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**EEN ACCESS TO CREDIT AND FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI, KENYA**

BY

MARY MUGUCHU

REG. NO. D61/63194/2010

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENT FOR AWARD OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION OF THE UNIVERSITY OF NAIROBI**

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DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

Signature:í í í í í í í í í í í í í Date:í í í í í í í í í í í í í í í í í ..

Name : MARY MUGUCHU

REG.NO. D61/63194/2010

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

Signature:í í í í í í í í í í í í í Date:í í í í í í í í í í í í í í í í í

MR. CYRUS IRAYA

Lecturer, Department of Finance and Accounting

School of Business

University of Nairobi

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EDICATION

This project is dedicated to my dear parents Mr. and Mrs. David Muguchu for instilling me virtue of hard work from a very early age.

ABSTRACT

Small and micro enterprises (SMEs) have become important players in the Kenyan economy, but at the same time they continue to face constraints that limit their development. Lack of access to credit is one of the main constraints, and a number of factors have been identified to explain this problem. These include the segmented and incomplete nature of financial markets, which increases transaction costs associated with financial services. On the supply side, most formal financial institutions consider SMEs uncreditworthy, thus denying them credit. This study sought to find out whether there is relationship between access to credit and financial performance of SMEs in Nairobi, Kenya.

The study employed descriptive analysis as well as regression analysis to analyze the data collected. The target population under study was the licensed SMEs by Nairobi City Council in 2013. Of the licensed SMEs in Kenya, an estimated 50,000 licensed SMEs are located in Nairobi. Cluster sampling of SMEs in the central business district in Nairobi was done by clustering the SMES based on the streets where they are located. A sample of 40 SMEs within the central business district was selected for the survey. Quantitative data was analysed with the use of statistical package for social sciences (SPSS).

Descriptive analysis as well as regression analysis found that there was a positive relationship between access to credit and ROA. The study recommends financial institution to have special lending lending structures for SMEs to enable them access credit.

CONTENTS

DECLARATION-----	ii
ACKNOWLEDGEMENT-----	iii
DEDICATION-----	iv
ABSTRACT-----	v
TABLE OF CONTENTS-----	vi
LIST OF TABLES-----	x
LIST OF FIGURES-----	xi
LIST OF ABBREVIATIONS-----	xii
CHAPTER ONE: INTRODUCTION-----	1
1.1Background -----	1
1.1.1 Access to Credit-----	3
1.1.2 Financial Performance-----	5
1.1.3 Relationship between Access to Credit and Financial Performance-----	4
1.1.4 Small and Medium Enterprises in Nairobi, Kenya-----	7
1.2Research Problem-----	8
1.3 Objectives of the Study-----	10

	10
CHAPTER TWO: LITERATURE REVIEW	11
2.1 Introduction	11
2.2 Theoretical Literature Review	11
2.2.1 Financial Inclusion Theory	11
2.2.2 Minimalist Approach	12
2.2.3 Group Based Approach	13
2.2.4 Imperfect Information Theory	13
2.2.5 The Modigliani and Miller Hypothesis under Corporate Taxes	14
2.3 Measures of Access to Credit and Financial Performance	14
2.3.1 Measures of Access to Credit	14
2.3.2 Measures of Financial Performance	19
2.4 Empirical Studies	20
2.5 Summary	26
CHAPTER THREE: RESEARCH METHODOLOGY	28
3.1 Introduction	28
3.2 Research design	28

	28
3.4 Sample and Sampling Design-----	29
3.5 Data Collection Method-----	29
3.6 Data Analysis-----	30
CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION-----	32
4.1 Introduction -----	32
4.2 Response rate -----	32
4.3 Statistical Analysis-----	33
4.4 Regression Analysis -----	36
4.5 Discussion of Key Findings and Interpretation-----	39
CHAPTER FIVE: CONCLUSION ANDRECOMENDATIONS-----	40
5.1 Introduction -----	40
5.2 Summary of the study -----	40
5.3 Conclusion -----	41
5.4 Recommendations -----	42
5.5 Limitations of the study -----	43
5.6 Suggestion for further Study-----	43



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	45
APPENDICES-----	53
Appendix 1:Smalland Medium enterprises Sampled-----	53



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LIST OF TABLES

Table 4.1 Response Rate -----25

Table 4.2 Summary of Statistics of Variables -----27

Table 4.3 Evaluation of independent Variables-----29



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LIST OF FIGURES

FIGURE 4.1 Descriptive Data on Response Rate -----33

OF ABBREVIATIONS

CBS	Central Bureau of Statistic
GDP	Gross Domestic Product
GOK	Government of Kenya
ICEG	International Centre for Economic Growth
MFI	Micro Finance Institution
ROE	Return on Equity
ROI	Return on Capital Invested
SME	Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Whereas access to credit improves economic activities most SME are financially excluded due to the lending terms and conditions by commercial banks and other formal institutions, this acts as a major obstacle to investment. The practice of financial rationing by financial institutions using Interest rates has hindered most SME from accessing credit as only high income large scale borrowers who expect higher returns can bear the high cost of borrowing Stiglitz and Weiss, (1981).

According to Sacerdoti (2005), among the reasons for lack of access to credit from banks in Sub-Saharan Africa are inability of borrowers to provide accurate information on their financial status, absence of reliable and updated company and land registries, weak claim recovery and collateral realization process such as malfunctioning courts and cumbersome legal and judicial procedures. Other reasons include, long physical distance to the nearest financial services provider, high cost of the credit, socio-economic and demographic characteristics that make them less creditworthy.

Lack of access to credit is indicated as a key problem for SMEs worldwide. In some cases, even where credit is available, the entrepreneur may have difficulties because the lending conditions may require collateral for the loan. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from

long-term credit for small enterprises forces them to rely on high cost short term finance. For Kenyan SMEs, the formal banking system is too expensive and inconvenient. Whereas banks consider SMEs with no transaction history are too risky because their ability to repay loans is not yet known. These Unbanked SMEs may also not have collateral to access formal credit. Another issue is that these unbanked SMEs might not have the skills to run the business professionally. They may not have proper bookkeeping procedures, inventory systems, business plans or income statements making it hard for a bank to evaluate them Frempong (2007).

The practice of credit rationing by financial institutions using interest rates has locked out most poor individuals as only large scale borrowers who expect higher returns can bear the high cost of borrowing Stiglitz and Weiss (1981). Due to the potential for adverse selection resulting from information asymmetry between lenders and borrowers, lenders are often discouraged from using the interest rate as a way to ration credit. Most rural individuals particularly rely on informal credit facility from buyers and sellers of consumer goods like shops and farmers. However, where there is no full information about the level of risk and credit worthiness of the individual, access to credit facility from both formal and informal lenders is constrained. The establishment and launch of the credit reference bureaus is expected to change the credit landscape since information on the credit worthiness is to be made available hence reducing the degree of information asymmetry. However, launch of this body does not suffice since information on most potential borrowers and first timers remain unknown.

Access to credit refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services. Those who involuntarily have no or only limited access to financial services are referred to as the unbanked or under banked, respectively Beck and Honohan (2008). According to world bank (2008) access to credit is the absence of price and non price barriers in the use of financial services.

