

**DETERMINANTS OF SMALL AND MEDIUM ENTERPRISES'
FINANCING BY REGISTERED FINANCIAL INSTITUTIONS IN
UASIN GISHU COUNTY, KENYA.**

BY

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DECLARATION

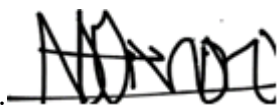
This research project is my original work and has not been presented for the award of a degree in any academic institution.

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This project has been submitted for examination with my approval as a University of Nairobi Supervisor.

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DEDICATION

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LIST OF ABBREVIATIONS

ACCA:	Association of Chartered Certified Accountants
AMFI:	Association of Microfinance institutions (AMFI)
ANOVA:	Analysis of Variance
BCI:	Business Continuity Institute
CBK:	Central Bank Kenya
IRA:	Insurance regulatory authority
KMO:	Kaiser-Meyer-Olkin – KMO
LPO:	Local Purchase Order
MSA:	Measurement of Sample Adequacy
PCA:	Principal Component Analysis
SASRA:	Sacco Societies Regulatory Authority
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Sciences

ABSTRACT

Small and Medium enterprises play a key role in development of many economies in the world. Despite SMEs being critical in acceleration of economic growth due to employment creation in Kenya, they have faced many challenges in accessing financing from the registered financial institutions. The registered financial institutions are regulated and as a result risk management is very key to them since they are required by their regulators to comply to lending policies before financing SMEs and at the same time the shareholders of the financial institutions and the investors of funds in the financial institutions expect to get a return for their investment. This research was intended evaluate the Determinants of Small and Medium Enterprises' Financing by Registered Financial Institutions in Uasin Gishu County, Kenya. The study was guided the following objectives: To evaluate the determinants of SMEs' financing by the registered financial institutions in Uasin Gishu County, Kenya and to compare financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya. The study was underpinned by three key theories which are the financial inclusion theories, the information asymmetry theory and the financial intermediation theory. This study employed descriptive research to gather quantifiable information through use of open and close-ended questions and the target population of the study was 50 registered financial institutions where data was collected from the key informants of the financial institutions who were either Branch Managers, Relationship/Credit managers or the credit officers. This was a census study where a total of 47 financial institutions were interviewed with respondents being either Credit officers, Branch managers or Credit/Relationship Managers. Exploratory factor analysis was used to analyse data with the aid of the Statistical Package for Social Sciences(SPSS) Version 22. This study adopted a descriptive survey research design and Factor analysis. SPSS was used to analyse descriptive statistics (percentages, and frequencies); and inferential statistics (factor analysis). Analysed data was presented using tables and figures. Using Principal Component Analysis, the key determinants of SMEs Financing by the registered financial institutions in Uasin Gishu County were extracted. The internal factors extracted that are the key determinants of small and medium enterprises financing by registered financial institutions in Uasin Gishu county include the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size. The external factors from the results that are key determinants of small and medium enterprises financing in Uasin Gishu county are the number of lending institutions, provision of small business support services and location of the business enterprise. Comparison was done for criteria banks and microfinance institutions use in finance to SMEs and the results were that they both use the same financing criteria.

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

There are various determinants of small and medium enterprises' financing by the registered financial institutions. This is an issue that needs addressed in terms of decision-making process by the registered financial institutions because the financial institutions are concerned with issue of risk and return trade off when advancing loans to customers. Financial institutions consider credit risk as the greatest risk to them due to the element of default. There are no single determinants that has been agreed by the various researchers since various studies done have come up with different determinants from each study. For instance, Thuku (2017) found that firm's characteristics, entrepreneur's characteristics and financial characteristics are key factors banks consider in Lending customers while Ndung'u (2016) found that number of loaning institutions, loan interest rates charged, collateral offered by SME and literacy levels are key considerations before loaning to customers. Lenders have credit policies in place that guide them in lending so that they mitigate the credit risk. Firms which have no credit access are prone to external shocks (Nkurunziza, 2005). Osano and Languitone (2016) argued that financial accessibility SMEs is an issue that has been of much attention to scholars and policy makers across the globe for a long time. According to ACCA (2009), financing to SMEs is very critical to their development and survival in an economy. Key stakeholders have for a long time been disturbed by lack of financial accessibility by the SMEs.

The theories underpinning this study are the information asymmetry theory, the financial inclusion theory, and the financial intermediation theory. The concept of financial inclusion first introduced in 2005 by the Reserve Bank of India is the ease in which basic financial products and services can be accessed and made available to all

members of the society. This theory is key to this study because there is need to ensure that financial services are accessible to every citizen of a given country without discrimination. Information asymmetry theory was introduced by George Akerlof, Michael Spence, and Joseph Stiglitz in 1970. According to Akerlof (1970), information asymmetry exists in a situation where the seller and the buyer have different information on the product or service. Financial institutions have more information about their products and services than their customers hence leading to market inefficiencies. This theory helps in ensuring that financial institutions have the same information as their customers. Gurley & Shaw (1960), came up with the theory of financial intermediation which ensures that there is flow of resources from the economic units with excess funds to economic units with shortage of funds through financial institutions and at the same time ensuring that there is no information asymmetry and that transaction costs are reduced.

The financial institutions are key in intermediating people who need financing (borrowers) with lenders, Ndikubwimana (2016). In addition to providing financial services they offer advisory services on business management and opportunities for training and administration management. Financial institutions have come up with different ways of advancing funds or loans to SMEs. However, they have challenges in coming up with the best determinants. SMEs are responsible for job creation and ensuring there is sustainable growth of the economy (Legas,2015) and according to Brhane (2014), SMEs are the lifeblood of most countries' economies. The Governments of Kenya Third Medium-Term Plan for 2018–2022 for the achievement the Vision 2030 considers SME sector as a key support sector in the economy. However, despite SMEs being critical in acceleration of economic growth in a country, they have been blocked out from accessing loans due to various determinants which the

financial institutions evaluate. Financial accessibility by the SMEs is very critical as it helps them in boosting their capital base and as a result leading to growth and expansion of their businesses. According to Hallberg (1998) access to loans is an important ingredient to development of SMEs. If there is no financial accessibility by SMEs, then they cannot develop hence slowdown in creation of employment opportunities in the country leading to low economic growth. According to Bowen (2009), credit inaccessibility is a major bottleneck for the development and sustainability of Capital-intensive manufacturing entities.

1.1.1 Determinants of SMEs' Financing

Determinants of SMEs financing are the key factors that influence the financial institutions to grant credit facilities to the borrowers. They are the requirements or the conditions that the borrowers must fulfil before they access the loans from the banks. In order for financial institutions to mitigate risks and safe guard their interests, financial institutions set forth various conditions in which the borrowers must fulfil before they can access credit. According to Chirchir (2017), formal credit access is lacking due to the high default risk among MSEs and due to inadequate credit facilities available. Due to increased loans which are not performing and the strict supervision by the regulators, financial institutions have put in place stringent policies which makes it difficult for the borrowers to access credit.

Some determinants that influence access to credit are the financial characteristics, firm characteristics and entrepreneur characteristics (Kungu, 2011; Thuku, 2017; Penaloza, 2015). The Client character, documentation, business cash flows and performance, collateral, interest rates, Business records, Business structure, Loan Purpose, Age of the Business, nature of business, household income, family net worth, External factors,

demographic characteristics and other financial obligations also are determinants of financial accessibility by SMEs. Stella (2017) found that having collateral, variety of financial institutions, size of the business and being credit worth are key determinants of access to credit. According to Balogun, Agumba, and Ansary (2016), capital base of the firm, size of the firm, duration firm has been in operation and its past records are key in enabling access to finance. According to Erdogan (2019), most researchers have identified the size of the entity and the age of the SME being key in determining access to finance. Evidence gathered from most studies found that firms that are large and have been in operation for long obtain bank loans without difficulties.

1.1.2 Small and Medium Enterprises Financing

Small and Medium Enterprises financing is the funding or advancing credit to medium-sized businesses so that they can have sufficient capital base to enable them grow and develop. According to Kyaw (2008), SMEs require finance in all their development stages which includes start up, developing and when they become public entities. Access to loans means the ease of accessing a loan facility from bank and other financial institutions. Financial accessibility refers to the ability of borrowers which could either be individuals or firms to obtain funding from external sources of finance to enable them address the challenges of cash flow (Osoro & Muturi, 2013). According to Penchansky and Thomas (1981) access to credit is “entry into or use of the health care system, while to others it means the factors that influence entry or use.” Major constraints to SME growth are the supply and access to credit. According to Assefa, Zerfu and Tekle (2014), financial accessibility is the greatest major constraint to business growth. The access to credit has attracted global attention for many decades since SMEs financing is key to growth and development (Osano & Languitone, 2016).

SMEs Financing may come in different forms, equity financing through venture capital and business angels, loans and bank overdrafts; lease finance or hire-purchase arrangements; or venture capital, asset financing, factoring and leasing, invoice discounting, debt financing in form of trade credits and non-bank finances, bank finances, government assistance and Islamic finances for SMEs (Abdulsaleh & Worthington, 2013). Venture capital and schemes for development financing remain the main financing sources for SMEs. The current study is more concerned with SME financing by registered financial institutions which include mainly Commercial banks and Microfinance institutions. Financial inaccessibility slows down the SMEs' performance in Kenya and as a result impacting negatively on economic development. Banks currently thoroughly appraise the loans they give to their customers and ensure that all conditions and their credit policies set are strictly followed so as to manage the risks. There are various loan products that registered financial institutions in Kenya have designed for SMEs which include working capital loans, asset finance loans, farm machinery and equipment loans, housing loans, agricultural loans, trade finance loans, unsecured loans, letter of credit loans, revolving credit loans and lease finance loans among others.

1.1.3 Registered Financial Institutions in Uasin Gishu County

According to Zeller (2003) a registered financial institution is an enterprise, which may be either a commercial entity or non-commercial entity and receives money from customers or investors and lends the same for the benefit of both the customer or investor and the institutions. A registered financial institution is the one that has been registered and regulated in accordance with the regulations. The main reasons why the study is focusing at the registered financial institutions is because there are many financiers and some of them are not regulated like the shylocks. Financial institutions

in Kenya play various roles in the country one of them being financial intermediation. Financial intermediation means receiving funds from units in the economy with excess funds and lending the funds to the units with the deficit funds. This means that they source for funds and lend the same funds to those who require finances. Financial institutions deal with financial and monetary transactions which includes deposits, loans, investments and foreign exchange.

Registered Financial institutions in Uasin Gishu County include commercial banks and Deposit taking Micro finance institutions, credit only Micro finance institutions, Sacco's and insurance companies. Registered financial institutions have various regulators which includes Central bank of Kenya (CBK) that regulates commercial banks, mortgage finance firms and Deposit taking microfinance institutions, Sacco Societies Regulatory Authority (SASRA) that regulates the Sacco's in the country and Insurance Regulatory Authority (IRA) that regulates insurance companies. The major focus of this study is on Commercial banks and Microfinance institutions that fund SMEs. Lenders play a very critical and less exclusive role in channelling credit to individuals and enterprises (Gurley, et al, 2006).

The lenders are so concerned about the determinants of SMEs financing since they are regulated and their regulators have imposed stringent conditions on them before they give loans. Determinants helps in ensuring that financial institutions lend prudently so as to curb fraud and reducing the risk especially the portfolio at risk. Determinants also help in reducing the monitoring costs of Loans. According to Goodhart & Tsomocos (2019), the goal of financial regulation is to ensure stable and sound financial sector and credit access. The registered financiers are regulated and their regulators requires them to strictly adhere to their lending policies. Banks in Kenya are regulated by the

central bank and they must strictly adhere to central banks prudential guidelines when giving loans to their customers.

