FACTORS AFFECTING SMALL AND MICRO ENTERPRISES ACCESS TO FINANCE IN KIRINYAGA COUNTY, KENYA

CAROLINE KARIMI NJAGI

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS EDUCATION IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS OF BUSINESS ADMINISTRATION (FINANCE OPTION) OF KIRINYAGA UNIVERSITY

SEPTEMBER 2023

DECLARATION

I certify that the work presented in this proposal is wholly original to me and has never before been offered for credit at another university.

Sign ……………………………..………. Date ………………………………...

CAROLINE KARIMI NJAGI

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SUPERVISORS

We, as the university supervisors, have granted our approval for the submission of this proposal for examination.

Sign …………………………………. Date……………………………….

Dr. Denis Muchangi
Senior Lecturer
School of Business and Education
Kirinyaga University

Sign …………………………………. Date……………………………….

Dr. Agnes Ndinda
Senior Lecturer
School of Business and Education
Kirinyaga University

DEDICATION

This work is dedicated to my husband, Mr. Michael Wanyei Karani who gave me invaluable moral and financial support and who has always pushed towards accomplishing this task.

ACKNOWLEDGEMENT

I would like to extend my heartfelt appreciation to God for granting me the gift of life and sound health throughout the duration of this project. With His divine assistance, I was able to overcome all obstacles. I am sincerely thankful to my family for their unwavering support during the days when I had to be away from them while working on this assignment. To my husband, children, parents, siblings, and all well-wishers, your uplifting words played a significant role in keeping me motivated, and I am truly thankful for your love and understanding. Additionally, I want to thank my friends for their assistance in numerous ways. Dr. Muchangi and Dr. Agnes, my supervisors, deserve special recognition. Their patience, guidance, and advice were instrumental in shaping this proposal, and I am very grateful for their support and timely feedback. I would also like to acknowledge the teaching fraternity for their words of encouragement and valuable advice, which played a crucial role in my journey.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CRB	Credit Reference Bureau
GDP	Gross Domestic Product
GOK	Government of Kenya
M|FI	Micro Finance Institutions
MSME's	Micro, Small and Medium Enterprises
R&D	Research and Development
SACCO's	Savings and Credit Cooperatives
SMEs	Small and Medium Enterprises
SMEDC	National SME Development Council
UK	United Kingdom

ABSTRACT

SMEs play an essential role when it comes to the health of an economy through their contribution to the GDP and creation of employment to many young and vibrant people in the country. SMEs are important for Kenya's development and growth towards becoming an industrialized country. They contribute 18% to the country's economy and employ 80% of the workforce, but often struggle to get the funding they need to grow because of difficulty accessing credit. Access to credit is crucial for private sector growth, especially for SMEs that typically don't have enough capital to expand. SMEs are a great source of creativity and talent for starting new businesses. In Kirinyaga County, Kenya, this research aimed to investigate the effects of interest rates, credit profile, SME’s performance, and collateral requirements on SMEs' access to finance. Credit rationing, information asymmetry, and pecking order theories served as the study's guiding theories. A sample of 136 out of 206 SMEs in Kirinyaga County was chosen using stratified random sampling. The questionnaires were distributed using the drop-and-pick strategy to collect primary data. Descriptive statistics like frequencies, means, standard deviations, and variances were used to examine the data. It was established that holding all other factors to a constant zero, access to finance would be at 1.167. This meant that access to finance would have significant effect even without being affected by interest rates, credit profile, and SME’s performance and collateral requirements. It was also observed that for every unit increase in standardized interest rates, standardized access to finance would increase by 0.067 units, while keeping other variables constant. The study found that for every unit increase in standardized credit profile, standardized access to finance would increase by 0.053 units, while holding other variables constant. For each unit increase in standardized SME's performance, there was a corresponding increase of 0.048 units in standardized access to finance, even after considering other variables. A unit increase in standardized collateral requirements resulted in a corresponding increase of 0.061 units in standardized access to finance, while keeping other factors constant. The study found that SMEs' access to financing was significantly influenced by a number of factors. In particular, the review featured the impact of interest rates, credit profile, SME performance, and guarantee necessities on SMEs' capacity to get funding. Thus, the study concluded that interest rates and collateral requirements have a negative influence on access to finance while credit profile and SME performance had a positive influence on access to finance and play a crucial role in determining the ability of SMEs to access finance in Kirinyaga County. As a recommendation, the study suggests a review of interest rates charged by banks and other financial institutions. By revising and potentially reducing these interest rates, more SMEs would be able to access funds, facilitating the expansion of their businesses and fostering economic growth in the region. The study also recommends the necessity to find alternative collateral securities as most SME’s do not own titles and logbooks that are majorly required by financial institutions as securities to access funds, and that credit rating policies should be made more accommodative to the SME’s to enable them access to finance that translates to SME’s operating viable businesses.

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

SMEs play a vital role in driving forward the development of trade and industry, particularly in developing countries where large firms may be less prevalent (Floyd & McManus, 2018). The SME sector is widely acknowledged as a fundamental pillar for fostering innovation, adaptability, and vitality in industrialized, emerging and developed countries. Furthermore, SMEs play a vital role in generating employment opportunities within these economic regions. According to Waari (2018), SMEs alone may produce up to forty percent of the nation's GDP and up to sixty percent of all jobs in developing nations.

In Kenya, the government has implemented categorizations for SMEs based on their size and revenue. Micro SMEs are characterized by having a workforce of between one and ten persons and a turnover that does not exceed half a million Kenyan Shillings. A small SME business employs between ten and fifty personnel and has a maximum turnover of five million. Medium-sized SMEs typically have approximately fifty to ninety-nine personnel and a business turnover that surpasses five million. On the other hand, large SMEs are characterized by having over one hundred staffs and a business turnover of 800 million or more (Hezron & Hilario, 2016).

1.1.1 Global Perspective

Governments worldwide are recognizing the importance of supporting SMEs due to the limitations of large industries in uplifting the majority of the population. As a result, various measures have been implemented to enhance credit support for SMEs, particularly in developed countries (Mulandi, 2017). One common approach is the implementation of credit guarantee schemes. In the United Kingdom (UK), the government offers guarantees for loans to businesses, covering up to 75% of the loan amount. In countries like Japan and South Korea, the guarantee percentages are even higher, reaching 80% and 100% of the initial investment, respectively (Matavire & Duflo, 2016). These schemes aim to alleviate the concerns of financial institutions by sharing the risk associated with lending to SMEs, and implementing measures to enhance their accessibility of essential financing.

In certain instances, governments take direct measures to provide lending support to SMEs through public institutions. Belgium serves as an illustrative case, where the government ministry responsible for SMEs provides pre-fund agreements that streamline the process for businesses to secure guaranteed loans from financial institutions. In a similar vein, Sweden has taken substantial measures to strengthen credit access capacity of SME subsidiary banks within state-owned commercial bank Almi, increasing it by 250% (Ingram, 2018). These direct lending initiatives are designed to enable businesses access essential funds required for their expansion and progress.

In Malaysia, the government has prioritized small businesses, particularly SMEs, by establishing institutional structures and policies to address their developmental needs (Gunto & Alias, 2014). In Africa, SMEs have generally performed poorly, but they are still seen as a potential engine of growth by creating skilled jobs and modernizing the economy (Bigsten & Soderbom, 2014). A research carried out in Ghana by Aryeetey (2015) discovered that a significant proportion of SMEs, specifically 38%, face restrictions when it comes to obtaining credit. These limitations arise from factors such as a perception of high risk, insufficient information, and the burden of high capital expenses.

1.1.2 Regional Perspective

In Africa, a significant number of SMEs face challenges in obtaining funding. The likelihood of credit approval for formal finance applications from banks, stands at approximately 50% (Mwangi's, 2015). For micro and small enterprises, this success rate is even lower, with only about two-thirds of their applications likely to be successful. According to a study by Bigsten (2014), financial institutions reject loan applications from around 90% of SMEs due to reasons such as a lack of collateral security, poor financial performance, unfavorable credit profiles, and high interest rates on loans. Similarly, according to Mwangi's (2015) research, approximately 95% rely on loans obtained from friends and family as well as personal savings as their primary sources of funding. Similarly, Bigsten (2014) conducted a study across six developing nations and found that among firms that sought loans, small businesses had a lower likelihood of obtaining financial support from formal financial institutions.

In Libya, small businesses make up over 80% of the private sector, while large corporations account for only 16%, with 3% being family-owned SMEs (Wahab, 2014). However, Libyan SMEs face numerous challenges, with limited access to credit being the most significant. Other factors include social, economic, demographic, and political issues. Although SMEs constitute more than 96% of Libyan companies, they are limited to contributing just 4% to GDP growth. The lack of availability of venture capital in the Libyan financial market exacerbates the problem of accessing credit (Abdesamed & Wahab, 2014).

The SME sector is essential to the growth of South African economy. It accounts for about 91% of formal corporate entities, making it a significant component of the business landscape. Furthermore, SMEs make a noteworthy contribution to the GDP of South Africa, accounting for approximately 57% of the country's GDP. Additionally, SMEs are responsible for generating nearly 60% of employment opportunities in South Africa (Kongolo, 2014). Acknowledging the significance of SMEs, the South African government took a proactive step by establishing the Ministry of Small Business Development in 2014. As a result, SMEs in South Africa encounter difficulties when it comes to accessing both debt and equity financing. The difficulty lies in bridging the gap between financial resource providers and the demand for funding, hindering access to credit for viable investment projects (Maziku, 2017).

1.1.3 Local Perspective

In Kenya, SMEs are crucial for achieving the goals outlined in Vision 2030 and driving the country's industrialization (Kithae, Gakure, & Munyao, 2016). SMEs fund 18% of the nation's GDP and employ roughly 80% of the working personnel. The Kenyan government established the National SME Development Council in 2009 to ensure policy implementation and has implemented programs and initiatives to develop human capabilities and create necessary infrastructure for high-performing SMEs. So far, the milestones achieved have been minimal and SME's still have limited access to funds to develop their businesses. Most SMEs in Kirinyaga County have not had access to finance that would boost their businesses.

Major reasons for not accessing finance could be higher interest rates, credit profiling, performance and the collateral requirements from financial institutions. Smaller businesses often struggle to get loans from lenders that are not traditional banks because they don't have enough information to prove they can pay back the loan. This information is usually not publicly available. The cost of borrowing for individuals and businesses in Kenya is influenced by various factors, including the interest rate fixed by CBK. Formal banking organizations always require collateral as a form of loan security. This is frequently in the form of real estate or a deed to immovable property. Because the majority of SMEs cannot meet these requirements, this precondition has a significant impact on credit availability.

1.1.4 Access to Finance

Access to funds means being able to get money from other sources to help with money problems. It's about people and businesses being able to borrow money from someone else when they need it (Osoro & Muturi, 2016). Sometimes you might need to borrow money for a short time, like a few months, and other times you might need to borrow money for a longer time, like a few years. This depends on how the person or company lending the money thinks you will be able to pay it back. In Kenya, the availability of credit for SMEs holds immense significance in fostering job creation and driving economic growth. The expansion of the private sector, with particular emphasis on SMEs, plays a pivotal role in achieving these objectives (Martina & McCann, 2015).

This study centered on the examination of the accessibility of external credit facilities for SMEs. As noted by Manasseh (2014), external financing or credit facilities refer to funds obtained from sources other than the business owner, including individuals or entities. These can include overdrafts, trade creditors, lease financing, debentures, loans, and other sources that depend on the creditworthiness of the enterprise. In Vietnam, a developing country, Minh (2015) discovered that SME financing is not primarily determined by the characteristics of the firm. The author also mentioned the significance of SME owners having access to information for credit access.

The capacity to obtain credit is critical in fostering growth particularly for SMEs that frequently face capital constraints when seeking to expand. Rahaman (2011) conducted a study revealing that a 10% rise in bank loans granted to a firm resulted in an impressive 18.14% increase in company development. Conversely, the lack of credit has a negative impact on business earnings compared to other issues (Khandker, 2013). Financial institutions offer various credit facilities tailored to different types of businesses. In both developing and developed nations, small businesses encounter obstacles in obtaining external financial support, which ultimately restricts their operations and potential for growth (Galindo & Schiantarelli, 2014). These products provide SMEs with choices, and when matched with their specific needs, they have the potential to bring about various advantages including better performance, productivity can be heightened, achieving higher returns on investments and contribute to increased incomes (Njeru, 2016).

1.1.5 SME's in Kirinyaga County

Kirinyaga County, located in the former Central Province of Kenya, encompasses towns such as Kerugoya, Wanguru, and Kutus. The county has a population of 610,411 and covers 1,478.1 km^2. It shares borders with Embu, Machakos, Murang'a, and Nyeri counties. According to the Kirinyaga County records as of August 2018, there were 4,514 small enterprises registered, primarily consisting of sole proprietorships and a few partnerships. Agricultural activities constitute the primary source of income for households in Kirinyaga County, accounting for 80% of the population's livelihoods. Formal employment and self-employment each contribute 10% to the income sources.

The Ministry of Devolution and Planning (2013) in Kenya recognized a high unemployment rate in Kirinyaga County, estimating that 65% of the labor force is jobless. Despite this, the region has significant business potential. However, limited investment activities, lack of financial resources, and a scarcity of relevant entrepreneurial data have hindered local business opportunities (Njeru, 2016). Existing SMEs in the area cover a wide range of industries, including automotive repair shops, electronic appliance workshops, carpentry workshops, clothing stores, retail shops, and bakeries. According to Agnes et al. (2015), a significant portion of businesses in the county are characterized as small and locally owned, aligning with the definition of SMEs.

