RELATIONSHIP BETWEEN CREDIT ACCESSIBILITYAND GROWTH OF SMALL AND MEDIUM SIZE ENTERPRISES IN NAIROBI COUNTY, KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN ENTREPREUNEURSHIP AND INNOVATION MANAGEMENT IN THE SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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DECLARATION

I, Pauline Akoth Ochido, hereby declare that this Research Project titled RELATIONSHIP BETWEEN CREDIT ACCESSIBILITY AND GROWTH OF SMALL AND MEDIUM SIZE ENTERPRISES IN NAIROBI COUNTY, KENYA is my original work and has not been presented for a degree in any University.

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May all be richly blessed.

DEDICATION

I dedicate this work to my beloved family for their infinite patience and constant encouragement in enabling me to achieve this goal.

ABSTRACT

This study intended to investigate how credit accessibility influenced growth of small and medium size enterprises in Nairobi County, Kenya. In recent times small business have taken centre stage as the main drivers of economic growth in most countries. These enterprises have been observed to be in the fore front in job creation and wealth. Despite being at the fore front of economic growth access to credit has been a major challenge that has obstructed their growth. The study objectives were to establish how credit accessibility affected growth of SMEs in Kenya and to establish the challenges and constraints facing SMEs in accessing credit. In this study, the population of interest included SMEs that operated within Nairobi County. There were 30252 small and medium size enterprises that operated within Nairobi City County out of which a sample of 379 was used in the study. Primary data was collected from these sample enterprises and analysed using descriptive statistics. Regression and correlation analysis were applied to show the relationship between variables. The study revealed that the majority of SMEs in Nairobi County were not performing as expected due to lack of access to credit. Credit accessibility was found to influence the growth of small enterprises. Particularly high rates of interest negatively influenced the growth of small business in Kenya. The findings further indicated that term to maturity, uncertainty about loan amount, high interest rates, mismatch of funds and undue pressure for repayment had a large influence on the SMEs choice of credit facilities. The study results also showed that aspects of lending such as credit history, asset base, availability of collateral, delayed payment by debtors and irregular cash flows influenced the SMEs choice of credit facility. The result showed that lack of information, lack of awareness of credit facilities, loan ineligibility, poor credit history and lack of collateral/guarantors hindered SMEs from accessing credit facilities. The high interest rates and high collateral requirements among banks make it very difficult for SMEs to receive credit. SMEs typically lack sufficient collateral or personal guarantors to pledge against formal loans, or they are unfamiliar with the bureaucratic procedures of accessing credit. Financial capital is the catalyst for firm expansion. Hence, insufficient access to it is evidently harmful to overall economic growth. Financial constraints slow down capital accumulation, impede productivity improvements and increase the time it takes entrepreneurs to reach their potential. Based on the study findings recommendations are; financial institutions should consider revising their policies on interest rate charged, credit policies and appraisal techniques and limitation on the amount of credit granted to SMEs. The study also recommended that financial institutions should consider reducing or waiving credit appraisal costs and cost charged on late payment to increase SMEs accessibility to credit. The study also recommended that to increase SMEs accessibility to credit loan limit policies should be reconsidered or harmonized to accommodate the needs of SMEs. Stakeholders in the different sectors should also intervene to ensure that SMEs have access to financial services to enable them to contribute to development.

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ABBREVIATIONS AND ACCRONYMS

CBK	Central Bank of Kenya
EU	European Union
GDP	Gross Domestic Product
MFIs	Micro Financial Institutions
MSMEs	Micro, Small and Medium Size Enterprises
OECD	Organisation for Economic Co-operation and Development
SACCOs	Savings and Credit Co-operative Societies
SMEs	Small and Medium Size Enterprises
SPSS	Statistical Package for Social Sciences
US	United States

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Entrepreneurship in the current world is emerging as an avenue for gainful employment, a way of improving social and economic status (Tubey, 2012). In the recent past small business have taken centre stage as the main drivers of economic growth in most countries. These enterprises have been observed to be in the fore front in job creation and wealth. Despite being at the fore front of economic growth their access to credit has been a major challenge that has obstructed their growth. The question that lingers in the minds of many stakeholders in the SME sector is how to avail credit to these SMEs without exploiting their developing ventures to the advantage of other people. For any business to continue creating employment they require working capital; however since some of these business have low income and have to source for funding from alternatives sources to boost their activities. The funding can only be obtained from financial institutions. The conditions provided by the commercial banks and financial institutions however have placed small businesses in risky position hence denying them credit (Atieno, 2001).

This study is anchored on the Resource Based Theory and Loanable Funds theory. Resource Based Theory of firm performance proponents argued that access to resources especially financial resources by the firms is one of the recipes for business growth and development (Acer and Poling, 2015). On the other hand, the proponents of credit access theories suggested that enhancing credit access and including the small business in the financial system should be the main goal of a relevant economy. Loanable Fund theorists posit that the rise in interest rate leads to decline in demand of loanable funds when all other factors remain unchanged (Gynlelberg and Johansson, 2007).

In the Kenyan context, SME industry attracts the unskilled persons or those retrenched from their formal jobs or those skilled and are unable to secure formal jobs in their areas of study. This is regarded as the second best option for those unable to secure jobs in the modern sector. Moyi (2013) noted that employment growth in Kenya's SME sector has far outpaced growth in the large modern sector. This has so far been proven factual by the massive growth of SMEs in Kenya over the years. According to Carlos (2011) the population density of SMEs is more in urban centres than it is in rural areas. The author pointed out the garment sector, motorized transport and agro-processing as the sector with heavy investment by SMEs in urban areas.

1.1.1 Concept of Credit Accessibility

Numerous surveys have been conducted in this field of SMEs and these have established that lack of financial literacy is a bane of SMEs (Aremu and Adeyemi, 2011). According to a survey by Omboi and Wangai (2011) it was established that the problem of access to financial resources by the small business was to some extent created by the financial institutions themselves. The author pointed out that unfriendly lending policies, limits on the amount loaned to SMEs, complex and bureaucratic application process played a major role in locking out SMEs from accessing credit facilities. The types of organisation providing financial assistance further worsen the problem of access to credit by the SMEs in Nairobi County. The people seeking credit will always review the terms of payments of the loan, the duration and the collaterals demanded by the institutions when these requirements are beyond their ability they will shy away from applying even if their credit is available for them (Omboi and Wangai, 2011).

Compared to larger organisations who are considered less risk borrowers and who are well informed about credit in the market, SMEs are considered more risky by lenders and also lack accurate information and these have lowered the credit accessible rate by SMEs (Lawless and McCann, 2011). Considering their perceived heightened level of risk, it is difficult for SME owners to convince lenders to trust them and give them credit especially for newer businesses. In most cases SMEs do not have a reputation that implies that they are low risky since such reputation takes time and a lot more effort to build. In addition these SMEs do not have the required collateral by lenders who want to protect their credit (Wehinger, 2014). The lending institutions have in some cases resorted to rationing the credit they give to SMEs if they feel that it might result to riskier loan portfolio (OECD, 2006).

A study conducted by the International Finance Corporation in 2010 to establish the level of credit accessibility by small and medium size enterprises showed that over 45% informal and formal micro small and medium enterprises were either unserved or underserved. The survey also revealed that over 46% of small enterprises owned by women in developing countries were underserved by financial institutions (Alper and Hommes, 2013).

1.1.2 Determinants of Credit Accessibility

Entrepreneur characteristics such as level of education and individual experience are considered to be strong determinants of accessibility to financing. Small businesses in most cases do not hire many people and are either run by the owners or the managers and the performance of the business heavily rely on the ability of the people running the business (Nofsinger and Wang, 2011). This could be the reasons why the education level and information the owner has greatly influence the level of accessibility to credit by the business. According to Irwin and Scott (2010), educational level of owner/manager is most likely the main factor influencing lending decision of bankers. Similarly, Fatoki and Asah (2011) found that one of the main reasons firms in Eastern European transition economies could not obtain bank loans is because of owners/managers management competency.

