinesses can obtain financing especially under manageable terms, they are more likely to expand operations, increase sales, and improve profitability. Similarly, savings mobilization through group mechanisms promotes financial discipline and improves the ability of the SMEs in the agribusiness sector to access pooled resources for reinvestment. Proper allocation of capital also contributes to growth of the businesses by supporting better financial planning and cash flow management.

Based on the analysis, the positive influence of access to credit and savings mobilization appears to have supported improvements in profitability and sales performance, as reflected in the modest upward movement in mean scores for these variables. However, employment growth remained largely stagnant, indicating that financial access and better capital management have not yet translated into significant job creation within the SMEs in agribusiness sector. This could suggest that agribusiness SMEs are using increased financial resources to sustain operations, manage input costs, or service debts rather than expanding their workforce. These findings highlight a complex pattern of growth whereby, while financial inclusion supports operational sustainability and profitability, structural factors continue to limit employment expansion.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the key findings, conclusions, recommendations and suggestions for areas of further studies to advance research on financial development initiatives and the growth of SMEs. This is done in line with the objectives of the study.

5.2 Summary of the Findings

This section presents a summary of the key findings derived from the analysis, structured around the study's main objectives; access to credit, mobilizing and pooling of savings and capital allocation and their effect on growth of small and medium agribusiness enterprises (SMEs) in Machakos County.

5.2.1 Effect of Access to Credit on Growth of Agribusiness SMEs

The first objective of the study sought to determine the effect of access to credit on the growth of small and medium agribusiness enterprises in Machakos County. Regression analysis indicated that access to credit had a strong and statistically significant positive influence on the growth of the small and medium agribusiness enterprises. However, the findings revealed critical insights into the financing challenges faced by these SMEs in regards to access to credit. Most respondents reported difficulties in accessing credit without security or collateral, highlighting the ongoing reliance on traditional collateral-based lending practices, which continue to hinder financial inclusion for many agribusiness SMEs. This pointed to a significant structural barrier that limits the ability of enterprises to invest and scale.

Additionally, perceptions around the affordability of credit terms were mixed, suggesting that while some businesses benefit from manageable loan conditions, others are constrained by unfavourable lending terms. However, a positive finding emerged regarding repayment behaviour whereby, respondents generally acknowledged that timely loan repayment enhances access to future credit.

5.2.2 Effect of Mobilizing and Pooling of Savings on Growth of Agribusiness SMEs

The study sought to determine the effect of mobilizing and pooling of savings on the growth of small and medium agribusiness enterprises in Machakos County. From the analysis, Mobilization and pooling of savings also had statistically significant effect on the growth of the small and medium agribusiness enterprises. The findings revealed both potential and gaps in leveraging collective financial mechanisms. Although respondents held neutral views on whether financial institutions actively facilitate membership in savings groups, the variation in responses suggests that such support is inconsistent and possibly influenced by the differing policies or outreach strategies of financial institutions. This inconsistency pointed to the need for more systematic and inclusive promotion of savings group participation.

On a more positive note, respondents agreed that group membership positively influenced savings behaviour, indicating that savings groups play a crucial role in promoting financial discipline and resilience among agribusiness SMEs. This was attributed to peer pressure, mutual accountability, and routine saving structures, which help instil a culture of regular saving. However, the findings were less conclusive regarding whether financial institutions permit group members to guarantee each other’s loans. While some respondents saw this as a possibility, the wide variation in responses indicated that this practice was not uniformly adopted.

5.2.3 Effect of Capital Allocation on Growth of Agribusiness SMEs

The purpose of the analysis on this particular objective was to examine the effect of capital allocation on the growth of small and medium agribusiness enterprises in Machakos County. Findings highlighted the mixed experiences SMEs face regarding financial institutional support. While respondents neither agreed nor disagreed that financial institutions help in developing budgets, the high variability in responses suggested inconsistent access to budgeting support. This pointed to a gap in institutional outreach or capacity.