An initial assessment of towns like Kerugoya and surrounding areas in Kirinyaga County reveals a prevalence of SMEs offering various goods and services, like hardware, electronic shops, grocery stores, eateries, and manufacturing businesses, particularly in the dairy and soft drink sectors. There is also a notable presence of petrol and gas stations, and distribution businesses for alcoholic and non-alcoholic beverages. Some of these businesses operate under franchise agreements with established larger franchises. Business owners in the region come from diverse social classes and demographics. However, their main challenge lies in accessing finance to enhance and expand their operations (Ongolo & Awino, 2018).

1.2 Problem Statement

The success and expansion of SMEs are essential for driving economic development and promoting employment opportunities in Kenya. However, these SMEs encounter numerous obstacles that impede their progress. According to the CBK’s 2016 National Economic Survey report, SMEs constitute 98% of the total businesses in Kenya and generate approximately 30% of the jobs each year as well as contribute around 3% to the country's GDP. Additionally, a 2018 survey revealed that 79% of SMEs operate in the informal sector and were responsible for 83.6% of the 840,600 new jobs established in 2018, as reported by

Viffa Consult (2020). Despite their significant economic impact, Kenyan SMEs confront various challenges, with access to finance being the most prominent one.

Access to financial resources plays a crucial role in the growth and sustainability of SMEs in Kenya, as emphasized by Chilembo (2021). However, access to finance poses more bottlenecks to this vital economic driver. According to a Kenyan Statistics Bureau survey released in 2017, it is estimated that around 400,000 SMEs, which is about 45% of registered SME's, do not survive beyond their second year of operation. The banks and non-banking institutions which are the major sources of finance are highly unlikely to fund the SMES given that they have associated them with high financial risk which leads to low credit rating. A study by Chilembo (2021) found that the greatest hindrance towards accessing finances by SMES is the collateral mandatory for loan applications and the high interest rates. Most SMES lack tangible assets that can be used as security.

The World Bank's 2017 report on conducting business in Kenya praised Kenya's progress in entrepreneurship, but the simplification of the process and access to finance remains a major challenge. The government has developed a strategy to speed up the business creation process in favor of SMEs by enforcing the law on local content of public projects, introducing a public procurement policy to "buy Kenya and build Kenya", provide R & D support, and increase funding for funds such as Uwezo-Fund. However, despite the government's efforts in tackling SMEs access to financing, some of the factors affecting SMEs go beyond government bureaucracy as still few banks or Sacco's are eager to finance SMEs especially at the inception stages while others do not have any customized financial policy for the SME sector (Avevor, 2019).

The limited access to finance and high cost of credit have been identified as significant barriers hindering the competitiveness and growth of SMEs (Kumar & Rao, 2015). According to Viffa (2020), a significant number of SMEs in Kenya operate within the informal sector. This characteristic poses additional factors affecting these businesses in terms of accessing financial resources. Acknowledging the significance of SMEs within the economy, several studies, conducted both domestically and internationally, have extensively examined the factors that impact the ability of SMEs to secure financial resources. (Canton et al., 2012; Allen et al., 2012; Rambo, 2013). However, this particular study intends to add something new to the body of knowledge by concentrating on factors affecting SME's access to finance in Kirinyaga County.

1.3 Purpose of the study

The purpose of this study was to define the factors affecting SMEs access to finance in Kirinyaga County, Kenya.

1.4 General Objectives

The general objective of this study was to define the factors affecting SMEs access to finance in Kirinyaga County, Kenya.

1.4.1 Specific Objectives

a) To investigate the effect on interest rates in SMEs access to finance in Kirinyaga County, Kenya.
b) To access the effect of SMEs credit profile on SMEs access to finance in Kirinyaga County, Kenya.

c) To examine the effect of SMEs financial performance on SMEs access to finance in Kirinyaga County, Kenya.
d) To determine the effect of collateral requirements on SMEs access to finance in Kirinyaga County, Kenya.

1.5 Research Questions

a) To what extent does interest rates affect SME's access to finance in Kirinyaga County, Kenya?
b) To what extent does one's credit profile affect SME's access to finance in Kirinyaga County, Kenya?
c) To what extent does the financial performance of SMEs affect their access to finance in Kirinyaga County, Kenya?
d) To what degree does collateral requirement affect SMEs ability to obtain financing in Kirinyaga County, Kenya?

1.6 The Significance of the Study

1.6.1 Scholars and Researchers

The study's findings aimed at filling the gap in knowledge concerning factors affecting accessibility to finances by SMEs in Kirinyaga County. This was the basis for laying down a foundation for future studies on the strategies to ensure the identified factors are eliminated.

1.6.2 Small and Medium Enterprises Business Owners

The study's findings were also an essential motivational tool for the informal sector employees on how they can overcome various factors hindering their access to finances. The study outlined some answers to the challenges and thus provided recommendations amongst the SMEs that make up a large percentage of the informal sector.

1.6.3 Government

The government is responsible for supporting an environment that supports access to finance for all institutions that seek to open businesses and support investment. The study's findings will enable the government to establish the issues that affect access to capital. The SMES offers employment to over 30% of Kenyan citizens. Thus, by having an awareness of the factors impeding access to finances, the government will have the ability to lay down strategies to eliminate the challenges.

1.6.4 Financiers

The study findings will provide the financiers with viable information on SME's as to why most of them don't qualify for finance which will enable them to come up with policy measures to address the problem that will ensure most SME's qualify for finance to support the growth of their businesses.

1.7 Limitations of the Study

First, it was anticipated that some of the SMEs participants might resist being part of the study as they would not want to disclose some information related to their business operations. Secondly, given that most of the SMEs are more of informal institutions, the study results cannot be generalized to formal institutions such large organizations. This was countered by recommending further research on the topic in this case involving large organizations. It was also expected that a few of the respondents might not be willing to participate in the exercise.

The researcher placed great emphasis on maintaining the confidentiality of the information provided by the participants and assured them that their responses would be handled with utmost privacy. It was explicitly stated that the research was conducted exclusively for academic purposes, underscoring the intention to ensure the privacy and protection of the respondents' data. Additionally, the respondents were informed well in advance about the questionnaire administration and a mutual agreement was reached regarding a suitable date and time for its completion. The participants in the study were notified by the department via an introductory letter that the research was being conducted solely for academic purposes to elicit confidence on those who were not willing to participate in the exercise.

1.7.1 The Scope of the Study

With Kirinyaga County as the location, the study concentrated on the variables influencing SMEs' access to financing in Kenya. The scope of this research was limited to SMEs, which were registered in Kirinyaga County. The study laid emphasis on financial aspects affecting access to finance by SME's in Kirinyaga County. The study focused on the effect of interest rates, credit profile, SME's financial performance, and collateral requirements and how they influence access to finance by SMEs operating in Kirinyaga County.

1.8 Assumptions of the Study

The research assumed that the financial institutions have made it hard for the SMEs to access the finances. It was also believed that the respondents provided honest feedback to all questions.

1.9 Operational Definition of Terms

Credit profile: This refers to an institution's rating depending on information about someone's credit history (Khandker, 2013).

Collateral Requirements: This refers to the extent upon which a borrower is required to put a particular asset as a security for a loan (Masila, 2021).

Interest rates: This refers to the amount a lender charges a borrower and is a percentage of the principal (Egilsson, 2020).

Financial Performance: This concept refers to the measure of a firm's ability to effectively utilize its assets within its primary business operations to generate revenue (Fatihudin, 2018).

SME's: This term refers to an enterprise that has a workforce of less than 50 employees and either an annual turnover or an annual balance sheet total that does not surpass $8 million (Mumin, 2018).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section provided empirical research findings that examined the factors influencing the access to finances for SMEs specifically in Kirinyaga County, Kenya. It also included a discussion of the theoretical framework, which encompassed relevant theories utilized in the study. Additionally, the conceptual framework was presented, which depicted the link between the different variables. The section concluded with a critique of the literature review, identifying research gaps that were identified in the existing empirical research.

2.2 Theoretical Framework

The study drew insights from three theories, namely the information asymmetry theory, the theory of equilibrium credit rationing, and the pecking order theory, to inform its research approach and analysis.

2.2.1 Information Asymmetry Theory

This theory addresses the problem of information asymmetry in credit markets. According to this theory, borrowers typically possess more information than lenders, creating an imbalance of power between the two parties. This imbalance arises because one party has better access to information than the other. In the context of credit markets, borrowers are more likely to have greater access to information than lenders. They possess information about the risks associated with their investments, which may not be readily available to lenders. Matthews and Thompson (2008) indicate that this could result in ethical issues , wherein party will take on risks due to the fact they do not take into full account the final costs associated with that hazard, in addition to detrimental selection, wherein there are detrimental outcomes due to the fact parties have different data. Likewise, for overcoming those issues, the economic intermediaries use 3 important methods inclusive of imparting the dedication for long-time affiliations with the clients. The second approach involves sharing records, while the final method involves delegating and monitoring credit score applicants.

According to Matthews and Thompson (2008), when clients borrow money directly from banks, the banks require certain information to address and alleviate the information asymmetry. In the context of SME financing in Sub-Saharan Africa, it is commonly believed that the severity of information asymmetry between entrepreneurs and bankers is the primary obstacle. However, it is possible to bridge the gaps between banks and SMEs by coming up with financial frameworks that are specifically tailored to the local context. By doing so, the asymmetry of information can be reduced, leading to improved access to financing for SMEs in the region. A study by Waari and Mwangi (2015) tried to identify the barriers to accessing financial services amongst SMEs and they used the information asymmetry theory. The research revealed that there were disparities between the nature of information requested by financial institutions and the nature of information expected from and provided by MSMEs.

Information asymmetry can be employed to determine the extent of credit provided by financial institutions. While it may not be a major hurdle, the presence of information asymmetry does exist and can impact the accessibility of financing for SMEs. This finding suggests that addressing and mitigating information asymmetry can contribute to improving the availability of financial resources for SMEs. A similar study by Dehlen et al (2014) sought to ascertain the impact of information asymmetry on exit route strategies employed by various entrepreneurs. In the study, the researchers' defined exit route as being the transfer of an entrepreneurial company to one or more individuals or its liquidation. The researchers relied on the information asymmetry theory which laid a foundation for the research. To accurately predict the future of a business, it is essential to comprehend the variety of exit strategies adopted by entrepreneurs.

In their study, Dehlen et al (2014) provided evidence to support the notion that differences in information asymmetry, resulting from variations in the implementation of measures aimed at reducing such asymmetry, can influence the likelihood of incumbents choosing a specific exit strategy. Additionally, they discovered that economic and rational factors interact with emotional attachment to the firm, revealing new insights into the dynamics of entrepreneurial exits. These findings offer intriguing insights into the complex interplay between information asymmetry, rational decision-making, and emotional factors in the context of entrepreneurial exits. This theory was thus used in explaining the impact of SMEs performance and credit profile on SMEs access to finances. Lending institutions do not have access to this information, as they need it to determine whether the SMEs are capable of repaying back the loans.

2.2.2 Theory of Equilibrium Credit Rationing

The theory regarding credit rationing was developed by Hodgeman (1960) and revolves around the concept of default risk. According to Hodgeman, credit rationing occurs when lenders decline to provide the full amount of credit requested by some or all loan applicants at a prevailing interest rate. Lenders assess prospective borrowers based on the anticipated rate of return and the projected loss rate associated with the loan. Furthermore, the theory assumes that borrowers have a maximum repayment capacity that reasonably limits the loan amount offered by lenders, irrespective of the prevailing interest rates. This situation arises when the expected loss outweighs the expected return on the loan.

According to the theory, the lender does not provide all the credits the borrower wants because it cannot distinguish between a safe borrower and a dangerous borrower. Additionally, the theory assumes an incomplete credit market due to information asymmetry between lenders and borrowers. Lenders aim to mitigate this information asymmetry by imposing interest rates and requiring collateral. It is also assumed that the demand for loans from commercial banks surpasses the available supply at prevailing interest rates, and borrowers are expected to provide a standard level of collateral. An organization cannot obtain additional borrowing funds by promising that the particular borrower will pay additional interest whenever the borrower's demand and supply curve shifts to the left and upward. Furthermore, as the supply curve fluctuates, borrowers encounter more stringent funding constraints that cannot be overcome solely by offering to pay interest rates above the norm. However, Hodgeman observed that borrowers with favorable credit ratings can continue borrowing as much as they desire without being subjected to significantly higher interest rates or additional requirements imposed by the lender.

A study by Malhotra (2015) to determine how the theory of credit rationing can be used in explaining the financing concept. With the help of the theory of credit-rationing, the researcher noted that one can determine the challenges that the traditional banking sector encounters in the credit market. These issues are made significantly more difficult by the distinctive characteristics of the rural credit markets in developing countries, which set them apart from other credit markets. As a direct consequence of this, qualified borrowers are denied access to financial resources. The mission of microfinance institutions (MFIs), which are typically located in rural parts of developing countries, is to offer borrowers like these small loans.

A study by Malhotra (2015) noted that one can gain an understanding of how microfinance institutions (MFIs) minimize the inherent problems associated with their setting if they deconstruct and analyze different aspects of microfinance. The theory is useful to the study because financial institutions often categorize micro and small enterprises as high-risk borrowers. Consequently, some banks are willing to extend credit to MSEs, while others impose restrictions or reject their loan applications. The theory was used in explaining the impact of credit profile and interest on SMEs access to finances.

