DETERMINANTS OF ACCESS TO CREDIT FINANCE BY MICRO, SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY

BY

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DECLARATION

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

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DEDICATION

This paper is dedicated to my family and friends who gave me the courage to move on with this course. Thank you for the support and encouragement.

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ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
CBD	Central Business District
CBK	Central Bank of Kenya
CRB	Credit References Bureau
COVID-19	Corona Virus Disease, 2019
EFA	Exploratory Factor Analysis
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
MSMEs	Micro, Small and Medium Enterprises
NPV	Net Present Value
OECD	Organization for Economic Co-operation and Development
SGB	Small and Growing Businesses
SME	Small and Medium Enterprise
SMEs	Small and Medium Enterprises
SPSS	Statistical Package of Science and Statistics
UK	United Kingdom
UNDP	United Nations Development Program
VIF	Variation Inflation Factors

ABSTRACT

The study sought to establish the magnitude of the determinants of access to credit finance by micro, small and medium enterprises in Nairobi County. The study identified owner's financial literacy, access to business support services, ownership structure and market size as the determinant variables while ease of credit access was the dependent variable. The study collected a sample of 179 responses from participants who were able to complete and submit their responses from the questionnaires which were administered through drop and pick later method. The responses represented a response rate of 84.5% which was found adequate for the study. The analysis involved both descriptive and inferential statistics which were found relevant to achieve the objective of the study. In summary, ease of credit access was found to have an overall performance which was below average which implied that MSMEs are struggling to access credit finances in Kenya. Owner's financial literacy had an average performance implying that majority of MSMEs owners have average financial knowledge which is also a challenge in accessing credit finance. Access to business support services was poor indicating that MSMEs do not easily get access to business support services therefore making it harder to acquire credit finance. The correlation analysis established that both owner's financial literacy and access to business support services had strong, positive and significant correlations against ease of credit access. Ownership structure had a weak and insignificant positive correlation against ease of credit access while market size indicated a positive and significant impact against ease of credit access. The study as well carried out regression analysis which revealed that the model accounted for 38.2 % of the changes in the dependent variable. The adjusted R square was slightly below R square to indicate that the model consists of elements that are not adding value to the model. Owner's financial literacy, access to business support services and market size were found to have a positive relationship with ease of credit access while ownership structure had negative impact on ease of credit access. The study therefore, concluded that owner's financial literacy and access to business support services require improvement as they affect the ease of credit access among MSMEs in Kenya, while ownership structure and market size do not have any significant effect on ease of credit access of MSMEs in Nairobi. The study recommended that the government should carry out nationwide trainings and workshops to help improve on financial literacy. The study also recommended that the business owners should avoid small term loans, to finance their business operations and at the same time the study recommended them to increase operations that would help them grow their assets (size).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

One of the pertinent issues that enhance trade and entrepreneurial skills among small and medium enterprises (MSMEs) in an economy is the ability to access credit for financing business expansion activities. Therefore, entrepreneurs across different parts of the world aspire to solidify and create good relations with financiers as a way of financing their business trajectory and meet their long-term goals. This is especially due to the shrinking of public and private support systems, demographic changes (including an aging population), and the extensive development of financial markets (Gerardi, Goette & Meier, 2010). The concern has also been heightened by financial crisis that influenced economic recession as well as global pandemic of Covid-19 that have affected millions of businesses as well as directly affected people's lives and livelihoods. The contribution of MSMEs in economic development, creation of employment opportunities, creating value and integration of communities as well as cultural integration is phenomenal. It is therefore critical to ensure that MSMEs and SMEs have maintained their competitiveness and the desire to operate at optimal levels by being enhanced to access credit vital for growth and venturing into new economic sectors. In this challenging period of international market shocks that have been influenced by COVID-19 Pandemic, amidst other market shocks in the world, a well thought out approach that would enhance ease of credit access for every business is paramount. The factors that influence access to credit for businesses should be well elucidated and stipulated for adoption by businesses across the world.

The study will be guided by theories that postulate ease of credit access or support financial inclusion among small businesses. Theories of financial inclusion, imperfect information theory as well as financial intermediation are key theories vital in elaborating ease of credit access as well as benefits of enhancing credit access among businesses. Robson and Ladner (2006) emphasized on the need to have the relevant procedures, interactional and interpersonal skills as well as the all the informational factors that are required in accessing credit. They suggested that individuals with the quest of obtaining literacy skills were tasked with responsibilities of being in tandem with the different requirements to guarantee compliance. According to Michie, Atkins and West (2014) that behaviour could be learnt, modified as well as extinguished because of altering the conditions where the behaviour occurs. This implies that the managers in small businesses would be in position to learn skills that would help them access credit from commercial banks, government bodies among other sources of capital.

SMEs contribute about 80% of the total employment in Kenya and contribute about 18% of the GDP (Kithae, 2012). According to Muriithi (2017), SMEs employs many people in the country for labour force and sell their goods and services at favourable prices. Research has been done by different researchers seeking to determine the relationship between economic growth and business development. However, there is little study that has been done on the factors affecting credit accessibility among SMEs in Kenya. Everywhere in the world, SMEs access to finance and cost of finance as seen from different research are among the leading hurdles to achieving business growth and efficiency of the operations. Funds generated from internal activities and accumulation of debt can be used to solve capital needs that arise in these enterprises. SME not only struggles for growth and survival but also faces a challenge of great variability in profit.

According to Ryu et al. (2021) only less than 5% of the SMEs exist more than one year after establishment. The process of incorporation of SMEs has been too complex, takes time and is expensive resulting to regulatory burden to SMEs. The Kenyan government has attempted to solve this problem by introducing Huduma centres which is an instrumental centre where the process of registration takes minimum time as everything is done under one roof. The system has managed to solve the challenge of inefficiencies, high cost and time wastage in dealing with bureaucracy to comply with the laws. The government has taken most of its operations online which has greatly eased the registration process for the SMEs. Mwongera (2014) points that currently one can register any business at home using a phone. Registration now takes 24 hours unlike previous where it took 14 days.

1.1.1 Credit Finance

The ability of an enterprise or individuals to acquire funds from external sources to assist in the operation of the business is referred to as access to credit (Osoro & Muturi, 2013). Credit is a flexible form of finance that allows a business or an individual to access the amount of money loaned. The lender of credit assesses the borrower to determine the amount as well as the period of the credit which can either be long term or short term. Credit finance is preferred in businesses as it is easier and faster to acquire although it is riskier and more expensive than equity finance. SMEs in most cases lack adequate capital, therefore, the ability to access credit is a very important factor that would boost investment opportunities and develop a lifeline for the SMEs. SMEs and MSMEs in Kenya performs poorly since they are not able to access the required finance to help them invest in their business operations (Shikumo & Mirie, 2020). Access to credit assists the SMEs to effectively grow and expand, it also helps to cater for daily expenses, financing business expansions, and help the business to invest in capital venture that would guarantee positive returns (Lawless & McCann, 2013).

Monteiro (2013) points to the fact that small businesses lack creditworthiness and therefore are limited to access loans from financial institutions and other lenders. Raising capital therefore becomes a challenge to small businesses which may not have required collateral to access affordable loans. Credit facilities is external finance offered by a person to an individual or SME on behalf of a company which is referred to as company creditors. There are different forms of credit which include trade credit, debentures, overdrafts, loans and lease financing. The creditworthiness of the enterprise determines the type of the credit to access.

Currently in Kenya, in line with vision 2030 the government has introduced a form of credit known as “Uwezo Fund”. This fund assists the youth, women and people with disabilities to raise funds to start and run businesses which will help them raise their living standards and reduce unemployment. Banks and microfinance accesses collateral to make decision on lending credits. Lack of awareness due to low literacy level of the borrowers is taken advantage of by the lenders who charge unreasonably high interest. Borrowers as well lack knowledge on where and how to obtain credit funds. He also found that lending institutions which meets the required standards were many which contributed to access to credit (Okande, 2015).

The ease of access to credit finance has contributed significantly to the growth of SMEs. It has also led to improvement of the performance of businesses. Businesses can now easily obtain different forms of loans from financial institutions. Businesses may also increase their investments and revamp their products and services through improving quality of goods and services that may increase their market share and enhance profitability. The increase in the market share would entail enhancing growth of the business as well as improve performance. Financial institutions have been conducting trainings to educate their clients on entrepreneurial skills and factors that ensure growth of businesses such as record keeping, assessing the business growth and to help proper allocation of resources for efficient operations. Such trainings equip businesspeople by building a positive attitude and perception toward better business performance and expansion. They teach their clients on proper utilization of the limited resources available, benefits of credit facilities, benefits, and methods of saving and ways of dealing with uncertainties and curbing risks such as acquiring insurance protection services (Andoh & Nunoo, 2014).

1.1.2 Factors Influencing Access to Credit Finance by SMEs

SMEs are in most cases considered to be high risky ventures that would easily collapse as a result of mismanagement, poor business models, lack of adequate capital, exposure to market shocks and lack of government support (Akimana, 2019). It is from these factors and observations that this study seeks to understand the specific factors that would influence access to credit finance by SMEs. Previous researchers have undertaken similar studies in different regions where factors that have been considered to influence access to credit finance include, owners' financial literacy which has also been known as owners' awareness of funding opportunities, collateral requirements, government's small business support services, and firm specific factors (Hue et al., 2020).

The theoretical proposition of these factors and influence on access to credit finance, have specific altercations. Owner's financial literacy have on some occasions been referred as the awareness of funding opportunities by some researchers. Financial literacy refers to financial knowledge endowed in an entrepreneur or an individual that endows the person with cognitive abilities on different funding opportunities available in the market, ability to hedge against financial risks

(Card, 1998). It therefore implies that financial literacy increases one's ability to access credit finance as they are exposed and aware of the different lending opportunities in the market. Collateral requirement is also a significant factor that have either enhanced access to credit finance or inhibited the same. Collateral requirements are crucial factors that hedge lenders on loans disbursed. However, some lenders require specific kind of collateral, valued at a certain percentage of the loan disbursed. This acts as a hindrance for many SMEs to access credit. Collateral requirements are therefore expected to have negative influence on credit access.

Governments have a critical role to ensure that they provide a conducive environment for wealth creation as well as enhance the welfare of its citizens. It is in this regard that many governments initiate incentives and conducive environments that help SMEs in access to credit. Government's support to small businesses is therefore expected to ensure that SMEs are able to access affordable credit finance that would enhance their business operations (Thuku, 2017). Firm specific factors are crucial in determining the extent to which SMEs are able to access credit. Firm specific factors would include factors such as years of experience (age of the SME). Most SMEs are not premised on proper business models, or have inadequate governance, that they hardly see through their first year in operation. The more the number of years a business has existed, indicate the stability of the SME and therefore increases chances of accessing credit finance. Size of SME might also be an indicator of the ability of the business to survive during difficult periods of upheavals. Relatively larger SMEs stand a better chance of accessing credit than their counterparts (Hue et al., 2020).

