THE RELATIONSHIP BETWEEN CREDIT ACCESSIBILITY AND GROWTH OF SMALL AND MICRO ENTERPRISES IN LANGATA CONSTITUENCY

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DECLARATION

This research project is my original work and has never been presented for a degree in any other University.

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This research project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

I dedicate this research project report to my family Members, specially my beloved wife Halima Bashir Abdi, My Sons Fahad Mohamed, Abdimalik Mohamed and finally my daughter's Hafsa, Umulkheir and Rayan Mohamed for their moral and financial support.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CA	Credit accessibility
GDP	Gross Domestic Product
KWFT	Kenya Women Finance Trust
NGOs	Non-Governmental Organizations
SACCOs	Saving and Credit Cooperative Societies
SG	SMEs Growth
SMEs	Small and Medium Enterprises

ABSTRACT

The purpose of the study was to establish the relationship between credit accessibility and growth of SMEs in Langata Constituency. Access to credit was measured in terms of collateral, literacy level, interest rates and the number of financial institutions. The study relied on imperfect information theory and pecking order theory. Descriptive design was employed in this research. The target populations for this research included all 500 registered small scale enterprises in Langata Constituency as at December 2016, from which a sample of 100 respondents was obtained. Questionnaire was the primary tool for data collection. Quantitative data collected was analyzed by use of descriptive statistics. Test of the relationship between independent and dependent variables was done through use of regression statistics. The study found out that the number of lending institutions has a positive relationship towards growth of SMEs. On contrary, entrepreneurial literacy is negatively related to SMEs' growth. When control variables were included, still the number of lending institutions was significant in increasing the growth of an SME. In addition, findings revealed that education level of the owner manager had higher chances of growing his/her business. The study therefore recommends that policies should be put in place to necessitate credit facilities to SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

World Bank (2013) defined small and medium enterprises (SMEs) as enterprise that has relatively small share (in terms of, number of employees, sales turnover ownership and assets) of their market place. Those that are managed by owners or part owners in a personalized way and not through the medium of formalized management structure and are independent in the sense of forming a large enterprise. SMEs play a very significance role in economy of a country, both developing and developed nations as well as to the individuals. SMEs provide employment and improve the living standards of individuals-both employers and employees. They are the major sources of entrepreneurial skills and innovations (Wairimu, 2015).

This research is anchored on the imperfect information theory founded by George Akerlof in 1970. This theory states that information imperfection occurs when one party to a transaction has more and timely information than another party. In addition, the study relied on pecking order theory founded by Donaldson in 1961. The theory state that internal financing is preferred by most firms as opposed to external financing available and new debt financing at lower interest rate as opposed to new equity financing. In Kenya 18% of the GDP and 80% of the workforce population are employed in SMEs sector according Kathie (2012). SMEs are seen to provide apparently goods and services, employment and incomes to a large number of individuals (Kauffmann), 2006.

Among other problems, there is a struggle for survival and growth. Previous research (Onugu, 2005) stated that less than 5% SMEs go beyond their first year of existence. Another challenge is regulatory burdens. The process of incorporation has been made too complex, lengthy and costly, which can be avoided by governments ensuring that there is one stop shop system where all information is available. However, there have been several changes in Kenya to ease registration of SMEs. Huduma Centre is one of the most instrumental centre where registration process takes less time since all the government authority are found all under one roof present and willing to help. This centre has successfully managed to reduce inefficiencies, cost and corruption and in dealing with bureaucracy and ensuring compliance with government laws. Most of the governments' operations have gone online which has enabled SMEs to do registration within the least time. Of recent time taken to register any business can be done in the comfort of one's home by use of phone (Mwongera, 2014). It takes now 24 hours for registration from previous 14 days (Ndonga, 2014).

1.1.1 Accessibility to Credit

Accessibility to credit refers to the ability of enterprises or individuals to obtain external funding to enable them ease cash flow problems (Osoro & Muturi, 2013). Credit can be either short term or long term depending on the lenders assessment of the borrowers' ability to repay. Also (Monteiro, 2013) observed that smaller enterprises generally have limited access to nonbank lenders due to lack of creditworthiness in their information which is usually unpublished hence they are challenged by finance. The main concern of this study is the external credit facilities available to SMEs.

Minh (2012) found out that firm characteristics are not the main factor to influence SME financing, but if a business has higher financial leverage the higher the probability of obtaining bank loans in Vietnam. Elsewhere, in the Malaysia investigation on factor influencing access to loan showed that presence of collateral plays a significant role in assessing repayability of the loan (Haron, Said, Jayaraman, & Ismail, 2013). Furthermore, study in Ghana revealed that lack of collateral, high cost borrowing and absence of audited financial statement makes it difficult to access a bank loan, (Ackah & Vuvor, 2011). In Nigeria,Ubon and Chukwuemeka, (2014) found out that social capital, enterprises age and gender significantly influence informal credit access -those that are not supervised and charges high interest like money lenders, societies etcetera, while enterprise age, size, collateral and education had a significant influence on formal credit access -those that are supervised and lend marginally more credit at low interest like banks, traders.

Access for credit by SMEs in Kenya has been identified as a necessary condition for job creation and economic growth. The ability to access credit by businesses is a critical factor of private sector growth and especially for SMEs' that most often lack adequate capital that they need to grow and expand. Kenya government introduced

"Uwezo Fund" in its budget to expand access to finance and promote the well-being of youth, women and people with disabilities led enterprises as outline in its blueprints of vision 2030. According to Manasseh (2004), external financing or credit facilities is kind of finance provided by person(s) other than the actual owner of the company who are the company creditors. Manasseh further added that credit can be in any of the following forms; overdrafts, trade creditors, lease financing, debentures, loans, overdrafts among others. All these external sources depend on the enterprises creditworthiness.

1.1.2 SMEs Growth

According to a study on SME financial services undertaken in Namibia by Tonin, *et. al.*(1998), provision of credit to SMEs was found to have great influence on the development and growth of SMEs. Credit has been referred to as the provision of capital by a lender to a borrower with an agreement for the repayment of a specific amount over a given period of time. They further also noted that the poor can reliably borrow when they are given the chance to start or to improve a viable business and become economically active. But due to lack of collateral security, access to credit by the small entrepreneurs is greatly hindered. Augusto *et. al.*(2010) noted that lending is just a fraction of what financial institutions offer to SMEs and that these institutions try to develop a wide range of products and services, with fees based products rising in importance, all aimed at serving the SMEs.

Kuntchev*et. al.*(2012) stated that SMEs are likely to be constrained more than large firms, and therefore are likely to use informal sources of finance and trade credit to fund their working capital and investment than larger firms would. It is commonly believed that SMEs in Kenya have got limited accessibility to credit facilities, deposit facilities and other financial support services offered by formal financial institutions mainly because most of the SMEs cannot provide the necessary demand for collateral required by these financial institution and at the same time, the stringent lending procedures demanded by these financial institutions also help to scare away the SMEs (Njeru, 2014). Formal financial institutions usually perceive SMEs as high risk and unviable commercially, as a result only a few have accessibility to credit from these formal financial institutions (Mwewa, 2013).

1.1.3 Credit Access and SMEs Growth

The availability and accessibility of external financing has positively impacted on the growth and performance of any business (Osoro & Muturi, 2013). Financial institutions have packaged different credit facilities that are aimed at different forms of business. These products when offered to SMEs help them improve their performance; by raising productivity, improving returns on investment, and increasing incomes (Njeri, 2012). The trainings that some of the financial institutions provide to their clients help entrepreneurs to understand basic issues like record keeping which in turn help them better understand their business operations. Trainings add to the skills of the entrepreneurs, change their attitude on how they perceive and conduct business activities and in turn enhance the ability of their firms to perform better. A financially literate entrepreneur can make better decisions regarding utilization of other financial services like saving more, taking full advantage of credit facilities, and mitigating risks through the utilization of insurance services (Andoh&Nunoo, 2011).

SMEs still face several limitations to credit access. According to Ogiji and Ejembi (2007), there is still less knowledge on financial management by SME managers and or owners despite the huge importance that this has on sound decision making. Cohen and Klepper (1996), on the other hand, observed that small firms have smaller asset bases to secure loans to finance their investments as compared to larger firms. Munoz (2010) concludes that banks, in most African countries for example, have not made a great effort to reach out to SMEs due to challenges with the processes and procedures involved in administering loans, the high costs of managing small loans and the high risk of loan defaults. This limited access to finances by SMEs therefore translates to slow growth.

1.1.4 SMEs in Langata Constituency

SMEs are an integral part of the Kenyan economy just like for the many other developing countries since 85% of the Kenyan work force are directly employed by the SMEs (Mwewa, 2013). SMEs promote social stability and economic diversification and at the same time play an important role of developing private sector. SMEs cuts across all sectors of the economy (basic production, manufacturing, and services) and can be in any form of ownership: sole proprietorship, partnerships, or private limited companies. Some are located outdoors with little or no capital while others are more formal and operate in market stalls and shops (Munoz, 2010).

In Kenya, most enterprises are owner- managed or largely controlled and run as a family business and mostly have limited capital base and the technical skills and capacity of those running the business is also limited (Karanja, 2012). Majority of the businesses in Langata constituency, Nairobi County fall under the SME category and are spread across the country with a good percentage of them being sole proprietorships and family-owned and run businesses. A study carried out by Ongolo and Awino (2013) in the counties of Bomet, Kiambu, Homabay and Kwale found out that the major challenges encountered by SMEs across the four counties attribute to limited access to finance despite there being various financial institutions meant to cater for SMEs financing in the country.

Langata constituency has got branches of some of the leading banks in Kenya which include Kenya Commercial Bank, Cooperative bank, Barclays Bank, Equity bank and Family Bank. It also has got Micro Finance institutions such as Kenya Women Finance Trust (KWFT), Faulu Kenya and other financial services offering institutions such as Savings and Credit Cooperatives, insurance firms, a branch of the Kenya Industrial Estates among others. Ongolo and Awino (2013) attribute these challenges faced by SMEs to the stringent conditions set by financial institutions on the SMEs before they can access financial support. Andoh and Nunoo (2011) also see the critical need of promoting a favorable operating environment for the development of SMEs in both developed and developing economies because of the huge contributions that the SMEs have in the economy.