2.2.3 Pecking Order Theory

Myers and Majluf (1984) improved the theory by enhancing the work of Donaldson (1961). The theory provides a rational explanation for the decision-making process involved in establishing financial arrangements. It takes into account the presence of pecking orders and their influence on financing choices. For businesses, this order is to focus on internal sources of funding before relying on external investors. Therefore, an organization follows a funding hierarchy determined by the need for external funding. In general, "internal funding should be encouraged over external funding according to the following hierarchy: cash flow / debt / stock issuance" (Myers and Majluf, 1984). As a result, the funding hierarchy needs to be clarified, driven by the need for external funding following each company. This hierarchy is expressed as a function of the objective, pursued by the officer of the company.

The theory suggests that the leader, based on their risk aversion, has the authority to make decisions that either prioritize maximizing shareholder wealth or serving their own interests.

In both cases, the leader's actions aim to maximize the company's benefit. Due to information asymmetry and reporting challenges associated with equity issuance, the theory favors the use of internal company funds as the preferred financing source, followed by external funds, and finally debt-to-equity conversion, with a preference for less risky debt. This establishes a financial hierarchy that prioritizes cash flow, low-risk debt, risky debt, and capital increase. The manager determines this hierarchy based on the constraints of organizational surplus and the need for debt monitoring activities. Thus, the preferred financing options are in the order of cash flow, capital increase, and debt. According to Myers (1984), shareholder vigilance can limit this type of behavior. In summary, the authors agree with the modeling and definition of the Pecking Order theory model founders called the Myers and Majulf models.

A study by Aabi (2014) sought to determine whether the Pecking Order Theory can be used in explaining the various factors that affecting SMEs financing using a sample of firms listed on the Casablanca Stock Exchange. The researchers found out that the dynamic model confirms that bank size, capitalization, and the weighted average rate and balance sheet variables explain credit supply. The dynamic model estimates that credit supply is positively related to total liabilities. This result empirically confirms the theoretical teaching about the two variables' relationship in a cyclical downturn, which may be needed to tighten credit by raising rates or reducing appropriations. This theory can be applied to Kenyan SMEs, particularly in relation to the issue of collateral. It is relevant because Kenyan business owners generally exhibit a preference for internal sources of funds over external sources and was used in explaining how collateral requirements affects the SMEs access to finances.

2.3 Conceptual Framework

The framework was utilized to explain the central ideas or variables, as well as the interrelationships that need to be investigated. It consisted of the independent variables of higher interest rates, credit profile, financial performance, and collateral requirements, and access to finance as the dependent variable. A conceptual framework is the way in which ideas are organized in order to achieve the purpose of a research project (Ivey, 2015).

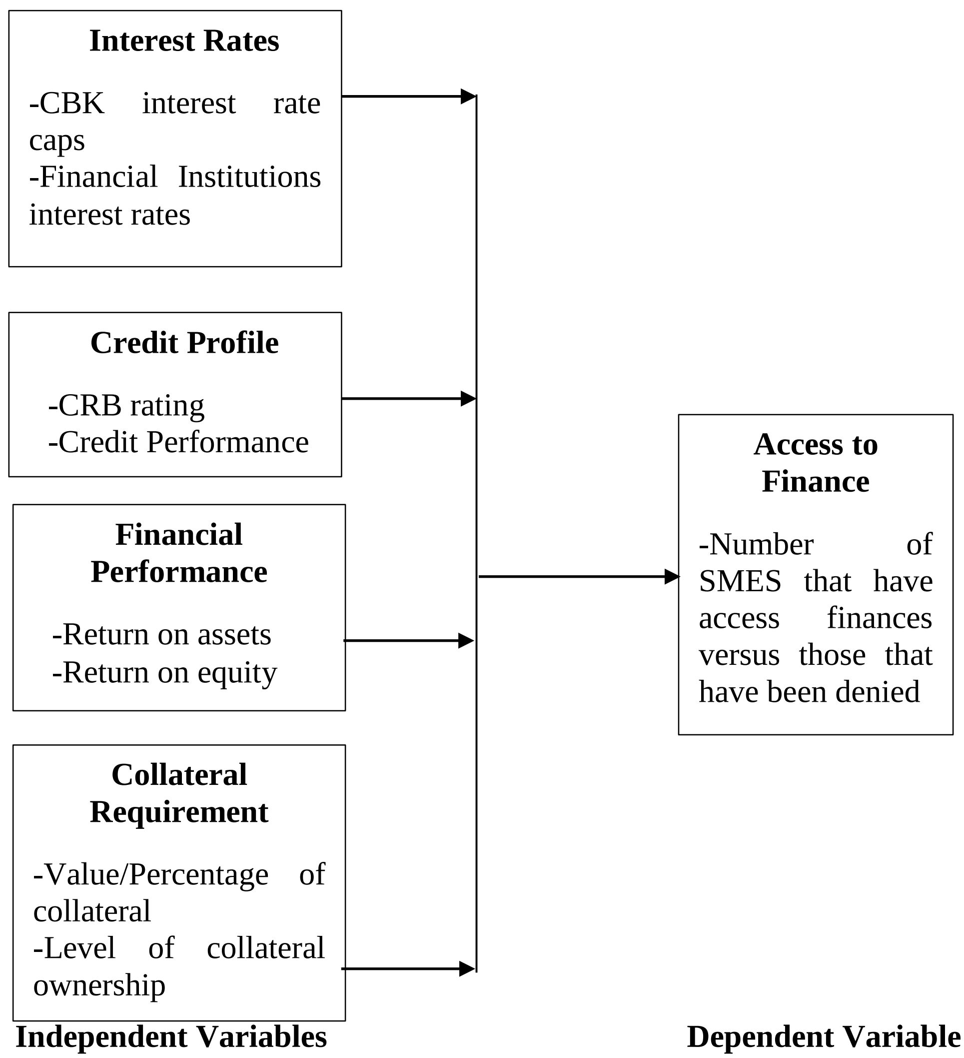

Figure 2. 1: Conceptual Framework

Insufficient information and knowledge have been identified as key factors leading to loan rejections. This is evident in the high interest rates charged, the need for comprehensive asset and debt disclosures, misuse of credit, and a general lack of preparedness when applying for loans. SMEs play a crucial role in the Kenyan economy, providing livelihoods for many households and serving as a platform for business growth and employment creation (Waliaula, 2012). However, lending institutions, particularly commercial banks, often require collateral security, which poses challenges for SME entrepreneurs (Wanjohi & Mugure, 2008), resulting in stagnation and hindering growth across various sectors.

Access to finance is essential for both sustaining and expanding businesses. The fluctuating interest rates, influenced by economic stagnation, have posed challenges. The government has responded by adjusting regulations and policies governing commercial banks and exploring internal and external borrowing. While these measures have contributed to overall economic growth, they have had adverse effects on SMEs' ability to access loans and make deposits. The high cost of credit has driven small businesses away from banks, leading them to rely on internally generated funds instead.

Credit information and reporting systems are key components of the architecture of today's financial sector. Credit reports that describe payment histories give lenders a significant tool to assess the risk posed by different borrowers, because previous conduct is one of the most powerful indications of future behavior. Credit reporting systems limit the influence of asymmetric information on credit markets by assisting lenders in better screening borrowers and avoiding adverse selection, as well as by providing an incentive for borrowers to repay their debts, hence minimizing moral hazard. The majority of SMEs require more capital than microfinances and banks can give. Larger commercial banks, on the other hand, typically find lending to SMEs prohibitively expensive because the expense of determining whether a SME is creditworthy is considerable in comparison to the return banks could gain by lending to them. SMEs are also seen by many banks as overly risky and more likely to fail on loans. In industrialized nations, Credit scoring minimizes the cost and time it takes to process loan applications and analyzes the risk of loan applicants to help banks profit from lending to small businesses and consumers.

Formal banking organizations always require collateral as a form of loan security. This is frequently in the form of real estate or a deed to immovable property. Because the majority of SMEs cannot meet these requirements, this precondition has a significant impact on credit availability. Women entrepreneurs may face additional challenges because they may lack the legal authority to possess valuable property such as land and houses. The findings of this study indicate that a significant number of entrepreneurs acknowledged the importance of loans for expanding their businesses. However, the requirement of collateral was identified as a major barrier to accessing loans and consequently hindering expansion of enterpries. As a result, a large portion of the respondents reported initiating their enterprises using personal resources or loans obtained from family members, as these sources did not necessitate collateral as security.

2.4 Empirical Literature

2.4.1 Interest Rates and Access to Finance

Every business needs funding, but at first glance it seems overfunding. According to Gideon (2019), optimizing the effectiveness of funding is crucial, and borrowers are advised to add up all funding costs, compare them, and find a funding alternative that offers the lowest alternative funding. The researcher gathered data from a sample of 220 participants using a combination of open and close ended questionnaires. The distribution of the questionnaires followed a stratified sampling method, which classified respondents based on their business types. The interest rate charged on the loan is essential in determining the total cost of borrowing money. Additionally, the value credit refers to the total amount that the borrower must repay, including the principal amount borrowed. Gideon (2019) described interest rates as being capital returns for lender and this can lead to high lending rates which discourage SMEs from borrowing and reduce their creditworthiness.

In a recent study conducted by Chilembo (2021), the goal was to investigate the elements affecting SMEs ability to acquire financing in Zambia. The research aims to get a greater knowledge of the challenges faced by SMEs in Lusaka while trying to access financial resources by concentrating specifically on them. The major goal was to look into how collateral requirements, interest rates, and other elements affected their ability to acquire funding. The study combined qualitative and quantitative research approaches using a mixed-methods methodology. The study's conclusions showed a link between a lack of collateral assets and increased risk of loan refusal and interest rates.

In light of the findings of the study, the study suggests that SMEs make use of alternative sources of financing that are both practical and unconventional in nature. This recommendation is made in light of the challenges that are presented by traditional sources of financing. The research also suggests that SMEs form group partnerships in order for them to attain a critical mass for their operations and to take advantage of economies of scale for their respective businesses. However, the researchers noted that additional research needs to be done to investigate alternative ways for SMEs to finance their operations besides taking out loans from financial institutions through the execution of more complex analyses with the assistance of statistical software.

A study by Rahman et al. (2017) aimed to establish factors that support SMEs access to finances in three central European nations of Hungary, Slovack Republic and Czech Republic. The researchers identified firm age, female ownership, firm innovativeness, firm riskiness, collateral availability, and interest rates as the core variables. The findings suggested that the size of the business has a positive connection with access to finance for SMEs, but for micro firms, the size of the firm has a negative coefficient. This indicates that micro firms are facing even more challenges when attempting to secure financing from commercial banks. In terms of the age of the company, micro firms are eventually be able to demonstrate to banks a higher information quality when they get of age.

In terms of innovation, Rahman et al. (2017) suggest that businesses that demonstrate innovation are not subject to higher financial constraints compared to non-innovative ones. that are not innovative. A rather positive coefficient indicates that innovative companies are encouraged by banks in the form of access to finance, and this is suggested by the fact that the coefficient is positive. The researchers uncovered evidence suggesting that the interest rate has a favorable impact on the availability of financial resources for micro firms as well as the SME sector as a whole. It's possible that this indicates that banks are charging higher loan prices in proportion to the size of the loan, reflecting the increased risk associated with larger loans. On the other hand, micro firms are more susceptible to defaults, and as a result, banks may request higher rates from micro firms in order to compensate for the increased risk.

Maalim and Gikandi (2016) conducted a study that focused on assessing the influence of interest rates on the accessibility of credit for small businesses in Garissa County. They established that interest rates are an important determinant of the credit demand in financial institutions. When applying for a loan or credit, a significant majority of applicants prioritize considering the interest amount that will accumulate on the loan. The results of the survey showed that SACCO's interest rate policy was significantly linked to the credit accessibility of SMEs in Garissa County.

In order to ascertain how interest rates affect MSMEs' access to capital and financing decisions in Ghana's Wa municipality, Bernard, Sare, and Musah (2014) conducted a research. The analysis by employed a multiple research method as well as a descriptive survey. This was done so that the researchers could get the most out of their findings. In total, two hundred different businesses were selected for the study. A cross-sectional survey was used to collect data from respondents using a questionnaire and analyzed by using multiple regression. The majority of MSMEs according to the findings of the analysis, had chosen to finance their operations with equity rather than debt. This was attributed to a number of different factors, the most significant of which was the interest rate, which plays a role in the decision-making process regarding financing options for MSMEs in the Wa municipality. The researchers noted that although there were some financial institutions that were ready to support MSMEs in Ghana, most of the MSME’s had opted out and had decided not to access the funds due high interest rates.

Chilembo (2021) conducted a study to investigate the elements affecting SMEs ability to acquire financing in Zambia. The research aims to get a greater knowledge of the challenges faced by SMEs in Lusaka while trying to access financial resources by concentrating specifically on them. The major goal was to look into how collateral requirements, interest rates, and other elements affected their ability to acquire funding. The study combined qualitative and quantitative research approaches using a mixed-methods methodology. The study's conclusions showed a link between a lack of collateral assets and increased risk of loan refusal and interest rates.