1.2 Research Problem

Stable access to financing by the SMEs is critical determinant in their growth and survival. Credit accessibility accelerates the growth and the development of businesses since credit increase levels of incomes, creates more jobs in the economy and as a result eradicating poverty (Stella, 2017). Financial accessibility has been a major challenge because there are conditions that have been set by the financial institutions as a prerequisite before they advance loans. Adera (1995) argued that financiers are unable to meet the credit needs of businesses especially SMEs due to loan terms and conditions and at the same time they consider most businesses un creditworthy. SMEs financing mostly depend largely on short-term loans which are very expensive for banks and other lenders thus increasing the risk of failure due to stringent rules and procedures for accessing credit (Teem, 2009). However, many researchers are yet to agree that difficulty in accessing financing arises from factors that are in both supply- and demand-side (Kyaw, 2008).

The determinants of financial accessibility the financial institutions look at keep on changing as a result of various factors. Some financial institutions offer secured loans while others have unsecured loans they offer to their customers. Loans that are secured have specific determinants different from unsecured loans due to risk aspect. According to Karanja (2012), the challenges faced by SMEs in Kenya is Capital Limitations, inadequate technical skills and the capacity to operate these firms. Capital and small firms' ratings is key in accessing credit. SMEs in Uasin Gishu County have been faced with financial challenges since getting loans from registered financial institutions is not easy and as a result harbouring their growth and expansion since credit is one of the

ways of financing the activities of SMEs. This has been occasioned by them being unable to qualify for the loans due to the conditions imposed to the by the financial institutions. The banks are regulated by the central banks and they have credit policies which must be strictly adhered to before funding their customers who among them includes the SMEs. Uasin Gishu County is one of the upcoming and fastest developing economic hubs in Kenya and at the same time a leading producer of agricultural products. As per the Kenya population and housing census of 2019, Eldoret town where Uasin Gishu County headquarters are located is the fifth most populated area in the country after Nairobi, Mombasa, Nakuru and Ruiru. Owners of SMEs in Uasin Gishu County are also involved in agricultural activities such as maize farming, wheat farming, dairy farming, horticulture and poultry keeping among others which makes which also needs financial resources thus requiring a SMEs needs financing to diversify their operations which has not been easy to access from registered financial institutions.

Various studies have been conducted to find out the determinants of SMEs' financing and different determinants have been provided. Thuku (2017) found that small firms access loans with difficulty as they fail to meet conditions set by loan providers. Pendula (2010) and Nanyondo, (2014) confirmed in her study that the financial characteristics of an entity have a great impact on access to finance. Ndegwa & Wario (2016) in their study argued that Management experience, education levels, business planning, political connection, training skills, interest rates, loan repayment modes, hidden costs, on capital form part of the determinants considered by financial institutions before providing credit facilities. Osano and Languitone (2016) on the other hand identified different group of factors influencing access to loans by firms such as financial sector structure, awareness of funding opportunities, loan security requirements, and provision of support services to small business. Rahman, Twyefur

Rahman, and Belas (2017) did a research results showed that the major determinant to access credit facility by Small firms and women owned and operated firms from banks is pledge of collaterals. Babu (2017) found that factors such as size and age of the SME, interest rate, collateral, financial record, gender and networking influenced access loans accessibility by borrowers. Although various studies have been done on the determinants of access to loans by SMEs there is a contextual gap since most of the studies have been done from the perspective of SMEs hence this study is different as it will look at data from the perspective of financial institutions who have more information on the determinants of accessing credit. The determinants of financial accessibility by SMEs vary from one study to the other thus there is no consensus among various researchers hence creating knowledge gap. There is also a methodological gap within the studies since they have used different approaches. Hence the studies have not been able to address the problems of Uasin Gishu County, Kenya. Most studies done on SMEs in Kenya have been focussing on Agricultural sector for instance the study done by Thuku (2017). This study will also look at other determinants. The research questions thus will be:

1. What are the determinants of SMEs' financing by the registered financial institutions in Uasin Gishu County, Kenya?
2. Does banks and Microfinance institutions use the same Criteria in Financing SMEs in Uasin Gishu County, Kenya?

1.3 Research Objectives

1. To evaluate the determinants of SMEs' financing by registered financial institutions in Uasin Gishu County, Kenya.

2. To compare financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya.

1.4. Value of the Study

This study has been motivated by the challenges the challenges the SMEs are facing in terms of financial accessibility from the registered financial institutions as a result of stringent conditions imposed by them. This study would add value in that it will help the SMEs in knowing what the financial institutions look at when advancing credit to them and the SMEs would be able to become compliant in terms of having the requirements for accessing the Loans. This will as a result lead to expansion of the SMEs hence leading to reduction of unemployment in the country.

The recommendations of the study will help the regulators of the financial institutions in coming up with the policies that are not restrictive in terms of financial accessibility to SMEs. It will help the registered financial institutions not to ask for too many requirements from the SMEs that will shy them away from borrowing and also enable them charge affordable interest and fees to the SMEs. Information in this study will provide useful insight to the County Government of Uasin Gishu, other counties and subsequently the Government of Kenya when formulating policies on planning and help incoming up with a policy that's includes all the SMEs in the country.

The study will help academicians, scholars and researchers as it will be a basis for future research study since it will provide useful references on determinants of financial accessibility by the SMEs. This research will provide enrichment to the body of knowledge available in areas of determinants of financial accessibility by the SMEs globally. Educational institutions, donors, non-governmental organizations and other stakeholders who support SMEs will have key focus on their needs and come up with

key support interventions which includes coming up with training programs and also support in terms of funding the SMEs.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter reviewed theories underpinning the study and empirical literature. There are three theories underpinning this study which are the financial inclusion theory, information asymmetry and financial intermediation theory which will be discussed below. The chapter also reviewed the studies related the topic done previously by other scholars.

2.2. Theoretical Literature Review

There are three Theories underpinning this research which includes the financial inclusion theory, the information asymmetry theory and financial intermediation theory.

2.2.1. Financial inclusion theory

This theory was first introduced Reserve Bank of India in 2005. The financial inclusion had the main objectives of providing accounts which have nil opening and operating balances for depositing and receipts of payments, products for savings, investments and pension, affordable credit products and overdraft facilities, micro insurance products and micro pension products.

According to Ozili (2020), Financial inclusion means being able to access easily the financial services and ensuring that they are readily available to all residents of a given country. This means that financial products and services should be made available to all individuals in a society and businesses without any discrimination at all. This theory strives to ensure that all barriers and obstacles that hinders financial access to the members of the society are removed so that finance is inclusive. Financial inclusion can also mean provision of financial services at an affordable cost to the vast majority of

disadvantaged and low-income earners (Dev, 2006). It is also the ability to access and utilise the banking services which are offered in a structured manner (Sahay et al, 2015).

This theory is key to this study because the study seeks to evaluate the determinants of financial accessibility by SMEs and ensure that credit is inclusive for all SMEs. The recommendations of this study will ensure that all the barriers to financial accessibility are removed. This study points out the key areas that needs more attention to ensure all SMEs in accessing loans with ease from the financial institutions. According to Ozili (2020), this theory has shortcomings it leads to the financialisation of poverty as some of its gains do not take long; it ignores the fact that poverty affects financial decision making; it promotes digital money and use of transaction accounts.

2.2.2 Information asymmetry theory.

This theory of asymmetric information came up to explain market failures between 1970s and 1980s and it was advanced by three scholars who includes Michael Spence, George Akerlof and Joseph Stieglitz and were specialists in the field of economics. Information asymmetry is very critical in finance field.

According to this theory, buyers possess different information about products and services from sellers hence there is information imbalance and frictions between the parties involved. The Sellers have more information than the buyers. In this case, the financial institutions have more information about their products and services than their customers. Lenders lack Knowledge of borrower's creditworthiness and unable to detect borrowers' character after lending hence lenders are hesitant to lend an act that creates serious frictions in financing. This leads to moral hazards and adverse selection in credit. Akerlof (1970) did a research on "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." where he argued that Sellers of motor

vehicles have more information than the buyers hence they can sell poor quality cars at a higher price. Michael Spence (1973) in his research, "Job Market Signalling" argued that new employees in any firm are uncertain investments since their productive capabilities cannot be known hence he compared the staff recruitment process to a lottery.

This theory is key to this research since lenders of funds need to reduce information asymmetry exists between them and the borrowers about their products and services. This theory help reduces the problem of moral hazards by the lender and adverse selection by the borrower. With reduced information asymmetry, lenders can to ascertain the credit worthiness of borrowers easily and be able to provide funds to them without frictions since both will act from the point of the available information. Asymmetric information may lead to fraudulent consequences for instance adverse selection where an insurance company may incur extreme loss due to a risk that was not disclosed at the time of underwriting. It also leads to incomplete markets and as a result market failure.

2.2.3 Theory of Financial Intermediation

Financial intermediation theory was introduced by Gurley and Shaw (1960) so as to address the issue of asymmetric information and agency costs. Financial intermediation is the means by which funds are transferred from the units with the surplus funds in the economy to the units with the deficit's funds in the economy. Mathews and Thompson (2008), argued that financial intermediation is where by the economic units which excess funds channel their funds through banks for onward lending to economic units with deficit funds. According to this theory, the intermediaries exists for the purpose of reducing the transaction costs and information asymmetries that exist between the

borrowers and the lenders. Financial intermediation occurs through banks which ensures the efficient allocation of resources especially when lenders or investors of the funds are unable to deal directly with the borrowers. According to Leland and Pyle (1977), the financial intermediaries deals with disseminating the information. According to Diamond (1984) banks exists to eliminate duplication of audit costs on the part of all creditors and overcome asymmetric information problems by acting as "delegated monitors." DeGennaro (2005) argued that banks source for information lacking in the market from surplus units of economy and deficit units who would have transacted directly and use it to intermediate between the surplus and deficit unit. However, Stiglitz and Weiss (1981) argue that financial institutions are more concerned with moral hazards and adverse selection.

Financial inclusion theory is important to the study since it will help the lenders or the investors of funds to be able to ensure that the loans are availed to the customers with less costs and that the borrowers have full information of the products offered hence reducing the information asymmetry. However, this theory of financial intermediation has been criticized because it does not recognize the lenders risk management role in financing (Allan & Santomero ,1997; Scholtens and Wensveen, 2000).

2.3. Empirical Literature review

Various studies have been done on the determinants of SMEs' financing and the researchers have come with findings which have been reviewed.

Thuku (2017) did a study in Nyeri, Kenya to explore the Factors affecting access to Credit by SMEs in Kenya with a focus on Agriculture Sector. The research used a descriptive research design and collected quantified data using open and closed ended questions. The population of study was 200 SMEs and a total of 67 SMEs were selected

as the sample size using stratified sampling. Data analysis was done using descriptive statistics and Statistical Package of Social Sciences (SPSS). On firm characteristics, the research found out that the firm size, firm location and firm age are a key determinant of access to finance. On financial characteristics and access to credit, the research findings were that SMEs that have adequate bookkeeping records and audited financial statements access finance easily than those that do not maintain records and also lack of collateral affects access to credit. The findings on entrepreneur characteristics and access to credit revealed that women access loans more easily than men. The study concluded that networking, political ties and level of education does not affect credit access.

Penaloza (2015) conducted a research at the level of the firm in Latin America to find out determinants of access to credit by SMEs. The research analysis was based on a discrete choice model compound from the internal and external characteristics of the firms. The research found out that within the firms in Latin America external sources of financing contribute to 30% of the working capital for the SMEs and therefore firms can undertake new projects, expansion of existing projects and undertake mergers and acquisitions. He also found out that important determinants of loans accessibility are internal factors which include firm size, firm formality and technological capacity factors and they increase the competitiveness of the firm in the market. This study recommended that there be better information systems between borrowers and creditors so as to reduce transactions costs, creation of programs that help entrepreneurs realise financial objectives and capitalisation of SMEs at growth stages which is lacking.