1.2 Statement of the Problem

The significance contributions that SMEs have on the development of a nation are enormous. SMEs have assisted in regional and local development as they help accelerate industrialization in rural areas by linking them with other sectors in the urban areas (Hansahetal,2013).The Kenyan government in its vision 2030, places SMEs development as one of the integral means of achieving the vision. This notwithstanding, statistics show that out of every five businesses started, three fail within the first two years of startup, (Government of Kenya, 2007). Kithae (2012) argues that although the SMEs create 80% of Kenya’s employment, the subsector contributes only a dismal 18% to the GDP of the country hence there is need to do more towards the support and enhancement of SMEs capacity.

Improving credit access by SMEs is crucial in fostering competition, growth, innovation, and entrepreneurship in Kenya (Kung'u, 2011). Accessibility to credit is important as it reduces the impact of cash flow problems and ensures flexibility in resource allocation (Bigsten, *et. al*., 2000). External financing is mostly limited by the fact that commercial banks are often willing to lend on a short term basis because they receives deposits on demand which therefore cannot be lent out on a long term basis as the need of the SMEs may demand.

Majority of the businesses in Langata constituency can be classified under the SME category based on the sizes of their annual turnovers and average number of employees (Government of Kenya, 2012). The factors identified as hindering SME growth include accessibility of capital, collateral requirements for credit, cost of capital, and information access, and capital management. Lack of financial literacy especially as to where to obtain and how to utilize financial services reduce entrepreneurs’ ability to borrow. Availability of savings facilities and easy access to credit from financial facilities has been found to accelerate households’ abilities to borrow (Ellis et al, 2010). Access to credit by SMEs in Langata has not received extensive research. Andoh&Nunoo (2011) studied impact of financial literacy on the utilization of services of financial institutions by SMEs where they concluded that financial literacy is crucial for overall financial development. Hasnah,*et. al*. (2013) and Fatoki and Asah (2011) all carried out studies touching on credit access by SMEs where they concluded that lack of collateral among other challenges were limiting SMEs access to credit from financial institutions.

Locally, Njeru (2014) and Kinyua (2014) are among those who have carried out studies touching on credit services and SMEs. Njeri (2012), Mwewa (2013), and Wanjiku are some of the researchers who have carried out studies touching on micro finance services and SME growth and performance. Although several have been undertaken that greatly focused on financial credit facilities and SMEs, they have not been conclusive. The purpose of this study therefore is to establish the relationship between accessibility to credit and SMEs growth in Langata Constituency. The study will be restricted to specific factors namely collateral, literacy level, interest charged on loans, and number of financial institutions. This study sought to answer the question; what is the relationship between access to credit and growth of MEs' in Langata constituency?

1.3 Objectives of the Study

The main purpose of the study was to establish the relationship between accessibility to credit and growth of SMEs in Langata Constituency.

1.4 Value of the Study

This research was motivated by the increasing role of SMEs in the Kenyan economy, and the continuing constraints they face in their activities. SMEs have been identified as one of the development strategies for promoting industrialization, employment generation, catalyzing innovation and poverty eradication in Kenya. The findings of the study are of great importance to small and micro entrepreneurs as it outlines the major relationship between accessibility to credit and growth of small and medium enterprise in Langata constituency.

This study is of great importance to policy makers in charge of formulation of the regulations related to operation of SMEs in the country. Information in this study can be used by the County Government of Nairobi and subsequently other counties when formulating policies on planning. This can also aid them in building an all-inclusive, policy for all traders including SMEs.

Based on the findings of this study, educational institutions and non-governmental organizations are able to focus more on the needs of small and medium entrepreneurs, to educate on practical aspects of business and for the NGOs to be able to know areas to offer grants or donations and training the less fortunate. It is hoped that the recommendations and measures provided will help in counter checking whether the government is still on the truck in realization of the Kenya vision 2030.

Furthermore, the finding of this study contributed in the building the argument of the existing theories and the available literature. Academicians and researchers will benefit from the study findings since they form a point of reference on topic related to credit accessibility and growth of small and medium enterprises

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This entire chapter critically identifies and analyses information related to this study. It looks at the importance of theory in academic writing and the various developments in theory. It also explains the financing theories, the relationship between credit accessibility and growth of small and medium enterprises and the empirical evidences both locally and globally. It also summarizes literature review as well as the conceptual framework.

2.2 Theoretical review

This section looks at the various theories relating to credit accessibility by SMEs which include imperfect information theory and pecking order theory.

2.2.1 Imperfect Information Theory

Information imperfection occurs when one party to a transaction has more and timely information than another party. Among the pioneers of this theory was George Akerlof (Lofgren,*et. al*, 2002) who demonstrated how imperfect information can produce adverse selection in the markets. He argued that when a lender or a buyer has imperfect information, a borrower with weak repayment prospects or a seller of low quality cars may crowd out everyone else from their side of the market thereby hindering mutually advantageous transactions. This imbalance can cause one party to enter into a transaction or make costly decisions. According to Lofgren,*et. al.*(2002) information asymmetry is a common feature of any market interactions for example the seller of a good often knows more about its quality than the prospective buyer while a borrower knows more than the lender about his creditworthiness.

Robinson (2011) observed that this theory assumes that financial institutions cannot effectively differentiate between high risk and low risk loan applicants. The theory further argues that mainstream financial institutions are not able to compete successfully with informal lenders because such lenders have better access to information about credit applicants than formal institutions have. The theory suggests that it would be difficult for banks to profitability operate in developing countries credit markets and to attain extensive outreach. Based on this theory, it would therefore be difficult for policy makers, economists, bankers, donors, financial analysts, and government decision makers to advocate for commercial banks to enter into micro credit markets.

2.2.2 Pecking Order Theory

This theory was first founded by Donaldson in 1961. Later on, it underwent modification which was done by Myers and Majluf (1984). The theory state that internal financing is preferred by most firms as opposed to external financing available and new debt financing at lower interest rate as opposed to new equity financing (Murray & Goyal, 2005). According to the theory, the most preferred source of finance is internal source which is the retained earnings or personal savings for informal sector entrepreneurs. The second preferred source is debt this is followed by internal equity and external equity. Hughes and Cosh (1994) describe the Pecking Order Theory to lay more emphasis on desirable use of internally generated funds rather than those raised through external means, this is readily applicable to SMEs. In reality SMEs experiences a more intense type of the Pecking Order Theory defined as the 'constrained' Pecking Order Theory by Kent and Holmes (1991) and a 'modified' Pecking Order Theory Ang (1991) due to little access to debt, equity and external funds as compared to larger enterprises.

The Pecking Order Theory suggests that SMEs based profitability is very much related on the use of external funds, in cases where stock exchange is not listed, funds generated internally are considered first, i.e. those that utilize external funds are those with lower profits. Growth enables SMEs with insufficient internal resources to source funds through borrowing that is if the pecking order is affected by any type of inadequate external funding though if affected they will be limited to use the existing funds.The type of asset plays a fundamental role in determining credit access levels through its role in acting as security in cases where there is inadequate information when faced with investment opportunities given the "lumpiness' of many investments, it is more likely that smaller firms will need to borrow more than large ones. The pecking order theory therefore implies given the importance of retained funds that newer firms will have less time to accumulate resources and so will need to borrow more than older firms.

2.3 Empirical Literature Review

2.3.1 Global Perspective

Schmidt and Kropp, (2003) argues that among the constraints limiting credit access by small scale enterprises is limited access to financial services which denies access to this credit facilities .The credit access however mostly originates from institutions through their poor lending policies especially those in the formal setup. Such policies include; complex application restrictions and procedures on credit for specified purposes and minimum loan requirements. Kropp and Schmidt (2003) further state that the nature of the financial institution and its policies is the key determinant of the credit accessibility problem. Where payment terms, credit duration, credit security and the additional services provided do not favor the needs of the customers, they will not go for the credit even when available and even if they do they might not be considered for the credit.

Grameen Bank argues from its point of experience that the majority of conditions such as collateral requirements needed by formal financial institutions do not favor the poor and small scale borrowers trying to access credit. The only way to encourage the poor to go for the loans and effectively repay is when effective loan obtaining procedures are set, and proper supervision and repayment schemes are put in place. Banks also agree with the idea of setting high interest rates on credit so as to limit credit access only to the targeted groups and discourage the influential non-target group from going for a credit programme that targets a specific group (Hossain, 2004). This shows the importance of developing the right lending policies for institutions in delivering loans to small scale borrowers.

Following the East Asian financial crisis The international labor organization conducted a study on the on financial support for small scale and micro enterprises in Thailand and found that 36%had challenges in putting up together start-up funds,55% of these used their own funds to fund their business, 20% had acquired bank loans and17% had obtained funds from government programmes that were subsidized (Mark 2003). Gok-CBS (1999) obtained the following results from the interviewed group, at least 10.4% had acquired credit from a certain source whereas 89.6% had never received credit of any type. A similar pattern emerged in Zimbabwe with 89% of little enterprise operators having received no loan for their business activities, 10%

having gotten credit from friends and family and less than 1% from money lenders and 1% from formal credit lending institutions (McPherson, 1998). These surveys thus indicate low credit borrowing among small scale business operators from formal credit markets.

A study done in the rural Uganda show those rural households are disadvantaged in terms of credit demand (Mpunga, 2004). Those residing in rural areas have less impact on loan application criteria as only 44% can successfully apply and acquire loans as compared to the urban that have a higher magnitude.

A study done by Swain (2002) show those households with positive credit demand might not be rationed completely whereas others are rationed in terms of size of the loan or quantity .Swain uses household as a unit of analysis and credit demand variable as a dummy. The results indicate that interest rate, the location of the business and land ownership also determines credit demand apart from household characteristics. Swain further suggests that loan size rationing occurs when the size of loan awarded is less than that requested while loan quantity rationing arises when the borrower is denied access to the loan. Some households who might have access to loans easily but do not go for them also exist. With inadequate financing being the main problem affecting most small-scale entrepreneurs there is huge need to explore more on their performance especially those operated without external funding sources.

