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# The Effects of financial inclusion on entrepreneurial venture formation in marginalized areas in Kenya - a case of Chepyuk Ward, Mt. Elgon Sub-County.

Kipnusu, Teresa Kiso  
*Strathmore University Business School*  
*Strathmore University*

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**The Effects of Financial Inclusion on Entrepreneurial Venture Formation in Marginalized Areas in Kenya. A Case of Chepyuk Ward, Mt. Elgon Sub-County**



**Teresa Kiso Kipnusu**

**A Dissertation Submitted In Partial Fulfillment of The Requirements For The Degree of  
Master of Science In Development Finance at Strathmore University**

**Strathmore Business School**

**Strathmore University**

**Nairobi, Kenya**

**July 2023**

## DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

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Name of Candidate:

Teresa Kiso Kipnusu

Approval

The dissertation of Teresa Kiso Kipnusu was approved by the following:

Name of Supervisor: Dr. Helen Hoka Osiolo

School/Institute/Faculty: Strathmore Institute of Mathematical Sciences

Dr. Ceaser Mwangi

Executive Dean

Strathmore University Business School.

Dr. Bernard Shibwabo

Director, Office of Graduate Studies

## ABSTRACT

Financial inclusion has widely been touted as a vital tool in alleviating poverty and reducing income imbalance among the rural-poor in developing economies. The concept of financial inclusion (FI) has become popular and has been described as a means of easy and voluntary access to basic financial services. This study sought to determine the effect of financial inclusion on entrepreneurial venture formation in marginalized areas with focus on Chepyuk Ward, Mt. Elgon Sub-County in Kenya. The highest financial exclusion of 29% is in marginalized areas compared to 2% in non-marginalized areas. Further, Commission for Revenue Allocation identifies Mt Elgon in Bungoma County, Western Kenya among 1,424 areas in 47 counties as most deprived and therefore marginalized. The overall objective of the study was to determine the effect of financial inclusion on entrepreneurial venture formation in marginalized areas with focus on Chepyuk Ward, Mt. Elgon Sub-County in Kenya. The study had three specific objectives: The first specific objective was to establish the extent of access to financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya. The second specific objective was to establish the extent of usage of financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya. The third specific objective was to investigate the level of awareness of existence of financial services and its effects on entrepreneurial venture formation among the marginalized areas of Chepyuk Ward, Mt. Elgon Sub-County in Kenya. This study used two theories; Capabilities theory and theory of asymmetric information. Descriptive research design was applied and a sample size of 379 households from a target population of 7,274 households from Chepyuk ward was used in this study. Two research assistants were trained and supported data collection process. The study adopted a Spearman's rank correlation coefficients and binary logit regression model. Results of the study indicated that there was a positive and not significant effect of access to financial services on entrepreneurial venture formation. There was an inverse and not significant effect of usage of financial services on entrepreneurial venture formation. Moreover, there was an inverse and significant effect of level of awareness of financial services and entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County. The study concludes that extent of financial access, access to financial training and financial literacy are catalysts of entrepreneurial venture formation. There is need for cost benefit analysis by financial services providers so as to examine the costs of credit facilities, use of mobile financial services and micro insurance so as to match the need with costs incurred by service seekers, especially the low income earners in the marginalized areas. There is need for deployment of strategies that may alter the inverse effect of access of financial services, access of financial training and financial literacy. There is need for development of policy programs that would mitigate against the levels of information asymmetry and ultimately increase uptake of financial products and reverse the trend of entrepreneurial venture formation.

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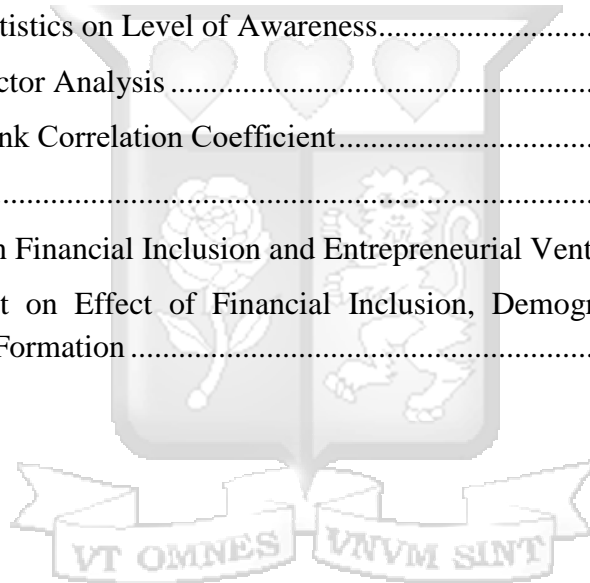
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## LIST OF ABBREVIATIONS

ATM	Automatic Teller Machine
CGAP	Consultative Group to Assist the Poor
CRA	Commission on Revenue Allocation
CRB	Credit Reference Bureau
EF	Equalization Fund
EFA	Exploratory Factor Analysis
EU	European Union
GEM	Global Entrepreneurship Monitor
MFI	Micro-finance Institutions
MSME	Micro, Small and Medium Enterprises
OECD	Organization for Economic Co-operation and Development
SACCO	Savings and Credit Cooperatives
SDG	Sustainable Development Goals
WEF	Women Enterprise Development Fund
WOCCU	World Council of Credit Union
YEDF	Youth Enterprise Development Fund



## OPERATIONAL DEFINITION OF TERMS

<b>Entrepreneurial Venture Formation</b>	Refers to an attempt by any individual or individuals at creating a new business or venture for the purpose of earning an income (Bosma, 2013).
<b>Extent of access</b>	Refers to access to financial services, access to financial training and financial literacy (Lee & Black, 2017).
<b>Financial inclusion</b>	Financial inclusion has been defined in different ways by different researchers mostly in the context of their respective researches. It is making the underprivileged population of a country have easy access to financial services in an attempt to achieving inclusive growth (Iqbal & Sami, 2017).
<b>Level of awareness</b>	Refers to knowledge of financial services, awareness of financial training and awareness of government funded projects (Adetunji & David-West, 2019).
<b>Usage of financial services</b>	Refers to usage of credit facilities, use of mobile financial services, usage of deposit accounts, usage of savings accounts and use of micro insurance services (Islam & Hossain, 2018)

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I would be remiss if I do not mention my two research assistants who put extra efforts traversing Chepyuk ward of Mt. Elgon Sub-County in administering the questionnaires and kept encouraging me in the tough walk.



## DEDICATION

This work is dedicated to my children Scharmien Chebet and Shawn Isaac Kiboi who endured my absence and figured things out on their own as I immersed myself to complete this study, and still cheered me on while checking every so often how far I was.

To my father Job Kipnusu Kiboi and my mother Margaret Temko Kipnusu who are the fountain of inspiration and prayers.



# CHAPTER ONE

## INTRODUCTION

This section details an introduction to the study. It presents the study background, other authors' conceptualization of the study variables, the problem statement, research questions and objectives, scope and significance of the research to various stakeholders.

### 1.1. Background of the Study

Entrepreneurial development has been a go to strategy to tackle a myriad of economic development challenges ever since Schumpeter developed the theory of innovation in 1911. It has since been widely recognized among many business scholars as a strategy that can spur economic growth and drastically alleviate poverty as well as narrow income inequality. It is proven globally to be a driver of economic growth and a facilitator of upward economic mobility (Smith & Chimucheka, 2014; Yunus & Weber, 2009). For entrepreneurial development to take place, finances cannot be wished away. A financial system that is all inclusive enables the poor to save and invest in entrepreneurial ventures (Ouma et al., 2017), and new business formation (Ouma, Odongo, & Were, 2017; Shahriar *et al.*, 2016).

Entrepreneurial initiatives include various irrecoverable start-up costs vital for sourcing facilities, skills and distribution networks. In the event an entrepreneur fails to meet the cost of setting up a venture, he/she turns to external financing mostly the financial markets (Anugwom, 2000). Rusu and Roman (2019) assert that lack of adequate support structures is the most significant deterrent to entrepreneurial intent among youth; advocating for increased investment and policy formulation to facilitate financial access. The study advocated for the government to facilitate access to finance by instituting policies that could allow access to finances even to individuals with little financial history. This shows the importance of financial empowerment as a strategic measure to enable the formation and development of entrepreneurs and their activities (Musau, Muathe, & Mwangi, 2018).

Musau, Muathe and Mwangi (2018) define financial inclusion as the increase in access to financial services from formal financial institutions and includes operating bank accounts, using credit and savings facilitated through banks. Klapper and Singer (2014) define financial

inclusion as the access and use of appropriate, affordable and accessible financial services while Arthur, Musau and Wanjohi (2020) define it as the ease of availability, accessibility, and usage of formal financial institutions by all elements in an economy. Kimutai (2015) defines financial inclusion as the practice of facilitating access of financial services to poor people in society. Waema and Omwansa (2014) affirm that in the modern business environment, digital technologies have been essential in addressing financial inclusivity challenges that have plagued developing economies. The above definitions vary but have similar assertions, that financial inclusivity includes aspects of awareness of the existence of financial services, having access to these services and using them on a regular basis to enhance the quality of life.

Chibba (2009), Iqbal and Sami (2017), Spratt (2009) and Yunus & Weber (2009) have all documented financial sector development as essential to, as well as a key driver of economic and business development, with Iqbal and Sami (2017) reporting that sustainable financial inclusion is key to realizing seven of the 17 sustainable development goals. A financial system that is well performing is very crucial to both individuals and firms as it offers timely credit, savings and payments platforms, as well as risk management facilities. An environment with a financial system that is not inclusive will have people that are dependent on their constrained savings to invest and thrive (Nanziri & Wamalwa, 2021), and this limits investment in business-related activities.

A society without adequate financial products and services has been noted to suffer from reduced entrepreneurial activities, thus limiting its overall development (Waema & Omwansa, 2014). This can lead to poverty trap, persistent income inequality and slow economic growth (International Finance Corporation, 2014). The United Nations, (2016) United Nation emphasizes that as a way of achieving Goal no. 8 of the Sustainable Development Goals (SDGs) that aims at decent work and economic growth, it targets to promote policies that support entrepreneurship, amongst other development-oriented policies, through enhancing access to financial services (Klapper & Singer, 2014). The Consultative Group to Assist the Poor (CGAP) through its several studies concludes that expanding Financial Inclusion will make many of the SDGs attainable (Klapper et al., 2016). CGAP in a Funder Survey done in 2018 further alludes that international funders increased funding of financial inclusion projects by 12% all in the race to achieving the SDGs (Tomilova & Edlira, 2019).

Of the three billion people that are excluded from financial services around the world, over two billion live in developing countries (Chibba, 2009; Demirgüç-Kunt et al., 2018; Yunus & Weber, 2009). The latest survey by the World Bank Group dubbed Global Findex 2017 indicates that despite its global intensity, financial inclusion gains are not the same across countries (Demirgüç-Kunt et al., 2018). Moreover, Chibba (2009) believes that Sub-Saharan Africa deserves special attention since despite it being subjected to similar financial sector reforms like other developing countries, within the same period, it still remains distressingly underdeveloped. Chibba (2009) further found that since the beginning of the current decade, only 4 percent in Africa had a bank account, and this has a significant impact on how people engage in business. The Global Findex 2017 indicates that up until 2017 in Africa, the adults with accounts in a financial institution remained at the same level since 2014 (Demirgüç-Kunt et al., 2018). Most researchers agree that all the stages of business life require capital and thus access to finance was listed by OECD's Entrepreneurship Indicators Steering Group as one of the determinants of entrepreneurial activities (Ahmad & Hoffman, 2008).

### ***1.1.1 Financial Inclusion***

Financial inclusion has been defined in different ways by different researchers mostly in the context of their respective researches. It is making the underprivileged population of a country have easy access to financial services in an attempt to achieving inclusive growth (Iqbal & Sami, 2017). In a study done by (Loukoianova & Yang, 2018) on the development of Financial Inclusion in Pacific – Asia, defined financial inclusion as “access to and use of formal financial services by households and firms”. The World Bank defines financial inclusion as the degree to which entities access useful and affordable financial products and services that enable them meet their needs in a responsible and sustainable way (Van et al., 2019). Aduda and Kalunda (2012) view financial inclusion as a procedure of availing several financial services, at a reasonable cost, at the right place without discrimination to all people by the service provider.

Chibba (2009) considers financial inclusion as a strategy for financial intervention intended to overcome challenges in the market that hinder the poor and underprivileged from having access to financial services. All the definitions give emphasis to the significance of accessibility, affordability and use of financial services to the financially weak and underprivileged

population. It is the serving of the most disadvantaged and low-income earners of a population by delivering financial services at affordable costs. Allen et al., (2014) report that financial inclusion can be measured using availability, accessibility and ease of usage dimensions.

