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EFFECT OF AGENT BANKING ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF KISUMUCOUNTY

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ABSTRACT

This study sought to establish effect of agent banking on the performance of Small and Medium Enterprises in Kisumu County, Kenya. The study was based on a target survey of 3680 Small and Medium Enterprises. The study was guided by the following specific objectives: To determine the effect of frontline customer services on the performance of SMEs in Kisumu County; To examine how intermediary banking transaction by agent bank affect performance of SMEs in Kisumu County; To establish how account opening services by agent bank influence the performance of SMEs in Kisumu County and to examine how loan application services by agent bank influence performance of SMEs in Kisumu County. The study adopted a descriptive survey and a stratified sampling technique method was used and data was collected through the use of questionnaires. A pilot study was conducted to pretest the validity and reliability of instruments for data collection. The data was analyzed by use of both qualitative and quantitative methods with the help of Statistical Package for Social Sciences (SPSS) version 23 and excel. The correlation and regression analysis was used to establish the direction and strength of the relationship of the variables at 5% level of significance. The study established that R2 in the model was .556 meaning that all independent variables (Frontline customer services, Intermediary bank transaction services, Account opening services, and Loan application services) contribute 55.6% to the total variability in the dependent variable (Performance of SMEs). However, beta coefficient results revealed that only Intermediary bank transaction services and Account opening services were statistically significant. This therefore implied that SMEs should mainly focus on Intermediary bank transaction services and Account opening services as they significantly influence their performance.

Key Words: *frontline customer services, intermediary banking transaction, account opening, loan application, performance of SMEs in Kisumu County*

INTRODUCTION

Agency banking refers to contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients' transactions. It is different from a branch teller, since it is the owner or an employee of the retail outlet who conducts the transactions, ranging from deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving government benefits, or direct deposits from employers. Banking agents may include pharmacies, supermarkets, convenience stores, lottery outlets and post offices (CGAP, 2006).

Agency banking has dramatically reduced the cost of delivering financial services to unreached people. The cost reduction creates the opportunity to significantly increase the share of the population with access to formal finance and, in particular, in rural areas where many people in developing countries live (Lyman, Pickens, and Porteous, 2008). Development of agency banking is expected to lead to an improved financial performance of SMEs sector business. According to Ivantury (2006), agency banking can benefit the users of the service by lowering transaction cost, longer opening hours, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches, to the agency; increased sales from additional foot-traffic, differentiation from other businesses, reputation from affiliation with well-known financial institutions, additional revenue from commissions and incentives, increased customers base and market share by banks, increased coverage with low-cost solutions in areas with potentially less number and volume of transactions, increased revenue from additional investments, interest and fee income, improved indirect branch productivity by reducing congestion.

Globally, the trend of agent banking is evident. In many nations, such as in Australia where post offices are used as bank agents, France utilizing corner stores, Brazil making use of lottery outlets to provide financial services, Kenya pioneering the mobile financial services, Nigeria, South Africa and the Philippines (Siedek, 2008).Retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as to fulfill the legal requirements necessary to operate as banking agents. Such requirements usually involve having a specific level of capital investment to assure the regulators of the sustainability of the venture. The inability of the retail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low-income earners. Unless the tight regulations are eased, few retail outlets would be able to meet the standards required by the policy makers (Ivatury& Lyman, 2006).

In South America like other continents, agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas. In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries, particularly in Latin America. Brazil is often recognized as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries in Latin America have followed suit, including Mexico (2009), Peru (2005), Colombia (2006), Ecuador (2008), Venezuela (2009), Argentina (2010), and Bolivia (2006)(Alliance for Financial Inclusion,2012).

In Asia, the Filipino government's commitment to extending financial services to unbanked low-income populations has immensely contributed to making the Philippines a world leader in branchless agent banking services (Seltzer, 2010).Agent banking involves a mix of technologies that enable the financial institutions to keep track of the transactions done by the retail outlet. These technologies include point-of-sale (POS) card readers, mobile phones, barcode scanners to scan bills for bill payment transactions, Personal Identification Number (PIN) pads, and personal computers (PCs) that connect with the financial institution's server using a personal dial-up or other data connection. All these technologies require both technical expertise and a substantial capital investment in the acquisition of the technological equipment. Studies have shown that this has been and continues to be a challenge to the retail outlets that have limited capital (Ivatury, 2006).

The introduction of agency banking in Kenya was meant to facilitate and enhance access to affordable financial services especially to the poor, low-income households and micro and small enterprises, which largely comprise those segments which are un-served and under-served by the financial sector. This was based on the promise that financial access leads to widespread economic development; and hence the development of the financial sector is seen as essential to the realization of Vision 2030. In fact, the realization of Vision 2030 goals hinges upon widening financial access and use of affordable financial services and products by a majority of the Kenyan population (FSD, 2013).

Statement of the Problem

Agency banking has increasingly gained importance in both developed and developing countries over the last decade. According to CGAP (2011), agent banking as a replica has been instrumental in boosting the commercial banks' performance in most developing states. Further, achievement stories have been witnessed in Peru, Columbia, India and Brazil. In addition, Njuki (2012) states that, in Kenya agent banking has enabled banks to increase profits and spread out financial services. Nonetheless, the agent banking penetration is currently estimated to have 33% (Musau, 2013). The uptake of agent banking in Kenya has not been well appreciated by the target beneficiaries who include the SMEs. In Kisumu scenario, according to Economic Survey (2009), only 6% of SMEs are taking up bank agent services. Though several research studies have been done on agent banking with emphasis on relationship between agency banking and financial performance of commercial banks and on a new agent model, few of these studies focus on the performance of SMEs (Aduda *et al.*, 2014). There is little empirical evidence on the effect of agent banking services on the performance of SMEs in Kisumu County which portray a gap in knowledge that is required to be filled hence the focus of this study. Therefore this study, will establish the effect of agent banking on the performance of small and medium enterprises in Kisumu County, Kenya.

Objectives of the Study

The purpose of the study was to establish effect of agent banking on the performance of Small and Medium Enterprises in Kisumu County, Kenya. The specific objectives were:

- To determine the effect of frontline customer services on the performance of SMEs in Kisumu County.
- To examine how intermediary banking transaction affect performance of SMEs in Kisumu County.
- To establish how account opening services influence the performance of SMEs in Kisumu County.
- To examine how loan application services affect performance of SMEs in Kisumu County.

