FACTORS AFFECTING SME’S ACCESS TO FINANCE FROM COMMERCIAL BANKS IN KENYA: A CASE OF NAIROBI COUNTY

BY

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UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

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STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution, or university other than the United States International University in Nairobi for academic credit.

Signed: ________________________ Date: ________________________

Abdifatah Adan Mumin (652494)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ________________________ Date: ________________________

Mr. Kepha Oyaro

Signed: ________________________ Date: ________________________

Dean, Chandaria School of Business
ABSTRACT

The purpose of this study was to investigate factors affecting SME’s access to finance from commercial banks in Kenya. The study was guided by the following research questions; to what extent does an SME’s profile affect its access to credit, what is the effect of financial performance on SME’s access to credit? How do collateral requirements affect SME’s access to credit?

The study used a descriptive research design. Descriptive research was used because it enabled a researcher to determine relationship between variables. The target population for this study was 126 Smes in Nairobi. Primary data was used to collect data. Questionnaires was consisted of closed ended questions. Data collected was then be coded, entered screened and cleaned using Statistical Package for Social Sciences (SPSS) and presented using percentages, means, standard deviations and frequencies. Correlation analysis was done to determine relationship between independents and dependent variables. ANOVA was also be done to compare means between variables. The information was displayed by use of tables, graphs and pie charts.

The study revealed that age of owner/manager affects access to finance and women are frequently discouraged to apply for bank credit. The findings also indicated that level of education affects SME’s access to finance. Majority also revealed they have knowledge and skills to run the business. To investigate effects of collateral on access to credit. The finding revealed that banks require collateral before issuing a loan. It was also established that a majority have been denied loan due to lack of collateral. The last objective sought to investigate how financial performance affected access to credit. The study established that lack of finance, and management skills affects performance. It was also revealed that respondents have not undergone training to help them run the business.

The study concluded that SME’s Profile affected access to credit and similarly, before getting access to the loans age of owner/manager influence access to finance. Despite the changes in the SME profile, as far a access to bank credit is concerned, women are still marginalized. The findings revealed that commercial banks require collateral before issuing a loan to small and medium enterprises. SMEs have failed secure due to lack of collateral. The data given by loan applicants also plays a part in influencing loan. It is not certain that SMEs keep good accounting records, however proprietors admit to issuing accurate financial information to the bank before applying for a loan. SMEs have been
able to access adequate information from the bank regarding loan and the repayment depend on the type and size of loan. Lack of finance and management skills can be a hinderance to business performance. In addition, lack of affects performance. Use of advanced technology can be applied to increase performance. There is a lack of ample training to help them entreprenures in the running of the business.

The study recommended that banks should customize the policies to cater for loan access by SMEs and to ensure that age of owner/manager does not impede the access to finance. SMES ought to strive as much as possible to attain assets that can be used as collateral in the course of business. The enterprises also need to hounour any debts owed in order to improve their access to finance. At the same time, the firms need to ensure that they issue accurate financial information to the bank before applying for a loan in order to minimize cases of information assymetry. Management need to ensure they have the necessary skills for effective organization performance. There is also a need for the enterprises to advanced technology in order to gain competitive advantage. The managers should be proactive in seeking training opportunities.

Based on the findings in the present study, a comparative study ought to be carried out to examine factors influencing credit access among SMEs in Nairobi County. Further research on both large and small enterprises in Kenya in order to analyze the existing discrepancies between the two and therefore bridge the financing gaps that exist.
ACKNOWLEDGEMENT

I would like to thank my friends for offering the support I needed in every step, to the USIU faculty and staff for the conducive environment they have offered to facilitate my studies. God bless you all. Much gratitude also goes to my lecturer Mr. Kepha Oyaro for the continued support and guidance towards the accomplishment of this research proposal.
DEDICATION

I humbly dedicate this thesis to my beloved mother who has always been a beacon of hope and encouragement in my life, to my family and friends who always offered nothing but prayers and support.
# TABLE OF CONTENT

- STUDENT’S DECLARATION ........................................................................................................ ii
- ABSTRACT ............................................................................................................................... iii
- ACKNOWLEDGEMENT ............................................................................................................... v
- DEDICATION ............................................................................................................................ vi
- LIST OF TABLES ....................................................................................................................... ix
- LIST OF FIGURES .................................................................................................................... x
- ABBREVIATIONS AND ACRONYMS ...................................................................................... xi

## CHAPTER ONE ...................................................................................................................... 1

1.1 Background of the Study .................................................................................................... 1
1.2 Statement of the Problem .................................................................................................. 4
1.3 Purpose of the Study ......................................................................................................... 5
1.4 Research Questions .......................................................................................................... 5
1.5 Significance of the Study .................................................................................................. 5
1.6 Scope of the Study ............................................................................................................ 6
1.7 Definitions of Terms ........................................................................................................... 6
1.8 Chapter Summary ............................................................................................................. 7

## CHAPTER TWO ................................................................................................................... 8

2.1 Introduction ....................................................................................................................... 8
2.2 SME’s Profile and Access to Finance ............................................................................. 8
2.3 Collateral and Access to Finance ................................................................................... 12
2.4. Financial Performance and Access to Finance ................................................................. 17
2.5 Chapter Summary ............................................................................................................. 21

## CHAPTER THREE ............................................................................................................... 22

3.1 Introduction ....................................................................................................................... 22
3.2 Research Design ............................................................................................................... 22
3.3 Population and Sampling ................................................................................................. 22
3.4 Data Collection Methods ................................................................................................. 24
3.5 Research Procedure .......................................................................................................... 25
3.6 Data Analysis ........................................................................................................... 25
3.7 Chapter Summary ...................................................................................................... 26

CHAPTER FOUR ............................................................................................................... 27
4.0 RESULTS AND FINDINGS ....................................................................................... 27
4.1 Introduction .............................................................................................................. 27
4.2 Demographical Factors ........................................................................................... 27
4.3 SME’s Profile and Access to Credit ......................................................................... 30
4.4 Collateral and Access to Finance ............................................................................ 31
4.5 Financial Performance and Access to Finance ....................................................... 32
4.6 Access to Finance .................................................................................................... 33
4.7 Inferential statistics .................................................................................................. 33
4.8 Chapter Summary ..................................................................................................... 34