Tuwei (2018) notes that technology advancements have revolutionized how Kenyan's access financial instruments with digitization, meaning that inclusion has grown beyond physical branches. Ngugi (2015) notes that, Kenya has significantly expanded the reach of financial services since 2007 through the expansion of the reach of major types of financial service providers. The formation of a favorable working environment has contributed to rapid increase in the number of commercial banks, micro-finance institutions (MFIs), and savings and credit cooperatives (SACCOs), thus promoting financial inclusion. In Kenya, financial inclusion has been characterized by rapid transformation of the technological environment, with the country developing new financial products, services and means of payment. The introduction of mobile cashless payment systems, M-pesa and Yu-cash, into the market in 2007 kick started this transformation (Kenyonu, 2013).

An increase in agency banking has eased access to formal financial providers in satellite branches by the general public (Musau, 2013). The announcement of the partnership between Safaricom PLC and the Commercial Bank of Africa to produce M-shwari saw the introduction of digital banking services to all Kenyan adults. Chiba (2009) recognizes the role of banks in promoting financial inclusion by designing new services and products targeting the low-wage earners and marginalized people. Further, Allen et al., (2014) affirm that through downscaling, banks are coming up with strategies to target groups that were previously categorized as unbankable.

Amongst the key findings of Kenya's 2019 Financial Access (FinAccess) Household Survey, Kenya is ranked highly in financial inclusion compared to other countries in Africa and access to formal financial services and products in Kenya has expanded significantly from 26.7% in 2006 to 82.9% in 2019 (Central Bank of Kenya et al., 2019). The report however found out that there is reduced ability to access and use financial services and products by the poor most of the respondents saying there was no money to save.

The Global Findex 2017 database report stated that “having too little money to use an account” was the main reason why most people in developing nations have no active bank accounts (Demirgüç-Kunt et al., 2018). The 2019 FinAccess survey point out that there still persists a significant disparity in access to and usage of financial services and products as measured by region and wealth levels. It shows that those with the lowest level of wealth are 22% fully excluded compared to 3% for those with highest level of wealth (Central Bank of Kenya et al., 2019). This study will try to determine the rate of financial inclusion in marginalized areas in Kenya by measuring the number of individuals in Chepyuk Mt Elgon, that have accessed, used and have knowledge of the existence of, financial services/products such as credit or savings through financial institutions to form entrepreneurial ventures.

### ***1.1.2 Entrepreneurial Venture Formation***

Entrepreneurial Venture Formation generally refers to the ability and the willingness of people to perceive and develop new economic opportunities and launch their ideologies in the market. Venture formation is the process by which an entrepreneur conjures up a business idea, and through a series of steps, uses available networks to create value in the market (Salamzadeh & Kirby, 2017). It's argued that entrepreneurship initiatives not only bring sustained economic progression and constant rise in the living standards, but also the prevailing development of innovations, increased rivalry as well as a reduction in inequality, which leads to justice and social fairness, therefore, ultimately leading to social sustainability and peace (Mahmoud et al., 2017).

Schumpeter's economic development theory of 1934 explained entrepreneurship by terming whoever starts it as an innovator, an initiator of economic change (Ahmad & Seymour, 2008), a person who gets credit from the bank and uses the credit to introduce his innovation to the market through supplying either a new product or a new service (Kisch, 1979). Vuorio et al., (2018) observes that profiteering is not the only driver of entrepreneurial intents, noting the influence of sustainable development is a desirable value to entrepreneurs.

In a survey done in Kenya by Kenya National Bureau of Statistics (KNBS) on Micro, Small and Medium enterprises (MSMEs), Kenya boasts a total of 1.6 million MSMEs which are registered

(Kenya National Bureau of Statistics, 2016). The distribution of this figure by the 47 counties indicates that the marginalized counties lag behind compared to non-marginalized counties. For example, Bungoma County, where the area of concern (Chepyuk ward-Mt Elgon Sub-County) is located, has a 1.1% of the total MSMEs compared to 17% in non-marginalized Nairobi County. Through various programs and policies, the Kenya government has shown immense interest in nurturing the spirit of entrepreneurship as well as to tackle the challenges of financial inclusion within the country. Some of these initiatives include: the development of automated business registration which has been recognized as an improvement in the Ease of doing business 2020 report where Kenya is ranked number 56 out of the 190 economies evaluated (World Bank, 2020), Government Affirmative Action Fund that aims at empowering women, youth and Persons with Disabilities through funding of their ventures for instance, Youth Enterprise Development Fund (YEDF), Women Enterprise Fund (WEF), Uwezo Fund among others.

As a whole, entrepreneurship, a phenomenon connected with entrepreneurial venture formation, boasts a plethora of meanings as used in the literature that study it from diverse perspective (Audretsch et al., 2015). Richard Cantillon, a French economist, is recognized to have first described entrepreneurship in the year 1730 as, the purchasing at a known price now and selling at an unknown price in the future (Ahmad & Seymour, 2008). Schumpeter in 1934 likens an entrepreneur to an innovator who is able to identify opportunities in the market and comes up with innovative ways of exploiting them (Ahmad & Seymour, 2008). Ahmad & Seymour further state that OECD defines entrepreneurship from three angles: entrepreneurs, entrepreneurial activity and entrepreneurship. Entrepreneurial activity, which resonates with this research, is described as the action of pursuing the generation of value through creating or expanding an economic activity after identifying and exploiting either new products, processes or markets.

The Global Entrepreneurship Monitor (GEM) defines entrepreneurship as an attempt by an individual and or group of individuals/an established business to start a new business, create a new venture, like self-employment or expanding an existing business (Bosma, 2013). Shane and Venkataraman (2000) declare entrepreneurship to be the discovery and exploitation of opportunities that are profitable. On the contrary self-employment has been termed to add up to entrepreneurship (Parker, 2009). Therefore, entrepreneurial venture formation is the formation of a new means to gain financial income. This study will adopt GEM's definition and thus

operationally define entrepreneurial venture formation as an attempt by any individual or individuals at creating a new business or venture for the purpose of earning an income.

### ***1.1.3 Marginalized People in Kenya***

Marginalized communities comprise of populations that are vulnerable, underrepresented, undercounted, and oppressed. They are mostly low-income earners, homeless people, native people who are excluded from normal economic engagements (Brutschy & Zachary, 2014), and are victims of some form of financial and economic deprivation. They are excluded from ordinary areas of life because of their financial status, race, culture, sex or religion (Stonewall et al., 2017). A marginalized area is a place where the community contains a high number of low-income household and as such should be targeted for active labor market programs (Teşliuc et al., 2016). The United Nations recognizes the existence of marginalized areas and vehemently talks of social exclusion as a major vice that has to be tackled in order to “not leave anyone behind” a concerted effort of the SDGs (Vereinte Nationen, 2016).

The Constitution of Kenya (2010) documents a major feature of marginalized areas as those areas that lack basic public services, hence the inhabitants are hindered from enjoying the basic standards of life and therefore there is need to embed frameworks that bring these communities to the same level as the rest of the Kenyans through de-marginalization policies (Commission on Revenue Allocation, 2018). Marginalized people are those citizens who are unable to access political, economic and social initiatives meant to improve living conditions. As such, their standards of living are below the legal standards specified in Human Development Indicators. Marginalization results in certain groups of people being excluded from national development goals and breeds suspicion, distrust, and heightens ethnic tensions among communities (Anugwom, 2000). Financial marginalization is the situation which prevails when a section of the population is excluded from access to mainstream financial services (Howie et al., 2020). These people have little or no knowledge about financial services on offer, lack skills, opportunities and access to formal financial services. This is characterized by increased poverty, unemployment thus affecting their collective development. The World Conference on Youth (2014) reports that minorities include ethnic minorities, refugees, youths and women in rural areas who lack of partial or full access to financial services.

The Commission on Revenue Allocation (CRA) (2012), asserts that the Constitution of Kenya (2010) initiated the Equalization Fund (EF) for the purpose of improving basic services in selected marginalized areas. CRA states it was mandated to identify these areas and, in their second policy in the year 2018, went beyond the fourteen counties documented as marginalized in their first policy and recognized extreme marginalization in smaller areas even within prosperous counties. Commissioner on Revenue Allocation (2018) identifies 1,424 areas in 47 counties as most deprived and therefore marginalized for the purpose of equitable allocation of EF. Of the areas identified, nine are sub locations in Mt. Elgon Constituency of Bungoma County. Mt. Elgon Constituency has a total of six wards and four of the six, one being Chepyuk ward, are identified as marginalized.

Chepyuk ward, at the heart of Mt. Elgon constituency has a history of ethnopolitical conflicts that are a result of disgruntlement due to low availability and access to public resources, and historical government policies that left some people feel alienated from economic development initiatives in their region (Lynch, 2011). Lynch (2011) believes that Chepyuk residents have been to war with neighbors and each other because of harboring views of government partiality in provision of security or jobs subjecting the area to intense inequality, provision of health services, development of education, mass unemployment/underemployment and progressively more inclined to battles over land. This is supported by Simiyu, (2008) who believes that the youth in Chepyuk could have taken up arms to rectify Government's mismanagement of the area's resources dissimilarly from the rest of the country. Simiyu, (2008) further suggests that when an economy is wounded and exclusive there is a continued feeling of inequality, no means of earning a living legitimately and frustratingly the youth will resort to violence as means of social, economic and political positioning. Despite such factions pushing their agenda through violence, Simiyu, (2008) alludes that their complaints have a very honest basis.

CRA (2018) identified Chepyuk ward as one of the areas that have no access to basic services such as water, food, energy, healthcare, education and security and in addition, means of communication and transport is below what is enjoyed by the rest of the Kenya population. In accordance with the definition of a marginalized region, and due to aforementioned clashes in the region that left the population displaced and economically disempowered, this study sought

to assess the impact of financial inclusion efforts instituted by various players on entrepreneurial venture formulation, which is necessary for the region's economic recovery.

## **1.2. Statement of the Problem**

Entrepreneurship has globally been acknowledged to boost economic growth, alleviate poverty and reduce income inequality (Ouma, Odongo, & Were, 2017; Smith & Chimucheka, 2014; Yunus & Webber, 2009). Apart from making many of the SDGs attainable (Klapper et al., 2016), SDG of employment formation would be instantaneously fixed once all, specifically the downtrodden, in the informal sector are netted into mainstream finance. Despite efforts by the Kenya government, entrepreneurial venture formation has not reached all the segments of the Kenyan population especially the marginalized areas (Kenya National Bureau of Statistics, 2016). Besides, FinAccess (2019) report on financial inclusion in Kenya reports that Kenya has reported a drop in active bank account usage between 2016 and 2019, a drop from 32 percent to 29 percent in 2019. The report asserts that there exists a huge disparity in inclusion in marginalized areas. For instance, the highest financial exclusion of 29% is in marginalized areas compared to 2% in non-marginalized areas (Central Bank of Kenya et al., 2019). The reports by Kenya National Bureau of Statistics, (2016) and Central Bank of Kenya et al., (2019) reveal that financial services and products may be made available but it does not imply impartial and just allocation of financial resources, yet effective deployment of financial dynamics is crucial for entrepreneurial venture formation. Poverty free world is possible if we built appropriate institutions and policies to create it (Yunus & Weber, 2009). In maintaining the poverty free world, financial institutions could be the main catalyst.

Various studies have reviewed and concentrated on financial inclusion relationship with poverty, gender and the youth entrepreneurship. Goel and Madan (2019) in India studied the relationship between financial inclusion patterns and women entrepreneurship, establishing that financial inclusion enables women establish new businesses and subsequently promote women entrepreneurship. Another research by Krishnaswamy (2014) tests the economic impact of financial inclusion in India from a gender point of view noting the slow or lack of progress for women owned business is due to lack of access to quality financial products and services. Huang et al., (2021) investigated the link between financial inclusion and economic development and

reported that increased access, concentration, efficiency, and the overall development of financial institutions significantly improve economic growth. This impact was noted to have more significant positive impact on low-income European Union (EU) countries and new-EU member countries than in high-income and old-EU countries, depicting the importance of inclusivity to people in marginalized regions, calling for a confirmation through research. Ratnawati (2020) affirms that financial inclusion resulted in economic growth, poverty alleviation, and improved financial stability among businesses in Asia. In Sub-Saharan Africa, Matekenya, Moyo and Jeke (2020) determined that access to and use of financial services encourages business start-ups, allows investment in health and education, enhance risk management and lessen the burden of financial shocks, resulting in sustainable human development.

Empirical reviews reveal that research linking financial inclusion and entrepreneurial venture formation; especially in Sub-Saharan Africa (Ajide, 2020), marginalized areas, more so with community conflict, has attracted limited attention. This study contributes to existing literature on financial inclusion and entrepreneurship in three ways. Firstly, this study points out that availability of only one dimension of financial inclusion does not fully achieve entrepreneurial venture formation. Secondly, this study incorporates level of awareness of the existence of financial services and products into the measurement of financial inclusion. Thirdly, this study adds to the limited literature that evaluates the appropriateness of financial inclusion as a means of promoting entrepreneurial venture formation in marginalized regions in Kenya to be precise Chepyuk Ward in Mt. Elgon Sub-County.

### **1.3 Objectives of the Study**

This section is divided into two, the general and specific objectives of the study.