LITERATURE REVIEW

Theoretical Framework

Financial Intermediation Theory

Financial intermediation is a process which involves surplus units depositing funds with financial institutions who then lend to deficit units. Bisignano (1992) identified that financial intermediaries can be distinguished by four criteria. First, their main categories of liabilities or deposits are specified for a fixed sum which is not related to the performance of a portfolio. Second, the deposits are typically short-term and of a much shorter term than their assets. Third, a high proportion of their liabilities are cheque able which can be withdrawn on demand and fourthly, their liabilities and assets are largely not transferable. The most important contribution of intermediaries is a steady flow of funds from surplus to deficit units. Diamond and Dybvig (1983) analyses the provision of liquidity that is transformation of illiquid assets into liquid liabilities by banks. In their model identical investors or depositors are risk averse and uncertain about the timing of their future consumption need without an intermediary all investors are locked into illiquid long term investments that yield high pay offs to those who consume later.

According to Scholtens and van Wensveen (2003), the role of the financial intermediary is essentially seen as that of creating specialized financial commodities. These are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs. Financial intermediaries exist due to market imperfections. As such, in a 'perfect' market situation, with no transaction or information costs, financial intermediaries would not exist. Numerous markets are characterized by informational differences between buyers and sellers. In financial markets, information asymmetries are particularly pronounced. Borrowers typically know their collateral, industriousness, and moral integrity better than do lenders. On the other hand, entrepreneurs possess inside information about their own projects for which they seek financing (Leland and Pyle, 1977). Moral hazard hampers the transfer of information between market participants, which is an important factor for projects of good quality to be financed. This theory supports intermediary banking transaction on performance of SMEs.

Entrepreneurial Theory

The concept of entrepreneurial individuals with distinguishing characteristics is central to entrepreneurial theory. Early research found that the need to achieve was the principal determinant of entrepreneurial behavioural orientation. Subsequent research has shown that it is related to independence orientation, risk-taking propensities, perception of control and entrepreneurship education (Cooper 1986; Miller and Friesen 1982). The need to achieve reflects individuals' orientation, willingness, and drive for satisfaction or a sense of accomplishment. This is demonstrated by the exertion of intense, prolonged, and repeated efforts to accomplish something difficult, whether by skill, practice, or perseverance. This is accomplished by a future-oriented dedication to the task, involving prioritization of accomplishing the task and frequently sacrificing other activities and personal time. This theory relates to influence of basic financial education on performance of SMEs.

Market Orientation Theory

Market orientation theory holds that the key to achieving organizational goals is being more effective than competitors in integrating marketing activities to determine the needs of target markets (Kotler, 1999) Firms with better understanding of their customers, competitors and environment have a competitive edge. Enterprises should thus strive to understand customer needs which should then be translated into products or services. To achieve this, enterprises need market information to effectively market its products. Market research and consumer analysis are important to enable firms meet their customer needs to remain competitive. Market orientation aims at delivering superior customer value. There is a positive relationship between internet banking and firm performance (KIPPRA, 2006).

Evolutionary systems change theory

Evolutionary systems change theory which argues that the ability of a firm to survive and succeed depends upon its ability to search for and respond to the needs of the market niches. However market systems are dynamic, changing in response to evolving needs and the behavior of competitors; making the market system to be in a continuous shift towards disequilibrium. Firms thus need to adapt to the new environment and find a competitive edge through improvements, maintaining high quality, selecting strategic market sites, promoting products and services, identifying niche markets and access other markets outside their localities.

Conceptual Framework

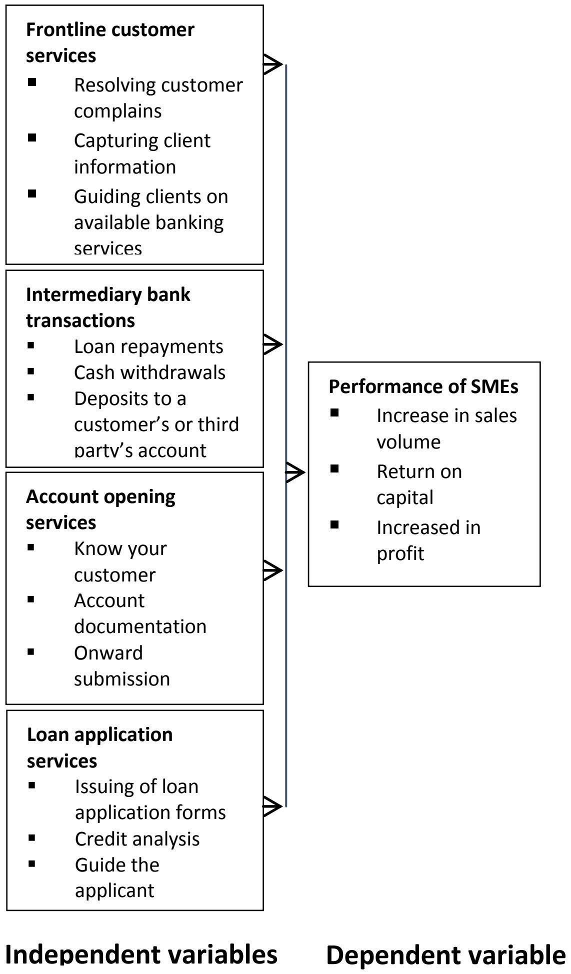

Figure 1: ***Conceptual Framework***

Frontline customer services

The major reason for the introduction of agency banking in many nations of the world is that it is seen as a way of reaching the unbanked. The unbanked can simply be described as those individuals that do not have any form of account with a bank. Anderson (2007) defined the unbanked as "diverse group of individuals who remain outside the banking mainstream for many reasons. Guatam (2008) stated that Africa has about 230 million unbanked households. In the same vein, Ladipo (2008) revealed a survey carried out by EFINA that cuts across all the states of Nigeria over a five year period and with a sample based on national integrated survey of households, that 74% (which is equivalent to 64 million people) of the adult population in the country have never been banked.

Chong (2008) also stated that low-income earners see themselves as incredible for bank accounts. According to Anderson (2007), people remain unbanked in the U.S due to reasons which include: lack of understanding about the banking system, expectations for having a bank account, and lack of documentation needed to open a bank account. One of the most accepted solutions to this problem is the shift from the branch based banking system to the adoption of the branchless banking system. Guatam (2008) opined that if the unbanked Africans cannot go to the bank, it is the bank that must reach out to them and this is only possible through agency banking. African banks are now moving closer to the 230million unbanked households in Africa's rural areas through advanced satellite technologies. Chong (2008) also revealed that the rapid growth of agency banking is reducing the cost and expanding the availability of such service to those in developing countries who lack access to financial services.