The limited access to credit has been attributed to factors such as lack of collateral, high risk profile of SMEs, an oligopolistic banking sector and bias by commercial banks against the SMEs Gallardo et al. (2003). Bank in most Africa countries have made little effort to reach SMEs due to difficulties in administering loans particularly screening and monitoring small scale borrowers high cost of managing loans and high risk of default Yahie (2000).

SMEs are generally undercapitalized, suggesting major operational difficulties in accessing credit and pursuing corporate goals. Kimuyu and Omiti (2000) observe that 18.4% of the SMEs in Kenya cite access to credit as their second most severe constraint after market access. Further the 1999 National Baseline survey (International Centre for Economic Growth *et al.* 1999) indicates that 70% of the SMEs in Kenya require loans that do not exceed KSHs. 20 000 (US\$ 285) while 96.3% do not require loans exceeding Kshs.100 000 (US\$ 1428). Ondiege (1996) demonstrated that access to credit is associated with improved performance of SMEs in Kenya. Moreover, Lundvall *et al.* (1998) show that manufacturing enterprises in Kenya that have limited access to credit also tend to be less productive and cannot always move to points of best practice.

tor does not have adequate access to credit, its potential role in transforming the country is unlikely to be realized.

Research studies reveal that age, capital, size, information access, risk and financial records are key factors influencing credit access by firms. Others include; interest rates, borrower's education level and past financial performance. These factors can be categorized into three namely; entrepreneur characteristics, firm characteristics and financial characteristics world Bank report (2007).

1.1.2 Financial Performance

Financial performance is the results of a firm's policies and operations in monetary terms. Firm performance can be measured with different indicators such as profitability, growth in sales, increase in stock levels and increase in value of fixed assets. In addition, firms also have their own performance indicators Meyanathan and Munter (1994).

Obwogi (2006) noted that financial dimension of performance is critical for both large and small enterprises. The resource limitations associated with SMEs indicate that the dimension of quality and time are critical to ensure that waste levels are kept low and that high level of productivity performance is attained.

Financial performance measures are expressed in monetary units. The techniques widely used for analytical purposes include; ratio analysis, trend analysis and cross sectional analysis. A ratio is a mathematical expression of an amount in terms of another. Chandra (2005) noted that ratio analysis gives an objective picture of a company's financial performance because ratios eliminate the size effect. Two different firms whose size differs can be compared. According to

Classification of financial ratios can be grouped into five broad categories namely, liquidity, leverage, turnover, profitability, and valuation ratios. Performance measurement gives feedback on the effectiveness of plans and their implementation.

1.1.3 Relationship between Access to Credit and Financial Performance

Availability of finance determines the capacity of an enterprise in a number of ways, especially in choice of technology, access to markets, and access to essential resources which in turn greatly influence the viability and success of a business Wole (2009). Wole further states that securing capital for business start-up or business operation is one of the major obstacles every entrepreneur faces particularly those in the SMEs sector. Within the SMEs sectors lack of access to credit is one of the major factors accountable for hindering the emergence and growth of their businesses.

Banerjee and Duflo (2004) studied detailed loan information on 253 small and medium size borrowers from a bank in India both before and after they became newly eligible for the program. Specifically the size definition of the program was changed in 1998 which enabled a new group of medium-size firms to obtain loans at subsidized interest rates. Naturally these firms began to borrow under this favoured program, but instead of simply substituting subsidized credit for more costly finance, they expanded their sales proportionately to the additional loan sources which suggest that these firms must have previously been credit constrained.

According to the CBS/ICEG/K-Rep (1999), the two key challenges facing SMEs include poor access to markets and limited access to financial services. Lack of tangible security, the procedural bureaucracies of credit borrowing were some of the facts highlighted that constrain small-scale entrepreneurs from accessing credit from formal credit institutions. The impact of

SMEs operators confining themselves to narrow markets where profit margins are low due to intense competition. Consequently, most of the SMEs are stagnating, retrogressing to micro status or closing after few years of operation. Very few manage to graduate to medium and large-scale enterprises Ministry of Labour and Human Resource Development-GOK (2004).

The ability of SMEs to grow depends highly on their potential to invest in restructuring and innovation. All these investments require capital and therefore access to finance. Against this background, the consistently repeated conception of SMEs about their problems regarding access to finance is a priority area of concern, which if not properly addressed, can endanger the survival and growth of the SMEs sector. Ganbold (2008) argued that Investment Climate Survey conducted by the IBRD/World Bank (2008) showed that one of the major impediments of nurturing firms is lack of access to financial services which would expand economic growth and employment generation as well as reducing poverty in many developing countries.

Lack of access to credit has led to poor maintenance or replacement of machinery, inability to purchase required materials and services, or to expand Levitsky and Oyen (1999). According to Evans and Carter (2000) and Whincop (2001), large firms benefit from established capital markets where small firms cannot raise funds. Owing to lack of well-developed finance information systems, the financial sector is the main source for SMEs' external funds Darson (1995). SMEs therefore, cannot raise funds from other alternative sources. Lack of credit for SMEs' development is a cardinal problem to SME development in developing countries. Owing to the problems associated with accessing alternative credit facilities, a large proportion of Kenyan SMEs rely more on self-financing in terms of retained earnings.

growth due to lack of finance. They hardly grow beyond start-up stage, others go out of business at very early stage Brownwyn (1995).The study undertaken by Hallberg (1998) reveals that access to credit is an important ingredient to development of SME. They have few alternatives of accessing finance other than relying on their retained earnings to finance their investment. The implication therefore is that SMEs do not have adequate credit to meet the needs at different levels of growth. Therefore, a finance gap exists for firms starting or wishing to expand

1.1.4 Small and Medium Enterprises in Nairobi, Kenya

The term Small and Medium Enterprises (SMEs) covers a wide range of definitions and measures, varying from country to country. Some of the commonly used criteria are the number of employees, total net assets, sales and investment level. However, the most common definitional basis used is employment. Currently the SME Department of the World Bank works with the following definitions: Small Enterprises are defined to have up to 50 employees, with total assets and total sales of up to \$3 million while Medium Enterprise is one that has up to 300 employees, having total assets and total sales of up to \$ 15 million per annum (Ayyagari et al, 2003). The definition used to describe the SME sector in Kenya are based on employment size and include both paid and unpaid workers. A micro-enterprise is defined as having no more than 10 employees; a small enterprise with 11-50 employees and a medium/large enterprise with more than 50 employees.

The findings of the 1999 National Micro and small Enterprises Baseline Survey estimated that there about 1.3 million SMEs in Kenya, employing an estimated 2.4 million people. The average income of the enterprises surveyed was about Ksh 6,000 per month, which was more than two

monthly wage for skilled employees. The SMEs sector experienced substantive growth from 2000-2002 increasing to 2.8 million enterprises and SMEs employment of 5.1 million persons, accounting for 74.2 percent of the total employment in 2002. SMEs are spread widely across the country, with two thirds of them located in rural areas (Gok 2006; ILO 2008). In Kenya significant number of SMEs engage in commerce with 74 percent and 66 percent in urban and rural areas respectively Liedholm (2002). Others are involved in agriculture, tourism, manufacturing, telecommunications and other services (ILO, 2008).

1.2 Research Problem

In Africa, the failure rate of SMEs is 70% to 80% out of every 100 companies due to lack of skills and access to finance among other reasons Brian Cant and Ligthelm (2003). It is typical of SMEs in Africa to be lacking in business skills, track record and collateral to meet the existing lending criteria of risk averse banks World Bank (2000). The Unequal access to finance by SMEs and large enterprises has undermined the role of SMEs in the economic development of most African countries like Kenya.