2.3.2 Local Perspective

Inaccessibility to financial services is among the major challenges experienced by SME’s in Kenya. Studies that have been conducted on the informal sector indicate that despite the growth of SME's, most have remained stagnant (McCormick, 1992). The majority are characterized by a small size of employees and activities. Little growth in the size of the firms is attributed by researchers to limited financial services access (Nkurunziza, 2005).

Finance is a major component in the growth and development of a business entity. Businesses firms form linkages and relations among themselves to attain easy financial access (Atieno & McCormick, 2002). Flexibility in resource allocation is enhanced by access to external resources which reduces cash flow impact challenges on firm’s activities (Bigsten,*et. al.*, 2000). Firms with proper access to funding store enough inventories thus no stock outs during shortages, utilizing credit enables growth of surviving firms during periods of macroeconomic instability. Access to bank loans enables firms to be firm even in periods of economic instability (Nkurunziza, 2005).

Issakson (2004) states that the main challenge facing development of enterprises is credit through its process of allocation, which excludes firms with weak legal institutional framework and viable projects for contract enforcement, constraining lenders either to deny loans to potential borrowers or rely on social networks. Lack of appropriate information existing in these market environments create a need for contract arrangements so as to ensure enforcement of contracts.

Wilhborg and Isaakson (2002) did a study on the financial constraints facing manufacturing firms in Kenya and observed that majority of the firms source funds from relatives and friends, with the majority of informal borrowing resulting from African owners with informal firms. Informal loans do not however contribute to bank loan substitution. Many medium sized firms can easily access trade credit, with the proportion of informal sector firms to credit access being lower than those in the formal sector.

The credit rationing aspect of lending institutions clearly explains the process of credit access Atieno (2001). This study utilized descriptive statistics in analysis of the function of the informal and informal institutional lending policies in determination of credit access and utilization of credit facilities by small scale entrepreneurs living in rural areas. Simple random sampling was used to choose 334 respondents and the outcome showed that 15% had not done any credit application for they did not have any financial obligation. 36% needed access to credit facilities but had not applied the main reason being due to lack of collateral security and information asymmetry whereas only 49% had applied for credit due to pressing demand. This percentage consisted of those with rationed loan applications thus they did not get the amount they desired. The amount of loans applied for in comparison to that received showed higher levels for those applied in the case of the informal and formal sources. This shows huge credit rationing in the credit sector.

2.4 Determinants of Credit Accessibility

2.4.1 Collateral

Collateral refers to an asset that a borrower uses to secure a loan from the lender. A lender gets a fall back in case of default where they can dispose the asset to recover their money. Kung'u (2011) noted that secured loans are seen to have a low risk of default hence they are charged a lower interest. Most SMEs' do not have tangible assets that they can use to secure their loans hence their borrowing is limited.

2.4.2 Literacy Level

Financial literacy refers to the ability of an individual to understand how money works-how it's earned, managed and invested. It is very important for any business entrepreneur to have knowledge on how to manage the business so that they can oversee its growth (Andoh&Nunoo, 2011). A literate entrepreneur understands on the best time to make certain investment decisions such as when to borrow and from whom to borrow and at what cost.

2.4.3 Interest Rates

This refers to the additional amount payable on top of the original amount. It represents the cost of lending. As much as interest rates may be advantageous to the lender, it may discourage borrowing from customers' view. Interest rate tend to shun a way small scale traders from borrowing the funds from financial institutions since they fear paying back huge penalties on the interest rate if they do not honor the loan obligation terms. The higher the interest rate charged the lower the rate of borrowing by the small scale traders vice versa (Ogolla, 2013).

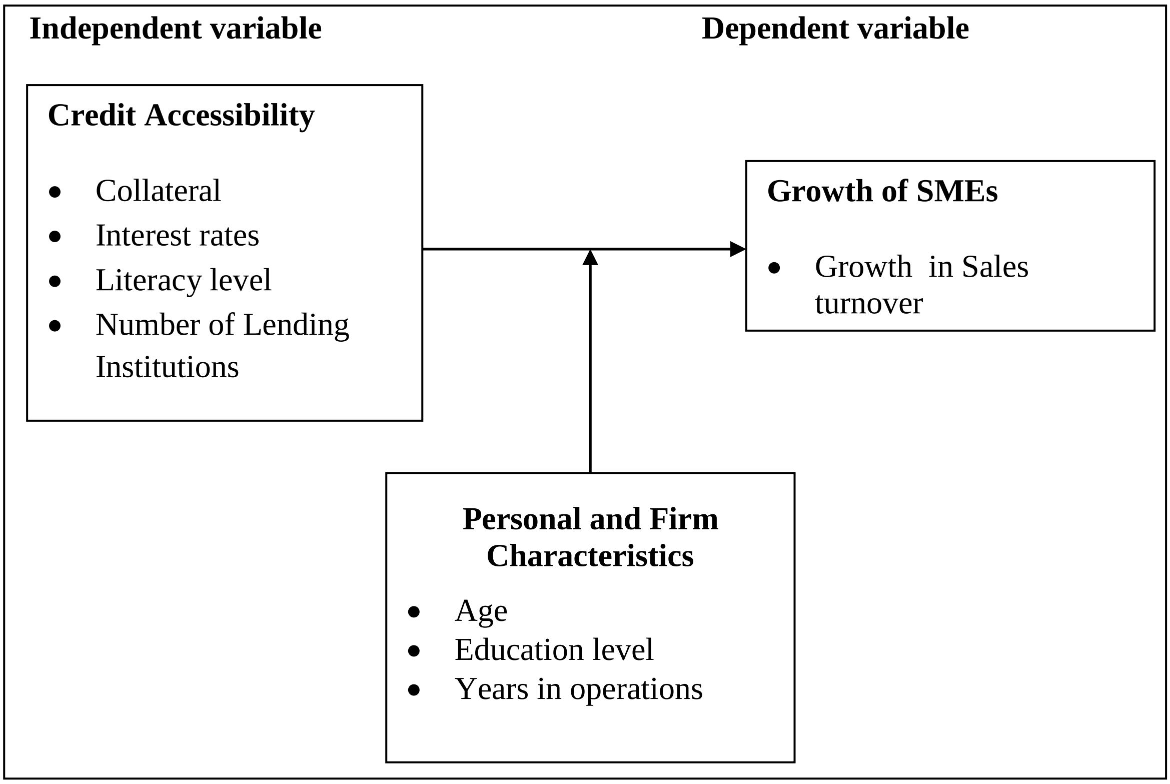
2.4.4 Number of Financial Institutions

The number of financial institutions offering credit in an economy has an impact on the overall growth of an economy. As observed by Schoof (2006) an inadequate number of financial institutions to offering credit services to SME's would constrain development of the industries. When number of small scale traders is many whilst the financial institutions with the services customized to them are few (demand exceeds supply) the price of the loan will be high therefore not affordable and hence low uptake by SMEs.

2.5 Conceptual Framework

The conceptual framework shows how the independent variable Access to credit which was measured in terms of collateral, literacy level, interest rates and the number of financial institutions influences the growth SMEs.

Figure 2.1: Conceptual Framework



Source: Author (2017)

2.6Summary of the Review

Finance is a key factor the affects firm growth in different ways. At the micro economic level, slow rate of growth by firms is mostly articulated to limited access to financial services. Most of the literature reviewed, is based on the countries from west while few were from developing nations like Kenya which have few scholarly articles about the SMEs and the ways in which they access business financial support. The chances for profitable expansion in employment in SMEs are limited when the macro economic conditions are less favorable. This mainly applies to those SMEs with linkages with bigger enterprises and the economy. From the above review, a proper scrutiny of SMEs dynamics is important both for SMEs' support programmes and economic growth. Given the role small businesses play in the Kenyan economy and how exposed they face risks due to their location. An empirical study needs to be carried out to investigate the relationship between credit accessibility and growth of SMEs.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter describes the methods and procedures used to carry out the study. It presents the study design, target population, data collection instruments and procedures and data analysis techniques.

3.2 Research Design

Descriptive design was used for the study. It was preferred because it is the design that answers the questions who, what, which, when or how much (cooper &scheduler, 2001). A descriptive study is appropriate if description is informative. A descriptive study is also necessary since it acts as the starting point for identification of variables and coming up with hypothetical constructions which could be put to test using other formulas and finally acts asaway of studying a situation or behavior since it is either ethically or physically impossible to generate it in an experiment (Helman, 1999). A research design assisted in the attempt to generalize the findings provided and due care was taken while designing the population from selecting the same size and using appropriate statistical method in analyzing data.

3. 3 Population

According to Mugenda and Mugenda (2003) population refers an entire group of individuals, objects or events having common observable characteristics. The target populations for this research included all registered small and micro enterprises in Langata Constituency. According to the record held by Nairobi City County there were 500 registered small scale enterprises in Langata Constituency for as at December 2016. One of the challenges in Langata Constituency is the existence of limited access to funds and the limitation of accurate statistics on the number of small business enterprises in Langata Constituency (Sharma, 1991).The population of the study was based on the business categories as shown in table 3.1.

Table 3.1 Population

Business Category	Population
Retailers	241
Groceries	145
Jua Kali Artisans	114
Total	**500**

Source: Nairobi City County (2016)

3.4 Sample Design

The researcher used stratified sampling in the selection of respondents. The population was split into mutually exclusive sub-populations referred to as business categories. Since the population is heterogeneous, the research used appropriate stratification that was based on the share of the stratum of the total population to come up with each stratum's sample. A sample was obtained from each business category using a ratio of 0.3 as shown in the table 3.2.

Table 3.2 Sample Size

Business Category	Population	Sample Size	Percentage
Retailers	241	72	48
Groceries	145	44	29
Jua kali Artisans	114	34	23
Total	**500**	**150**	**100**

Source: Author (2017)

3.5 Reliability and Validity Tests

Reliability and validity tests are key indicators of the quality of the data collection instrument. A measure is reliable when different attempts at measuring something converge on the same result (Zikmund, Babin, Carr & Griffin, 2010). Impliedly, reliability is therefore an indicator of an instrument's internal consistency. The Cronbach's alpha coefficient (α) is the most commonly applied estimate of a multiple-item scale's reliability.