Small businesses have similar traits that differentiate the rate at which they access credit to that of large and established firms (Beck, Demirgüc-Kunt and Martinez 2008). The size of the SMEs has worked to their disadvantage when it comes to accessing credit facilities. This because banks consider the amount lend to SMES as very small to cater for the transaction and screening costs (Shinozaki, 2012. The same loans considered by commercial banks to be small might be too large for the microfinance institutions that are willingness to offer SMEs because of the risky nature of SMEs (Dalberg, 2011).

Small businesses worldwide have similar characteristics, the problems they face are also similar but their perception and understanding of the role of SMEs on economic development differs from one country to another. With 90% accounting for the sector, countries in the European Union consider small and medium sizes enterprises to be very important both socially for wealth creation and economically for job creation. This is because that sector accounts for over 90% of the enterprises in the EU. For instance in Netherlands, SMEs accounts for over 98% of all the private companies, contributes to 31% of the country's GDP and employs over 55% of the total workforces (Tarek, 2011).

Small and medium size enterprises also accounts for over 90% of the companies in Australia employing over 51% of the workforce in private sector. Whereas in Italy SMEs absorbs about 2.2 million people in the workforce (Coppa and Sriramesh, 2013). According to Zhu, Wittmann and Peng, (2012) SMEs in China have been crucial in maintaining social stability, creating employment and helping in releasing the pressure caused by unemployment. Just like in Kenya, SMEs in Malaysia have been starved for credit citing lack of collaterals and insufficient documentation as the main cause of lack of access to credit.

In the region, 91% of the formal enterprises in South Africa were SMEs accounting for over 50% of the gross domestic product (Abor and Quartey, 2010). The contribution of SMEs on the economy of the countries across the world can be ignored however these SMEs still face numerous challenges and the most outstanding if poor access to financial resources.

1.1.3 Credit Accessibility and Growth of SMEs

Among the major factors of production that any organisation requires capital is the most important one since it enable the organisation to operate. Access to finance boosts SMEs productivity and hence become sustainability by utilizing the economies of scale (Kira and He, 2012). Entrepreneurial activities such as access to new markets, expansion of business, reduction of risks, innovation and creativity enhancement all requires finances. A study by Rahaman (2011) revealed that an increase of 10% in bank credit to a firm would lead to an increase of 18.14% in firm growth. On the other hand, lack of credit negatively affected profit margins of the business than any other challenges (Khandker et al, 2013). They also established that firms that borrow money from informal lenders to start businesses have lower profits compared to other sources.

Credit access challenges occur when small businesses fail to obtain credit from lenders despite their ability to use the finances productively (OECD, 2006). When difficulties of funding leads to collapsing economically viable projects innovation, growth and economic development is negatively affected.

1.1.4 Small and Medium Size Enterprises in Kenya

Small and Medium Size Enterprises (SMEs) are important in most countries. Mutua (2015) observed that in the developing countries the state of the economy has a strong association with the health and nature of Small and Medium Enterprises sector. This sector has the potential to spur a revolution in Kenya as they are dynamic and provide one of the most prolific sources of employment creation, income generation and poverty reduction. These industries are commonly found along roads in urban and outskirts of major towns in Kenya. Income from the SME sector is ranked lowest among other sectors of the Kenyan economy, but they are vital to the livelihoods of many urban and rural poor.

SMEs contribute about 80% of total job opportunities and more than 92% of jobs created (Afande, 2015). This implies that the SMEs sector has a crucial role on improvement and growth of the economy of the country. Small enterprises in Kenya suffer various challenges that hinder their growth. These challenges include lack of finances, limited human resources, improper marketing strategies, slow adoption of modern technologies among others. These challenges have further reduced business resilience and prevent the SMEs from attaining the economies of scale.

1.1.5 Small and Medium Enterprises in Nairobi County

SMEs are a foundation to economic growth and development. The government should take up a role of ensuring that the environment is conducive for SMEs competitive growth in order to realize Vision 2030. Adama and Nadif (2013) argue that developing countries like Kenya should realize that globalization and technology have created a still competitive environment and SMEs in Kenya do not seem to be ready for global competition.

A survey conducted in Kenya showed that 32.7% of the SMEs cited lack of finance as their principal challenge while 10% mentioned that they had received credit from lending institutions (Daniels et al., 2002). Mutua (2015) observed that in the emerging economies the state of the economy has a strong association with SMEs. These businesses are found in different sectors and are a major contributor to employment and thus poverty reduction. These industries are commonly found alongside roads in urban and outskirts of major towns in Kenya. Income from the SME sector is ranked lowest among other sectors of the Kenyan economy, but they are important to the survival of many urban and rural poor.

1.2 Research Problem

A study conducted by the International Finance Corporation in 2010 to find out the level of credit accessibility by small and medium sizes enterprises showed that over 45% informal and formal micro small and medium enterprises were either unserved or underserved. The survey also revealed that over 46 percent of small enterprises owned by women in developing countries were underserved by financial institutions (Alper and Hommes, 2013). Generally, the rate of SMEs accessibility to credit is very low according to the survey.

Some of the benefits of the SMEs include nurturing entrepreneurs, social stability by source of livelihood for many families both in rural and urban setups (Memba, Gakure and Karanja, 2012). Small and medium enterprises further contributes to economy development by creating job opportunities and wealth for instance in Kenya SMEs account for between 12 and 14 percent of the GDP. Despite the contributions of the sectors, SMEs continue to be regarded as not creditworthy by commercial banks and other financial institutions. Whereas few NGOs continue to finance micro-enterprise activities, majority of the formal credit institutions still deny SMEs credit.

Ndede (2015) study on the determinants of acquisition of services of financial institutions by SMEs in Langata Sub-County of Nairobi County. The study revealed that there was a low credit accessibility rate among SMEs. The study pointed out legal and regulatory framework, level of education and entrepreneurial training as determinants of acquisition of financial services by these businesses. Additionally Sharu and Guyo (2015) found that having entrepreneurial skills would positively influence growth of small enterprises.

Kamunge, Njeru & Tirimba (2015) study concluded that increasing the access to financial support by the SMEs and having management experience are the essential social and economic determinants that affect the growth and sustainability of small enterprises. Other importance factors included access to market information, good infrastructure and legal and regulatory framework. In addition, Odhiambo (2013) argues that entrepreneurs in developing countries do not get adequate finance from the organized banking sector. The banks insist on security and also a number of formalities and documentation.

This is among the few studies to investigate SMEs accessibility to various sources of financing, including bank finance, microfinance and informal credits in Nairobi County. While much of the literature on SMEs access to credit focus on bank finance, there is growing necessity to address determinants of SMEs' ability to obtain microfinance and informal credits since obtaining bank financing is not popular for small scale enterprises. This study will seek to establish how credit accessibility affects growth of SMEs.

1.3 Research Objectives

i. To investigate relationship between credit accessibility and growth of SMEs in Kenya
ii. To establish challenges (barriers and constraints) facing SMES in accessing credit from credit facilities

1.4 Value of the Study

The Resource Based theory and Loanable Funds theory are the anchors of this study. However, the Loanable Funds theory does not explain the influence of financial distress or accessibility to finances on the growth of SMEs. Also, the Resource Based theory focuses on resources and capabilities in achieving a competitive advantage, but it does not show how they influence the growth of a business. The study will therefore add more information to the body of knowledge on how credit facilities influence the growth of SMEs. The study will be beneficial to other scholars and academicians who are interested in pursuing further research as it would provide a reference point and could provoke further areas of study in this area.

In practice the findings will be of significance to the management of institutions offering credit facilities since it will outline how the facilities influences the growth of women owned enterprises in Kenya and the challenges that women face in accessing credit facilities. This will enable both formal and informal credit facilities institutions to set strategies that will improve accessibility. The findings will also create awareness and provide information to entrepreneurs on the credit facilities and how they can benefit from this vehicle and improve and or expand their business to the extent that the business contributes to Kenya's economy. The study may help lenders or financial institutions to identify some of the policies that are detrimental to the SMEs borrowers, and therefore come up with strategies of streamlining such policies without compromising the security of the credit offered.

