

AN ASSESSMENT ON HOW UWEZO FUND-FUNDED SMES IN MERU COUNTY, KENYA FARED FINANCIALLY AFTER USING INTERNAL EQUITY FINANCING

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ABSTRACT

In a nutshell, a company's capital structure is the way it raises money for its day-to-day operations and future expansion. Financial literacy refers to the ability to comprehend and make use of financial information, whereas business financing refers to the method by which a firm acquires its assets through a mix of debt and equity. The direct effects of capital structure and financial literacy on the financial performance of small and medium firms sponsored by the Uwezo fund in Meru County, Kenya, have been the subject of varied conclusions in previous academic investigations. These contradictory findings point to the necessity for additional studies that develop theoretical frameworks for studying financial performance that take capital structure and financial literacy into account. To better understand the complex interplay between capital structure, financial literacy, and financial success, it may be helpful to include such variables. With the help of the Uwezo fund, this research set out to analyze the performance of SMEs in Meru County, Kenya, and how factors like capital structure and financial literacy influenced that success. This study zeroed in on Uwezo fund-funded SMEs in Meru County, Kenya, and looked at how internal equity impacted their performance. The research was founded on the theory of Modigliani and Miller. This descriptive study used Yamane's (1967) formula to determine that 329 people would be representative of the target demographic of 1859 SME owners in Meru County who have received Uwezo grants. Questionnaires were distributed to gather primary data, which was subsequently coded and analyzed using SPSS. Descriptive and inferential statistics were employed to examine quantitative data. The data was presented visually using figures and tables.

Key words; fund-funded, internal equity, financing

1. INTRODUCTION

Capital structure decisions, which involve balancing debt and equity financing, are intricate and calls for thorough deliberation from company management (Kumar, Sureka & Colombage, 2020). A company's financial health is affected by the proportion of its funding that comes from internal sources as opposed to external sources. According to Doshi (2023), one way to understand a company's financial health is to look at its balance sheet. It shows all of the assets and liabilities of the business. Components such as ordinary stock, preferred stock, and long-term debt make up capital structure. According to Hamrayev (2023), companies strive to achieve optimal capital structure by making efficient use of capital and responding effectively to future events. Yet, it is not easy to determine the best combination of funding mechanisms. A capital structure that supports the financial goals of the organization can be achieved by careful consideration of available options by the management team.

You may measure the success or failure of a business by looking at its profitability and liquidity ratios, two important financial measures (Cho, Chung & Young, 2019). Subjective metrics point to good performance when a company is good at turning its assets into earnings. A model developed by Modigliani and Miller that associates the cost of bankruptcy with the amount of debt a company has was backed by Brusov, Filatova, and Orekhova (2022). Their research established a causal relationship between capital structure and the profitability of a company or other organization. Job creation, both formal and informal, is a key component of healthy economies around the world, and SMEs play a pivotal role in this.

More than half of Africa's jobs and thirty percent of the continent's GDP come from SMEs (Capital Market Authority, 2021). Similarly, SMEs generate 62% of employment and 64% of GDP in high-income nations (Tekola & Gidey, 2019). In 2019, 85% of the new jobs in Kenya were created by SMEs (Osano, 2019). Nevertheless, Motta (2020) states that a key reason SMEs fail is a lack of access to external funding, even though these factors are important. Production efficiency and profit margins are two things that all firms, no matter how little, strive to improve. Capital structure, defined as the particular ratio of debt to equity that a firm employs to finance its operations, is one variable that might affect operational profitability and efficiency (Dhiyf et al., 2022). Consequently, the goal of financial managers is to maximize profits while minimizing costs via optimizing capital structure. In order to prosper, provide jobs, and propel economic progress, SMEs in Africa must have access to capital.

Despite the importance of their ventures, microenterprises run by Kenyans encounter a number of obstacles. Three out of five new firms fail within the first few months of operation, and the bulk of these companies do not survive the first five years (Kenya National Bureau of Statistics, 2019).