The Cronbach's alpha coefficient ranges in value from zero, meaning no consistency, to 1 meaning complete consistency. Different research authorities use different cut-off point of the Cronbach's alpha coefficient but generally, when the coefficient value is less than 0.7, the scale has poor reliability (Nunnally, 1978). According to Gay (1981), any research instrument with a correlation coefficient between 0.7 and 1.0 is accepted as reliable enough.

3.6 Data Collection Methods

This is the gathering or collection of information to prove or serve some facts (Tromp and Kombo, 2006). It involves the actual data collection process in the field from the chosen population. Questionnaire was the primary tool for collecting data. Kothari (2004) defines the questionnaire as the most suitable data collection tool since it can collect a large amount data at the shortest time and in more economical manner. This instrument helped in ensuring standardization and confidentiality of the information source.

It is for this reasons that the questionnaire was selected as the most suited instrument for this study. The data collection instrument comprised both open-ended and closed-ended questions. The questionnaire used by this research entailed three sections. Where, the first section had items on general information which included the characteristics of owner manager and SMEs. The second section comprised of questions on credit accessibility, while the third section entailed questions related to growth of an SME.

The researcher sought the help of research assistants and informants in the process of data collection. The informants involved were administration officers such as area chiefs and assistant chiefs. The questionnaires were distributed to the target respondents through research assistants who assisted in interpreting the questions. The respondents were picked randomly based on the aforementioned business category.

3.7 Data Analysis

Data analysis section dealt with the methods which were used in data analysis, such as organization, interpretation and presentation of data collected. Quantitative data was analyzed by use of descriptive statistics in line with the study objective and was presented in form of frequency percentage tables, means, and standard deviation.

To test the relationship between credit accessibility and growth of small and micro enterprises, the study employed use of inferential analysis. This was done by use of correlation which was used to test the association of the study variables and regression model used to link the independent variables to the dependent variable as follows:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$

Where; Y = Growth of SMEs

X_1 = Demand for collateral security

X_2 = Interest Charged

X_3 = Entrepreneurial Literacy

X_4 = Number of lending Institutions

From the model, β_0 is the constant term while the coefficient $\beta_{1 \ldots 4}$measured the sensitivity of the dependent variable (Y) to unit change in the predictor variables. μ represents the error term which captures the unexplained variations in the model.

3.7.1 Measurement of Variables

Growth in SMEs was measured by growth in sales turnover using the equation: (Current period net sales - previous period net sales)/previous period net sales*100. Where the sale is equal to gross or totals sales revenue minus discount, customer returns and allowance for damage and defective merchandise. On the other hand

Access to credit was measured using collateral security in the form of the value of asset pledge to secure the credit, literacy level was measured in terms of the level of education acquired and interest charge was measured using the prevailing Central Bank of Kenya (CBK) Treasury Bills. The higher the interest rate charged the lower the rate of borrowing by the small scale traders vice versa (Ogolla, 2013). The number of lending institutions was used as a measure of credit accessibility. In addition, a personal and firm characteristic was used as moderating variable which were measured by age of owner manager, education level and years of which an SME has been in operation.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The goal of this research was to look into influence of credit accessibility on growth of small and micro enterprises. The chapter presents the research findings based on the methodology stated in chapter three. It is comprised of the following sub-sections: response rate, background information, collateral and credit accessibility, interest charged and credit accessibility, entrepreneurial literacy and credit accessibility, lending institutions and credit accessibility as well as inferential analysis.

4.2. Response Rate

There was a target of 150 respondents anticipated by the study to respond to survey questionnaire. However, out of the estimate figure, about one hundred and eight (108) responded by filling in and returning the questionnaires. Thus, the projected response rate was 72 percent. An implication that, the remaining forty two (42) questionnaires were either not answered properly or were not returned as indicated in Table 4.1.However, the rate of response recorded by the study was found to be fit for analysis as advocated by Mugenda & Mugenda (2010) that any response rate of 70% and above is considered excellent for analysis and making recommendations.

Table 4.1: Distribution of Response Rate

Responses	Frequency (n)	Percentage (%)
Responded	108	72
Not responded	42	28
Total	**150**	**100**

Source: Author (2017)

4.3 Background Information

This part consists of distributions on the respondent's age, their highest level of education as well as length of time SMEs have been in operation.

4.3.1 Age of Respondents

The research sought to establish the respondent's age in years. They were sub-divided into reasonable categories ranging from 21-25 years, 26-30 years, 31-35 years, 36-40 years, 41-45 years, and above 45 years. From the results given in Table 4.2, it can be deduced that majority of the respondents (39.6%) were in the age bracket of between 26 and 30 years. About 27.4% were in the age group of between 21 and 25 years. Those who were in the age bracket ranging from 31 – 35 years had 15.1%. An estimate of 14.2 percent of the respondents were in age bracket of between 36 and 40 years, while those who fall in the age brackets of 41 – 45 years and above 45 years had a representation of 1.9% each. This is an indication that there was fair distribution of the respondents who participated in this study and that youth commands a large number of SMEs ownership in Langata constituency.

Table 4.2: Percentage Respondents' Age

Age in Years	Frequency	Percent
21-25 years	29	27.4
26-30 years	42	39.6
31-35 years	16	15.1
36-40 years	15	14.2
41-45 years	3	1.9
Above 45 years	3	1.9
Total	**108**	**100**

Source: Research Findings

4.3.2 Highest Education Level of Respondents

Table 4.3 shows the outcomes on highest educational level. The results show that majority (41.5%) of the respondents from which data was gathered, had attained diploma as their highest educational level. About 35.8 percent were holders of a bachelor's degree as their highest level of education. Furthermore, 17 percent of the respondents were found to have certificates, while 5.7 percent of them were reported to lack any education achievement. The results would mean that the respondents whose researched was conducted on had prerequisite educational level and this would have facilitated the understanding of their business undertakings.

Table 4.3: Education Level of Respondents

Education Level	Frequency	Percent
Undergraduate	38	35.8
Diploma	44	41.5
Certificate	18	17.0
Not educated	8	5.7
Total	**108**	**100**

Source: Research Findings

4.3.3 Length of Business Operation

The research resolved to ascertain the duration of which the respective businesses of various respondents have been in operation. The responses in Table 4.4 reveal that an overwhelming majority (73.6%) of the business had been in operation for a period ranging from 1 – 5 years. Approximately 24.5% of the SMEs have been in operation for a time length of 6 – 10 years, while a few (1.9%) of the SMEs in Langata constituency operated for a period ranging from 11 – 15 years. This could be interpreted that most of the SMEs in Langata constituency are still budding. These results support that of the age of respondents where it was discovered that most of the SMEs were being owned by young adults.

Table 4.4: Years of Business Operation

Duration	Frequency	Percent
1 – 5 years	78	73.6
6- 10 years	26	24.5
11- 15 years	2	1.9
Total	**108**	**100**

Source: Research Findings

4.4 Credit Accessibility

4.4.1 Sources of Business Financing

The study ascertained to establish the major source(s) of financing of SMEs in Langata constituency and the findings are as indicated in Table 4.5. From the outcomes given, it can be construed that most of the respondents (59.3%) depend on their savings as a major form of supporting their businesses financially. About 21.3% of the respondents rely on friends and relatives, 11.1% get financed through Savings and Credit Cooperative Societies (SACCOs) and Chamaa memberships, while a small percentage (8.3%) of the respondents indicated that they source their finances from banks and other financial institutions. This could imply most of the SMEs operators in Langata constituency have the ability to support their businesses through savings. This is a good indicator of business sustainability. On other hand, it would mean that SMEs in Langata constituency do not prefer taking loans or they might be scared to take loans due to conditions available.

Table 4.5: Sources of Business Financing

Sources	Frequency	Percent
Savings	64	59.3
Borrowings from friends/ relatives	23	21.3
SACCOs or Chamas	12	11.1
Bank Loan or loans from other financial institutions	9	8.3
Total	**108**	**100**

Source: Research Findings

4.4.2 Adequacy of Start-Up Capital

The research further sought to determine whether the start-up capital for SMEs in Langata constituency was adequate. From the findings provided in Table 4.6, it is clear that overwhelming majority (81.5%) of the respondents affirmed that their business start-up capital was adequate. On contrary, 18.5 percent of the respondents reported that they did not have enough capital at the time when they were starting their businesses. This could imply that respondents take adequate time to plan for capital before starting their businesses and therefore the findings can be linked to that of sources of financing where it was revealed that most of the respondents relied on their own savings.

Table 4.6: Adequacy of Start-Up Capital

Responses	Frequency	Percent
Adequate	88	81.5
Not adequate	20	18.5
Total	**108**	**100**

Source: Research Findings

4.4.3 Loan Application

The study further required to establish whether the respondents had ever applied for a loan from any financial institution. The outcomes are as indicated in Table 4.7. Most of the respondents (61.3%) confessed to have applied loan(s) from financial institutions while 38.7% seem not to have ever applied a loan from financial institutions. These results are contrary to that given in 4.4.1 on the sources of business financing and therefore an indication that business owners in Langata constituency request for loans but they are denied or do not meet the requirements.

Table 4.7: Loan Application

Responses	Frequency	Percent
Yes	66	61.1
No	42	38.9
Total	**108**	**100**

Source: Research Findings

4.4.4 Whether Credit Offered Improved Business Performance

For those who applied for loan and were given, were therefore required to indicate whether the loan given to them enhanced their business performance or not. The results displayed in Table 4.8 show that overwhelming majority (80%) of the respondents revealed that the credit offered by financial institutions promoted the performance of their businesses. The remaining 20% of the respondents disclosed that the credit gotten from financial institutions did not change their businesses for the better. This is an indication that credit offered by financial institution has a high chance of benefitting SMEs in Langata constituency.