1.1.3 Micro, Small and Medium Enterprises in Nairobi

Micro, Small and Medium Enterprises (MSMEs) may be defined as businesses with an employee base of 5 to 250 employees and basically designed to improve on their assets base, unlike majority of microenterprises that are small and have no room and capacity to grow. MSMEs are however, designed to grow and seek between two Million and two hundred million shillings in investment capital (Ayyagari, Demirguc-Kunt, & Maksimovic, 2011). Among the features of MSMEs that make them imperative in the society is not only vested in their ability to create jobs, but on their ability to transform factors of production to creation of goods and services that are essential in the entire society. They enhance growth of middle class as well as the creation of pro-growth business environment. They have also been associated with the creation of the entrepreneurial spirit in the society which transforms infrastructure in the developing nations as well as ensure provision of necessary platform to enhance sustained growth that is key in the achievement of long-term economic goals (Mckenzie, 2011).

Data derived from the Kenya National Bureau of Statistics (KNBS, 2019), shows that MSMEs in Kenya are responsible for about 25.6% of total GDP output. The recent Economic Survey of Kenya report (2018) shows that more employment opportunities are being availed in the informal sector and therefore makes the informal sector crucial in advancing economic goals in the country. In the year 2018, the report suggests that the sector was responsible for creating over 700,000 new jobs that is translated to approximately 83.4% of all new jobs in the country. Most of these MSMEs are in Nairobi County which apart from being the most populous county in the country, also hosts Nairobi City, the capital city of Kenya. Shikumo and Mirie (2020) asserts that commercial banks in Kenya do not prefer lending to SMEs as they are high risk. Interest rates charged by banks did not have significant effect on lending to SMEs, however it begs the question whether it was as a result of capping and control of interest rates by regulators on interest rate charged by commercial banks or was it by design.

The average lenders to SMEs were found to charge interest of 30% while fintech companies lent MSMEs at higher interest rates. Formal lending institutions prefer to offer secured loans to MSMEs to manage their risk exposure (Mwangi & Birundu, 2015). Entrepreneurs in Kenya barely have enough education. They prefer to hire consultants when they can afford them, while others seek to navigate through their business challenges with inadequate knowledge and skills. There is low number of MSMEs owners who have adequate formal education where financial literacy can be learned and assessing loan facilities on merit rather than availability of these facilities (Akimana, 2019). MSMEs face many challenges and as a result, most of them perform dismally and are eventually edged out by competitors. It is generally known and confirmed that most MSMEs fail in their first year of operation.

The status of access to credit by SMEs in Nairobi County has been described by Kidali (2020) as a mirage as most SMEs lack necessary capital to operate their businesses beyond the first three years. The government of Kenya has over the years increased its appetite for domestic loans, saturating the credit market with government bonds and treasury bills. The increase in demand for loans has pushed the risk-free rate upwards that commercial banks among other major lenders in the economy prefer to lend to the government, rather than lending to high-risk ventures such as SMEs (Wandeda, 2021). The recourse for most of the SMEs to access credit has been Fintech companies, and SACCOs, who charge arm and leg for loans disbursed. The interest rates for these loans are way higher than the rate of return on investments, that makes them unaffordable and unsustainable in the long runs. The few SMEs that go ahead to borrow these loans are left at the merciless hands of auctioneers, that their business model succumbs to solvency risks. The unstructured credit market has also encouraged the mushrooming of Fintech companies that have availed digital loans, that are easily accessible to SMEs. However, these digital loans are not only priced exorbitantly, but they are inadequate and short term in nature (Shikumo & Mirie, 2020).

Akimana (2019) insinuates that most business failure is brought about by the failure of the organization to think as well as plan strategically. Without a clearly defined strategic growth and sustainability plan, businesses stand no chance of navigating through the multiple challenges and therefore lack competitive advantage whether among peers or otherwise. According to research, most small and growing enterprises do not engage in strategic planning as they think of it being a component for the large and well-established corporates. Although the previous studies have focused on the performance of both small and micro enterprises, they only explored specific areas and certain objectives. Mwania (2011) basically failed to study any other factor affecting performance of the small businesses except finances. Focus was given to businesses owned by women and ignored those owned by male entrepreneurs. Kinyua (2014) researched on business performance with his study being specific to the informal sector in Nakuru town. Though most of these investigations have been undertaken in urban centers of Nairobi, Nakuru, Thika and Ruiru, there is still so much to be done around sectors especially focusing on the competitive advantage and growth resultant from strategic leadership.

1.2 Research Problem

SMEs have enhanced significant contribution to the economic growth in Kenya. Development has greatly improved regional and locally thereby leading to the growth of industrialization and localization of firms in rural areas which are linked with other sectors in urban centers (Wu & Jia, 2018). Growth of SMEs is one of the strategies that the Kenyan government is targeting to achieve vision 2030. According to statistics provided by the Kanya National Bureau of Statistics (KNBS), three out of five businesses established collapses within two years of establishment. Kithae (2012) explains that an action needs to be taken to resolve this failure of the SMEs and enhance their capacity to withstand challenges at an early stage of growth. This increases their contribution to the GDP from 18% to a higher figure and ensure that the current employment rate of 80% of employed people in Kenya are in the SMEs sector, is sustainable. The ability to weather the storm of teething challenges by the MSMEs, require the ability to have financial access that would cope with both expected and unexpected challenges. The fact that most MSMEs lack sufficient collateral and formal structures to help them secure credit financing, is a factor that makes their bad situation worse. MSMEs are also considered high risk clients that accessing credit financing becomes quite a tall order.

Access to credit finance stimulates competition, innovation, growth and entrepreneurship which contributes to economic growth in Kenya (Kung'u, 2011). Problems from lack of sufficient cash flow are solved and there is smooth operation of businesses. The flexibility of resource allocation in an environment where there are sufficient funds to enhance investment activities, improves business performance (Bigsten, et al., 2000). Credit access is limited by the fact that banks prefer lending SMEs on short term basis as this reduces their risk exposure. This pose as a major challenge to SMEs who would wish to obtain long term loans.

SMEs are numerous in Nairobi since close to 5 million people access the capital city of Kenya in every single day. SMEs therefore take advantage of the big market as an opportunity to grow and thrive. Access to credit becomes one of the hindrances where most entrepreneurs may not obtain the funds required to set up a thriving business. The ability to borrow from formal sources such as commercial banks is minimized by the strenuous requirements, such as collateral, low risk level, among other requirements (Wu & Jia, 2018). Andoh & Nunoo (2014), concluded from their findings that financial literacy is very important for the general financial performance of SMEs.

Local and global studies have been undertaken on financial literacy and how it influences efficiency and sometimes financial performance of various firms and entities across the globe. Ye and Kulathunga (2019) undertook a study that purposed to understand the level to which financial literacy promoted sustainability in SMEs in Sri Lanka. They developed a model that showed incremental effect on financial literacy and attainment of financial risk attitude and finance. Eniola & Entebang (2016) sought to understand financial literacy and SME firm performance in Nigeria. The study therefore presented a contextual as well as conceptual gap as the current study is interested in understanding factors that influence access to credit. The evidence presented by global as well as local studies indicate that SMEs owners, rely on exposure and experience to gain understanding on sources of finance and advantages of a certain mode of finance over the other, and not by formalized methods. Experienced human capital helps managers make decisions that help them obtain better performance and efficiency than those that lack adequate experience whether they have financial literacy training or not.

Studies mainly agree that experience is a major factor that influences performance of SMEs. It would therefore insinuate that with experience SMEs owners and managers are able to identify sources of finance that would help their businesses thrive. However, there are other factors that are likely to control access to finance for SMEs. The understanding that 3 out of 5 SMEs collapse within their second year, is a great indicator that SMEs lack capacity and understanding that would help them manage their risk exposure to ensure that they thrive and succeed in their endeavours. It is from this background that the study seeks to understand the factors that influence access to credit for SMEs in Kenya. The study therefore seeks to answer the question; which factors affect the access to credit finance by SMEs in Nairobi County?

1.3 Objective of the Study

The objective of this research is to establish the magnitude of the factors influencing access to credit finance by micro, small and medium enterprises in Nairobi County.

1.4 Value of the Study

This research study is of great value to MSMEs in Nairobi, including Small and Growing Businesses (SGBs), and SMEs. The study helps to identify whether financial performance is influenced by financial literacy during tough economic times such as period of time with prevalent market shocks occasioned by the presence of Covid-19, or there are other variables that have greater impact on financial performance. This is relevant in guiding policy on deploying stakeholders on various positions that improve financial performance. The study also guides investment in necessary policy implementations that would ensure that the objectives of these MSMEs are met adequately.

The study also benefits the government and authorities that are responsible of establishing policies and developing existing regulations on MSMEs, SGBs, SMEs, table banking and Self-help groups. The is of great use in making policies on the qualifications, skills and experience required for various posts and positions in MSMEs in order to ascertain that the objectives of these entities are attained with greater efficiency. Government projects such as Uwezo Fund, Hustlers Funds, Women and Youth Fund among others, would also get valuable inputs from this study.

The research also inputs more information to the body of knowledge on financial literacy and financial performance, not only to MSMEs but also on SMEs and SGBs. The study immensely contributes to existing theories on financial literacy and efficiency. It also adds up to the wealth of empirical studies that help in undertaking literature reviews. The study also plays critical role on identifying future research gaps that would be addressed by future study, to bring more knowledge and a better comprehension of financial literacy and financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review is a section that reviews the previous contributions of different researchers and authorities in the field. This study will review different theories that have been brought out on factors affecting access to credit finance. The chapter also reviews past empirical study and conceptual framework of the study.

2.2 Theoretical Review

The study will review different theories where the proponent of each theory will be discussed, the proposition of the theory, criticism and usefulness of the theory in the study. The theories that will be reviewed include financial inclusion theory, imperfect information theory as well as financial intermediation theory.

2.2.1 Financial Inclusion Theory

Financial inclusion theory explains the process of obtaining appropriately financial service and products that meet the requirement of all sections of the society such as products affordable to unemployed group. The products should be affordable, obtained in a legal manner from an authorized financial institution. An inclusive financial sector seasoned to ensure seamless flow of credit from savers to borrowers as well as an insurance sector that underwrites all perceived and real risks for insurable people as well as firms and efficient and effective payment systems (United Nations, 2006). Financial inclusion never means that everyone eligible has to partake in each of the services provided, but they have to be easily available for anyone who would prefer to use the services without many hurdles (Chakrabarty, 2011).

The study undertaken by Kempson *et al*., (2014) indicate that low income earning personnel are more susceptible to financial inclusion as well as unemployed people who live on social security payments that are granted by the government as well as marginalized communities and populations that are associated with low incomes and lack the necessary financial literacy to make relevant choices on various services available in financial inclusion. A report undertaken for Family Resources Survey in 2002-2005 found that the use of financial products was lowest among African-Carribean, Black, Pakistani as well as Bangladesh households in UK. The studies also concluded that the role of religion was also paramount in determining the level of financial inclusion among such populations. The barriers to financial inclusion were classified into four in a report by World Bank (2008). They included physical barriers, lack of proper documentation barriers, lack of affordable financial products and services as well as geographical distance barriers.

Financial Inclusion Theory is relevant to this study as the study seeks to find out the magnitude of the factors that affect the accessibility of credit finance. The study is underpinned to the theory as it seeks to indicate the process involved in acquiring credit finance from the financial institutions. This process hinders many MSME business owners from acquiring credit finance when they are not eligible to the term given. Since most financial banks prefer lending to the banks and macro business than MSME, they therefore increase requirements or suggest a complex process that is either geared towards discrediting them or increasing the cost of accessing credit.