CHAPTER FIVE ................................................................................................................ 35
5.0 DISCUSSION CONCLUSION AND RECOMMENDATION .................................... 35
5.1 Introduction .............................................................................................................. 35
5.2 Summary of Findings .............................................................................................. 35
5.3 Discussion ................................................................................................................ 36
5.4 Conclusion ............................................................................................................... 41
5.5 Recommendations ................................................................................................... 41

REFERENCES .................................................................................................................. 43
APPENDIX I: Introduction Letter ................................................................................... 58
APPENDIX II: Questionnaire ......................................................................................... 59
LIST OF TABLES

Table 4.1: Response Rate .........................................................................................................27

Table 4.2: Descriptive of SME’s Profile and Access to Credit .................................................31

Table 4.3: Descriptive of Collateral and Access to Finance .....................................................32

Table 4.4: Descriptive of Financial Performance and Access to Finance .................................33

Table 4.5: Descriptive of Access to Finance ............................................................................33

Table 4.6: Correlation Analysis of Financial Access against Co-Factors ...............................34
LIST OF FIGURES

Figure 4.1: Respondents Age ................................................................. 27
Figure 4.2: Respondents Gender ............................................................ 28
Figure 4.3: Marital status ................................................................... 28
Figure 4.4: Highest Education Level ..................................................... 29
Figure 4.5: Number of years in Operation ........................................... 29
Figure 4.6: Accessed Loans ................................................................. 30
Figure 4.7: Type of Financing Accessed ............................................... 30
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSD</td>
<td>Financial Sector Deepening</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>MSEs</td>
<td>Medium Size Enterprises</td>
</tr>
<tr>
<td>SD</td>
<td>Standard Deviation</td>
</tr>
<tr>
<td>SME's</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<td>UNON</td>
<td>United Nations Office in Nairobi</td>
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<td>YEDF</td>
<td>Youth Enterprise Development Fund</td>
</tr>
</tbody>
</table>
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

SMEs account for around 90% of businesses and more than 50% of employment globally. Additionally, 30% of GDP in developing countries is contributed by SME’s. However, research has shown that irrespective of their contribution to the economy, SME’s continue to face challenges accessing finance from banks and other financial institutions (IFC, 2013). According to a survey done by World Bank (2013), findings revealed that access to finance by SME’s was ranked at the top as the main challenge that hinders SME’s growth and development. Ongolo and Awino (2013), SMEs accounts to more than 74% of the number of individuals employed in the country per year and they also contribute to more than 18.4% of the country’s GDP.

According to Canton et al., (2012), SME’s faces a challenge accessing finance from banks due to lack of sufficient information required by the bank, and transparency hence affecting their growth and survival. Allen et al., (2012) SME’s globally are experiencing difficulty accessing finance this is because access to finance has become costly and their accessibility has drastically declined. Zhou (2015) in china private firms especially small firms, rely heavily on informal loans, trade credit, and internal finance. Rambo (2013) Brazil, Argentina, Chile, Uruguay, and Mexico have put in place strategies to support and encourage SME’s to access finance. In Europe Union countries, these strategies are protected by specific acts of SME’s, in India the government develop a Micro and SME Development Act. Whereas, in Malaysia SME master plan was devoted and in USA Small Business Act (Charbonneau & Menon, 2013).

Zeth (2015) SMEs in Swaziland are facing challenges accessing finance due to lack of collateral, their size and management structures and lack of track record and poor presentation. According to a survey done by CDE (2013) Swaziland needs to develop strategies that they can use to expand trade based initiatives hence increase SME’s performance. In addition, the survey also indicated that the survival rate of SME’s is unpredictable.
In African, CBS were introduced in countries like Egypt, Nigeria and Libya to enable individuals and small enterprises to get credit facilities in banks (Shirley & Namusonge 2013). Kira and He (2012) in Tanzania, SME’s are not able to expand and grow due to government policies and nature of lending which does not favor SME’s. UNIDO (2013) SME’s in Tanzania are still facing a challenge accessing finance due to inadequate coordination and weak synergy among stakeholders, insufficient resources to implement envisaged programmers, compounded by lack of prioritization and at times inconsistencies in legislations.

Osano and Languitone (2016) in Mozambique 98.6% firms are composed of SMEs. Additionally in Mozambique small enterprises are those with less than ten employees whereas, medium enterprise are those with between 11 and 50 employees. Large enterprises are those which have more than 50 employees. In Mozambique, only 5% of SMEs are financed through banking institutions. The rest use other financing avenues for both investment and working capital. A lot of SMEs seek for finance from family and friends. This is due to difficulties in accessing bank financing (Hezron & Hilario 2016).

According to a survey conducted by FSD Kenya (2015) Government of Kenya defines SME’s as micro when they have 1 to 10 employees and a turnover not exceeding KES 500,000. Small when they have 10 and 50 employees and a turnover not exceeding KES 5 million. Medium when they have around 50-99 employees and business turnover of 5m-800m, and large when they have more than 100 employees and a business turnover of 800m and above.

International Finance Corporation (2013) finds that in developing countries, SME’s faces a challenge accessing finance due to higher administrative costs, lack of required information from the lender information and lack of regulatory support. Oyen and Gedi, (2012) states that in Tanzania 70% of SME’s faces a challenge accessing finance due to lack of training before starting their business hence leading to weak business records and management skills. Hansen et al., (2012) access to finance in Tanzania is still a challenge. The government tried implementing credit guarantee scheme to provide money to commercial banks however, the scheme was not able to reach its target due to lack of engagement with financial institutions and uncertainty of government regulation.

The Kenyan government has put in place Micro and Small Enterprises Act as strategies to encourage Kenyan SME’s to grow and access finance (Rambo, 2013).
government has introduced “Uwezo Fund” in its budget to expand access to finance and promote the well-being of youth, women and people with disabilities. The main aim of this initiative is to encourage SME’s to access finance. In addition, in 2006, the Kenyan government also introduced Youth Enterprise Development Fund (YEDF) which was developed to reduce the number of people living in poverty and guarantee equality of opportunities; increase the opportunities for youth, women and disadvantaged groups; and improve delivery of social services (Government of Kenya 2012).