Gamage (2013) did a study and examined the determinants of access to bank finance in SMEs in Sri Lanka and used empirical evidence which was found from the Sri Lanka Enterprise Survey data set from World Bank for 2011. In analysing data, he used

logistic regression. The study findings were that that firm location, having annual financial statements which are audited and entrepreneurs' perception of access to finance influenced credit access by the SMEs.

Stella (2017) conducted a research on the determinants of financial accessibility by Small and Medium Enterprises in Eldama Ravine Sub-County in Baringo County, Kenya. The research focused on the influence of cost of credit, interest rates offered, credit rationing and business risk on financial accessibility in Eldama Ravine Sub-County, Baringo County. The study used cross section survey research design. Study used stratified random sampling technique in selecting the sample from the population. The study found out that when the transaction costs are high the cost of borrowing also increases and also hinders firms from accessing external finance and also lending institutions consider the size of an enterprise while advancing credit to SMEs.

Osano and Languitone (2016) conducted a study on Factors that affect loans accessibility by SMEs in in Mozambique focusing mainly on Maputo Central business district and the key factors they examined are the structure of financial sector, awareness of funding opportunities, security required and small business support services offered by government. The population of the study was 2075 staff from Banks BIM Bank, BCI Bank, and Standard Bank and 650 SMEs in Mozambique. They selected a sample of 242 SMEs and 324 staff from the population. Descriptive and inferential research design was used and structured questionnaires were used to collect Primary data. The study found out that that structure of the financial sector, awareness of funding opportunities, collateral requirements, small business support were factors that influenced credit accessibility by Maputo SMEs.

Kamau (2011) did a research on factors influencing financial accessibility by SMEs in Westlands division, Kenya and the study focussed on three major factors which include firms', financial and entrepreneurial characteristics. Primary data was collected using questionnaires and interviews whereas secondary data was obtained from journals, books and internet sources. This study used Descriptive research design with a population of 2870 SMEs and 287 SMEs were sampled from various sectors. The results of the findings indicated that the characteristics of firm, financial characteristics and characteristics of Entrepreneur played a key role in determining access to finance by SMEs.

Babu (2017) did a research in Kiambu County Kenya and examined the determinants of access to Formal Finance by SMEs which are owned by the Youth. Descriptive research design was employed in the study which targeted 2750 registered SMEs in Kiambu county, Kenya. The selected sample size was 96 SME's whereby 6 operate in the manufacturing sector, 29 service sector and 61 trading sectors. Data collected was analysed using Descriptive statistics through Statistical Package for Social Sciences (SPSS) software. The study found that manufacturing sector faces more challenges in accessing finance than SME's in trading and service industry. Also, from the study SMEs' age and Size, interest rate charged, collateral offered, financial statements, Gender and networking affected access to Finance by SMEs.

A study by Ndung'u (2016) examined the Factors Affecting Credit access among Small and Medium Enterprises in Murang'a County, Kenya. This study targeted 1020 SMEs operating within Murang'a County and using stratified random sampling and then applying the simple random sampling 102 respondents were selected as the sample. Data collection was done through Questionnaires. Factor analysis and regression analysis was applied to collected data to establish the relationship between identified

factors and credit access by SME. Graphs and tables were used to present the data. The results of the study showed that number of lending institutions, interest charged on loans, collateral security and literacy levels are the most important factors that determine loans accessibility to SMEs in Murang'a County.

Rahman, Twyefur Rahman, and Belas (2017) in their study examine the determinants affecting SME and access of SME in the Czech Republic, Slovakia and Hungary. This study obtained data set from the BEEPS survey, which is conducted by the World Bank and the European Bank for Reconstruction and Development. From the research, the results indicate that Small firms and women owned and operated firms have challenges in accessing credit from the banks. On the other hand, SMEs that pledge collateral access credit easily from the banks also Medium firms that are innovative have a larger amount of credit from banks. The empirical results also suggest that the loan size increases as the interest rates increase in particular for SMEs on the whole and for micro-firms, although the interest rate is in a negative relationship with the loan size in Czech Republic.

Chowdhury and Alam (2017) in their study explored on Factors Affecting Access to Finance of Small and Medium Enterprises (SMEs) of Bangladesh. Data was collected from a sample size of 86 SMEs through direct interviews to the respondents with the using a self-guiding questionnaire. From the research the results show that the size and age of the firms, education and skills of the owners, and unfavourable credit terms like high interest rates, lack of collateral security and corruption by bank officials among others are some of the biggest hurdles that SMEs in Bangladesh face while accessing credit from the banks. The study had limitation in that only one city was included in its sample population.

2.4 Research Gaps:

From the various studies reviewed, the determinants of financial accessibility by SMEs vary from one study to the other. Thus, there is no consensus on the determinants of financial accessibility by SMEs among the researchers. This study will also look at other determinants and be able to establish the issues impeding access to credit by SMEs in Uasin Gishu County. There is a contextual gap since most of the studies have been done from the perspective of SMEs hence this study is different as it will look at data from the perspective of financial institutions who have more information on the determinants of accessing credit. There is also a methodological gap within the studies since they have used different approaches. Hence the studies have not been able to address the problems of Uasin Gishu County, Kenya. Most studies done on SMEs in Kenya have been focussing on Agricultural sector for instance the study done by Thuku (2017).

CHAPTER THREE: RESEARCH METHODOLOGY

3.0. Introduction

This chapter contains research methodology that was used in the study. Research Methodology are the steps that guides the researcher in systematically designing a study so as to get accurate, reliable and verifiable results. They are the steps that are used in conducting a given research. This chapter shows the research design, population design, sample design, methods that was used in data collection, analysis of data and methods used in presenting the data.

3.1 Research Design

Research design gives an outline of framework of research methods and techniques employed by a researcher in carrying out a given research. This study used descriptive Survey design because it is a survey carried out from different financial institutions. This study aimed at analyzing information on the determinants of financial accessibility by the SMEs in Uasin Gishu County, Kenya and the design employed enabled easier relation between the two variables without unnecessary variations (Kothari, 2004). Descriptive statistics describes the basic features of the data in a study. They provide simple summaries about the sample and the measures. With descriptive statistics one is simply describing what is or what the data shows. Descriptive statistics mainly present both quantitative and qualitative descriptions in a manageable form. This study had the objectives which were to evaluate the determinants SMEs' financing by registered financial institutions in Uasin Gishu county in Kenya and to compare financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya.

3.2 Target Population

Target population is defined as a group of the elements that you want to study. This research had a target population of 50 registered financial institutions within Uasin

Gishu County, Kenya which comprised of 29 Commercial banks and 21 Microfinance institutions. The study targeted banks and Microfinance institutions because they have more information about the determinants of SMEs' financing. This was a census study where 47 financial institutions responded. There are various categories of registered financial institutions which includes Commercial banks, Deposit taking microfinance institutions and credit only MFIs where data was collected. The source of this information is Central of Kenya website and Association of Microfinance institutions (AMFI) Website and Uasin Gishu county government. List of the financial institutions have been provided in appendix III & IV.

3.3 Data Collection

Data collection is simply defined as the procedure of collecting, measuring and analyzing accurate data using standard techniques that are validated. This study used primary data which was collected through Closed and open ended Likert scale questionnaires which were structured. This study research employed questionnaires because the questionnaires collect massive data within a short duration and also the targeted respondents have the knowledge in filling the questionnaires. The questionnaires were classified into three sections. Section A covered the general details while section B and C covered the study areas of interest. The respondents were the key informants of the financial institutions who include either Branch managers, credit/relationship managers and credit officers.

3.4 Data analysis

Data that was collected through the questionnaires were analyzed and evaluated for completeness and accuracy. Data analysis was carried out by factor analysis. Factor analysis is helped to reduce the variables into fewer number of variables. Exploratory Factor analysis was used to reduce a large number of determinants into fewer numbers

of determinants by extracting maximum common variance from key variables and subjecting them into a common score. SPSS was used to analyse descriptive statistics (percentages, and frequencies); and inferential statistics (factor analysis). Analysed data was presented using tables and figures. Using Principal Component Analysis, the key determinants of SMEs Financing by the registered financial institutions in Uasin Gishu County were extracted. Mean and standard deviation of the variables was also computed to establish key determinants. Comparison of criteria used by banks and Microfinance institutions was done from the collected data. Data interpretation was done by use of mean, standard deviation, percentages and frequencies.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

The general objective of the study was to establish determinants of small and medium enterprises' financing by registered financial institutions in Uasin Gishu County, Kenya. This chapter presents results and findings of the analysed data on determinants of SMEs' financing by the registered financial institutions.

4.2. Response Rate

According to Fowler (2004), Response rate equals the number of respondents who properly filled and returned the questionnaires over the total number of respondents targeted in the entire sample. The study employed a census population and targeted 50 respondents who were the key informants of the financial institutions. 47 respondents filled and returned the questionnaires out of the 50 targeted respondents thus giving a response rate of 94%. Kothari (2004) argued that a response rate that is adequate for analysis should be 50% and therefore the response rate of 94% was more than adequate for analysis of the collected data. The results of response rate are presented in Table 4.1.

Table 4.1 Response Rate

Questionnaires	Number	Percentage
Filled and Returned	47	94%
Without Responses	3	6%

4.3. General information of the respondents

The study analysed collected information pertaining the category of financial institution, position of the respondent in the organisation, age of the organisation in

years, whether the organisation offer loans to SMEs and direct involvement of the respondent in appraisal of SME loans and the results were presented as follows:

4.3.1 Category of Financial Institution

To establish the category of financial institution of the respondents, the results shows that 57.5% represents commercial banks, 34% represents Credit Only Microfinance institutions and 8.5% represents deposit taking microfinance institutions as shown in table 4.2 below. This shows that there are many commercial banks offering SME Loan than credit only and microfinance institutions taking deposits in Uasin Gishu County.

Table 4.2. Category of Financial Institution

Category	Frequency	Percent
Commercial Bank	27	57.5
Credit Only Microfinance	16	34.0
Deposit taking Microfinance	4	8.5

Source: Research data (2021)

4.3.2. Position in the Organization

From the study, it shows that 19.1% of respondent were credit officers, 31.9% were branch managers while majority 48.9% were credit managers. This indicates that there were more credit managers who respondent to the survey as shown in Table 4.1 below.

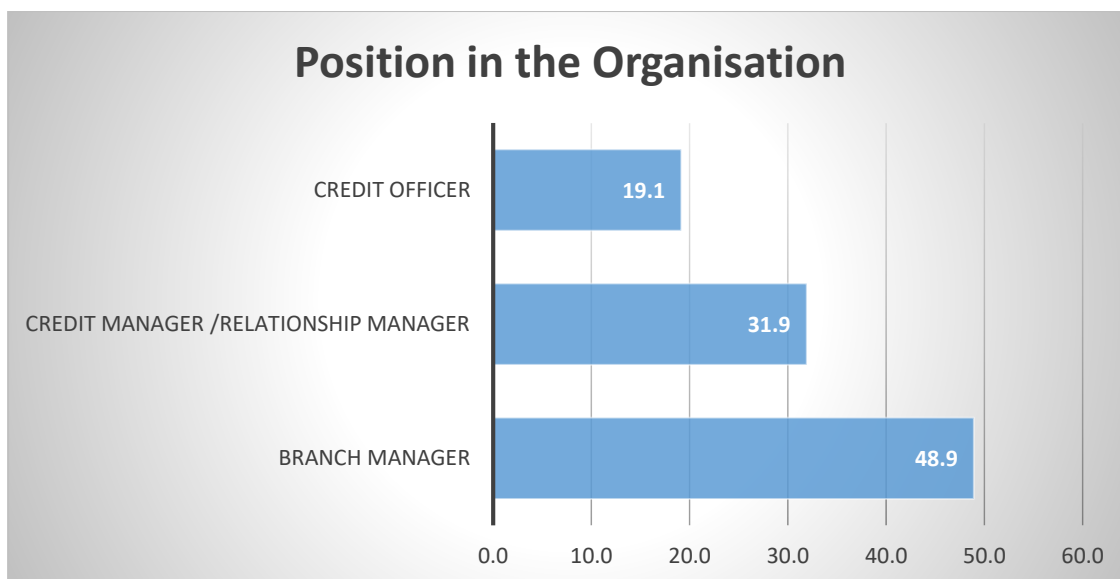


Figure 4.1. Position in the Organisation

Source: Research data (2021)

4.3.3. Age of the organization in years

To establish age of the organisation, the results shows that 70.3% have been in operation for above 15 years, 21.2% of the institutions have been in operation for between 11-15 years and 8.5% of the financial institutions have been in operation for between 6-10 years while no organisation was in operation for below 5 years. This is shown in the table below 4.3 below.