As part of its Vision 2030 strategy, Kenya established the Uwezo Fund. Funding for women, youth, and persons with disabilities at the constituency level is its primary objective. They are able to launch and expand their firms and enterprises thanks to this funding. Entrepreneurship is one of the program's stated goals for these demographics. The creation of the Uwezo Fund has reportedly made it easier for rural entrepreneurs to receive microcredit (Ikonya, 2019). For many entrepreneurs, getting startup funding is a huge obstacle, thus this is really important. The Uwezo Fund disperses its monies directly to local levels, in contrast to other development funds that pass through multiple bureaucratic and administrative hoops after leaving the federal government. By increasing opportunities for youth and women-owned enterprises and lowering barriers to entry, this strategy hopes to empower locals to take charge of their own economic futures. Businesses are able to take advantage of sustainable financial services because to the low interest rates, which start at zero percent and go up to one percent. We aim to promote self-sufficiency and achieve financial stability by requiring those who access the Uwezo Fund to undertake financial literacy training before getting the monies.

One definition of financial literacy is "the ability to understand and make sound decisions based on one's own personal financial situation" (Rohayati et al., 2020). It involves knowing the fundamentals of asset protection, inventory management, investing, and debt management (Kovács & Terták, 2019). Additionally, a more inclusive definition was suggested in the study, and it has since gained widespread acceptance. By enhancing comprehension and self-assurance in using financial services, financial literacy is believed to have a strong, beneficial influence on spending, saving, and borrowing (Grohmann, 2018). Because they are more self-aware, knowledgeable, and confident when it comes to financial information and products, people who are financially literate generally make better decisions when it comes to their money and finance.

To be financially literate is to have the information and abilities that allow one to manage one's own money wisely and effectively. Among these skills is the ability to effectively manage one's own money, which involves making sound choices about investments, insurance, housing, education costs, spending, saving, and taxes (Rohayati et al., 2020). In addition, as Kovács and Terták (2019) point out, being financially literate Ms knowing how to budget, how to handle debt, how to save money effectively, and how to calculate the time value of money. It includes knowing how to use banking services effectively, creating and sticking to a budget, and keeping accurate books.

The goal of debt management is to help people and companies have a better grip on their financial obligations. You might think of a budget as a financial plan that lays out the money coming in and going out of a business over a certain time period (Yeh, 2022). Bookkeeping, according to Lewis, Mayala, and Ogoti (2023), is an essential part of accounting since it involves keeping track of all the money that comes in and goes out of a company. For managerial guidance, decision-making, policy-making, and stakeholder relationship maintenance, records-keeping is critical. Furthermore, as pointed out by Rohayati et al. (2020), firms may better manage their finances, have access to credit, and deposit funds securely when they have banking knowledge.

Poor financial decisions, brought on by a lack of knowledge or understanding of personal finance, can have a devastating effect on a person's financial security. As pointed out by Esiebugie, Richard, and Emmanuel (2018), financial literacy is crucial, especially for SMEs. They say that being financially literate involves being able to manage one's money well, having a positive attitude towards responsible money management, and being able to make good decisions based on one's knowledge. Having this skill Ms you can talk about money and financial issues without feeling awkward, and you can read, analyse, manage, and communicate personal financial conditions that impact your well-being (Ani, Kelmara & Wesley, 2016). The ability to understand and manage one's own money is a key component of financial wellness and the ability to make sound decisions.

Financial literacy is now crucial for organizations and enterprises to operate efficiently in today's complicated and constantly changing business climate. Governments across the globe are proactively looking for ways to raise the level of financial literacy among their populations, as pointed out by Abitoye et al., (2023). Approaches to financial education that provide a range of learning opportunities are central to their plans to reach this objective. As a Ms of boosting the general public's financial literacy, numerous nations have instituted financial education programs (Tali, 2016). Knowledge of this topic is essential in the modern world because it allows people to make educated decisions about their money and helps keep the state and society financially stable.