In contrast, more SMEs acknowledged receiving financial planning guidance which reflected a relatively higher level of institutional engagement in strategic decision-making processes. Cash management guidance received the highest level of agreement among respondents, indicating that financial institutions are more actively involved in supporting enterprises with liquidity and day-to-day financial operations. These findings also underscored the significance of targeted and consistent financial advisory services in improving SME financial decision-making. Regression and correlation analysis indicated that Allocation of capital had the smallest but still significant effect on the growth of the small and medium agribusiness enterprises.

5.3 Conclusions

This study concludes that financial development initiatives have significant influence on the growth of small and medium agribusiness enterprises in Machakos County. The results also demonstrated that although financial development initiatives exist, their reach and effectiveness remain uneven.

From the findings, the study concludes that access to credit has strong association and influence on growth of agribusiness SMEs, which suggest that when agribusinesses can obtain financing especially under manageable terms, they are more likely to expand operations, increase sales, and improve profitability. Access to finance is however still hindered by traditional lending models that require collateral, which limits credit availability for smaller or newer businesses.

Furthermore, the study concluded that the way agribusiness SMEs allocate their capital also significantly influence their growth. However, while financial institutions offer planning and cash management support to the SMEs, the delivery of such services is not consistent. Additionally, although some businesses benefit from targeted capital planning and allocation guidance, the disparities in experience among participants highlight systemic gaps in how institutions engage with agribusiness SMEs, especially in financial training and resource planning.

Finally, the study concluded that the role of collective savings and peer-supported financing mechanisms, particularly, is relevant in strengthening financial discipline and resilience among SMEs. However, institutional support in formalizing or facilitating such mechanisms remains weak, which limit their effectiveness.

5.4 Recommendations

i. The study concluded that access to credit had a statistically significant effect on the growth of agribusiness SMEs. The findings indicated that a large proportion of the businesses continue facing challenges related to collateral requirements and restrictive credit terms. In this regard, the financial institutions are recommended to design flexible and inclusive credit models that reduce dependency on traditional collateral such as adopting group-based or cash-flow lending models specifically tailored for agribusiness SMEs. The policy makers at both the count level and national level to consider Strengthening SACCOs' lending capacity and introducing credit guarantee schemes and agriculture-specific financing policies in order to improve lending confidence among the banks while protecting small enterprises from exclusion as a result of lack of physical assets.

ii. The study concluded that mobilization and pooling of savings had a statistically significant influence on the growth of agribusiness SMEs with respondents generally agreeing that group membership positively affected savings behaviour. This emphasized the significance of saving groups as means of financial empowerment and business sustainability. The national government, the county government and development partners are therefore recommended to strengthen cooperative societies and community-based savings groups by formalizing their structures and linking them to microfinance and banking institutions. In addition, there is a need for policy frameworks to support the digitization of savings groups and integration of the saving schemes into formal credit systems in order to allow members to build their credit histories and improve access to larger funding pools. There is also a need to promote training initiatives focusing on savings disciplines, bookkeeping and reinvestment planning. This would help to improve resilience and capital growth of the businesses.

iii. The analysis identified that capital allocation had a positive and statistically significant effect on agribusiness SME growth in Machakos county. The mean scores obtained indicated moderate agreement on the extent of financial planning and budgetary support received from institutions which indicate inconsistent access to financial advisory services among the businesses. Therefore, the financial institutions and business support services are recommenced to design targeted financial literacy programs focusing on capital budgeting, investment planning, and cash flow management. From a policy perspective, the county government of

Machakos is recommended to establish Agribusiness Financial Advisory Hubs or capacity-building funds to equip SME owners with the skills required to enable them make data-driven financial decisions.

5.5 Suggestions for Further Research

The study only analysed the effect of financial development initiatives on the growth of small and medium agribusiness enterprises in Machakos County. There is a need for other studies to focus on small and medium agribusiness enterprises in other regions in Kenya. Also, there is a need to conduct other studies focusing on the effect of financial development initiatives on the growth of SMEs in other sector in Machakos county and other counties. This study was cross sectional and hence the need for longitudinal studies to examine how the effects of credit access, savings mobilization, and capital allocation have evolved over time and influenced long-term growth and sustainability of the small and medium agribusiness enterprises in Machakos County.