Table 4.8: Credit Offered Improving Business Performance

Responses	Frequency	Percent
Yes	52	80.0
No	13	20.0
Total	**65**	**100**

Source: Research Findings

4.4.5 Rating Credit Services Offered by Financial Institutions

The respondents were required to rate the credit services offered in their vicinity and the responses are as indicated in Table 4.9. From the results shown, it can be deduced that majority (60.9) of the respondents who participated in this survey and had ever accessed credit from financial institutions confirmed that the services offered by credit facilities in their area were effective. Approximately 23% of them said that they were neutral, while 16.1% rated the services as average.

Table 4.9: Rating Credit Services Offered by Financial Institutions

Rate	Frequency	Percent
Poor	0	0.0
Average	14	16.1
Neutral	20	23.0
Effective	53	60.9
Very effective	0	0.0
Total	**87**	**100**

Source: Research Findings

4.4.6 Collateral and Credit Accessibility

Based on the likert scale of 1 – 5 where (1) meant strongly disagree, (2) represented Disagree, (3) stood for Neutral, (4) was agree, and (5) signified strongly agree, the respondents were asked to indicate their level of agreement on the aspect of collateral and credit accessibility. From the results presented in Table 4.10, it can be construed that 40.6% of the respondents disagreed that on several occasions they had applied for a loan to boost their businesses but were declined due to lack of collateral security. Those who agreed to this statement had a representation of 23.4%. About 20.4% of the respondents strongly agreed that they had applied for a loan to boost their businesses on several occasions, but were not given because they lacked items to guarantee the loan requested, while 15.6% of them strongly disagreed to this statement.

On statement of whether financial institutions were focusing more on potential to repay loan rather than on collateral security, 48.4% of the respondents disagreed with it, 36% agreed to it while those who were neutral and those who strongly agreed each were represented by 7.8% respectively. Furthermore, majority (60.3%) of the respondents agreed on the statement that they were pushed to seek other means funding their business which included borrowing from relatives and buying on credit due to the requirements to provide security for their loan. On other hand, the remaining 39.7% of the respondents felt otherwise.

Moreover, the study sought the respondents' opinion on the statement of whether at times they apply for loans as a group/Chama because they can easily co-guarantee each other. Based on the results, 51.6% agreed to it, 37.5% of the respondents who participated in this study strongly agreed to this statement, while 10.9% of them were neutral about this issue. Additionally, 43.5% of the respondents agreed that financial institutions insist on the provision of collateral security as a primary lending condition. An estimate of about 30.4% of the respondents strongly agreed to this statement. However, 14.5% of the respondents disagreed to the statement that financial institutions insist on the provision of collateral security as a primary lending condition, while 11.5% of them had neutral opinion on the same statement.

The other statement was on the aspect of analyzing the likelihood of loan repayment, and whether financial institutions adopt a risk averse stance towards small firms instead of focusing on income generating potential of an entity. Around 67.2% of the respondents agreed to this statement, 12.2% of the respondents strongly agreed with it, while those who were neutral to this statement and those who disagreed to it had a representation of 10.3% each.

Table 4.10: Collateral and Credit Accessibility

	Percentage Distribution of Responses					
Opinion on Collateral	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Total**
On several occasions I have applied for a loan to boost my business but declined because I lacked collateral security	15.6	40.6	0.0	23.4	20.4	**100**
Financial institutions are focusing more on potential to repay loan rather than on collateral in our business	0.0	48.4	7.8	36.0	7.8	**100**
The requirements that I provide security for my loan have pushed me to seek other means to fund my business such as borrowing from relatives and buying on credit.	0.0	39.7	0.0	60.3	0.0	**100**
At times we apply for loans as a group/Chama because we can easily co-guarantee each other	0.0	0.0	10.9	51.6	37.5	**100**
Financial institutions insist on the provision of collateral security as a primary lending condition.	0.0	14.5	11.6	43.5	30.4	**100**
When analyzing the likelihood of loan repayment, financial institutions adopt a risk averse stance towards small firms instead of focusing on income generating potential of an entity.	0.0	10.3	10.3	67.2	12.2	**100**
Requirement posited by financial institutions and 'shylocks' in lending requirements have discouraged me from borrowing, since some lending institutions prefer lending to the large scale businesses which seem successful.	0.0	24.6	34.8	33.3	7.3	**100**
Financial institutions are reluctant to avail credit to us since we work informally while it is difficult for us to provide acceptable confirmation of our earnings.	0.0	24.6	37.7	30.4	7.3	**100**

Source: Research Findings

The research further sought to determine the level of agreement of respondents on whether requirement posited by financial institutions and 'shylocks' in lending had discouraged them from borrowing, since some lending institutions prefer lending to the large scale businesses which seem successful, it was discovered that 34.8% of the respondents had neutral opinion towards this claim, 33.3% agreed to it, 24.6% of them disagreed to this opinion and 7.3% strongly agreed that the requirement posited by financial institutions and 'shylocks' in lending had discouraged them from borrowing, since some lending institutions prefer lending to the large scale businesses which seem successful. About 37.7% of the respondents had neutral view on the aspect of financial institutions being reluctant to avail credit to business owner since they work informally while making it difficult for them to provide acceptable confirmation of their earnings. About 30.4% of the respondents agreed to this statement, 24.6% disagreed, while a few 7.3% of them strongly agreed to it.

4.4.7 Interest Charged and Credit Accessibility

On the aspect of interest charged by financial institutions and credit accessibility, the upshots are as displayed in Table 4.11. It can be construed that 60.5% of the participants of this research agreed to the statement that interest rates charged by institutions are high. On the same note, 26.3% of the respondents strongly agreed to this statement. On other hand, 13.2% of them felt that the interest charged by the financial institutions were reasonable. To add on that, 60.9% of the respondents agreed to the opinion that at times interest rate charged on some loans depends on the security provided or nature of business, 34.8% of them gave neutral view on this statement, while very few (4.3%) among the respondents disagreed with this statement.

Respondents had equally divided view on the phrase of there being unrealistic credit processing costs and charges, as those who agreed to it and those who disagreed each had 34.6% respectively. About 21.2% of the respondents had neutral opinions, while 9.6% strongly agreed with statement. Based on the aspect of financial institutions resolving to use unrealistic means of recovery for failure to repay a loan especially when trading conditions are unfavorable, an overwhelming number (89.1%) were in agreement to this statement, 7.8% were neutral, while 3.1% strongly agreed to it.

Table 4.11: Interest Charged and Credit Accessibility

Opinion on Interest Charged	Percentage Distribution of Responses					
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Total**
Interest rates charged by institutions are high	0.0	13.2	0.0	60.5	26.3	**100**
At times interest rate charged on some loans is dependent on the security provided or nature of business.	0.0	4.3	34.8	60.9	0.0	**100**
There are unrealistic credit processing costs and charges.	0.0	34.6	21.2	34.6	9.6	**100**
Financial institutions at times resolve to use unrealistic means of recovery for failure to repay a loan especially when trading conditions are unfavorable.	0.0	0.0	7.8	89.1	3.1	**100**
The interest rate charged by financial institutions discourages us from borrowing because they are very high.	0.0	3.2	48.4	48.4	0.0	**100**
I shy from applying for a loan since the financial institutions do not consider my ability to meet the interest rate set.	7.8	48.4	18.8	25.0	0.0	**100**
Failure to repay on time leads to the financial institutions confiscating business asset which affects my day to day running of the business and this discourages me from borrowing.	0.0	3.1	34.4	50.0	12.5	**100**
Financial institutions lend on short term basis with high interest rate and this hinders me from credit accessibility.	0.0	3.4	20.7	56.9	19.0	**100**

Source: Research Findings

In addition, respondents had equally divided viewpoints on the issue of high interest rate charged by financial institutions discouraging them from borrowing. Where those who agreed to it and the respondents who had neutral views tied on 48.4%, respectively. On the other hand, 3.2% of the respondents disagreed that the high interest rate being charged by financial institutions discouraged them from borrowing. Concerning the level of respondents' agreement on the aspect of them shying away from applying for a loan due to financial institutions not considering their ability to meet the interest rate set, 48.4% disagreed, 25% agreed 18.8% were neutral and 7.8% of the respondents strongly disagreed.

On whether failure to repay on time led to the financial institutions confiscating business assets which affected the running of the business and therefore discouraging respondents from borrowing, a half of the respondents (50%) agreed to this opinion, 34.4% were neutral, 12.5% strongly agreed with this statement, while only 3.1% disagreed. Ultimately, the study sought the respondents' opinion on whether financial institutions lend on short term basis with high interest rate and if this hindered them from credit accessibility. More than a half (56.9%) of the respondents agreed to this declaration, 20.7% were neutral about it, 19% strongly agreed to it and 3.4% disagreed.

4.4.8 Entrepreneurial Literacy and Credit Accessibility

In determination of credit accessibility based on entrepreneurial literacy, 39.8% of the respondents strongly disagreed with the statement that they didn't know of the legal issues that are needed to address access to credit for their businesses because conditions of laws and regulations are very complex. About 34.9 disagreed to it, 16.9% of them strongly agreed with this assertion, while 8.4% agreed with it. On the expression of explain whether the respondent's education level equipped them with the knowledge and skills that were needed to be more effective in managing their businesses, 55.3% of them agreed to this statement and 42.7% of the respondents strongly agreed with it. On contrary, only 2% of the respondents disagreed with this statement. An estimate of 56.7% of the respondents agreed that their academic qualification helped them in making financial decisions for their businesses, 40.4% of them strongly agreed while 2.9% had neutral views.

About 75.4% of the respondents agreed that level of education has positive influence on when/how to get loans to improve the business, 17.4% of the respondents strongly agreed with this statement while 7.2% were neutral. The respondents were further asked to give their viewpoints on the aspect of discouragement from borrowing a loan due to the fact that information related to availability and charges was not communicated in a language in which they are able to interpret. In this respect, 36.8% disagreed, 21.1% strongly disagreed, and on the other hand 17.5% of them strongly agreed, 15.8% agreed, while 8.8% were neutral on this statement. Majority (76.5%) of the respondents were neutral on the statement that financial institutions in their area had been introducing programs where credit was linked to education, health, nutrition and other non-financial services, 18.5% agreed with it, and 5% disagreed.