#### ***1.3.1 General Objective***

The overall objective of the study was to determine the effect of financial inclusion on entrepreneurial venture formation in marginalized areas with focus on Chepyuk Ward, Mt. Elgon Sub-County in Kenya.

### **1.3.2 Specific Objectives**

- i. To establish the extent of access to financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya
- ii. To establish the extent of usage of financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya
- iii. To investigate the level of awareness of existence of financial services and its effects on entrepreneurial venture formation among the marginalized areas of Chepyuk Ward, Mt. Elgon Sub-County in Kenya.

### **1.4 Research questions**

The study was guided by the following research questions:

- i. What is the effect of access to financial services on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya?
- ii. What is the effect of usage of financial services on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya?
- iii. What is the effect of level of awareness of financial services on entrepreneurial venture formation among the marginalized areas of Chepyuk Ward, Mt. Elgon Sub-County in Kenya?

### **1.5 Scope of the study**

The Commission on Revenue Allocation (2018) identified 1,424 areas in Kenya as marginalized. The scope of this study will narrow to Chepyuk ward that harbors three of the 1,424 areas identified. The ward is selected because of its previous battles over resources that came about because of the feeling of being left out of government allocation of security and jobs (Lynch, 2011) and a comparative analysis with other marginalized areas provide insight of economic exclusion as the main reason for marginalization (CRA, 2018). The selection was purposively in Chepyuk due to its peculiar characteristics of ethno-political conflicts, high poverty levels and limited access to infrastructure (Simiyu, 2008).

## 1.6 Significance of the study

The findings and recommendations of this study is beneficial to the global stakeholders of SDGs such as multilateral funders, International Non-governmental Organizations as it may help them formulate the best strategies of reaching the economically underserved through financial inclusion.

The study findings may also be used by policy makers in coming up with the best strategies for structuring entrepreneurship formations through financial inclusion. For example, the government of Kenya's Commission on Revenue Allocation (2018) recommends identification of unique projects to allocate funds to, that will enhance provision of water, health and education being key priority areas identified by marginalized communities that will improve their lives.

To the practitioners, the findings of this study may inform the identification of these unique projects which may be in the area of financial inclusion and/or entrepreneurial venture formation. Further the Government of Kenya may use the findings to identify priority areas for improving services in marginalized areas in the race to achieving the Social and Economic pillars of Vision 2030. Incorporation of level of awareness of the existence of financial services and products as a measure of financial inclusion may inform government policies of inclusivity.

Among scholars these findings is essential to future researchers who will find practical information for further research in the area of financial inclusion and entrepreneurial venture formation relationship in unique marginalized areas that mostly have unique problems and further it expands the limited empirical research published within this field.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section reviews existing literature pertaining to the study, identifies the study's theoretical framework and brings out the relationship of the variables through a conceptual framework. Different studies in Kenya and outside Kenya touching on the subject area have been reviewed in an effort to determine the continuity and consistency of the existing studies and their findings. The chapter will be guided by the objectives of the study.

#### **2.2 Theoretical Review**

This study takes into consideration different theories crucial in elaborating on the effect of financial inclusion on entrepreneurial venture formation. The theories determined, are relevant in explaining financial inclusion in terms of the level of awareness of the existence of financial services that is responsible for access and use of credit as well as entrepreneurial decisions of households, includes the capabilities theory and theory of asymmetric information.

##### ***2.2.1 Capabilities Theory***

The capabilities theory was brought forward in 1985 by Amartya Sen who proposes that people's substantive freedom should be expanded in order to achieve development. He holds that freedom and capability of an individual depend on external factors that make it possible for both to be exercised and therefore before crafting a development program, consider how the individual's social arrangement and the development program complement each other (Kimmitt & Muñoz, 2017). Individual's freedom should therefore be enhanced by economic (financial) institutions in order to achieve development (entrepreneurial activities).

Sen (1999) expounds that the theory emphasizes freedom to achieve individual's well-being is important and capabilities and functionings is key to achieving well-beings. It avails for indiscrimination in regional development to ensure that people have sustainable lifestyles through sustainable economic development and that development is linked to freedom. The theory proposes to all nations to advance towards ensuring that there does not exist any inequality amongst its citizens by customization of development programs.

The capabilities theory brings out the issue in this study of financial inclusion as a conversion factor and entrepreneurial venture formation as a functioning to achieve well-being within marginalized areas as it entails; provision of adequate knowledge on financial products & service, access to financial products and services to improve individual's decision-making capacity when accessing and making use of financial products. In the study, opportunities of entrepreneurial venture formation in marginalized areas may be curtailed by personal factors even when the above factors of financial inclusion have been availed. Such personal factor in this study is the inability to manage financial resources & book-keeping so as to keep high credit rating in order to access formal credit as and when required. These constraints call for customization of financial inclusion measurements of financial access, financial usage and level of awareness of the existence of financial services and products in order to suit the underprivileged marginalized community. For entrepreneurial venture formation to take place in marginalized areas it becomes crucial to provide affordable funding through financial inclusion.

### ***2.2.2 Theory of Asymmetric Information***

The theory of asymmetric information brought forward by Akerlof, Spence and Stiglitz in (1973) proposes that an “imbalance of information between buyers and sellers can lead to inefficient outcomes in certain markets”. The theory implies, in the context of this study, that the primary reason for financial exclusion is the lack of correct financial information from both the lender and the debtor. Therefore, provision of adequate financial information on credit terms to marginalized areas would enhance households' intention to use financial services, thus promoting financial inclusion and subsequently entrepreneurial venture formation.

In the event of financial information that is critical to an agreement is possessed by one group, the asymmetric problem surfaces. This will significantly impact the efficiency of financial services or products. In some instances, financial agents may find it difficult to determine the real credit worthiness of borrowers; while in some, applicants may unintentionally provide their incorrect financial position (Fan & Zhang, 2017), which significantly impacts their ability honor loan terms. Ultimately, this leads to increased loan default rates and increases vigilance within financial institutions.

This theory is included in this study alongside the capabilities' theory to highlight the notion, providing adequate financial credit information to individuals who are not trained in financial management would support entrepreneurial venture formation, especially in marginalized areas where residents' freedom to achieve well-being are constrained by lack of access to financial information and training. Key to this study, the theory proposes that since there is an existing gap between information about loan details (hidden costs and interests) and about application of loans by borrowers, bridging this gap by providing accurate information would improve individual's willingness to access financial products and services that would lead on to formation of entrepreneurial ventures.

### **2.3. Empirical Review**

This section acknowledges other researchers' contributions on the relationship between financial inclusion and entrepreneurial venture formation.

#### ***2.3.1 Access to Financial Services and Entrepreneurial Venture Formation***

Lee and Black (2017) examined the impact of immigrants' access to finances on entrepreneurial development in the United States. The study adopted a mixed-methods approach to assess how financial access options impact immigrant entrepreneurs' venture performance and to offer possible solutions to existing bottlenecks to financial access. Stratified random sampling was utilized. The study looked at how the firms' age, type of business activity engaged in, business owner characteristics, immigration history and ethnic background determine loan access. The findings established that improving immigrant's options to access finances supports SME development among Mexican immigrants. However, the study determined that access to finance was limited by little knowledge on borrowing opportunities that exist in the host nation, technical issues with the loan process, extensive background checks, and long loan processing times. Strategic promotion of borrowing opportunities to migrant populations, facilitation of the loan application process by expediting processing time and reducing legislative requirements for business owners with no previous credit history and simplifying the application process through targeted user specifics are identified as means of improving access to financial services by immigrant entrepreneurs.

Fareed et al. (2017) undertook a study in Mexico to examine the relationship between women entrepreneurship and financial inclusion in informal and formal economic sectors using panel data. Their findings revealed that financial inclusion was positively related to entrepreneurship noting that economic opportunities for women entrepreneurs emanates from financial inclusion. The authors also noted that having access to financial services through bank branches, bank agents, microfinance banks increase business development as there are high chances of accessing credit facilities. Their findings also noted that the probability of women being entrepreneurs in the informal sector was higher than in the formal sector. Variables such as education, age, income, marital status and income level were significant determinants to women entrepreneurial activities. The main determinant of women entrepreneurship in Mexico therefore, the study concludes, is having access to financial services hence financial inclusion.

Bayero (2015) adopted the library research approach in research on the link between women entrepreneurial involvement and financial inclusion in rural Nigeria. The study concluded that having a comprehensive access to a financial system increases wealth formation, ownership of assets and is a great impetus to economic empowerment especially for women. The author further noted that just access to a financial system is not enough if important issues that surround the access are not understood and addressed. In a marginal area context, these issues could be regulations and proximity of access of financial services, type of products such as credit facility, mode of delivery, consumer protection, and information spread. The study determined that streamlining operations within financial service providers would result in higher levels of financial inclusion which in turn stimulates business engagement among female entrepreneurs.

Mulwa (2020) investigated the impact of financing sources on performance outcomes among small scale construction firms in Embu County, Kenya. Specifically, the study explored the impact of private lending, bank lending and savings and credit cooperatives options as sources of finances and their impact on project outcomes. The study ground itself on the credit channeling theory and was supported by the credit rationing theory. The study revealed that entrepreneurs in the construction industry rely on private lending, banks and SACCOs for financial access, and availability of financial services was related to timely project completion which results in sustainable income. Personal savings as sources of finances were not adequate to support entrepreneurial growth.

Kihuni (2018) looked at the relationship between financial services and performance of small and medium enterprises (SMEs) in Kasarani subcounty. The study assessed access to finance, firm size, leverage, governance structures and market factors and their impact on firm outcomes. The study adopted a cross-sectional research design and adopted stratified sampling in selection of the research respondents. The findings showed that access to finance and firm size significantly impact small business performance. However, bigger firms were noted to have enhanced access to financial services due to higher liquidity levels. The study noted that corporate governance measures had seen an increase in presence of financial access points and stability in the economic environment had ensured that business people have a favorable operating environment.

Rusu and Roman (2019) investigated the impact of access to finance on business potential of Romanian youth entrepreneurs. The study sought to investigate the impact of university students' perceptions on access to finance and their intention to pursue entrepreneurial ventures/startups. The study applied stratified random sampling in selection of students from upper undergraduate and master students. The study determined that inability to access finances was the most significant obstacle to entrepreneurial intent, despite the sampled students indicating a high motivation for entrepreneurial engagements. Lack of credit history and sufficient guarantees were the main limitations among the sampled businesses. The students also reported lack of access to financial information and lack of business regulations and support structures for youth entrepreneurial venture also served as deterrents to entrepreneurial intent. The study recommended policy intervention by promoting policies that would stimulate entrepreneurial intent by facilitating greater access to finances.

### ***2.3.2 Usage of Financial Services and Entrepreneurial Venture Formation***

Hasanova (2018) asserts that the Kyrgyz Republic considers financial inclusion to be a key driver of the region's economic development, and has committed itself to ensuring that its population is financially literate and has adequate access options for financial services. The report discusses the developments in financial inclusion and financial literacy. The study assessed financial inclusion by assessing level of credit and deposit coverage, number of branches, and number of Automatic Teller Machine (ATM) cards per 100,000 people, reporting

a steady increase in depositors, branches, point of sale terminals, bank cards and ATM cards per 100, 000 adults. However, there was a reduced presence of active female borrowers during the same study period, with the population having a tendency to borrow, rather than save. Business owners tended to struggle and were vulnerable to financial shocks due to inadequate sources of funding during crises, and banks' reluctance to offer loans to independent business people had significant negative impacts on SME development. The study recommended enhancing financial literacy, expanding the banking and microfinance sectors, improving legislative requirements, simplifying collateral requirements and application procedures, improving the capacity of local authorities and enhancing financial consumer protection as a means to ensure affordable and sustainable access to finance for businesses and individuals. Orienting financial products towards vulnerable groups was also reported to be key to enhancing inclusive growth.

Islam and Hossain (2018) investigated the impact of mobile financial services in formation of shared value to residents and banks in Bangladesh. Mobile financial services include free customer registration or account opening, cash deposit and withdrawal, disbursement of salaries or allowances, individual to individual transfer of funds, payment of bills, ATM withdrawal, providing a link between core banking and mobile banking, e-vendor payment among others. Through analysis of qualitative and quantitative information, the study determined that mobile financial services have enhanced financial inclusivity, with statistics showing that 77.1 percent of featured respondents regularly and occasionally used their mobile accounts to carry out financial transactions. The study noted that increased access to financial instruments through mobile devices resulted in sustained formation of shared values by both banks and the community. Marginalized people were able to benefit from increased convenience, reliability, security and time efficiency of mobile financial services to carry out businesses and even create saving accounts. The availability of agents to perform transactions on a daily basis was reported to create economic value to residents, by facilitating transaction between businesses and their customers.