To the government of Kenya and policymakers, the study will provide information on how credit facilities influences the growth of SMEs, which can be used to formulate policies to improve accessibility of credit facilities to SME entrepreneurs and financial allocation by the national government to Credit institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section contains the review of literature relevant to this study. It further contains the theories that include the Resource Based theory and Loanable Funds that informed the study.

2.2 Theoretical Foundation

The concept of credit accessibility has been explained by a number of theories in the field of finance. From the argument of the proponents of these theories, credit access has a positive relationship with growth of enterprises. Some of the theories that provide the basis of this study include Resource Based theory and Loanable Funds theory.

2.2.1 Resource Based Theory

This theory attributes business performance to the resources that a business has at its disposal. Proponents of this theory posit that firms that have better resources are likely to perform better than those with lesser resources at their disposal (Acar and Polin, 2015). The proponents of the theory stressed the fact that organisation can take advantage of their resources to have a better competitive edge.

Businesses and firms have in the past relied on the traditional financing mechanism which appeared not to have worked for them. Ahmed (2002) argued that the reason for over reliance to traditional funding by SMEs resulted from lack of exchange and understanding of existing information that there is between lenders and borrowers. Financial organisations have information about credit worthiness and hedge against potential loses while on the other hand borrowers lack such kind of information.

Resource Based Theory explains that competitive advantage of a firm hinges on internal resources (Kraaijenbrink, Spender and Groen, 2012). According to this theory, SMEs lack of access to finances contributes to their failure since other firms with better resources have competitive advantage. In addition SMEs without proper resources will fail to satisfy both employees and their customers since they will lack the advantage of better resources.

2.2.2 Loanable Funds Theory

According to the Theory of Loanable Funds, the supply of loanable fund originates from the individual who need to save money also refers to us lenders while the demand comes from the people who wants to invest also known as borrowers. The accessibility of these loanable funds depends on the interest rate that the lenders charge and whether the borrowers can afford the funds at the same interest rate.

The rise in interest rate leads to decline in demand of loanable funds when all other factors remain unchanged. Gynlelberg and Johansson (2007) argue that reduction in nominal interest rate impacts positively on supply and demand of loans. There is negative linear relationship between interest rate and borrowing. The Loanable Funds theory is linked to credit access since accessibility to credit is related to the interest rate charged.

The Loanable Funds theory has been criticized on several counts with one of the criticisms being that the traditional statement of the theory does not specify the source and demand of the loanable funds (Gupta, 1974). Gupta, 1974 noted that not all the savings are available in the market for borrowing such as invested through assets and some people hoard cash in their houses.

2.3 Factors that Determine Credit Accessibility by SMEs

According to Kung'u (2011) businesses face numerous obstacles that hinder them from accessing credit. According to the authors this obstacles include poorly segmented nature of financial systems that raises transaction costs and other financial services. The author further highlighted that most financial institutions have listed SMEs as un-creditworthy. Atieno (2009) on her part suggested that strict lending policies have also worsened the problem of credit accessibility to SMEs.

According to Wanjohi (2009) argued that the problem of lack of accessibility by SMEs stemmed from formal lending organisation enlisting SMEs as un-creditworthiness. The author further argued that the emergence of lesser formal lending institutions such as microfinance institutions and SACCOs cannot solve the problem of lack of credit accessibility by the SMEs. Microfinance institutions and SACCOs face limited growth because of lack of adequate funds themselves therefore they can only offer short terms loans since they have no options of refinancing such as from central bank.

Oliveira and Fortunato (2006) also noted that SMEs faces many obstacles especially financial constraints which have affected their performance to a greater extent. Lacks of finance resources have limits the ability of SMEs to exploit economies of scale in the same way multinationals firms can. He suggested that startups do not have enough cash flow hence are not able to rely on commercial banks for financing therefore they left with the option of using own saving or financing from the relatives and friends.

2.4 Role of Credit Accessibility on SMEs Growth

Obtaining credit facilities on commercial terms along with competition for both funding and clients, requires on one hand, SMEs charging clients the full cost of the delivered services, while on the other hand managing cost structures to ensure sufficient returns to pay for the more expensive commercial funds. This includes effectively managing risks, having good corporate governance, and increasing the level of transparency in both individual SME and the industry as a whole. SMEs need the cooperation of all market participants to ensure the continued growth of microfinance and thus the continued impact on poverty alleviation in developing countries (Reille and Forster, 2008).

A number of studies namely Onugu (2005), Wawire and Nafukho (2010), identified lack of focus, reliance on one or two markets, improper book keeping and records, inadequate market research, poor business strategy and competition as some of the factors that place SMEs in bad position as far as credit accessibility is concerned. According to Heffernan (2006), SMEs face a range of risks that affect their choice of financing: credit risk (counterparty risk), liquidity risk (funding risk), settlement risk (payment risk), (duration mismatch risk), capital risk (gearing risk), operational risk (risk of financial losses brought on by for example failure of internal systems, fraud, or loss of key employees, and so on) and sovereign and political risks.

Ochanda (2014) in his study on credit accessibility found that financial resources affected the performance of 92% of the firms studied when the measure of growth is profitability. The SMEs cited high interest rate and collateral demand as some of the factors that hindered most SMEs from accessing the credit from formal lending institutions. The study also found that innovation was important in the growth of SMEs.

Muguchu (2013) study on relationship between credit and financial performance of SMEs used both inferential and descriptive analysis in conducting the study. The study sampled 40 SMEs that operated within the CBD in Nairobi. Similar to other studies access to credit was found to positively affect performance of SMEs. On the other hand, Byaruhanga (2012) findings further revealed that credits terms and accessibility influenced the performance of agricultural cooperatives.

2.5 Challenges faced by SMEs in Accessing Credit

Ackah and Vuvor (2011) study on establishing some of the challenges that SMEs encounter when seeking for financing, collected data on 80 SMEs through convenience sampling technique. The findings showed that commercial banks and other financing institutions were willing to avail credit to small and medium size enterprises. They however noted that those who were seeking the finances were not in the position to meet the requirements demanded by the financing institutions. The main challenge among the requirements that the applicants failed to meet was the collateral which majority of the SMEs could not provide.

Nguyen (2014) also conducted some work in this area of SMEs on why they are considered riskier than large firms. The author pointed out that SMEs are riskier because they are considered to have lower survival rate, large volatility in their operating performance and growth. As a result of the above reasons they are denied credit or suffer credit rationing alternatively give credit at higher interest rates. A survey by VCCI conducted in developing countries revealed that only 30% out of all the SMEs that seek funding from commercial banks succeed. Those that succeed are forced to pay higher interest rates compared to large enterprises.

Kushoka (2013) conducted a research to examine the contribution of credit facilities on enterprise development in Tanzania. Kushoka (2013) used both descriptive design and exploratory design in his study. The study revealed that there was improvement in employees and in capital after accessing credit facilities. The researcher concluded that credit facilities are key players in entrepreneurship development.

Okpara and Wayne (2002) in a study in Nigeria revealed that 65.5% of firms relied on personal saving as the starting capital for their business while only 9.4% admitted to receiving credit financing from commercial banks another 7.8% pointed out that their finances came from partners and other sources apart from financial institutions. They argued that credit accessibility may be essential but it was not the only condition for growth.

2.6 Emerging Issues

Kenya joined 76 other countries around the world that are using some form of Interest rate caps to curtail usury. The Banking (Amendment) Act, 2016 (the Act), was assented to by the President on 24th August 2016, gazetted on 31st August 2016 and came into effect on 14th September 2016 of which ‘experts’ were scornful. It pegs the interest rate on a loan at no more than 4% of CBK base rate and interest on deposits to at least 70% of this base rate. Their argument is that this will affect credit accessibility and availability while giving rise to unorthodox lending practices. The Amendment Act introduced two new sections into the Banking Act, Cap 488 (the ‘Principal Act’), namely; banks and financial institutions being required to disclose all the charges and terms relating to a credit facility to a borrower and that compliance is not discretionary (Kenya Gazette Supplement No 143).