Table 4.12: Entrepreneurial Literacy and Credit Accessibility

	Percentage Distribution of Responses					
Opinion on Entrepreneurs Literacy	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Total**
I don't know of the legal issues that are needed to address access to credit for my business because conditions of laws and regulations are very complex**.**	39.8	34.9	0.0	8.4	16.9	**100**
My education level equips me with the knowledge and skills that are needed to be more effective in managing our business	0.0	2.0	0.0	55.3	42.7	**100**
My academic qualification helps me in making financial decisions for my business	0.0	0.0	2.9	56.7	40.4	**100**
Level of education has positive influence on when/how to get loans to improve the business	0.0	0.0	7.2	75.4	17.4	**100**
I am discouraged from borrowing a loan because the information on availability and charges is not communicated in a language I can interpret.	21.1	36.8	8.8	15.8	17.5	**100**
Financial institutions in this area have been introducing programs where credit is linked to education, health, nutrition and other non-financial services	0.0	5.0	76.5	18.5	0.0	**100**
Financial institutions have increasingly focused on cost effectively integrating credit with other types of services thus creating links with us in order to enhance our services.	0.0	4.8	76.2	13.0	6.0	**100**
Financial institutions have adopted to offer training sessions which creates awareness of their products that are of benefit to my business.	0.0	4.8	75.0	20.2	0.0	**100**
Trainings have enabled me run my business effectively and I have realized an increase in sales and profitability.	0.0	7.1	72.6	14.3	6.0	**100**
I have realized increase in business related outcomes such as revenues and profits due to trainings undergone.	0.0	7.1	78.6	11.9	2.4	**100**

Source: Research Findings

Similarly, majority (76.2%) of the respondents were neutral on the statement that financial institutions were increasingly focusing on cost effectively integrating credit with other types of services thus creating links with their clients in order to enhance their services, 13% agreed with it, 6% strongly agreed, while 4.8% disagreed. An approximately 75% of the respondents under study provided neutral perspective on the matter of financial institutions having adopted to offer training sessions which creates awareness of their products that are of benefit to businesses, 20.2% agreed to this statement, 4.8% disagreed. An estimate of 72.6% of the SMEs' respondents had neutral views on the subject of trainings enabling them run their businesses effectively and they had realized any increase in sales and profitability, 14.3% agreed with this phrase, 7.1% disagreed and 6% strongly agreed with it.Ultimately, on the phrase of whether respondents had realized increase in business related outcomes such as revenues and profits due to trainings undergone, 78.6% of the respondents gave a neutral opinion, 11.9% agreed with it 7.1% disagreed while those who strongly disagreed were represented by 2.4%.

4.4.9 Availability of Lending Institutions and Credit Accessibility

On different note, the study sought to establish how credit accessibility can be enabled through availability of lending institutions and the findings are as indicated in Table 4.13. It can be revealed that majority (61%) of the respondents agreed with the statement the presence of financial institutions in their area had enabled them mobilize savings which resulted to more capital injection in the businesses. In addition, 39% of the respondents strongly agreed with this assertion.On whether the respondents had established a personal relationship with the financier that led to enhanced credit availability, 36.4% agreed, 27.2% strongly agreed, while those who were neutral and those who disagreed had same representation of 18.2% each.

On other hand, respondents had equally divided minds on the aspect of duration of relationship with financier determining credit accessibility, since 50% of them were neutral on this view while the other half agreed. About 53.8% agreed with the affirmation that availability financial institution has improved credit accessibility to most of the small and medium entrepreneurs and leading to business growth, 42.4% supported this statement strongly while 3.8% of the respondents were neutral on this declaration. On different note, a half of the respondents had neutral view on the assertion that there has been more focus on financial institution services emerging that attract the interests of donor agencies including NGOs, credit unions and nonbanking financial intermediaries to provide credit services, 42.9% agreed with it, while 7.1% of the respondents strongly agreed with it.

Table 4.13: Lending Institutions and Credit Accessibility

	Percentage Distribution of Responses					
Opinion on Lending Institutions	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Total**
The presence of financial institutions in our area has enabled us mobilize savings which has resulted to more capital injection in the businesses.	0.0	0.0	0.0	61.0	39.0	**100**
I have established a personal relationship with the financier which has enhanced credit availability	0.0	18.2	18.2	36.4	27.2	**100**
Duration of my relationship with my financier determines whether I can access credit	0.0	0.0	50.0	50.0	0.0	**100**
Access to financial institution has improved credit accessibility to most of the small and medium entrepreneurs and this has led to business growth.	0.0	0.0	3.8	53.8	42.4	**100**
Recently there are more focused financial institution services emerging hence attracting the interests of donor agencies including NGOs, credit unions and nonbanking financial intermediaries to provide credit services	0.0	0.0	50.0	42.9	7.1	**100**
Most of entrepreneurs, through financial institutions have realized an effective way to integrate access to financial services	0.0	0.0	8.7	51.5	39.8	**100**
Increase in demand for credit services has led to financial institutions incorporating mobile money transfer services	0.0	0.0	3.8	51.4	44.8	**100**
Many financial institutions have no tailor-made products that suit our needs.	0.0	6.1	72.6	15.2	6.1	**100**

Source: Research Findings

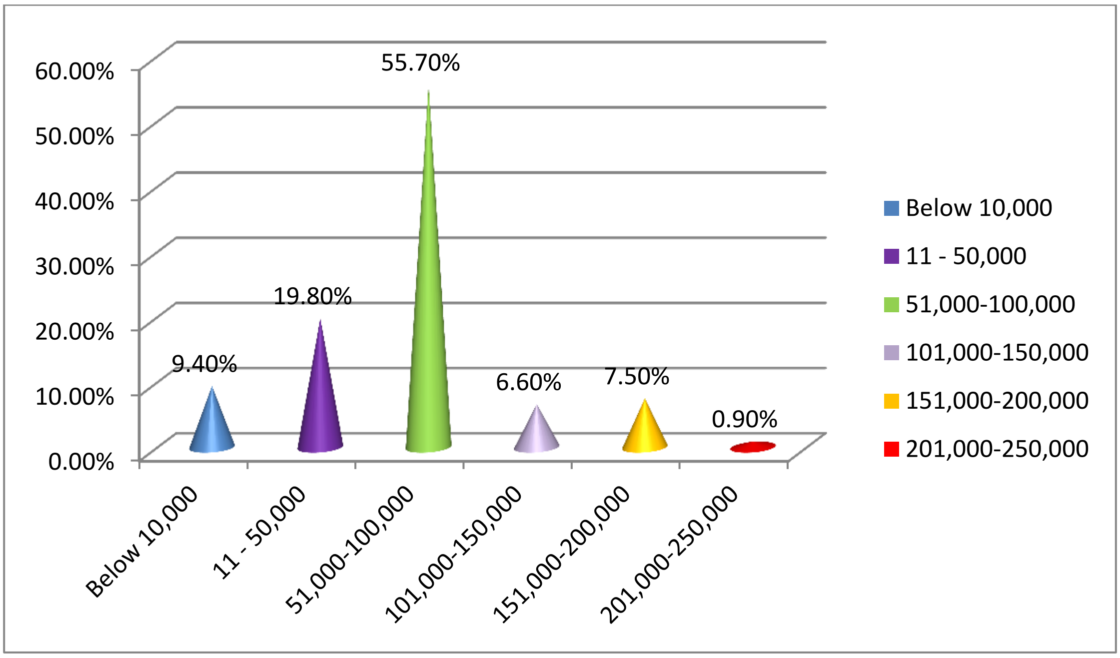
The study further sought the respondents' level of agreement with statement that most of entrepreneurs, through financial institutions had realized an effective way to integrate access to financial services. An estimate 51.5% of them agreed to this phrase, 39.8% of them strongly agreed with it and very few (8.7%) of the respondents were neutral on this view. Likewise, 51.4% agreed that increase in demand for credit services led to financial institutions incorporating mobile money transfer services. On the same note, 44.8% of the respondents strongly agreed with this statement, while 3.8% had neutral opinion. Overwhelmingly, 72.6% of the respondents were neutral on the issue that many financial institutions have no tailor-made products that suit their needs, 15.2% agreed with this assertion while those who strongly agreed and those who disagreed with this affirmation each had a representation of 6.1%.

4.5SME's Growth

4.5.1 Initial Capital

On the question of average start-up capital the respondents invested in their businesses, the results are as indicated in Figure 4.1.

Figure 4.1: Start-up Capital



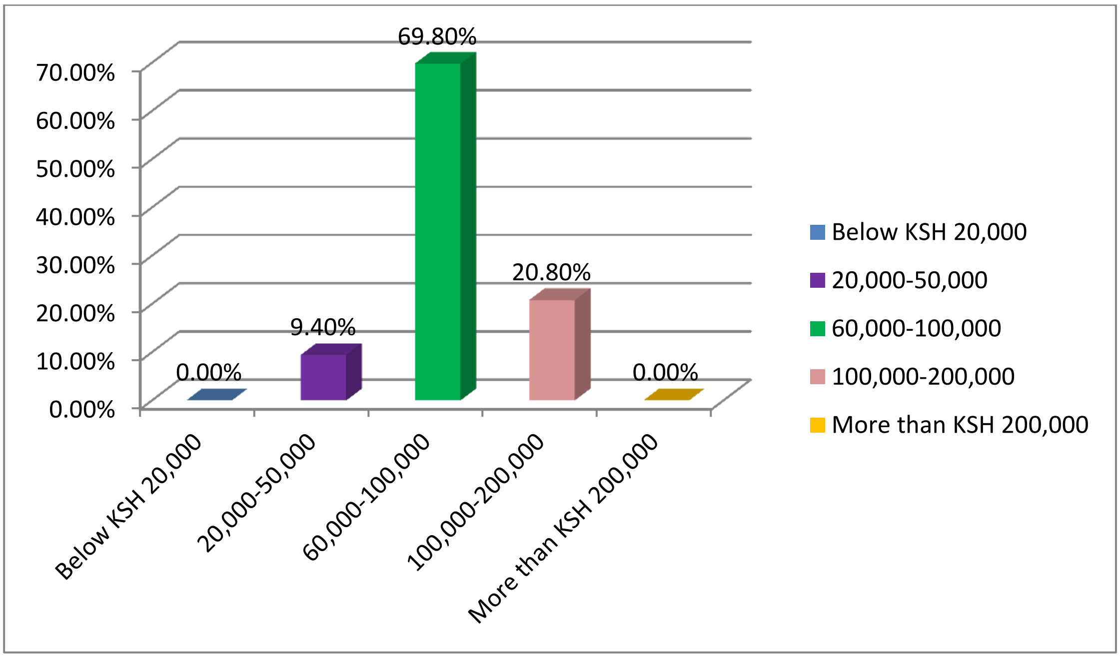
Source: Research Findings

More than a half (55.70%) of the respondents revealed that on average they invested a start-capital of between Ksh. 51,000 and 100,000. Those who invested a start-up of between Ksh. 11,000 and Ksh. Ksh. 50,000 had a representation of 19.80%. About 9.40% disclosed that the average capital they invested in their business was below Ksh. 10,000. An estimate of 7.50% said that they had an initial capital ranging from Ksh. 151,000 to Ksh. 200,000, those who had an initial capital of between Ksh. 101,000 and Ksh. 150,000 had a margin of 6.60%, while a minute percentage of 0.90% were found to have a start-up capital of between Ksh. 201,000 and Ksh. 250,000.