In Kenya there is a widespread concern that banking systems are not providing enough support to new economic initiatives and in particular to the expansion of SMEs and agriculture sector Sacerdoti (2005). It is argued that faster economic growth will not be possible without deepening of the financial system and in particular, more financial support from the banking sector to the SMEs .Banks remain highly liquid and reluctant to expand credit other than to most credit worthy borrowers which in most cases excludes the SMEs .

Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augment income levels, increases employment and thereby alleviate

credit enable poor people to overcome their liquidity constraints and undertake some investments. However the lack of access to credit to start or expand small scale enterprises has often plagued this sector of the economy. Most SMEs tend to rely on the personal resources of their owners, and or loans from friends and relatives to fund the enterprises. The expectation has been that, after initial takeoff of the small scale enterprises, the business should be able to raise funds from the formal sector especially MFIs or banking industries to expand its operations. The credit facilitates the enterprise growth, increases incomes and creates job (GoK, 2000).

Empirical studies done in Kenya include that done by Kibas (1995) to determine the impact of credit to SMEs development. He found that clients reported improvement in their sales, profits, assets, cash flows, management practices and family welfare. New jobs and linkages with other organizations had also been created. This therefore, demonstrates that access to credit influences performance of SMEs.

A number of studies have been done in this area, among the studies done include Rukwaro, (2000) studied influence of credit rationing by MFIS on the operation of SMEs Mokogi (2003) studied the economic implication of lending of micro-finance institutions on micro and small enterprises. Mutugi (2006) studied the responses of micro finance institutions in Kenya to the turbulent business environment. Muchiti (2009) studied risk management strategies adapted by commercial banks in lending SMEs. None of the foregone studies have undertaken to determine the relationship between access to credit and financial performance of SMEs in Nairobi. In this study therefore the researcher seek to fill this gap by carrying out a survey to find out financial performance of SMEs as a result of credit access. To achieve the intended objective the study



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ion. Does access to credit influence financial performance

1.3 Objectives of the Study

The objective of this study is to establish the relationship between access to credit and financial performance of SMEs in Nairobi, Kenya.

1.4 Value of the Study

The result of this study is expected to benefit financial institution and other interested bodies associated with finance sector in Kenya to improve the quality of credit services to their clients and understand their shortcomings so that they can offer services which add value to their client and have a competitive advantage over their competitors. The financial institutions will gain an understanding of the challenges emanating from provisions of credit to SMEs.

Academic researchers will also find the results useful, for the study will add to existing body of knowledge and provide a source of reference to their studies.

Policy makers will stand to gain significantly from its findings in that they will have at their disposal vital information credit access contributing towards SMEs sector in Kenya and when formulating policies on development and poverty alleviation through SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter highlights the various theories related to credit access; measures of access to credit and financial performance. This is followed by a review of the existing empirical studies conducted by researchers locally and internationally on the relationship between access to credit and financial performance of SMEs. The chapter then closes with a brief summary on the theories and empirical discussions.

2.2 Theoretical literature review

This section explores the various theories related to access to credit by SMEs

2.2.1 Financial Inclusion Theory

Financial inclusion refers to the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner, by mainstream institutional players (Chakrabarty, 2011). An inclusive financial sector that provides access to credit for all bankable people and firms, to insurance for all insurable people and firms, to savings and payment services for everyone (United Nations, 2006). Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose them if desired.

Financial exclusion is most prevalent amongst those on low incomes. Unemployed people living on social security payments from the state are therefore especially vulnerable, as are low income households from ethnic minority communities who may also have relatively low levels of engagement with the financial services industry. Kempson et al. (2004), supported by evidence from the Family Resources Survey 2002-2005, report that uptake of financial products and services is lowest amongst African-Caribbean, Black, Pakistani and Bangladeshi households in UK. However for some members of these groups religious beliefs may provide a partial explanation for this apparent exclusion.

Worldbank (2008) has classified financial access barriers into four main categories; physical barriers, lack of documentation barriers, affordability barriers and lack of appropriate products and services. For geographic access, branches have been the traditional bank outlet, hence geographic distance to the nearest branch, or the density of branches relative to the population can provide a first crude indication of geographic access or lack of physical barriers to access Beck, demirguc-Kunt and Martinez (2007).

2.2.2 Minimalist Approach

Under this approach only credit access is the mean to success of SMEs. Minimalists base their approach on the premise that there is a single 'missing piece' for enterprise to grow, usually considered to be lack of affordable and accessible short-term credit Ledgerwood (1999). Minimalist approaches normally offer only financial intermediation such as savings, credit, insurance, credit card and payment systems. Credit provision is restricted to those who can secure it with tangible collateral, commercial banks and non-bank financial institution use this approach.

The approach operates on the principle that credit is the most important constraint to entrepreneurs. Micro credit is most often extended without traditional collateral. Physical collateral is a requirement for borrowing which lock out many SMEs from accessing credit. The group based approach can use either newly formed groups or already existing ones. Group based approach is also referred to as joint liability. Members make a weekly contribution to a joint account in the name of the group, which acts both as a savings account for each member and a loan guarantee fund. Members can only receive a second and bigger loan after the first loan is repaid. The responsibility for loan administration by the group provides per pressure, which keeps up repayment. SMES can use this approach to improve their access to credit.

2.2.4 Imperfect Information Theory

According to Robinson (2001), this theory is based on the assumption that Banks cannot differentiate cost effectively between low risk and high risk loan applicants. In addition, it is thought that formal financial institutions are unable to compete successfully with informal lenders because such lenders have access to better information about credit applicants than formal institutions can obtain cost effectively. Imperfect information theory suggests that it would be difficult for banks to both operate profitability in developing countries credit markets and to attain extensive outreach. On the basis of this model, it would be difficult for economists, bankers, financial analysts, donors and government decision makers to muster much enthusiasm for advocating entrance of commercial banks into micro credit markets.

Hypothesis under Corporate Taxes

Modigliani and Miller (1958 and 1963) hypothesis under corporate taxes highlighted the important issues involved in financial structure decisions namely: the cheaper cost of debt compared to equity; the increase in risk and in the cost of equity as debt increases; and the benefit of the tax deductibility of debt. They argued that in the absence of taxes, the cost of capital remained constant as the benefits of using cheaper debt were exactly offset by increase in the cost of equity due to increased risk. With taxes and deductibility of interest charges they concluded that firms should use as much debt as possible. Myers (1984) described the compromise "static trade-off" theory which firms would use a good deal of debt to take advantage of tax deductibility but not too much to avoid the increasing likelihood of costly bankruptcy. SMEs can therefore acquire credit from financial institution to meet their recurrent expenditure against their future profits.

2.3 Measures of Access to Credit and Financial Performance

There are various measures used to determine accessibility to credit and financial performance of SMEs. The measures normally used are as follow.