Tavneet and Bhattacharya (2016) were also of the view that capping interest rates would do more harm than good to the economy in that it might solve the high interest rate spreads in the banking sector but would lead to other challenges such as locking out of SMEs and other ‘high risk’ borrowers from accessing credit as banks would prefer to loan to the government who are considered ‘low risk’. Faith Atiti, an economist at Commercial Bank of Africa Limited in Nairobi, stated that bank margins are going to thin out as this is uncharted territory for most banks, especially those struggling with high non-performing loans and with a huge retail exposure (Business Daily 4th September 2016).

2.7 Summary of Knowledge Gaps

Studies conducted on relationship between credit accessibility and or financial deepening and growth of SMEs have not been conclusive. Such studies include; Muguchu (2013), Ochanda (2014) and Oliveira and Fortunato (2006). Most of the literature on SMEs access to finance focus mainly on bank finance, there is growing necessity to address determinants of SMEs' ability to obtain microfinance and informal credits since obtaining bank financing is not popular for small scale enterprises. To bridge the research gap, this study was conducted in Kenya and focused on access to credit and growth of SMEs in Nairobi County, Kenya. Hence it will fill both conceptual gap and contextual gap.

Table 2.1 Summary of Empirical Studies and Knowledge Gaps

Study	**Focus of study**	**Methodology**	**Main findings**	**Knowledge gaps**	**Focus of current study**
Kung'u (2011)	SMEs access to finance: Case study of Westland Division, Kenya	Descriptive study	Small and medium size enterprises encounter obstacles that hinder them from accessing credit	The study focused on establishing factors that influence SMEs access to credit	To establish relationship between credit access and SMEs growth
Atieno (2009)	Financial institutions lending policies and access to credit by SMEs in Kenya	Descriptive study	Stringent lending policies have worsened credit	The study focused on institutions' lending policies	The current study will focus on collateral, Few micro-finance, Late payment charges, Prepayment charges, Loan processing charges, High lending rate
Ochanda (2014)	Financial deepening and growth of SMEs	Selective sampling of 80 SMEs in Nairobi	High interest rate and collateral demand hinder most SMEs from accessing credit	The study focused on financial deepening	The current study focused on relationship between credit access and SMEs growth

Wawire and Nafukho (2010)	Management of women owned SMEs in Kakamega District, Kenya	Inferential and descriptive analysis	Lack of focus, reliance on one or two markets, improper book keeping and records, inadequate market research, poor business strategy and competition affect SMES as far as credit accessibility is concerned	The study focused on women owned enterprises in Kakamega District, Kenya	Focus is relationship between credit access and SMEs growth
Kushoka (2013)	Examined the contribution of credit facilities on enterprise development in Tanzania	Descriptive design and exploratory design	There was improvement in employees and in capital after accessing credit facilities	The study was conducted in Tanzania	The current study focused on relationship between credit access and SMEs growth in Kenya
Okpara and Wayne (2002)	Challenges in obtaining credit by SMEs in Ghana	Descriptive design and exploratory design	65.5% of firms surveyed relied on personal saving as the starting capital for their business.	The study was conducted in Nigeria.	The current study focused on relationship between credit access and SMEs growth in Kenya

Source: Researcher (2016)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter addresses the research methodology, data collection process and samples and sampling procedures that were followed. The target population used is defined as are the research instruments and the data analysis methods.

3.2 Research Design

According to Lavrakas (2008) and Kothari (2004) research design represents the overall plan that the study employed to answer the research questions under investigation and challenges encountered while undertaking the study. Descriptive research design was used as it aids in identification of the type of association, defining complex associations of multiple factors that account for the outcome and forecasting an outcome from different predictor variables (Creswell, 2003).

3.3 Population of the Study

The study did not focus on specific sector since the challenges of credit accessibility cut across all the SMEs regardless of the sectors. The target population was 30252 SMEs in all sub counties in Nairobi County (Company Registrar, 2013). The unit of analysis was the SME owners, one from each SME in cases where there are more than one owner.

3.4 Sampling Technique

In random sampling all the respondents have equal chances of being selected. The term sample is a segment of the population chosen for research to represent the population as a whole (Cooper & Schindler, 2006). Sample size refers to the size or number of individual chosen for research who represent the population as a whole.

Out of the population of 30252 SMEs, 379 were sampled. This was in keeping with the sampling model designed by Krejcie and Morgan (1970) that recommends that at 95% confidence level, a sample of 379 subjects was representative for a population of above 30,000 subjects. The study administered a questionnaire to SMEs owners.

Table 3.1 Sample Size

Sub County	Target Population	Sample size
Starehe	3138	40
Kamukunji	3642	45
Kasarani	3361	42
Makadara	3214	41
Embakasi	3694	45
Njiru	3057	38
Dagoretti	3552	44
Langata	3165	40
Westlands	3429	44
Total	**30252**	**379**

Source: Company Registrar (2013)

3.5 Data Collection

Both structured and unstructured questions were used in the questionnaire. Before administering the questionnaires to the respondents, they were reassured that the data collected was for academic purposes only. Questionnaires were then administered to the respondents. The study exercised control and care to ensure that all questionnaires issued to the respondents were returned.

3.6 Data Analysis

Data was analysed using descriptive and inferential statistical tests. Regression / correlation analysis was applied to depict relationships. Various tables were used to present the data for easy interpretation. The descriptive statistics adopted were Mean and Standard Deviation while inferential statistics depicted the nature of relationship between the variables. To establish growth of SMEs the study used descriptive tests which include frequencies and percentages.

The equation below shows the multiple regression model of the independent variables against the dependent variable.

Regression = $\beta0+\beta1X1+\beta2X2 + \varepsilon$

Where:

Y = SMEs growth

$\beta1$ and $\beta2$ = Beta coefficients

$\beta0$ = Constant Term

$X1$ = Credit Accessibility

$X2$ = Interest Rates

ε = Error term

The critical p value was set at 0.05.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

Data was collected using a structured questionnaire which was administered to 379 entrepreneurs in Nairobi County. According to table 4.8, a response rate of 350 (92.3%) was recorded which was as a result of close monitoring of the subjects. This response rate is considered adequate (Babbie, 2004).

4.2 Demographics Characteristics

The respondents were supposed to indicate their background information which included education level and age bracket. This was to gauge their credibility in providing the information. The study also required respondents to state whether they had received credit and the number of times that had happened.

4.2.1 Age of Respondents

Table 4.1 Age of Respondents

Age Bracket	Frequency	Percent
20-30 years	157	44.9%
31-40 years	173	49.4%
41-50 years	16	4.6%
51 years and above	4	1.1%
Total	350	100%

Source: Field Data

Table 4.1 presents the findings on the age of respondents. 178 were between 31 and 40 years, 157 were between 20 and 30 years, those between 41 and 50 years were 16 while those above 50 and over were 4. The findings imply that the respondents were of majority age and understood how credit accessibility influence growth of SMEs.

4.2.2 Level of Education

The presumption was that well educated respondents comparatively provide credible information than those less so.

Table 4.2 Education Level of Respondents

Education Level	Frequency	Percent
Primary level	7	2%
Secondary level	113	32.3%
College	128	36.6%
University	97	27.7%
Postgraduate	5	1.4%
Total	350	100%

Source: Field Data

Table 4.2 presents findings on education level of respondents. 128 respondents had college level of education, 113 had secondary education while 97 were undergraduates. The respondents with primary level of education were 7 and finally 5 had postgraduate level of education. The findings imply that the information provided by the respondents were credible. Further, the findings implied that SMEs owners in Nairobi County were educated.

4.2.3 Whether the Respondents business ever received any credit facilities

Respondents were asked whether they had ever received any credit facilities to boost their businesses and findings are as below.

Table 4.3 Respondents That Had Accessed Credit from Lenders

	Frequency	Percent
No	228	65.1
Yes	122	34.9
Total	350	100

Source: Field Data

Table 4.3 presents the findings on the respondents that had received credit from financing institutions. The results indicated that majority (65 percent) of the SMEs owners that participated in this study had not received any credit. The findings also imply that businesses operated by individuals with no access to credit were likely to collapse because they were unserved financially.