A micro-enterprise is a tiny business that is usually registered and has five employees or fewer with an initial capital of up to \$35,000. Expanding the enterprise's activities as seen by increasing sales, income, and assets is what Bravo-Biosca, Criscuolo, and Menon (2016) M when they say performance in this context. For most small businesses, expanding into

bigger companies and increasing shareholder wealth is the ultimate goal. Many things impact a company's success, including its stage in the lifecycle, the state of the industry, and the owners' goals for the generation of equity value. Enterprises enhance specific successes through performance, according to Storey (2016). This process is in line with the goals of maximizing profit and shareholder wealth. An organization's success can be measured by its revenue, which can be increased by the sale of more products or the provision of more services, or its profitability, which can be enhanced by the reduction of expenses. Asset growth, sales growth, and profit or income expansion are important measures of a company's performance (Koryak et al., 2015).

The sales team's ability to increase revenue over a given time period is measured by sales performance, which is important for the company's financial health and survival (Bekaert and Hodrick, 2017). Furthermore, as highlighted by Storey (2016), sales performance shows the rise in revenue over a given time frame, which is often expressed as a percentage increase in a company's average sales volume, often compared to the previous year. In order to assess sales growth with precision, a company requires sales revenue data that is both current and historical. Asset performance, on the other hand, is a reflection of the growth in the firm's total assets, according to Banerjee (2015). At the outset, small enterprises often have fewer assets, but this number rises as the company expands. Determining assets growth, like evaluating sales growth, necessitates comparing the firm's assets from one time to another.

A rise in a company's net income, sometimes called profit growth, shows that its profit statistics have been increasing (Petty, Zuckerberg & Pauli, 2015). Maximizing profits is the fundamental goal of every business. This is accomplished by strengthening the ability to increase sales and improve competitive positioning. After deducting expenses, the remaining sum is the profit or income for a corporation. From one time period to another, whether it's a year or a month, profits can vary. The expansion of earnings from one period to the next can be seen by analysts using a percent-change calculation (Banerjee, 2015). The present study evaluated the performance of small and medium firms using three growth indicators: assets, revenue (sales), and profit.

An important program in Kenya's Vision 2030 is the Uwezo Fund, which aims to help people with disabilities, young people, and women have access to financial services on a local level. Aiming to promote gender equality and empower women and SDG 1 to eradicate extreme poverty and hunger, the program seeks to encourage the expansion of businesses and enterprises. This, in turn, contributes to economic advancement and is in line with the SDGs. Uhuru Kenyatta, Kenya's president, launched the Uwezo Fund on September 8, 2013, and it was officially constituted by Legal Notice No. 21 of the Public Finance Management Act, 2014, which was published on February 21, 2014 (Buyema, 2013). Unused Kshs. 6 billion from the presidential run-off election is what the Uwezo Fund uses as its funding source (Obonyo, 2014). Because of its constituency-based distribution model, the Uwezo Fund is open to women, people with disabilities, and youth groups (Buyema, 2013). At the national level, the Uwezo Fund is managed, designed, and overseen by the National Uwezo Fund Oversight Board. In each of Kenya's 290 constituencies, the fund is put into action by the Constituency Uwezo Fund Management Committees, which are also responsible for tracking its progress.

Government of Kenya (2012) defines a microenterprise as a business activity, firm, trade, or industry with ten or fewer employees and an annual turnover of five hundred thousand shillings or less. The industry is highly vital to the Kenyan economy, as it accounts for over 40% of the country's GDP and almost 82% of the total employment (KNBS, 2019). With almost 25% of Kenya's total employment in SMEs located in Meru County, the county stands out for its respectable amount of SMEs (KNBS, 2019).

County authorities in Meru view informal traders as dangers to the county's growth, therefore they fail to adequately regulate and assist SMEs and the informal sector, despite the sector's critical role in the county's economy. Not only do SMEs in Meru County face external hurdles, but Kathono (2019) notes that a lack of financial literacy, restricted access to capital, and high transaction costs are all major obstacles. After reviewing the literature on the topic, we have identified conceptual, contextual, and empirical gaps in our knowledge of the processes at play when it comes to financial literacy, financial access, transaction costs, and the performance of SMEs.