Youth Enterprise Development Fund (YEDF) was also devolved to improving business owned by youth and as a strategy to boost economical chances pertaining to Kenyan youth, improve youth SME’s access to funds and provide other services such as; provision regarding small business improvement products and services, aiding linkages inside provide organizations and creating marketplace chances (Government of Kenya 2012). Kithae (2012), in Kenya SME’s have contributed 18% of the GDP and employed a round 80% of the workforce population. In Kenya, most enterprises are owner-managed or largely controlled and run as a family business and mostly have limited capital base and the technical skills and capacity of those running the business is also limited (Karanja, 2014).

Kiboki et al., (2014) in their study on the relationship between small scale enterprises performance and access to credit from microfinance institutions in Mount Elgon findings established that SMEs play an important role in the Kenyan economy. Despite interventions form MFIs and other financial institutions such as banks a big percentage of SMEs especially start-ups still face challenges accessing finance hence relaying on savings or even donations from friends and relatives.

According to the FinAccess Business Supply 2015, the banking sector in Kenya has been significantly modernized and strengthened since 1980s. Some of the problems that faced the banking industry then were under-capitalization, high levels non-performing loans, weak corporate governance and inadequate completion amongst others. The reforms adopted over the past decades have substantially improved the stability and efficiency of the Kenyan banking system. Banks are currently well capitalized with an overall capital adequacy ratio of 20 per cent in 2014, higher than the required 12% by the prudential guidelines.
Nairobi is the capital city of Kenya. According to the 2009 Census, the total population is over 3,138,295. Nairobi is currently the 12th largest city in Africa. Home to thousands of businesses and over 100 major international companies and organizations, including the United Nations Environment Programme (UNEP) and the main co-coordinating and headquarters for the UN in Africa & Middle East, the United Nations Office in Nairobi (UNON), Nairobi is an established hub for business and culture. Nairobi has a lot of amusement parks and national parks (Nairobi County 2015). The small and medium enterprises (SMEs) play an important role in the Kenyan Economy. In Kenya, there are around 1.3 million SME’s which are located in rural areas and around 17% of SME’s are from Nairobi and Mombasa (SME Act, 2012)

1.2 Statement of the Problem

SMEs are an integral part of the Kenyan economy just like for the many other developing countries since 85% of the Kenyan work force is directly employed by the SMEs (Kisaka & Mwewa, 2014). SMEs have assisted in regional and local development as they help accelerate industrialization in rural areas by linking them with other sectors in the urban areas (Hansah et al., 2013). Subhan et al., (2013) conducted a research on Innovation in SMEs and impact of economic development in Pakistan. Olugbenga (2012) conducted a research on “Policy support and performance of SMEs enterprises in South west Nigeria. Sebhatu and Willy (2014) conducted a study on the effect of age and educational level of owner/managers on SME’s access to bank loan in Eritrea.

Nabintu (2013) conducted a study on factors affecting the performance of small and micro enterprises (SMEs) traders at city park hawkers market in Nairobi County it was established that access to finance influence performance of SMEs. Osano and Languitone (2016) conducted a study on factors influencing access to finance by SMEs in Mozambique: case of SMEs in Maputo central business district. Ongolo and Awino (2013) conducted a study in Bomet, Kiambu, Homabay and Kwale found that the major challenges encountered by SMEs across the four counties attribute to limited access to finance despite there being various financial institutions meant to cater for SMEs financing in the country.

Mwongera (2014) conducted a study on factors influencing access to microfinance credit by young women entrepreneurs' Projects in Athi-River findings revealed that the number of financial institutions determines positively the amount of credit accessible. Mira and
Ogollah (2013) in their study on challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central Business findings revealed that legislation status of the business, lack of financial track and lack of experience in financial management had a positive influence on access to finance. Ntakobajira (2013), conducted a study on factors affecting the performance of MSEs traders at City Park hawkers market in Nairobi County, Kenya. It was established that there was a positive correlation between access to finance and performance of MSEs.

From the reviewed literature a lot of studies have been done on SME’s access to finance however none has been conclusive. The study therefore aimed to investigate factors affecting SME’s access to credit from commercial banks in Kenya. The study was restricted to specific factors namely collateral security, SME’s profile. It sought to establish what effects these factors had on access to credit by SMEs’ in Nairobi County?

1.3 Purpose of the Study

The purpose of this study was to investigate factors affecting SME’s access to credit or finance from commercial banks in Kenya.

1.4 Research Questions

This study was guided by the following research questions;

1.4.1 To what extent does an SME’s profile affect its access to credit?

1.4.2 How do collateral requirements affect SME’s access to credit?

1.4.3 What is the effect of financial performance on SME’s access to credit?

1.5 Significance of the Study

1.5.1 SME’s

SME’s will use findings and recommendations from this study to come up with strategies that will enable them to improve on inherent factors that serve as a hindrance to access finance from banks and other financial institutions.

1.5.2 Academicians/ Researchers

This study will add more knowledge on factors affecting SME’s access to finance and also act as a basis for future research. Researchers can use findings and recommendations
for this study to develop a new study or use it as a reference point and identify existing research gap.

1.5.3 Government of Kenya

Findings from this study will enable the Kenyan government to identify strategies and factors that affect SME’s access to finance. Through this, the Kenyan government was able to develop polices and strategies that will enable banks come up with new products targeting youth SME’s

1.5.4 Commercial Banks

Findings and recommendations form this study will enable commercial banks explore further on alternative on ways in which they can be more innovative in order to increase their supply of finance to SMEs. In addition, commercial banks can as well develop products that will target SME’s hence,

1.6 Scope of the Study

The targeted population was 100 commercial bank officers from all the three tiers of the bank, directly dealing with SMEs and located in Nairobi County. The study was carried out from May 2017 to August 2017.

1.7 Definitions of Terms

1.7.1 Small and Medium-Sized Enterprises

According to Comptroller and Auditor General, (2013), in United Kingdom SMEs are defined as businesses that have less than 250 employees and annual sales of less than £50 million

1.7.2 Access to credit

Access to credit is the ability of individuals and or enterprises to obtain external funding from financial institutions to enable them ease cash flow problems (Osoro & Muturi, 2013)

17.3 Collateral

Collateral is the extent to which a borrower pledges specific asset to a lender to secure repayment of a loan (Gitman, 2015).
1.7.4 Credit
Credit is the ability to borrow money from a lender, also the ability to purchase goods and pay for them later (Khan & Jain, 2014).