4.2.4 Number of Times Respondents Received Any Credit Facilities

In addition to accessing credit, the respondents were asked the number of times this had happened and findings are represented below.

Table 4.4 Number of Times Respondents Received Credit Facilities

	Frequency	Percent
Not received	228	65.1%
Once	35	10%
Twice	25	7.1%
Three times	28	8%
More than three times	34	9.7%
Total	350	100%

Source: Field Data

Table 4.4 presents the findings on the number of times respondents received any credit facilities. The findings showed that 10% had received credit only once, 7.1% had received credit twice and another 8% had received credit thrice. Only 9.7% indicated to have received credit more than three times. The findings imply that most of the SMEs that were lack enough to received credit only received it once. The findings further revealed the lack of adequate credit accessibility by SMEs.

4.3 Growth of SMEs

The study focused on volume of sales, profitability, level / amount of stock, range of products and or services and personnel numbers with respondents indicating the level of stock and sales in their businesses.

Table 4.5 Descriptive results for Growth of SMEs

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std Dev
My enterprise usually record high volume of sales	36.6%	37.1%	6.6%	8.3%	11.4%	2.21	1.32
The profitability of the business is usually high	38.6%	36.0%	9.4%	7.1%	8.9%	2.12	1.25
There has been an increased in the stock of my business	34.6%	37.7%	7.7%	10.9%	9.1%	2.22	1.28
There has been an increased in the increase the range of products / services in my business	38.0%	35.7%	7.4%	9.7%	9.1%	2.16	1.28
There has been an increased in the number of my customers in my business	37.4%	34.3%	9.7%	8.9%	9.7%	2.19	1.29

Source: Field Data

Table 4.5 shows that 36.6% of respondents strongly disagreed that they had increased sales while 37.1% disagreeing. The findings implied that majority of the SMEs recorded low sales which further implied that they performed poorly in terms of sales.

The study also sought to find out whether the SMEs profitability was high. The results indicated that 74.6% of the respondents disagreed that their business had very high profitability. Similarly, the respondents also disagreed that their SMEs had increased their stock. Lack of profitability and lack of increase in stock indicated that SMEs were performing dismally.

According to Odhiambo (2013), indicators such as value of assets, market share, profitability and productivity are used in measuring the growth of enterprises however not as often as sales volumes and number of employees which are the two most important indicators of firm size and growth (Abor and Quartey, 2010). Therefore, since majority of SMEs that participated in this study had low sales and slow employment growth it implies that these enterprises were not growing.

4.4 Aspects of Interest Rates and Credit Accessibility

Aspects of Interest Rates and charges by lenders contribute to poor credit accessibility by businesses and this contributes to firm failure.

4.4.1 Descriptive Result for Credit Attributes and Credit Accessibility

Interest rates, prepayment charges, service tax, fixed rate and flexible rate had a mean response of above 3.5 which meant that a majority of the respondents rated these factors as having a large influence of low credit accessibility by SMEs in Nairobi

County. The standard deviation indicated the degree of variation from the mean response. The results further indicated the response did not vary significantly from the mean.

Table 4.6 Credit Attributes that Influence Accessibility

	No extent	Small extent	Moderate	Large extent	Very large extent	Mean	Std Dev
Interest	6.9%	8.9%	24.9%	30.3%	29.1%	3.66	1.18
Loan processing charges	10.6%	10.0%	25.1%	28.6%	25.7%	3.49	1.27
Prepayment charges	7.7%	8.9%	27.4%	26.0%	30.0%	3.62	1.22
Late payment charges	10.9%	9.4%	30.6%	23.7%	25.4%	3.43	1.26
Service Tax	11.1%	9.4%	23.1%	26.6%	29.7%	3.54	1.31
Fixed rate	6.6%	8.6%	31.7%	29.7%	23.4%	3.55	1.13
Flexible rate	8.3%	8.3%	31.1%	27.4%	24.9%	3.52	1.19

Source: Field Data

Table 4.6 presents the findings on credit attributes that influence accessibility. The findings of this study concurs with Ackah and Vuvor (2011) whose study on establishing some of the challenges that SMEs encounter when seeking for financing collected data on 80 SMEs through convenience sampling technique. The findings showed that commercial banks and other financing institutions were willing to avail credit to small and medium size enterprises. They however noted that those who were seeking the finances were not in the position to meet the requirements demanded by the financing institutions. The main challenge among the requirement that the applicants failed to meet was collateral which majority of the SMEs did not have and so could not provide.

4.4.2 Correlation Result for Interest Rates and Credit Accessibility

The study further employed correlation analysis to ascertain the association between interest rates and SMEs performance.

Table 4.7 Interest Rates and influence on Credit Accessibility

		Interest	Growth of SMEs
Interest	Pearson Correlation	1	-.648**
	Sig. (2-tailed)		.000
	N	350	350
Growth of SMEs	Pearson Correlation	-.648**	1
	Sig. (2-tailed)	.000	
	N	350	350

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

Source: Field Data

Table 4.7 presents the findings on interest rates that influence accessibility. The results showed that interest rates had a negative relationship (r=-0.648, p=0.000) with growth of the businesses. The implication is that the higher the interest rates the slower the growth of SMEs. Additionally, Ochanda (2014) in his study found that accessibility to financial resources affected performance of a firm measured by profitability. The SMEs cited high interest rate and collateral demand as some of the factors that hindered most of them from accessing the credit from formal lending institutions.

4.4.3 Regression Result for Interest Rates and Credit Accessibility

Results of regression analysis are as depicted in the table below.

Table 4.8 Model Summary

Model	1
R	-.648a
R Square	0.42
Adjusted R Square	0.418
Std. Error of the Estimate	0.50266

a Predictors: (Constant), Growth of SMEs

Source: Field Data

Table 4.8 presents model summary of the regression analysis of interest rates and growth of SMEs in Nairobi County. The relationship R= 0.648, indicates a strong positive association between interest rates and growth of SMEs. R-squared = 0.42 indicated that 42% of variation in the SMEs growth could be explained by interest rates charged on credit facilities while 58% could be attributed to other factors.

Table 4.9 ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	119.166	1	119.166	251.663	.000[b]
	Residual	164.782	348	.474		
	Total	283.948	349			

a. Dependent Variable: Growth of SMEs
b. Predictors: (Constant), Interest Rate

Source: Field Data

Table 4.9 shows ANOVA results of regression analysis on interest rates and growth of SMEs in Nairobi County. The results showed that the F value is 26.365 with p value =

0.000 which was less than 0.05, meaning that there was a relationship between interest rates charged on credit and growth of SMEs in Nairobi County. These findings further confirms those of Ochanda, (2014), Muguchu, (2013) and Gladys, (2012) who found that charging high interest rates on credit affected access to credit in financial institutions.

Table 4.10 Regression Coefficient Results

	B	Std. Error	Beta	t	Sig.
(Constant)	5.341	0.203		26.365	0.000
Interest Rates	-0.887	0.056	-0.648	-15.864	0.000

Dependent Variable: Growth of SMEs

Source: Field Data

Table 4.10 presents Regression Coefficient results. The coefficient β = -0.887 was also significantly different from 0 with a p value = 0.000 (less than 0.05). This implied that a unit decrease in interest rates charged on credit facilities will result in 0.887 units increase in growth of SMEs in Nairobi. This confirms a significant negative linear relationship between interest rates and growth of SMEs in Nairobi County.

4.5 Aspects of Credit that Influence SME's Choice of Credit Facility

The study further sought to establish some of the aspects of credit that influenced SMEs choice of credit facilities. The study focused on term to maturity, uncertainty about loan amount, high interest rates, mismatch of funds and undue pressure for repayment.