2.3.1 Measures of Access to Credit

Although access is not easy to measure, financial depth (total loan outstanding) can be seen as an approximate indicator with direct and indirect effects on financing firms. Greater depth is to be associated with greater access for firms. Demircuc-Kunt, Beck and Martinez (2007) identified geographic and demographic penetration, average size, and number of deposits as indicators.

dominant to firm access to credit. The rate of interest charged on the credit determines the cost of credit. The cost of credit is the amount of money the borrower is obligated to pay above the principal sum of money lent. The interest rate usually as a percentage of the borrowed amount, determines the amount of interest over duration, which may be a year. High interest rate therefore increases the cost of credit. High interest rate on credit may discourage SMEs from borrowing therefore reducing the accessibility of credit among them. The decline in interest rates on loans from 30.4% in 1997 to 13.2% in 2005 coupled with an increase in lending by the financial sector enabled household to access credit easily (GoK, 2006) financial liberalisation stimulates economic development through the establishment of financial institutions. Successful liberalization however can only take place under an environment and sound banking system Pradhan and Pill (1997).

Access to credit from both formal and informal channels requires a certain amount of Collateral. At times the security required is unaffordable. This becomes a constraints to SMEs most of who may not have deeds to capital assets to present as security against the loans. Secondly institutions may require the individual or the group goodwill of guarantors. This requirement acts as a major hindrance. Banks especially do not approve of just any guarantor presented, they have to scrutinise them. Most of the people for fear of the borrower running bankrupt will therefore not agree to be guarantor. This makes it even harder for SMEs owner to access funds from the formal financial institutions.

There are two opinions about the role of education in accessing credit. The first holds that education is not a useful predictor of accessing credit Kimuyu and Omiti (2000). This is because it impedes attainment of entrepreneurial outcomes by reducing curiosity, vision and the willingness to take risks. Formal education is thought to foster conformity and low tolerance for

education helps to distinguish entrepreneurs who access credit and those who do not Lore (2007). In this respect, education increases a person's stock of information and skills. Due to lack of other sources of information in developing countries such as Kenya, education remains the only useful source of new knowledge. Education and skills are needed to run small and medium enterprises. Research shows that majority of the lot carrying out SMEs in Kenya are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector King and McGrath (2002). Zeller (1994) established that highly educated persons preferred loans from informal markets than formal ones. In general, more educated persons were less constrained according to Marge Sults (2003). Therefore, education may enhance access to credit.

Diamond (1994) argues that the relationship between financial institutions and firms also determine access. Those organisations with close relationships are seen to have more access to credit. Relationship with a single bank may reduce risk and hence the cost of credit, i.e. interest rate may be reduced. This is due to reduced incidence of moral hazard and improved knowledge of the firm which ultimately reduces adverse selection.

The entrepreneur's industry experience is considered important in accessing bank credit Lore (2007). Specialized knowledge of the industry, particularly on technology and market is considered critical for venture performance Shane (2000). Knowledge gained from industry experience provides the entrepreneur with certain key competencies and inside information needed to recognize and exploit opportunities. Through work experience, people develop information and skills that facilitate the formulation of entrepreneurial strategy, the acquisition of resources, and the process of organizing. Industry experience is also important in reducing risks



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ence is expected to be associated with entrepreneurial orientation.

Kimuyu and Omiti (2000) demonstrate that age is associated with access to credit. That is, older entrepreneurs are more likely to seek out for credit. Lore (2007) also reveals that younger entrepreneurs are less likely to access loans from banks in Kenya. Age is an indicator of useful experience in self selecting in the credit market. This self selection is an important aspect of decision making styles. Older entrepreneurs also tend to have higher levels of work experience, education, wealth and social contacts. These resources are important in developing key competencies. Therefore, superior age leads to higher levels of entrepreneurial orientation.

Entrepreneurial orientation refers to a firm's degree of entrepreneurship which can be seen as the extent to which it innovates, takes risk and acts proactively Miller (1983). Innovativeness is the predisposition to engage in creativity and experimentation through introduction of new products/services as well as technological leadership via research and development. Risk-taking involves taking bold action by venturing into the unknown, and/or committing significance resources to venture in unknown environments. Pro-activeness is an opportunity-seeking, forward-looking perspective characterized by introduction of new products and services ahead of the competition and acting in anticipation of future demand. Barney (1991) argues that organization of resources leads to superior outcomes. Lumpkin and Dess (1996) argue that entrepreneurial orientation reflects a firm's decision-making styles, methods and practices that lead to new entry. Thus, firms that have an entrepreneurial orientation are more prone to focus attention and effort toward emerging opportunities Wiklund and Shepherd (2003). Bank credit can be seen as an emerging opportunity for small enterprise, since a majority of them do not



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al orientation should be expected to influence access to bank credit directly.

In terms of gender, Mayada et al. (1994) found from a survey of Ecuadorian microenterprises that women were discriminated against in access to credit from formal financial institution. Despite few women having applied for credit, less credit was extended to women than men. However according to Zeller (1994), gender appeared to have no impact. Navajas and Tejeria (2000) cited high service cost as a major constraint.

Distance is measured as the duration it takes to reach the nearest financial provider like a bank. While distance was quite significant in explaining access to loans for most alternatives in 2006, only the marginal effects for the employer and local shop loans were significant in 2009. Specifically, the probability of accessing credit facilities from a local shop increase with distance to the nearest financial services provider in both 2006 and 2009 surveys. There is therefore need to take steps to take credit services to the people, especially in the rural areas.

The number of small scale traders are many , while the financial institutions with the services tailored to them are few. The loan requirements of the SMEs traders are different from those of the large businesses. This is due to the fragile nature of the business among other considerations. The few institution with such considerations are faced by many small scale traders whose financial demands they may not cater for and hence reducing accessibility.



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ance

An interpretation and analysis of financial accounting statements provide a framework for making informed judgements about a firm's financial performance. Financial performance can be evaluated based on accounting data and market based approaches. Accounting data based method utilises accounting data while market based methods are based on what the shareholders can fetch in case they sell their shares. According to Kaplan and Norton (1992) it may be unfair to use share prices to evaluate financial performance because share prices incorporate external market factors which are beyond the manager's control. Where markets are efficient security prices can be used to measure a firm performance and where markets are not well developed accounting data provide a better measure of performance.

Financial analysis is the process of critically examining in detail accounting information given in the financial statements and reports. It is the process of evaluating the relationships between component parts of financial statements to obtain a better understanding of the firm financial position. The analysis involves selection from total information available those relevant to the decision under consideration, arranging the information in a manner that would bring out the relationship and a study of the relationships and interpretation of the results thereof. The techniques widely used for analysis are; ratio analysis, trend analysis and cross sectional analysis Padley (1997).

As a performance measure ratio analysis are classified into; liquidity ratios used to assess the firm's ability in meeting its short term obligations, long term solvency ratios, operating efficiency ratios that measures how effective the firm is using its assets, profitability ratios used to evaluate a firm earning performance and investment ratios which are used to assess the value

ordinary share of a company. According to Gardner, Mills and Cooperman (2005), ROI is a measure used to evaluate the efficiency of a number of different investments while ROE measures a corporation's profitability by revealing how much profit a company generates with the money the shareholders have invested. It tells the rate that shareholders are earning on their shares.

2.4 Empirical Studies

Interest in access to credit has led to a number of impact studies published in scholarly journals. The impact of credit access can be economic, social-cultural or personal. For the purpose of this study, emphasis will be laid on the impact of credit access on the SMEs. A number of studies have been carried out to ascertain the impact of credit access on SMEs. Some of the variables that have been investigated are indicators of change on the enterprise such as increased production, level of sales, net profit, fixed assets and working capital. Some of the studies are discussed below.