Osano and Languitone (2016) investigated the impact of financial sector development on SME access to finances. The study analyzed awareness of funding opportunities, awareness of small business support services, the structure of the financial sector and collateral requirements and their impact on SME financing. The study applied descriptive and inferential analysis and

collected data from banks and SME owners of businesses operating in Maputo Central Business District. The study concluded that owners who were aware of funding opportunities and small business support programs, and had adequate collateral were able to exploit them to improve financial performance of their businesses. However, the nature of the financial sector was also noted to significantly influence financial services' uptake. High interests on loans and lack of valuable collateral to fulfill requirements for loans access, limit individual's intent to make repeated use of financial services. This limits business risk undertaking thus negatively impacting SME growth. The study advocates for improving financial information accessibility to address the information asymmetry problem that affects financial service's uptake.

Arora et al. (2021) conducted an exploratory investigation of the impact of financial inclusion of rural populations through provision of digital financial services in Namibia. The study was premised on the assumption that digital financial services make money transfer and use convenient, quick and reliable through reducing distance between households and services points, thus minimizing financial services' cost. The study applied qualitative analysis techniques and used the Slovin sample formula to determine the sample size. The study indicated that while 40 percent of respondents have access to bank accounts, 80% respondents had used mobile platforms as bank accounts, digital money accounts, digital savings and withdrawals. More than half asserted that they had used mobile devices to address financial endeavors on a weekly basis. The study determined that rather than frequency of use, the ease of access to financial services has a significant impact on re-use of financial service in rural areas. Poor network connectivity and incompatibility of some devices were noted to limit the penetration of digital financial services hence financial inclusion in rural areas.

Carletti *et al.* (2018) carried out a case study to investigate the relationship between expansion of bank branches, financial inclusion and bank performance. The study reported that increased access to financial services results in enhanced financial inclusion and growth in the number of adults participating in business ventures. The study reported that by tapping underprivileged households through the expansion of branch network, commercial banks can help improve financial access of the poor in Kenya. The study reported that by increasing branch concentration, Equity bank realized a 31% increase in volume of transactions and number of active users from those regions. By tapping the underprivileged regions of the population, the

bank was able to realize profits in regions where other financial institutions had not ventured. However, this study did not establish whether the access to bank accounts and credits by underprivileged populations spurred entrepreneurial activities.

### ***2.3.3 Awareness of Financial Services and Entrepreneurial Venture Formation***

Liu et al. (2019) using a survey data of 988 farm households in poor counties of China, found out that financial inclusion plays an important role in inclusive rural transformation by facilitating farm households' entrepreneurial activities in rural poverty-stricken areas in China. Their study provided the evidence that the entrepreneurial decisions of farm households are positively affected by use and knowledge of credit options that exist rather than actual access to credit. In addition, the study found out that when it comes to entrepreneurial decisions, use of formal credit and use of informal credit have no statistical relationship, but operate under separate and statistically distinct channels. Their study also showed that entrepreneurship has a positive and weighty causal effect on income of farm households. While the authors are right about entrepreneurial decisions depending largely on use of credit, access to credit cannot be ignored as one cannot use what they cannot access.

Dzomonda, and Fatoki (2018) examined how the level of awareness of government support programs by immigrant entrepreneurs and demographic factors impacts business outcomes in South Africa. The study postulated that lack of government support had significant negative effects on immigrants' business outcomes. The descriptive research utilized convenience and snowball sampling methods in identification of survey participants. The study determined that most immigrants had little or no knowledge of existing government programs instituted to cater for the needs of migrant entrepreneurs. However, on assessing demographic factors, the study determined that male immigrants had slightly more knowledge about existing government support programs. Immigrants with a higher level of educational attainment were determined to have more knowledge about the existence of support programs and technical knowhow to use them to enhance their entrepreneurial ventures. Government agencies were implored to include immigrant entrepreneurs in their strategic and operational framework through creating awareness of available products and services, while prospective immigrant entrepreneurs are encouraged to actively seek government support programs to enhance business performance.

Adetunji and David-West (2019) carried out a Nigerian study aimed to investigate the association between income, financial literacy and financial services uptake. The study used a survey data with 22,000 respondents. The study affirmed that savings behavior is a function of an individual's level of financial literacy. However, the income quantity was reported to significantly impact savings intent. The authors also conclude that there will be improvement in economic growth when the underserved rural women are equipped with the knowledge of innovative savings and other financial products/services. However, because of the varying desires and needs across the globe, the context and format of the financial education should equally vary and tailor made as per the target. The study advocated for financial service providers to enhance their market segmentation capabilities so as to address the needs of different financial services users, and enhance inclusivity.

Abubakar (2015) used both qualitative and quantitative methods of analysis to investigate the impact of financial literacy on households' financial decisions. The study analyzed secondary data with the aim of determining how previous studies reported on the relationship between financial literacy, access to finance, entrepreneurship development, and poverty reduction in Africa. The study stipulates that first-time user of financial services need adequate knowledge about the different types of financing options that are available in the market since this promotes initial success and longevity of business ventures. The author emphasizes that improving access to financial services promotes financial inclusion, which has impending effects on entrepreneurial development, therefore understanding existing options is key to efficient investment and money management. The study recommended that policy makers should design financial education programs for entrepreneurs and make efforts to address information asymmetry that exists in the market since this has significant influences on the intent to uptake financial services.

Kimutai (2015) investigated factors that influence financial inclusivity in marginalized areas in Kenya. The study focused on the impact of financial literacy, infrastructural availability, network connectivity and agent quality on promotion of financial inclusivity. The study reported a significant positive relationship between the above variables and financial inclusivity. Inadequate knowledge on financial services, lack of physical presence by formal financial institutions, distance or time to bank branch which results in increased transports costs are among the

limitations of financial services use in marginalized areas. The study recommended regular provision of financial education to both customers and bank agents, expanding branch network presence and increasing the presence of ATM machines and increasing agent presence into smaller towns and villages would contribute to incremental improvements in financial inclusion. However, to achieve cost considerations, the study noted the importance of having appropriate business expansion strategies to ensure sustainable performance of banks and other financial institutions.

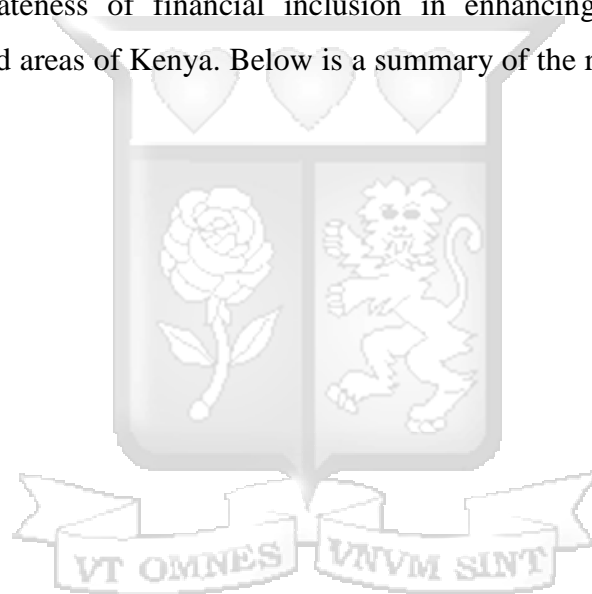
Muriuki (2019) investigated the influence of credit unions in promoting financial inclusion within marginalized communities. The report published by the World Council of Credit Unions (WOCCU) reports that WOCCU supports financial markets in developing economies with cooperation from global partners including USAID, the UN and World Bank. The lack of awareness of financial products and services was identified as the leading cause of low uptake of the services. The report notes that the platform has put special emphasis on extending financial services to women, youth and marginalized communities. The study reports that production of good business practice manuals/tools, provision of training materials for developing market linkages, providing check-lists for selecting local technical assistance firms, cost of services and payment options have been adopted as means of increasing awareness among entrepreneurs in marginalized areas. The institution has also leveraged its global presence to develop a framework for strengthening local financial institutions to support their sustainable development. WOCCU also helps credit unions adopt methodologies and financial products that conform to the needs of internally displaced people and persons living with disability to promote sustainable inclusion.

Chaulagain and Devkota (2018) investigated financial literacy as a tool for empowering marginalized Nepalese citizens. The study carried out a literature review of evidence from published reports by the World Bank, OECD, and Nepal Rastra Bank. The study reported that financial literacy is associated with increased confidence, capability to identify and consume financial services and empowerment. The study noted that while equipping individuals with financial literacy skills results in empowerment, there needs to be a personal push for business engagement to ensure utilization of learned capabilities for entrepreneurial development. Further, the study noted that with a large number of demographics that need to be addressed, there should

be an application of different forms of financial literacy to empower women, youth, low-income populations, ethnic minorities and even disabled people.

#### **2.4. Research gap**

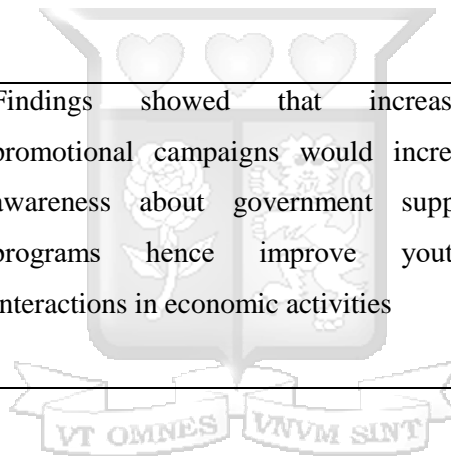
Though a few studies have analyzed the relationship between financial inclusion and entrepreneurship none has done so within a marginalized population more so in Kenya. This study contributes to this limitation. More so, this study incorporates level of awareness of the existence of financial services and products into the measurement of financial inclusion which is a factor of entrepreneurial venture formation. In the same vein as SDGs agenda 2030 of leaving no one behind, this study considers the commonly left out and underprivileged population by examining the appropriateness of financial inclusion in enhancing entrepreneurial venture formation in marginalized areas of Kenya. Below is a summary of the research gaps identified in the empirical review.



**Table 2.1 Research Gaps**

<b>Author</b>	<b>Title</b>	<b>Findings</b>	<b>Gaps Identified</b>
Lee and Black (2017)	Small business development: Immigrants' access to loan capital.	The findings established that improving immigrant's options to access finances supports SME development among Mexican immigrants	The research however focuses on immigrants businesses while the current assesses individual marginalised people's access to finance.
Chaulagain and Devkota (2018)	Financial literacy for empowering marginalized people in Nepal	The study reported that financial literacy is associated with increased confidence, capability to identify and consume financial services	The study considers only financial literacy empowering efforts using a desk review within the marginalized Nepalese Community.
Oliech (2019)	Gender Assessment Of Access To Financial Capital For Agri-business Smes: A Case Of Fish Traders In Homa Bay County.	The study concluded that financial inclusivity is gendered along socio-economic variables such as educational attainment level, marital status, land ownership, and religion.	The study carried out a gendered analysis of socio-economic factors that influence financial services access along gender lines, the current will incorporate financial access determinants to all marginalised people
Pramono et al., (2020)	Determinants of the small and medium enterprises progress: A case study of SME entrepreneurs in Manado, Indonesia.	Demographic and personal traits are key to determining SME progress, with a strong influence of alternative sources of finances and education attainment level being particularly influential in services use.	The study specifically investigated demographic factors, while the current will incorporate other factors such as ease of access of financial services. The current study will control the effect of demographic characteristics on entrepreneurial venture.
Kihuni (2018)	Relationship Between Access to Finance and Performance of Small and Medium Size	The findings established that access to finance and firm size significantly impact small business performance.	Kasarani sub County is urban and cosmopolitan as compared to Mount Elgon sub County with rural population whose level

	Enterprises in Kasarani Sub-county, Kenya.		of financial inclusion is contingent to extrinsic factors.
Arora, Ujakpa, Matias, Domingos, Adorsu and Mutalya (2021)	An Exploratory Study of Financial Inclusion of Rural Communities through Digital Financial Services: Case Study of Mpungu Constituency, Kavango West Region, Namibia.	The study showed that enhancing the use of information technology in finance is a significant tool for promoting financial inclusion.	The study adopted an exploratory research design while the current will adopt a descriptive research design.
Dzomonda, and Fatoki (2018)	The role of institutions of higher learning towards youth entrepreneurship development in South Africa	Findings showed that increasing promotional campaigns would increase awareness about government support programs hence improve youth's interactions in economic activities	The study has contextual gaps since it was carried out in South Africa whose business operating environment is not similar to Kenya. Further, there are unique industry specific risk that are contingent to area of SMEs operations.