Table 4.3. Age of the organization in years

Age of organization (in Years)	Number	Percentage(%)
0-5	0	0
6-10	4	8.5
11-15	10	21.2
Above 15 Years	32	70.3

Source: Research data (2021)

4.3.4. Offer to SME Loans

To investigate if the financial institutions of the respondents offer Loans to SMEs in Uasin Gishu County 97.9% said “Yes” whereas 2.1 % said “No” as shown in figure 4.5 below.

Table 4.4. Offer to SME Loans

Offer Loans to SMEs	Number	Percentage (%)
NO	1	2.1
YES	46	97.9

Source: The Researcher, 2021

4.3.5. Direct Involvement in SME Appraisal

To establish if the respondents are directly involved in the appraisal of loans to SMEs 97.9% said “Yes” whereas 2.1 % said “No” as shown in figure 4.5 below.

Table 4.5. Direct Involvement in SME Appraisal

Are you Directly Involved	Number	Percentage(%)
NO	1	2.1
YES	46	97.9

Source: The Researcher, 2021

4.4. Determinants of SMEs financing by registered financial institutions in Uasin Gishu County, Kenya.

4.4.1. Exploratory Factor Analysis

The objective of this research was to evaluate the determinants of Small and Medium enterprises' financing and to compare the financing criteria of banks and micro finance institutions. Data analysis was done through exploratory factor analysis.

4.4.2 Constructs and Variables

For reference purpose, the study constructs and variables are used in the study are indicated in table 4.1. The abbreviations of the constructs and measure variables will be used in the consecutive sections.

Table 4.6: Summary of the Constructs

Item	Descriptions	Construct
IF1	To what extent does entrepreneur's experience affect accessibility of credit?	Internal Factors (IF)
IF2	To what extent does asset tangibility affect accessibility of credit?	
IF3	To what extend do the Risk and return affect access to credit	
IF4	To what extent does having audited financial statements affect accessibility of credit?	
IF5	To what extent do education background/literacy levels/ skills of entrepreneur affect accessibility of credit?	
IF6	To what extent does Ownership type of business affect accessibility of credit?	
IF7	To what extent does firm size affect accessibility of credit?	
IF8	To what extent does age of the firm affect accessibility of credit?	
IF9	To what extent does gender affect accessibility of credit?	
IF10	To what extent do cost of credit affect accessibility of credit?	
IF11	To what extent does structure of financial sector affect accessibility of credit?	
IF12	To what extent does awareness of funding opportunities affect accessibility of credit?	
IF13	To what extent does SMEs licensing affect accessibility of credit?	
IF14	To what extent does business planning affect accessibility of credit?	
IF15	To what extent does SME Management experience affect accessibility of credit?	
IF16	To what extent do Loan repayment modes affect accessibility of credit?	
IF17	To what extent does business structure affect accessibility of credit?	
IF18	To what extent does loan purpose affect accessibility of credit?	
IF19	To what extend does credit rating and client history of repayment affect credit accessibility	
EF1	To what extent does networking influence SMEs financing?	External Factors (EF)
EF2	To what extent does location of business affect accessibility of credit?	
EF3	To what extent do political ties affect SMEs' Financing?	
EF4	To what extent do provision of Small business support services affect accessibility of credit?	
EF5	To what extent does number of lending institutions affect SMEs' Financing?	
EF6	To what extent does corruption by bank officials affect SMEs' Financing?	
EF7	To what extent do prevailing economic / climatic factors affect SMEs' Financing?	
EF8	To what extent does Legal environment affect SMEs' Financing?	

4.4.3 Exploratory Factor Analysis (EFA)

Exploratory factor analysis was performed to measure filtration and refine the factors into the best number of variables. Principal component analysis (PCA) was used to refine each study construct. For each construct, factor loadings above 0.5 were retained for each principal component extracted. Kaiser-Meyer-Olkin - KMO measures sample adequacy and lies between 0 and 1. Data with any KMO of above 0.5 is considered adequate for analysis. KMO test results are shown in table 4.7 below.

4.4.4. Internal factors

Nineteen items for internal factors were initially identified as per the constructs in table 4.6 above and were analyzed using principal component analysis using varimax rotation method.

Table 4.7. KMO and Bartlett's Test for Internal factors

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.579
Bartlett's Test of Sphericity	Approx. Chi-Square	253.697
	df	171
	Sig.	.000

Source: Research Data (2021)

Results in Table 4.1 shows a KMO measure of sampling adequacy as 0.579, with Bartlett's Test of Sphericity and a significant Chi-Square (χ^2) of 253.697, $df = 171$, $p = 0.000$. The KMO of .579, with a significant Chi-square indicates that the data was adequate to carry out a factor analysis.

4.4.5. Communalities- Internal factors

Communalities means the proportion of the variance in each item above that can be explained by the factors. It is also known as the sum of the squared factor loadings.

Factors with low communality has little in common with other factors and are key target items for elimination.

Table 4.8 Communalities of the extracted Factors

	Initial	Extraction
IF1	1.000	.605
IF2	1.000	.784
IF3	1.000	.670
IF4	1.000	.857
IF5	1.000	.727
IF6	1.000	.703
IF7	1.000	.581
IF8	1.000	.710
F9	1.000	.682
IF10	1.000	.767
IF11	1.000	.761
IF12	1.000	.664
IF13	1.000	.771
IF14	1.000	.740
IF15	1.000	.837
IF16	1.000	.523
IF17	1.000	.670
IF18	1.000	.646
F19	1.00	.741

Extraction Method: Principal Component Analysis.

IF2, IF10, IF19, IF3, IF1, IF7 & IF16

Table 4.9 Factor Loadings – Internal factors

Factor	Component 1
F2	0.784
F10	0.767
F19	0.741
F3	0.670
F1	0.605
F7	0.581
F16	0.523

The results show that the item ‘Asset tangibility’ had an average score of 0.784. The item ‘cost of credit’ had an average score of 0.767. The item for “credit rating and client history of repayment” had an average score of 0.741. Risk and return affect SME financing had an average score of 0.670. The value for “entrepreneur affect SME financing” was 0.605. Loan repayment mode affect accessibility of credit in Uasin Gishu county had an average score of 0.523. The item ‘firm size/ Business affect access to credit’ had an average score of 0.581. It is worth noting that highest and lowest iteration scores for most the items ranged between 0.5 to 0.7 across all iteration methods.

Therefore, from the factors extracted it the results shows that internal factors that to a greater extend determine SMEs financing by the registered financial institutions in Uasin Gishu County are the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size.

4.4.6 Total Variance Explained- internal factors

This is the total variances of all the individual principal items being analyzed. This has been shown in the table 4.10 below.

Table 4.10. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.128	22.935	22.935	4.128	22.935	22.935
2	1.979	10.994	33.928	1.979	10.994	33.928
3	1.578	8.765	42.694	1.578	8.765	42.694
4	1.503	8.351	51.045	1.503	8.351	51.045
5	1.270	7.054	58.099	1.270	7.054	58.099
6	1.190	6.610	64.708	1.190	6.610	64.708
7	1.119	6.215	70.924	1.119	6.215	70.924
8	.913	5.073	75.996			
9	.812	4.511	80.507			
10	.663	3.686	84.193			
11	.607	3.373	87.566			
12	.544	3.024	90.590			
13	.436	2.424	93.014			
14	.303	1.685	94.698			
15	.282	1.569	96.267			
16	.282	1.564	97.831			
17	.215	1.193	99.024			
18	.176	.976	99.79			
19	.168	.875	100			

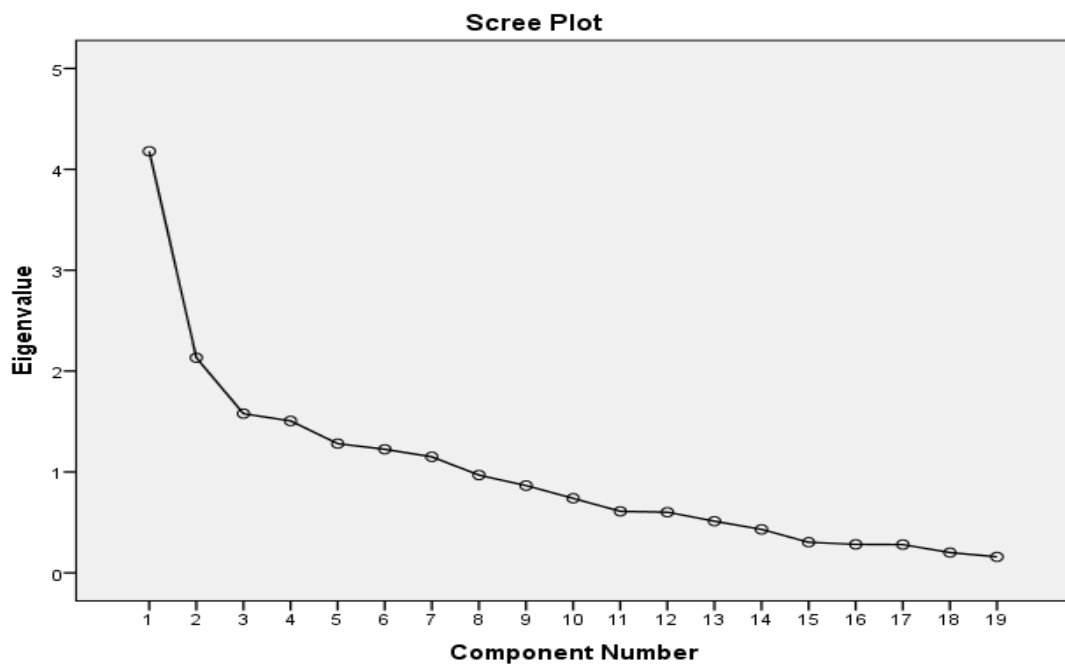
Extraction Method: Principal Component Analysis.

From the table above the extracted factors or items account for 70.924% of all the individual items and therefore the extracted factors affected SME financing to a greater extend.

4.4.7. Scree Plot- Internal Factors

From the scree plot (Figure 4.2) first seven factors represent the most total data variability (given by the eigenvalues). Where the slope of the curve is clearly levelling off it indicates that all the factors were valid and should be generated for the analysis.

Figure 4.2. Scree plot- Internal factors



4.4.8. Component Matrix

The component matrix for internal factors in the table below illustrates the correlations that exists between the components and the items.