A study carried out in the Dominican Republic by ADEMI (1986) concluded that the program had a positive short term effect on the beneficiaries. The study centred on the effect of borrowing by SMEs on variables such as fixed assets, sales, savings, salaries and employment. The findings revealed that fixed assets recorded an increase of between 8 to 54 percent and employment increased by between 2 to 27 percent, and savings by participating SMEs increased significantly.

From a study carried out in India Banerjee and Duflo (2004) studied financial performance of small and medium sized firms both before and after they accessed loan. The study concluded that these firms began to expand their sales proportionately to the additional loan sources which suggest that these firms must have previously been credit constrained.

the impact on clients who borrowed for self employment and those who saved with SEWA bank (India) without borrowing and compared both groups to non-clients. The results showed that borrowers were considerably better off than savers, who were in turn better off than non participants. However savers showed the fast rate of income growth but still, borrowers' income remained over 25 percent greater than savers.

Bolnick and Nelson (1990) conducted a study in Indonesia to evaluate the impact of credit programs on small enterprises. They found that those who participated in programs their production level increased as well as sales. Copestake et al. (2001) found that those borrowers who were able to obtain two loans experienced high growth in profits and household income compared to a control sample, but borrowers who never qualified for the second loan were actually worse off.

Dunn (2001) conducted a study on the impact of micro credit on micro-enterprises in Peru. She found that program clients' enterprises performed better than non client enterprises in terms of profit, fixed assets and employment. In Bangladesh Khandker et al. (1998) found that program participation has positive impact on household income, production and employment particularly in rural non-farm sector and that the growth in self employment was achieved at the expense of wage employment which implies an increase in rural wages.

Zeller et al. (2001) presents evidence that credit access has a significant and strong effect on income generation and food and calorie consumption. According to his study, every 100 taka of credit access generates an additional 37 taka of annual household income for Association for social Advanced (ASA) and Bangladesh Rural Advancement committee (BRAC) members. Khandker (1998) finds that for all the three programs in Bangladesh that he surveyed, household

was much stronger for men than for women. He further finds that Grameen banks practice of providing larger loans allowed the bank to gain higher returns on capital and the effect of borrowing on household net worth was greater. This implies that the size of loans matters and larger loans may be needed for sustained poverty reduction.

Barnes (2001) examined the impact of continuing clients and new clients of Zambuko trust as well as program drop outs and a comparison group of non participants in Zimbabwe. The comparison group was comprised of entrepreneurs who met Zamuko eligibility requirements including that they had owned an enterprise for at least six months. The results Showed benefits of repeated borrowing with only 22 percent of continuing clients earning below a dollar day versus 40 percent of non clients and 42 percent of incoming clients. However, while the income of continuing clients was significantly higher in 1997 than the income of other groups, by 1999 the difference was no longer statistically significant though continuing clients still earned the most.

In the Philippines Mahabub and Catila (1997) compared older borrowers of card microfinance with newer borrowers. They found that productive capital as well as ability to finance expansion from borrowers own funds increased with the number of loans taken from CARD microfinance. Income from older borrowers' micro enterprises was 3.5 times higher than for newer borrowers' enterprises. Older borrowers also increased income from other sources. Regression results showed that every ₱peso borrowed from CARD microfinance yielded 3 ₱pesos in income.

Beck and Maksomovic (2002) further clarify how financial constraints affect firms of different sizes. Their study of 4,000 firms in 54 counties offers evidence that large firms internalise many of the capital allocation functions carried out by financial markets and financial intermediaries.

constraints affect the smallest firms most adversely and that an incremental improvement of the financial systems that helps relax these constraints will be most beneficial for SMEs. The World Development Report (World Bank, 2004) indicates that small firms obtain only 30 percent of their financing from external sources, whereas large firms meet up to 48 percent of their financing needs through external financing.

Okech et al. (1995) conducted a study on 16 financial institutions to determine the demand and supply of credit to the SMEs sector. The study revealed that the demand and supply for credit have been on the increase since 1991. It also revealed that the demand has only been met by 16 percent of what is required. The study also revealed that although financial institutions lend to prime borrowers with collateral security, there is need for these institutions to increase their lending to SMEs.

Diagne and Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime.

Schiffer and Weder (2001) show that SMEs find accessing finance more difficult than larger firms. They rank all the obstacles firms face in doing business and find that financing is a top problem for SMEs, which rate is higher than larger firms.

Lack of access to financial services is one of the main constraints facing SMEs in Kenya. Studies on the informal sector have indicated that despite the proliferation of SMEs activities, many of them not grow McCormick (1992). Most are characterised by small size of activities and

has been attributed by some researchers to the lack of access to financial resources Nkurunziza (2005).

Finance is a key input in the development and growth of business enterprise. One of the reasons why firms form linkages and relations with one another are to access finance McCormick and Atieno (2002). Credit contributes to enterprises development in a number of ways. Access to external resources allow s for flexibility in resource allocation and reduces the impact of cash flow problems on firm activity Bigsten et al. (2000). Firms with access to funding are able to build up inventories to avoid stocking out in periods of crisis, while in conditions of macroeconomic instability, use of credit increases growth of surviving firms. Firms without access to bank funding have also been found to be Vulnerable to shocks Nkurunziza (2005).

Research on business systems Oketch et al. (2002) indicates that small firms that are limited to resources may be constrained to from joining any networks or having contacts, due to the cost involved in such associations. This in turn, limits the extent to which they can influence the support mechanism like policies, legislation and infrastructure that affect business. Small firms therefore, face a number of constraints which are institutional in nature, but their weak organizational ability and limited or nonexistent linkages, limit the extent to which they can address such constraints.

Isakson (2004) argues that credit can be seen as a constraint to enterprise development due to credit allocation process, which locks out firms with viable projects and the weak legal institutional framework for enforcement of contracts, forcing lenders to either rely on social networks or deny loans to potential borrowers. The information asymmetry existing in these markets creates a need for institutional and contract arrangements, which ensure contracts

constraints to Kenyan manufacturing firms, Isakson and Winborg (2002) observe that most firms obtain their loans from friends and relatives, with most informal borrowing occurring among informal firms with African owners. However, informal loans do not play a major role in substituting bank loans. Most firms above the small size are able to obtain trade credit, with a higher proportion of formal firms being able to obtain trade credit than the proportion of informal sector firms. Among the informal sector firms however, more are able to obtain trade credit rather than loans.

Clothing and textile is one of the SME activities with potential for the country's industrialisation and it is a major SME activity in urban Kenya McCormic et al. (2002). For instance, the regional programme on enterprise development (RPED) study on manufacturing firms in Kenya, found that the textile sector provide 26 percent of manufacturing employment and is characterised by a high proportion of small sized activities Arguilar and Bigsten (2002). The sector like other SME activities in the country, faces constraints of lack of access to financial services.

Zeller (1994) used the direct method in a study targeting formal lenders and credit groups in Madagascar and established that demographic characteristics of households namely age and education had a positive relationship to informal credit access.

Rasmussen et al. (2005) surveyed the microfinance sector in Bangladesh and established that 10 percent of households are too poor to be able to use micro credit offered. Households were credit rationed due to poverty implying that, those with more income are likely to have more access to credit.