2.4.2 Credit Profile and Access to Finance

In 2015, Yoshino and Taghizadeh-Hesary performed research to determine how credit ratings affect Asian SMEs' ability to acquire financing. SMEs play a crucial role in the economies of Asian countries, contributing significantly to employment and output. However, these enterprises face challenges when it comes to borrowing funds from banks and other financial institutions. The researchers utilized a random questionnaire administration method to collect primary data from a sample of 556 SMEs. The study's policy implications highlight the importance of implementing a credit rating system. By assessing the default risk, financially sound SMEs can access larger loan amounts from banks at lower interest rates. On the other hand, SMEs with weaker financial health face higher interest rates and limited borrowing capacity. Implementing a credit rating mechanism can enable banks to minimize nonperforming loans issued to SMEs, ultimately enhancing the creditworthiness of the financial system. This, in turn, makes it easier for healthy SMEs to secure funding and raise capital for their operations.

Additionally, according to OECD (2018), debt is a common source of funding for start-up, cash flow, and investment needs for many SMEs and business owners. However, SMEs typically face challenges in obtaining debt financing compared to large corporations. Due to a lack of expertise and skills in financial reporting, Startups and small enterprises frequently have inadequate collateral and weak credit records, and lack access to credit due to asymmetric information and agency issues. The risk-reward profile of firms such as innovative and growth-oriented enterprises, which are profit-driven by intangibles and whose patterns are frequently difficult to predict, makes debt financing more difficult. Funding gaps are one of the main barriers to small business formalization in middle- and low-income countries. Even though many SMEs lack formal credit, long-term credit to support investment and innovation is scarce, limiting growth opportunities.

As noted by Manasseh (2014), external financing or credit facilities refer to funds obtained from sources other than the business owner, including individuals or entities. These can include overdrafts, trade creditors, lease financing, debentures, loans, and other sources that depend on the creditworthiness of the enterprise. In Vietnam, a developing country, Minh (2015) discovered that SME financing is not primarily determined by the characteristics of the firm. The author also mentioned the significance of SME owners having access to information for credit access.

Rahaman (2011) conducted a study revealing that a 10% rise in bank loans granted to a firm resulted in an impressive 18.14% increase in company development. Conversely, the lack of credit has a negative impact on business earnings compared to other issues (Khandker, 2013). Financial institutions offer various credit facilities tailored to different types of businesses. In both developing and developed nations, small businesses encounter obstacles in obtaining external financial support, which ultimately restricts their operations and potential for growth (Galindo & Schiantarelli, 2014).

Bigsten (2014) study on financial institutions revealed that most financial institutions reject loan applications from around 90% of SMEs due to reasons such as a lack of collateral security, poor financial performance, unfavorable credit profiles, and high interest rates on loans. Similarly, according to Mwangi's (2015) research, approximately 95% rely on loans obtained from friends and family as well as personal savings as their primary sources of funding. Similarly, Bigsten (2014) conducted a study across six developing nations and found that among firms that sought loans, small businesses had a lower likelihood of obtaining financial support from formal financial institutions.

The limited access to finance and high cost of credit have been identified as significant barriers hindering the competitiveness and growth of SMEs (Kumar & Rao, 2015). According to Viffa (2020), a significant number of SMEs in Kenya operate within the informal sector. This characteristic poses additional challenges for these businesses in terms of accessing financial resources. Acknowledging the significance of SMEs within the economy, several studies, conducted both domestically and internationally, have extensively examined the factors that impact the ability of SMEs to secure financial resources.

2.4.3 SMEs financial Performance and Access to Finance

Wafula and Miroga's (2020) investigation into the connection between SMES performance and the credit terms set by banks found various obstacles that SMEs have to overcome in order to gain access to loan financing from lending organizations to maintain the growth of their businesses and their performance served as the impetus for this study. The variables used in the study included interest rates, payback period and collateral. The performance of SMEs and credit terms in Bungoma County have been the subject of previous research, but this study added fresh information to that body of knowledge.

SME were given access to information and knowledge that will assist them increase their chances of receiving financing. This information and knowledge focused on the significance of credit worthiness. Lending institutions were provided with information regarding how businesses viewed their services, which assisted the institutions in improving the quality of the services they provided. For the investigation, an analysis of correlation survey design was used. Individuals who were either the owners/managers of the SMEs or even the business partners of the firms were given self-administered questionnaires. Using a method of simple random selection, we chose 150 respondents to represent the sample size out of a population of 1500 SMEs.

Using a correlation and regression analysis, the association between the variables was explored. It was found that the performance of SMEs in Bungoma County was affected by the amount of collateral offered, the interest rate, and the length of time given for repayment. Because of this, it was suggested that additional research be carried out within the near future in order to not only take into account the other parts of the nation, but also ascertain how organizational characteristics affect the link between lending practices and the performance of SMEs. Other elements of lending rules, include the borrower's traits, the risks associated with loan, and the amount lent, should be investigated in the future with the goal of determining whether or not these aspects have an impact on the performance of SMEs.

In order to ascertain the connection between financial access and organizational success, Fowowe (2017) conducted a research. The World Bank's Enterprise Surveys provided the researchers with a rich new set of data at the enterprise level, which was used in conjunction with subjective and objective metrics of access to credit to arrive at this conclusion. Financial access was measured in terms of how much of an issue it is for a company's ability to run its operations. The variable that assesses whether or not businesses are unable to receive credit is the objective measure of access to finance. Fowowe (2017) analyzed data from 10,888 African enterprises and found that access to credit had an extremely negative impact on firm growth using a subjective metric. Firms with less credit constraints grow at a quicker rate than those without it, according to the objective measure. These findings supported the concept that financing is critical to company growth and justify the many actions and activities being taken to increase the availability of funding for African firms.

In a study conducted by Murigi (2014), it was observed that informal and semi-formal financial institutions demonstrate relatively better responsiveness compared to formal financial institutions when providing the necessary financing to SMEs located in slums. The reason for this is the short-term nature of financing required by SMEs in such areas. However, the impact of credit access on SMEs in Kirinyaga county has not been previously explored, as previous studies have overlooked this specific context. The goal of Murigi's (2014) research was to look at how well-performing SMEs in the Mukuru slums fared in relation to their access to finance. Data were gathered for the study using questionnaires and secondary data taken from financial records. Having access to financial resources has a favorable and significant influence on the performance of SMEs in the Mukuru slums, according to the study's findings.

Additionally, a large percentage of SMEs in the Mukuru slums derive their operating finance from informal (43 percent), formal (34 percent), and semi-formal (23 percent) sources. According to the findings of the study, SMEs benefit more from informal sources of finance than they do from formal or semi-formal sources of finance. It was discovered that the age of the SME and its size both had a favorable and significant effect on the company's financial success. The research suggests that steps should be taken to guarantee that small and medium-sized businesses in slum regions have easier access to financial resources. The measures may include the formation of a specific fund in order to meet the financial requirements of slum SMEs.

2.4.4 Collateral Requirements and Impact on Access to Finance

According to Mathea (2014), the issue of placing excessive importance on collateral as a primary criterion for lending can be traced back to the historical development of the banking system and the accompanying cultural practices. Traditionally, when evaluating the likelihood of loan repayment, banks have adopted a risk-averse approach towards small businesses. Consequently, there has been a lack of emphasis on assessing the income-generating potential of the ventures themselves. Despite significant improvements in lending to SMEs, banks remain wary due to the fact that many of these enterprises lack collateral and asset records.

A study by Mumin (2018) sought to determine the factors that impact SME access to Kenyan commercial banks for finance. In this study, 126 SMEs in the Nairobi region served as the sample. The data collection process started with the primary sources. The questionnaires only included questions with predetermined answers. In order to assess the nature of the relationship between the independent factors and the dependent variables, a correlation analysis was carried out. According to the findings of the study, the age of the owner or manager is a factor in determining access to finance, and women are often discouraged from applying for bank loans. According to the findings, having the necessary knowledge and abilities to lead the company to study how having collateral affects one's ability to get credit is important.

The investigation indicated that banks need some form of security before extending a loan. It was also determined that the majority of applicants had their loan applications rejected because they did not have sufficient collateral. The study concluded that the SME's Profile had an effect on access to credit, and similarly, the age of the owner or manager had an influence on access to finance before getting access to the loans. According to the data, commercial banks demand that small and medium businesses provide collateral before they will issue a loan to those businesses. Due to a lack of collateral, SMEs have been unable to acquire financing. The information that loan applicants provide is also taken into consideration while making lending decisions. Although it is not known that SMEs keep solid accounting records, proprietors have admitted to providing accurate financial information to banks in advance of loan applications.

Ndungu (2016) conducted a research to determine the variables that affect how easily SMEs in the county of Murang'a may receive loans. This research was conducted with the intention of being of great use to aspiring business owners, possible funders, financial institutions, the county administration of Murang'a, and other researchers interested in developing credit policies that are conducive to business growth. The target audience consisted of 1,020 SMEs currently functioning in the region of Murang'a. In the study, strata were established using stratified random sampling, and respondents were chosen at random from those strata. The research had 102 participants in all. The study's findings indicate that the number of lending institutions, loan interest rates, the quantity of collateral security, and literacy rates are the factors that have the most impact on whether or not SMEs in Murang'a have access to credit.

The research suggests that trainings should be used to deter individuals from engaging in informal borrowing, it was necessary to search for alternative methods of providing collateral security. SMEs must also constantly be educated on how to handle their finances, create books of account, generate revenue and expense statements, and create budgets. The researcher also contends that the creation of SACCOs for several distinct categories can raise the amount of financial depth. This would expand the number of lending institutions that are available.

It was discovered that there is a substantial correlation between the availability of collateral and the capacity to obtain credit services in a research on the variables impacting access to credit services by women entrepreneurs in Kenya done by Karanj, Mwangi, and Nyakari (2014). To gather primary data from an 87-person sample, the researchers used a proportional systematic sampling technique. To make inferences and investigate the variables affecting women entrepreneurs' access to credit services, the data obtained was analyzed using descriptive statistics and a regression model.

Kira and He (2012) conducted a study on the evolution of the variables influencing loan financing by Tanzanian SMEs and discovered that the usage of collateral as security has a significant relationship to debt finance. Another study by Ubon and Chukwuemeka (2014) sought to investigate the level of access that small scale agro-based businesses in the Niger Delta had to credit markets as well as their level of performance. The logit regression model was utilized in order to investigate the characteristics that were shown to have a substantial influence on the firms' ability to acquire loans in the region. The results show that gender, age, and social capital are the variables that have the most effects on small scale agro-based firms' access to informal finance. The vast majority of businesses used informal forms of credit, while the few that used formal forms of credit performed significantly better. Because they are the driving force behind economic growth, small businesses in the region that are based on agriculture should have easy access to official sources of financing. The government should make this possible.

Mumin (2018) sought to determine the factors that impact SME access to Kenyan commercial banks for finance. A hundred and twenty six (126) SMEs in the Nairobi region served as the sample. The data collection process started with the primary sources. The questionnaires only included questions with predetermined answers. In order to assess the nature of the relationship between the independent factors and the dependent variables, a correlation analysis was carried out. According to the findings of the study, the age of the owner or manager is a factor in determining access to finance, and women are often discouraged from applying for bank loans. According to the findings, having the necessary knowledge and abilities to lead the company to study how having collateral affects one's ability to get credit is important.

2.4.5 Access to Finance

Kung'u (2011) conducted a survey Westland town, Kenya to examine factor affecting credit access to SMEs. Data was collected using 115 questionnaires. Participants were randomly selected from 6 sectors, namely industrial, technology, electrical, shopping, building and travel. This study found that start up business (those under 3 years) was faced with credit access, setbacks due to lack of collateral and information. He concluded that there is positive relationship between business information, collateral and access to credit.

Mulandi (2013) studied the factor affecting credit access for Biogas sub sector in Kenya. Primary data were collected from 48 firms by random sampling technique and secondary data was also from the published report on Biogas industry. Among the determinant of access to credit studied were age, size, capital investment, financial accounts, and information access and risk preference. Capital investment (security) was measured using an amount that respondents were asked to indicate the worthiness. The study disclosed that all independent variables were positively correlated with the level of access, to credit among SMEs.

Gangata and Matavire, (2013) in their study on challenges facing SMEs in accessing finance from financial institutions, found out that very few SMEs succeed in accessing funding from financial institutions, the main reason being failure to meet lending requirements, key among them being pledging of collateral security.

Hallberg (2012),studied the relationship between business risk and access to credit and found out that high risks in SMEs businesses and fixed costs incurred by financial institutions as the major driving force to high cost of credit. Berger and Udell (2006),studied the effects of transaction costs and access to external finance and found out that high transaction costs not only increase the cost of borrowing, but can also restrict access to external finance for some borrower groups.

A study carried out by Mwangi (2014) on challenges facing entrepreneurs in accessing credit: a case of youth entrepreneurs in Makuyu, Kenya. The study found out that most of youth entrepreneurs faced challenges in accessing credit due high cost of credit evidenced in high loan processing fees, high rate of legal fee, high rate of interest, high cost of credit insurance and high expenses incurred in travelling in the process looking for credit. Another study by Cheluget (2013) on effects of access to financial credit on the growth of women owned small retail enterprises in Uasin Gishu County: a case of Kapseret Constituency found out that interest rates affected access to credit by women entrepreneurs owning small scale business enterprises in Kapseret Constituency.

2.5 Summary of Literature Review

Inadequate information and knowledge have been noted to have led to increased turn down in the application of loans (Mira & Ogollah, 2013). This can be seen in respect to terms of interest charged, disclosures require for asset and debts, misuse of credit gotten and general unpreparedness when applying for credit. Cole et al., (2009) in India and Indonesia found that the chief determinant of demand for financial facilities was financial literacy. The more one is educated the high the chances of applying for financial credit.