Whether in a developed or developing nation, microenterprises are a driving force behind economic growth because of the jobs they create, the connections they bring to markets across industries, the innovations they inspire, the money they save, and the amount of GDP they add (Tekola & Gidey, 2019). More than 42% of Kenya's gross domestic product (GDP) and half of the country's employment are created by these small businesses (Kidali, 2020). Omondi and Jagongo (2018) notes that many Kenyan entrepreneurs face obstacles including inadequate financial literacy, restricted access to financial services, and high transaction costs, despite the fact that these entrepreneurs are economically significant. These difficulties contribute to the widespread "missing middle" phenomena in the economy by lowering the rates of new venture development, graduation, and microenterprise failure (Mokua, 2019). The Uwezo Fund has seen rising annual fiscal allocations from the national treasury as the Kenyan government has stepped up its support for SMEs in

light of the growing importance of microenterprises (Uwezo Fund Status Report, 2018). Microenterprises fail at a significant rate worldwide, even though the Uwezo Fund distributed about Sh5.8 billion to around 960,000 recipients.

Inadequate capital structure and infrastructure, along with incompetent management, can lead to a failure rate of up to 63% in the first two years of business (Bushe, 2019). A lack of financial literacy is also a major cause. Some of these SMEs have sought for additional funding from a variety of sources to make up the shortfall, leading to a variety of capital structures, which is another consequence of their low capital. The effect of capital structure and financial literacy on the financial performance of SMEs has been the subject of both converging and diverging viewpoints in a number of empirical research. According to multiple academics (Li, Niskanen, & Niskanen, 2019; Delikanlı & Kılıç, 2021; Chikeya, 2019; Mwangi, 2021), the impact of capital structure on the performance of small and medium-sized enterprises confirms this.

Esiebugie, Richard & Emmanuel (2018), Agyei (2018), and Usama & Yusoff (2019) all found that those who are financially literate are less likely to get into debt, save more money, and build wealth. The president's Big Four Agenda and Vision 2030 both recognize the importance of financial literacy, but there is a dearth of data on how capital structure and financial literacy affect the success of SMEs that have received start-up or growth funding from the Uwezo Fund. This research aims to fill that information vacuum by investigating how SMEs in Meru County, Kenya, that received funding from the Uwezo Fund fared in relation to financial literacy and capital structure.

2. LITERATURE REVIEW

2.1 Theoretical Literature

In a perfect market free of taxes and transaction costs, the value of a debt-ridden company (a "levered firm") is the same as that of an unindebted company (an "unlevered firm"), say Modigliani and Miller (1958). These two propositions provided an overview of the idea: Two Hypotheses: I and II. In Proposition I, they examined two firms with identical assets operating in the same market segment, having the same market share. Since these firms belonged to the same industry and encountered comparable competitive and business circumstances, and were exposed to similar business risks, it was anticipated that they would generate the same net operating income.

It can be deduced that regardless of whether two identical firms are solely equity financed or one is entirely equity financed while the other employs a mix of 50% equity and 50% debt, investors would anticipate the same rates of return or opportunity cost of capital for both. According to MM Proposition I, firms with equivalent net operating income and business risks but varying capital structures should possess equivalent value. The total market value of firms within the same risk category remains unaffected by the mix of financing (debt-equity), as the expected net operating income is capitalized at a uniform rate, representing the opportunity cost of capital for both leveraged and unleveraged firms.

Firms' market values are preserved independent of their gearing levels because investors can restore market equilibrium through arbitrage mechanisms by adjusting their personal gearing to counteract corporate gearing. Because it has no bearing on the firm's financial performance or the production of wealth for shareholders, the financing decision—also known as the capital structure—becomes irrelevant in this setting.

Financial leverage influences returns for shareholders, which in turn affects measures like ROE and EPS. According to Bierman and Hausman (1970), the aim of leveraging is to increase the value of a company. Earnings per share and ROE could increase with leverage if the interest rate paid on debt is less than the ROA of the company. A downside of financial gearing is that it increases the risk of loss for shareholders by making earnings per share and ROE more volatile (Solomon & Pringel, 1978). While gearing can boost profits for shareholders, it also increases their financial risk. In response to this heightened financial risk, shareholders may want a greater return (cost of equity) on their investments. Therefore, shareholders want a higher rate of return or cost of stock when financial risk is high.