However not all studies have fully supported the fact that increased access to credit has led to increased enterprise performance. Dia (1996) showed that additional capital is often not required



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that lack of capital can be compensated through creativity.

Kanon (1990) found that the amount of capital needed to start a business is significantly negative when related to the rate of growth.

In his study, Buckley (1997) concluded that there is was little evidence to suggest any significant and sustained impact of access to credit on beneficiaries in terms of micro entrepreneurs graduating to higher or more sophisticated operations, increased income flow or level of employment. The main argument was that improved access to credit and markets was not sufficient unless there was an accompanying change in the undertakings themselves i.e. changes in techniques and technology.

2.5 Summary

From the study it is evident that most SMEs have little access to credit, which thus hampers their emergence and eventual growth. Their main source of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal credit is poor because many SMEs do not maintain proper book of accounts or have weak financial statements and hence making it difficult for financial institutions to access their creditworthiness. Accessing credit is considered to be an important factor in increasing sales, profitability and employment. However this should not always be assumed to be so. Although access to credit is a popular tool in the SMEs development toolkit it is not a solution to all challenges facing SMEs .Financial institution need to redesign their products and services to SMEs and to perceive access to credit as part of the package to for enhancing growth and development of SMEs rather than perceiving it as the perfect solution to all their problems.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a description of the methodology adopted in the study to achieve the objective. The chapter starts with a description of research design chosen and the justification of the choice of the design. This is followed by a description of the population, the sampling frame and justification for the same. The subsequent section describes the data collection method followed by various techniques that were used in the analysis of data.

3.2 Research Design

Research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence (Chandran, 2004; Cooper and Schindler, 2006). The study will take a descriptive survey design. A descriptive survey design is appropriate for this study since the study focuses on more than one SME.

3.3 Population

According to Mugenda and Mugenda (2003), a population is an entire group of individuals or events or objects having common observable characteristics that conform to a given specification. For this study, the population was SMEs operating in the Central Business District (CBD) in Nairobi, Kenya.

were the registered SMEs in Nairobi. Of the registered SMEs in Kenya an estimated 50,000 registered SMEs are located in Nairobi (Nairobi City Council, 2012).

3.4 Sample and Sampling Technique

The sampling plan describes how the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample will be selected Cooper & Schindler (2003).

The researcher selected a sample of 40 small and medium enterprises in Nairobi. Selection of SMEs participants was done by use of cluster sampling method due to the large numbers and informal of nature SMEs. This approach is justified by the difficulty in obtaining a database of SMEs due to lack of directory of all enterprises in Nairobi. Cluster was created based on geographical locations. Four main streets namely Kirinyaga road, Tom Mboya Street, River road and Ronald Ngala Street in the CBD were selected. SMEs on these streets were counted and used as a sampling frame. This was followed by random selection of 10 SMEs from each street using random sampling. Caution was taken to ensure that a proportional representation from each cluster was taken. The cluster sampling method is helpful in minimizing the costs and time take in conducting the research.

3.5 Data Collection Method.

The study used secondary sources of data. Secondary data was sourced from the financial records of the businesses from the year 2008 to 2012. Other sources of secondary data included

able in the library. Electronic database provided access to relevant journals and publications related to the topic.

3.6 Data analysis

The data was analysed using regression analysis. The SMEs profitability was measured using the return on assets. Fraser and Fraser (1991) argued that ROA and ROI are the best measures of profitability. Beck and Martinez (2007) presented size of loans among other factors as indicators of banking sector outreach. Although this indicator cannot be precise measurement of access to credit, those can be good proxy indicator of measuring accessibility of credit. The study used a regression model to establish the relationship between financial performance of SMEs and access to credit provided by financial institution in form of loans. The regression equation that was used is as shown below

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + \dots + b_nX_n$$

Where Y=SMEs financial performance as measured by return on assets

a , b= regression constant


X_1 = Is the LN of the amount of loan value borrowed from financial institution.

X_2 = Is the LN of the amount of fixed asset

X_4 = risk

X_5 = age of the SME

X_6 = is the LN of the size of the firm measured by turnover



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to show the mean, median and the standard deviations.

The results was presented in tables and chart

CHAPTER FOUR

DATA ANALYSIS RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter deals with data analysis and presentation of the findings. It covers the response rate and the regression results.

4.2 Response Rate

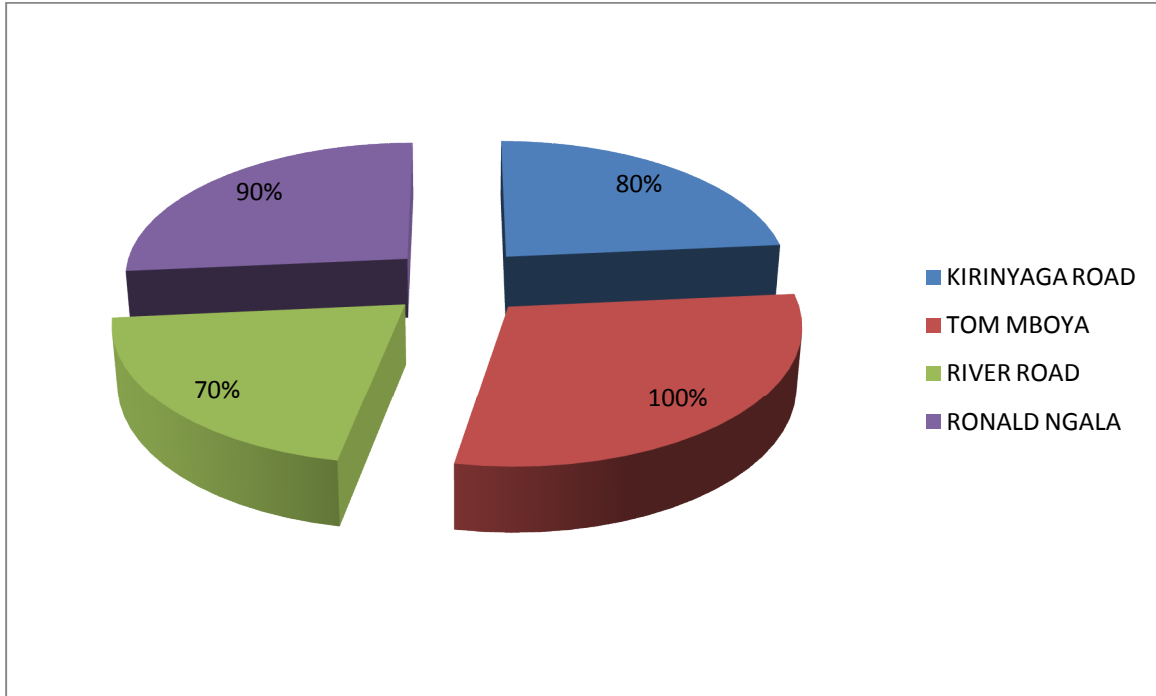
The study was carried out to establish the relationship between access to credit and financial performance of SMEs in Nairobi, Kenya. A total of 40 SMEs, 10 each from the main streets namely Kirinyaga road, Tom Mboya Street, River road and Ronald Ngala Street in the CBD were selected for analysis in this study. Data from 34 of the SMEs was collected representing 85% response rate. Of those data was collected from 29% were from Tom Mboya Street and 26% were from Ronald Ngala Street. On the other hand 24% were from Kirinyaga Road while 21% were from River Road. The table 4.1 or figure 4.1 below best illustrates these facts.