2.2.2 Imperfect Information Theory

Imperfect information is only defined by the fact that there exist one party that has more information than another party in a financial transaction. One party is therefore advantaged over the other one and the disadvantaged party may make wrong and costly decisions. Lofgren et al (2002) found that information asymmetry was very common in markets and traders were able to make good their trade as they relied on market misinformation. A seller in a common market is expected to have more information in regard to the product and services than a buyer, while a borrower may understand his/her creditworthiness more than a lender would. George Akerlof who was among the founders of the theory therefore demonstrated the fact that imperfect information would lead to adverse selection in the markets.

A situation where there exists imperfect information in a financial transaction or otherwise, the seller or the borrower who has poorer credit worthiness may crowd out other more favourable borrowers and as such less value transactions are undertaken than it would be the case if there was no imperfect information. Imperfect information therefore may play a big role in hindering mutually advantageous transactions, as buyers may result to less quality goods in place of high quality goods.

According to Robinson (2011) imperfect information theory assumes that it is difficult for a bank to differentiate between a high risk or a low-risk loan applicant. The theory also provides a justification why it is easier for an informal lending facility to compete against a formal lending institution such as a bank since the informal lending facility has more information in regard to the borrower than the formal lending institutions. The theory is therefore inclined to the fact that it would be difficult for commercial banks to lend to small institutions and small enterprises, as they are adjudged to have more risks. The imperfect information between these formal institutions and the borrower is so great such that mutually advantageous transaction may not take place between these parties. The fact that a significant number of SMEs do not have formal verifiable information such as audited financial statements, or their governance may not be formally constituted, it creates a problem of imperfect information, and the lending institution may not likely advance loans to such an enterprise.

The theory postulates the reason why some of the businesspeople do not borrow from financial institutions due to imperfect information. Most owners of SMEs are semi-illiterate and therefore may rely on market information which in most cases tend to be imperfect, misguiding them and therefore failing to understand the procedure and eligibility of accessing credit facilities. The theory is anchored to this study as it explains why financial literacy may affect SME owners from acquiring credit finance for growth and expansion.

2.2.3 Financial Intermediation Theory

The theory of financial intermediation was proposed by Akerlof (1978) in his seminal paper. The theory was however developed further by the works of Spence (1973) and Rothschild & Stiglitz (1976). The theory proposes that there exist financial intermediaries in order to reduce both information and transaction costs that emerge from information asymmetry between the lender and the borrower. This therefore implies that financial intermediaries exist to enable and enhance efficiency in financial markets. The purpose of financial intermediaries has been explained by two different schools of thoughts. The first school of thought suggest that financial intermediaries help to increase or provide liquidity in the market. The second school of thought suggest that financial intermediaries are able to transform risks characteristics in assets. The two school of thoughts suggest that financial intermediation reduces cost of transferring funds from lenders to borrowers of those funds which lead to optimal allocation of resources.

Financial intermediation largely relies on working financial markets that help to bring together lenders as well as borrowers of those funds. The borrowers utilize the funds in projects that generate positive NPVs and therefore they can comfortably pay the lenders plus interests accrued thereof. Developing the financial markets therefore reduces transaction costs making the markets more efficient. However, the development of financial markets requires the development of legal, regulatory and governance structures that would enhance free flow of information (Mishkin & Eakins, 2012). Financial intermediation makes it possible for small savers to pool their resources together and provide to a borrower who would make investments to generate higher returns.

The theory has however been critiqued as it does not recognize the risk management role of lenders in the financial intermediation. This is a major cost (hindrance) in financial intermediation, and which may hinder the pace at which financial markets improve their efficiency. It is also argued that there is cost of participation by players in financial intermediation, which is disregarded by the provision of the theory (Scholtens & Wensveen, 2000).

Despite the critique brought forth, this theory is very critical in this study that seeks to determine the factors that influence credit access. The theory suggests that increase in financial intermediation reduces transaction costs in financial markets and therefore enhances financial development. The rate at which credit is available and the ability of financial markets to provide an efficient system where SME borrowers can easily access loans is a critical concept that may affect the access of finance for micro and small enterprises.

2.3 Determinants of Access to Credit Finance by SMEs

There are several determinants affecting access to credit finance by SMEs and which have been highlighted in this study. The factors that have been proposed to have significant effect on access to credit finance by SMEs include owners' financial literacy, collateral requirements, small business support services, as well as firm specific factors which are all described below.

2.3.1 Owners' Financial Literacy

The efficiency of management including their financial literacy has been a factor that have interested several researchers. However, information in regard to the relationship between managements' financial literacy and financial performance has been scanty with most studies confirming the importance of education and financial literacy on efficiency. The independent significance of both schooling and cognitive functioning on efficiency determinants is not very controversial. In addition, it is certain that the people with an advanced knowledge have exposure levels that are higher, and open mindedness which positively correlates with capacity, social status derived from parents as well as other characteristics rewarded in the labour market (Card, 1998). The main effect of education on efficiency is out of its effect on cognitive function of the individual enabling one to be able to identify and determine avenues of increasing and improving efficiency (Heckman, Layne-Farrar and Todd, 1996).

Financial literacy does not imply only financial knowledge acquired from formal education. However, it implies the ability of having cognitive abilities on financial implications of various financing avenues. It is the possession of knowledge in regard to the funding opportunities available to a firm, while at the same time ensure that they exercise their financial knowledge to make an informed decision in regard to the optimal opportunity that would benefit the enterprises.

Owners' financial literacy is therefore critical in ensuring that SMEs take advantage of available funding opportunities as they are aware of them. This reduces information barrier and costs associated with obtaining such vital information for decision making (Ahmed & Hamid, 2011).

2.3.2 Collateral Requirement

The size is crucial in providing the collateral security of a firm. It is assessed in decision making to determine the form of credit to access. In Pakistan, Akram et al. (2008) identified that the demand for credit is affected by the value of collateral security available and acceptable. This leads to a large number of people who do not own properties such as land or houses, fail to take part in the formal credit market. Hussain (2011) argue that about 77% of people who practiced agricultural farming used their lands as collateral securities as it is the most acceptable form by all credit institutions. The demand for credit is increased by increasing the size of the firm. The collateral security will therefore increase when the size of a firm increases from small scale to large scale. This reduces the lending risk is reduced if a firm is big compared to small firm. Since land is the only acceptable form of collateral accepted by the lending institutions, all people who do not possess any land and would like to acquire credit for their enterprises are therefore not eligible for the credit facilities. Subsistence farmers are as well left out (Akram et al. 2008). Land quality and size are factors that measure the capacity of productivity in agriculture. This implies that more size and quality of a land leads to greater income generation. They as well measure the credit worthiness of a person to access. In line with this the quality of land especially the irrigated areas are statistically insignificant. Yaslioglu et al. (2009) study explained that in Turkey, the major problem affecting agriculture is the scattered fragmentations occupying portions of land thereby reducing their efficiency. This prevents the small farmers who own such portions of land from obtaining credit facilities that would be used to enhance farm productivity.

It is unfortunate that collateral requirements may vary from one lender to another as well as from one borrower to the other. Collateral is required to ensure that the lender minimizes the level of exposure to default risks from the borrower. Apparently, SMEs are considered to have high default risks and therefore high collateral is required before they can access credit. However, there are specific issues that may enable one borrower to be exposed to lower collateral requirements from another borrower. Previous relationship with the lender may minimize or increase collateral requirements since the previous relationship, informs the lender the kind of the borrower they are dealing with. The policy objectives of one lender to the other may also determine the collateral requirement and variation in one loan product to the other (Wandeda, 2021).

2.3.3 Small Business Support Services

Governments undertake initiatives that are aimed at ensuring that the welfare of citizens has been protected. It is from this notion that governments seek to protect SMEs as they are found to be an integral component in improving the country's GDP as well as ensuring improved GDP. The Kenyan government has made initiatives towards improving the business climate for SMEs. Initiatives such as Uwezo Fund, Kazi kwa Vijana, and currently the now popularized Hustlers' Fund, are among the initiatives that the government undertakes to support SMEs in Kenya.

However, these business support services by the government are only enjoyed by certain SMEs who are connected and position themselves towards benefiting from these initiatives. Muriuki (2018) suggested that ignorance by most SMEs is a major factor that inhibit them from access to credit. The support services are however adopted with inclusion and exclusion policies, such as support for youth entrepreneurs, support for women, people living with disabilities among others. Other support services are offered to people in certain sectors of business such as businesses for exports, while other support is only offered to SMEs in certain industry such as manufacturing or agricultural, among other factors.

It is, however, imperative for governments and other agencies to ensure that they increase business support services. The increased number of support services would mean that it would be possible for all kind of SMEs to benefit and access affordable credit, that would help in enhancing their survival. Government parastatals such as KDC (Kenya Development Corporation) should ensure that they loosen terms and conditions required to support SMEs, or alternatively, develop different products that targets different SMEs, therefore increasing the number of SMEs who benefit from such support services (Lei, 2021).

2.3.4 Firm Specific Factors

Firm specific factors are also crucial factors that would determine the access to credit finance by SMEs. These factors include the ownership structure of the SME, the profitability or its market size, years of experience gained, and previous relationships with the lenders (credit worthiness). These factors are crucial factors as they would determine whether SME is likely to access credit finance or not. Ownership structure of a firm would basically mean that whether the SME is financed by ordinary shares or through debt. The extent to which an SME is leveraged by debt is an important factor that lenders consider before disbursing loans to an SME. A low levered firm is therefore highly likely to increase access to credit than a highly levered firm (Chernenko, Erel & Prilmeier, 2022).

The profitability of an SME is also an important factor to determine the access to credit. This is because lenders are also keen to understand whether the SME would be in position to afford loan repayments. Lenders undertake due diligence before disbursing loans, as they aspire to ensure they reduce non-performing loans from their balance sheets. It is therefore only prudent to ensure that they advance credit finance to SMEs that would afford such facilities without defaulting. The years of experience of an SME are important as the increase in the number of years SMEs have existed, indicate increased understanding of their business models and resilience to withstand challenging business periods. Credit worthiness is also an important factor, where a lender borrower relationship is rated by the credit worthiness of the borrower. Previous experiences between the lender and the borrower highly determines whether the lender would be willing to offer new credit at the same terms, better terms or would only offer credit at certain other terms depending on the previous relationship with the borrower (Shikumo & Mirie, 2020).

2.4 Empirical Literature

Empirical literature reviewed in the study comprises of local and international studies that have been previously undertaken in regard to access of credit or related studies. The empirical studies are reviewed in regard to the objectives of the study, the methodology followed to arrive at the findings and the gap with the current study.

Nafiza and Zariyawati (2020) investigated factors that brought impediment for SMEs in Bangladesh in their access to credit. 86 SMEs were sampled where a structured questionnaire was administered to each respondent. The factors that were under investigation included, size of the firm, age, education and skills level of the owners, as well as unfavourable credit terms that comprised of interest rates, corruption in bank officials, as well as collateral requirements. The findings indicated factors affecting access to credit by SMEs include lack of collateral, increased corruption in bank officials, high interest rates, lack of relevant skills and knowledge by owners of the enterprises. The study therefore noted that there was a massive discrimination in access to loan for small firms. The study despite undertaking the investigation on factors affecting access to credit by SMEs it investigated different factors and did not investigate factors such as local government borrowing. It was also undertaken in Bangladesh of which the findings may be distinct from similar study undertaken in Kenya.