Anderson (2007) also noted that the adoption of advanced electronic technology (which leads to non-dependence on branches for financial services) as a way of reducing the number of unbanked people. The objectives of agency banking are achieved through "non-traditional banking channel". These include delivery points (which are not distinct buildings). Among these channels are agent banking and POS (Point of Sale

Devices). The benefits of agency banking cannot be overemphasized. Through all these delivery channels, banks will increase their outreach to the unbanked, provision of banking services will not be limited to working hours and weekdays, long queues that are rampant in banking halls will be reduced, and loss of customer due to relocation of the customers from one area to another will be averted. Many other benefits can be derived from agency banking.

Intermediary Bank Transactions

Veniard and Melinda (2010) studied how agent banking changes the economics of small accounts using data provided by service providers in Africa, Latin America, and Asia, found that agent banking systems were up to three times cheaper to operate than branches. Reason responsible for that was that agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure. They further stated that although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher. They further found that when functioning at maximum capacity, a branch cashier incurs more than 78 cents in fixed costs per transaction, compared to just 11 cents for a Point of Sale enabled agent and 4 cents or less for a mobile-enabled agent or mobile wallet. They conclude that by bringing the channel closer to the client, agent transaction platforms may also benefit from additional revenue associated with transactions acquired by the agent, such as person-to-person transactions and bill payments. Although customers can conduct these transactions in a branch, proximity may increase their willingness to pay for these services and increase the number of transactions conducted through the channel.

Arora and Ferrand (2007) studied “Meeting the challenge of creating an inclusive financial sector in London”. The study found that access to finance was critical for sustainable economic growth and social development. Agency banking was found to lead to financial inclusion, which empowers low-income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels. Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks, agent banking was found to reduce the need for more staff and branches to reach customers. The study further revealed that technology adoption especially, in banking systems shown a great momentum and spread at an unbelievable pace across the world. They concluded that considering the importance of banking system’s high presence and affordability, there was a great potential of using agent banking for the provision of banking services to unbanked community and businesses.

Githemo (2012) evaluated the effect of agency banking on the financial performance of small and medium-sized enterprises in Nairobi County. A descriptive research design was adopted in collection and analysis of data as to achieve the research objective where 120 SMEs in Nairobi County were studied. The study found that agency banking had weak but positive relationship with financial performance as with coefficient of correlation of 0.3128. The coefficient of determination of 0.0978 implied that agency banking could only account for 9.78% of changes in financial performance. The positive relationship between agency banking and financial performance was significant since the p value was 0.0012 which is less than the 5% significance level. Cash deposits was found to be the major use of agency banking by 64.76% of SMEs, 24% using agency banking or bill payments, loan repayment 4.76%, 3.81% and 1.9% for balance enquiry. This indicated low adoption of agency banking services by SMEs with reasons for the same quoted as high costs of transactions via agent banks, security issues and poor perception of agency banking model by end users. However, agency banking model was found to enhance financial inclusion for small SMEs, who previously indicated challenges to accessing financial services. 61.9% of the studied SMEs had been using agency banking for over 3 years, 21.9% years 1 to 2 while 16.19% had been using agency banking for less than one year.

Account opening services

In 2010, Colombian bank agents facilitated the opening of 9,652 new accounts. Facilitation of account opening is perhaps one of the most meaningful services that a banking agent can offer with respect to financial inclusion. Facilitating account opening is significant because it means creating a new formal bank customer. In some countries, regulators have decided that the risks involved with allowing an agent to facilitate the opening of an account, such as those related to anti-money laundering or know-your-client procedures, outweigh the potential benefits. For example, until recently agents in Peru were explicitly prohibited from receiving account or loan applications from customers; however, with a new resolution released in February 2011, agents are now allowed to open and close simplified bank accounts.

In Colombia and Brazil, agents are not permitted to open a bank account for a new client, but they are able to facilitate the process and act as a liaison between the new client and the bank. In Brazil, the agent can collect and forward the paperwork for account openings. In Colombia the agent is able to facilitate the application and, since 2009, is even able to conduct the mandatory interview with the potential client on behalf of the bank. Therefore, while the account is not opened in real time, the potential client no longer has to physically visit the bank branch to open an account (Alarcon et al, 2010).Recognizing the importance of account opening services for financial inclusion, Mexico is planning to pass a new regulation that would allow agents to open accounts. Linking this service to a new basic savings account product mitigates the risk involved. The basic savings account will require only legal identification. This new regulation and product offering will serve low-income clients much more effectively and is anticipated to have a significant impact on financial inclusion.

Chong (2008) also stated that low-income earners see themselves as incredible for bank accounts. According to Anderson (2007), people remain unbanked in the U.S due to reasons which include: lack of understanding about the banking system, expectations for having a bank account, and lack of documentation needed to open a bank account. One of the most accepted solutions to this problem is the shift from the branch based banking system to the adoption of the branchless banking system. Guatam (2008) opined that if the unbanked Africans cannot go to the bank, it is the bank that must reach out to them and this is only possible through agency banking. African banks are now moving closer to the 230million unbanked households in Africa's rural areas through advanced satellite technologies. Chong (2008) also revealed that the rapid growth of agency banking is reducing the cost and expanding the availability of such service to those in developing countries who lack access to financial services.

Loan application services

Agency banking model is meant to enhance access to financial services by allowing small businesses to operate as satellite branches. Based on early experiences, agency banking has a large contribution to make towards financial inclusiveness in developing countries (Mwando, 2013). This has led to growth in agency banking as evident in countries such as in Australia where post offices are used as bank agents, France utilizing corner stores, Brazil making use of lottery outlets to provide financial services, Nigeria, South Africa and the Philippines (Siedek, 2008). Policymakers and regulators are a demonstrating keen interest in this topic, although in most countries regulation continues to constrain the emergence of agency banking. Where regulation permits, new branchless banking initiatives are being developed by a plethora of market participants (Neil and Leishman, 2010). However, agency banking has yet to demonstrate pro-poor, pro-growth impact for SMEs businesses, households, communities and the National economics (Morawczynski and mark, 2009).