1.7.5 Finance
Finance is the art and science of managing money (Khan & Jain, 2014).

1.7.6 Commercial Bank
Commercial bank is a privately owned financial institution which accepts demand and time deposits, makes loans to individuals and organizations, and provides services such as documentary collections, international banking, and trade financing (Essay 2012)

1.7.7 Entrepreneurship
Entrepreneurship is the managerial process for creating and managing innovations (Drucker, 2014)

1.8 Chapter Summary
The chapter has discussed the background of the study, the problem statement, research objectives, significance of the study, and scope of the study and definition of terms. Chapter two will cover literature review. Chapter three highlights the research methodology that was used in the study. Chapter four showed the results and findings obtained through data analysis. The fifth chapter focused on discussions, conclusion and recommendations based on the findings.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter discusses theories based on literature review. It was guided by the following research questions; to what extent does an SME’s profile affect its access to credit? What is the effect of Bank’s credit risk assessment capacity on SME’s access to credit? How do collateral requirements affect SME’s access to credit?

2.2 SME’s Profile and Access to Finance

Entrepreneurial characteristics are those factors which can positively or negatively influence SMEs accessibility to finance. Entrepreneurial characteristics include; educational background, managerial competency, networking, entrepreneur’s age, gender and entrepreneur’s marital status Olekamma and Tang (2016). Owners/managers characteristics, includes entrepreneurs age, education, professional experience, management skills and many more. According to research, these factors have been proposed to influence firms’ access to Finance (Nguyen & Luu 2013). Machirori & Fatoki (2013) entrepreneur’s characteristics include gender, age and education.

2.2.1 Age

According to a study done by Olekamma and Tang (2016), on the influence of entrepreneurial characteristics on small and medium-sized enterprise accessibility to debt finance in Nigeria findings revealed that there was a positive relationship between owner/managers age and access to finance. This study was also in line with a study done by Nguyen and Luu (2013) on determinants of financing pattern and access to formal-informal credit. Findings also revealed that there was a positive relationship between access to credit and age of the entrepreneur.

Slavec and Prodan (2012) in their study on also on the influence of entrepreneur’s characteristics on small manufacturing firm debt financing it was established that age and debt financing do not have significant relationship. However, according to a study done by Abdulsaleh and Worthington (2013) on Small and medium-sized enterprises financing findings revealed that there is a positive relationship between age and access to credit. Anthony and Frank (2013) in his study on determinants of credit rationing to private
sector in Ghana it was established that age of an entrepreneur has a positive effect on credit allocation. Ubon and Chukwuemeka (2014) in their study on an analysis of access to credit markets and the performance of small scale agro-based enterprises in the Nigeria delta region of Nigeria. It was established that age and gender has a significant influence of access to credit. Mulandi (2013) in his research on factor affecting credit access for Biogas sub sector in Kenya. It was determined that factors that influences access to credit includes; age, size, capital investment, financial records, information access. It was also established that this factors have appositive correlation to access to finance.

Selamawit and Kebede (2014) in their study on determinants of micro and small enterprises’ access to finance. Findings revealed that age of SME’s has a significant positive relationship to access to finance. Zarook et al (2013) in their research on the impact of demographic factors on accessing finance in Libya’s SMEs findings revealed that age of SME’s has a positive influence on access to finance. According to a study done by Ogubazghi and Muturi (2014) on the effect of age and educational level of owner/managers on SMEs’ access to bank loan in Eritrea findings revealed that age of managers/owners have positive effects on access to bank loans.

2.2.2 Gender

According to Asiedu Asiedu, Freeman and Nti-Addae (2012) studies have showed that minority and women-owned businesses face discrimination in loan approval and interest rates. In addition, it is also suggested that women are being asked for more collateral than men for loans moreover women are also refused loan more frequently than men. Brixiová and Kangoye (2016), in their study on findings revealed that in Swaziland women owned SME’S faces a challenge accessing credit as compared to male owned SME’s. Waweru (2016) in Italy, women SME’s are facing a challenge accessing finance. This is because most SME’s owned by women are located in sectors that are already traditionally women dominated hence banks consider them as having lower growth potential and not attractive to investors and lender.

Ongena and Popov (2015) studied the causal effect of gender bias on access to bank credit using data on 5,905 small business firms from 17 European countries. The study findings revealed that in countries with higher gender bias, female-owned firms were more frequently discouraged to apply for bank credit and rely on informal finance. On the
other hand, the research concluded that the negative effect of gender bias on credit access is primarily manifested through a reluctance of female entrepreneurs to apply for formal credit which is driven by their belief that their credit application was denied.

Fletschner and Kenney (2014) financial institutions should develop strategies to enable women access credit on their own and not through their husband. They should also create products to target women’s needs. On the contrary, Thébaud and Sharkey (2016) noted that gender gap in access to finance was as a result of disparity in the ability of women to embrace uncertainty and take risk. Okonya and Kroschel, (2014), in their study on gender differences in access and use of selected productive resources among sweet potato farmers in Uganda. The study concluded that there was a disparity between male and female farmers’ access to credit in Uganda. According to a study done by Madafu (2015), on access to bank credit by smallholder farmers in Tanzania findings established that access to finance is positively affected by gender of the entrepreneur. Nkuah and Gaeten (2013) in their study on challenges and determinants in accessing bank credit by SMEs in Ghana. Findings revealed that male entrepreneurs were most favored by financial institutions than their female counterparts in credit accessibility.