Table 4.11 Aspects of Credit that Influence SME's Choice of Credit Facility

	No extent	Small extent	Moderate	Large extent	Very large extent	Mean	Std Dev
Term to maturity	2.9%	4.3%	31.1%	31.7%	30.0%	3.82	1.00
Uncertainty about loan amount	2.6%	1.4%	35.7%	26.6%	33.7%	3.87	0.98
High interest rates	1.7%	3.1%	34.0%	32.3%	28.9%	3.83	0.94
Mismatch of funds	2.0%	2.3%	32.6%	31.4%	31.7%	3.89	0.95
Undue pressures for repayment	3.4%	2.6%	31.1%	31.4%	31.4%	3.85	1.01

Source: Field Data

Table 4.11 presents the findings on the aspects of credit that influence SME choice of credit. The result indicated that all the aspects had a mean response of above 3.5 which indicated that the respondents rated term to maturity, uncertainty about loan amount, high interest rates, mismatch of funds and undue pressure for repayment to a large extent influence on the SMEs choice of credit facilities.

The findings of this study agree with that of Babalola and Mohammed (2014) who examined the need for effective debt collection policy and debt recovery in commercial/deposit banks in Nigeria. The researchers established that ineffective debt collection practices negatively affect SMEs accessibility to credit hence it was recommended that credit facilities should revise their debt collection policies and concise efforts should be made to monitor loan utilization by borrowers. The findings of this study concur with those of Atieno (2009) who suggested that strict lending policies have also worsened the problem of credit accessibility to SMEs.

4.6 Aspects of Collateral that Influence SMEs Choice of Credit Facility

The study was also interested in the aspects of collateral that influence SME choice of credit facility. These aspects of collateral are credit history, asset base, availability of collateral, delayed payment by debtors and irregular cash flows.

Table 4.12 Aspects of Collateral that Influence SME choice of Credit Facility

	No extent	Small extent	Moderate	Large extent	Very large extent	Mean	Std Dev
Credit history	0.0%	0.0%	31.4%	37.4%	31.1%	4.00	0.79
Asset base	0.0%	0.0%	34.0%	29.7%	36.3%	4.02	0.84
Availability of collateral	0.0%	0.0%	34.9%	34.0%	31.1%	3.96	0.81
Delayed payments by debtors	0.0%	0.0%	35.7%	35.4%	28.9%	3.93	0.80
Irregular cash flows	0.0%	0.0%	32.9%	35.1%	32.0%	3.99	0.81

Source: Field Data

Table 4.12 presents the findings on aspects of collateral; credit history, asset base, availability of collateral, delayed payment by debtors and irregular cash flows. The result also showed that credit history, asset base, availability of collaterals, delayed payment by debtors and irregular cash flows had a mean response of above 3.9 indicating that these aspects of collateral influenced SMEs choice of credit facility.

4.7 Challenges Faced by SMEs in Accessing Credit Facilities

This study further intended to find out some of the challenges that SMEs faced in accessing credit facilities in Nairobi County. The study aimed to establish the extent that lack of information, awareness of credit facilities, loan eligibility, credit history and collateral / guarantors influenced credit accessibility.

Table 4.13 Challenges Faced by SMEs in Accessing Credit Facilities

	No extent	Small extent	Moderate	Large extent	Very large extent	Mean	Std Dev
Information sources	0.0%	0.0%	32.6%	33.7%	33.7%	4.01	0.82
Awareness of credit facilities	0.0%	0.0%	35.7%	36.0%	28.3%	3.93	0.80
Loan eligibility	0.0%	0.0%	34.9%	33.7%	31.4%	3.97	0.81
Credit history	0.0%	0.0%	32.3%	34.0%	33.7%	4.01	0.81
Collateral / guarantors	0.0%	0.0%	36.3%	32.6%	31.1%	3.95	0.82

Source: Field Data

Table 4.13 presents the findings on the challenges faced by SMEs in assessing credit facilities. Lack of information; awareness of credit facilities, loan eligibility, credit history and collateral / guarantors hindered SMEs from accessing credit facilities.

4.8 Influence of Credit Facilities Accessibility and Growth of SMEs

Both descriptive and inferential statistics was used to ascertain relationship between credit accessibility and growth of SMEs.

4.8.1 Descriptive Results for Credit Accessibility and Growth of SMEs

The study sought to find out to what extent SME access to credit resulted improved growth of the SMEs. The study focused on increase in; sales, profit/ profitability, stocks, number of products / services, number of new customers and increase in number of workers.

Table 4.14 Influence of Credit Accessibility on Growth of SMEs

Growth Indicators	No extent	Small extent	Moderate	Large extent	Very large extent	Mean	Std Dev
Increase in sales	0.0%	0.0%	36.9%	32.9%	30.3%	3.93	0.82
Increase in profit / profitability	0.0%	0.0%	34.6%	32.3%	33.1%	3.99	0.82
Increase in stock levels	0.0%	0.0%	30.3%	37.1%	32.6%	4.02	0.79
Increase in range of products / services	0.0%	0.0%	34.3%	32.9%	32.9%	3.99	0.82
Increase in number of new customers	0.0%	0.0%	34.6%	32.9%	32.6%	3.98	0.82
Increase in number of workers	0.0%	0.0%	31.7%	32.0%	36.3%	4.05	0.82

Source: Field data

Table 4.14 presents the findings on influence of credit accessibility on growth of SMEs. The findings showed that all the growth indicators had mean of above 3.5 indicating that access to credit impacted performance of the firm measured in sales, profit / profitability, stock levels, range of products / services, number of new customers and increase in number of workers.

4.8.2 Correlation Results for Credit Accessibility and Growth of SMEs

The study also employed correlation analysis to test the association between credit accessibility and growth of growth.

Table 4.15 Correlation Results for Credit Accessibility and Growth of SMEs

		Growth of SMEs	Credit Accessibility
Growth of SMEs	Pearson Correlation	1	.460**
	Sig. (2-tailed)		.000
	N	350	350
Credit Accessibility	Pearson Correlation	.460**	1
	Sig. (2-tailed)	.000	
	N	350	350

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

Source: Field data

Table 4.15 presents correlation results on relationship between credit accessibility and growth of firms. The findings revealed a positive and significant ($r=0.460$, $p=0.000$) association between credit accessibility and growth of SMEs. The findings implied that increase in credit accessibility will lead to increased growth of SMEs.

Sacerdoti (2005) also reported that Micro and Small Enterprises typically lack sufficient collateral or personal guarantors to pledge against formal loans, or they are unfamiliar with the bureaucratic procedures. Financial capital is the catalyst for firm expansion. Hence, insufficient access to it is evidently harmful to overall economic growth. Financial constraints slow capital accumulation, impede productivity improvements and increase the time it takes entrepreneurs to reach their potential.

Kauffamn (2005) on the other hand established that SMEs access to finance was poor because of high default risk, collateral requirements, delays in loan processing, inflexible conditions, and high interest rates. The researcher further pointed out that SMEs face small markets, often fragmented financial systems, and difficult business environments.

4.8.3 Regression Results for Credit Accessibility and Growth of SMEs

Regression analysis was used to establish relationship between credit accessibility and growth of the businesses.

Table 4.16 Regression Model Summary Results

Model	1
R	.460a
R Square	0.212
Adjusted R Square	0.21
Std. Error of the Estimate	0.80184

a. Predictors: (Constant), Credit

Source: Field data

Table 4.16 presents the model summary results. The results for model summary revealed R-square of 0.212 which indicated that credit accessibility accounted 21.2 percent of the variation in growth of SMEs in Nairobi County.

Table 4.17 ANOVA Results

Model		Sum of squares	df	Mean Square	F	Sig.
	Regression	60.202	1	60.202	93.635	.000b
1	Residual	223.746	348	.643		
	Total	283.948	349			

a. Dependent Variable: Growth of SMEs
b. Predictors: (Constant), Credit

Source: Field data

Table 4.17 presents ANOVA results which show that there was a relationship between credit accessibility and growth of the businesses in Nairobi County.