Table 4.1 Response Rate

Street/Road	Response	Target	Percentage
Kirinyaga Road	8	10	80
Tom Mboya Street	10	10	100
River Road	7	10	70
Ronald Ngala Street	9	10	90
Total	34	40	85

Source: Research Data 2013

nse rate



4.3 Statistical analysis

The researcher wanted to know how the various variables related to each other. The table below best illustrates the summary of statistics of variables. Table 4.2 below best illustrates the findings.

		Coefficients ^a					
Model		Std. Dev	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
			B	Std. Error	Beta		
	(Constant)		.122	.03541		.403	.035
	Loan value borrowed from financial institution	0.48	.475	.02924	-.053	-.204	.029
	Amount of fixed asset	0.77	-.224	.01223	-.128	-.745	.012
	Risk measured by standard deviation of ROA	2.04	-.453	.04421	.437	2.609	.044
	Age of the SME	1.73	.332	.0211	.296	.908	.021
	Size of the firm measured by turnover	0.33	.383	.03012	.321	1.474	.030
	SMEs financial performance as measured by return on assets	0.42	.165	.294	-.278	-1.579	.873

Source: Research Data 2013

ed in comparing the contribution of each of the variables of predictors. Therefore, the researcher uses the Beta values and chooses the highest of them which is 0.475, this means that the variable makes the strongest unique contribution to explaining the relationship between financial performance of SMEs and access to credit provided by financial institution in form of loans, when the variance explained by all other variables in the model is controlled for. The Beta value for amount of fixed asset is 0.224, indicating that it makes least contribution. The fitted model was diagnosed and found that the regression was statistically significant at 5% significance level (regression R -value = .05 > .032671). This shows that the combination of these variables (explanatory variables) significantly affect the response variable (credit access). Further, R -square = 66.531%, implying that the explanatory variables accounted for 66.531% of the response variable

To assess the statistical significance of the result, it is necessary to look in the table below: ANOVA. This tests the null hypothesis that Regression (R) in the population equals 0. The model presented here reaches statistical significance of 0 i.e, [Sig = .000, this means $p < .0005$.

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	44.867	8	5.607	32.723	.000 ^b
Residual	4.122	24	.171		
Total	48.980	32			

Source: Research Data 2013

4.4 Regression Analysis

The researcher conducted a regression so as to determine the relationship between the return on Asset and various independent variables including amount of loan accessed from the financial institution, age of business, size of business.

The regression model was as follows

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 +$$

Where

Y is the profitability of the SMEs over time t

X₁ is the amount of loan accessed from the financial institution

X₂ is the size of the business measured by amount of fixed asset

X₃ is the risk of the business measured by standard deviation of ROA

business has been in operation

X_5 is the size of the business measured by turnover

The fitted regression model from the study findings is presented as follows:

$$Y = 0.42 + 0.3(X_1) - 0.52(X_2) - 0.507(X_3) + 0.41(X_4) + 0.25(X_5)$$

From the findings it is clear that the coefficient for loan value borrowed from financial institution (X_1), age of the SME (X_4) and size of the firm measured by turnover (X_5) have a positive relationship. This was as opposed to amount of fixed asset (X_2) and risk measured by standard deviation of ROA (X_3) which had a negative relationship.

From the regression equation established, taking all other factors constant at zero the profitability growth is 0.42 for the sample selected or 42%. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in the loan value borrowed from financial institution leads to 0.3 or 30% increase in R.O.A. This shows there is a positive relationship between R.O.A and loan value borrowed from financial institution but not as great as anticipated especially compared to other factors such as age of the SME which resulted in 0.41 increase in ROA meaning overtime the SMEs tend to do better regardless, this may be attributed to establishment of clientele and learning by the business owners who gain experience over time and are hence better able to manage their businesses. Also having greater influence is the turnover toward the profitability of the SMEs, a unit increase in turnover led to 0.25 or 25% increase in return on assets. If SMEs has been in place for a long time, its size as measured by turnover is huge and the loan borrowed from financial institution in huge all this influence profitability of the SMEs positively.

period under study the amount of fixed asset(X_2) and risk measured by standard deviation of ROA(X_3) impacted negatively on the profitability of the SMEs by the return on assets over time t . In this study period a unit changes in the amount of fixed asset of firm decreased chances of the profitability of the SMEs by the return on assets by 0.52 or 52% whereas risk measured by standard deviation of ROA decreased the chances of profitability by 0.507 or 50.7%. On further discussion, we discovered that most SMEs prefer to maintain very low levels of assets to avoid fixed costs that arise from having fixed assets such as warehousing, insurance and depreciations or obsolescence which the business owners are not able to cover from the sales that they make. The business is able to achieve relatively higher return on assets from managing their costs hence will want to avoid anything that inflates such costs. Whenever an SME has a minimum amount of fixed asset while at the same time its risk is measured by standard deviation of ROA is not favourable these negatively influences the profitability of the SMEs.

The study found out that for SMEs to perform as expected they need to access external finances for example from financial institutions. This study concurs with the findings of Beck and Maksomovic (2002) he found out that financial constraint affect firms of different sizes. In their study of 4,000 firms in 54 countries they offered evidence that large firms internalize many of the capital allocation functions carried out by financial markets and financial intermediaries. They concluded that financial constraints affect the smallest firms most adversely and that an incremental improvement of the financial systems that helps relax these constraints will be most beneficial for SMEs.



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Interpretation

The granting of loans or credit to SMEs is still a major problem as many of SMEs are unable to access such funds. Also there is the problem of information between the loan provider and loan receiver as to the availability and cost. The study revealed that most borrowers borrowed only a small amount of money from the financial institutions since they were only eligible to access such amounts given the criteria set by the institutions and also because they were reluctant to take out large amounts that they may not be able to repay. Such small amounts can only have so little impact on financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the finding and discussions of the study. It also covers the recommendations for further studies on related issues on the study not well covered as well as recommendations on the relationship between access to credit and financial performance of SMEs in Nairobi, Kenya. The study finally addresses the limitations of the conclusions of this study.

5.2 Summary of the study

The objective of the study was to establish the relationship between access to credit and financial performance of SMEs. Descriptive research design was used to attain this objective. The target population was all SMEs in central business district in Nairobi. A total of 40 SMEs, 10 each from the main streets namely Kirinyaga road, Tom Mboya Street, River road and Ronald Ngala Street in the CBD were selected for analysis in this study. Data from 34 of the SMEs was collected representing 85% response rate. Descriptive statistics such as frequency distribution, percentages, variations and measures of central tendency were used to summarize basic features of the data in the study. The statistical package for social sciences (SPSS) version 17 was used to perform the analysis of quantitative data. Regression analysis was used to assess the strength of the relationship between the independent variables on the dependent variable.

In all the estimated model coefficients of this study, the R-values were less than .05 (i.e. $0.05 > R$). This implies that all the variables that were tested by the researcher or the financial performance of SMEs factors tested have a relationship with credit access at 5% significance

that the coefficient for loan value borrowed from financial institution (X_1), age of the SME (X_4) and size of the firm measured by turnover (X_5) have a positive relationship. This was as opposed to amount of fixed asset (X_2) and risk measured by standard deviation of ROA (X_3) which had a negative relationship.