2.2.3 Education

Financial literacy refers to the ability of an individual to understand how money works-how it’s earned, managed and invested. It is very important for any business entrepreneur to have knowledge on how to manage the business so that they can oversee its growth Andoh and Nunoo (2012). According to a study done by Kiplimo, Ngenoh, Koech, and Bett (2015) on to determine access to credit by smallholder farmers in Kenya in Western region (Bungoma and Siaya counties) and Eastern region (Embu, Meru and Tharaka Nithi). Findings revealed that education level (literacy) in years had significant positive effects on access to credit

Hussain (2012) in his research factor influencing demand for credit from formal and informal sources Ingujranwala district, Pakistan. Findings established that the level of education (literacy level) had a positive significant relationship with demand for credit from the banks, while literacy level had an insignificant positive relationship with demand for credit from informal sources.
According to a study done by Muturi and Ogubazghi (2014) on the effect of age and educational level of owner/managers on SME’s access to bank loan in Eritrea. Findings revealed that education level of the owner/manager had a positive and statistically significant relationship to access to finance. In contrast according to Machirori and Fatoki (2013), in their research on the impact of networking on access to debt finance and performance of small and medium enterprises in South Africa findings indicated that education level does not have a significant relationship to SME’s access to bank loans. Slavec and Prodan (2012) in their study on the influence of entrepreneur’s characteristics on Small Manufacturing Firm Debt Financing findings revealed that there was a positive relationship between SME’s education level and access to finance.

According to a study done by Olekamma, Chinonso and Tang (2016), on the influence of entrepreneurial characteristics on small and medium-sized enterprise accessibility to debt finance in Nigeria it was established that manager/owner education level influences SME’s access to finance in Nigeria. SME’s who have a university degree faces fewer challenges to raise finance from banks. This is because they have the ability to provide a strong business plan and positive financial information and they are also able to have and maintain a good relationship with commercial banks as compared to less educated SME’s. In addition, Educated SME’s also have knowledge and skills to manage their businesses. Mukiri (2012) in his study on the effect of educational level and training on access to bank loan findings revealed that educational level of the entrepreneur has a positive effect on access to finance.

Kira (2013) in his study on evaluation of the factors influence the access to debt financing by Tanzanian SMEs. It was established that SMEs with owner/manager who have educational qualification of vocational level and beyond are more likely to be favored by banks to access credit. Abdesamed and AbdWahab (2012) in their study on do experience, education and business plan influence SMEs start-up bank loan it was revealed that educational level of the owner/manager has positive but found insignificant influence on firms’ access to bank loan at startup. As it is displayed in the above discussion, there is no consensus on the significance of the effect that educational level of the owner/manager on access to bank loan
2.3 Collateral and Access to Finance

Collateral is a form of assets that is offered to financial institutions as security. Use of collateral is important because it will enable banks to trust SME’s more and have confidence in them repaying the loan (Aabii, 2014)

2.3.1 Effects of Collateral and Access to Finance

According to a research done by Ndungu (2014) on factors affecting credit access among small and medium enterprises in Muranga’s County. Findings revealed that there was a positive relationship between collateral and access to finance. In addition, it was suggested that lending institutions should evaluate their lending policies hence encourage SME’s to take credit. Karanja, Mwangi, and Nyakarimi (2014) in their study on analysis of factor influencing access to credit services by women entrepreneurs in Kenya findings revealed that there was a significant relationship between collateral and access to credit services. Kira and He (2012) in their study on the evaluation of the factors influence the access to debt financing by Tanzanian SMEs findings revealed that use of collateral as security has a significant relationship to access to finance.

Ubon and Chukwuemeka (2014) in their study on an analysis of access to credit markets and the performance of small scale agro-based enterprises in the Nigeria delta region of Nigeria. It was established that collateral, age of enterprise, and education has a positive influence on access to finance. Mensah and Agbekpornu (2015) in their study on determinants of access to credit by agribusiness operators in the Kumasi Metropolis, Ghana it was established that there was a positive significant relationship between collateral and access to finance. According to a study done by Gangata and Matavire (2013) on challenges facing MSEs with access to finance from financial institution it was establish that a lot of financial institutions turn down MSE’s access to finance because of lack of security.

Kira and Zhongzhi (2012) in their study on The Impact of Firm Characteristics in Access of Financing by Small and Medium-sized Enterprises in Tanzania findings revealed that collateral has a positive influence on access to finance. Kihimbo, Ayako and Omoka (2012) asserts that most SME’s are denied and discriminated by finance institutions because of high risk and lack of enough resources to provide as collateral. Jessop, Diallo, Duursma (2012) according to world bank a lot of SME’s are denied loans by financial
institutions due to lack of sufficient collateral. Furthermore, this might be due to lack of adequate ownership documentation. According to a study done by Edward and Newton (2015) basic and applied research formal conditions that affect agricultural credit supply to small-scale farmers in rural Kenya: case study for Kiambu county findings revealed that there was a positive correlation between collateral and access to finance. It was also recommended that financial institutions should tailor make products that suit small scale farmers.

Osano and Languitone (2016) in their study on factors influencing access to finance by SMEs in Mozambique it was established that collateral influence SMEs access to finance. Mira and Ogollah (2013) in their study on challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central Business in Kenya the findings revealed that lack of collateral, information accessibility have a strong positive correlation with SME’S access to finance. According to Olanrewaju, Ansary, and Agumba (2016) states that SMEs faces a challenge to access credit due to lack of assets to use as collateral. Banks use collateral for protection in case a borrower fails to make payment. Collateral also helps solve information asymmetric problems.

Haron, Said, Jayaraman, and Ismail, (2013) in their study on factors influencing Small Medium Enterprises (SMES) in obtaining Loan. Findings revealed that collateral plays a significant role in assessing repay ability of the loan. According to Bouazza, Ardjouman and Abada (2015) in Algeria, SME’s faces a challenge accessing finance due to high collateral requirements demanded by financial institutions. Abo and Ghimire (2013) in their study on an empirical investigation of Ivorian SME’s access to bank finance: constraining factors at demand-level findings revealed that lack of collateral and information asymmetry affects access to credit. Azende (2012) in his study on risk management and insurance of small and medium scale enterprises (SMEs) in Nigeria findings revealed that collateral requirements affects SME’s access to finance.