Table 4.18 Regression Coefficient Results

	B	Std. Error	Beta	t	Sig.
(Constant)	1.877	0.053		35.35	0.000
Credit Accessibility	0.87	0.09	0.46	9.677	0.000

a Dependent Variable: Growth of SMEs

Source: Field Data

Table 4.18 presents the Regression Coefficient Results on the relationship between credit accessibility and growth of SMEs in Nairobi County. The coefficient β = 0.87 was also significantly different from 0 with a p-value=0.000 which was less than 0.05. The results further implied that a unit decrease in credit accessibility will result in 0.87 units increase in growth of SMEs in Nairobi. This confirmed that there was a significant positive linear relationship between credit accessibility and growth of SMEs in Nairobi County.

4.9 Discussion of the Results

The results revealed that majority of businesses in the sector in Nairobi County were not performing well due to lack of finances, a consequence of lack of access to credit. There was a positive relationship between credit accessibility and growth. Further, a negative relationship existed between interest rates charged on credit and growth of businesses.

These findings further indicated that term to maturity, uncertainty about loan amount, high interest rates, mismatch of funds and undue pressure for repayment influenced SMEs choice of credit facilities. Results also showed that aspects of collateral such as credit history, asset base, availability of collaterals, delayed payment by debtors and irregular cash flows had large influence on the SMEs choice of credit facility. The study further sought to establish some of the challenges (barriers and constraints) facing SMES in accessing credit from lenders. Majority of the respondents indicated that lack of information; lack of or limited awareness of credit facilities, loan ineligibility, insufficient credit history and lack of collateral / guarantors hindered SMEs from accessing credit facilities.

The Resource Based Theory posits that SMEs have better competitive advantage if they have financial resources. In addition SMEs without proper resources will fail to satisfy both employees and their customers since they will lack the advantage of better resources. This access dimension of financial development is the main focus of credit access theory (Demirguc, Beck and Honohan, 2008). Finally the findings of this study concur with Loanable Funds theory which argues that the rise in interest rate leads to decline in demand of loanable funds when all other factors remain unchanged.

Kamunge, Njeru & Tirimba (2015) study concluded that increasing the access to financial support by the SMEs and having management experience are the essential social and economic determinants that affect the growth and sustainability of small enterprises. Other importance factors included access to market information, good infrastructure and legal and regulatory framework.

On the other hand, Kimando, Njogu and Kihoro (2012) found that the process of business registration and licensing, acquiring the relevant certificates from different government departments, high taxation and corruption also influenced the growth of youth enterprises. Similarly Schoof (2006) suggested five keys obstacles to youth entrepreneurship which include poor cultural attitude towards entrepreneurship, lack of entrepreneurship education, and lack of financing and unsound administrative and legal framework.

Grant and Romanelli (2001) suggested that experience of the owner is the foundation of and critical asset in developing of creative routine and ability to innovate. Exposure to business has also been found to equip entrepreneurs with knowledge that is necessary in planning and organizing the available resources through innovation and creativity. Kanyari and Namusonge (2013) found that entrepreneurs must first be imparted with skills, knowledge in business organisation and planning before funds are availed to them.

Kenya joined 76 other countries around the world that are using some form of Interest rate Caps. The Banking (Amendment) Act, 2016 (the Act), came into effect on 14th September 2016. This defied experts expectations; the banking industry, economists, the Central Bank of Kenya (CBK) and the Treasury all of whom were scornful on this intervention while acknowledging there was a problem that needed to be addressed. Tavneet and Bhattacharya (2016) posed the question of what the new interest rate capping was meant to achieve and if it was understood the specific market failures that were meant to be rectified. They went on to further explain that the assumption that interest rate caps will adequately address some of the key market failures in Kenya, specifically poor incentives to lend is a fallacy.

Cytonn Investments (2016) analysed the impact of capping interest rates on the Kenyan Market and listed five main factors that influence spreads in the banking system namely; Regulation, Market Structure, Distribution of Market Power, Information Flow / Assymetry and Credit Risk. They analysed each with regard to the past experience and the current outlook to make their case on whether interest rate capping was the best decision. They concluded that capping interest rates might solve the high interest rate spreads in the banking sector but would lead to other challenges such as locking out of SMEs and other 'high risk' borrowers from accessing credit as banks would prefer to loan to the government.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with the conclusions and recommendations relating to specific objectives that were studied as well as areas suggested for further study.

5.2 Summary of the Study

To generalize the findings of this study to a larger population while also allowing relationship and analysis of variables, the research design was descriptive. The population of interest was 30252 SMEs (Company Registrar, 2013). The unit of analysis was the SME owners, one from each SME in cases where there are more than one owner. The study employed stratified and random sampling techniques. The population of interest was classified into various strata. Random sampling was then applied in selecting respondents from each of the strata and questionnaires used to collect primary data.

Completed questionnaires were reviewed and edited for accuracy, consistency and completeness with Regression and correlation analysis being applied and results presented in tables. The results revealed that majority of SMEs in Nairobi County, Kenya were performing poorly due to lack of finances. A positive relationship exists between credit accessibility and growth and a negative one between interest rates charged on credit and. The findings further indicated that term to maturity, uncertainty about loan amount, high interest rates, mismatch of funds and undue pressure for repayment influenced SMEs choices.

Results also showed that aspects of collateral such as credit history, asset base, availability of collateral, delayed payment by debtors and irregular cash flows influenced SMEs choices. Lack of information; awareness of credit facilities, loan eligibility, credit history and collateral/guarantors was found to also hinder entrepreneurs from accessing credit facilities.

5.3 Conclusion of the Study

Lack of access to financial capital has been frequently stressed as a major (if not the main) impediment to firm growth in developing countries. The problem is further compounded by stringent requirements that lock out potential borrowers such as high interest rates and collateral required. Micro and Small Enterprises typically lack sufficient collateral or personal guarantors to pledge against formal loans, or they are unfamiliar with the bureaucratic procedures of accessing credit. Financial capital is the catalyst for firm expansion. Hence, insufficient access to it is evidently harmful to overall economic growth. Financial constraints slow down capital accumulation, impede productivity improvements and increase the time it takes entrepreneurs to reach their potential.

Further, during this study, Kenya enacted a law capping interest rates and it remains to be seen if this might solve the high interest rate spreads in the banking sector or if it would lead to other challenges such as locking out of SMEs and other 'high risk' borrowers from accessing credit as banks would prefer to loan to the government whom they consider ‘low risk’.

5.4 Recommendations of the Study

Recommendations that can be made are; financial institutions should consider revising their policies on interest rate charged, credit policies and appraisal techniques and limitation on the amount of credit granted to SMEs. Another recommendation is that financial institutions should consider reducing or waiving associated costs of borrowing to increase SMEs accessibility to credit and stimulate financial deepening. The study also recommended that to increase SMEs accessibility to credit loan limit policies should be reconsidered or harmonized to accommodate the needs of SMEs. Finally, the study recommended that all stakeholders in the different sectors should intervene to ensure that SMEs have access to financial services to enable them to contribute to development.

5.5 Limitations of the Study

The area of study was Small and Medium Size Enterprises that operated in Nairobi County, Kenya and whether access to credit impacted their growth. The study further established that there are challenges (barriers and constraints) facing SMEs in accessing credit from credit facilities. Another limitation was accessing the respondents since they were located across Nairobi County. The study overcame this limitation by using a representative sample and using research assistants to cover as many respondents as possible.

5.6 Areas Suggested for Future Research

This study recommends that similar studies should be carried out on specific credit institutions including commercial banks and SACCOs. A similar study can also be conducted in the other 46 counties for comparison purposes. The study further recommends that future studies should focus on the challenges of women and youth entrepreneurs in Kenya and the financial and non-financial support required to enable their success. Similar studies could be carried out in Nairobi using same population for comparison purposes following the implementation of interest caps law, that is, the Banking (Amendment) Act, 2016 (the Act), that was gazetted on 31st August 2016 and came into effect on 14th September 2016.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 11 AUGUST 2016

TO WHOM IT MAY CONCERN

The bearer of this letter PAULINE AKOTH OCHIDO

Registration No. D61/76525/2014

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
11 AUG 2016
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

Appendix II: Questionnaire

INSTRUCTIONS

Please indicate your responses in the spaces provided by ticking (√) or circling (o) in the appropriate boxes.