4.5.2 Initial Capital

As indicated in Figure 4.2, about 68.80 percent stated that they registered average annual sales of between Ksh. 60,000 and Ksh. 100,000. Sales turnover of between Ksh. 100,000 and 200,000 per annum was report by 20.80% of the respondents and those who registered a year sales turnover ranging from Ksh. 20,000 to Ksh. 50,000 had 9.40%. However, none of the respondents had an annual sales turnover in the categories of below Ksh. 20,000 and more than Ksh. 200,000 respectively.

Figure 4.2: Total Annual Sales



Source: Research Findings

4.6 The Effect of Credit Accessibility on SMEs' Growth.

This section focuses on estimating how the independent variables influence the dependent variable. The coefficient of determination, R^2 was used to give the proportion of the variation of one variable that is predictable from the other variables. This measure allowed the study to determine how predictor variables were used to make predictions from a regression model used in the study. Therefore, coefficient of determination was used as a ratio of the explained variation to the total variation; such that $0 \leq r^2 \leq 1$, and denotes the strength of the linear association between X and Y (Zikmund, Babin, Carr & Griffin, 2013).

4.6.1 Model Summary

The model summary is of a linear relationship between the predictor variables which in this case were collateral security, interest charged, entrepreneurial literacy, as well as number of lending institutions, and dependent variable which was proxied by growth of SMEs revealed an estimated R^2 value of 0.403 as indicated in Table 4.14. This could be interpreted that the independent variables used in this study jointly are able to explain 40.3% of the variations in dependent variable. This is an indication that there exist other factors other than those used by this study, which can be included in the model to improve it. However, these constructs were found fit to explain the dependent variable.

Table 4.14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.635[a]	0.403	0.379	0.608541

a. Predictors: (Constant), Collateral security, Interest rates, Entrepreneurial literacy, Number of lending institutions

Source: Research Findings

4.6.2 Analysis of Variance (ANOVA)

Table 4.15 presents the results of ANOVA. The estimates of regression gave an ANOVA results with a regression sum square of 25.709 and a model residual's of 38.143 with a mean square of 6.427 for the regression and 0.370for the residuals. The

ANOVA results provided an *F*- test value of 17.356 and a$p < 0.000$. This would indicate that the possibility of this regression model giving false prediction is 0.0%. According to Rumsey (2011) a small *p* – value (typically ≤ 0.05) indicates strong evidence and a large *p* – value (> 0.05) indicates weak evidence.

Table 4.15: ANOVA

	Model	Sum of Squares	Df	Mean Square	F	Sig.
	Regression	25.709	4	6.427	17.356	.000[b]
1	Residual	38.143	103	0.370		
	Total	63.852	107			

a. Dependent Variable: Growth of SMEs

b. Predictors: (Constant), Collateral security, Interest rates, Entrepreneurial Literacy, Number of lending institutions

Source: Research Findings

4.6.3 Beta Coefficients

The regression model tested the effect of each predictor variable on dependent variable where beta coefficients were used to indicate variance relationship and *t* – values and *p* – values were used to determine the significance these variables as seen in Table 4.16. The results show that number of lending institutions have a positive relationship towards growth of SMEs since it provided significant coefficient of 0.493, (t =6.807) and *p* – value of 0.000. This would imply that an increase in the number of lending institutions increases the chances of an SME to grow since they will be able to access to loan facilities. On the other hand, entrepreneurial literacy produced a significant but negative effect towards SMEs' growth with a coefficient value of -0.266 with an absolute *t* –value of4.274, and *p* – value of 0.000. An indication that growth of a given SME does not rely on the entrepreneurial trainings undertaken by an individual, but the availability of resources and how well they are managed. However, items given to guarantee a loan as well as interest rate charged by financial institutions do not seem to influence growth of SMEs since they both had higher *p* – values ($p > 0.05$).

Table 4.16: Beta Coefficients

Variables	B	Std. Error	Beta	*T*	Sig.
(Constant)	2.625	0.296		8.878	0.000
Collateral Security	-0.090	0.059	-0.204	-1.530	0.129
Interest Rates	0.044	0.067	0.100	0.657	0.513
Entrepreneur Literacy	-0.266	0.062	-0.491	-4.274	0.000
Number of Lending Institutions	0.493	0.072	0.556	6.807	0.000

a. Dependent Variable: Growth of SMEs

Source: Research Findings

4.7 Effect of Owner Characteristics and Credit Accessibility on Growth of SMEs

This sub-section presented the findings on the effect of collateral security, interest rates, entrepreneurial literacy, and number of lending institutions, controlled by age of respondents, education level, and years of operations on growth of SMEs.

4.7.1 Model Summary

Upon inclusion of the owner characteristics in the relationship between credit accessibility and growth of SMEs, the R^2 value of the model improved from0.403 to 0.679 as indicated in Table 4.17. This could therefore imply that collateral security, interest rates, entrepreneurial literacy, number of lending institutions, accompanied by age of respondents, education level, and years of operations altogether can explain 67.9% of the variance of SMEs' Growth.

Table 4.17: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.824[a]	0.679	0.657	0.452410

a. Predictors: (Constant), Collateral security, Interest rates, Entrepreneurial literacy, Number of lending institutions, Age, Education level, Years in operations

Source: Research Findings

4.7.2 ANOVA

The results of ANOVA are as presented Table 4.18. The model provided a regression sum square of 43.384 and a residual's of 20.467 with a mean square of 6.198 for the regression and 0.205 for the residuals. The ANOVA results provided an *F*- test value of 30.281 and a$p < 0.000$. An implication that a combine effect of collateral security, interest rates, entrepreneurial literacy, number of lending institutions, age, education level, as well as years of business operations have significance prediction on the growth of SMEs.

Table 4.18: Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	43.384	7	6.198	30.281	0.000[b]
1	Residual	20.467	100	0.205		
	Total	63.852	107			

a. Dependent Variable: Growth of SMEs

b. Predictors: (Constant), Collateral security, Interest rates, Entrepreneurial literacy level, Number of lending institutions, Age, Education level, Years of operations

Source: Research Findings

4.7.3 Beta Coefficients

The results on the regression coefficients of individual predictor variables are as illustrated in Table 4.19. With inclusion of control variables, the findings indicate that only number of lending institutions and education level were found to have a significant effect on growth of SMEs. The results show that an increase in the number of lending institutions has the ability of increasing growth of an SME by 33.2% t = 5.799) and a p – value of 0.000. In addition, it can be revealed that the higher the education level of the owner manager, the higher chances of growing his/her business. This is because growth of SMEs to some extent requires basic education to manage and also education level is applicable to credit accessibility since it involves process of filling entries. This is because the education level produced a coefficient of 0.423 with t – value of 3.712 and a p – value of 0.000. On contrary, collateral security, interest rates, entrepreneurial literacy, age, and years of operations, tend not to have a significant effect on growth of an SME due to the fact that they p – values exceeded the recommended critical value of 0.05.

Table 4.19: Beta Coefficients

Variables	B	Std. Error	Beta	*T*	Sig.
(Constant)	1.179	.270		4.366	.000
Collateral	.008	.045	.018	.172	.864
Interest rates	.003	.050	.008	.069	.945
Entrepreneurial Literacy	-.062	.053	-.115	-1.168	.246
Number of Lending Institutions	.332	.057	.374	5.799	.000
Age of Respondents	.136	.095	.219	1.435	.155
Education level	.423	.114	.519	3.712	.000
Years in operations	-.068	.175	-.046	-.390	.697

a. Dependent Variable: Growth of SMEs

Source: Research Findings

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the study, findings and conclusion made in relation to the findings. The chapter also provides the recommendations based on the findings of the study.

5.2 Summary of Major Findings

This section covers the summary of the research findings which was done based on the study objective. The study reported a response rate of seventy two percent. The results show that there was fair distribution of the respondents who participated in this study based on the age, however, it was revealed that youth command a large number of SMEs ownership in Langata constituency. The respondents whose researched was conducted on had prerequisite educational level. It was as well discovered that most of the SMEs in Langata constituency are still budding. A reasonable number of the SMEs operators in Langata constituency have the ability to support their businesses through savings. Respondents were also found to take adequate time to plan for capital before starting their businesses. Majority of the respondents confessed to have applied loan(s) from financial institutions and revealed that the credit offered by financial institutions promoted the performance of their businesses. In addition, the respondents who had ever accessed credit from financial institutions confirmed that the services offered by credit facilities in their area were effective.