In the current competitive business environment, marketing can be seen as a matrix of business activities organized to plan, produce, price, promote, distribute goods, service, and ideas for the satisfaction of relevant customers and clients. Achumba &Osuagwu (1994) posit that marketing is important for the success of any organization, whether service- or product-oriented. Chilya et al (2006) confirm that marketing performance is central to success in today's fast moving competitive markets, and measuring marketing's performance is critical to managing it effectively. The process of communicating the value of a product or service to customers, for the purpose of selling the product or service has become complex in recent times due to globalization. There is also the need to exceed the expectation of customers since satisfied customers : (i)are the organization's least expensive customers; (ii)buy again and again; (iii) talk favourably about the business, which means free advertising; (iv) pay less attention to competition and (iv)tend to buy new products or equipment lines an organization may add later (Kotler, 1988).

Marketing has been described by the American Marketing Association (2013) as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. Typically, marketers have a range of tools they use and these include mega marketing (Kotler, 1986) and the so-called "4Ps" of marketing (McCarthy, 1995) among others. Mega marketing is a term used to describe the type of marketing activity required when it is necessary to manage elements of the firm's external environment (governments, the media, pressure groups, etc.) as well as the marketing variables; but two more Ps (public relations and power) are sometimes added to the marketing mix so as to ensure that the firm is competitive in the market (Kotler, 1986). "Marketing" seems easy to describe, but extremely difficult to practice (Kotler &Connor, 1997). Marketing have evolved, and it involves an assessment and the inclusion of various stakeholders in the decision making process(Darroch et al. 2004; AMA 2008).It is therefore important for banks to develop and implement efficient and effective marketing strategies through mbanking services which will incorporate relevant dimensions of the marketing concept. This involves the organic tasks of selecting a target market (customers/clients) in which to operate and developing an efficient and effective marketing ingredient combination (Kotler & Connor, 1997).

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the CBK. The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket is responsible for formulating and implementing monetary policy and fostering the liquidity solvency and proper functioning of the financial system. As at December 2008 there were forty-six banking and non-bank institutions (The Banking Act, Chapter488, and Kenya).

The Kenyan SMEs sector has grown rapidly, and the government estimates that the SMEs sector constituted 89.7 percent of total employment created in 2012 (GoK, 2013). The financial performance of Kenya's SMEs sector firms, even though mostly not documented, has been hampered by low demand, poor infrastructure, lack of human capital, and lack of appropriate financial products. The amendment of Kenya's finance Act in 2009 to facilitate use of third parties by banks to provide banking services marked the introduction of agency banking in Kenya. Consequently, the CBK issued the agent banking guidelines to regulate agency banking. Since its introduction, agency banking has enabled the bank customer to access the banking services within the comfort of their neighborhood.

Kenya, the banking sector comprises of the Central Bank of Kenya, as the regulatory authority, 45 banking institutions (44 commercial banks and 1 mortgage finance company), 5 Deposit-Taking Microfinance Institutions (DTMs) and 126 Foreign Exchange Bureaus. Banks offering agency banking include Equity Bank; Co-operative Bank (Co-op Kwa Jirani); KCB Bank (KCB mtaani); Post Bank (Post bank mashinani); Family Bank (Pesa Pap); Chase Bank (Chase Popote); Consolidated Bank (Conso Maskani); Diamond Trust Bank; Citibank and NIC Bank (Kiragu, 2012). Data from CBK reveals that over 10,000 agencies have been licensed, with Equity claiming 50% market share (CBK 2011). Without the support of the regulatory authorities, agent banking would not be facilitated, and its growth will be limited. This is because; agency banking retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as to fulfil the legal requirements necessary to operate as banking agents. Such requirements usually involve having a specific level of capital investment to assure the regulators of the sustainability of the venture. The inability of the retail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low-income earners (Mwando, 2013). Unless the tight regulations are eased, few retail outlets would be able to meet the standards required by the policy makers (Ivatury& Lyman, 2006).

Performance of SMEs

Previous economic studies relating to enterprises have tended to focus on large enterprises utilizing scale economies (Gray and Lawless, 2000); small and medium sized enterprises (SMEs) have only just emerged as a field of study in its own right, as a result of the innovations and the solution they provide to different economic problems, particularly in terms of employment. There is a sort of consensus on the importance and key roles these enterprises play in different economies. While it has been argued that a small firm, because of its size, can only make a minor contribution to the economy, as there are so many small firms their collective contribution is substantial. For example, according to data from the European Observatory (ENSR, 1997), SMEs employing up to 250 people accounted for 68 million jobs in the European Union in 1995. Furthermore, available data from some African countries show that in Nigeria SMEs account for 95 percent of formal manufacturing activity and 70 percent of industrial jobs. In South Africa micro and small firms provided more than 55 percent of total employment and 22 percent of GDP in 2003 (OECD, 2005).

Despite the apparent significance associated with these firms and the numerous policy initiatives introduced by African governments during the past decade to accelerate the growth and survival of SMEs in the African region, the performance of SMEs in Africa has been disappointing. The mortality rate of SMEs in Africa remains very high (Business Time, 1990). For example, Mead (1994) in his study of five African countries found that most firms started with 1-4 employees and never expanded, furthermore, less than 1 percent grew to a size of about 10 employees. Similarly, in Kenya, the informal sector is quite large, estimated at 34.3% and accounting for 77% of employment statistics .Over 60% of those working in the informal sector are the youth, aged between 18-35 years, 50% being women (Ouma et al 2009).

The First 1993 Small & Medium Enterprises (SME) baseline survey revealed that there were approximately 910,000 SMEs employing up to 2 million people. The second SME baseline survey (1995), estimated the size of the SME sector at 708,000 enterprises employing up to 1.2 million people. Compared to the other sectors of the economy, the contribution of the SME sector to the country's Gross Domestic Product (GDP) increased from 13.8% in 1993 to over 18% in 1999, (Sessional Paper No. 2 of 2005). Currently, it is estimated that the contribution to the GDP by this sector stands at over 25% (Economic Survey, 2012). More specifically, the trend in both the informal and formal sector employment indicates positive outcomes of some of the employment creation strategies adopted in the country. These may have facilitated the expansion witnessed in the informal sector employment .The formal sector growth over the last decade cannot be said to match that of the informal sector. A study by Parliamentary Budget Office (2010) shows that the potential GDP of the informal economy has been increasing over time. Between 2002 and 2008, the potential GDP of the hidden economy increased steadily every year from 7.58% in 2002 to 16.61% in 2008; with corresponding increase in tax potential as a percentage of GDP up from 2.52% in 2002 to 7.66% in 2008. This implies a continuously expanding underground economy which has the potential to increase the revenue flows but which have been otherwise left out of the tax net.