Section A: General Information

1. Indicate your age bracket

   a. 20-30 yrs [ ]
   b. 31-40 yrs [ ]
   c. 41-50 yrs [ ]
   d. 51 and abov [ ]

2. State your highest level of education

   a. Primary level [ ]
   b. Secondary level [ ]
   c. College [ ]
   d. University [ ]
   e. Postgraduate [ ]

3. Has your business ever received any credit facilities?

   a. Yes [ ]
   b. No [ ]

4. If yes, how many times?

   a. Once [ ]
   b. Twice [ ]
   c. Thrice [ ]
   d. More than three times [ ]

SECTION B: GROWTH OF SMEs IN NAIROBI COUNTY

Respond based on your opinion. Kindly be as honest as possible.

		1	2	3	4	5
1	My enterprise usually record high volume of sales					
2	The profitability of the business is usually high					
3	There has been an increased in the stock of my business					
4	There has been an increased in the increase the range of products / services in my business					
5	There has been an increased in the number of my customers in my business					

SECTION C: THE ROLE OF CREDIT FACILITIES ON THE GROWTH OF SMEs IN NAIROBI

To what extent do you agree with the following statements on the role of Credit facilities on the growth of SMEs? (Where: 5= Strongly agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly disagree)

		1	2	3	4	5
1	Access to Credit facilities has influenced the volume of sales					
2	The profitability of the business has increased after accessing Credit facilities					
3	Credit facilities has helped to increase the stock of my business					
4	Credit facilities have helped me to increase the range of products / services					
5	The number of my customers have increased after accessing Credit facilities					
6	Credit facilities have helped me to employ more workers					

To what extent would you say that the following aspects of interest / rates on loan influence your firm's choice of credit facility, using the scale: 1=No extent; 2=Small extent; 3=Moderate; 4=Large extent; 5=Very large extent

		1	2	3	4	5
1	Interest					
2	Loan processing charges					
3	Prepayment charges					
4	Late payment charges					
5	Service Tax					
6	Fixed rate					
7	Flexible rate					

7. To what extent would you say Interest charged on loan and service in your choice of credit facility has affected your business financial performance?

    a. Very large extent [ ]

b. Large extent [ ]

c. Moderate extent [ ]

d. Small extent [ ]

e. No extent [ ]

8. To what extent would you say that the following aspects of credit influence your firm's choice of credit facility, using the scale: 1=No extent; 2=Small extent; 3=Moderate; 4=Large extent; 5=Very large extent

		1	2	3	4	5
1	Term to maturity					
2	Uncertainty about loan amount					
3	High interest rates					
4	Mismatch of funds					
5	Undue pressures for repayment					

9. To what extent would you say Loan size in your choice of financial facility has affected your financial performance?

a. Very large extent [ ]

b. Large extent [ ]

c. Moderate extent [ ]

d. Small extent [ ]

e. No extent [ ]

10. To what extent would you say the following aspects of collateral requirements have influenced your firm's choice of credit facility, using the scale: 1=No extent; 2=Small extent; 3=Moderate; 4=Large extent; 5=Very large extent

	1	2	3	4	5
Credit history					
Asset base					
Availability of collateral					
Delayed payments by debtors					
Irregular cash flows					

11. To what extent would you say that your firm's access to credit has resulted in the following aspects, using the scale: 1=No extent; 2=Small extent; 3=Moderate; 4=Large extent; 5=Very large extent

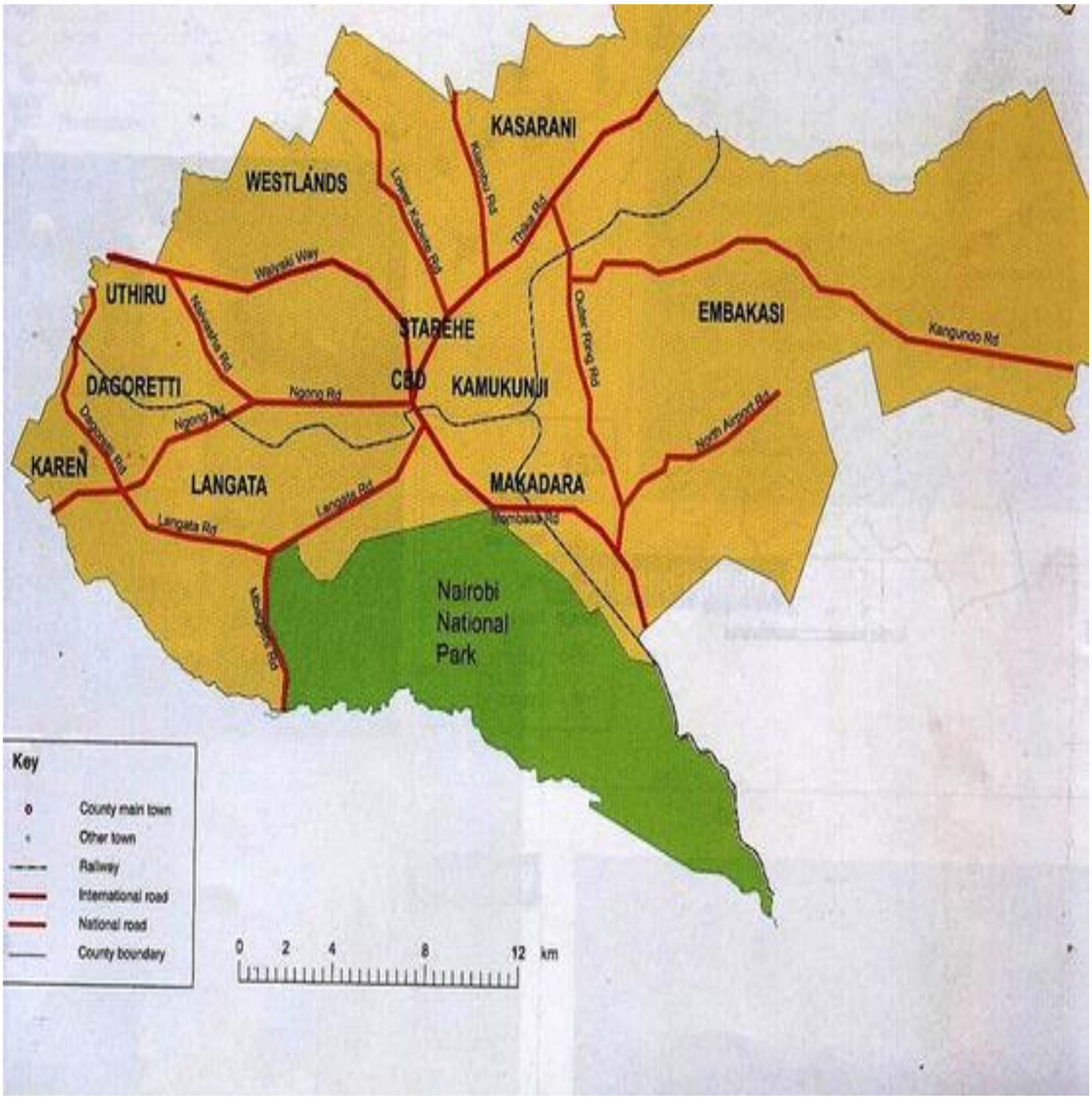
	1	2	3	4	5
Increase in sales					
Increase in profit / profitability					
Increase in stock levels					
Increase in range of products / services					
Increase in number of new customers					
Increase in number of workers					

12. To what extent would you say that SMEs face the following challenges in accessing Credit facilities? 1=No extent; 2=Small extent; 3=Moderate; 4=Large extent; 5=Very large extent

	1	2	3	4	5
Information sources					
Awareness of credit facilities					
Loan eligibility					
Credit history					
Collateral / guarantors					

THANK YOU FOR TAKING TIME OUT OF YOUR BUSY SCHEDULE TO COMPLETE THIS QUESTIONNAIRE.

Appendix III: Map of Nairobi County



Source: Google Maps