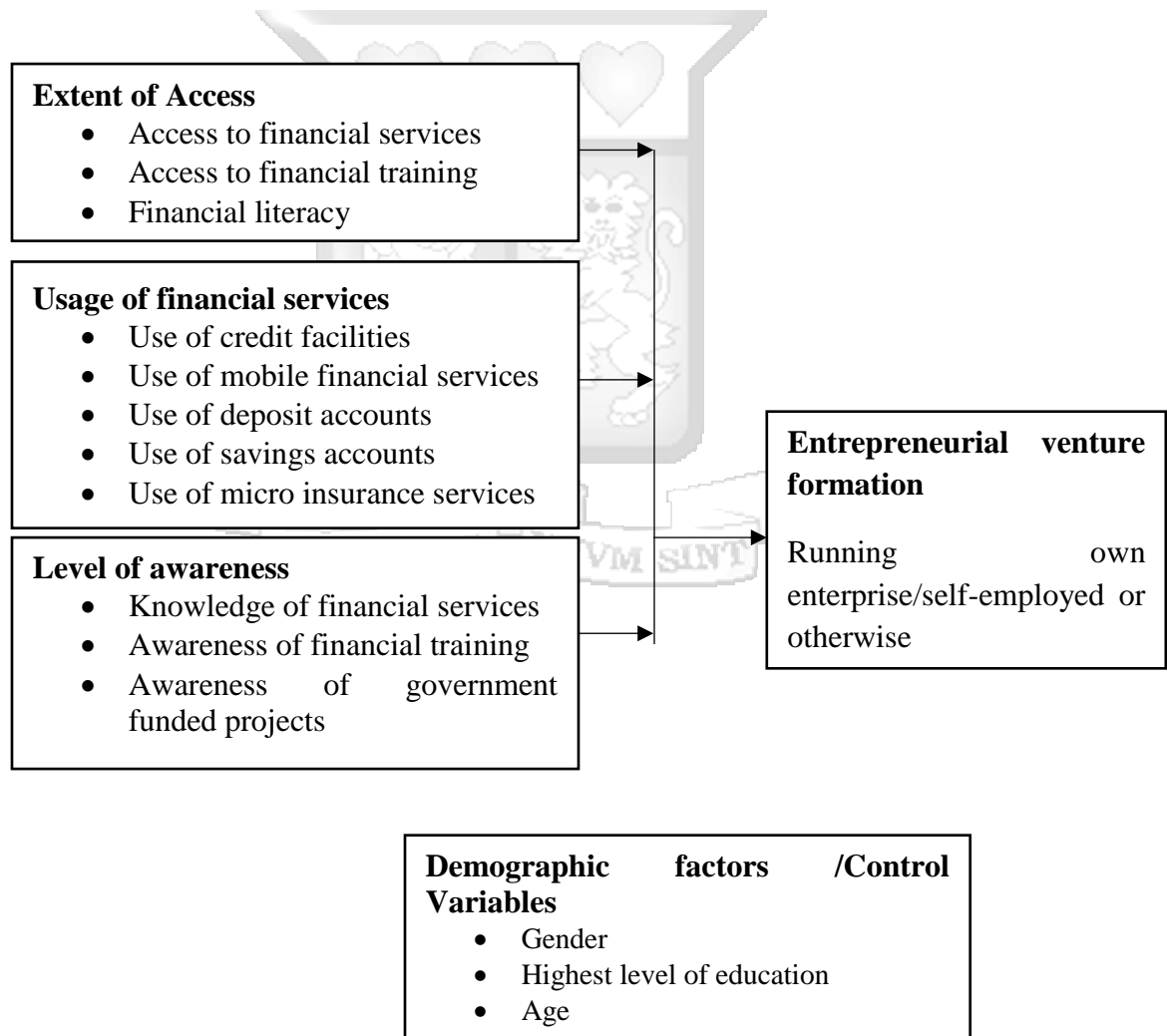


## 2.5. Conceptual Framework

The below research conceptual framework, in figure 2.1, is developed to show how the different variables within this study are connected. The independent variable is financial inclusion which is achieved through access, usage and awareness of the financial products and services. The dependent variable is entrepreneurial venture formation which is determined by investigating the rate of new venture formation and involvement in entrepreneurial ventures. The controlling variables will be the demographic factors of the research respondents.

### Independent variables

### Dependent variable



**Figure 2.1 Conceptual Framework**

**Table 2.2 Operationalization of Variables**

Variable	Indicators	Variable Measurement	Supporting Literature
<b>Dependent variable</b>			
<b>Entrepreneurial formation</b>	<b>venture</b> Source of income: <ul style="list-style-type: none"> <li>• Employed (Salaries/wages)</li> <li>• Farming (keeping livestock/crops, etc.)</li> <li>• Running own business/Self-employed in own business</li> <li>• Other</li> </ul> Intention of starting a business	Dummy Variable: 1 = Running Own business/self-employed in own business/intent to start a business 0 = Otherwise	GEM, (Bosma, 2013; Fareed et al., 2017)
<b>Independent variables</b>			
<b>Extent of access</b>	Access to financial services Access to financial training Financial literacy	Likert scale	Chaulagain and Devkota (2018); Mulwa (2020); Kihuni (2018)
<b>Usage of Financial Services</b>	Use of credit facilities Use of mobile financial services Use of deposit accounts Use of savings account Use of micro-insurance services	Likert Scale	Islam and Hossain (2018); Arora et al., (2021); Carletti et al. (2018)
<b>Level of awareness</b>	Knowledge of financial services Awareness of financial training Awareness of government-funded programs	Likert Scale	Dzomonda, and Fatoki (2018); (Abubakar, 2015); Kimutai (2015)
<b>Control variable</b>			
<b>Demographic factors</b>	<ul style="list-style-type: none"> <li>• Gender</li> <li>• Highest level of education</li> <li>• Age</li> <li>• Income</li> </ul>		

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This chapter presents the research approach of this study. The research philosophy, the related research design, specific methods and procedures, research quality and ethical considerations are outlined.

#### **3.2. Research Philosophy**

According to Newby (2014), a research philosophy can be said to be a conviction about how information about a wonder ought to be accumulated, investigated, and utilized. This study adopted positivist research philosophy since it was done in an objective way without the researcher influencing the gathered data. Positivism is related to a self-comprehension of logical action in which sociology is free of the truth it portrays (Riley, 2007). The positivist worldview declares that genuine occasions can be watched observationally and clarified with a sensible examination (Kaboub, 2008). According to the authors, positivism research philosophy underscores the interrelationship of two or more variables. This study was conducted to establish the relationship between financial inclusion and entrepreneurial venture formation.

This philosophy was key in guiding this research study that was based on a quantitative approach where questionnaires was used to determine financial inclusion as a means of promoting entrepreneurial venture formation outcomes in marginalized regions in Kenya.

#### **3.3 Research Design**

Research design is a summation, strategy applied to aid in realizing feedback to a problem in analysis (Arthur J. , 2012). Different research designs lend themselves to different processes of collecting and analyzing (Newby, 2014). In this study, descriptive research design was applied. According to Saunders, Lewis and Thornhill (2012), this research design explains the relationship between variables by studying a situation and it was utilized to ascertain and describe the phenomenon being studied and provide some pointers to the occurrence and association between variables.

As applied in my study, this research design holds that I would expect my independent variables; extent of access to financial services, extent of usage of financial services, the level of awareness of existence of financial services to influence the dependent variable; entrepreneurial venture formation among the marginalized areas of Chepyuk Ward, Mt. Elgon Sub-County in Kenya.

### 3.4 Target Population

According to Newby (2014) population refers to the collection of all elements or individuals in the study where references are drawn from. KNBS (2020) gives the total households of six sub locations that fall under Chepyuk ward as 7,274 which therefore make the target population of this study with specific focus on households between the age of 18 and 64. The households were selected as they are the mainstay of entrepreneurial venture formation within the ward. Thus, they have the relevant information on how financial inclusion has contributed to their entrepreneurial venture formation. The population of the study thus was 7,274 households.

**Table 3.1 Target Population**

<b>Sublocation</b>	<b>Population (x)</b>	<b>Percentage</b>
Chepyuk	1252	17
Kaimugul	1480	20
Kubura	1043	14
Chepkurkur	1138	16
Emia	932	13
Koring`otuny	1429	20
<b>Totals</b>	<b>7274</b>	<b>100</b>

Source: (Researcher, 2021) with data from Kenya National Bureau of Statistics, (2020)

### 3.5 Sampling Design and Sample Size

Sampling frame is the final list that represents the population which the researcher intends to select the sample from (Check & Schutt, 2011). The sample frame for the research was drawn from the 7,274 households drawn from Chepyuk ward Mt. Elgon Sub-County (Kenya National Bureau of Statistics, 2020). According to Newby (2014) sampling technique refers to the technique that the researcher uses in ensuring that various groups either heterogeneous or homogeneous study are well represented in the final sample size selected for the study. The research adopted random sampling in the selection of the participants of the study. Sample size is the smaller unit that represents the larger population from which the sample is being selected

from for the purpose of addressing the research problem (Saunders, Lewis, & Thornhill, 2012). The sample size for the study was calculated using the Yamane formula as shown below;

$n$  =sample size,

$N$  = population size

$e$  =level of precision (5%)

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

$$\frac{7,274}{1 + 7,274 (0.05)^2} = 379$$

The sample respondents for the research were 379 households drawn from Chepyuk ward Mt. Elgon Sub-County.

**Table 3.2 Sample Size**

Sublocation	Percentage	Sampled Population
Chepyuk	17	65
Kaimugul	20	77
Kubura	14	54
Chepkurkur	16	59
Emia	13	49
Koring`otuny	20	74
<b>Totals</b>	<b>100</b>	<b>379</b>

### 3.6 Data Collection Instruments

Data was collected using a structured questionnaire. A structured questionnaire is simply a data collection tool with a set of questions in a sequence, each with a pre-determined set of possible answers from which respondents can choose the answer which most accurately reflect their true state of affairs (Saunders, Lewis, & Thornhill, 2012). This method was chosen because of its user-friendliness as it gives respondents an easy time of picking answers and reduces the researcher’s work of coding data. The questionnaire had four main sections: The first section captured the demographic details of the participants such as age, gender and level of education. The second section focused on the extent of access to financial services. The third was on the

extent of usage of financial services and fourth was on the level of awareness of existence of financial services.

### **3.7 Data Collection Procedures**

Data collection procedure is a detailed framework that depicts a step-by-step guide on how the data will be collected to meet the intended objectives of the study (Arthur, 2012). This study started by seeking approval of the proposal from the supervisor, upon which an application for ethical approval was sought from the Ethics Review Committee of Strathmore University. Further, the study sought a research permit from the National Commission for Science Technology and Innovation.

According to the study carried out by Amissah, (2021) on demographic characteristics and willingness to remain single with reference to male single-parents in Elmina, Ghana, the researcher used an approach that helped to address the issue of literate and illiterate population which was from the suburb area. He adopted respondents from the suburbs of Ghana that had a large population. Self-completion questionnaires were used for literate respondents while interviewer-administered questionnaires (through research assistants) were used for direct questions to help address the issue of illiterate respondents (translated into vernacular).

The research administered through self-completion questionnaire which was applicable to the literate while interviewer directed questionnaires for the respondents that were illiterate. In the latter case, research assistants (interviewers) had well directed questions which were the same as those on the questionnaires. According Leedy & Omrod, (2005), such will also entails much guaranteed anonymity and confidentiality of respondents since much of it was self-reporting.

The researcher trained two research assistant that assisted in data collection. In most cases as applicable, the research assistant asked the respondents whether they were literate or illiterate before they start engaging with them. When familiar with the respondents, they explained the purpose of the study and still assured them of anonymity and maximize on confidentiality. The data collection had a period of one week to allow literate respondents fill questionnaires. The literate respondents were 228 making 75% of the respondents. The research assistants again visited the house holds to collect the completed questionnaires for another one week as they also addressed other illiterate respondents whose questionnaires had not been completed. The

illiterate respondents were 77 making up 25% of the total respondents. Overall, data collection took two weeks to complete.

### 3.8 Data Analysis and Presentation

Data analysis is the process of applying statistical techniques systematically to summarize, display and interpret raw data into meaningful information that can aid in drawing accurate conclusions (Saunders, Lewis, & Thornhill, 2012). In this study, both descriptive and inferential statistical techniques were applied. Descriptive data analysis techniques entail the determination of the mean and standard deviation of the dataset as well as computing percentage and frequencies.

Exploratory factors analysis (EFA) was carried out to establish the degree of correlation amongst several attributes of study variables. According to Hair, Black, Babin, Anderson and Tatham (2010), attributes with factors loadings exceeding 30% should be retained for subsequent analysis. Though the highly recommended factor loadings threshold is 70% it is difficult to attain in real life situations and consequently empirical scholars have consistently used a range of 0.4 to 0.7 to retain attributes for subsequent analysis.

The inferential analysis techniques used in this study were spearman's rank correlation and binary logit regression analysis. Further, the study fitted a binary logistic regression model to estimate the influence of the financial inclusion on entrepreneurial venture formation in marginalized areas with focus on Chepyuk Ward. According to Greene, (2012), binary logistic regression model allows a correlation between the variables that is assigned to various choices. Further, the dependent variable (entrepreneurial venture formation) is categorical and was measured on a dichotomous scale have mutually exclusive and exhaustive categories. The resultant model was of the form:

$$\text{Logit } Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Where Y captures the extent involvement entrepreneurial venture formation;

$X_1$  = Extent of access to financial services (training & financial literacy)

X2 = Usage of financial services (mobile financial services, deposit accounts, savings account and micro-insurance services)

X3 = Level of awareness of financial services (Knowledge of financial services, financial training and government-funded programs).