The study focused only on three independent variables that is access to credit, capital allocation and mobilizing and pooling of savings and their influence on growth of small and medium agribusiness enterprises in Machakos County. Therefore, there is need for other studies focusing on digital lending as a financial development initiative and its influence on growth of agribusiness SMEs.

5.6 Limitations of Study

One of the primary obstacles encountered in the course of this research was the unwillingness of the agribusiness SMEs owners to provide information about their businesses, as they regarded such details as confidential and sensitive. To mitigate this challenge, the researcher clarified in details, to the participating SME owners and managers, the study's objectives and significance. Participants were also reassured that the data collected was only for academic purpose as indicated on the NACOSTI permit, and strict confidentiality and privacy measures would be observed. This approach helped build rapport and encouraged more open and honest participation.

Another significant challenge was the potential for response bias, particularly in the data provided by participants about their business operations. Such bias could affect the accuracy, reliability and validity of the results, possibly resulting in inaccurate interpretations and findings. To counter this, the researcher emphasized on the importance of honest and accurate responses, as a way of improving the credibility and reliability of the research findings. Moreover, participants were once again assured that their information would be handled with the utmost confidentiality.

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APPENDICES

Appendix I: Research Questionnaire

I am a Master of Science student at KCA University conducting a study on the effect of financial development initiatives on the growth of Small and Medium Agribusiness Enterprises in Machakos County, Kenya. The information collected using this questionnaire will not be used for other purposes except those of academic intent. Your participation in this effort will be highly appreciated. The information given out will be treated in confidence and your privacy will be maintained. Please indicate the most appropriate response by placing a [√] in the space provided.

Section A: Background Information

1. Please indicate your gender

    Male [ ]   Female [ ]

2. Please indicate your age

    18-25 [ ]   26-33 [ ]   34-41 [ ]   42-49 [ ]

    Above 50 years [ ]

3. Please indicate the number of years this agribusiness SME has been in operation

    1-6 [ ]   7-12 [ ]

    13-18 [ ]   Above 18 years [ ]

4. Do you possess an agricultural background in terms of education or training

    Yes [ ]   No [ ]

5. Which among the following activities does your agribusiness SMEs mainly focus on?

    Agri-products selling [ ]

    Agri-products transportation [ ]

    AGri-products storage [ ]

    Agr-products cultivation [ ]

Section B: Financial Development Initiatives

6. This part of the questionnaire aims to collect information concerning financial development initiatives as they relate to your agribusiness SME. Please indicate the extent by which you agree or disagree with the statements using the provided scale. 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree.

Access to credit	**1**	**2**	**3**	**4**	**5**
The enterprise has been able to receive credit without the need for security or collateral.					
The credit terms demanded by credit providers are reasonable and affordable.					
Timely repayment of credit facilitates increases in future loan awards.					
Mobilizing and pooling of savings	**1**	**2**	**3**	**4**	**5**
Financial institutions facilitate membership in savings groups.					
Group membership influences savings behaviours positively.					
Financial institutions allow savings group members to guarantee their member's loans.					
Allocation of capital	**1**	**2**	**3**	**4**	**5**
Financial institutions aid enterprises in developing financial budgets.					
Enterprises receive financial planning guidance from financial institutions.					
Enterprises receive cash management guidance from financial institutions.					

Section C: Growth of Small and Medium Agribusiness Enterprises

7. This part of the questionnaire seeks to collect information concerning the growth of Agribusiness SMEs. Please indicate the extent by which you agree or disagree

with the statements using the provided scale. 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree.

Statements on Growth	**1**	**2**	**3**	**4**	**5**
The enterprise has had a considerable increase in profits this year.					
The enterprise has seen slightly more sales this year.					
The enterprise has increased the number of employees this year.					

THANK YOU FOR PARTICIPATING.