Apiri (2013) in his study on loan performance and default rate of financing SME’s by microfinance bank findings revealed that lack of collateral and poor governance practices hindered access and procurement of loans from the banks. According to a study done by Murathwa (2015) on factors affecting credit accessibility among young entrepreneurs in Kenya findings revealed financial institutions require collateral before issuing a loan. Findings also revealed that entrepreneurs usually receive less amount of loan than what
they had applied due to the value of security pledged. It was concluded that collateral has a positive influence on access to finance. A study done by Bonfim and Daniel (2012) in their study on what happens after corporate default? Stylized facts on access to credit findings revealed that SME’s that have adequate forms of collateral can easily access finance as compared to SME’s who do not have adequate collateral.

2.3.2 Information Asymmetry

Monteiro (2013) states that SMEs have limited access to finance because of lack of creditworthiness in the information which is usually unpublished. According to a study done by Mira and Ogollah (2013) in their study on challenges facing accessibility of credit facilities among women owned enterprises in Nairobi central business the study revealed that lack of information accessibility, insufficient skill and knowledge level, lack of collaterals required and socio-cultural roles had a positive relationship on access to finance. Mazanai and Fatoki, (2012) asserts that start-up SMEs are more likely to be affected by informational asymmetry problems. This is because information is usually limited and not transparent. In addition, new SMEs are more reluctant to provide dull information about their business hence limiting access to finance.

Beck, BeckDemirgüç-Kunt and Singer (2013) in their research on is small beautiful? Financial structure, size and access to finance findings revealed that information asymmetry is caused by poor accounting records, lack of audited financial statements and inadequate access to SME information from credit bureaus. Findings also revealed that information asymmetry positively affects access to finance. According to a study done by Nanyondo, Tauringana, Kamukama, and Nkundabanyanga (2014), findings revealed that there was a significant positive relationship between quality of financial statements and access to finance and a significant negative relationship between information asymmetry and access to finance. The East African Community (EAC) Banks Report (2012) SME’s access to credit is affected by managerial incompetence in deciding what information and degree of disclosure. This leads to an increase in information asymmetry between the SMEs and the bank.

Opondo (2012) SME’s face higher cost of debt because they are considered to be more risky since bank managers base their lending decisions on the quality of information that is disclosed. DeYoung, Glennon, Nigro and Spong, (2012) argue that informational asymmetries between borrower and lender may limit the types of lenders and the lending
technologies that may be used. Department for Business innovation and skills report, (2012) financial records influences SME’s access to finance. Financial institutions require financial information to distinguish between high risk and low risk entrepreneurs. Atupele (2013) in his study on Analysis of external financing use in Malawi findings revealed that financial information influences access to finance. This is because audited financial information is able to reduce information asymmetry.

2.3.3 Factors Affecting Loan Repayment

According to a study done by Atsmegiorgis (2013) on survival analysis of loan repayment rate of customers of Hawassa district commercial bank findings reveled loan repayment rate was significantly related with loan size, loan type, and previous loan experience, educational level and type of collateral offered. Nawai and Shariff (2013) in their study on loan repayment problems in microfinance programs that use individual lending approach: A qualitative analysis findings revealed that business factors, borrower’s attitude towards their loans, other debt burden, amount of loan received, business experience, business formality and family background are example of factors that will affect SME’s to repay their loan. Ochung (2013) in his study on factors affecting loan repayment among customers of commercial banks in Kenya: A case of Barclays Bank of Kenya findings revealed that there was a significant relationship between individual borrowers’ factors and the loan repayment.

Kibosia (2012) in his study on determinants of loan defaults by small and medium enterprises among Commercial Banks in Kenya interest rates, type of loan, repayment period and economic conditions are factors that affects loan repayment. Makorere (2014) in his study on factors affecting loan repayment behavior in Tanzania it was revealed that interest rate, grace period, profitability, moral hazard, electricity rationing, and economic stability have a strong effects on loan repayment Korankye (2014) in his study on causes and control of loan default/delinquency in microfinance institutions in Ghana it was established that loan default is caused by loan size, poor appraisal and lack of monitoring.

Olowe, Moradeyo and Babalola (2013) in their study on empirical study of the impact of microfinance bank on small and medium growth in Nigeria. Findings revealed that financial services that SME’s get from microfinance banks had positive impact on their growth. In addition, duration given to repay the loan also have a positive effect on SME’s growth. It was recommended that banks should develop ease conditions for borrowing.
and also extend the loan repayment period in order to encourage repayments. Kibosia, (2012) in his study on determinants of loan defaults by small and medium enterprises among commercial banks in Kenya findings revealed that there was an increase on loan default by SME’s this is due to type of loan given and loan repayment period. Nene (2014) in his study on factors hindering SMEs from committed and consistent loan repayment findings revealed that lack of structure where funds can be projected over the period of repayment was one of the prime reasons for high rate of loan defaults by SMEs.

Gichuki, Njeru and Tirimba (2014) in their study on challenges facing micro and small enterprises in accessing credit facilities in Kangemi Harambee Market in Nairobi findings revealed that unwillingness of people to act as guarantors contributes to MSE’s not being able to access credit. It was also established that short loan repayment period and high cost of repayment negatively affects SME’s access to finance. It was recommended that financial institutions should offer attractive and flexible loan repayment period. Mensah and Agbekporun (2013) in their study on the relationship between loan default and repayment schedule in microfinance institutions in Ghana: Case study of Sinapi Aba Trust. Findings revealed that there was no significant relationship between loan default and repayment schedule in Microfinance institutions. However, the study established a significant relationship between interest charged on loans, moral hazard and over-borrowing by customers.

Mukono (2015) in his study on determinants of loan repayment by small and medium enterprises in Nairobi county, it was established that loan, borrower, firm and lender characteristics determinants loan repayment by SME’s. Mwangangi (2014) in his study on an analysis of the efficacy of borrower credit scores in predicting credit repayment performance findings revealed that credit scoring has a significant influence on repayment performance. Nguta and Huka (2013) in their study on factors influencing loan repayment default in micro-finance institutions in Imenti North District it was established that there was significant relationship between the type of business, age of the business number of employees, business profits and loan repayment default. Nyamboga, Nyamweya, Abdi, Njeru and Gongera (2014) in their study on an assessment of financial literacy on loan repayment by Small and Medium Entrepreneurs in Ngara, Nairobi County findings revealed that bookkeeping; credit management and budgeting skills significantly influenced the ability of SMEs to repay loans.
2.4. Financial Performance and Access to Finance

Kinyua (2014) in his study on factors affecting the performance of SMEs in the Jua Kali sector in Nakuru town findings revealed that financing had the potential to positively affect the performance of SMEs. Financial performance of SMEs can be measured using revenue, profitability, liquidity and growth rate (Roshanak, 2013)

2.4.1 Effects of Financial Performance on Access to Finance

According to Mokua (2013), Kenya still lack adequate funds to grow and expand due to difficulty in accessing credit facilities from financial institutions. IFC (2012), Lack of credit is one of the challenges that SME’s are facing hence affecting their growth. According to a study done by Akinyi (2012), on the effect of bank financing on the financial performance of small and medium-sized enterprises. Findings revealed that there was a significant positive relationship between bank financing and the financial performance of SMEs. It was recommended that CBK should frequently reform the terms of bank financing to increase SME’s access to access credit from the financial institutions.