X4 = (age)

X5 = gender (male or female);

X6 = Highest level of education;

### **3.9 Diagnostic Tests**

Prior to modeling, diagnostic tests for goodness of fit and multicollinearity were carried out (Greene, 2012). According to Green 2012, upon model specification goodness of fit statistics ought to be run to determine whether the model adequately describes the data so as to authenticate the model. Goodness of fit test was carried out using Hosmer and Lemeshow's goodness of fit test. Hosmer and Lemeshow's goodness of fit test examines whether the predicted and observed frequency match closely (Greene, 2012). The more closely the match, the better the fit (Greene, 2012). Further, multicollinearity test using Spearman's Rank Correlation Coefficients were carried out to examine the relationship between the variables in the study (extent of access, extent of usage and level of awareness of the existence of financial services and products and entrepreneurial venture formation,). This technique was considered appropriate because the responses were obtained from ordinal data measured using ordinal rank numbers (Saunders, Lewis, & Thornhill, 2012). This was examined using correlation matrix. The higher the correlation coefficient among the variables, the higher the multicollinearity (Greene, 2012).

### **3.10 Research Quality**

The research conducted a pilot test instrument before it got on the respondents for administration. The researcher administered questionnaires to ten (10) different respondents who were not part of the participants in the main answering of questions that in the final collection of data. In the study, pilot testing was conducted in order to test the reliability, content validity and criterion validity of the study tool.

### ***3.10.1 Reliability of the Research Instrument***

Reliability test was conducted to measure degree of the research instrument and its consistency and how it brings out the results with time (Cooper & Schindler, 2008). Cronbach alpha to test for reliability test was used in areas of scores that were obtained from one item correlated in the tool to obtain a coefficient of correlation,  $r$  (known as Cronbach alpha). Sekaran & Bougie (2013) recommend Cronbach's coefficient alpha as the most appropriate for measuring reliability for Likert scaled items and that the higher the coefficient (closer to 1) the more reliable the measuring instrument. The area of social science has an estimate of acceptance on reliability of Cronbach alpha of 0.70 or greater than 0.70 as cited by Kothari, (2010). Cronbach alpha figures will show higher consistency for given measure if the alpha rate is higher than 0.7, as accepted value.

The research instrument was found to be reliable because all the study variables produced a Cronbach's alpha coefficient of above 0.7 as indicated in table 3.3;

**Table 3.3 Reliability of the Research Instrument**

<b>Construct Measurement</b>	<b>Cronbach's Alpha Coefficient</b>	<b>Number of items</b>	<b>Verdict</b>
Access to Financial Services/Products	0.742	5	Reliable
Usage of Financial services/Products	0.756	5	Reliable
Level of Awareness of existence of Financial Services/Products	0.782	5	Reliable

### ***3.10.2 Validity of the Research Instrument***

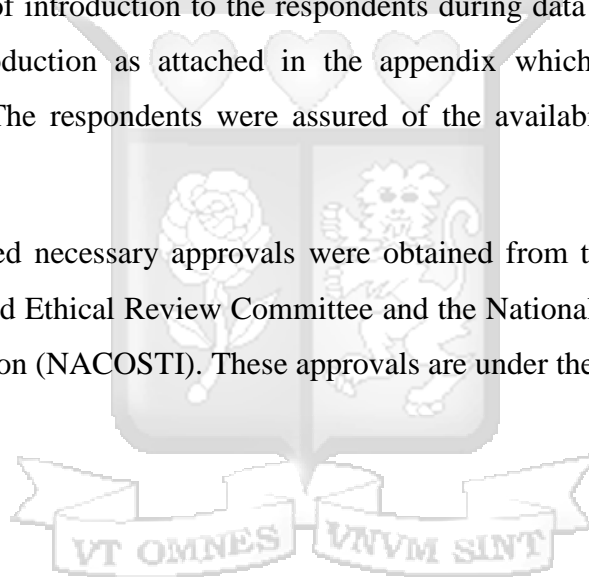
Validity tests on the research instrument in a study sets out to determine whether the study measures the concept it intended to measure or not (Sekaran & Bougie, 2013). The goodness of measure (validity) test on the study tool used for this study was done by conducting a pilot study that tested content validity and criterion validity. Content validity was checked by confirming that the elements and dimensions of financial inclusion included in the study tool have been used before, and that it satisfactorily measured the intended concept, based on the literature reviewed. Further, ten questionnaires were administered to respondents from a non-marginalized region and the responses were a contrast of what was obtained in the final data collected establishing concurrent validity. Sekaran & Bougie (2013) alludes that criterion validity is established by

checking concurrent validity through running the study measurement scale on a different cluster of people and that the results obtained should be different from the results obtained from the main respondents.

### **3.11 Ethical Considerations**

Ethics, according to Saunders et al., (2009) is the standard behavior that guides the researcher's demeanor during a study in relation to all those involved or affected by the study. The respondents of this research were notified through writing and by verbal means to obtain their consent. The respondents were assured that they would remain anonymous and that the process was voluntary. The researcher ensured that all information sourced from the respondents was confidential. As a form of introduction to the respondents during data collection, the researcher availed a letter of introduction as attached in the appendix which was obtained from the Strathmore University. The respondents were assured of the availability of the results of the study upon their request.

Further, the study ensured necessary approvals were obtained from the Strathmore University Institutional Scientific and Ethical Review Committee and the National Commission for Science Technology and Innovation (NACOSTI). These approvals are under the appendices.



## CHAPTER FOUR

### PRESENTATION OF RESEARCH FINDINGS

#### 4.1 Introduction

The current chapter presents findings and interpretations of the data obtained from the field. It begins with the response rate followed by background information of the respondents then analysis of the findings based on this study's objectives. The study applied descriptive and inferential statistics for data analysis which have been used to discuss the findings.

#### 4.2 Response rate

The sample for the study was 379, thus an equivalent number of questionnaires was administered. Out of 379, 305 were correctly filled and returned. This yielded a sample of 80%. The response was commendable since Sekaran & Bougie (2013) allude that in social sciences if a response rate exceeds 80% then it is commendable.

**Table 4.1 Response Rate**

<b>Questionnaires</b>	<b>Frequency</b>	<b>Per cent</b>
Returned	305	80
Un-returned	74	20
<b>Total</b>	<b>379</b>	<b>100</b>

#### 4.3 Background Information

The study sought background information of the respondent. Findings in Table 4.2 indicate that 44% of the respondents aged between 46 to 55 years, followed by 33% who aged 36 to 45 years and 18% aged above 56 years. There were only 5% respondents aged below 35. Concerning gender distribution 55% were male and 45% were female. On highest level of education achieved 57% were secondary schools' graduates, 18% had college or university qualifications while 25% had education up to primary and below. This indicates that majority of respondents had formal schools' qualifications that would aid in understanding of financial inclusion aspects. Concerning source of money 19% were employed earning either salaries or wages, 46% reared animals or practiced small scale farming and 36% were running their own business. From the

findings it can be deduced that majority do not operate entrepreneurial ventures and or small businesses.

**Table 4.2 Background Information**

Variable		Frequency (n=305)	Percent
Age	Below 35	15	5
	36 to 45	102	33
	46 to 55	134	44
	Over 56	54	18
Gender	Male	167	55
	Female	138	45
Level of education	Primary and below (not educated)	77	25
	Secondary	173	57
	College/ University	55	18
Source of income	Employed (Salaries/wages)	57	19
	Farming (keeping livestock/crops, etc.)	139	46
	Running own business/Self-employed in own business	109	36
Entrepreneurial Venture Formation	Otherwise (Employed and Farming)	196	64
	Running own business	109	36

#### 4.4 Descriptive Statistics

##### 4.4.1 Descriptive Statistics on Extent of Access

The first objective sought to establish the extent of access to financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt Elgon sub-County in Kenya. The respondents were requested to indicate their level of agreement on five-point Likert scale ranging from strongly disagree to strongly agree. Descriptive statistics, mean, standard deviation and coefficient of variations were used for data analysis. Results in Table 4.3 indicates that majority neither agreed nor disagreed mean = 3.4, that continuous access to financial services has boosted their entrepreneurial activities. Majority mean = 3.5 agreed that the access to the various financial services in the bank has improved their self-esteem in their entrepreneurial venture formation from the literacy received from micro finance. Majority mean = 3.4 neither agreed nor disagreed that they have a bank account that they can easily access funds and save which is in

line with training that they receive from respective banks or they have borrowed at least once from their banks. Further, majority mean = 3.2, neither agreed nor disagreed that access to financial services has positively improved their standard of living. On overall the there was no agreement or disagreement that extent of access to financial services has effect on entrepreneurial venture formation (mean = 3.3, standard deviation = 1.4 and coefficient of variation = 244.5%).

**Table 4.3 Descriptive Statistics on Extent of Access**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>CV</b>
I have a bank account that I can easily access funds and save also through training received from banks	305	3.4	1.3	266.7
I have once borrowed funds from the bank	305	3.3	1.5	216.4
Continuous access to financial services has boosted my entrepreneurial activities	305	3.4	1.3	259.2
The access to the various financial services in the bank has improved my self-esteem in my entrepreneurial venture from the literacy received from microfinance	305	3.5	1.4	253.5
The access to financial services has positively improved my standard of living	305	3.2	1.4	231.9
<b>Overall average</b>		<b>3.3</b>	<b>1.4</b>	<b>244.5</b>

#### ***4.4.2 Descriptive Statistics on Usage of Financial Services***

The second objective sought to establish the extent of usage of financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya. To achieve it, the respondents were requested to indicate their level of agreement on five-point Likert scale how usage of financial services affected their entrepreneurial venture formation. Results in Table 4.4 indicates that majority mean =3.1 neither agreed nor disagreed that they have been able to operate a savings account with registered financial institution in their area. Majority mean = 3.2 neither agreed nor disagreed that they have been able to access financial savings training from Sacco and other deposit only institutions. Further, majority mean = 2.6 neither agreed nor disagreed that they have been able to borrow money more than once from mobile service providers. Moreover, majority mean = 2.7 neither agreed nor disagreed that they have been able to use micro-insurance services offered to low income earners, as well a similar

mean of 2.7 neither agreed or agreed that they have been able to access mobile financial services offered by Mpesa among other mobile service providers. On overall there was no agreement or disagreement mean = 2.9 that usage of financial services has effect on entrepreneurial venture formation.

**Table 4.4 Descriptive Statistics on Usage of Financial Services**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>CV</b>
I have been able to operate a savings account with a registered financial institution my area	305	3.1	1.3	244.0
I have been able to access mobile financial services offered by Mpesa among other mobile service providers	305	2.7	1.1	250.0
I have been able to borrow money more than once from mobile service provider	305	2.6	1.1	233.3
I have been able to use micro-insurance services offered to low-income earners.	305	2.7	1.0	267.9
I have been able to access financial savings training from Sacco and other deposit only institutions	305	3.2	1.1	288.8
<b>Overall average</b>		<b>2.9</b>	<b>1.1</b>	<b>256.4</b>

#### ***4.4.3 Descriptive Statistics on Level of Awareness***

The third objective investigated the level of awareness of existence of financial services and its effects on entrepreneurial venture formation among the marginalized areas of Chepyuk Ward, Mt. Elgon Sub-County in Kenya. The respondents were required to indicate their level of agreement on a five-point Likert scale ranging from strongly disagree to strongly agree on the effect of level of awareness on entrepreneurial venture. Results in Table 4.5 indicates that majority mean = 3.4 neither agreed nor disagreed that they have benefited from the financial training given by the government to support small scale traders from their region since its marginalized. Majority mean = 3.3 neither agreed nor disagreed that before they use any product or service within a financial leading company, they are keen to of its financial services. Majority mean = 3.0 neither disagreed nor agreed that they are aware of the savings services offered by commercial banks and micro finance institutions and government funded programs. Similarly, others asserted that they have been limited by Credit Reference Bureau (CRB) once they delayed paying their borrowed money from banks or money lending companies within stipulated time.

Majority mean = 3.0 neither disagreed nor agreed that they know where to get help once they have a problem with any financial services while in business or they do savings. On overall majority mean = 3.1, standard deviation = 1.2 and coefficient of variation = 252.2% neither agreed nor disagreed that level of awareness have effect on entrepreneurial venture formation.

**Table 4.5 Descriptive Statistics on Level of Awareness**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>CV</b>
I know where to get help once I have a problem with any financial services while in business or if I am to do savings	305	3.0	1.2	263.7
I have been limited by CRB once I delayed to pay borrowed money from banks or money lending company within stipulated time	305	3.0	1.2	244.7
Before I use any product or service within a financial lending company, I am keen to learn of it financial services	305	3.3	1.2	267.3
I am aware of the savings services offered by commercial banks and microfinance institutions and government funded programs	305	3.0	1.3	234.4
I have benefited from the financial training given by government to support small scale traders from my region as marginalized communities	305	3.4	1.3	250.9
<b>Overall average</b>		<b>3.1</b>	<b>1.2</b>	<b>252.2</b>

#### 4.5 Exploratory Factor Analysis

Exploratory factor analysis is deployed to reduce the number of factors as per their contribution power in the variable under examination (Sekaran & Bougie, 2013). Deployment of exploratory factor analysis aids the researcher in evaluation of the interlink amongst study variables. Extracted attributes has factor loadings that ranges from 0 to 1. In the study only three attributes were selected with total explained variations of 39.37%. Results in Table 4.6 indicate that the highest factor loading was 0.745 for presence of bank account that can easily access funds and save also through training received from banks. It was followed by 0.65 for ability to access training on savings from Sacco and other financial institutions would aid in achievement of entrepreneurial venture formation. The second had two attributes and the highest loading was 0.785 for the access to financial services has positively improved my standard of living and

0.743 for the access to the various financial services in the bank has improved my self-esteem in my entrepreneurial venture from the literacy received from microfinance. The third extraction has the three attributes with a highest factor loading of 0.59 for respondents have been able to use micro-insurance services offered to low-income earners.