Githemo (2012) evaluated the effect of agency banking on the financial performance of small and medium-sized enterprises in Nairobi County. A descriptive research design was adopted in collection and analysis of data as to achieve the research objective where 120 SMEs in Nairobi County were studied. The study found that agency banking had weak but positive relationship with financial performance as with coefficient of correlation of 0.3128. The coefficient of determination of 0.0978 implied that agency banking could only account for 9.78% of changes in financial performance. The positive relationship between agency banking and financial performance was significant since the p value was 0.0012 which is less than the 5% significance level. Cash deposits was found to be the major use of agency banking by 64.76% of SMEs, 24% using agency banking or bill payments, loan repayment 4.76%, 3.81% and 1.9% for balance enquiry. This indicated low adoption of agency banking services by SMEs with reasons for the same quoted as high costs of transactions via agent banks, security issues and poor perception of agency banking model by end users. However, agency banking model was found to enhance financial inclusion for small SMEs, who previously indicated challenges to accessing financial services. 61.9% of the studied SMEs had been using agency banking for over 3 years, 21.9% years 1 to 2 while 16.19% had been using agency banking for less than one year.

Chandler and Hanks (2004) argue that the model of growth indicate that performance is a function of ability, motivation and opportunity. The performance of a business founder is measured by the growth of the organization (Schein, 2007), which is in turn influenced by the environment in within which the organization emerges. Rosa et al (2006) also outlined four different measures of comparative growth of business, that is, primary performance measures (number of employees, growth in employees, sales turnover, value of capital assets); proxy growth measures (geographical range of markets); subjective measures (including the ability of the business to meet business and domestic needs); and entrepreneurial performance measures (the desire for growth, the ownership of multiple businesses).

In Kenya, according to the Department of Micro- and Small-Enterprise Development (DMSED) in the Ministry of Labour and Human Resource Development, in 2008 there were about 2.8 million SBEs employing 5.1 million people (Stevenson and St-Onge, 2005). There were an estimated 7.8 million people employed in 2007, an increase of 6.5 per cent from the 7.3million in

2003 (GoK Economic Survey, 2008). Thus, the SBEs in Kenya provide the bulk of jobs and need not be ignored.

Empirical Review

Several studies have been conducted on the effects of agent banking and the performance of SMEs. Tchouassi (2012) sought to find out whether agent bank really work to extend banking services to the unbanked using empirical Lessons from Selected Sub-Saharan Africa Countries. This study sought to discuss how agent bank could be used to extend banking services to the unbanked, poor and vulnerable population. The study noted that poor, vulnerable and low-income households in Sub-Saharan Africa (SSA) countries often lacked access to bank accounts and faced high costs for conducting basic financial transactions. The agent bank presented a great opportunity for the provision of financial services to the unbanked. In addition to technological and economic innovation, policy and regulatory innovation was needed to make these services a reality.

One well-known study found that while agent banking in less developed countries are playing the same crucial role that fixed telephony played in richer countries in the 1970s and 1980s, the growth impact of mobiles is around twice as important in developing countries, where there is also a critical mass effect, and that a rise of ten agent banking per 100 people boosts GDP growth by 0.6% (Waverman, Meschi & Fuss 2005). Another reported that the impact of agent banking penetration is positively linked to Foreign Direct Investment (FDI), and that this impact has grown more significant in recent years, with a 1% increase in mobile penetration rates associated with 0.5-0.6% higher rates of FDI and GDP (Williams 2005).

Huang (2008) conducted a study to determine the impact of agent banking on SMEs performance in Auckland, New Zealand. He used a questionnaire to collect primary data. The results of his study indicated that most SMEs in Auckland were using agent bank to conduct their business activities. Additionally, the results of the study indicated that the use of agent bank had enabled SMEs to increase their annual turnover due to additional business networking opportunities. Furthermore, Bangens and Soderberg (2008) assessed the role of agent banking and its potential to provide basic banking services to the vast majority of people in Sub-Saharan Africa. The data for the study was collected from both the primary and secondary sources. According to their findings, agent banking has facilitated financial transactions and remittance of funds. Additionally, the results of their study indicated that agent banking has enhanced the operations and competitiveness of SMEs

Chogi (2006) did a study to investigate the impact of agency banking technologies on SMEs in Nairobi. The data for the study was collected using a self-structure questionnaire. The results of the study revealed that most SMEs perceived that agent banking had a positive impact on their revenues. Additionally, the study results indicated that the majority of SMEs perceived that agent banking enabled them to reduce their operating costs. Similarly, Donner and Escobari (2010) assessed the use of agent banking by SMEs in developing countries. They used questionnaires to collect data from fourteen research studies that had examined mobile use by SMEs. According to their findings, mobile phones have helped SMEs to become more productive and to improve their sales thereby improving their financial performance.

Wambari (2009) did a case study in Kenya to determine the impact of agent banking in developing countries. He used a semi-structured questionnaire to collect data from a sample of 20 SMEs. The results of his study indicated that agent banking had a positive impact on financial transactions of SMEs. Furthermore, the results of the study indicated that the adoption of agent banking had enabled SMEs to increase their sales thereby leading to improved financial performance. Likewise, Higgins at el (2012) conducted a study to determine agent bank usage patterns of Kenyan SMEs. They used a questionnaire to collect data from 865 SMEs owners. The results of their study showed that 99.5% of the SMEs used mobile money. Moreover, the study results indicated that the use of agent bank enabled SMEs to improve their performance. According to Koivu (2002) uptake of mobile phone in Kenya has been unprecedented. Mobile banking in Kenya affects performance of organization, behaviour and decision making of the entire economy. The trend of continued reliance on mobile devices to execute monetary transaction is steadily gaining momentum. Mobile banking is one innovation which has progressively rendered itself in pervasive ways of cutting across numerous sectors of economy and industry.