Murigi (2014) in her study on the effect of financial access on the financial performance of small and micro enterprises in mukuru slums it was concluded that informal sources of finance lead to better financial performance on SMEs that formal and semi-formal sources of finance. It was also revealed that access to finance has a positive influence on financial performance. Osoro and Muturi (2013) in their study, it was established that SME’s are facing a challenge accessing credit due to many requirements needed by banks and other financial institutions before issuing finance. In addition, it was revealed that there was a positive relationship between access to credit and financial performance. Nyangweso (2013) in his study on relationship between credit information sharing and loan performance, case of commercial banks in Kenya findings revealed that there was a positive correlation between accesses to finance and management and the growth of the enterprises ran by the women concluded that informal financial sectors have a positive effect on the growth of SMEs in Kibera.

in his study on effect of financial deepening on growth of small and medium-sized enterprises in Kenya. The study found that access to credit positively influenced the growth of 92% SMEs. Joseph, Kofin, Fanyel and Gaeten (2013) in their study on financing small and micro enterprises in Ghana. Challenges and determinant in accessing bank credit it was revealed that access to credit plays a big role in development and survival of (SMEs). Jokorvic (2014) lack of finance influences SME’s growth and development in Kenya. Levy (2015) in his study on obstacles to developing indigenous small and medium enterprises findings revealed that limit to financial hinder growth and development of these firms.

2.4.2 Capital Structure

A firm's capital structure is a composition or structure of its liabilities (Nirajini & Priya, 2013). Capital structure is the composition of a firm’s liabilities (Umar, Tanveer, Aslam & Sajid, 2012). According to a study done by Oginda (2013) studied on the relationship between capital structure and financial performance of listed firms in Kenya. Findings revealed that leverage has a strong negative effect on firm performance and firm size had a weak positive relation. Gharibeh (2015) in his study on the effect of capital structure on financial performance of listed companies in the Bahrain Bourse findings revealed that capital structure has a significantly positive impact on the performance of the firm.

According to a study done by Javed and Akhtar (2012) on interrelationships between capital structure and financial performance, firm size and growth: comparison of industrial sector in KSE. Findings revealed that there is a positive relationship between financial leverage, financial performance, and growth and size of the companies. Salazar Soto, Mosqueda and (2012) in their study on the impact of financing decisions and strategy on small business competitiveness findings revealed that use of equity capital is positively related to the financial performance of firms. Kyule and Ngugi (2014) in their study on Influence of Capital Structure on Leverage of Small and Medium Size Enterprises in Kenya findings revealed that there was a positive relationship between financial performance and capital structure.

Karanja (2014) in his study on the effect of capital structure on financial performance of small and medium enterprise in dairy sector in Kiambu County findings revealed that there was a positive effect between capital structure and financial performance. Chineamerem and Anthony (2012) in their study on the impact of capital structure on
financial performance of Nigerian firm’s findings revealed that there was a positive relationship between capital structure and financial performance. However according to study done by Muiru and Kamau (2014), on an assessment of capital structure decisions by small and medium enterprises in Kenya findings revealed that there was no relationship between capital structure and financial performance. Burundi (2015) in his study on the effect of capital structure on the financial performance of SME’s in Thika County findings revealed that there was no significant effect of capital structure, asset turnover and asset tangibility on the financial performance of SMEs.

Njagi, Kiman, and Kariuk (2017) in their study on equity financing and financial performance of small and medium enterprises in Embu town, it was noted that performance of the SMEs was largely affected by the source of finance. A study done by Kehinde (2012) capital structure: earning and the performance options in small and medium scales enterprises. Findings revealed that earnings, survival and performance of SME’s are strongly influenced by capital structure mix.

2.4.3 Factors Affecting Financial Performance

Kinyua (2014) in his study on factors affecting the performance of SMEs in the Jua Kali sector in Nakuru town findings revealed management skills, ; macro environment were found to positively and significantly affect performance of SMEs whereas did not have a significant effect on performance of SME’s. The study also established that number of years in the industry also influences performance. Murigi., (2014) in her study on the effect of financial access on the financial performance of small and micro enterprises in mukuru slums The size of the SME and the age were found to have positive and significant effect on financial performance.

According to Antony (2012), in his research on determinants of credit rationing to the private sector in Ghana findings revealed that lack of managerial skills, equipment and technology, regulatory issues and lack of capital affects firm’s financial performance. Kipesha (2013) in his research on impact of size and age on firm performance: evidences from microfinance institutions in Tanzania. It was noted that age of a firm has a positive impact on sustainability, revenue level and efficiency but it has a negative effect on profitability of a firm. However, firm size has an impact on the performance of the firm. Almajali and AlamrAl-Soub (2012) in their study on factors affecting the financial performance of Jordanian insurance companies listed at Amman stock exchange it was
established that liquidity, size, leverage and management competence has a significant impact on the firm’s performance whereas age has no impact on the firm’s performance.