Table 4.11. Component Matrix^a

	Component						
	1	2	3	4	5	6	7
IF17	.759	.134	-.187	-.212	.093	-.104	-.090
IF15	.627	.101	-.219	-.153	.255	.212	-.142
IF14	.608	-.134	-.460	.060	.195	.378	.011
IF6	.607	.099	.106	.168	.482	-.291	-.078
IF16	.606	.209	.146	-.106	-.257	.069	.093
IF7	.592	-.438	-.015	-.053	-.030	.025	-.183
IF10	.586	-.271	.275	.066	-.183	-.456	.168
IF11	.581	.327	.322	-.056	-.227	-.064	.392
IF12	.577	-.333	-.153	.382	-.201	-.079	-.071
IF8	.558	.096	-.115	-.342	-.312	.342	.212
IF18	.473	.449	-.131	.116	.262	-.284	-.201
F9	.014	.640	.337	-.009	.240	-.058	.312
IF2	.204	-.607	.103	.100	.065	.039	.551
IF4	.062	-.085	.590	-.027	.501	.495	.029
IF5	.201	-.391	.539	.396	.071	.059	-.279
IF3	-.037	.284	-.217	.718	-.083	-.070	.117
IF13	.095	.314	-.069	.649	-.157	.452	.091
IF1	.242	.259	.450	-.041	-.466	.146	-.518

Extraction Method: Principal Component Analysis.

a. 7 components extracted.

4.4.9. External Factors

Seven items for External factors were initially identified as per the constructs in table 4.6 above and were analyzed using principal component analysis using varimax rotation method. The KMO and Bartlett's Test for external factors is shown in the table 4.12 below:

Table 4.12. KMO and Bartlett's Test for External Factors

KMO Measure of Sampling Adequacy.	.690
Bartlett's Test of Approx. Chi-Square	69.063
Sphericity	
df	28
Sig.	.000

Results in Table 4.2 shows a KMO measure of sampling adequacy as 0.690, with Bartlett's Test of Sphericity showing a significant Chi-Square (χ^2) of 69.063, $df = 28$, $p = 0.000$. The KMO of .690, with a significant Chi-square indicates that the data was adequate to carry out a factor analysis.

4.4.10. Communalities- External factors

This shows the sum of the squared loadings for the external variables. They are the variances that have been reproduced from the extracted items.

Table 4.13 Communalities

	Initial	Extraction
EF1	1.000	.750
EF2	1.000	.741
EF3	1.000	.704
EF4	1.000	.507
EF5	1.000	.618
EF6	1.000	.625
EF7	1.000	.466
EF8	1.000	.761

Extraction Method: Principal Component Analysis.

Extracted Factors

EF 5, EF 4 & EF 2.

Table 4.14. Factor Loadings- External factors

	Component 1
EF5	.779
EF4	.684
EF2	.663

Table 4.15. Total Variance Explained- External factors

This is the total variances of all the individual principal items being analyzed. total variance for extracted factors is shown in the table 4.15 Below.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% Variance	of Cumulative %
1	2.646	33.080	33.080	2.646	33.080	33.080
2	1.468	18.351	51.431	1.468	18.351	51.431
3	1.058	13.227	64.659	1.058	13.227	64.659
4	.837	10.464	75.123			
5	.582	7.277	82.400			
6	.560	6.999	89.399			
7	.490	6.120	95.518			
8	.359	4.482	100.000			

The cumulative variance for the three extracted factors was 64.659% meaning they all account for 64.659% of all the variances.

4.4.11. Scree Plot - External factors

The scree plot (Figure 4.3) shows that the three elements contribute for most of the total variability in data (given by the eigenvalues). Where the slope of the curve is clearly

leveling off indicates that all the elements were valid and should be extracted for the analysis. The scree plot starts levelling at factor 3.

Figure 4.3. Scree plot – External factors

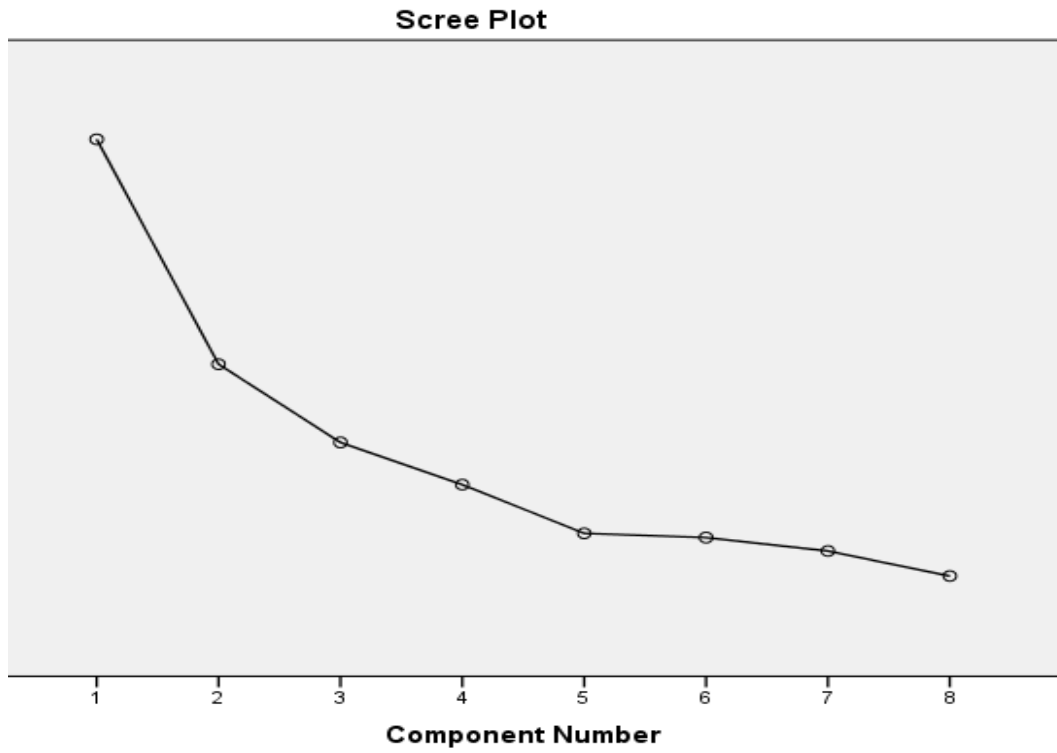


Table 4.16 Component Matrix^a

The component matrix for the external factors is shown in the table below. The component matrix for external factors in the table below illustrates the correlations that exists between the components and the items.

	Component		
	1	2	3
EF5	.779	-.089	-.065
EF4	.684	.195	.042
EF2	.663	-.221	-.502
EF6	.577	-.238	.485
EF8	.369	.691	-.385
EF1	.606	-.611	-.098
EF7	.322	.602	-.015
EF3	.439	.323	.638

Extraction Method: Principal Component Analysis.

3 components extracted.

The results show that The item ‘number of lending institutions affect SMEs’ financing’ had an average score of 0.779. The item ‘provision of Small business support services affects accessibility of credit’ had an average score of 0.684. The item for “location of business affect accessibility of credit” had an average score of 0.663. It is worth noting

that highest and lowest iteration scores for most the items ranged between 0.5 to 0.7 across all iteration methods.

Therefore, from the results, the number of lending institutions, Provision of Small business support services and location of the business are key determinants of SMEs financing by the registered financial institutions in Uasin Gishu county.

Table 4.17: Correlation Matrix for 27 items.

	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	EF1	EF2	EF3	EF4	EF5	EF6	EF7	EF8
IF1	1.00	-0.23	-0.09	0.09	0.20	0.02	0.11	0.20	0.07	0.08	0.25	0.15	0.10	-0.11	0.09	0.26	0.09	0.15	0.10	0.00	-0.06	0.01	-0.02	-0.09	-0.03	-0.02	0.21
IF2	-0.23	1.00	-0.14	0.11	0.21	0.00	0.17	0.05	-0.14	0.30	0.10	0.32	-0.08	0.16	0.01	0.04	0.00	-0.12	0.03	-0.25	-0.13	-0.26	-0.15	-0.11	0.08	-0.12	-
IF3	-0.09	-0.14	1.00	-0.18	-0.03	0.11	0.00	-0.09	0.15	-0.03	-0.01	0.10	0.37	0.02	-0.05	0.00	-0.19	0.08	0.14	-0.17	-0.15	0.10	-0.11	-0.21	-0.05	-0.09	0.05
IF4	0.09	0.11	-0.18	1.00	0.27	0.19	0.06	-0.04	0.14	-0.04	0.14	-0.15	0.03	-0.06	0.13	0.00	-0.08	-0.12	-0.12	0.02	0.01	-0.06	0.16	-0.13	-0.05	-0.01	-
IF5	0.20	0.21	-0.03	0.27	1.00	0.16	0.23	-0.13	-0.05	0.31	-0.04	0.22	0.09	0.06	-0.04	0.10	0.01	-0.03	-0.11	0.03	0.08	0.03	0.17	0.01	0.36	0.06	0.12
IF6	0.02	0.00	0.11	0.19	0.16	1.00	0.27	0.10	0.12	0.36	0.34	0.32	-0.07	0.27	0.32	0.24	0.43	0.47	0.17	0.08	0.18	0.10	0.40	-0.03	0.11	0.24	0.21
IF7	0.11	0.17	0.00	0.06	0.23	0.27	1.00	0.29	-0.25	0.44	0.17	0.37	-0.17	0.33	0.35	0.24	0.41	0.00	-0.05	0.30	0.26	0.18	0.07	0.25	0.25	0.27	0.24
IF8	0.20	0.05	-0.09	-0.04	-0.13	0.10	0.29	1.00	0.00	0.16	0.47	0.21	-0.01	0.36	0.30	0.40	0.42	0.09	0.06	-0.09	-0.03	-0.05	-0.07	0.07	0.08	0.29	0.14
IF9	0.07	-0.14	0.15	0.14	-0.05	0.12	-0.25	0.00	1.00	-0.04	0.26	-0.27	0.08	-0.14	0.11	0.13	0.04	0.17	0.22	0.02	0.14	0.11	0.08	-0.04	-0.17	-0.13	0.20
IF10	0.08	0.30	-0.03	-0.04	0.31	0.36	0.44	0.16	-0.04	1.00	0.40	0.37	-0.08	0.14	0.19	0.38	0.38	0.09	0.08	0.15	0.32	0.02	0.29	0.05	0.27	0.28	0.05
IF11	0.25	0.10	-0.01	0.14	-0.04	0.34	0.17	0.47	0.26	0.40	1.00	0.24	0.17	0.10	0.14	0.40	0.38	0.29	0.25	-0.04	-0.02	-0.03	0.13	-0.17	0.10	0.18	0.02
IF12	0.15	0.32	0.10	-0.15	0.22	0.32	0.37	0.21	-0.27	0.37	0.24	1.00	0.15	0.35	0.30	0.14	0.28	0.19	0.00	0.08	0.09	-0.15	-0.12	-0.03	0.29	0.14	-
IF13	0.10	-0.08	0.37	0.03	0.09	-0.07	-0.17	-0.01	0.08	-0.08	0.17	0.15	1.00	0.15	0.03	0.09	0.07	0.10	0.13	-0.08	0.01	-0.13	-0.05	-0.10	-0.02	-0.03	0.07
IF14	-0.11	0.16	0.02	-0.06	0.06	0.27	0.33	0.36	-0.14	0.14	0.10	0.35	0.15	1.00	0.54	0.32	0.47	0.21	0.04	0.31	0.30	0.07	0.11	0.42	0.42	0.22	0.06
IF15	0.09	0.01	-0.05	0.13	-0.04	0.32	0.35	0.30	0.11	0.19	0.14	0.30	0.03	0.54	1.00	0.37	0.51	0.27	0.26	0.16	0.26	-0.01	0.07	0.24	-0.07	0.32	0.20
IF16	0.26	0.04	0.00	0.00	0.10	0.24	0.24	0.40	0.13	0.38	0.40	0.14	0.09	0.32	0.37	1.00	0.35	0.22	0.26	0.20	0.22	0.17	0.02	0.15	0.21	0.20	0.09
IF17	0.09	0.00	-0.19	-0.08	0.01	0.43	0.41	0.42	0.04	0.38	0.38	0.28	0.07	0.47	0.51	0.35	1.00	0.47	0.15	0.32	0.36	-0.14	0.30	0.44	0.19	0.28	0.29
IF18	0.15	-0.12	0.08	-0.12	-0.03	0.47	0.00	0.09	0.17	0.09	0.29	0.19	0.10	0.21	0.27	0.22	0.47	1.00	0.18	0.08	0.16	0.02	0.27	0.21	-0.06	0.35	0.23
IF19	0.10	0.03	0.14	-0.12	-0.11	0.17	-0.05	0.06	0.22	0.08	0.25	0.00	0.13	0.04	0.26	0.26	0.15	0.18	1.00	-0.05	-0.15	0.07	0.31	0.13	-0.03	0.34	0.21
EF1	0.00	-0.25	-0.17	0.02	0.03	0.08	0.30	-0.09	0.02	0.15	-0.04	0.08	-0.08	0.31	0.16	0.20	0.32	0.08	-0.05	1.00	0.50	0.04	0.22	0.42	0.40	0.01	0.12
EF2	-0.06	-0.13	-0.15	0.01	0.08	0.18	0.26	-0.03	0.14	0.32	-0.02	0.09	0.01	0.30	0.26	0.22	0.36	0.16	-0.15	0.50	1.00	0.06	0.33	0.44	0.18	0.05	0.23
EF3	0.01	-0.26	0.10	-0.06	0.03	0.10	0.18	-0.05	0.11	0.02	-0.03	-0.15	-0.13	0.07	-0.01	0.17	-0.14	0.02	0.07	0.04	0.06	1.00	0.34	0.22	0.26	0.17	0.14
EF4	-0.02	-0.15	-0.11	0.16	0.17	0.40	0.07	-0.07	0.08	0.29	0.13	-0.12	-0.05	0.11	0.07	0.02	0.30	0.27	0.31	0.22	0.33	0.34	1.00	0.43	0.24	0.19	0.30
EF5	-0.09	-0.11	-0.21	-0.13	0.01	-0.03	0.25	0.07	-0.04	0.05	-0.17	-0.03	-0.10	0.42	0.24	0.15	0.44	0.21	0.13	0.42	0.44	0.22	0.43	1.00	0.37	0.19	0.22
EF6	-0.03	0.08	-0.05	-0.05	0.36	0.11	0.25	0.08	-0.17	0.27	0.10	0.29	-0.02	0.42	-0.07	0.21	0.19	-0.06	-0.03	0.40	0.18	0.26	0.24	0.37	1.00	0.11	-
EF7	-0.02	-0.12	-0.09	-0.01	0.06	0.24	0.27	0.29	-0.13	0.28	0.18	0.14	-0.03	0.22	0.32	0.20	0.28	0.35	0.34	0.01	0.05	0.17	0.19	0.19	0.11	1.00	0.33
EF8	0.21	-0.13	0.05	-0.05	0.12	0.21	0.24	0.14	0.20	0.05	0.02	-0.01	0.07	0.06	0.20	0.09	0.29	0.23	0.21	-0.12	0.23	0.14	0.30	0.22	-0.02	0.33	1.00