Chisasa (2019) undertook a study that sought to understand the various factors that affected access to bank credit by smallholder farmers in South Africa. The study was motivated by the fact that it was cumbersome for smallholder farmers to access bank credit and therefore different factors were investigated. These factors included the capital structure adopted, the networth of the family as well as the family income. Cross-sectional data was obtained through a survey undertaken from 362 smallholder farmers selected from Mpumalanga as well as Northwest Provinces. Multiple regression analysis was performed where the findings indicated that family net worth, capital structure and household income were found to positively influence access to bank credit. There is a conceptual gap in that the study examined different variables as factors affecting access to bank credit, a contextual gap is also obtained where the study was undertaken for small holder farmers in South Africa and this study undertakes the study for MSMEs in Nairobi Kenya.

Tien (2019) was concerned on the roles played by SMEs in economic growth in Vietnam. The study therefore sought to determine the level of access to credit for these enterprises where a survey research design was adopted by the study where a stratified random sampling was used to sample 400 SMEs and primary data collection was undertaken through questionnaires. The study deployed exploratory factor analysis (EFA), ANOVA analysis as well as multivariate linear regression analysis where six factors were identified to affect access to finance: managerial experience, owner-manager's financial literacy, business plan, financial management regulations, education and business size. The study gap emanates from the fact that the methodology of the study comprised of EFA whereas this study will undertake regression analysis. Conceptual gap exists where the study did not feature aspects of macroeconomic in nature such as interest rates and domestic borrowing by the government.

The critical role played by the SMEs in Mozambique led Osano and Languitone (2016) to undertake a study that sought to understand the ease of access of finances by these enterprises. The financial structure of the SME was considered, the extent of awareness by the owners of different funding opportunities, collateral requirements as well as small business support services. The study targeted 2725 respondents where sampling undertaken by the bank led to identification of 242 SMEs staff as well as 324 staffs in various banks. The data employed both descriptive as well as inferential research design where primary data was collected by use of questionnaires. The study indicated that there was a positive correlation between awareness of funding opportunities and access to finances, similarly, structure of financial services, and availability of collateral had positive relationship on access to finances. The study depicts a conceptual gap where the study did not focus on macroeconomic factors and a contextual gap where the study was undertaken in Mozambique.

Fowowe (2017) undertook an empirical investigation while seeking to understand the effect of access to finance on firms' growth in African countries. The study used rich enterprise-level data set from the World Bank's Enterprise Surveys where both subjective as well as objective measures of access to finance were deployed. The subjective measure involved the determination on whether there existed severe obstacle to undertaking business operations or not, while the objective measure relied on constrains on firms in accessing credit. 10,888 firms across 30 different countries was obtained. The findings indicated that constraints in access to finance negatively affected growth of businesses and therefore justified availability of finance for all business enterprises. The study was undertaken across different African countries and the fact that subjective measure of financial access was condoled, means that there is a distinctive feature with this study.

Mole and Namusonge (2016) sought to determine the issues that affected access to credit by SMEs in Kitale town. The study targeted 726 SMEs as registered by Kitale Town County and stratified random sampling as well as Krejcie and Morgan formula resulted to identification of 256 SMEs. Descriptive design was adopted where lending procedures, collateral requirements, CRB policies and training offered were identified as the factors that influenced access to credit. The study was undertaken in Kitale town, similarly, it did not consider the macroeconomic aspect of interest rates as well as domestic borrowing by government as concepts of interests which will be investigated in the current study.

Muriuki (2018) investigated the factors that affect access to finance by SMEs in Meru County. A descriptive survey research design was adopted where 1650 registered SMEs in Meru comprised the target population. Yamane formula was adopted, and a sample of 92 SMEs was selected. The analysis was undertaken by the use of regression and correlational analysis. The study found that collateral in form of personal land were not used by SMEs in securing credit. Similarly, SMEs were able to access credit from banks, but stringent conditions were imposed by commercial banks. The study had a contextual gap where the study was undertaken in SMEs in Meru. Similarly, there is a conceptual gap that indicates that the study did not consider macroeconomic factors of interest rates and government domestic borrowing.

Migayi (2012) sought to determine the level of loan access by SMEs from microfinance institutions. The study variables that were investigated include microfinance characteristics, the

SMEs characteristics, financial characteristics as well as entrepreneurs' characteristics. Chi square was used by the study to determine the association between the study variables where data was collected by use of structured questionnaire. Education as well as experience of the entrepreneur, default penalties that were charged as well as business sector were important in determining the access of credit. The study therefore did not consider macroeconomic factors such as interest rates as well as domestic government borrowing which makes it the key study gap.

Shikumo and Mirie (2020) found the need to study on the access of external finance by SMEs from commercial banks in Kenya. They therefore developed study objective on determinants of lending to SMEs by commercial banks in Kenya. Descriptive research design was adopted in the study where all 43 commercial banks were investigated for a period of 2010-2014. Multiple linear regression was employed to analyse the data collected. The findings indicated that bank size and liquidity of the bank were key variables that influenced lending to commercial banks. Credit risks and interest rates had no significant influence on lending. The study brings out a conceptual gap where the focus is on factors that push (influence) commercial banks to provide credit to SMEs. However, the researcher in this study seeks to determine the factors that would influence MSMEs to access credit be it from commercial banks or from other formal source of finances. The unit of the study is therefore business owners and not commercial banks.

Lei (2021) studied the impact of financial innovation on SME's access to loans in Nairobi County. The study was anchored on the theory of innovation theory where descriptive research design was adopted to describe the variables of the study. Qualitative data was collected from the sampled population of 393 SMEs that were operating in Nairobi CBD as it was found to be the major business centre in Kenya. The data collected was from primary as well as secondary sources where the main data collection instrument was close ended questionnaire and correlational as well as multiple linear regression analyses was undertaken on the data collected. The findings indicated that product and process innovations had significant impact to financial service providers in Kenya. However, characteristics such as company age, and size had no significant impact on access to credit. The model developed that comprised of product innovation, process innovation, age and size of the company did not have significant influence on access to credit. The study therefore indicates notable differences, where conceptual gaps are found on product innovation as well as process innovations. The researcher in this study therefore seeks to understand the easiness with which credit may be accessed.

2.5 Summary of Literature Review

The study considered different theories that comprise of financial inclusion theory, imperfect information theory and financial intermediation theory. The financial inclusion theory identified the importance for enhancing access to credit which could be enhanced by improving the financial institutions. The improvement of financial institution would ensure that access to credit among SMEs have been greatly improved. On the other hand, imperfect information theory suggests that with increased lack of correct information increases transactional costs and therefore would lead to failure to access credit. The theory suggests that SMEs owner and managers should possess the relevant knowledge and skills in regard to credit access and therefore be in position to access credit. Financial intermediation on the other hand provides that improvement in the financial structure such as improved efficiency in the capital market as well as stock market are vital in determining the access of credit to borrowers.

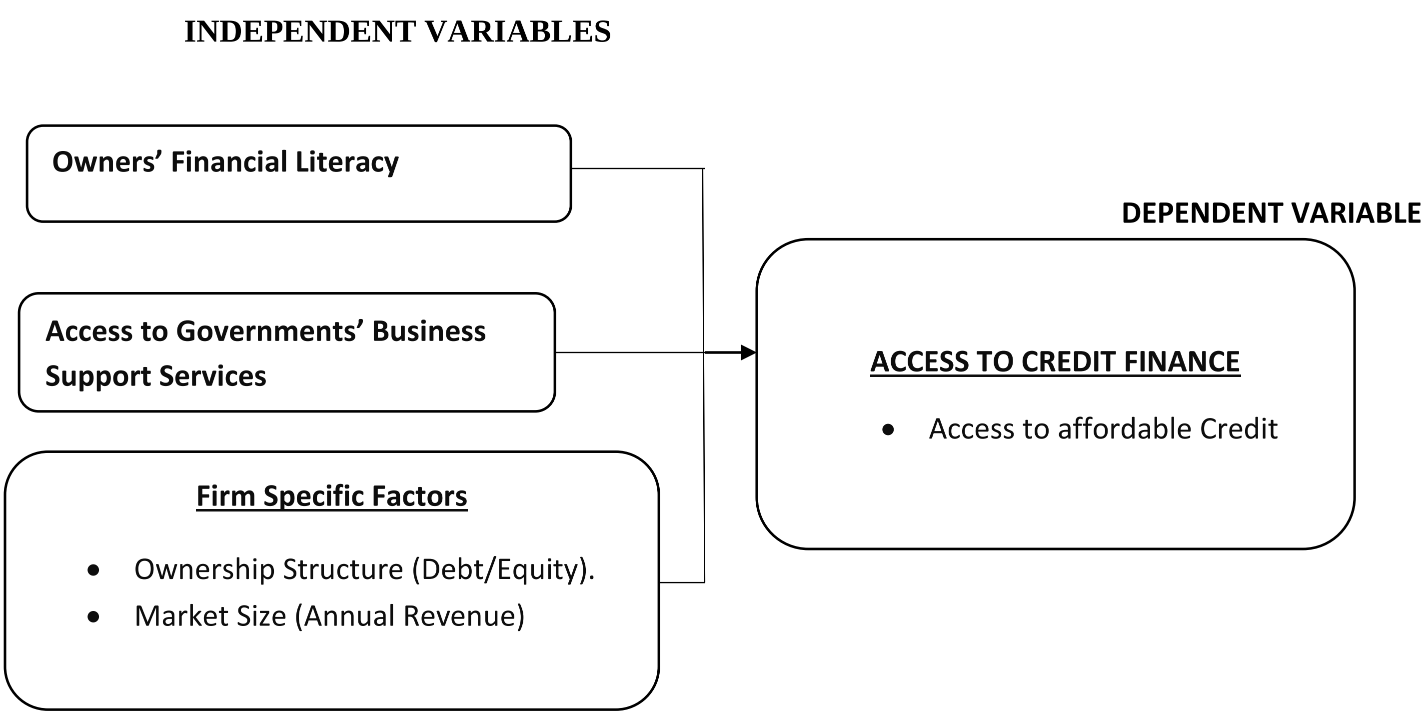
The empirical studies undertaken both locally and internationally suggests that lack of relevant skills, knowledge and experience are among the factors that lead to failure to access credit by

SMEs (Fowowe, 2017; Migayi, 2012 & Chisasa, 2019). On the other hand, these studies indicated that bank characteristics such as loan requirements including collateral, and interest rates required by the banks were crucial factors that determined access to finances. However, these studies did not investigate the effect of macroeconomic factors and their influence in determining access of credit by SMEs. This study would therefore seek to determine whether increased domestic borrowing by the government had an effect on level of credit access.

2.6 Conceptual Framework

The conceptual framework shows the study variables and the extent to which they influence the access to credit for SMEs in Nairobi County. The independent variables of the study comprise of bank's lending rates, collateral requirements, financial literacy of the owners as well as government's domestic borrowing. The dependent variable is the level of credit access from commercial banks as indicated in figure 2.1.