For an ungeared (i.e., debt-free) business, the potential cost of capital is equal to its cost of equity, as stated by Modigliani and Miller (1958). The opportunity cost of capital stays the same for geared firms, on the other hand, because the cost of equity goes up to offset the benefit of lower debt payments. Given that corporations are subject to taxation in every country, their theory cannot be applied since it presupposes the non-existence of such taxes. Businesses that use debt financing often end up paying less in taxes since interest payments to creditors are deductible. This is due to the fact that corporations are subject to income taxes. Because of this dynamic, debt financing is desirable in practical corporate finance contexts (Brealey & Myers, 1991). The tax deductibility of interest costs boosts the worth of a firm when debt is included into its structure, according to Modigliani and Miller (1963). So, a geared firm, which uses debt, is usually worth more than an ungeared firm. Personal taxes, however, can reduce earnings for owners of a geared corporation. Theory of capital structure that followed conventional and Modigliani-Miller included trade-off, pecking order, agency, and market timing, among others. This gearing topic is relevant to the study because it shows how, to an investor, geared and ungeared enterprises look to be of equal value.

2.2 Internal Equity Financing and Performance of SMEs

When a company uses its owners' own money or retained earnings to fund its operations and expansion, this is called internal equity financing (Abdulsaleh & Worthington, 2013). Due to factors including informational asymmetries, perceived higher risk, and a lack of collateral, SMEs sometimes encounter difficulties when trying to access external financing sources like capital markets or bank loans (Fatoki, 2014). Because of this, internal equity funding is a lifeline for many SMEs, even though it could hurt their performance.

Since they are often more affordable and maybe quicker to set up on short notice, a company's internal sources of funding are frequently better (Koch & Macdonald, 2000 as cited in Njeru, 2013). Individual savings, earnings, asset sales (or leasebacks), and savings from reduced capital constitute the primary sources of internal finance (Njeru, 2014). According to Nawi (2015), personal savings can come from a variety of places, such as the owner's own money, personal loans, credit, winnings, inheritance, or investment profits. Funds from family and friends are crucial SMEs, according to Ajibola (2020). This is particularly true for businesses owned by ethnic minorities or family businesses.

Garcia-Martinez et al. (2023) looked at the factors that significantly affect the development and success of SMEs in countries in Central and Eastern Europe that are experiencing fast expansion. Finding out what factors are most important SMEs to grow in this area was their main research goal. The researchers achieved this by drawing on a panel dataset that included 560 rapidly expanding SMEs from six distinct Central and Eastern European transition economies. Several elements were shown to be crucial in deciding a firm's growth and overall performance, according to the study. Among these crucial considerations were the following: the firm's factor productivity levels, its liquidity situation, the availability of money created internally, and the likelihood of future growth chances. There was no discernible correlation between the age of a company or its ownership structure and its rate of growth, according to the research. Governments in Central and Eastern European transition economies should prioritize supporting and nurturing the development of SMEs, according to the study. In particular, the authors argued that SMEs could be better served and perhaps thrive in an environment designed to meet their specific requirements.

With an emphasis on internal equity financing, Wieczorek-Kosmala, Błach, and Trzęsiok (2020) sought to survey the literature on financing small and medium-sized enterprises. They used a qualitative methodology that included a thorough literature review and synthesis for their investigation. The authors used the POT (Myers & Majluf, 1984) to analyse why SMEs prefer to raise equity from within the company.

For their 2020 study, Baker, Kumar, and Rao set out to investigate how SMEs in India's Northwest approach and use funding. In addition to documenting the drivers of financing practices, the study aimed to analyse disparities in financing preferences across company and owner/manager characteristics. In order to gather primary data from 309 SMEs, the study used a structured questionnaire. According to the results, people would rather have their own money. They frequently forego official short- and long-term funding sources, despite their preference for them. Rather, they depend on trade credit, donations from loved ones, and money from moneylenders.

In 2014, Fatoki looked examined the financing preferences and challenges of SMEs in South Africa. Using a survey-based technique, the study collected data from SME owners and managers, employing a quantitative methodology. In order to investigate how various forms of funding, including internal equity financing, affect key performance indicators like growth and profitability, the author employed descriptive statistics and regression analysis. Using the POT as a framework, the research found that internal equity financing was crucial SMEs in South Africa.