Ndubisi and Jantan (2003), in evaluating information system use among medium and small--sized firms in Malaysia, found that computing skills and technical backing are strong anchors of the perception of usefulness and also wield direct influence on system use. In another study conducted by Ndubisi and Kahraman (2005), they find that the use of advanced systems is significantly related to innovativeness, and suggest that innovativeness is an important trait in determining mobile phone technology use among women entrepreneurs in Malaysia.

In the study by Muriuki (2011) use of MMTS was perceived to enhance profitability moderately. Also, Davies (2007), evaluating the multiplier effect of a cash transfer programme in Malawi notes that when cash is injected in a region from outside and used to make purchases of goods and services produced in the region, will stimulate local sales hence better performance for local businesses.

In their study on MMT use among SMEs in Tanzania, Bångens & Söderberg (2011), focused on business usage such as paying suppliers or receiving payments from customers. The results were based on SMEs mainly located in Dares Salaam but partly in Morogoro, Singida and Mwanza, the impact was mainly seen in time saved and improved logistics though there were indirect effects on liquidity;

Ching et al (2011) studied the factors affecting Malaysian agent banking adoption from the point of an empirical analysis. This study aimed at extending the Technology Acceptance Model (TAM) to investigate agent banking acceptance in Malaysia. More specifically, the objective of this study was to examine the relationships between constructs of perceived usefulness, perceived ease of use, social norms, perceived risks, perceived innovativeness, and perceived relative advantages towards behavioural intention in adopting mobile banking. The findings of this study revealed that perceived usefulness, perceived ease of use, relative advantages, perceived risks and personal innovativeness were the factors affecting the behavioral intention of mobile users to adopt agent banking services in Malaysia. Meanwhile, the social norms were the only factor found to be insignificant in this study.

RESEARCH METHODOLOGY

This study used descriptive research design. Descriptive studies portray the variables by answering who, what, and how questions (Bernard, 2011). The target population in this case was all the registered Small and Medium Enterprises and within Kisumu CBD. There are a total of 3,680 legally registered as medium and small business Enterprises in Kisumu CBD. Out of these, 2,140 are classified as Small business Enterprises and 1,540 Medium Enterprises. These businesses are clustered under different categories: Transport, Communication, Services provision, Apparel industry, Jua kali, Food beverage and retail traders among others (Kisumu

County Council Business Registration Database, February 2014). The Multiple Regression model that aided the analysis of the variable relationships was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon,$$

Where; Y= Performance of SMEs (dependent variable); $\beta 0$= constant (coefficient of intercept); X_1= Frontline customer services (independent variable); X2= Intermediary bank transaction services (independent variable); X_3= Account opening services (independent variable);X_4= Loan application services (independent variable);ε = Error term; $\beta 1 \ldots \beta_4$= regression coefficient of four variables.

FINDINGS

Correlation between the variables

The study generated a correlation matrix table between the variables and presented the findings in Table 1. From the table all the independent variables had a positive and statistically significant (p-values less than 5%) correlation with the dependent variable. This implied that there was positive and statistically significant linear relationship between the dependent and independent variables.

Table 1: ***Correlation between the variables***

Correlations

		Performance of SMEs	Frontline Customer Services	Intermediary bank transactions	Account opening services	Loan application services
Performance of SMEs	Pearson Correlation	1	.481**	.700**	.704**	.597**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	219	219	219	219	219
Frontline Customer Services	Pearson Correlation	.481**	1	.640**	.635**	.680**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	219	219	219	219	219
Intermediary bank transactions	Pearson Correlation	.700**	.640**	1	.801**	.652**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	219	219	219	219	219
Account opening services	Pearson Correlation	.704**	.635**	.801**	1	.756**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	219	219	219	219	219
Loan application services	Pearson Correlation	.597**	.680**	.652**	.756**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	219	219	219	219	219

**. Correlation is significant at the 0.01 level (2-tailed).

Descriptive Statistics

Frontline customer services

The study sought to find whether the respondent utilized frontline customer services by an agent bank. From the findings, a majority (93.1%) of the respondent affirmed that they utilized while only 6.9% did not.

The study further asked the respondents to list the frontline customer services offered by an agent bank that they utilized. From the findings, 11.8% of the respondents mentioned inquiry, 40.4% said complain resolution, 38.9% said checking of account balance and 8.9% said they received other frontline services that were offered by an agent bank.

The study sought to find the opinion of the respondents on frontline customer services offered by an agent bank. From the findings summarized in Table 2, 43.4% of the respondents agreed that they often made an inquiry through an agent bank, 44.3% agreed that the responses given by agent banks to the inquiry made by the clients was satisfactory, 39.7% agreed that to a larger extent the responses given by agent bank enhanced the performance of their enterprise, 41.1% agreed that the agent bank took short time to resolve my complain, 36.1% agreed that The complaint resolution by an agent bank has enhanced the performance of our enterprise to a large extent.

Table 2: ***Opinion on frontline customer services offered by an agent bank***

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I often make an inquiry through an agent bank	0.9%	8.7%	24.2%	43.4%	22.8%
The responses given by agent banks to the inquiry made by the clients is satisfactory	0.0%	8.7%	25.1%	44.3%	21.9%
To a larger extent the responses given by agent bank enhanced the performance of our enterprise	1.4%	6.4%	21.9%	39.7%	30.6%
The agent bank takes short time to resolve my complain	3.2%	16.0%	21.5%	41.1%	18.3%
The complaint resolution by an agent bank has enhanced the performance of our enterprise to a large extent	3.2%	10.5%	26.0%	36.1%	24.2%

The study sought to find the frequency of checking account balance through an agent bank by the respondents. 54.2% of the respondents checked on a monthly basis, 25.2% checked twice a month while 20.6% checked on daily basis.

The study further sought to find the extent to which checking account balance through an agent bank enhanced the performance of enterprise. From the findings, a majority (49.5%) of the respondents said only to a small extent, 24.5% said to a great extent, 18.5% said to a great extent, while 7.4% said to no extent.

Intermediary Bank Transactions

The study sought to establish whether the respondents utilized intermediary bank transactions services offered by an agent bank. A majority 97.7% utilized while only 2.3% did not.

In addition, the study sought to find out the intermediary bank transactions services utilized by the respondents. From the findings, a majority (39.0%) said they utilized intermediary bank transactions services for paying bills, 31.0% said cash withdrawals, 30.0% said cash deposits.

The study further sought to find out the frequency of paying bills through an agent bank. From the findings, 55.4% said often, 35.9% said very often, while 8.7% said rarely.