In most sectors of the Kenyan economy, SMEs operations provides for many households. It is a platform that big businesses emerge and most importantly creates employment (Waliaula, 2012). Most lending institutions including commercial banks and microfinance institutions insist on collateral security and a look at their financial performance whenever they are issuing credit, and as such, SMEs entrepreneurs are faced with these drawbacks that later lead to stagnation and lack of the propelling force for growth in many sectors (Wanjohi & Mugure, 2018). Finance requirement is a critical part of the business that requires growth.

Cost of credit as determined by the interest rate charged by lending institutions has of recent been fluctuating extensively because of economic stagnation. Government has been responding to this by trying to alter its regulations and policies guiding commercial bank as well as borrowing internally and externally. This in one way has helped boost the growth of the economy and has had an adverse effect on the lending and deposits of the SMEs. Interest rate or the cost of credit has been high and this has kept small business out of the bank as they choose to use their internally generated funds. Duration of repaying any loan borrowed has also been shortened due to most firms relying on their own deposits.

Finally, this study has reviewed relationship of the lenders' institutions and access to credit. As Mwongera (2014) noted in the study of women entrepreneurs, the number of financial institutions determines positively the amount of credit accessible. This has been explained by competing to win the borrowers by innovative credit products being offered in the market to the advantage of the entrepreneurs.

2.6 Critique of Literature Review and Research Gap

Research gaps are revealed through an analysis of the theoretical and analytical literature. Previous research focused on factors affecting MSE credit availability in traditional financial transactions. However, modern financial trends have changed the way these operations are conducted. Unbanked traders use mobile phone money to transact. Another study by Chilembo (2021) examines credit availability. The study thus sought to determine the impact of factors such as interest, collateral, performance and credit rating in accessing credit. Empirical research in Kenya has established that loan accessibility is determined by factors such as the availability of security collateral, information, formalities, and credit rationing, with loans approved being far smaller than those asked for or applied for. Because they cannot be confident that they will receive funding, these obstacles impede and perhaps scare micro and small firms. They look for alternatives such as loans from family and friends or opt for merry-go-rounds which are unreliable.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The methodology employed during the research is described in detail in this chapter. The procedures and steps used to collect, manipulate, tabulate, and present data were included in the methodology.

3.2 Research Design

A research design establishes the framework for the whole investigation. This study used a cross sectional research design. A cross-sectional study is a type of observational study that analyzes data from a population, or a representative subset, at a specific point in time. It's a type of research design in which you collect data from many different individuals at a single point in time. This design was deemed appropriate for obtaining data to create population characteristics and finding correlations between variables (Sileyew, 2019). The benefit of a cross-sectional study design is that it allows researchers to compare many different variables at the same time (Creswell, 2013). This design choice was considered appropriate for investigating the factors that influence SMEs' access to finance in Kirinyaga County.

3.3 Target Population

A target population refers to a given researcher's study area that has a shared and noticeable trait (Garg, 2016). Before selecting a study population, a researcher must ensure that the study problem affects the given population directly or indirectly (Garg, 2016). Out of the 4,514 small enterprises in Kirinyaga County, the study focused on those SMES with county business permits from the Kirinyaga county government. Data from the county government indicated that there were a total of 206 registered micro and small enterprises with county business permits as presented in the table below;

Table 3. 1: Target Population

	Population (owners/managers of business)
Micro Enterprises	145
Small Enterprises	61
Total	206

3.4 Sample and Sampling Technique

Sampling is the process through which a researcher can pick a representative sample from an entire population used in a study Creswell (2013). Probabilistic sampling technique was employed in selecting a sample from the SMES. Probabilistic sampling technique helped in eliminating any form of biases Creswell (2013). The method used in choosing the participants was stratified random sampling selected from the registered SME's in the county government of Kirinyaga.

A sample is a subset or section of the population that is being studied. The goal of sampling is to get insights and understanding about certain qualities or attributes of the total population (Zikmund, 2010). From the goal populace of 206 retail traders Taro Yamane (1973) pattern size formulation was used to pick a pattern dimension of 136 retail traders. The researcher employed the Yamane formula to determine an appropriate sample size, taking into account the size of the population and the desired margin of error, as shown below;

$$n = \frac{N}{1 + N_{e^2}} = \frac{206}{1 + 206_{0.05^2}} = 136$$

Where N is the size of the population, n denotes the sample size, and e denotes the desired sampling error margin.

The study employed stratified random sampling, which involves dividing the target population into distinct strata and collecting data from each stratum. Cooper and Schindler (2014) describe stratified random sampling as a method that gives every member a fair chance to be chosen, ensuring an accurate representation of the whole population. Stratified random sampling, according to Mugenda and Mugenda (2012), is beneficial for diverse samples.

Table 3. 2: Sample Distribution

Type	Target Population	Sample Size
Hair Dressing	24	16
Mechanics	48	32
Retail Shops	51	34
Transport	45	27
Manufacturing	20	14
Electronics	18	13
Total	206	136

3.5 Instrumentation

According to Jenn (2010), a questionnaire is considered one of the most convenient methods for efficiently collecting information from numerous participants within a limited timeframe.

Therefore, careful design of the questionnaire is crucial to ensure the collection of accurate data. The goal is to create a questionnaire that produces interpretable and generalizable results, allowing for meaningful analysis and drawing valid conclusions from the data gathered. A poorly designed questionnaire can lead to the gathering of erroneous data that can provide wrong findings. The study used close-ended questions, which was based on a five-point Likert scale ranging from 1 (Strongly Agree) to 5(Strongly Disagree).

Designing the questionnaire was based on the conceptual framework. The framework offers all the variables and sub-variables to be studied (Jenn, 2010). This questionnaire employed both open and close-ended questions. Open questions ensured that they allowed a respondent to provide in-depth feedback on a given question as they are not restricted to any options. However, for the close-ended questions, they were used to provide answers to the already known questions.

3.5.1 Validity and Reliability

The study's findings can only be valuable if the research instruments used are valid and reliable. Validity refers to the meaningfulness and accuracy of a research instrument, as determined by the results obtained (Taherdoost, 2016). The extent to which an instrument's items correctly reflect the content universe to which the measure is meant to be applied is known as content validity (Taherdoost, 2016). When developing a new instrument, it is highly recommended to utilize content validity, which involves evaluating the instrument to ensure that it includes all the necessary items and excludes any irrelevant ones within a specific concept domain (Taherdoost, 2016).

An examination by expert judges or panels is sought after undertaking a literature research in the judgmental procedure for demonstrating content validity. Researchers often need to be physically present with the experts in order to verify validation. However, it is sometimes impractical to assemble several specialists in one place, especially when they are geographically dispersed. This limitation can hinder the content validity of a survey instrument (Taherdoost, 2016). Conversely, a quantitative research approach enables researchers to administer content validity surveys to experts located in various geographical locations, thereby overcoming the barrier of distance. In this study, the following actions were undertaken to apply content validity and ensure the instrument's validity.

Reliability, on the other hand, refers to the consistency of findings provided by a research instrument when measurements are repeated in different settings (Hair et al., 2013). The reliability was also tested through a pilot study involving 13 participants. In order to determine the reliability, the Cronbach Alpha was used in determining the instrument's internal consistency. The reliability was benchmarked against a threshold of 0.6 as established by Hair et al. (2013). Any result below 0.6 denoted unreliability, whereas any value above 0.6 showed the instrument was dependable. The pilot research was conducted in MSEs in Murang'a County, and the results were not incorporated into the study's final analysis.

3.5.2 Ethical Considerations

Privacy and Confidentiality

Privacy and confidentiality refer to the protection of a participant's identity. This meant that as a researcher, one should treat any information given by a participant as secret as possible and not divulge it to others without their permission. The research ensured that it did not share personal information such as names, phone numbers, email addresses, or Sacco membership identification numbers. All personal information was coded. Random letters and numbers were assigned to each participant's information, appearing in the published document.

3.6 Data Collection Procedures

The study included both primary and secondary data. Presumptions, facts, or other information gathered by a researcher directly from the field are referred to as primary data. The questionnaire served as the main tool for collecting data for the study since it was a simple and affordable way to do so (Regmi et al., 2017). The questionnaire was accompanied with a letter of introduction outlining the objectives of the study. Each participant had a week to make sure they returned a completed questionnaire.

3.7 Operational Definition of Variables

Table 3.3: Operational Definition of Variables

Objective	**Variables**	**Indicator**	**Measurement Scale**	**Methods of data Analysis**
To investigate the effect on interest rates in SMEs access to finance in Kirinyaga County, Kenya.	Interest rates (Independent)	-CBK interest rate caps -Financial Institutions interest rates	Ordinal	Descriptive
To access the effect of SMEs credit profile on SMEs access to finance in Kirinyaga County, Kenya.	Credit profile (Independent)	-CRB rating -Credit Performance	Ordinal	Descriptive
To examine the effect of SMEs financial performance on SMEs access to finance in Kirinyaga County, Kenya.	SME's financial performance (independent)	-Return on assets -Return on equity	Ordinal	Descriptive
To determine the effect of collateral requirements on SMEs access to finance in Kirinyaga County, Kenya.	Collateral requirements (Independent)	-Value/ Percentage of collateral -Level of collateral ownership	Ordinal	Descriptive

3.8 Data Analysis

Statistical Package for the Social Sciences (Version 22.0) software was utilized to analyze data collected using questionnaires. Descriptive statistics were used to provide simple data summaries and highlight any observations made, and included percentages, tables, and frequencies. The information was presented utilizing tables and pie graphs. The relationship between the independent and dependent variables was examined using correlation analysis. The correlation coefficient from Pearson was used. To show how the four independent factors affected the dependent variable, both multiple and simple linear regression were used. The connection between the independent factors and the dependent variable was inspected utilizing a regression model as shown.

$\hat{Y} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Y = Access to finance

β_0 = Constant Term

β_1, β_2, β_3 β_4= Regression coefficients

X_1 = Interest rate

X_2 = Credit profile

X_3 = SME's performance

X_4= Collateral requirements

ε = Error

3.9 Diagnostic Tests

Tests for normality and multicollinearity were crucial to confirm that the study's equation or model was properly specified and that the assumptions of the classical linear regression model were not broken.

3.9.1 Normality Tests

The normality assumption is necessary to perform individual or combination tests on the model parameters (Brooks, 2008). Normal probability plots were used to see if the acquired data had a normal distribution. The normalcy tests Bera and Jarque (1981) were utilized to evaluate the distribution of the data in circumstances where it was challenging to identify normal distribution by eye inspection of scatter plots.

3.9.2 Multi-collinearity

In the study, multicollinearity was assessed using the Variance Inflation Factor (VIF), with a cutoff point of 10 to identify severe multicollinearity (Cooper and Schindler, 2014). Perfect multicollinearity, if not accounted for, can result in infinite standard and indeterminate regression coefficients errors. On the other hand, imperfect multicollinearity can result in large standard errors, which in turn affect the precision and accuracy of the results. It is important to note that the presence of multicollinearity itself is not the main issue during estimation; rather, it is the severity of multicollinearity that needs to be addressed in order to obtain reliable regression results.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The analysis of the study's conclusions based on the information obtained from the respondents is presented in this chapter. Descriptive as well as inferential analysis were performed. Different charts such as tables and graphs were all employed in the study to present the results.

4.2 Response Rate

The study sought to establish the response rate of the research and results are presented in Table 4.1 below.

Table 4. 1: Response Rate

	Frequency	**Percentage %**
Successful	110	81%
Unsuccessful	26	19%
Total	136	100

The study, which concentrated on small and micro businesses, was carried out in Kirinyaga County. The respondents received a total of 136 questionnaires, and 110 of them were fully completed when they were returned. This translates to a satisfactory response rate for the research of 81%. Mugenda & Mugenda (2013) indicate that a response rate of sixty percent is deemed adequate, while a rate of seventy percent is deemed exceptional and suitable for analysis. Table 4.1 provides more information on the response rate.

4.3 Demographic Characteristics of Respondents

In the study, respondents' gender, age, educational attainment, number of workers, years in business, and years of operation and the business category they were involved with were analyzed. This information was necessary to shed more light on the demographic constitution of respondents. To guarantee a balanced distribution of participants and provide equal representation of their opinions, efforts were made to ensure fairness in selecting respondents. This was done to ensure that every participant had an equal opportunity to be included and that their views were represented fairly.

4.3.1 Gender

The gender distribution of the respondents is shown in Table 4.2 below.

Gender	Frequency	Percentage
Male	58	52.7
Female	52	47.3
Total	110	100

Table 4. 2: Gender Distribution

According to the findings, there were 52.7% male participants and 47.3% female participants. This shows that the respondents' genders were properly distributed, showing that there was no obvious gender imbalance in the study. You can refer to Table 4.1 for a visual representation of this information.

4.3.2 Education Level

The education background of respondents is presented in table 4.3 below.

Table 4. 3: Education Level

Years	**Frequency**	**Percentage (%)**
Post Graduate	6	5.4
Degree	12	10.9
Diploma	39	35.5
Certificate	53	48.2
Total	110	100

The findings presented in Table 4.3 indicate that the largest proportion of the respondents, comprising 48.2%, and held certificates, 35.5% had Diplomas, 10.9% had postgraduate qualification, and 5.4% had postgraduate qualifications. These results demonstrated that those who participated had a college degree and were well-educated to understand and respond to the questions asked.