The model summary of a linear relationship indicated that the independent variables (collateral security, interest charged, entrepreneurial literacy, as well as number of lending institutions) were significant in determining the growth of SMEs. Based on results of individual variables, the study found out that the number of lending institutions has a positive relationship towards growth of SMEs. On contrary, entrepreneurial literacy produced a significant but negative effect towards SMEs' growth. When control variables were included, the R^2 value of the model improved significantly and the ANOVA output revealed that a combine effect of collateral security, interest rates, entrepreneurial literacy, number of lending institutions, in conjunction with age, education level, as well as years of business operations had significance prediction on the growth of SMEs. The beta coefficient results indicate that an increase in the number of lending institutions has the ability of increasing growth of an SME. In addition, findings revealed that the higher the education level of the owner manager, the higher chances of growing his/her business. On contrary, collateral security, interest rates, entrepreneurial literacy, age, and years of operations, did not have a significant effect on growth of an SME.

5.3 Conclusion of the Study

The main intention of this research was to examine the relationship between credit accessibility and growth of small and micro enterprises in Langata constituency. Based on the findings of this research it can be concluded that SMEs in this area were able to access to credit which in real sense led to promotion of their business growth. This growth was found to be caused by three factors namely number of lending institutions, entrepreneurial literacy and owner’s education level. Both predictor models and SMEs’ growth suggested revealed that credit accessibility do influence growth of SMEs. Therefore this empirical support leads to rejection of any claim credit accessibility has no effect on growth of SMEs.

Nevertheless, the indicators which were found to have statistical significance impact on growth of SMEs as indicated in the two models highlight various major implications. To begin with, accessibility to credit cannot lead to business growth without the presence of lending institutions. The availability of lending institutions tends to attract more creditors since they compete in terms of marketing and efficiency in services delivery.

In addition, education was found to be an essential determinant of SMEs’ growth. An educated SME owner seems to be more informed than those who have no education. Furthermore, loan processes requires some basic education since it involves filling of a number of documents related to loan approval. On the other hand, entrepreneurship literacy was found to relate negatively on growth of an SME. It implies that one does not need to be trained in entrepreneurship to succeed in business, especially where credit accessibility is concerned.

5.4 Recommendation of the Study

From the findings provided by this research, it can be recommended that:

There should be policies put in place to enable SMEs to have easy access to credit. Th is can be done by reduction of bureaucracy and easement of some of the tough conditi ons like that of providing collateral before being awarded a loan.

The government should come up with ways of reducing and regulating the interest rat es. This will save SMEs' from unscrupulous financial institutions who would be charg ing higher interests and to some extend accompanied by some hidden charges.

Business operators should be sensitized on the importance of taking a loan since it wa s revealed that credit accessibility encourages growth of SMEs. This can be done thro ugh public forums, social groups as well as media.

Government should link up with potential investors to ensure availability and accessib ility of financial institutions. The more the number of lending institutions available in the area, the more likely an SME would be reached.

5.5 Limitations of the Study

The study used stratified sampling technique to select a sample of 150 respondents. It would have been appropriate to use a large sample. More so the study ought to have used SMEs from single sub-county since there are possibilities of non-similarity of problems in different areas. The current study used closed ended and open ended questionnaire to collect the data. It would have been appropriate to use both qualitative and quantitative methods of data collection.

5.6 Suggestion for Further Research

There is a need for further studies whose data should be based on use of more wide scope comprising of a larger sample size to help in understanding more on how credit accessibility affect growth of SMEs. By doing this, the generalization of the results will be justified. Furthermore, the study suggests that there should be more investigation on the consequences and antecedents of credit accessibility and business growth among both SMEs and MSEs.

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APPENDIX: QUESTIONNAIRE

Theme: The Relationship between Credit Accessibility and Growth of Small and Micro Enterprises in Langata Constituency

I am a Master of Business Administration student at The University of Nairobi. I have design the following questionnaire based on the above topic. I kindly request you answer all the questions to the best of your knowledge. All information collected via this questionnaire is confidential and will only be used for the purpose of this research.

Instructions: Indicate with a tick (√) or mark (X) in the space(s) provided.

Section A: General Information

1. What is your age group?

Less than 20 years [ ]   21-25 years []

26-30 years [ ]   31-35 years [ ]

36-40 years [ ]   41-45 years [ ]

Above 45 years [ ]

2. Highest education level

Masters [ ]   Undergraduate [ ]   Diploma [ ]   Certificate [ ]

Not educated [ ]

3. How many years has your business been in operation?

1 – 5 years [ ]   6- 10 years [ ]   11- 15 years []
16 – 20 years [ ]   More than 20 years [ ]

Part B: Credit Accessibility

4. What is/are your major source(s) of financing? (Tick where appropriate)

Savings[ ] Bank Loan or loans from other financial institutions [ ]

Borrowings from friends/ relatives [ ]

Other sources (please specify) ………………………………………………

5. Would you say that the start-up capital was adequate?

Adequate [ ] Not adequate [ ]

6. Have you applied for credit/loan in the past from any financial institution?

Yes [ ] No [ ]

If Yes in 6 above, do the credit offered from the financial institution improve your business performance?

Yes [ ] No [ ]

7. Rate the credit services offered by financial institution in your area?

Poor [ ] Average [ ] Neutral [ ]
Effective [ ] Very effective [ ]

8. Indicate your level of agreement with the following aspects of collateral and credit accessibility among SMEs by using a scale of 1-5, where (1) Strongly disagree, (2) Disagree, (3) Not Certain, (4) Agree, (5) Strongly agree

	Rankings	**1**	**2**	**3**	**4**	**5**
a	On several occasions I have applied for a loan to boost my business but declined because I lacked collateral security.					
b	Financial institutions are focusing more on potential to repay loan rather than on collateral in our business					
c	The requirements that I provide security for my loan havepushed meto seek other means to fund my business such as borrowing from relatives and buying on credit.					
d	At times we apply for loans as a group/Chama because we can easily co-guarantee each other.					
e	Financial institutions insist on the provision of collateral security as a primary lending condition.					
f	When analyzing the likelihood of loan repayment, financial institutions adopt a risk averse stance towards small firms instead of focusing on income generating potential of an entity.					
g	Requirement posited by financial institutions and 'shylocks' in lending requirements have discouraged me from borrowing, since some lending institutions prefer lending to the large scale businesses which seem successful.					
h	Financial institutions are reluctant to avail credit to us since we work informally while it is difficult for us to provide acceptableconfirmation of our earnings.					

9. Indicate how much you agree with the following statements relating to interest rate charged and its influence on credit availability among small and medium sized enterprises by using a scale of 1-5, where (1) strongly disagree, (2) disagree, (3) Not certain, (4) agree, (5) strongly agree.

	Rankings	**1**	**2**	**3**	**4**	**5**
a	Interest rates charged by institutions are high					
b	At times interest rate charged on some loans is dependent on the security provided or nature of business.					
c	There are unrealistic credit processing costs and charges.					
d	Financial institutions at times resolve to use unrealistic means of recovery for failure to repay a loan especially when trading conditions are unfavorable.					
e	The interest rate charged by financial institutions discourages us from borrowing because they are very high.					
f	I shy from applying for a loan since the financial institutions do not consider my ability to meet the interest rate set.					
g	Failure to repay on time leads to the financial institutions confiscatingbusiness asset which affects my day to day running of the business and this discourages me from borrowing.					
h	Financial institutions lend on short term basis with high interest rate and this hinders me from credit.					

10. What is your level of agreement with the following statements relating to entrepreneurs literacy level and credit access. Use a scale of 1-5, where (1) strongly disagree, (2) disagree, (3) Not certain, (4) agree, (5) strongly agree.

	Rankings	**1**	**2**	**3**	**4**	**5**
a	I don't know of the legal issues that are needed to address access to credit for my business because conditions of laws and regulations are very complex.					
b	My education level equips me with the knowledge and skills that are needed to be more effective in managing our business					
c	My academic qualification helps me in making financial decisions for my business					
d	Level of education has positive influence on when/how to get loans to improve the business					
e	I am discouraged from borrowing a loan because the information on availability and charges is not communicated in a language I can interpret.					
f	Financial institutions in this area have been introducing programs where credit is linked to education, health, nutrition and other non-financial services					
g	Financial institutions have increasingly focused on cost effectively integrating credit with other types of services thus creating links with us in order to enhance our services.					
h	Financial institutions have adopted to offer training sessions which creates awareness of their products that are of benefit to my business.					
i	Trainings have enabled me run my business effectively and I have realized an increase in sales and profitability.					
k	I have realized increase in business related outcomes such as revenues and profits due to trainings undergone.					

11. In your opinion indicate your level of agreement with the statements below relating to number of lending institution and its influence credit accessibility among SMEs? Use a scale of 1-5, where (1) Strongly disagree, (2) Disagree, (3) Not certain, (4) Agree, (5) Strongly agree

	Factors	**1**	**2**	**3**	**4**	**5**
a	The presence of financial institutions in our area has enabled us mobilize savings which has resulted to more capital injection in the businesses.					
b	I have established a personal relationship with the financier which has enhanced credit availability					
c	Duration of my relationship with my financier determines whether I can access credit					
d	Access to financial institution has improved credit accessibility to most of the small and medium entrepreneurs and this has led to business growth.					
e	Recently there are more focused financial institution services emerging hence attracting the interests of donor agencies including NGOs, credit unions and nonbanking financial intermediaries to provide credit services					
f	Most of entrepreneurs, through financial institutions have realized an effective way to integrate access to financial services					
g	Increase in demand for credit services has led to financial institutions incorporating mobile money transfer services					
h	Many financial institutions have not tailor made products that suits our needs.					

Section Three: Growth of SMEs

1. On average, how much start-up capital did you invest in Kenya shillings?

Below 10,000 [ ]   11 - 50,000 [ ] 51,000-100,000 [ ]   101,000-150,000 [ ]151,000-200,000 [ ] 201,000-250,000 [ ]   Above 250,000 [ ]

2. On average, what is the range of the enterprise's total sales per year? (Tick appropriately)

Below KSH 20,000	
Between KSH 20,000 and 50,000	
Between KSH 60,000 and 100,000	
Above KSH 100,000 and 200,000	
Morethan KSH 200,000	

Thank you for Participating