The study sought to find opinion of the respondents about Intermediary Bank Transactions. From the findings presented in Table 3, 40.2% of the respondents said to a great extent the bill payment services provided by the agent banks are satisfactory,37.5% said to a great extent paying bills through agent bank has enhanced the performance of their enterprise, 43.8% said to a great extent they withdraw cash from an agent bank, 39.3% said to a great extent cash withdrawal through an agent bank has enhanced the performance of their enterprise, 34.7% said to a great extent they frequently deposit cash through an agent bank, and 40.6% said cash deposit through an agent bank has enhanced the performance of their enterprise.

Table 3: ***Opinion on Intermediary bank transactions***

	To no extent	To a small extent	To a moderate extent	To a great extent	To a very great extent
The bill payment services provided by the agent banks are satisfactory	1.8%	11.4%	22.4%	40.2%	24.2%
Paying bills through agent bank has enhanced the performance of our enterprise	2.3%	11.4%	24.2%	37.4%	24.7%
I withdraw cash from an agent bank	1.4%	7.8%	22.8%	43.8%	24.2%
Cash withdrawal through an agent bank has enhanced the performance of our enterprise	2.3%	12.3%	30.1%	39.3%	16.0%
I frequently deposit cash through an agent bank	4.1%	14.2%	25.6%	34.7%	21.5%
Cash deposit through an agent bank has enhanced the performance of our enterprise	3.2%	11.4%	22.4%	40.6%	22.4%

Account Opening Services

The study sought to find out whether the respondents utilized account opening services offered by agent bank. A majority (77.6%) said they did not while 22.4% said they utilized account opening services offered by agent bank.

The study further sought to find the account opening services that were utilized by the respondents. From the findings, 33.3% of the respondents mentioned “know your customer” service, 55.6% cited account documentation service and 11.1% of the respondents cited onward submission services.

The study sought to find the opinion of the respondents concerning the account opening services. Their responses were summarized in Table 4. From the table, 43.4% of the respondents said to a great extent customer process offered by the agent bank is satisfactory, 38.4% said to a great extent “Know your customer” service offered by agent bank is enhancing performance of their business, 40.2% said to a great extent account opening documentation process by the agent banks is satisfactory, 39.3% said to a great extent account opening documentation by agent bank has enhanced the performance of their enterprise, 40.6% said to a great extent the agent bank does not take long to give feedback after submitting account opening documents, and 47.5% said to a great extent onward submission of account opening documents by agent bank has enhanced the performance of their enterprise.

Table 4: ***Respondents' opinion on account opening services***

	To no extent	To a small extent	To a moderate extent	To a great extent	To a very great extent
Customer process offered by the agent bank is satisfactory	5.0%	8.2%	23.3%	43.4%	20.1%
"Know your customer" service offered by agent bank is enhancing performance of our business	6.4%	7.8%	23.3%	38.4%	24.2%
Account opening documentation process by the agent banks is satisfactory	2.7%	8.2%	21.9%	40.2%	26.9%
Account opening documentation by agent bank has enhanced the performance of our enterprise	0.9%	5.5%	24.7%	39.3%	29.7%
The agent bank does take long to give feedback after submitting account opening documents	0.5%	6.8%	21.5%	40.6%	30.6%
Onward submission of account opening documents by agent bank has enhanced the performance of our enterprise	2.3%	8.7%	25.1%	47.5%	16.4%

Loan Application Services

The study sought to find out whether the respondents utilized loan application services offered by the agent bank. From the findings, 87.4% said they did not while 12.6% said they did.

The study further sought to find out the loan application services that were utilized by the respondents. From the findings, 17.4% said they are issued with loan application forms at the agent bank, 69.6% said they are offered basic credit analysis services while 13.0% said they offered guidance on how to make the application. The study sought to find the opinions of the respondents about loan application services offered by the agent bank. From the findings summarized in Table 5, 40.2% of the respondents said to a great extent the access to loan application form by customers from an agent bank outlet is satisfactory, 38.8% said to a great extent loan application form through an agent bank had enhanced the performance of their enterprise, 39.7% said to a great extent basic credit analysis service provided by the agent bank has enhanced performance of their enterprise, and 41.6% said to a great extent the guidance offered by the agent bank during loan application process has enhanced performance of their enterprise.

Table 5: ***Opinions about loan application services***

	To no extent	To a small extent	To a moderate extent	To a great extent	To a very great extent

The access to loan application form by customers from an agent bank outlet is satisfactory	1.4%	8.2%	26.9%	40.2%	23.3%
Loan application form through an agent bank has enhanced the performance of our enterprise	0.9%	4.1%	26.5%	38.8%	29.7%
Basic credit analysis service provided by the agent bank has enhanced performance of our enterprise	0.9%	9.6%	18.7%	39.7%	31.1%
The guidance offered by the agent bank during loan application process has enhanced performance of our enterprise	0.5%	7.3%	17.4%	41.6%	33.3%

Performance of SMEs

The study sought to find the opinions of the respondents about the performance of their SMEs. The findings were presented in Table 6. From the table 42.5% of the respondents felt that to a great extent the use of agent banking has been associated with increased sales volume, 44.7% of the respondents said that to a great extent the use of agent banking has led to increase on capital returns, and 40.6% of the respondents felt that to a great extent agent bank has led to increased profitability.

Table 6: ***Performance of SMEs***

	To no extent	To a small extent	To a moderate extent	To a great extent	To a very great extent
The use of agent banking has been associated with increased sales volume	0.0%	6.8%	27.4%	42.5%	23.3%
The use of agent banking has led to increase on capital returns	2.7%	6.8%	30.1%	44.7%	15.5%
Agent bank has led to increased profitability	4.1%	10.5%	28.8%	40.6%	16.0%

Regression Analysis

A regression analysis was carried out between Performance of SMEs (dependent variable) and the independent variables (Frontline customer services, Intermediary bank transaction services, Account opening services, and Loan application services) and the findings were presented in Table 7, Table 8 and Table 9.

From the Model Summary Table 4.9, R^2 in the model is .556 meaning that all independent variables (Frontline customer services, Intermediary bank transaction services, Account opening services, and Loan application services) contribute 55.6% to the total variability in the dependent variable (Performance of SMEs).