Researchers Muturi and Njeru (2019) looked at the effects of various funding mechanisms on the bottom lines of Kenyan SMEs. Nairobi, Mombasa, Machakos, Makueni, Kajiado, and Kitui were the six counties in which 384 respondents were chosen at random from a pool of 291,449 licensed SMEs. Structured questionnaires were used to gather primary data, which was supplemented with secondary data. The data was analyzed using statistical approaches, which included both descriptive and inferential analysis. The results showed that equity financing had the strongest link with SME financial performance in Kenya, and that there was a significant correlation between the two. Researchers in Kenya found that SMEs do not rely on any one funding source to dictate their financial success.

In the course of researching how SMEs in Garissa County, Kenya, fared financially after receiving equity funding, Noor and Simiyu (2020) conducted a study in Garissa County that focused on 3097 SMEs. The study was supported by market timing chain and POT. The study's main data was gathered by a structured questionnaire, following a descriptive research methodology. It turned out that choosing Angel investors didn't cost much. According to the research, most SMEs rely heavily on retained revenues as a source of funding. In the past, retained earnings were a common source of funding for most SMEs in Garissa. Many SMEs in Garissa County were able to lower their interest rates by keeping some of their profits.

3. MATERIALS AND METHODS

3.1 The materials

Research plans, which are also known as strategies for inquiry, are specific ways of doing research in the qualitative, quantitative, and mixed methods research models. They spell out the steps that need to be taken to complete a study (Indu and Vidhu Kumar, 2019). Njeru (2013) says that one of the main goals of a research plan is to make sure that the evidence is gathered in a way that answers the research questions in a clear way. The study plan can make many research tasks easier when it's done right, so that the most information can be gathered with the least amount of time, effort, and money (Mugenda, 2008). The study used a descriptive research approach that included ways to define factors and methods for doing so. The most important things will be collecting data that sheds light on events and then organizing, tabulating, showing, and describing that data. Describe studies answer the "who," "what," and "how" questions by giving a picture of the factors (Babbie, 2009).

Since written questionnaires were used to gather data, a descriptive approach seemed appropriate for this investigation. Researchers can better define, document, analyze, and report current or historical conditions when they choose a descriptive approach, as Yin (2013) argues. To answer the research questions, provide information on the current state of the event, and depict "what exists" in relation to a specific condition or variable in a given context, this research approach is suitable. It is also possible to incorporate both qualitative and quantitative methods of data collection into the design, which allows for the observation of the phenomenon under study in its natural and unaltered environment.

The 1,859 small and medium firms located in Meru County that have been funded by the Uwezo Fund were the intended subjects of this study (Uwezo Fund Oversight board records Meru County, 2022).

In Table 1 we can see the breakdown of the number of SMEs by constituency..

Table 1: Target Population

Constituency	Target Population	Percent
Buuri	184	9.9
Igembe North	210	11.3
Igembe Central	215	11.6
Igembe South	177	9.5
North Imenti	235	12.6
South Imenti	230	13.4
Central Imenti	221	11.9
Tigania East	198	10.7
Tigania West	189	9.1
TOTAL	1859	100

Source: Uwezo Fund Oversight Board Records Meru County (2022)

3.2 Methods

The particular goals stated and the selected research strategy served as a guide for the data analysis in this study. The data that was gathered was analyzed using the Statistical SPSS. The questionnaires were grouped according to variables, coded, and referenced in order to make data entry into the software easier. Using descriptive and inferential statistical methods, the analysis mostly concentrated on quantitative and qualitative data.

Descriptive statistics enable researchers to quantitatively characterize and compare variables based on two essential parameters: dispersion and central tendency (Saunders et al., 2009). The M, median, and mode are the three indicators of central tendency. Both the difference within the middle 50% of values (interquartile range) and the degree to which values depart from the M (SD) can be used to evaluate measures of dispersion, which show how data values are distributed around the central tendency. The results of descriptive statistics displayed as figures and tables.