Figure 2. 1: Conceptual Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology of the study identifies the methodology that would be adopted by the study in meeting the study objectives. Therefore, the research design adopted, the population, sampling, data collection as well as data analysis that would be undertaken by the study.

3.2 Research Design

The study adopted mixed research design as it considered both correlational as well as descriptive research designs. It sought to determine the behaviour of the dependent variable once each independent variable is changed by single unit. Similarly, a descriptive research design was adopted where the study variables were described accordingly. A descriptive research design decides and reports on the exact facts of a particular state. Creswell (2003) noted that a descriptive research design is utilized when information is gathered to depict individuals, associations, conditions, or peculiarities. In this study, inferential statistics and calculations of central tendencies, dispersion and distribution were implemented.

3.3 Population

Creswell (2003) characterizes population as collection of individuals or items with similar recognizable attributes. It is important to guarantee that the sample is a representation of the whole and that every unit has an equivalent shot at being a constituent for the final sample. The target population of the study includes all the Managers/Owners of MSMEs in Nairobi County. There are about 1,204,280 licensed MSMEs in Nairobi (Nairobi County Council, 2020). The study targeted MSMEs that have been operating for at least one year when this study is undertaken. The study targeted MSMEs of the various sectors comprising of hospitality, transport and communication, entertainment, manufacturing, agriculture, general trace, educational, technical, or professional. The unit of observation were the owners or managers of these MSMEs.

Table 3. 1: Population of MSMEs Nairobi County.

Classification of MSMEs	Number	Percentage
General Category	192,685	16%
Transport and Communication	180,642	15%
Agriculture	168,599	14%
Hospitality	156,557	13%
Professional and Technical	168,599	14%
Education and Entertainment	168,599	14%
Manufacturing	168,599	14%
Total	1,204,280	100%

Source: Nairobi City County, 2020

3.4 Sampling

Sampling is usually undertaken, when the population is too large such that it is not feasible to investigate all the items of interest in the sample. Sampling is therefore undertaken to ensure that a smaller number of respondents is determined that would be as representative as possible.

However, the sample must be unbiased, and the characteristics of this sample should be inferred to be the characteristics of the population. One of the ways to determine the appropriate sample size from a huge population for the purpose of undertaking regression analysis is the use of Yamane Formula which is given by:

$$n = N/(1+N(e)^2)$$

Where n represent the sample size, N represent the population size and e represent the level of precision or sampling of error.

The population size (N) is 1,204,280 wile e is 0.05. The use of Yamane formula gives us a sample size of 400 respondents. According to Mugenda and Mugenda (2003) a response rate of 50% and above is considered adequate for data analysis.

This indicates that a response rate of 50% would place the sample size at 200 respondents. This study therefore targeted a total of 200 respondents as the sample size. Cooper and Schindler (2006) warn that the sample should be as representative of the population as possible. Biasness should therefore be discouraged and as such the method for determining the sample should ensure that every item or individual of the sample has an equal chance in being considered for the study. This study therefore adopted stratified random sampling, where each category of SME is classified as a stratum. The sample distribution is therefore indicated in table 3.2.

Table 3. 2: Sample Distribution

Classification of MSMEs	Sample Size
General Trace	32
Transport and Communication	30
Agriculture	28
Hospitality	26
Professional and Technical	28
Education and Entertainment	28
Manufacturing	28
Total	**200**

Source: Nairobi County Council, 2020

3.5 Data Collection

The study data was acquired from essential sources through a survey to gather the necessary information (Cooper and Schindler, 2006). The questionnaire comprised of both structured and unstructured questions. Close-ended questionnaires are appropriate to gather quantitative data, while open ended questionnaire permit respondents to address each question as they would wish and the chance to give comprehensive data (Mugenda and Mugenda, 2003). Questionnaires are therefore considered effective, modest, and simple to control. They were relayed through drop and pick later technique while Google Forms were used to collect and capture data from the respondents.

3.5.1 Data Validity and Reliability

The reliability quality of an instrument alludes to how well it measures while remaining stable and consistent. Bagozzi (1994) clarifies that reliability can be seen according to two viewpoints: reliability (level of precision) and unreliability (level of imprecision). The most well-known reliability coefficient is the Cronbach's alpha which gauges inner consistency by deciding how all components on a test identify with any remaining component and to the cumulative test internal coherence of data. In this research, to guarantee the reliability of the instrument, Cronbach's Alpha is utilized to really look at the reliability of the analytical instruments.

3.6 Data Analysis

Questionnaires were evaluated for completeness and consistency. The inquiries were coded before the finished questionnaires were altered for completeness and consistency. Coding of the questionnaires were undertaken, where descriptive analysis of the variables was carried out by the use of tables, charts and graphs. The data was analysed by the use of multiple regression analysis by utilization of the version 20 of Statistical Package for Social Sciences (SPSS).

The regression model that was used in the analysis took the form

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

Where;

Y is the Level of Access to Credit Finance by MSMEs.

X_1 is Owners Financial Literacy

X_2 is Access to Government's Business Support Services

X_3 is Ownership Structure (Debt/Equity)

X_4 is Market Size (Total Annual Revenue)

ε stands for the error term in the model

$\beta 1$, $\beta 2$, $\beta 3$ and $\beta 4$ are the coefficients

3.6.1 Operationalization of Study Variables

The table 3.1 indicates the operationalization of the study variables, to determine the way in which the abstract concepts of the study are transformed into measurable observations of the variables. It therefore showcases the values of the variables under the study.

VARIABLE	DEFINITION	INDICATOR	SOURCES
Access to credit finance	The ability of the enterprise or individuals to acquire funds from external sources to assist in the operation of the business	The indicator for Access to finance variable is through amalgamation of time taken to process loans to MSMEs, and the conditions imposed on these loans.	Moro, Fink & Maresch, (2015)
Owner's financial	It is the cognitive ability of an owner of MSMEs or the	Level of education and financial seminars and	Lusardi & Mitchell, (2011).

literacy	managers to be in position to understand all the relevant information in regard to sources of finances, and related costs	training attended by the respondent	
Access to Business Support Services	This refers to the ability of an MSME to qualify for a government support service and at the same time take advantage of the same to access credit	The ability of MSME accessing government business support services that include affordable credit	Crouzet & Eberly, (2019)
Firm Specific Factors	These are factors that are unique to a specific MSME and influence access to credit finance. These factors include ownership structure that is defined as the ratio of the amount a business has borrowed over the amount of capital raised by the shareholders.	Debt/Equity Total Annual revenue	Lusardi & Mitchell, (2011).

	The market size which is determined by the total annual revenue of MSME		

3.7 Diagnostic Tests

Diagnostic tests are undertaken to determine whether the data collected complies with the assumptions of regression analysis. There are various diagnostic tests that were undertaken in the study.

3.7.1 Linearity Test

Regression analysis assumes that data can be turned into a linear format. It therefore suggests that linear qualities may be used to determine or predict variables in the analytical model. Linearity test is undertaken by undertaking graph plots. In this case the plot would indicate whether data forms linear tendencies or not. If data does not form linear tendencies, then it fails linearity test and there would be need to transform the data in order to ensure that it forms linear tendencies before regression analysis is undertaken.

3.7.2 Normality Test

Normality test indicates whether data forms a bell-shaped distribution format which is called a normal curve. When data is large enough, it tends to take the shape of a normal curve and therefore the data may be used to undertake statistical assumptions. Normality test is undertaken by the use of Shapiro Wilk test. The derivation from the null hypothesis indicates that the population from which the data is derived is distributed normally. The null hypothesis is rejected if the significance (p-value) is below 0.05. Transformation of data is preferred when the null hypothesis is rejected.

3.7.3 Multi-Collinearity Test

This is a test that shows whether the independent variable remain independent, or they influence each other. Regression analysis assumes that independent variables remain independent and therefore do not influence each other. Multi collinearity test is undertaken by the use of Variation inflation Factors (VIF) or tolerance levels to determine whether there exists multi-collinearity between variables or not. There exists a multi-collinearity when the VIF values are above 10. In this case the variable with multicollinearity is dropped from the model.

3.7.4 Autocorrelations Test

The autocorrelation test is the degree of correlation of the same variable between two consecutive time intervals. The variable lags behind in time in successive time intervals. The new version of the variable is related to the original version. The most common method that is undertaken in the measure of auto correlation is the Durbin-Watson test. The test scores produced by this test ranged from 0 to 4. A value close to 2 indicates that the autocorrelation is less, whereas values closer to either 0 or 4 indicate that there is either positive or negative autocorrelation respectively (Creswell, 2008).

3.7.5 Test of Significance

The analysis of the variance (ANOVA), F-tests at 95% confidence level were utilized to determine the model significance, where a significance of below 0.05 will be relaying that the relationship is statistically significant between the variables.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

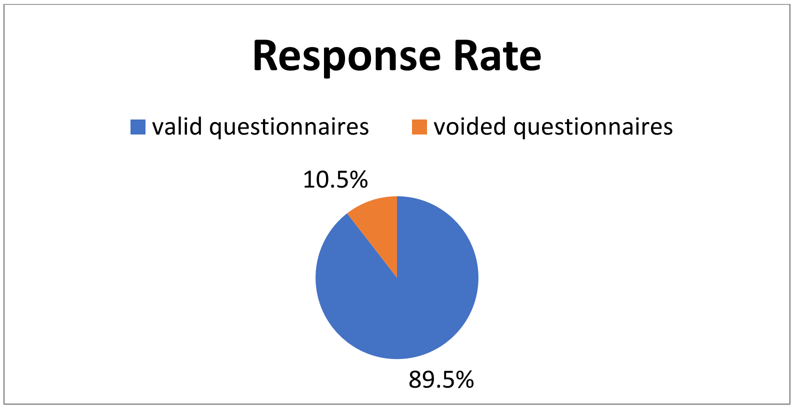
4.1 Introduction

The study covered the analysis of the data gathered in this chapter. Descriptive statistics was used in the analysis to describe the variables in terms of their central trends. Before doing correlation and regression analysis, which revealed the relationship between the research variables, diagnostic tests of the regression model was conducted to determine the robustness of the model. The study's conclusion included a summary of the interpretation of the analysis results.

4.2 Response Rate

The response rate refers to the ratio of the people who completed a survey divided by the number of people in the sample. The study had targeted a total of 200 respondents as the sample size but was only able to collect 179 responses from participants who completed filling and submitted their responses. This represented a response rate of 89.5 % which was found adequate for the study.

Figure 4. 1: Response Rate



Source: Researcher, (2022)

4.3 Descriptive Analysis

The study discusses the frequency distribution of the data in this section using descriptive statistics which will describe the central tendency of the data collected in each variable in terms of mean, median, mode, standard deviation, minimum and maximum values. The analysis will assist the study to establish the capacity in which the variables have been adopted by MSME in Kenya. Table 4.1 indicates the descriptive statistics for the overall variable in terms of mean, standard deviation, maximum and minimum value.

Table 4. 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y = Ease of credit access	179	11	32	20.04	4.241
X1 = Owner's financial literacy	179	5	25	16.13	4.884
X2 = Access to business support services	179	5	25	14.46	3.793
X3 = Ownership structure	179	.00	1100.00	12.5438	84.68573
X4 = Market structure (ln)	179	12.43	18.42	14.4928	2.14035

Valid N (listwise)	179				

Source: Researcher, (2022)

Each of these study variables are then described below, with their constituent parts and how respondents responded in each scenario. The mean. Median and mode were used to explain the frequency in each response.