4.3.3 Years of Operation

The purpose of the study was to determine the number of years that the respondents to the study had been in business. The results are presented in Figure 4.1 below

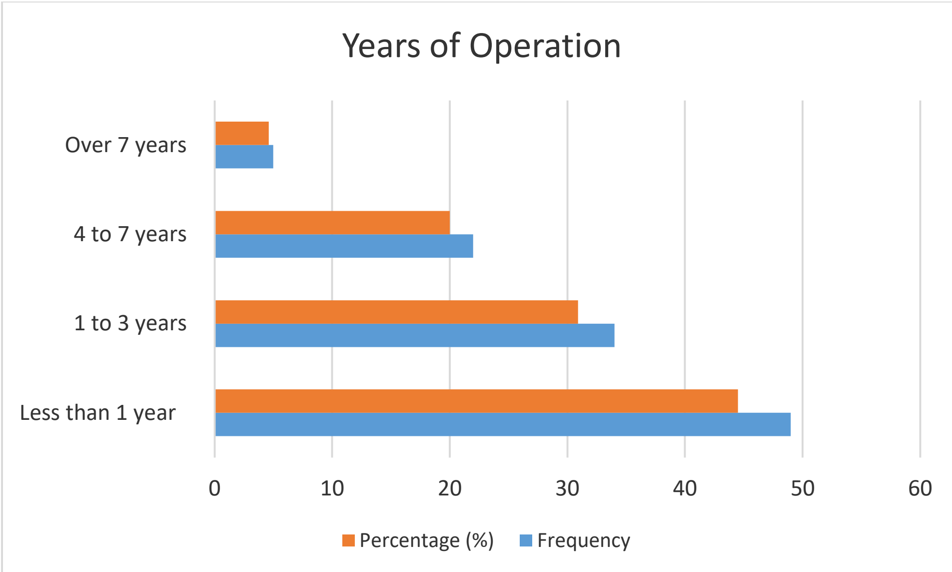

Figure 4. 1: Years of Operation

Based on the findings, 44.5% of those who took part in the survey stated that they had been in business for less than one year. Additionally, 30.9% stated that they had been in business for one to three years, while 20% reported a business tenure of 4-7 years. Furthermore, 4.6% of the respondents said they have been in operation for at least seven years. These results highlight the varying durations of business experience among the participants. This indicated that the respondents had enough knowledge and experience in their business to respond in a satisfactory manner to the questions of the study.

4.3.4 Number of Employees

The study sought to investigate the number of employees employed by each business. The findings of the study were presented in Table 4.4 below.

Table 4. 4: Number of Employees

Number of Employees	Frequency	Percentage (%)
Less than 2 Employees	61	56
3 – 5 Employees	29	26
6 – 8 Employees	15	14
9 and Above Employees	5	4
Total	110	100

Findings indicate that 56% of respondents had employed less than two staff, a further 26% had employed 3-5 workers, and 14% of the respondents had employed 6-8 employees. Only 4% of the respondents had employed above 9 workers in their businesses. This indicated that majority of the businesses had employed less than two employees which is an indicator that the size of their businesses was small.

4.3.5 Business Category

The researcher sought to find out the business categories that the respondents of the study were involved in. Findings are presented in figure 4.2 below.

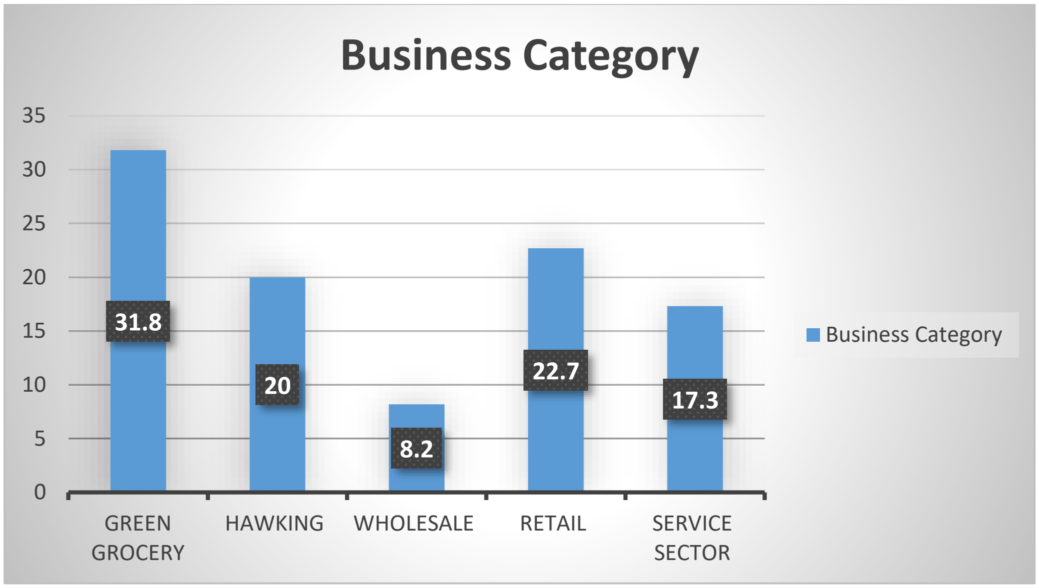

Figure 4. 2: Business Category

Findings showed that 31.8% of respondents were in the business of green grocers, followed by those in the retail business with 22.7%, and hawking with 20%. Others were 17.3% of the respondents in the service industry and 8.2% of the respondents in the wholesale business.

4.4 Descriptive Statistics Analysis

For each of the study's four variables, descriptive statistics are provided in this section. Illustrative measurements, including standard deviations, means, and rates, were utilized to sum up and depict these factors. The scale utilized for the factors went from 1 to 5, with 1 specifying "strongly agreed" (SA), 2 indicating "agreed" (A), 3 indicating "neutral" (N), 4 indicating "disagreed" (D), and 5 indicating "strongly disagreed" (SD).

4.4.1 Interest Rates

The responses to the survey, which were asked to share their thoughts on the following statements about interest rates, are shown in table 4.5 below.

Table 4. 5: Statistics for Interest Rates

Statements	SA%	A%	N%	D%	SD%	Mean	SD
The majority of SME enterprises in Kenya pay significantly high interest rates to banking institutions.	62.2	26.5	3.4	5.5	2.4	3.441	0.988
Many SMEs are deterred from seeking banking institutions for lending facilities by the high-interest rates.	53.6	34.4	2.9	6.6	2.5	3.785	0.932
The prevailing lending rates offered by financial institutions have had a discouraging effect on many SME owners, leading them to hesitate in seeking both short-term and long-term loans for their businesses.	71.4	22.3	1.8	3.4	1.1	3.467	0.906
Financial institutions tend to exhibit bias when assessing SMEs for loans or credit, in contrast to large corporates.	62.1	31.6	1.4	2.8	2.1	3.667	0.741

The research examined whether banking firms in Kenya charged high interest rates for SME businesses. The findings indicated that 88.7% agreed that the interest rates were relatively high (mean=3.441, SD=0.988). A small percentage (3.4%) remained neutral on the statement, while 7.9% disagreed with it. This suggests that the interest rates charged by financial institutions were indeed high for SME businesses in Kenya.

Additionally, the study investigated whether these high interest rates discouraged SMEs from seeking credit facilities from banking companies. The findings showed that 88.0% of participants agreed that the high interest rates discouraged them from approaching financial institutions (mean=3.785, SD=0.932). A small percentage (2.9%) remained neutral, while the statement was contradicted by 9.1% of respondents. This indicates that the higher interest rates in banks had a discouraging effect on SMEs, making them to secure loans from lenders.

In relation to the impact of current lending rates on SMEs' willingness to seek loans, the research established that 93.7% of participants agreed that the higher lending rates had discouraged them from pursuing both short-term and long-term loans for their businesses (mean=3.467, SD=0.906). Only a small percentage (1.8%) disagreed with this statement, and 4.5% remained neutral. This suggests that the higher lending rates indeed discouraged many SME owners from obtaining loans for their businesses.

Regarding bias in loan evaluation between SMEs and large corporates, 93.7% agreed that financial institutions exhibited bias when assessing SMEs for loans or credit, perceiving them to be riskier (mean=3.667, SD=0.741). A small percentage (1.4%) remained neutral on this statement, while 4.9% disagreed. This implies that there is a perceived bias in the evaluation process, where SMEs are considered riskier compared to large corporates.

These statements were in agreement with those of Maalim and Gikandi (2016) who conducted a study that focused on assessing the influence of interest rates on the accessibility of credit for small businesses in Garissa County and established that interest rates are an important determinant of the credit demand in financial institutions. The study was also in agreement with that of Chilembo (2021) who conducted a study to investigate the elements affecting SMEs ability to acquire financing in Zambia, and established that there was a link between interest rates and lack of collateral assets and increased risk of loan refusal.

4.4.2 Credit Profile

Respondents were asked to provide their feedback on various statements regarding their credit profile, and the results are presented in table 4.6 below.

Table 4. 6: Statistics for Credit Profile

Statements	SA%	A%	N%	D%	SD%	Mean	SD
Poor credit rating has led to challenges in accessing finance from financial institutions.	55.9	33.1	4.6	3.9	2.5	4.401	1.116
Previous credit facilities limit access to current credit.	63.1	22.6	5.7	4.6	4.0	3.964	0.914
Borrowers not having a credit history are deemed to be risky.	58.2	29.7	6.8	3.6	1.7	4.142	1.192
Listing by mobile apps prevents SME's from accessing credit from financial institutions	68.7	24.8	4.4	2.1	0.0	3.993	1.194
There is not enough credit available to invest in expanding new businesses.	60.4	23.6	7.1	5.9	3.0	3.874	0.946

The study investigated whether poor credit rating had led to challenges to access funds from banks. The findings indicated that 89.0% of the participants agreed with the statement, while 4.6% remained neutral and 6.4% disagreed. This suggests that the poor credit rating of the respondents had indeed posed challenges in utilizing banks to obtain funding.

In addition, the study examined whether previous credit facilities limited access to current credit. The findings indicated that 85.7% agreed with the statement, while 5.7% remained neutral and 8.6% disagreed. This indicates that previous credit facilities indeed constrained access to current credit. Furthermore, the study investigated whether borrowers without a credit history were considered risky. The results indicated that 87.9% agreed while 6.8% remained neutral and 5.3% disagreed. This suggests that financial institutions deemed borrowers without a credit history to be risky.

In terms of listing by mobile apps and its impact on SMEs' access to credit from banks, 93.5% agreed, while 4.4% remained neutral and 2.1% disagreed. This suggests that listing by mobile apps indeed hindered most SMEs from accessing credit from financial institutions. Additionally, the study examined whether there was inadequate credit available for investing in new business expansion. The findings indicated that 84.0% agreed with the statement, while 7.1% remained neutral and 8.9% disagreed. This implies that many businesses faced a lack of sufficient funds and credit to invest in new ventures and expand their existing businesses.

These findings were in agreement with those of Bigsten (2014) whose study on financial institutions revealed that most financial institutions reject loan applications from around 90% of SMEs due to reasons such as a lack of collateral security, poor financial performance, unfavorable credit profiles, and high interest rates on loans. Similarly, the findings agree with those of Mwangi's (2015) whose research revealed that approximately 95% of SME's rely on loans obtained from friends and family as well as personal savings as their primary sources of funding since they have unfavorable credit profiles.

4.4.3 SME's Performance

The respondents were asked to express their opinions on specific statements related to the performance of SMEs, and their views are presented in Table 4.7.

Table 4. 7: Statistics for Financial Performance

Statements	SA%	A%	N%	D%	SD%	Mean	SD
Lack of finance from financial institutions has affected my business performance.	59.5	27.9	7.1	5.3	0.2	4.152	1.278
Capital structure affects performance of an organization	46.4	32.6	6.0	12.6	2.5	3.596	1.047
Lack of proper management skills in my business affects performance	49.4	28.6	9.6	8.4	5.8	3.646	1.059
Use of advanced technology increase performance	42.4	33.9	10.6	9.6	3.5	3.724	0.969
I have undergone training on credit management that has helped me to run the business effectively.	61.9	22.8	5.7	6.6	3.0	4.076	1.447
I do not have enough capital to run my business as sources of capital are limited.	54.3	30.2	8.3	4.4	2.8	3.694	0.859
Size of a firm affects its access to credit and ultimately its performance.	52.2	34.6	4.2	6.8	2.2	3.746	0.943

The study's goal was to determine how financial institutions' shortage of funding affects company performance. The results revealed that 87.4% agreed with the statement. In addition, 7.1% had no opinion, while 5.5% disputed the assertion. This implies that the performance of firms has actually been impacted by the absence of funding from financial institutions.

Additionally, the study investigated the connection between capital structure and organizational performance. According to the respondents' responses, the majority of them agreed with the statement, making up 79.0% (mean=3.596, SD=1.047). In contrast, 15.1% disagreed while 6.0% of respondents were indifferent. This shows that the majority of respondents thought the capital structure was important. This suggests that undergoing training on credit management was perceived to be beneficial in effectively managing the business.

In addition, the survey looked at whether the respondents had enough funds to operate their firms in light of the scarce sources of funding. The results showed that 84.5% of respondents, or a majority (mean=3.694, SD=0.895), agreed with the assertion. 7.2% disagreed while 8.3% of were indifferent. This suggests that the restricted sources of finance had an impact on the capital that was available to run their firms.