Researchers can compare the gathered data with theoretical expectations by using inferential statistics to see whether correlations exist among the variables being studied. Inferential statistics, also referred to as significance testing, aid in eliminating the idea that the observed results could be the product of random fluctuation in the sample, as explained by Saunders et al. (2009). Additionally, using the sample data to estimate population parameters is made easier by inferential statistics. ANOVA is used in inferential statistics. Additionally, the financial performance of SMEs was regressed against retained earnings, debt financing, internal equity financing, and financial literacy in order to undertake

multiple regression analysis. Based on the variables thought to influence SMEs' financial performance, the study created a financial performance model. As a result, the study used each variable's linear regression results, as described below:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where;

Y= Performance of SMEs

β_0 = Constant (coefficient of intercept),

X1= Internal Equity Financing

ε = error term.

4. RESULTS AND DISCUSSION

4.1 Response Rate

The researcher distributed 329 questionnaires to the sampled respondents but picked 291 questionnaires, which were fully responded to. Because the researcher self-administered the questions and gave respondents a high level of secrecy, the response rate was 88.4%. A response rate of 50% is deemed satisfactory, 60% is good, and 70% is exceptional, per Mugenda & Mugenda (2003). As a result, the response rate was regarded as exceptional and trustworthy.

4.2 Equity Finance and Financial Performance

The primary goal of this research was to look at how the Uwezo fund in Meru County, Kenya, affected the bottom lines of SMEs that had taken out equity financing internally. Table 2 shows the M and SD of the replies to a series of equity finance questions.

Table 2: Descriptive Statistic on Equity Financing

	N	Min	Max	M	SD
Businesses often use their ploughed-back profits to refinance their debt.	291	1.00	5.00	3.75	0.961
Profits that are kept by the business help it grow in the long run.	291	1.00	5.00	3.49	1.001
Angel backers give this company most of its money.	291	1.00	5.00	2.86	0.807
Funding for the business comes from gifts from friends.	291	1.00	5.00	4.51	0.838
Valid N (listwise)	291				

Source: Researcher (2024)

Table 2's findings show that respondents agreed with the majority of the equity financing constructs, particularly that they finance their enterprises using plowed back profit (M=3.75, SD=0.961). Participants' perception that the company depends on reinvested profits for refinancing is demonstrated by this. Although the majority of respondents agree with this statement, there appears to be some variation in viewpoints, as indicated by the SD of 0.961, which indicates a moderate level of agreement among respondents. Additional respondents (M=3.49, SD=1.001) expressed no view regarding their retention of profit for long-term growth. A larger range of responses is indicated by a SD of 1.001, which suggests that views on the function of retained earnings may differ greatly.

Over angel investors as a significant source of business finance, respondents were undecided (M=2.86, SD=0.807) over their importance in supplying capital. The very low SD of 0.807 indicates that respondents generally agreed that angel investors might not be very important in funding the company. Participants did, however, strongly agree with the statement regarding friends' contributions to business financing (M=4.51, SD=0.838), suggesting that respondents view friend contributions as an essential source of funding for the company. There is reasonable agreement on this viewpoint, as indicated by the SD of 0.838, which suggests that participant answer variances are minimal. Information from the SMEs' status, where the majority of the enterprises were partnerships, can be used to support this claim.

The results support those of Nguyen, Le, and Vo (2023), who claim that small business owners strongly favor finance methods that involve little to no interference with their operations. Many small firms start out as family businesses, which may not focus on company expansion tactics but instead place a higher importance on relationships and connections than on material wealth. Tenca, Croce, and Ughetto (2019) found that business angels were the most sought-after and coveted source of funding for German businesses. This was because, by offering start-up money, they actively participate in the early phases of business development. Due to their opaqueness, SMEs can be difficult for outside investors to adopt and manage. These make it difficult for prospective investors to evaluate the business and decide whether to invest in it. This was demonstrated by the firm preference for employing friend contributions and reinvesting profits to operate the company instead of hiring angel investors.

4.3 Correlation

Pearson correlation was used to examine the relationship between the study independent variables (Equity financing, Debt financing, retained earnings and financial literacy) and the dependent variable (financial performance) and results are shown on Table 3.