4.3.1 Ease of Credit Access

Table 4. 2: Ease of Credit Access Frequency Table

Statements	N		Mean	Median	Mode
	Valid	Missing			
The business is able to access 100% of the credit it requests from the banks or other sources.	179	0	2.47	2.00	2
Loans applied by the business are processed very fast and timely.	179	0	2.70	3.00	2
The business is able to access cheap and affordable loans.	179	0	3.15	3.00	4
The business does not struggle to meet the requirements needed to access credit (eg collateral).	179	0	3.08	3.00	3
The sources of credit used by the business do not have hidden charges, harsh or punitive terms and conditions for accessing credit.	179	0	3.01	3.00	2
The business finds it easier to borrow money to expand business or for other business operations rather than relying on business savings.	179	0	2.82	3.00	2
Government has established sufficient laws and support mechanism to help businesses secure loans from lenders.	179	0	2.82	3.00	2

Source: Researcher, (2022)

Ease of credit access has been used as the dependent variable of the study whose overall performance is below average from the descriptive statistic table 4.1 above, which indicates that the overall means of statements used to describe the status of ease of credit access by MSMEs in Kenya as 20.04 with a standard deviation of 4.241. The minimum value is 11 and the maximum value is 32. This implies that MSMEs experiences challenges related to access of credit finance which affects tremendously their performance despite their contribution to the country's economy through job creation. The statement with the least rating was: The business is able to access 100% of the credit it requests from the banks or other sources which had a mean of 2.47 and both the median and mode were 2 indicating that most respondents had picked 'disagree' implying that majority disagreed with the statement. The statement with the highest rating was: The business is able to access cheap and affordable loans, whose performance was average indicated by a mean of 3.15, a median of 3 and a mode of 4. Although most respondents picked 'agree' than any other level, the responses on neutral, disagree and highly disagree were many lowering the mean to 3.15.

4.3.2 Owner's Financial Literacy

Table 4. 3: Owner's Financial Literacy Frequency Table

Statements	N		Mean	Median	Mode
	Valid	Missing			
The owner/management has received formal training on sources of finance, cost of finance and conditions for access to finance	179	0	3.35	3.00	2
The owner/management considers and compares cost	179	0	3.47	4.00	4

of finance before deciding on whether to borrow or not					
The owner/management are aware and capable of accessing loans in international markets (outside the country)	179	0	2.55	2.00	1[a]
The owner/management consults finance experts before applying for loans	179	0	3.28	3.00	5
The owner undertakes proper and effective appraisal of investment projects before making investments	179	0	3.48	4.00	4
a. Multiple modes exist. The smallest value is shown					

Source: Researcher, (2022)

Owner's financial literacy has been used by the study as the first independent variable whose performance is average as indicated in table 4.1 with an overall mean of 16.13 with a standard deviation of 4.884. The minimum value is 5 and the maximum value is 25. This implies that owner's financial literacy is average across MSMEs in Kenya. The statement with the least mean is: The owner/management are aware and capable of accessing loans in international markets (outside the country), which had a mean of 2.55, a median of 2 and a mode of 1 indicating that most responses were between 1 and 3 implying that the majority disagreed with the statement. On the other hand, the statement with the highest rating is: The owner undertakes proper and effective appraisal of investment projects before making investments. The statement had a mean of 3.48 with both median and mode of 4. This suggests that majority of the respondents' property scrutinizes the investment project before implementation while some do not.

4.3.3 Access to Business Support Services

Table 4. 4: Access to Business Support Services Frequency Table

Statements	N		Mean	Median	Mode
	Valid	Missing			
The business has found it easy to access government support services such as Uwezo Fund, Youth/Women Fund, or other funds from international organizations	179	0	2.78	3.00	3
The Business actively engages government bodies to secure affordable credit finance	179	0	2.80	2.00	2
The business has partnered with other peer businesses to form Saccos, groups, etc for the purpose of accessing affordable credit finance	179	0	3.17	3.00	4
The business is in an industry or sector that is easily funded or supported by government and or international organizations	179	0	2.79	3.00	2
The business owner/managers have adequate opportunities from lenders (banks, Saccos, etc) to learn on access to affordable credit	179	0	2.93	3.00	3

Source: Researcher, (2022)

Access to business support services is the second independent variable of the study whose performance is below average as indicated by an overall mean of 14.46 with a standard deviation of 3.793. The minimum value is 5 and the maximum value is 25. The statement with the highest mean is: The business has partnered with other peer businesses to form Saccos, groups, etc for the purpose of accessing affordable credit finance which has a mean of 3.17, a median of 3 and a mode of 4 implying that half of the respondent agrees with the statement while half does not. The statement that was least rated is: The business has found it easy to access government support services such as Uwezo Fund, Youth/Women Fund, or other funds from international organizations. It had a mean of 2.78 and both the median and mode were 3 implying that majority of the respondents picked 1, 2 and 3 which shows disagreement with the statement.

4.3.4 Ownership Structure

Table 4. 5: Ownership Structure Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
X3 = Ownership structure	179	.00	1100.00	12.5438	84.68573
Valid N (listwise)	179				

Source: Researcher, (2022)

Ownership structure was the third independent variable of the study which was obtained by dividing debt by equity of a business. The minimum value was 0 indicating that there was a business with that had insignificant debt. The maximum value on the other hand, was 1100 indicating that the enterprise had very high debt and low equity. The overall mean of all the enterprises used for the study was 12.54 indicating that majority of the enterprises had higher debts than equity. A very high standard deviation of 84.69 indicated that the distribution of the values was widely dispersed from the mean implying that some enterprises had recoded very high ratios of debt over equity implying that their debt is very high and their equity is low while others recorded very low ratios suggesting that their debt is low and the equity is high.

4.3.5 Market Size

Table 4. 6: Market Size Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
X4 = Market size (ln)	179	12.43	18.42	14.4928	2.14035
Valid N (listwise)	179				

Source: Researcher, (2022)

Market size is the last independent variable of the study. Since it had high values the study took the natural logarithms of the values. The minimum value as indicated was 12.43 representing total revenue of K sh. 250000 which was used by the study to indicate the least total revenue of the enterprises. The maximum value 18.42 represented K sh.100 million for firms with total revenue of 100 million and above. The overall mean of market size was 14.49 with a standard deviation of 2.14. The standard deviation is high to indicate the variation of market sizes between the enterprises since the study is dealing with small, medium, and micro enterprise while the mean of 14.49 implies that majority of the enterprises used for the study were small and medium enterprises.

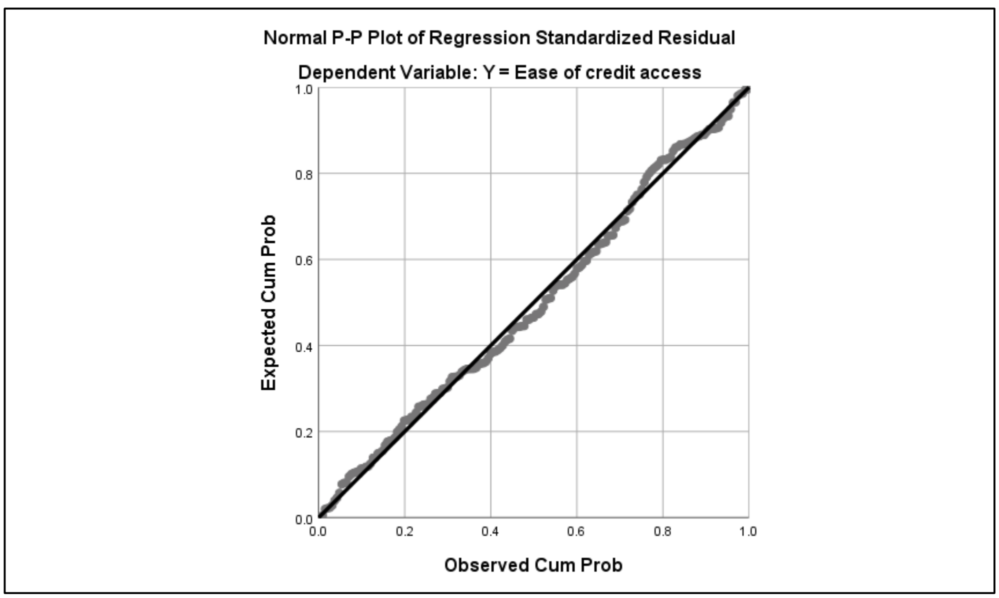
4.4 Diagnostic Tests

The assumptions of a multiple regression analysis are met by conducting diagnostic tests. These include the assumptions of linearity, normality and the absence of autocorrelations, homoscedasticity, and multicollinearity.

4.4.1 Linearity Test

The assumption of linearity assumes that the data being collected is linear because the regression analysis observes linear tendency hence the data used must be able to be transformed into a straight line. When using linear plots or standard P-P plots to test for linearity, it is presumed that the data is linear if the plots follow the diagonal line.

Figure 4. 2: Normal P-P Plot



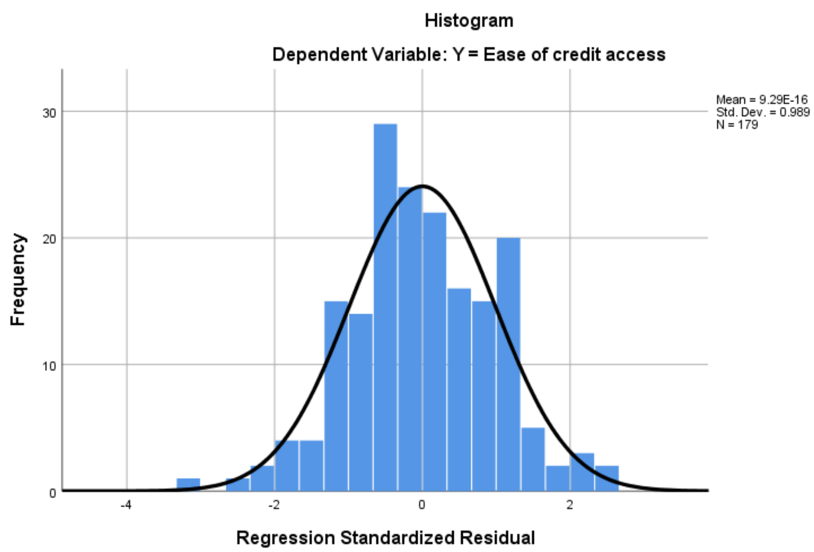
Source: Researcher, (2022)

The normal p-p plot indicates that majority of the plots follow the diagonal line. Therefore, the study assumes that the data variables are linear.

4.4.2 Normality Test

The purpose of the normality test is to determine whether the data distribution complies with the normal curve distribution. In other words, data should be presented in the form of a bell-shaped curve to show that the bulk of the data is distributed around the mean and the minority is spread along either end of the distribution. The Shapiro-Wilk test is used to determine whether a variable's data distribution is normal. If the test's p value is higher than 0.05, the variable's data distribution is considered to be normal.