4.5. Discussion

The results show that out of nineteen internal elements and seven external elements analyzed to evaluate the determinants of SMEs' financing in Uasin Gishu county. Only seven elements being internal factors and three elements being external factors were extracted. The seven internal factors extracted include the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size. The external factors from the results that are key determinants of Small and Medium enterprises financing in Uasin Gishu county are the number of lending institutions, provision of Small business support services and location of the business enterprise.

The results show that asset tangibility is a key determinant of SMEs' financing since banks require tangible collateral before financing to SMEs to mitigate the risk of default. Most financial institutions currently don't offer unsecured loans hence without tangible collateral SMEs have difficult in accessing financing.

Financial institutions consider SME management experience or entrepreneur experience in financing SMEs. Entrepreneurs who have experience in running business have an upper hand in accessing credit as compared to start-up businesses. Most financial institutions finance SMEs that have been in operation for More than 3 years so as to mitigate risk of default in case of business failure. Management experience is key in ensuring the stability of the business.

The results revealed that business risk and return is a key determinant of SME financing by registered financial institutions. SMEs should ensure that their risk are well mitigated so that they can access financing from the financial institutions. Financial institutions look at cash flows of the businesses before financing hence SMEs should

ensure that they have bank statements and have business proper records which SMEs use to assess the business cash flows.

From the study results, credit rating and client repayment history is considered by financial institutions in granting credit to the SMEs. Financial institutions look at credit rating reports from the credit reference bureaus to ascertain credit scores and also previous history of loan repayments. Financial institutions also ask for loan account statements of the previous loans so as to ascertain loan repayment history.

From the results loan repayment modes influence SMEs financing since loan repayment modes are key in determining ability to repay. SMEs' can be able borrow loans when the repayment terms are friendly to them and also this reduces the risk of default since SMEs will be able to afford monthly instalments especially when loans are given for a longer duration.

Size of the firm also is a key determinant of SMEs financing by the registered financial institutions. Small firms have difficulties in accessing credit as compared to large firms and established firms. Financial institutions consider small firms risky since they can collapse easily as compared to large and established firms. Established firms are also well managed.

From the study findings cost of credit is key determinant in SME financing. Cost of credit includes fees charged on loans and interest rates. High interest rates and loan costs hinders SMEs from borrowing loans since it affects their ability to repay the loans. SMEs' shy away from borrowing especially when interest rates are high. On the other hand, financial institutions are hesitant to offer financing to SMEs when the interest rates are low and capped as they prefer lending to government and consider SMEs risky

borrowers. When interest rates are regulated, the interest rate risk premium is low to cater for default of borrowers.

From the results the number of lending institutions available is a key determinant of SMEs' financing in Uasin County since if there are more lending institutions SME will have a wide variety of financing options and also there will be competition hence SMEs will access financing with ease. The provision of Small business support services will help SMEs in accessing financing. Business location is also a key determinant in SME financing thus SMEs should be strategically located for them to access financing.

4.6. Analysis using Mean and Standard Deviation

Analysis of key determinants of SMEs financing in Uasin Gishu county was done using means and standard deviation. The study looked at the descriptive analysis on the extent to which the following elements affect SME's Financing. The results are shown in the Table 4.18 below. The first question was evaluating the extent to which entrepreneur's experience determine SME financing. Other factors are also indicated in the Table 4.18.

Table 4. 18: Internal Factors affecting SME's Financing**1 = Not at all; 2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very high extent**

	1	2	3	4	5	Mean	Std Dev
	%	%	%	%	%		
To what extent does entrepreneur's experience determine SME financing?	0.0	2.1	17.0	38.3	42.6	4.21	.806
To what extent does asset tangibility/ having tangible collateral affect SME financing?	0.0	0.0	27.7	21.3	51.1	4.23	.865
To what extent do the Risk and return of SME business affect access to finance	0.0	4.3	17.0	36.2	42.6	4.17	.868
To what extent does having audited financial statements affect accessibility of credit?	10.6	8.5	38.3	29.8	12.8	3.26	1.132
To what extent do education background/literacy levels/ skills of entrepreneur affect SME financing?	14.9	29.8	25.5	19.1	10.6	2.81	1.227
To what extent does Ownership type of business affect SME financing?	8.5	21.3	14.9	19.1	36.2	3.53	1.396
To what extent does firm size affect determine financing?	4.3	12.8	21.3	34.0	27.7	3.68	1.144
To what extent does age of the firm affect accessibility of credit?	2.1	8.5	25.5	42.6	21.3	3.72	.971
To what extent does gender affect accessibility of credit ?	0.0	78.7	14.9	4.3	2.1	1.36	.870
To what extent does cost of credit affect accessibility of credit in this county?	6.4	27.7	44.7	12.8	8.5	2.89	1.005
To what extent does structure of financial sector/industry determine SME financing?	4.3	6.4	42.6	36.2	10.6	3.43	.927
To what extent does awareness of funding opportunities affect accessibility of credit?	0.0	6.4	25.5	46.8	21.3	3.83	.842
To what extent does SMEs licensing affect accessibility of credit?	2.1	2.1	14.9	36.2	44.7	4.19	.924
To what extent does business planning affect accessibility of credit?	0.0	10.6	29.8	40.4	19.1	3.68	.911
To what extent does SME Management experience affect accessibility of credit?	2.1	12.8	19.1	42.6	23.4	3.72	1.036
To what extent do Loan repayment modes affect accessibility of credit?	2.1	12.8	38.3	17.0	29.8	3.60	1.116
To what extent does business structure affect accessibility of credit?	2.1	12.8	42.6	29.8	12.8	3.38	.945
To what extent does loan purpose affect accessibility of credit?	2.1	4.3	8.5	34.0	51.1	4.28	.949
To what extent does credit rating and client history of repayment affect credit accessibility	0.0	2.1	6.4	19.1	72.3	4.62	.709

Source: Research Data, 2021

The results indicate that 0% of the respondent agreed that to no extend does entrepreneur experience affect SME financing, 2.1% of the respondents agreed that entrepreneur experience affect SME financing to a low extend, 17.0% of the respondents agreed entrepreneur experience affect SME financing to a moderate extend, 38.3% of the respondents said that entrepreneur experience affect SME financing to a high extend while 42.6% of the respondents agreed that entrepreneur experience affect SME financing to a very high extend thus the mean on the level of extend to which entrepreneur experience affect SME financing was 4.21 and a standard deviation of 0.806. The results of the level of extend to which the other determinants affect SME financing are shown in the table 4.18 above.

The study results indicated that entrepreneurs experience with a mean of 4.21, Asset tangibility with a mean of 4.23, credit rating with a mean of 4.68, loan purpose with a mean of 4.28, Risk and return with a mean of 4.17 and SME licensing with a mean of 4.19 are the most important factors that determine SMEs financing in Uasin Gishu County, Kenya.

Table 4.19. External factors Affecting SMEs' Financing

- Key: 1 =Not at all;2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very High Extend

	1	2	3	4	5	Mean	Std. Dev
	%	%	%	%	%		
To what extent does networking affect accessibility of credit?	10.6	10.6	36.2	31.9	10.6	3.21	1.122
To what extent does location of business affect accessibility of credit?	0.0	17.0	17.0	31.9	34.0	3.83	1.090
To what extent do political ties affect accessibility of credit?	21.3	17.0	14.9	21.3	25.5	3.13	1.513
To what extent do Small business support services affect accessibility of credit?	0.0	10.6	14.9	25.5	48.9	4.13	1.035
To what extent does number of lending institutions affect accessibility of credit?	8.5	12.8	21.3	29.8	27.7	3.55	1.265
To what extent does corruption by bank officials affect accessibility of credit?	31.9	25.5	10.6	8.5	23.4	2.66	1.578
To what extent do economic / climatic factors affect accessibility of credit?	6.4	12.8	31.9	42.6	6.4	3.30	.998
To what extent does Legal environment affect accessibility of credit?	4.3	12.8	36.2	27.7	19.1	3.45	1.080

Source: Research Data (2021)

The results indicate that 10.6 % of the respondent agreed that to no extend networking does affect accessibility of credit,10.6% of the respondents agreed networking affect accessibility of credit to a low extend, 36.2 % of the respondents agreed networking affect accessibility of credit to a moderate extend, 31.9 % of the respondents said that networking affect accessibility of credit to a high extend while 10.6% of the respondents agreed that networking affect accessibility of credit to a very high extend thus the mean on the level of extend to networking affect accessibility of credit was 4.21 and a standard deviation of 0.806. The results of the level of extend to which the other external factors affect SME financing are shown in the table 4.19 above.