The study also aimed to determine whether a firm's size affected its ability to get loans and, subsequently, its performance. The findings indicated that 87.1% of respondents, or 3.646%, agreed with the statement (mean=3.746, SD=0.943). In addition, 9.0% disagreed while 4.2% of remained indifferent. This implies that the size of the firm had an impact on its access to credit and ultimately affected its performance.

These findings were in agreement with those of Fowowe (2017) who analyzed data from 10,888 African enterprises and found that SME's performance was a major determinant on access to finance. Firms with less credit constraints grow at a quicker rate than those without it. These findings supported the concept that financing is critical to company growth and justify the many actions and activities being taken to increase the availability of funding for African firms.

4.4.4 Collateral Requirements

Respondents were requested to indicate their views on the following statements in relation to collateral requirements and their views were presented in table 4.8 below.

Table 4. 8: Statistics for Collateral Requirements

Statements	SA%	A%	N%	D%	SD%	Mean	SD
The limited ability of SMEs to provide tangible assets as security hinders their access to credit facilities.	61.9	31.2	2.8	2.6	1.5	3.641	0.918
The absence of fixed assets poses a challenge for many SMEs in accessing credit.	59.9	24.3	7.1	4.8	3.9	3.657	1.015
Borrowing by SMEs is discouraged due to the costs associated with the collateralization process, such as legal fees, stamp duty, valuation, insurance, and others.	54.3	26.7	4.5	12.7	1.8	3.295	0.847
SMEs are discouraged from borrowing due to the lengthy process involved in registering and creating a charge on the security they pledge to financial institutions.	55.4	21.2	8.7	9.8	4.9	3.472	0.964
Potential borrowers are discouraged from borrowing due to the strict and demanding credit terms imposed by financial institutions.	47.3	36.4	5.4	6.4	4.5	3.493	0.837

According to the findings in table 4.8, SMEs' access to credit facilities is severely hampered by their inability to provide visible security. A large majority of the respondents, 93.1% (mean=3.641, SD=0.918), agreed with this statement, while 2.6% were neutral, and 4.1% disagreed. This suggests that the lack of tangible security greatly affects SMEs' ability to obtain credit. Furthermore, the study examined whether the absence of fixed assets poses a barrier to accessing credit for many SMEs. The findings indicated that 84.2% (mean=3.657, SD=1.015), agreed, 7.1% were neutral, and 8.7% disagreed. This indicates that the lack of fixed assets is a significant obstacle for SMEs in obtaining credit from financial institutions.

The study further examined the impact of costs associated with the collateralization process on borrowing by SMEs. The findings indicated that 81.0% (mean=3.295, SD=0.847), agreed that these costs, including legal fees, stamp duty, valuation, insurance, etc., discouraged borrowing. Additionally, 4.5% were neutral, and 14.5% disagreed with the statement. This suggests that the high costs associated with collateralization pose a significant obstacle to accessing finance and discourage borrowing by SMEs.

Furthermore, the study investigated whether the duration taken to register and create a charge on the security pledged to a financial institution discouraged SMEs from borrowing. The findings indicated 76.6% (mean=3.472, SD=0.964), agreed that the lengthy registration process for the charge on pledged security discouraged borrowing. Additionally, 8.7% were neutral, and 14.7% disagreed. This implies that the time-consuming nature of the registration process acts as a deterrent for SMEs seeking loans from financial institutions.

Moreover, the study examined whether the stringent credit terms imposed by financial institutions discourage potential borrowers from seeking credit. The findings indicated that 83.7% (mean=3.493, SD=0.837), agreed that these stringent credit terms discouraged borrowing by SMEs. Additionally, 5.4% remained neutral, and 10.9% disagreed. This suggests that the strict conditions set by financial institutions discourage SMEs from seeking loans.

These findings were in agreement with those of Mumin (2018) sought to determine the factors that impact SME access to Kenyan commercial banks for finance and established that having collateral affects one's ability to get credit in any financial institution. The findings were also in agreement with those of Ndungu (2016) who conducted a research to determine the variables that affect how easily SMEs in the county of Murang'a may receive loans. The study's findings indicated that loan interest rates, the quantity of collateral security, and literacy rates were the factors that had the most impact on whether or not SMEs in Murang'a have access to credit.

4.4.5 Access to Finance

Respondents were asked to indicate their views on the following statements relating to access to finance and their views presented in table 4.9 below.

Table 4. 9: Statistics for Access to Finance

Statements	SA%	A%	N%	D%	SD%	Mean	SD
Poor access to credit has been a result of inadequate or non-existent collateral.	62.5	22.6	4.2	7.4	3.3	3.642	0.927
Compared to medium and small enterprises, large enterprises have a higher likelihood of accessing credit easily.	63.4	18.7	12.4	4.4	1.1	3.941	0.896
Loans are completely denied to borrowers who are deemed to be not creditworthy.	52.5	28.9	3.2	12.6	2.8	3.879	0.943
Poor access to credit by SMEs is attributed to a lack of awareness on funding opportunities.	46.4	31.7	8.6	9.4	3.9	3.975	1.197
Insufficient credit is available for investment in new business expansion.	57.8	27.9	5.7	7.7	0.9	4.127	1.169

The views of the respondents on access to finance statements are presented in Table 4.9. Regarding the impact of inadequate or non-existent collateral on access to credit, the findings indicated that the majority of respondents, accounting for 85.1% (mean=3.642, SD=0.927), agreed with the statement. Additionally, 4.2% remained neutral, while 10.7% disagreed with the statement. This suggests that the lack of sufficient collateral was a significant factor contributing to the limited access to credit by SMEs.

The study aimed to investigate whether large enterprises have an easier time accessing credit compared to medium and small enterprises. The results showed that 82.1%, or a majority, were in agreement with the statement (mean=3.941, SD=0.896). Additionally, 5.5% disagreed while 12.4% were indifferent. This implies that financial institutions generally perceive large enterprises as less risky and more likely to repay loans, making them more inclined to provide credit to such enterprises compared to medium and small enterprises.

The study examined whether borrowers considered not creditworthy faced complete loan denial. The findings indicated that 81.4% (mean=3.879, SD=0.943), agreed. Furthermore, 3.2% remained neutral and 15.4% disagreed. This suggests that financial institutions tend to cease lending to borrowers deemed as not creditworthy.

Another aspect investigated was the impact of a lack of awareness about funding opportunities on access to credit by SMEs. The findings revealed that the majority of the respondents, comprising 78.1% (mean=3.975, SD=1.197), agreed with the statement. Additionally, 8.6% remained neutral and 13.3% disagreed. This implies that the insufficient awareness about funding opportunities contributes to the limited access to credit by SMEs.

The study also explored whether there is insufficient credit available for investment in new business expansion. The findings indicated that 85.7% (mean=4.127, SD=1.169), agreed with the statement. Additionally, 5.7% remained neutral and 8.6% disagreed. This implies that many SMEs face challenges in expanding their businesses due to a lack of adequate credit for investment in new ventures and expansion.

These findings were in agreement with those of Kung'u (2011) who conducted a survey in Westlands town, Kenya to examine factor affecting credit access to SMEs and established that start up business were faced with credit access setbacks due to lack of collateral and information. He concluded that there is positive relationship between business information, collateral and access to credit.

4.5 Inferential Statistical Analysis

The primary aim of inferential statistical analysis is to establish relationships between variables in a study. In this particular study, correlation analysis was utilized to demonstrate the associations between the variables. The model summary was employed to gauge the strength of these relationships. Additionally, analysis of variance was carried out to see whether there were any statistically significant variations between the variable means.

4.5.1 Correlation Analysis

The correlation was calculated using the Pearson correlation test. A number nearer to 1 denotes a greater association between the variables, and the coefficient is used to quantify correlation. While a negative coefficient denotes an inverse link, a positive coefficient indicates that the variables move in the same direction. The findings of the correlation study are shown in Table 4.10.

Table 4. 10: Correlation Analysis

		Access to Finance	Interest Rates	Credit Profile	SME's Performance	Collateral Requirements
Access to Finance	Pearson Correlation	1				
	Sig. (2-tailed)	0.001				
Interest Rates	Pearson Correlation	0.424*	1			
	Sig. (2-tailed)	0.019				
Credit Profile	Pearson Correlation	0.364**	0.189	1		
	Sig. (2-tailed)	0.002	0.165			
SME's Performance	Pearson Correlation	0.176**	0.031	-0.179	1	
	Sig. (2-tailed)	0.022	0.216	0.198		
Collateral Requirements	Pearson Correlation	0.364**	0.357**	0.264	-0.214	1
	Sig. (2-tailed)	0.010	0.008	0.083	0.156	

The results shown in Table 4.10 show a number of important linkages. First off, there is a direct and positive link (r=0.424, p=0.019) between interest rates and availability to credit. Second, there is a strong and positive correlation between access to credit and credit profile (r=0.364, p=0.002). Thirdly, there is a strong and positive correlation (r=0.176, p=0.022) between SME success and access to capital. With a correlation coefficient of 0.364 and a p-value of 0.010, the findings also show a strong and positive link between collateral requirements and financial access.

4.6 Statistical Assumptions

Two major statistical assumptions had been highlighted in the previous chapter for analysis, and these were normality test and multi-collinearity test.

4.6.1 Normality Test

The data's normality was evaluated using the skewness and kurtosis methods. Table 4.9 displays the study variables' kurtosis and skewness values. According to Hair Jr et al. (2010), for a significance level of 0.05, the z-values should fall within the range of -1.96 to +1.96. Deviations beyond this range suggest skewness or kurtosis, indicating non-normality of the data. The findings from the analysis revealed that all the study variables exhibited normal distribution, as indicated in Table 4.11.

Table 4. 11: Normality Test Values

	Kurtosis			Skewness		
Variable	**Value**	**Std. Error**	**Z-Value**	**Value**	**Std. Error**	**Z-Value**
Interest Rates	-0.106	0.125	-0.845	-0.362	0.250	-1.496
Credit Profile	-0.334	0.125	-0.635	-0.389	0.250	-1.544
SME's Performance	-0.020	0.125	-0.116	-0.821	0.250	-1.272
Collateral Requirements	-0.243	0.125	-1.931	-0.525	0.250	-1.788

4.6.2 Multi-collinearity

The phenomenon of multi-collinearity arises when there is a significant correlation between two or more predictor variables incorporated in the model. To assess this, the present study employed VIF (Variance Inflation Factor) values to evaluate the predictor variables. A VIF of 1 indicates no correlation, a VIF less than or equal to 5 suggests a moderate correlation, and a VIF greater than 5 signifies a high correlation. Notably, the findings of this study revealed the absence of multi-collinearity as none of the analysis results surpassed the predetermined criteria, as illustrated in table 4.12 below.

Table 4. 12: Multi-collinearity Test

No	Determinants of Access to Finance	Collinearity Statistics	
		Tolerance	**VIF**
1	Interest Rates	0.258	3.764
2	Credit Profile	0.297	3.317
3	SME's Performance	0.389	2.569
4	Collateral Requirements	0.632	1.574

4.6.3 Regression Analysis

The model summary provides information on the correlation coefficients (R), which indicate the nature of the relationship between variables, and the coefficient of determination (R2), which represents the extent to which the independent variables predict changes in the dependent variable. Table 4.13 below displays summary of the model for the study.

Table 4. 13: Summary of the model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.643[a]	.526	.472	0.46341

a. Dependent variable: Access to Finance
b. Predictors: (Constant), Interest rates, Credit profile, SME's performance, Collateral requirements

Based on the information presented in table 4.13, the regression model demonstrated a favorable goodness of fit. This suggests that the independent variables served as reliable predictors of access to finance.

4.6.4 ANOVA

ANOVA is an analytical tool used to test whether two or more population means are identical. It tries to explain the elements of variance and tests the results of the study for significance. The ANOVA results of this study are presented in table 4.14.

Table 4. 14: ANOVA results

	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.638	4	1.247	6.362	.000
Residual	8.812	20	1.826		
Total	14.450	24			

The outcomes of the ANOVA performed for the study are shown in Table 4.12 above. Given that the p-value was less than 0.05, the findings show that the regression model was statistically significant and effectively predicted the link between the variables under consideration. The F-value for this study was 6.362, which measures the total contribution of the independent variables to the variance in the dependent variable. At the 95% confidence level, this F-value was found to be significant, showing that the model was successful in predicting how SMEs in Kirinyaga County will get financing.

4.6.5 Regression Coefficients

Regression was employed in the study to elucidate the existing mathematical relationships between the predictor variables and the outcome variable. This analysis also assessed the statistical significance of these relationships through the use of beta coefficients and p-values. Table 4.15 displays the regression results obtained from the analysis.

Table 4. 15: Regression of Coefficients

	B	Std. Error	t	Sig.
(Constant)	1.167	1.089	1.072	0.037
Interest Rates	-0.067	0.117	0.495	0.024
Credit Profile	0.053	0.126	0.333	0.032
SME's Performance	0.048	0.176	0.273	0.004
Collateral Requirements	-0.061	0.166	0.307	0.015

Following the analysis of variables, the study regression model was derived and presented below as follow;

$Y = 1.167-0.067X_1+0.053X_2+0.048X_3-0.061X_4$

Therefore, it was established that holding all other factors to a constant zero, access to finance would be at 1.167. This meant that access to finance would have positive significance even without being affected by interest rates, credit profile, and SME's performance and collateral requirements.

The findings of the study revealed several important relationships between the predictor variables and standardized access to finance. Firstly, it was observed that for every one unit increase in standardized interest rates, standardized access to finance would decrease by 0.067 units, while keeping other variables constant. The p-value of 0.024 was determined to be less than 0.05, indicating that this link was deemed to be statistically significant.