Figure 4. 3: Histogram



Source: Researcher, (2022)

A histogram in figure 4.3 shows that the data is not normally distributed which indicate that the distribution of data is not normal. The study will therefore, standardize the data to be normally distributed. At a significance level of 0.05, a Shapiro-Wilk test is conducted to ascertain whether the distribution is normal.

Table 4. 7: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Y = Ease of credit access	.093	179	.001	.983	179	.029
X1 = Owner's financial literacy	.086	179	.002	.975	179	.003
X2 = Access to business support services	.082	179	.005	.989	179	.174
X3 = Ownership structure	.457	179	.000	.117	179	.000
X4 = Market size (ln)	.229	179	.000	.800	179	.000
a. Lilliefors Significance Correction						

Source: Researcher, (2022)

All independent variables in the Shapiro-Wilk test have p values less than 0.05, apart from access to business support services. This suggests that the data is not normally distributed at the 5% level of significance. Since parametric tests demand that data be normally distributed, the challenge is therefore, addressed by applying standardization to the data before performing all parametric tests.

4.4.3 Test for Autocorrelation

Disturbances in time series data can either show serial correlation or autocorrelation over the duration. When present in a linear panel data model, serial correlation leads to a difficulty with biasness of the standard errors as well as inefficiency of consistently computed regression coefficients. The Durbin-Watson test was used in this study to determine whether autocorrelation is a concern. This statistical test is used to determine whether there is correlation between the mistakes in various observations by assessing first order autocorrelation between the error and its immediately preceding value. The null hypothesis is that there is no serial correlation.

According to the Durbin Watson Score rule of thumb, a number between 1 and 2 denotes the absence of autocorrelations, whereas a score below 1 or above 2 denotes the presence of either positive or negative autocorrelations.

Table 4. 8: Test of Autocorrelation

Model	Durbin-Watson
1	1.692

Source: Researcher, (2022)

The Durbin-Watson test indicates a result of 1.692which is greater than 1. When the result is between 1 and 2 in Durbin-Watson test signifies that the data has no autocorrelation. In this case autocorrelation is absent.

4.4.4 Multi-Collinearity Test

The purpose of the test is to make sure that the independent variables are not correlated with one another, which could cause problems with collinearity in the data. When two independent variables are correlated with one another and tend to measure or have a similar impact on the dependent variable, regression analysis shows this to be an issue. These are referred to as multi-collinear variables. Variables with VIF or greater than 10 are thought to have multi-collinearity that could affect the regressions. Variation inflation factors (VIF) are used to determine multi-collinearity. A tolerance level of greater than 1 indicates the presence of multicollinearity problems that would need to be resolved, which also determines this.

Table 4. 9: Multi-collinearity Test

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	X1 = Owner's financial literacy	.572	1.748
	X2 = Access to business support services	.567	1.765
	X3 = Ownership structure	.989	1.011
	X4 = Market size (ln)	.762	1.312
a. Dependent Variable: Y = Ease of credit access			

Source: Researcher, (2022)

Table 4.10 shows that no variables have multi-collinearity issues because their VIF values are all less than 10.

4.4.5 Heteroskedasticity Test

Regression disturbances with non-constant variances are possible in observations. Heteroskedasticity is the term used to describe this issue. Both time series data and cross-section data may exhibit it. Its presence results in an issue with the estimation results being inefficient. This study's heteroscedasticity test will be conducted using the Breush-Pagan test. A Chi-Square statistic and related p-value are generated by the test. When the p-value is less than 0.05, there is evidence that the heteroscedasticity issue is present.

4.5 Correlation Analysis

The correlation analysis is used to determine the correlation between each independent variable and the dependent variable. Spearman's correlation was employed for this study because it is a non-parametric test since the data is not normally distributed. On a scale of 0 to 1, perfect correlation is represented by a correlation score of 1.

Table 4. 10: Correlations Table

			Y = Ease of credit access	X1 = Owner's financial literacy	X2 = Access to business support services	X3 = Ownership structure	X4 = Market size (ln)
Spearman's rho	Y = Ease of credit access	Correlation Coefficient	1.000	.556**	.549**	.105	.375**
		Sig. (2-tailed)	.	.000	.000	.163	.000
		N	179	179	179	179	179
	X1 = Owner's financial literacy	Correlation Coefficient		1.000	.628**	.209**	.483**
		Sig. (2-tailed)		.	.000	.005	.000
		N		179	179	179	179
	X2 = Access to business support services	Correlation Coefficient			1.000	.091	.474**
		Sig. (2-tailed)			.	.228	.000
		N			179	179	179
	X3 = Ownership structure	Correlation Coefficient				1.000	.084
		Sig. (2-tailed)				.	.261
		N				179	179

	X4 = Market size (ln)	Correlation Coefficient					1.000
		Sig. (2-tailed)					.
		N					179
**. Correlation is significant at the 0.01 level (2-tailed).							

Source: Researcher, (2022)

The correlation analysis indicates that owner's financial literacy has a strong positive and significant correlation of 0.556 against ease of credit access. A change in owner's financial literacy would therefore, lead to a change in the ease of credit access. Access to business support services as well indicates a strong positive and significant correlation of 0. 549 against ease of credit access indicating that its change would also impact a change in ease of credit access. Ownership structure reveals a weak and insignificant positive correlation of 0.105 against ease of credit access indicating that its change would have an insignificant change in ease of credit access. Lastly, market size indicated a positive and significant impact of 0.375 against ease of credit access implying that a positive change in market size would affect ease of credit access positively.

4.6 Regression Analysis

To ascertain the connection between ease of credit access and its determinants, regression analysis is used. It is used to examine whether the study independent variables are significantly related with the dependent variable. Therefore, multiple linear regression was used in the investigation, and the significance was assessed using the F test.

4.6.1 Regression Summary of the Model

The results of the coefficient of determination which indicates the strength of the model as measured by R squared are indicated in the summary of the regression model. It therefore, provides the coefficient of determination, which indicates how well the study's chosen model can account for variations in the dependent variable. The statistical adjustments made by adjusted R squared, on the other hand, relying on the number of independent variables in the model.

Table 4. 11: Model Summary

b									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.618[a]	.382	.368	.79493835	.382	26.920	4	174	.000
a. Predictors: (Constant), Zscore: X4 = Market size (ln), Zscore: X3 = Ownership structure, Zscore: X1 = Owner's financial literacy, Zscore: X2 = Access to business support services									
b. Dependent Variable: Zscore: Y = Ease of credit access									

Source: Researcher, (2022)

The model summary table shows that coefficient of determination given by R squared is 0.382 indicating that the model accounts 38.2 % of the changes in the dependent variable (Y) and the other 61.8% variation in the dependent variable is explained by factors that are not addressed by the model. The adjusted R square is slightly below R square to indicate that the model consists of elements that are not adding value to the model.

4.6.2 Analysis of Variance

A significant relationship between the independent and dependent variables is established using the analysis of variance. The significance value (p-value) is compared against an alpha value of 0.05 when doing an F test to determine this. If the $p < 0.05$, then study rejects the null hypothesis and comes to the conclusion that there is a significant relationship between the independent and dependent variables and if $p > 0.05$, then the study fails to reject the null hypothesis and therefore, makes a conclusion that there is no significant relationship between the independent and the dependent variables.

Table 4. 12: ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	68.045	4	17.011	26.920	.000[b]
	Residual	109.955	174	.632		
	Total	178.000	178			
a. Dependent Variable: Zscore: Y = Ease of credit access						
b. Predictors: (Constant), Zscore: X4 = Market size (ln), Zscore: X3 = Ownership structure, Zscore: X1 = Owner's financial literacy, Zscore: X2 = Access to business support services						

Source: Researcher, (2022)

The ANOVA table indicates that the p value of the relationship between the independent and dependent variables is less than 0.05. Therefore, the study rejects the null hypothesis and concludes that there is significant impact of owner's financial literacy, access to business support services, ownership structure and market size on ease of credit access.

4.6.3 Regression Coefficient

The extent to which the changes in one of the independent variables bring a change in the dependent variable while all other variables are kept constant is established by regression coefficient.

Table 4. 13: Coefficients Table

Model	Unstandardized Coefficients	Standardized Coefficient	T	Sig.	95.0% Confidence Interval for B

				s				
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-2.185E-15	.059		.000	1.000	-.117	.117
	Zscore: X1 = Owner's financial literacy	.287	.079	.287	3.645	.000	.132	.443
	Zscore: X2 = Access to business support services	.350	.079	.350	4.417	.000	.193	.506
	Zscore: X3 = Ownership structure	-.019	.060	-.019	-.325	.745	-.138	.099
	Zscore: X4 = Market size (ln)	.082	.068	.082	1.207	.229	-.052	.217
a. Dependent Variable: Zscore: Y = Ease of credit access								

From the coefficients table the coefficients of the independent variable transform the model in to:

$Y = 0.287X_1 + 0.35X_2$

A unit change in owner's financial literacy can induce a change of 0.287 to ease of credit access when all other factors affecting it are kept constant. A unit change in access to business support services will cause a change of 0.350 in ease of credit access when all other factors are constant. A unit increase in ownership structure will lead to a decrease of 0.19 in ease of credit access when other factors remain constant. Similarly, a unit increase in market will cause an increase of 0.82 in ease of credit access. The t test indicates that owner's financial literacy and access to business support services have a significant relationship with ease of credit access since their p-value is less than 0.05 while ownership structure and market size have insignificant effect on ease of credit access since their significances are greater than 0.05.

4.7 Summary and Interpretation of Findings

Descriptive statistics involved the mean, median, mode, standard deviation, maximum and minimum of the data in every variable. Ease of credit access was found to have an overall performance which was below average as was indicated by the overall mean of statements used to describe the status of ease of credit access by MSMEs in Kenya which was 20.04 with a standard deviation of 4.241 implying that MSMEs struggles to access credit finances in Kenya. Owner's financial literacy had an average performance as indicated by an overall mean of 16.13 with a standard deviation of 4.884 which implied that owner's financial literacy was average across MSMEs in Kenya. Access to business support services performance was below average as indicated by an overall mean of 14.46 and a standard deviation of 3.79 implying that MSMEs do not easily get access business support services. Under ownership structure the overall mean of all the enterprises used for the study was 12.54 indicating that majority of the enterprises had higher debts than equity. Lastly, the overall mean of market size was 14.49 with a standard deviation of 2.14.

The study undertook correlation and inferential analysis to establish the relationship between the independent and the dependent variable. The correlation analysis indicates that both owner's financial literacy and access to business support services had strong, positive and significant correlations, of 0.556 and 0.549 respectively, against ease of credit access. Ownership structure reveals a weak and insignificant positive correlation of 0.105 against ease of credit access while market size indicated a positive and significant impact of 0.375 against ease of credit access.

On the other hand, the regression analysis revealed that the model accounts 38.2 % of the changes in the dependent variable (Y) from R squared which was 0.382. The other 61.8% variation in the dependent variable was explained by factors that are not addressed by the model. The adjusted R square (0.368) was slightly below R square to indicate that the model consists of elements that are not adding value to the model. The t test indicates that owner's financial literacy and access to business support services had significant relationship with ease of credit access since their p-value was less than 0.05 while ownership structure and market size had insignificant effect on ease of credit access as their significances were greater than 0.05. Owner's financial literacy, access to business support services and market size were found to have a positive relationship with ease of credit access while ownership structure had negative impact on ease of credit access.