From the results the number of lending institutions with a mean of 3.55, Provision of Small business support services with a mean of 4.13 and location of the business with a mean of 3.83 are key determinants of SMEs financing by the registered financial institutions.

4.7. Comparison of financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya.

The comparison for financing criteria of banks and microfinance institutions have been analyzed using the means and standard deviation. The reference purposes, the constructs in table 4.6 will be used.

4.7.1. Comparison of financing criteria for internal factors

Table 4.20. Analysis for Banks – Internal factors - Key: 1 =Not at all;2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very High Extend

	1	2	3	4	5	Mean	Std. Dev
	%	%	%	%	%		
IF1	0.0	3.7	18.5	25.9	51.9	4.26	.903
IF2	0.0	0.0	33.3	25.9	40.7	4.07	.874
IF3	0.0	3.7	11.1	40.7	44.4	4.26	.813
IF4	11.1	11.1	33.3	29.6	14.8	3.26	1.196
IF5	22.2	29.6	22.2	18.5	7.4	2.59	1.248
IF6	14.8	18.5	18.5	22.2	25.9	3.26	1.430
IF7	7.4	18.5	22.2	29.6	22.2	3.41	1.248
IF8	0.0	7.4	29.6	40.7	22.2	3.78	.892
IF9	74.1	14.8	0.0	7.4	3.7	1.52	1.087
IF10	11.1	40.7	29.6	14.8	3.7	2.59	1.010
IF11	7.4	3.7	33.3	44.4	11.1	3.48	1.014
IF12	11.1	0.0	40.7	33.3	14.8	3.52	.893
IF13	3.7	0.0	14.8	37.0	44.4	4.22	.847
IF14	18.5	0.0	33.3	37.0	11.1	3.41	.931
IF15	3.7	11.1	18.5	55.6	11.1	3.59	.971
IF16	14.8	0.0	40.7	18.5	25.9	3.56	1.050
IF17	3.7	18.5	40.7	37.0	0.0	3.11	.847
IF18	3.7	7.4	7.4	33.3	48.1	4.15	1.099
IF19	0.0	0.0	3.7	18.5	77.8	4.74	.526

Source: Research Data (2021)

Table 4.21 Analysis for Microfinance institutions- Internal factors

Key: 1 =Not at all;2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very High Extend

	1	2	3	4	5	Mean	Std. Dev
	%	%	%	%	%		
IF1	0.0	0.0	15.0	55.0	30.0	4.15	.671
IF2	0.0	0.0	20.0	15.0	65.0	4.45	.826
IF3	0.0	5.0	25.0	30.0	40.0	4.05	.945
IF4	10.0	5.0	45.0	30.0	10.0	3.25	1.070
IF5	5.0	30.0	30.0	20.0	15.0	3.10	1.165
IF6	0.0	25.0	10.0	15.0	50.0	3.90	1.294
IF7	0.0	5.0	20.0	40.0	35.0	4.05	.887
IF8	5.0	10.0	20.0	45.0	20.0	3.65	1.089
IF9	85.0	15.0	0.0	0.0	0.0	1.15	.366
IF10	0.0	10.0	65.0	10.0	15.0	3.30	.865
IF11	0.0	10.0	55.0	25.0	10.0	3.35	.813
IF12	0.0	0.0	5.0	65.0	30.0	4.25	.550
IF13	5.0	0.0	15.0	35.0	45.0	4.15	1.040
IF14	0.0	0.0	25.0	45.0	30.0	4.05	.759
IF15	0.0	15.0	20.0	25.0	40.0	3.90	1.119
IF16	5.0	10.0	35.0	15.0	35.0	3.65	1.226
IF17	0.0	5.0	45.0	20.0	30.0	3.75	.967
IF18	0.0	0.0	10.0	35.0	55.0	4.45	.686
F19	0.0	5.0	10.0	20.0	65.0	4.45	.887

Source: Research Data (2021)

From the results banks consider entrepreneurs' experience with a mean of 4.26, asset tangibility with a mean of 4.07, risk and return with a mean of 4.26, loan purpose with a mean of 4.15, credit rating and history with a mean of 4.74 and SME licensing with a mean of 4.22 as key internal determinants of SMEs. Microfinance institutions also consider entrepreneurs' experience with a mean of 4.15, asset tangibility with a mean of 4.45, risk and return with a mean of 4.05, loan purpose with a mean of 4.45, credit rating and history with a mean of 4.45 and SME license g with a mean of 4.45 as key internal determinants of SMEs. This means that banks and microfinance institutions use the same criteria when financing to SMEs.

4.72. Comparison of financing criteria for External factors

Table 4.22 Analysis for Banks – External factors

Key: 1 =Not at all;2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very High Extend

	1	2	3	4	5	Mean	Std. Dev
	%	%	%	%	%		
EF1	14.8	14.8	44.4	22.2	3.7	2.85	1.064
EF2	7.4	18.5	40.7	14.8	18.5	3.19	1.178
EF3	22.2	11.1	11.1	22.2	33.3	3.29	1.593
EF4	3.7	18.5	37.0	37.0	3.7	3.19	.921
EF5	11.1	18.5	22.2	25.9	22.2	3.30	1.325
EF6	0.0	40.7	33.3	14.8	11.1	2.07	1.269
EF7	0.0	7.4	14.8	29.6	48.1	4.19	.962
EF8	0.0	14.8	14.8	37.0	33.3	3.89	1.050

Source: Research Data (2021)

Table 4.23. Analysis for Microfinance Institutions- External factors

Key: 1 =Not at all;2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very High Extend

	1	2	3	4	5	Mean	Std. Dev
	%	%	%	%	%		
EF1	5.0	5.0	25.0	45.0	20.0	3.70	1.031
EF2	0.0	5.0	30.0	45.0	20.0	3.80	.834
EF3	20.0	25.0	20.0	20.0	15.0	2.85	1.387
EF4	10.0	5.0	25.0	50.0	10.0	3.45	1.099
EF5	5.0	5.0	20.0	35.0	35.0	3.90	1.119
EF6	20.0	15.0	5.0	20.0	40.0	3.45	1.638
EF7	0.0	15.0	15.0	20.0	50.0	4.05	1.146
EF8	0.0	20.0	20.0	25.0	35.0	3.75	1.164

Source: Research Data (2021)

From the results, the banks consider economic and climatic conditions with a mean of 4.19, legal factors with a mean of 3.89 and location of business with a mean of 3.0 as key external determinants of SMEs financing while Microfinance institutions consider economic and climatic conditions with a mean of 4.05, number of lending institutions with a mean of 3.90 and location of business with a mean of 3.90 as key external determinants of SMEs financing. This means there no much difference between what banks considers and what microfinance institutions considers in lending to SMEs hence they both use the same financing criteria when considering external factors that determine SMEs' financing since they affect both the same way.

4.8. Loan products available to SMEs'

From the respondents, the loan products available to SMEs' are Asset finance loans, agribusiness loans, business loans, working capital loans, insurance premium financing, LPO financing, bank overdraft loans, mortgage loans and housing loans.

4.9. Other factors financial institutions consider before lending to SMEs

From the respondents, the other factors banks consider before lending to SMEs are client capacity and ability to repay, cash flows and business liquidity, succession planning, savings and account utilization.

4.10. Whether SMEs have challenges in accessing financing

The respondents were asked whether the SMEs have challenges in accessing financing and from the results 83% of the respondents said SMEs have challenges in accessing financing while 17% of the respondents have challenges in accessing financing. This shows that SMEs access to financing is an issue that needs to be addressed.

4.11. Reasons for the challenges in accessing financing by the SMEs

The respondents stated the following as the reasons for the challenges in accessing financing: Lack of collateral to secure loans, increased default rate by the SMEs, lack of business records and proper books of account, lack of information on the requirements for accessing financing and on available loan products, high interest rates and stringent requirements by the financial institutions.

4.12. What Can be done to SMEs' Financing?

The respondents said that advise and financial literacy training on access requirements, flexibility by the banks in financing SMEs, considering startup

businesses, come up with tailor-made loan products for SMEs and SMEs' have proper books of accounts can enhance SMEs' financing.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the study findings in summary. Findings are presented in relation to earlier review of literature based on the determinants of SMEs' financing and to compare financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya

5.2. Summary of Findings

The objectives of the study were to establish the Determinants of SMEs' financing by the registered financial institutions in Uasin Gishu County, Kenya and to compare financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya. This study adopted a descriptive survey research design and Factor analysis. The target population constituted of registered financial institution in Uasin Gishu County Kenya. A total of 47 financial institutions were interviewed with most of respondents being either Credit officers, Branch Managers or Credit/ Relationship Managers. SPSS was used to analyse descriptive statistics (percentages, and frequencies); and inferential statistics (Exploratory factor analysis). Analysed data was presented using tables and figures. The study revealed the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size were the internal factors that were key determinants of SME financing by the registered financial institutions. The external factors from the results that are key determinants of Small and Medium enterprises financing in Uasin Gishu county are the number of lending institutions, provision of Small business support services and location of the business enterprise.

5.3. Discussions of the findings

The findings of the study are discussed below:

5.3.1. Determinants of SMEs Financing by registered Financial institutions

Various determinants of SME financing by registered financial institutions in Uasin Gishu County have been identified which are categorised into internal and external factors as below:

5.3.2. Internal Factors that are key determinants of SMEs Financing by registered Financial institutions

Findings reveal that asset tangibility or having tangible collateral is a key determinant of Small and Medium Enterprises financing by the registered financial institutions in Uasin Gishu county. This supports studies by Osano and Languitone (2016), Twyefur Rahman, and Belas (2017), Ndung'u (2016), Stella (2017) and Babu (2017). For SMEs to access financing from the financial institutions they need to have tangible collateral to secure the loan.

From the study SME management experience or entrepreneur experience in business is a key determinants of SMEs financing by the registered financial institutions. This supports study by Ndegwa & Wario (2016) who also found out that SME management experience is factor that influences access to financing.

The findings of the study found that risk and return of the business is a key determinant of SMEs' financing by the registered financial institution. The financial institutions assess the riskiness of the business before giving loans and hence they shy away from financing high risky sectors. SMEs that have put risk mitigation measures in their business access financing with ease.

From the study findings client history of previous loans repayment and credit rating by the credit reference bureaus is a key determinant of SME Financing. Financial institutions look at credit reference bureau reports for the clients to check how the clients repaid the previous loans and some financial institutions request for loan statements of the previous loans. SMEs should ensure that they repay their loans well so that they can continue accessing financing.

The study findings reveal that loan repayment modes influence SMEs access to credit which agrees with the study by Ndegwa & Wario (2016). Most institutions offer Loans for a short duration hence the SMEs cannot be able access loans since the Loan repayment instalments are high as compared to client's cash flows hence hinders clients from accessing financing or qualifying to get Loans of lower limits compared to business financial needs. The Loan repayment modes should be flexible to the clients.

The result of the study also shows that Firm size influences access to financing by the registered financial institutions. This has supported studies by Stella (2017), Balogun, Agumba, and Ansary (2016), Nanyondo, (2014), Kungu, (2011), Thuku (2017) Penaloza (2015) Rahman and Belas (2017) who also found that the size of the firm influences access to credit. According to Erdogan (2019), most researchers have identified the size of the entity and the age of the SME as the key determinants of access to Finance.

This study found out that cost of credit influences financing to SMEs which is supported by study done by Stella (2017) who argued that the cost of credit and interest rate charged affect SMEs access to credit greatly. Financial institutions should ensure that financing to SME is offered affordable cost.

5.3.3. External Factors that are key determinants of SMEs Financing by registered Financial institutions

The findings of the study show that the number of lending institutions available affects SME financing by registered financial institution which supports a study by Ndung'u (2016). When there is a high number of lending institutions available, there is a high competition and SMEs can access financing easily since there are also many financing options available to them as compared to a situation where there are fewer lending institutions.