The combination of these variables (explanatory variables) significantly affects the response variable (credit access). Further, R-square = 66.531%, implying that the explanatory variables accounted for 66.531% of the response variable. From the findings it is clear that the coefficient for loan value borrowed from financial institution (X_1), age of the SME (X_4) and size of the firm measured by turnover (X_5) have a positive relationship.

The study found out that for SMEs to perform as expected they need to access external finances for example from financial institutions. It can be concluded that financial constraints affect the smallest firms most adversely and that an incremental improvement of the financial systems that helps relax these constraints will be most beneficial for SMEs.

5.3 Conclusion

The researcher concludes that all the independent variables that were tested in this study including loan value borrowed from financial institutions, amount of fixed asset, risk measured by standard deviation of ROA, age of the SME and size of the firm measured by turnover have a relationship with the financial performance of SMEs financial performance as measured by return on assets.

The researcher concludes that variables such loan value borrowed from financial institution (x_1), age of the SME (x_4) and size of the firm measured by turnover (x_5) have a positive relationship



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as measured by the return on assets. SMEs financial performance improves once they access credit as they improve their return on assets with the financial capability that comes as result of credit accorded to them. The study also concludes that variables such as amount of fixed asset(x_2) and risk measured by standard deviation of ROA(x_3) have a negative relationship to financial performance of SMEs.

As SMEs grow they require funds to finance growth in fixed assets and increase in working capital. SMEs therefore require long term credit in ever increasing amounts. SMEs needs funds so that they can purchase raw materials and carry out activities that they need to facilitate the production process. From the study findings it can be concluded that , access of credit by SMEs greatly influence s their performance. The conclusion is supported by the results from descriptive statistics.

5.4 Recommendations

Since the practice of credit rationing by financial institutions using interest rates has locked out most SMEs as only large scale borrowers who expect higher returns can bear the high cost of borrowing, the researcher recommends that financial institutions to have special lending structures for this category of customers. The government should also come to the aid of SMEs by regulating how financial institutions raise and lower their interest rates. This will not only help the government to improve on its economic activities as a result of easy access to credit by SMEs but will also improve on the livelihood of most individuals who are owners and employees of the SMEs enterprises based in the city.


findings that the government needs to come up with ways of making it possible for SMEs to access credit and not necessarily from the banking institutions. This is a necessity because SMEs in Kenya have difficulties in growth due to lack of finance. This is further supported because access to credit is an important ingredient to development of SMEs and the country economy at large. Also this is necessary because SMEs have few alternatives of accessing finance other than relying on their retained earnings to finance their investment which in most cases is not enough to facilitate any reasonable growth. The implication therefore is that SMEs do not have adequate credit to meet the needs at different levels of growth. That is why the government needs to urgently come in new ways of financing SMEs.

5.5 Limitations of the Study

The study was faced by various limitations. Due to resources the researcher conducted this research under constraints of finances and therefore collected data from SMEs only within Nairobi and hence can only be generalized for a similar urban town and not rural set up. Some respondents were biased while giving information due to reasons such as privacy and busy schedule at their work place while others were not willing to respond.

5.6 Suggestions for Further Study.

This study focused on SMEs in Nairobi and therefore generalization cannot adequately extend to other SMEs outside Nairobi. Based on this fact among others, it is therefore, recommended that a broad based study covering all SMEs countrywide be done to find out the effect of access to credit on financial performance of SMEs. Secondly it is important to carry out similar study among large enterprises in order to find out the effect of credit access on the financial performance of these firms. It is also suggested that future research should focus on the different



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performance of SMEs. In conclusion, this study has brought up new insights into SMEs financing need to the extent that better SMEs performance depends on credit financing by banks hence SMEs must properly align themselves on how to easily access the credit facility offered by banks.

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APPENDICES

APPENDIX 1: SMALL AND MEDIUM ENTERPRISES SAMPLED

1. A plus PVC Technology co Ltd
2. Acme containers Limited
3. Additive and Chemicals Essentia-ACE
4. Adix Plastics Ltd
5. Advert Plastic Ltd
6. Aesthetic Limited
7. Afro Plastics Kenya
8. Aftech Enterprises
9. Alankar Industries Ltd
10. Ashut Engineers
11. Asili Plastic Ltd
12. Autosterile EA Ltd
13. Bahati Venture Ltd
14. Bayer East Africa Ltd
15. Beta Healthcare international Ltd
16. Betatrad Kenya Ltd
17. Bonar Ltd
18. Bulk Medicals Ltd
19. Comet Plastics Ltd
20. Complast Industries Ltd
21. Cosmos Ltd

23. Curacid America Corporation

24. Dajohn enterprises Ltd

25. Doshi Enterprises Ltd

26. Dantex Industries Ltd

27. Dodhia Packaging Ltd

28. Elgon Kenya Ltd

29. Fibreglass and General Ltd

30. Flexpac International Ltd

31. General PlasticsLtd

32. Henkel Fibreglass Limited

33. Infusion Kenya ltd

34. Janlack Industries Ltd

35. Jamsons Industries Ltd

36. Jaydees Knitting Factory Ltd

37. Kachra óJivraj Limited

38. Ken Aluminium Products Ltd

39. Kenapen Industries Ltd

40. Kenbro Industries Ltd

41. Kenleather Enterprises Ltd

42. Kenpoly manufacturers Ltd

43. Kenya Industrial Plastics Ltd

44. Kenya Litho

46. Revive Plastic (PZ) Industries
47. Kissan Enterprises
48. Laboratory and Allied Limited
49. Malplast Industries Ltd
50. Manhar Brothers Ltd
51. Mars Chemical Engineers Limited
52. Medivet Products Limited
53. Meenakshi Kenya Ltd
54. Mepal Plastics
55. Millenium Plastics
56. Minolta Industries Ltd
57. Mutual Enterprises
58. Nairobi Plastics Ltd
59. Nas plastics Ltd
60. Nedlex Polymers
61. Novelty Manufacturing Limited
62. Packaging Manufacturer Ltd
63. Packaging Materials Ltd
64. Palamco Enter[prises
65. Pan Plastis Ltd
66. Paras industries Ltd
67. Parit Enterprises Ltd



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69. Plastics Products Co. Ltd

70. Plastics- Electronics Ltd

71. Polymasters Limited

72. Polymed East Africa Limited

73. Polymers óExtrusions Ltd

74. Premier Industries Ltd

75. R & R Plastics Ltd

76. Raneem óPlastics Industries

77. Rosavie EPZ Ltd

78. Safepak

79. Sai manufacturers

80. Sai Raj

81. Samura Engineering Ltd

82. Sanpac Africa Ltd

83. Sara EA Ltd

84. Saracoatings World Ltd

85. Serafic Co.Ltd

86. Shriji Plastics Ltd

87. Skyplast Manufactures Ltd

88. Specialised Fibreglass

89. Springbox Knya Ltd

90. Steam Systems



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92. Sumaria Industries Ltd

93. Sunplast Ltd

94. Talani Plastics Manufacturers Ltd

95. Thermopak Ltd

96. Twinchem

97. Uni-pastic ltd

98. United traders Ltd

99. Vitaplast Traders Ltd

100. Wax & Polypack Ltd