The findings of this study were similar to the studies of Chisasa (2019) who established that family net worth, capital structure and household income had positively influence access to bank credit. Similarly, the findings of Tien (2019) who established that managerial experience, owner-manager's financial literacy, business plan, financial management regulations, education and business size had effects on access to finance were similar to the current study findings. Osano and Languitone (2016) findings which indicated that there was a positive correlation between awareness of funding opportunities and access to finances, similarly, structure of financial services, and availability of collateral had positive relationship on access to finances which were similar to the results of the current study. The current study finding also agreed with the study done by Muriuki (2018 who found that collateral in form of personal land were not used by SMEs in securing credit. Similarly, SMEs were able to access credit from banks, but stringent conditions were imposed by commercial banks.

The findings of the current study however, differed with the finding of Lei (2021) who found that product and process innovations had significant impact to financial service providers in Kenya. The study also found that company age, and size had no significant impact on access to credit. The study as well found that the model developed that comprised of product innovation, process innovation, age and size of the company did not have significant influence on access to credit. The study done by Mole and Namusonge (2016) identified lending procedures, collateral requirements, CRB policies and training offered as the factors that influenced access to credit contrary to the findings of the current study. Migayi (2012) established that education as well as experience of the entrepreneur, default penalties that were charged as well as business sector were important in determining the access of credit which different from the current study.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter discusses how the objective of the study, which was to establish the magnitude of determinants of access to credit finance by MSME in Nairobi County, was established. The chapter entails an in-depth summary of the study findings, the conclusion made from the findings and extensive recommendations. The chapter also outlines the limitations that were encountered by the study as well as the areas for future research.

5.2 Summary of the Study

The study sought to establish the magnitude of the determinants of access to credit finance by micro, small and medium enterprises in Nairobi County. The study identified owner's financial literacy, access to business support services, ownership structure and market size as the determinant variables while ease of credit access was the dependent variable. The study collected a sample of 179 responses from participants who were able to complete and submit their responses from the questionnaires which were administered through drop and pick later method. The responses represented a response rate of 84.5% which was found adequate for the study. The analysis involved both descriptive and inferential statistics which were found relevant to achieve the objective of the study.

In summary, Ease of credit access was found to have an overall performance which was below average which implied that MSMEs are struggling to access credit finances in Kenya. Owner's financial literacy had an average performance implying that majority of MSMEs owners have average financial knowledge which is also a challenge in accessing credit finance. Access to business support services was poor indicating that MSMEs do not easily get access to business support services therefore making it harder to acquire credit finance. Under ownership structure the study found that most MSMEs within Nairobi had accumulated more debt than equity overall mean which suggested the reason why most lenders would no longer lend to them. The study as well identified that the SMSEs with big market size had high longs suggesting that the bigger the market size the more the ease of acquiring credit finance

Under correlation analysis the study established that both owner's financial literacy and access to business support services had strong, positive and significant correlations against ease of credit access. Ownership structure had a weak and insignificant positive correlation against ease of credit access while market size indicated a positive and significant impact against ease of credit access. The study as well carried out regression analysis which revealed that the model accounted for 38.2 % of the changes in the dependent variable. The adjusted R square was slightly below R square to indicate that the model consist of elements that are not adding value to the model. Owner's financial literacy and access to business support services were found to have a significant relationship with ease of credit access while ownership structure and market size had insignificant effect on ease of credit access. Owner's financial literacy, access to business support services and market size were found to have a positive relationship with ease of credit access while ownership structure had negative impact on ease of credit access.

5.3 Conclusion of the Study

From the study findings, the study undertakes different conclusion which may be classified per each study variable.

From the findings, the study found that ease of credit finance by MSMEs was below average. This may be attributed to different factor from which the study has identified two significant factors which are owner's financial literacy which is low and poor access to business support services.

Owner's financial literacy is a crucial determinant of access to credit finance. The study identified owner's financial literacy to have a strong significant effect on the ease of credit access by MSMEs in Nairobi County. The performance of owner's financial literacy was average meaning it also limits a good number of MSMEs owners from accessing credit finance. Therefore, the study concludes that training and education on finance is required among the MSMEs owners to equip them with the necessary information on means of sourcing business finance.

Access to business support services is also a crucial determinant of the easiness of obtaining credit finance among MSMEs in Nairobi County. From the findings these services were found to be poor thus affecting many MSMEs especially the small enterprises from acquiring credit finances. The study therefore concludes that the requirement needed by the financial support service providers in order to become eligible for loans and other credit services are many and most MSMEs are not able to meet thus hindering them from obtaining credit finances.

5.4 Recommendations of the Study

The study therefore undertakes several recommendations that relate to both policy and practice. Regarding policy recommendations, the study established that there was a mere average financial literacy among the MSMES. It therefore indicates that the policy makers have to provide avenues that would help to disseminate valuable information regarding financial literacy. The major stakeholder in policy making is the government that is concerned with growth and development of MSMEs. The study recommends that the government should carry out nationwide trainings and workshops to help improve on financial literacy. Similarly, this would go hand in hand to provision of business support services that was found to be poorly provided by the government. The support services involve technical capacity such as decision making, accounting and finance knowledge, book-keeping, among other healthy business practices.

The study also recommends that the business owners should avoid small term loans, to finance their business operations. The study found that in average the businesses had high gearing, that prevented them from accessing further finance. These short-term loans and in most cases, digital loans, had high interest rates as well as other punitive terms that increases the risk of default and eventually lead to poor credit scores by credit rating bureaus.

The study also undertakes a practice recommendation, where the business owners are recommended to facilitate the increase in size of their business ventures. The businesses should seek for expansion opportunities, as well as business partners to enhance their survival. This is because the study found that larger firms had easier access to credit than smaller firms.

5.5 Limitation of the Study

The study was limited by the fact that primary data was used, where the researcher used the drop and pick later method to collect data. In this case the data collected may be prone to error as most respondents may find it fit to exaggerate the responses, to give a view that they would want to portray different from the true situation on the ground. This is a challenge that the researcher insisted to the respondents that the study was only meant for academic purposes and therefore no value or consideration was being accorded. At the same time the researcher encouraged the respondents to respond to all the questions as truthfully as possible.

The study was also limited by the target location, where data was collected from MSMEs in Nairobi County. However, there were quite a number of firms that would have perhaps given different responses than those given in this study, but they were outside Nairobi County. Firms such as agricultural firms are in most cases located outside Nairobi County, save for different flower vendors, agricultural input firms among others. This was a limitation that would be addressed by undertaking a study in other regions a well.

The study also targeted MSMEs owners and their managers, who in most cases did not have proper book-keeping mechanisms. The information sought from them was therefore from their experiences and their ability to recall, which is prone to errors. The respondents would have forgotten on some important features about their ability to access credit.

5.6 Areas for Further Research

Further research is therefore recommended where a future study is deployed but use secondary data. The study would rely on the MSMEs that keep proper records and therefore they would ensure that they use audited secondary data, that would be deemed to be factual and as truthful as possible. The findings of such a study should be compared to the findings of this study.

The study also advocates for a future study to be undertaken, where the context of the study should be increased to perhaps the entire country or in different countries. It would therefore be critical to identify patterns on financial access by MSMEs in different region as well as in different countries and these differences explained accordingly.

A future study should only target MSMEs who keep proper records. It would therefore be easy to ensure that the information provided could be verified from the records and therefore less errors or less probability of bias. The findings of such a study should then be compared to the findings in this study.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION

Please fill each part as truthful as possible in regard to your business.

1. Please Tick appropriately in regard to the sector your business relates to.

A) General Business

B) Transport and Communication

C) Agriculture

D) Hospitality

E) Professional and Technical

F) Education and Entertainment

G) Manufacturing

2. What is the total revenue (sales) per year? Please Tick Appropriately

A) Below Ksh. 500,000

B) Ksh. 500,000- Ksh. 1 Million

C) Ksh. 1 million – Ksh. 10 Million

D) Ksh. 10 million –Ksh. 100 million

E) Above Ksh. 100 Million

3. How old has your Business been in operation? Tick Appropriately

A) Below 1 year

B) 1 year to 5 years

C) 6 years to 20 years

D) 20 years to 50 years

E) Above 50 Years

4. How much personal capital from your own savings plus savings from business partners have you injected into the business (Tick Appropriately)
   A. Below Ksh, 100,000
   B. Ksh. 100,000 to Ksh. 1,000,000
   C. Ksh, 1m to Ksh. 10 million
   D. Ksh 10 million to Ksh 100 million
   E. Above Ksh 100 million
5. What is the total balance of loans that you are still servicing (Add together all the balance of loans from banks, Saccos, friends, government, etc)
   A. Below Ksh, 100,000
   B. Ksh. 100,000 to Ksh. 1,000,000
   C. Ksh, 1m to Ksh. 10 million
   D. Ksh 10 million to Ksh 100 million
   E. Above Ksh 100 million

SECTION B: OWNER'S FINANCIAL LITERACY

This section contains statements that seek to identify financial literacy of the owner/proprietor/entrepreneur of the business. Kindly indicate the extent to which you agree with each of the statements.

	Statement	Highly Disagree	Disagree	Neutral	Agree	Highly Agree
(i)	The owner/management has received formal training on sources of finance, cost of finance and conditions for access to finance.					
(ii)	The owner/management considers and compares cost of finance before deciding on whether to borrow or not					

(iii)	The owner/management are aware and capable of accessing loans in international markets (outside the country)					
(iv)	The owner/management consults finance experts before applying for loans					
(v)	The owner undertakes proper and effective appraisal of investment projects before making investments					

SECTION C: ACCESS TO BUSINESS SUPPORT SERVICES

This section contains statements that seek to assess the extent to which the MSME has access to government or other business support services. Kindly state the extent to which you agree or disagree with each statement.

	Statement	Highly Disagree	Disagree	Neutral	Agree	Highly Agree
(i)	The business has found it easy to access government support services such as Uwezo Fund, Youth/Women Fund, or other funds from international organizations					
(ii)	The Business actively engages government bodies to secure affordable credit finance.					
(iii)	The business has partnered with other peer businesses to form Saccos, groups, etc for the purpose of accessing affordable credit finance.					

(iv)	The business is in an industry or sector that is easily funded or supported by government and or international organizations					
(v)	The business owner/managers have adequate opportunities from lenders (banks, Saccos, etc) to learn on access to affordable credit.					

SECTION D: EASE OF CREDIT ACCESS

This section undertakes to assess the ease of credit access by the business. Kindly indicate the extent to which you agree or disagree with each statement.

	Statement	Highly Disagree	Disagree	Neutral	Agree	Highly Agree
(i)	The business is able to access 100% of the credit it requests from the banks or other sources.					
(ii)	Loans applied by the business are processed very fast and timely					
(iii)	The business is able to access cheap and affordable loans.					
(iv)	The business does not struggle to meet the requirements needed to access credit (eg collateral)					
(v)	The sources of credit used by the business do not have hidden charges, harsh or punitive terms and conditions					

	for accessing credit.					
(vi)	The business finds it easier to borrow money to expand business or for other business operations rather than relying on business savings					
(vii)	Government has established sufficient laws and support mechanism to help businesses secure loans from lenders.					

-THE END-