From the study findings provision of Small business support services by the government and other stake holders is a key determinant of SMEs' financing by the registered financial institutions which agrees with the study by Osano and Languitone (2016).

The findings of this study show that location of the business enterprise influences financing to SMEs and this supports other studies done by Thuku (2017) and Gamage (2013). Businesses should be located in strategic and secure places so that they can access financing.

5.3.4. Other factors that influence access to credit

From the qualitative results cash flows, ability to repay, succession planning and savings or account utilisation were found be key determinants of SMEs' financing by the registered financial institutions. This is in agreement with study by Babu (2017), Osano and Languitone (2016).

5.5. Comparison of Criteria used by banks and Microfinance institutions in providing Financing to SMEs

From the study findings it can be concluded that Banks and Microfinance institutions have the same determinants in common they consider in financing to SMEs hence the lending policies cuts across since the same credit risks affect both categories of the financial institutions.

5.6. Conclusion

One of the objectives of the study was to evaluate the determinants of Small and medium enterprises financing by the registered financial institutions and from the findings it can be concluded that there are determinants of SMEs' financing by the registered financial institutions. The internal factors extracted that are the key determinants of Small and medium enterprises financing by registered financial institutions in Uasin Gishu county include the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size.s. The external factors from the results that are key determinants of Small and Medium enterprises financing in Uasin Gishu county are the number of lending institutions, provision of Small business support services and location of the business enterprise.

The other objective was to compare the criteria of financing by the banks and microfinance institutions. The study found out that the banks and microfinance institutions use the same criteria in financing. This is because both banks and microfinance institutions operate under the same environment and credit risk cuts across.

5.4 Recommendations

From the above findings, this study recommends that;

Training and advisory services should be offered to SMEs by the government in collaboration with the financial institutions on the requirements for accessing the loan facilities since most SMEs' are not aware of the requirements hence they are not able to access financing.

Banks should be flexible in financing SMEs by coming up with friendly policies that does not bar SMEs from getting loans and consider financing startup businesses so as to spur economic growth in the country and also come up with tailor-made loan products for SMEs that will support the SMEs.

SMEs' should maintain proper books of accounts and ensure that they bank their cash generated from sales which banks look at when financing them so that they can access financing easily since they will have evidence of cash flows.

From the findings, most SMEs lack collateral to secure loans hence a key impediment to SMEs financing. Government should come up with a credit guarantee scheme that will help SMEs access loans from the financial institutions. Also due to lack of tangible collaterals by SMEs this study also recommends that the government should come up with a fund to support SMEs' and that fund should not be channelled through financial institutions which subject the SMEs to stringent requirements in accessing financing.

Since credit rating and previous history of loan repayment is a key consideration in accessing financing by the SMEs, SMEs should ensure that they repay their loans well so that they can improve their credit scores for them to continue accessing financing and as a result continue to grow and expand.

5.5. Limitations of the study

The study used a census population of 50 respondents where one respondent from each financial institution was interviewed. Using a large population would have been appropriate. In collecting the primary data this study employed closed ended and open ended questionnaire. Use of both qualitative and quantitative methods of data collection would have been appropriate in this study. Also the study respondents were the key informants of the financial institutions there targeting both SMEs and financial institutions as the population of the study would have been appropriate.

5.6 Suggestions for Further Studies

The study suggests that a further study should be done on the determinants of micro enterprises financing by the financial institutions since micro businesses form the majority of businesses in Kenya and also they contribute immensely to the growth of the economies. A replication of this study should be with the context of a different county to confirm the similarity of the results.

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APPENDIX I: INTRODUCTION LETTER

Joseph M. Mulee,

University of Nairobi,

P.O Box 30197, Nairobi.

Dear Respondent,

REF: REQUEST FOR INFORMATION

I am Currently pursuing a Master of Business Administration (MBA) at the University of Nairobi (UON). As a partial fulfilment for the award of the MBA degree, I am required to carry out a research project. The title of my research project is **Determinants of Small and Medium Enterprises' Financing by Registered Financial Institutions in Uasin Gishu County, Kenya.**

I am glad you have been selected to participate in the study and I request for your support. Kindly assist in providing the required data by filling in the questionnaire attached to this letter. The questionnaire will take an estimated 15-20 Minutes to fill. Your participation will be highly valued and appreciated. Kindly note that the information provided in this questionnaire will be treated with utmost confidentiality and will only be used for academic purposes.

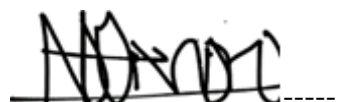
Thank you in advance.

Yours Faithfully,



Joseph M. Mulee

MBA Student



Dr. Nixon O. Omoro

University Supervisor

APPENDIX II: REFERENCE LETTER



UNIVERSITY OF NAIROBI
FACULTY OF BUSINESS & MANAGEMENT SCIENCES
KISUMU CAMPUS

Telegrams: "Varsity" Nairobi
Fax: 4181650
Kisumu, Kenya
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Mobile: 0720348080
Email: nixonono@uonbi.ac.ke

P.O Box 825-40100
Kisumu, Kenya

Date: 13th September 2021 REF: UON/CHSS/SOB – KSM/ D61/30353/2019

TO WHOM IT MAY CONCERN

RE: JOSEPH MULI MULEE - REGISTRATION NO: D61/30353/2019

The above named student is in the Master of Business Administration degree program. As part of requirements for the course, he is expected to carry out a study on "**Determinants of Small and Medium Enterprises' Financing by registered Financial Institutions in Uasingishu County, Kenya.**"

He has identified your organization for that purpose. This is to kindly request your assistance to enable him complete the study. The exercise is strictly for academic purposes and your assistance will be greatly appreciated.

Warm regards and thank you.

Yours sincerely,

DR NIXON OMORO
COORDINATOR, FoBMS, KISUMU CAMPUS

Cc File Copy

APPENDIX III: QUESTIONNAIRE

DETERMINANTS OF SMALL AND MEDIUM ENTERPRISES' FINANCING BY REGISTERED FINANCIAL INSTITUTIONS IN UASINGISHU COUNTY, KENYA.

This purpose of this questionnaire is to assist in data collection for academic purpose.

The research intends to give an analysis of Determinants of small and medium enterprises' financing by registered financial institutions in Uasin Gishu County, Kenya. All information obtained, will be handled with utmost confidentiality. Do not incorporate identification or names in the questionnaire.

You are requested to provide your information by answering questions as in outlined by using either a cross(X) or ticking (✓) in the option that applies in Section A and B and providing responses for section C in your own opinion.

SECTION A: BASIC INFORMATION

1. Name of your organisation (optional) _____

2. Kindly indicate the category of your registered financial institution

Commercial Bank Deposit taking Microfinance institution

Credit Only Microfinance institution

3. How long has your Financial institution in operation?

0-5 Years 6-10Years 11 - 15 Years Above 15 years

4. What is your position in the Organisation?

Branch Manager Credit manager/ Relationship Manager

Credit officer

5. Does your organisation offer Loans to SMEs?

Yes No

6. Are you directly involved in assessing/ Appraising SME Loans?

Yes No

SECTION B: DETERMINANTS OF SMALL AND MEDIUM ENTERPRISES' FINANCING BY REGISTERED FINANCIAL INSTITUTIONS IN UASIN GISHU COUNTY

INTERNAL FACTORS

Kindly indicate the extent to which the each of statements is a determinant of SMEs financing by registered financial institutions in Uasin Gishu County. Kindly use the following scale: 1 = Not at all; 2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very high extent.

	1	2	3	4	5
To what extent does entrepreneur's experience determine SMEs' financing?					
To what extent does asset tangibility/ having tangible collateral affect SME financing?					
To what extend do the Risk and return of SME business affect access to finance					

To what extent does having audited financial statements affect SMEs' Financing?					
To what extent do education background/literacy levels/ skills of entrepreneur affect SME financing?					
To what extent does Ownership type of business affect SME financing?					
To what extent does firm size/ Business affect access to credit?					
To what extent does age of the firm affect accessibility of credit?					
To what extent does gender influence accessibility of credit ?					
To what extent does cost of credit affect accessibility of credit in this county?					
To what extent does structure of financial sector/industry determine SME financing?					
To what extent does awareness of funding opportunities affect SME Financing?					
To what extent does SMEs licensing/ having business licences affect accessibility of credit?					
To what extent does business planning affect SME financing ?					
To what extent does SME Management experience determine accessibility to finance?					

To what extent do Loan repayment modes affect accessibility of credit?					
To what extent does business structure affect SMEs' Financing?					
To what extent does the Loan purpose affect SMEs' Financing?					
To what extent does credit rating and client history of repayment affect SMEs' Financing.					

EXTERNAL FACTORS

Kindly indicate the extent to which the each of statements is a determinant of SMEs financing by registered financial institutions in Uasin Gishu County. Kindly use the following scale: 1 = Not at all; 2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very high extent.

	1	2	3	4	5
To what extent does networking influence SMEs financing?					
To what extent does location of business affect accessibility of credit?					
To what extent do political ties affect SMEs' Financing?					
To what extent do provision of Small business support services affect accessibility of credit?					
To what extent does number of lending institutions affect SMEs' Financing?					

To what extent does corruption by bank officials affect SMEs' Financing?					
To what extent do prevailing economic / climatic factors affect SMEs' Financing?					
To what extent does Legal environment affect SMEs' Financing?					

SECTION C

1. What are some of the loan products available for SMEs?

2. What other criteria/ factors do you consider before lending to SMEs?

3. In your Opinion, do you think SMEs' have challenges in accessing Financing?

Yes No

If Yes, why do you think are the reasons for the challenges they face in accessing financing

4. In your own opinion what do you think can be done to enhance SME financing by the registered financial institutions

THANK YOU FOR YOUR PARTICIPATION

APPENDIX IV: LIST OF BANKS IN UASIN GISHU COUNTY

(Source: Central Bank of Kenya Website)

1. Kenya Commercial Bank Limited
2. Standard Chartered Bank Kenya Limited
3. Absa Bank Kenya Limited
4. Bank of India
5. Bank of Baroda (Kenya Limited)
6. NCBA Bank PLC
7. Co-operative Bank of Kenya Limited
8. Prime Bank Limited
9. National Bank of Kenya Limited
10. Middle East Bank Kenya Limited
11. Bank of Africa Kenya Limited
12. Consolidated Bank of Kenya Limited
13. Credit Bank Limited
14. SBM Bank Kenya Limited
15. Stanbic Bank Kenya Limited
16. ECO Bank Limited
17. Spire Bank Ltd
18. Guardian Bank Limited

19. I&M Bank Limited
20. Diamond Trust Bank Limited
21. Sidian Bank Limited
22. Equity Bank Limited
23. Family Bank Limited
24. Gulf African Bank Ltd
25. African Banking Corp. Bank Ltd
26. Access bank Limited
27. Paramount Universal Bank Limited
28. M-Oriental Bank Limited
29. Housing Finance Bank

APPENDIX V: LIST OF MICROFINANCE INSTITUTIONS IN UASIN GISHU COUNTY

(Source: Central Bank of Kenya Website and Association of Microfinance institutions (AMFI) Website)

1. Faulu Microfinance Bank limited
2. Kenya Women Microfinance Bank limited
3. Rafiki Microfinance Bank Limited
4. SMEP Microfinance bank Limited
5. Musoni
6. ECLOF Kenya
7. Vision Fund Kenya
8. BIMAS
9. Letshego
10. Juhudi Kilimo Limited
11. Select Financial Services
12. Platinum Credit Limited
13. Real People
14. Premium Credit
15. Jiweze
16. Asa International India Microfinance
17. Jitengemea credit
18. Ngao credit
19. Mwananchi Credit Ltd
20. Momentum credit
21. Ushindi Bora Microfinance