Therefore, an increase in interest rates would negatively impact access to finance. Secondly, the study found that for every one unit increase in standardized credit profile, standardized access to finance would increase by 0.053 units, while holding other variables constant. The substantial influence of credit profile on access to finance was shown by the p-value of 0.032, which was less than 0.05. Thus, an improvement in credit profile would influence access to finance.

Moreover, the research revealed an interesting relationship between standardized access to finance and SME's performance. For each unit increase in standardized SME's performance, there was a corresponding increase of 0.048 units in standardized access to finance, even after considering other variables. This finding was supported by a p-value of 0.004, which indicates that SME's performance has a significant impact on access to finance. In other words, when SMEs demonstrate better performance, their access to finance tends to improve. Similarly, the study found a significant association between standardized access to finance and collateral requirements. A one unit increase in standardized collateral requirements resulted in a corresponding decrease of -0.061 units in standardized access to finance, while keeping other factors constant. This relationship was confirmed by a p-value of 0.015, highlighting the noteworthy influence of collateral requirements on access to finance. Consequently, as the collateral requirements become more stringent, it can affect the availability of finance for SMEs.

4.6.6 Discussion of Research Findings

Results of the inferential statistics indicated that interest rates had a negative and significant effect on access to finance by SME’s in Kirinyaga County. These findings agree with those of Gideon (2019) who described interest rates as being capital returns for lenders and thus lead to high lending rates, which discouraged SMEs from borrowing and reducing their creditworthiness. The present study's findings align with the research conducted by Rahman et al. (2017) regarding the link between company size and access to finance for SMEs. Specifically, both studies concluded that company size influences access to finance. The findings indicate a negative connection between company size and access to finance for SMEs, implying that larger SMEs have better access to financial resources. On the other hand, for micro firms, the link between company size and access to finance is negative, as evidenced by a negative coefficient. This indicates that micro firms are facing even more challenges when attempting to secure financing from commercial banks. Based on the findings of the current study, SACCOs can access credit more easily if certain policies are implemented. Both studies found that the cost of credit rating policies, cost-to-penalty policies, and penalty-to-penalty policies adversely affected SACCOs' access to credit.

Results of the inferential statistics also indicated that credit profile had a positive and significant effect on access to finance by SME's in Kirinyaga County. These findings agreed with those of Yoshino and Taghizadeh-Hesary (2015) whose study indicated that credit-reporting systems limit the influence of asymmetric information on credit markets by assisting lenders in better screening borrowers and avoiding adverse selection, as well as by providing an incentive for borrowers to repay their debts, hence minimizing moral hazard. The majority of SMEs require more capital than microfinances and banks can give. The findings also agree with those of OECD (2018) whose study indicated that many SMEs and entrepreneurs rely heavily on debt to fund their start-up, cashflow, and investment needs. However, SMEs typically face challenges in obtaining debt financing compared to large corporations due to the lack of expertise and skills in financial reporting, undercollateralized, have limited credit histories, and lack access to credit due to asymmetric information and agency issues.

Findings also indicated that SME's performance had a positive and significant effect on access to finance by SME's in Kirinyaga County. These findings were in agreement with those of Wafula and Miroga (2020) whose study on relationship between SME's performance and the credit terms set by banks found that the performance of small and medium businesses in Bungoma County was affected by the amount of collateral offered, the interest rate, and the length of time given for repayment. In addition, Fowowe (2017) carried research similar to the current study. Both studies concluded that firms with fewer credit constraints experience faster growth compared to those facing significant constraints. This suggests that improved access to financial resources positively influences the performance and growth of organizations. Similarly, the findings align with the research conducted by Murigi (2014) regarding the impact of access to financial resources on the performance of SMEs in Mukuru slums. Both studies revealed a favorable and significant effect of access to finance on SME performance, indicating that SMEs with better access to financial resources tend to perform better.

In addition, the results of this study show that collateral requirements have a negative and positive effect on SME financing in Kirinyaga County. These findings are consistent with research by Mathea (2014), which shows that banks often use a risk-negative approach when evaluating loan repayments for arrears. Therefore, financial needs have become an important factor affecting the financing of SMEs. Despite the improvement in loans to SMEs, banks are still cautious due to lack of assets and records for most of these businesses. The findings are also consistent with the findings of Mumin (2018), who found that financial institutions require certain documents before issuing loans. It was also determined that most of the applicants were denied loan applications because they did not have sufficient capital. The study concluded that the SME profile has an impact on access to credit, just as the age of the owner or manager before purchasing loan money has an impact on access to finance.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATION

5.1 Introduction

This chapter provide a concise overview of the key findings, draw conclusions based on those findings, and offer recommendations that align with the topic and objectives of the study

5.2 Summary of the Findings

This study's research strategy was a descriptive survey method, coupled with the application of multiple regression analysis for data investigation and analysis. Access to finance was measured by interest rate, credit profile, SME's performance, and collateral requirements. The study's conclusions showed that these characteristics had a favorable and statistically significant influence on the availability of credit.

5.2.1 Effect of Interest Rates on SME's Access to Finance

This study's main goal was to investigate how interest rates affect SMEs' access to financing in Kirinyaga County. The results showed a notable link between interest rates and the ability of SMEs to access finance in Kirinyaga County. Aspects of interest rates such as CBK interest rate caps and interest changed by banks raises the interest charged on loans making them more expensive for SME's.

5.2.2 Effect of Credit Profile on SME's Access to Finance

In addition to examining the impact of interest rates, this study also sought to investigate the influence of credit profile on the access to finance for SMEs in Kirinyaga County. The findings revealed a notable and positive correlation between credit profile and the ability of SMEs to access finance in the county. Various aspects of credit profile such as CRB rating and listing prevents most SME’s from accessing loans from most financial institutions where the rating is a determinant to accessing finance.

5.2.3 Effect of SME’s Performance on SME’s Access to Finance

Examining the effect of SMEs' performance on their ability to acquire financing in Kirinyaga County was another goal of this study. Results showed that the effectiveness of SME had a substantial impact on SME’s access to finance in Kirinyaga County. Various aspects of performance such as return on assets affected SME’s performance and was a big determinant to access to finance by SME’s.

5.2.4 Effect of Collateral Requirements on SME’s Access to Finance

The goal of the study was to determine how collateral restrictions affected SMEs' ability to get financing in Kirinyaga County. The results showed a negative and statistically significant correlation between the need for collateral and SMEs' ability to receive financing in the county. Factors such as the value and level of collateral were identified as influential in determining SMEs' ability to access finance.

5.3 Conclusion

The facts above lead to the conclusion that interest rates have a considerable negative influence on SMEs' access to financing in Kirinyaga County. Interest rates make finance or loans from financial institutions more expensive and most SME’s cannot afford to pay the high interest rates charged on loans.

The study also concluded that credit profiles significantly impacted SME's access to finance in Kirinyaga County. Listing of most SME’s on Credit Reference Bureau denies them an opportunity to access funds and finances from other lending institutions and this denies them a chance to access resources that they can use to expand their businesses.

SMEs' performance significantly affected their access to finance in Kirinyaga County. Most financial institutions use performance to gauge how well an SME performs and their access to finance is pegged on their performance. SME's performance therefore plays a key role in their access to finance.

Finally, the study concluded that collateral requirements had a negate but significant effect on SME's access to finance in Kirinyaga County. Inability of SME's to pledge tangible securities is a hindrance to their access to credit facilities. The study also came to the conclusion that the expenditures of the collateralization procedure, including legal fees, stamp duty, appraisal, and insurance act as deterrents for SMEs seeking to borrow funds. These additional expenses discourage SMEs from accessing finance.

5.4 Recommendations

The study recommends a review of the interest rates that banks and other financial organizations charge to allow more SME's to access funds to expand their businesses. Leaders should legislate and develop laws that evaluate and harmonize the interest rates charged by various financial institutions to make funding more accessible.

Alternative collateral securities must be sought because the majority of SME's do not own titles and logbooks that are majorly required by financial institutions as securities to access funds. This could be through the SME's guaranteeing each other using their businesses to access funds from financial institutions.

Credit rating policies should be made more accommodative to the SME's to enable them access to finance that translates to SME's operating viable businesses.

Government should develop alternative collateral guarantee arrangement through legislation that would serve as a substitute for lending institutions for SME's to access finance to expand their businesses.

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APPENDIX 1: INTRODUCTION LETTER

Caroline Karimi Njagi,

Po Box 20164, 10300,

Kerugoya.

Thro' Kirinyaga University

Dear Sir/Madam,

RE: Request to Conduct Research,

I am currently enrolled as a student pursuing a Master's Degree in Business Administration at Kirinyaga University. As part of my academic requirements, I am conducting research focused on the challenges faced by SMEs in accessing finance within Kirinyaga County, Kenya. Enclosed with this message is a questionnaire, and I kindly ask for your participation in completing the questions. You can trust that all the information you provide will be handled with the highest level of confidentiality. If you express interest in the research findings, I will gladly share them with you upon request. Your cooperation and contribution to this study would be greatly appreciated. Thank you for your valuable support.

Sincerely,

Caroline Karimi Njagi

Kirinyaga University

APPENDIX 2: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

1. Gender? Male { }

   Female { }

2. Education Level?

   Post Graduate { } Degree { }

   Diploma { } Secondary Certificate { }

   Any other (Specify) ……………………

3. Years of operation for this business?

   Less than 1year { } 1 -3 years { }

   4 -7 years { } Over 7 years { }

4. How many employees have you employed?

   Less than 2 { } 3-5 { }

   6-8 { } 9 and above { }

5. In which business category are you involved?

   Green grocery { } Hawking { }

   Wholesale/Retail { } Retail { }

   Service sector { }

SECTION B: INTEREST RATES

Kindly tick appropriately whether you agree with the statements relating to the effect of interest rates on credit access from financial institutions, where (SA-strongly A-agree, N-Neutral, D-Disagree, SD-strongly disagree).

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Interest rates charged by financial institutions are relatively high for most SME businesses in Kenya.					
Many SMEs are deterred from seeking banking institutions for lending facilities by the high interest rates.					
The prevailing lending rates offered by financial institutions have had a discouraging effect on many SME owners, leading them to hesitate in seeking both short-term and long-term loans for their businesses.					
Financial institutions tend to exhibit bias when assessing SMEs for loans or credit, in contrast to large corporates.					

C: CREDIT PROFILE

Kindly tick appropriately whether you agree with the statements relating to the effect of credit profile on credit access from financial institutions, where (SA-strongly A-agree, N-Neutral, D-Disagree, SD-strongly disagree).

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Poor credit rating has led to challenges in accessing finance from financial institutions.					
Previous credit facilities limit access to current credit.					
Borrowers not having a credit history are deemed to be risky.					
Listing by mobile apps prevents SME's from accessing credit from financial institutions					
Credit is not available in sufficient amounts to finance new business growth.					

SECTION D: PERFORMANCE

Kindly tick appropriately whether you agree with the statements relating to the effect of performance on credit access from financial institutions, where (SA-strongly A-agree, N-Neutral, D-Disagree, SD-strongly disagree).

	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Lack of finance from financial institutions has affected my business performance.					
2	Capital structure affects performance of an organization					
3	Lack of proper management skills in my business affects performance					
4	Use of advanced technology increase performance					
5	I have undergone training on credit management that has helped me to run the business effectively.					
6	I do not have enough capital to run my business as sources of capital are limited.					
7.	Size of a firm affects its access to credit and ultimately its performance.					

SECTION E: COLLATERAL REQUIREMENTS

Indicate the implications of collateral restrictions on obtaining loans from financial institutions where (SA-strongly A-agree, N-Neutral, D-Disagree, SD-strongly disagree) by checking the applicable boxes.

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The limited ability of SMEs to provide tangible assets as security hinders their access to credit facilities.					
The absence of fixed assets poses a challenge for many SMEs in accessing credit.					
Borrowing by SMEs is discouraged due to the costs associated with the collateralization process, such as legal fees, stamp duty, valuation, insurance, and others.					
SMEs are discouraged from borrowing due to the lengthy process involved in registering and creating a charge on the security they pledge to financial institutions.					
Potential borrowers are discouraged from borrowing due to the strict and demanding credit terms imposed by financial institutions					

SECTION F: ACCESS TO FINANCE

Tick the boxes that best describe how Access to Finance has affected your ability to obtain credit from financial institutions: SA-strongly Agree, N-neutral, D-disagree, SD-strongly Agree.

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Poor access to credit has been a result of inadequate or non-existent collateral.					
Compared to medium and small enterprises, large enterprises have a higher likelihood of accessing credit easily.					
Loans are completely denied to borrowers who are deemed to be not creditworthy.					
Poor access to credit by SMEs is attributed to a lack of awareness on funding opportunities.					
Insufficient credit is available for investment in new business expansion.					

THANK YOU

APPENDIX 3: BUDGET

ITEM	AMOUNT (KSHS)
Proposal Development and Data Collection	
Printing of Journals for literature review	7,000
Printing papers for making notes	500
Publications	20,000
Data Analysis	
General Data Analysis	20,000
Final Document	
Printing	15,000
Typesetting	9,000
Total	**71500**

APPENDIX 4: WORK PLAN

Action	Aug 22- Dec 22	Dec 22- Jan 23	March – April 23	May-June 23	July-Aug 23
Sourcing Background Information					
Literature Review					
Data Collection					
Data Analysis and Interpretation					
Report Compilation					