Table 7: ***Model Summary of Independent Variables and the Dependent Variable***

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	.745[a]	.556	.547	1.522

a. Predictors: (Constant), Loan application services, Intermediary bank transactions, Frontline Customer Services, Account opening services

b. Dependent Variable: Performance of SMEs

The Anova Table 8 shows that the model was statistically significant (p-value below the 5% threshold).

Table 8: ***Anova Table of Independent Variables and the Dependent Variable (Performance of SMEs)***

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	619.523	4	154.881	66.895	.000[b]
	Residual	495.472	214	2.315		
	Total	1114.995	218			

a. Dependent Variable: Performance of SMEs

b. Predictors: (Constant), Loan application services, Intermediary bank transactions, Frontline Customer Services, Account opening services

From the Coefficient Table 9, only Intermediary bank transaction services and Account opening services were statistically significant in the coefficient table and therefore, the derived optimal model was;

$$Performance\ of\ SMEs\ (Y)\ =\ 2.248 + .186X_2 + .169X_3$$

Table 9: ***Coefficient Table of Independent Variables and the Dependent Variable (Performance of SMEs)***

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.248	.590		3.807	.000
	Frontline Customer Services	-.045	.039	-.077	-1.164	.246
	Intermediary bank transactions	.186	.038	.391	4.927	.000
	Account opening services	.169	.046	.330	3.709	.000
	Loan application services	.107	.056	.146	1.921	.056

a. Dependent Variable: Performance of SMEs

CONCLUSIONS AND RECOMMENDATIONS

In the first objective the study sought to determine the effect of frontline customer services on the performance of SMEs in Kisumu County. From the findings, 43.4% of the respondents agreed that they often make an inquiry through an agent bank, 44.3% agreed that the responses given by agent banks to the inquiry made by the clients is satisfactory, 39.7% agreed that to a larger extent the responses given by agent bank enhanced the performance of their enterprise, 41.1% agreed that the agent bank takes short time to resolve my complain, 36.1% agreed that The complaint resolution by an agent bank has enhanced the performance of our enterprise to a large extent. The study further established that frontline customer services had a positive and statistically significant (p-value less than 5%) correlation (Correlation Coefficient = .481) with the dependent variable (performance of SMEs). This implies that there was positive and statistically significant linear relationship between frontline customer services and performance of SMEs.

In the second objective the study sought to examine how intermediary banking transaction affect performance of SMEs in Kisumu County. From results, 40.2% of the respondents said to a great extent the bill payment services provided by the agent banks are satisfactory,37.5% said to a great extent paying bills through agent bank has enhanced the performance of their enterprise, 43.8% said to a great extent they withdraw cash from an agent bank, 39.3% said to a great extent cash withdrawal through an agent bank has enhanced the performance of their enterprise, 34.7% said to a great extent they frequently deposit cash through an agent bank, and 40.6% said cash deposit through an agent bank has enhanced the performance of their enterprise. In addition, the study established that intermediary banking transaction had a positive and statistically significant (p-value less than 0.05) correlation of .700 with the dependent variable (performance of SMEs). This means that there was positive and statistically significant linear relationship between intermediary banking transaction and performance of SMEs.

In the third objective, the study sought to establish how account opening services influence the performance of SMEs in Kisumu County. The results showed that, 43.4% of the respondents said to a great extent customer process offered by the agent bank is satisfactory, 38.4% said to a great extent "Know your customer" service offered by agent bank is enhancing performance of their business, 40.2% said to a great extent account opening documentation process by the agent banks is satisfactory, 39.3% said to a great extent account opening documentation by agent bank has enhanced the performance of their enterprise, 40.6% said to a great extent the agent bank does not take long to give feedback after submitting account opening documents, and 47.5% said to a great extent onward submission of account opening documents by agent bank has enhanced the performance of their enterprise. The study further found that account opening services had a positive and statistically significant (p-value was less than 0.05) correlation of .704 with the dependent variable (performance of SMEs). This implied that there was positive and statistically significant linear relationship between account opening services and performance of SMEs.

In the fourth objective, the study sought to examine how loan application services affect performance of SMEs in Kisumu County. From the findings, 40.2% of the respondents said to a great extent the access to loan application form by customers from an agent bank outlet is satisfactory, 38.8% said to a great extent loan application form through an agent bank has enhanced the performance of their enterprise, 39.7% said to a great extent basic credit analysis service provided by the agent bank has enhanced performance of their enterprise, and 41.6% said to a great extent the guidance offered by the agent bank during loan application process has enhanced performance of their enterprise. Further, the study found that loan application services had a positive and statistically significant (p-value was less than 0.05) correlation of .597 with the dependent variable (performance of SMEs). This implies that there was positive and statistically significant linear relationship between loan application services and performance of SMEs.

Conclusions of the Study

In the first objective the study sought to determine the effect of frontline customer services on the performance of SMEs in Kisumu County. From the findings, the study established that there was positive and statistically significant relationship between frontline customer services and performance of SMEs. The study therefore concluded that frontline customer services had a significant effect on the performance of SMEs in Kisumu County

In the second objective the study sought to examine how intermediary banking transactions affect performance of SMEs in Kisumu County. From results, the study established that intermediary banking transaction had a positive and statistically significant (p-value less than 0.05) correlation of .700 with the dependent variable (performance of SMEs). Therefore, the study concluded that intermediary banking transaction positively affected performance of SMEs and that the effect was statistically significant.

In the third objective, the study sought to establish how account opening services influence the performance of SMEs in Kisumu County. The results showed that, account opening services had a positive and statistically significant with the dependent variable (performance of SMEs). This therefore led the study to conclude that implied that account opening services had a statistically significant influence on performance of SMEs.

In the fourth objective, the study sought to examine how loan application services affect performance of SMEs in Kisumu County. The study found that loan application services had a positive and statistically significant relationship with the performance of SMEs. The study therefore concluded that loan application services affected performance of SMEs positively and that the effect was statistically significant.

Regression analysis results showed that Frontline customer services, Intermediary bank transaction services, Account opening services, and Loan application services contributes 55.6% to the total variability in the Performance of SMEs. Beta coefficient results reveals that only Intermediary bank transaction services and Account opening services were statistically significant. This therefore implies that SMEs should mainly focus on Intermediary bank transaction services and Account opening services as they significantly influence their performance.

Recommendations for further Studies

A similar study can be carried out in different geographical location. The independent variables for this study were Frontline customer services, Intermediary bank transaction services, Account opening services, and Loan application services. Therefore, a study can be carried out using different variables from the ones used in this study.

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