**Table 4.6 Exploratory Factor Analysis**

	1	2	3
I have a bank account that I can easily access funds and save also through training received from banks	0.745		
I have been able to access financial savings training from Sacco and other deposit only institutions	0.65		
I have once borrowed funds from the bank	0.611		
I know where to get help once I have a problem with any financial services while in business or if I am to do savings	0.524		
The access to financial services has positively improved my standard of living		0.785	
The access to the various financial services in the bank has improved my self-esteem in my entrepreneurial venture from the literacy received from microfinance		0.743	
I have been able to use micro-insurance services offered to low-income earners.			0.59
Continuous access to financial services has boosted my entrepreneurial activities			0.549
I have been able to access mobile financial services offered by Mpesa among other mobile service providers			0.509
Total variance explained			39.37%
KMO and Bartlett's Test			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.593	
Bartlett's Test of Sphericity	Approx. Chi-Square	656.217	
	df	105	
	Sig.	0.000	

*1: Extent of access 2: Usage of financial service 3: Level of awareness of the existence of financial services and products*

#### **4.6 Spearman's Correlation Coefficient**

Spearman's rank correlation coefficient was carried out to show the degree of association between variables in the study (extent of access, extent of usage, level of awareness of the

existence of financial services and products, and entrepreneurial venture formation). It is measured using correlation coefficient denoted as rho. Rho ranges from +1 to -1. A positive coefficient value shows a positive correlation and a negative coefficient value shows a negative correlation.

Results in Table 4.7 indicate that there is a positive not significant effect between extent of access and entrepreneurial venture formation ( $\rho = 0.044$ ,  $p \text{ value} > 0.05$ ). Secondly, there was a positive and not significant effect of usage of financial services and entrepreneurial venture formation ( $\rho = 0.012$ ,  $p \text{ value} > 0.05$ ). Further, level of awareness has negative and not significant effect on entrepreneurial venture formation ( $\rho = -0.076$ ,  $p \text{ value} > 0.05$ ).

**Table 4.7 Spearman's Rank Correlation Coefficient**

		<b>Entrepreneurial Venture Formation</b>	<b>Extent of access</b>	<b>Usage of Financial Services</b>	<b>Level of awareness</b>
Entrepreneurial Venture Formation	Correlation Coefficient	1			
Extent of access	Correlation Coefficient	0.044	1		
	Sig. (2-tailed)	0.442			
	N	305	305		
Usage of Financial Services	Correlation Coefficient	0.012	-.245**	1	
	Sig. (2-tailed)	0.829	0.00		
	N	305	305	305	
Level of awareness	Correlation Coefficient	-0.076	.580**	-.128*	1
	Sig. (2-tailed)	0.186	0.00	0.026	
	N	305	305	305	305

#### **4.7 Binary Logistic Regression Analysis**

Binary logistic regression was applied to examine the effect of extent of access, usage of financial services and level of awareness of existence of financial services on entrepreneurial venture formation. The choice of the model was anchored on the binary outcome of entrepreneurial venture formation.

#### 4.7.1 Hosmer-Lemeshow Test

HL test was applied to examine the model goodness of fit. The results in Table 4.8 have Chi square of 4.428 with p value of 0.817. This indicates the goodness of fit of binary logistic regression model for examination of the effect of extent of access, usage of financial services and level of awareness of financial services entrepreneurial venture formation.

**Table 4.8 HL Test**

Chi-square	df	Sig.
4.428	8	0.817

#### 4.7.2 Binary Logit on Financial Inclusion and Entrepreneurial Venture Formation

Results in Table 4.9 has a Cox & Snell R square of 0.15 and Nagelkerke R square of 0.2; this indicates that 20% of changes in entrepreneurial venture formation can be explained by extent of access, usage of financial services and level of awareness of financial services. An examination of regression coefficients reveals positive and not significant of the extent of access on entrepreneurial venture formation ( $\beta = 0.259$ , p value > 0.05). Secondly, there was an inverse and not significant effect of usage of financial services on entrepreneurial venture formation ( $\beta = -0.017$ , p value > 0.05). Thirdly, there was an inverse and significant effect of level of awareness on entrepreneurial venture formation ( $\beta = -0.401$ , p value < 0.05). Thus, the decrease in level of awareness decreases the odds of entrepreneurial venture formation.

**Table 4.9 Binary Logit on Financial Inclusion and Entrepreneurial Venture Formation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Extent of access	0.259	0.174	2.214	1	0.137	1.295
Usage of Financial Services	-0.017	0.188	0.009	1	0.926	0.983
Level of awareness	-0.401	0.198	4.118	1	0.042	0.67
Constant	0.055	0.95	0.003	1	0.954	1.057
-2 Log likelihood	393.177					
Cox & Snell R Square	0.15					
Nagelkerke R Square	0.2					

### 4.7.3 Binary Logit on Effect of Financial Inclusion, Demographic Characteristics on Entrepreneurial Venture Formation

Results in Table 4.10 has a Cox & Snell R square of 0.258 and Nagelkerke R square of 0.279; this indicates that 27.9% of changes in entrepreneurial venture formation can be explained by age gender, highest level of education, extent of access, usage of financial services and level of awareness of financial services. Age has inverse statistically significant effect on entrepreneurial venture formation ( $\beta = -0.400$ , p value  $< 0.05$ ). Gender has inverse and not statistically significant effect on entrepreneurial venture formation ( $\beta = -0.226$ , p value  $> 0.05$ ). Highest level of education has an inverse and not statistically significant effect on entrepreneurial venture formation ( $\beta = -0.008$ , p value  $> 0.05$ ). Further, there was a positive and not statistically significant effect of the extent of access of financial services on entrepreneurial venture formation ( $\beta = 0.298$ , p value  $> 0.05$ ). Moreover, there was an inverse and not significant effect of usage of financial services on entrepreneurial venture formation ( $\beta = -0.023$ , p value  $> 0.05$ ). Finally, there was an inverse and not statistically significant effect of level of awareness of existence of financial services/products on entrepreneurial venture formation ( $\beta = -0.395$ , p value  $< 0.05$ ).

**Table 4.10 Binary Logit on Effect of Financial Inclusion, Demographic Characteristics on Entrepreneurial Venture Formation**

	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
Age	-0.400	0.112	12.803	1	0.000	0.670
Gender	-0.226	0.248	0.829	1	0.362	0.798
Highest level of education	-0.008	0.171	0.002	1	0.961	0.992
Extent of access	0.298	0.182	2.677	1	0.102	1.347
Usage of Financial Services	-0.023	0.194	0.014	1	0.907	0.978
Level of awareness	-0.395	0.204	3.365	1	0.052	0.674
Constant	0.830	1.094	0.575	1	0.448	2.293
-2 Log likelihood	379.552					
Cox & Snell R Square	0.258					
Nagelkerke R Square	0.279					

## **CHAPTER FIVE**

### **DISCUSSION**

#### **5.1 Introduction**

This chapter presents a discussion of study findings emanating from the previous chapter. It briefly re-introduces the initial objectives of this study, its authentication, and a synopsis of the theoretical framework and the empirical literature used in chapter two.

#### **5.2 Discussion**

The need for the current empirical examination arose from methodological, conceptual, knowledge and population gaps. Primarily, the study determined the effect of financial inclusion on entrepreneurial venture formation in marginalized areas with focus on Chepyuk Ward, Mt. Elgon Sub-County in Kenya. Specifically, the study sought to establish the extent of access to financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya; to establish the extent of usage of financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt. Elgon Sub-County in Kenya; to investigate the level of awareness of existence of financial services and its effects on entrepreneurial venture formation among the marginalized areas of Chepyuk Ward, Mt. Elgon Sub-County in Kenya. The study was anchored on capabilities and information asymmetry theories. The study applied descriptive research design, collected primary data through administration of 379 questionnaires in Chepyuk Ward, Mt Elgon Sub-County in Kenya.

##### ***5.2.1 Access to Financial Services and Entrepreneurial Venture Formation***

Access to financial services intercept had a positive sign indicating that with availability of financial access there is probability of entrepreneurial venture formation. Results of the study indicated that there was a positive effect of access to financial service on entrepreneurial venture formation in Chepyuk ward of Mount Elgon Sub-County, Kenya. The results concurred with Lee and Black (2017) who asserted that improving immigrant's options to access finances supports SME development among Mexican immigrants. Furthermore, positive effect of access to

financial services on entrepreneurial venture formation is in support to Fareed et al. (2017) who reported that financial inclusion has positive effect on entrepreneurship. This was attributed to financial inclusion being a catalyst of economic opportunities amongst women. Since, entrepreneurial venture formation provides opportunities in the informal sector there is need for provision of its avenues, through financial access, in Kenya to alleviate the rates of unemployment amongst the youths in the marginalized areas. Bayero (2015) supported the need to access financial services so as to stimulate formation of wealth, ease of asset access and empowerment amongst women.

There is need for financial liberalization through development of financial products that would be accessible among the rural marginalized especially in instances where financial access is hoarded by language barriers and lack of accessible bank branches. In a tandem arrangement as Capabilities theory recommends, the marginalized community of Chepyuk ward should be given an opportunity to form entrepreneurial ventures (an opportunity and freedom to achieve well-being) through provision of affordable financial access (a conversion factor).

To promote entrepreneurial venture formation there is need for enhancement of favourable financial access as confirmed by Mulwa (2020) in their study where they found out those constructions firms in Embu County prospered since they were accessing financial services from private lenders, banks and SACCOs. However, since private lenders were more preferred there is a cause for alarm since this may have higher cost implications in the long run eventually eradicating entrepreneurial venture's growth.

Since most entrepreneurial ventures in Chepyuk ward, Mount Elgon are small and medium enterprises with lower corporate governance practices the odds of affordable financial access from financial institutions will dwindle and discourage entrepreneurial venture formation. Further, financial institutions ought to develop strategies that would stimulate business information access and preparation of financial records that would be relied on for credit appraisal and evaluations (Rusu & Roman, 2019).

### *5.2.2 Usage of Financial Services and Entrepreneurial Venture Formation*

The second objective indicated inverse and not significant effect of usage of financial services on entrepreneurial venture formation in Chepyuk Ward in Mount Elgon Sub-County, Kenya. Inverse effect of usage of financial services indicates that increased usage of financial services decreases the probability of entrepreneurial venture formation in Chepyuk ward, Mount Elgon. This could be attributed to excess usage of borrowing from digital lending platforms, borrowing from one lender to repay the predecessor lender, inability to repay the loans after exhausting all the available digital lenders, and eventually being blocked from borrowing altogether. This will result in reversing the gains entrepreneurial ventures may have earned and eventually collapse of the venture.

The results contradict with that of Hasanova (2018) that concluded that not using financial services inversely affected SMEs development. On the other hand the results agree to the extent that the research concluded that business owners had limited access to financial services due to failure of commercial banks to avail financial services to individual borrowers and in some cases absence of banking and micro-finance sectors. Inability to access & use financial services may be linked to level of financial institutions' penetration in the Chepyuk ward, Mt. Elgon sub-county and eventual use of multiple digital lenders that the poor may not be able to sustain in the long term.

The study differed from Islam and Hossain (2018) who found that increased access to financial instruments through mobile devices resulted in sustained formation of shared values by both banks and the community. Through these platforms marginalized community in Kenya ought to experience convenience, reliable and secure access to financial services so as to amplify their entrepreneurial venture formation. The study contradicts Osano and Languitone (2016) who assert that financial access is linked to awareness of funding opportunities and access to collateral security. Financial services stakeholders in Mount Elgon Sub-County ought to aid financial information access to minimize odds of financial information asymmetry challenges that may deter odds of financial access and usage.

Furthermore, entrepreneurial venture formation encompasses decision-making regarding financing, investment, risk management, entrepreneurs' knowledge and ability in managing their financial resources and so even though the marginalized people may have access to finance they may be incapable to use it to create an entrepreneurial venture or ensuring success of the existing ventures.

### ***5.2.3 Level of Awareness of existence of Financial Services and Entrepreneurial Venture Formation***

The third objective indicated an inverse and significant effect of level of awareness of existence of financial services on entrepreneurial venture formation in Chepyuk Ward, Mount Elgon Sub-County. The costs of the existing digital credit platforms are prohibitive hence even though the marginalized community of Chepyuk ward may be aware of their existence; they may be unable to access and use it to create business ventures.