Table 3: Correlation

		Equity financing	Financial performance
Equity financing	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	291	
Financial performance	Pearson Correlation	0.654	1
	Sig. (2-tailed)	0.003	
	N	291	291

Source: Researcher (2024)

Equity funding and the financial performance of SMEs are related, according to the results in Table 17 ($r=0.654$, $p=0.003$). With a p-value of 0.003 less than 0.05, the results indicate a strong positive and significant relationship.

4.4 Regression Analysis

The association between the dependent variable, financial performance, retained earnings, equity financing, debt financing, and financial literacy was modeled using regression analysis.

Table 4: Summary Model

Model	R	R Square	Adjusted R Square	SD. Error of the Estimate
1	.755 ^a	0.624	0.610	0.72094
a. Predictors: (constant), equity financing				

Source: Researcher (2024)

The coefficient of determination (R) for multiple regression models derived from Table 4 regression was 0.755. This suggests that the independent and dependent variables have a positive association. Additionally, it shows that the model's R² was 0.624. This indicates that equity financing may predict 62.4% of the variance in the financial performance of SMEs. Consequently, 37.6% of the variance is caused by additional factors not included in the study.

Table 5: ANOVA

Model	Sum of Squares	df	M Square	F	Sig.	
1	Regression	3.645	4	0.911	11.753	.000 ^b
	Residual	148.651	286	0.520		
	Total	152.296	290			
a. Dependent Variable: financial performance						
b. Predictors: (Constant), equity financing						

Source: Researcher (2024)

F statistics were used to examine the model's overall capacity to statistically predict how the independent variables—debt financing—would affect the financial performance of SMEs in Meru County that get investment from the Uwezo fund. The model's overall significance on Table 5 produced a F statistic value of 11.753 and a p value of 0.000, which is less than 0.05. This suggested that the model generally fit the data well.

4.5 Regression Coefficients

Table 6 shows the regression coefficient for the study variables

Table 6: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	SD. Error	Beta		
1	(Constant)	2.200	0.206	10.663	0.000

Equity financing	0.419	0.039	-0.029	-0.489	0.025
a. Dependent Variable: financial performance					

Source: Researcher (2024)

The information from Table 6 was used to create the study's regression model. The section focuses mostly on the unstandardized coefficients since it includes both a slope component (beta one) and a Y-intercept term (beta zero). The idea behind standardized coefficients was to rescale the variables until the Y-intercept equaled zero.

Function of Regression

$$2.20 + 0.41X_1 = Y$$

The beta coefficients describe the one-unit contribution of each predictor variable to the explanation of the dependent variable. The regression equation was constructed using the unstandardized coefficients, which comprise the y-intercepts term (beta zero) and slope term (beta one). An unstandardized coefficient beta of 2.200 indicates that the financial condition will be at that level while the other factor (equity financing) stay constant. The study shows that a unit increase in equity financing will lead to a 0.419 increase in financial results. The p-values provide an explanation of the statistical significance of the capital structure element on financial performance. The financial performance of SMEs that got funds from the Uwezo fund was significantly impacted by the independent variable, as shown by its p value being below 0.05.

5. CONCLUSION

It was clear from the research that equity financing and the SMEs' economic success were positively correlated. The study's findings reveal that respondents see reinvested profits as a key funding source for their businesses, though opinions on using retained profits for long-term growth vary. Angel investors are regarded as less significant in financing decisions, while there is strong agreement on the importance of financial contributions from friends. This highlights the reliance on personal networks, particularly in partnership structures. Overall, respondents favor self-financing and social networks in their equity financing strategies.

6. RECOMMENDATIONS

Research concluded that SMEs might benefit from attracting angel investors by creating more transparent business plans and presentations that showcase their expansion prospects. Building networks within the local investment community can also help demystify the process and foster relationships that may lead to future funding opportunities. Considering the low score regarding the use of factoring as a financing option (M=2.43, SD=1.020), it is recommended that SMEs invest in educating themselves about the benefits and mechanics of factoring as a viable financing alternative. To facilitate this, businesses could organize informational workshops or collaborate with financial advisors to demystify factoring and showcase successful case studies where it has been effectively employed. The study suggests that firms prioritize short-term, flexible financing options that support operational fluidity.

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