Results contradicted Liu et al. (2019) who reported positive and statistically significant effect of credit knowledge awareness and entrepreneurial decision making in China. As well, the results disagrees with Dzomonda, and Fatoki (2018) who asserted that lack of knowledge on government support on entrepreneurship deters performance of migrant's business. This may be possible through involvement of migrants in government entrepreneurship strategic and operational framework. Further, the study refuted Adetunji and David-West (2019) who concluded that there will be improvement in economic growth when the underserved rural women are equipped with the knowledge of innovative savings and other financial products/services. This was not guaranteed since they were heterogeneous levels of income among women.

Furthermore, in Chepyuk Ward, majority of those who were not operating entrepreneurial ventures were small scale subsistence farmers thus they may not have managed to save, access credit and ultimately use it to venture in to businesses. Abubakar (2015) alluded that financial access would stimulate entrepreneurial development hence the need for understanding on alternative forms of financing. Owing to penetration levels of financial service providers in Chepyuk Ward, Mount Elgon Sub-County, the findings cements Kimutai (2015) who called for

provision of financial literacy, network connectivity, infrastructural connectivity and promotion of financial inclusivity.

Currently, there is need for customization of digital financial services to locals especially in regions where there are poor network connectivity and infrastructural support that may deter financial institutions from establishing branches.



## **CHAPTER SIX**

### **CONCLUSION AND RECOMMENDATIONS**

#### **6.1 Introduction**

The current chapter presents conclusion, recommendations and limitations of the current study. The results summary, conclusion and recommendations are based on the findings gathered from the respondents. Conclusions and recommendations drawn were focused on addressing the objectives of the study.

#### **6.2 Conclusion**

The first objective of the study sought to establish the extent of access to financial services and its effects on entrepreneurial venture capital formation in Chepyuk Ward, Mt Elgon Sub-County in Kenya. Since the study recorded positive and not statistically significant effect of access to financial services on entrepreneurial venture formation, the study concludes that the extent of financial access, access to financial training and financial literacy are catalysts of entrepreneurial venture formation. To enhance levels of entrepreneurial venture formation, there is need for improvement on levels of financial literacy through development of training and workshops of basic financial management. Further, financial service providers should develop heterogeneous strategies and framework for providing financial services.

The second objective sought to establish the extent of usage of financial services and its effects on entrepreneurial venture formation in Chepyuk Ward, Mt Elgon Sub-County in Kenya. There was an inverse effect of usage of financial services on entrepreneurial venture formation. This indicates that usage of credit facilities, use of mobile financial services, use of deposit accounts, use of saving accounts and use of micro insurance services impacted entrepreneurial venture formation. Consequently, there is need for cost benefit analysis so as to examine the cost of credit facilities, use of mobile financial services and micro insurance so as to match the need with costs incurred by service seekers.

The third objective sought to investigate the level of awareness of existence of financial services and its effects on entrepreneurial venture formation among the marginalized areas of Chepyuk Ward, Mt. Elgon Sub-County in Kenya. There was an inverse and significant effect of level of

awareness of financial services and entrepreneurial venture formation. This indicates that an increase in knowledge of financial services, awareness of financial training and awareness of government funded projects increases odds of not achieving entrepreneurial venture formation. Thus, there is need for examination of the quality of knowledge of financial, financial training manuals and measures adopted by government to alleviate shortcoming that may deter achievement of entrepreneurial venture formation.

## **6.3 Recommendations**

### ***6.3.1 Practical Recommendations***

Since, there were no statistically significant effect of access to financial services and usage of financial services have no statistically significant effect on entrepreneurial venture formation, there is need for deployment of strategies that may alter the inverse effect of access of financial services, access of financial training, financial literacy, demand of credit facilities, demand for mobile services, deposit accounts, saving accounts and adopt of micro insurance services.

Since there was an inverse effect of usage of financial services on extent of access, then there is need for evaluation on measures that can be adopted to eradicate odds of losing value benefits expected from financial inclusion. Further, positive effect of extent of access and level of awareness, coupled with inverse effect of level of awareness on usage of financial services depicts conformity with information asymmetry theory. Hence, there is need for propagators of financial inclusion to develop measures for managing adverse selection and moral hazard in Chepyuk Ward, Mt. Elgon Sub-County.

### ***6.3.2 Policy Recommendations***

Positive effect of extent of access of financial services on entrepreneurial venture formation indicates the need for formation of strategic and operational framework that would increase the level of financial services awareness. Increased level of awareness on financial products and services available for entrepreneurs may stimulate uptake of business venture formation. Management of financial institutions may create strategic borrowing avenues through facilitation and processing of loans in the shortest time possible. Moreover, there is need for identification of

credit provision platforms that would enable borrowers with no borrowing history to access financial products.

Since there was an inverse effect of awareness of financial services and entrepreneurial venture formation, there is need for development of financial literacy programs that would create avenues for financial deepening and financial inclusion. This will be possible if policy developers would deploy strategic and operational framework among entrepreneurs that clearly stipulates measures and strategies that provide efficient movement of money from surplus saving units to deficit saving units. Furthermore, there is need for development of policy programs that would mitigate against the levels of information asymmetry and ultimately increase uptake of financial products and reverse the current trend of entrepreneurial venture formation.

### ***6.3.3 Areas for Further Studies***

The study examined the effect financial inclusion on entrepreneurial venture formation in Chepyuk Ward, Mount Elgon Sub-County in Kenya. The study was limited to Chepyuk Ward thus there is need for expanding the population of the study to consider respondents from other wards in the Sub-County. This would enable consideration of heterogeneous aspects of financial inclusion that may be unique to respective population. The study limited the operational definition of financial inclusion to access to financial services, usage of financial services and level of awareness of financial services. There is need for expansion of operational definition of financial inclusion so as to examine conceptual gaps that arises from the current study. Since the study was limited to quantitative data there is need for subsequent scholars to adopt mixed methods and collect data using heterogeneous tools.

### **6.4 Limitations of the Study**

Since the study limited its respondents to a single ward in Mount Elgon sub county the results may not be generalized in another context hence the conclusions are only verifiable in the current unit of observations. Although, the government of Kenya has intensified the efforts for inclusive financing, the success of these efforts seems skewed towards urban settings. There is need for consideration of other aspects that may stimulate financial inclusion and their value contribution on entrepreneurial venture formation in Kenya. Further, there is no uniformity of financial

inclusion within the selected ward in Mount Elgon and the pursuance of entrepreneurship venture may have been associated with other aspects such as distance to towns, and proximity to infrastructural support and financial institutions that may stimulate pursuance of business. Since the study collected data through administration of questionnaires there were higher odds of subjective responses.



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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

Dear respondent,

This research is being conducted to determine the effect of financial inclusion on entrepreneurial venture formation in marginalized areas with focus on Chepyuk Ward, Mt. Elgon Sub-County in Kenya. This questionnaire has four sections and takes about ten minutes to complete. Please note that participation is purely voluntary and upon embarking on answering the questions, you can stop when you please. All information will be kept confidential and no personal identifiable information is required.

For more information contact Teresa Kiso Kipnusu-0722441166

#### Part A: General Information

**1. Please indicate your age?**

- Below 35 years of age ( )
- 36-45 years ( )
- 46-55 years ( )
- Over 56 years ( )

**2. Please indicate your gender?**

- Male ( )
- Female ( )

**3. What is your highest level of education?**

- Primary School and below [ ]
- High School [ ]
- College/University and above [ ]



**PART B: THE EFFECT OF FINANCIAL INCLUSION AS A MEANS OF PROMOTING ENTREPRENEURSHIP RESULTS IN MARGINALIZED REGIONS IN CHEPYUK WARD, MT. ELGON SUB-COUNTY, KENYA**

**4. Please tell me how you obtain the money you spend**

- a) Employed (Salaries/wages) [ ]
- b) Farming (keeping livestock/crops, etc.) [ ]
- c) Running own business/Self-employed in own business [ ]
- d) Other [ ]

**PART C: ACCESS TO FINANCIAL SERVICES/PRODUCTS BY HOUSEHOLDS**

Please indicate in the table with a tick (√) or across (×) with a scale of

*5= Strongly agree 4= Agree 3= Neither agree nor disagree 2= Disagree 1= Strongly Disagree*

No		1	2	3	4	5
5.	I have a bank account that I can easily access funds and save also through training received from banks					
6.	I have once borrowed funds from the bank					
7.	Continuous access to financial services has boosted my entrepreneurial activities					
8.	The access to the various financial services in the bank has improved my self-esteem in my entrepreneurial venture from the literacy received from microfinance					
9.	The access to financial services has positively improved my standard of living					

**PART D: USAGE FINANCIAL SERVICES/PRODUCTS BY HOUSEHOLDS**

Please indicate in the table with a tick (√) or across (×) with a scale of

*5= strongly agree 4= Agree 3= Neither agree nor disagree 2= Disagree 1= Strongly Disagree*

No		1	2	3	4	5
10.	I have been able to operate a savings account with a registered financial institution my area					
11.	I have been able to access mobile financial services offered by Mpesa among other mobile service providers					
12.	I have been able to borrow money more than once from					

	mobile service provider					
13.	I have been able to use micro-insurance services offered to low-income earners.					
14.	I have been able to access financial savings training from Sacco and other deposit only institutions					

**PART E: LEVEL OF AWARENESS OF EXISTENCE OF FINANCIAL SERVICES AND PRODUCTS BY HOUSEHOLDS**

Please indicate in the table with a tick (√) or across (×) with a scale of

*5= strongly agree    4= Agree    3= Neither agree nor disagree    2= Disagree    1= Strongly Disagree*

No		1	2	3	4	5
15.	I know where to get help once I have a problem with any financial services while in business or if I am to do savings					
16.	I have been limited by CRB once I delayed to pay borrowed money from banks or money lending company within stipulated time					
17.	Before I use any product or service within a financial lending company, I am keen to learn of it's financial services					
18.	I am aware of the savings services offered by commercial banks and microfinance institutions and government funded programs					
19.	I have benefited from the financial training given by government to support small scale traders from my region as marginalized communities					

**Thank you for your cooperation**

## APPENDIX II: INTRODUCTION LETTER

Ole Sangale Rd, Madaraka Estate,  
P.O. Box 59857 00200, Nairobi, Kenya.  
Cell: +254 703 414/6/7, Twitter: @SBSKenya  
Email: info@sbs.ac.ke or visit www.sbs.strathmore.edu



3<sup>rd</sup> February 2023.

Director General,  
National Commission for Science Technology and Innovation,  
P. O. Box 30623, 00100  
Nairobi.

Dear Sir,

### **RE: FACILITATION OF RESEARCH – TERESA KISO**

This is to introduce Teresa Kiso Kipnusu who is a Master of Science in Development Finance (MDF) Student at Strathmore University Business School, admission number MDF/110031/17. As part of our MDF Program, Teresa is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MDF course.

Teresa is undertaking a research paper on "**Effects of Financial Inclusion on Entrepreneurial Venture Formation in Marginalized Areas in Kenya: A Case of Chepyuk Ward, Mt. Elgon Sub-County.**" The information obtained shall be treated confidentially and shall be used for academic purposes only.

Our MDF seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Njoki Kiagiri".

Njoki Kiagiri.  
Manager - Graduate Programmes.

Association of African  
Business Schools



Strathmore Business School is a Proud member of:



## APPENDIX III: ETHICAL APPROVAL



31<sup>st</sup> January 2023

Ms Kipnusu Teresa Kiso,  
teresa.kiso@strathmore.edu

Dear Ms Kipnusu,

**RE: Effects of Financial Inclusion on Entrepreneurial Venture Formation in Marginalized Areas in Kenya: A Case of Chepyuk Ward, Mt. Elgon Sub-County**

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-master's (Strathmore University)** research proposal. Your application reference number is **SU-ISERC1556/23**. The approval period is from **31<sup>st</sup> January 2023 to 30<sup>th</sup> January 2024**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, and MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 48 hours of notification
- iv. Any changes, anticipated or otherwise, that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 48 hours
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,






 text here

for: **Dr Ben Ngoye,**  
**Secretary; SU-ISERC**

**Cc: Prof Fred Were,**  
**Chairperson; SU-ISERC**



**APPENDIX IV: NACOSTI RESEARCH PERMIT**

 <b>REPUBLIC OF KENYA</b>	 <b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b>
Ref No: <b>423914</b>	Date of Issue: <b>21/February/2023</b>
<b>RESEARCH LICENSE</b>	
	
<b>This is to Certify that Ms.. TERESA KISO KIPNUSU of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Bungoma on the topic: EFFECTS OF FINANCIAL INCLUSION ON ENTREPRENEURIAL VENTURE FORMATION IN MARGINALIZED AREAS IN KENYA. A CASE OF CHEPYUK WARD, MT. ELGON SUB-COUNTY. for the period ending : 21/February/2024.</b>	
License No: <b>NACOSTI/P/23/23657</b>	
<b>423914</b> Applicant Identification Number	 Director General <b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b>
Verification QR Code	
	
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