Kinyua (2014) in her study on factors affecting the performance of small and medium enterprises in the jua kali sector in Nakuru findings revealed that management skills were found to positively and significantly affect performance of SMEs; macro environment factors were found to significantly affect performance and Infrastructure did not significantly affect performance of SMEs in the study area. Kamunyu and Theuri (2017) in their study on factors affecting growth of women owned small and medium enterprises in Kenya it was established that inadequate capital, lack of business skills and lack of access are factors that affect growth of women owned SMEs. Kamunge, Njeru and Tirimba (2014) in their study on factors affecting the performance of small and micro enterprises in Limuru Town Market of Kiambu it was revealed that managerial skills and experience has an effect on performance of an organization

Ntakobajira (2013) in his study on factors affecting the performance of Small and Micro Enterprises (SMEs) it was concluded that access to business information, and technology affects SME’s performance. A study done by Mugo (2012) on factors affecting entrepreneurs’ performance in Kenya: a case of Nairobi women groups in the central business district findings revealed that lack of entrepreneurial training and education, outdated technology on women, poor access to markets, mismanagement of resources by women, lack of management skills are factors that affect performance of SME’s.

There are three main reasons why there may be a structural problem of access to finance for innovative small firms. First, the returns to innovation may be uncertain and thus make innovation riskier to finance (Coad & Rao, 2008; Mazzucato 2013). Only a fraction of firms tend to experience significant growth following investments in innovative activity, with many products failing to be successfully commercialised or simply failing in the marketplace. There is no guarantee that investments in research and development (R&D) activity will lead successfully to new products. Failure rates are often high, making innovation an inherently risky activity.

This problem of uncertainty may be particularly acute for small and medium sized enterprises (SMEs) who lack the scale to invest in multiple projects and so multiplies the risks (Freel, 2007). Past research has shown that the returns from innovation may be highly uneven, with a small number innovative projects leading to significant gains but
most yielding little (Coad & Rao, 2008). Large firms are able to field more diverse portfolios and, even if they have more failures, they are also more likely to achieve at least one highly profitable innovation.

Several studies have found evidence for a structural problem in the supply of finance for innovative firms. Research has focused more on the ability of firms to access the finance they need to innovate. Canepa and Stoneman (2007) suggest that finance is more likely to be a factor hampering innovation for small firms and those in high technology sectors, a finding echoed by studies using different datasets (Czarnitzki, 2006). Freel (2007) shows that small firms which apply find it harder to successfully obtain loans than others, although his results are more conclusive for R&D intensive small firms than those which introduce ‘novel’ products and processes.

2.5 Chapter Summary

This section discusses literature review based on the following research questions; To what extent does an SME’s profile affect its access to credit? What is the effect of financial performance on SME’s access to credit and How do collateral requirements affect SME’s access to credit? The chapter three will look into the research methodology to be applied in the study while chapter four will look at the data analysis.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses research methodology that was used in study. The chapter also discusses research design, population, sample design, sampling technique, data collection method and data analysis that was used.

3.2 Research Design

According to Saunders et al, (2015), research design is a framework that is used by researchers to collect and analyze data to answer research question and meet research objectives hence providing sufficient reliable data source information, collection methods and analysis techniques. Research design is also defined as the determination of research approach or strategy to be used to conduct a particular project or research. A researcher should ensure that the design is in line with the research objective (Cooper & Schindler, 2014). According to Sekaran and Bougie (2013), descriptive research is a design used to answer the question, what, how and why. Cooper and Schindler (2012) descriptive research is also used to determine the relationship between variables. Therefore descriptive research is appropriate for this study. Quantitative research was adopted to gain better knowledge and understanding of the results. Quantitative research relies on deductive reasoning or deduction (Sekaran & Bougie, 2013). In addition, qualitative research is also used to describe variables and build relationship among variables (Saunders et al, 2012).

3.3 Population and Sampling

3.3.1 Population

According to O’Gorman and MacIntosh (2014), population is the total collection of all elements that a researcher would like to study. Population can be defined as the total collection of individuals whom researchers seek to make inference on (Cooper & Schindler, 2014). The target population for this study was 126 SMES in the manufacturing, service and trading sectors operating in Starehe division in Nairobi (Nairobi County, 2015).
Table 3.1: Population Distribution

<table>
<thead>
<tr>
<th>Industry</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Service</td>
<td>48</td>
<td>38</td>
</tr>
<tr>
<td>Trading</td>
<td>70</td>
<td>56</td>
</tr>
<tr>
<td>Total</td>
<td>126</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Nairobi County, 2015)

3.3.2 Sampling

A sample is a smaller group or sub-group obtained from the accessible population (Mugenda & Mugenda, 1999).

3.3.2.1 Sampling Frame

Zikmund and Babin (2012) sampling frame is the source material or device from which a sample is drawn. A sampling frame is a complete and correct list if population, individuals, events, organizations or institutions which can be sampled (Cooper & Schindler, 2014). This study was based on 126 SMES operating in Starehe division in Nairobi registered by the Nairobi City council.

3.3.2.2 Sampling Technique

The study used stratified random sampling. Cooper and Schindler (2014) stratified random sampling is the process of segmenting target population into strata and obtaining information from each stratum (Manufacturing, Service and Trading). Stratified random sampling is also used to determine a true representation of the whole population hence, giving each member of the population an equal opportunity of being selected. Mugenda and Mugenda (2012), stratified random sampling is useful for heterogeneous samples. The findings of the study was assumed a true representative of the study population (Cooper & Schindler, 2012).

3.3.2.3 Sample Size

A sample size is a smaller set of the larger population (Cooper & Schindler, 2010). Mugenda and Mugenda (2012), a sample should comprise between 10-30% of the
population, and a good population sample should be at least 10% and not more than 30% of the entire population. Kombo and Tromp (2006), in order for a researcher to get accurate results, a sample size was collected using the formula \( n = \frac{N}{1+Ne^2} \)

Where \( n \) = sample size

\( N \) = total population

\( e \) = error of margin

\[
126 \ / (1+126(0.5)^2) = 96
\]

**Table 3.2 : Sample Size**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Service</td>
<td>36</td>
<td>38</td>
</tr>
<tr>
<td>Trading</td>
<td>54</td>
<td>56</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100</td>
</tr>
</tbody>
</table>

### 3.4 Data Collection Methods

Primary data was used to collected using structured questionnaires. Cooper and Schindler (2012) primary data is original information collected directly from a sample size. The questionnaire was have closed ended questions. Questionnaire was self-administered. They was dropped and picked immediately respondents are done filling them. Respondents was given enough time to answer questions. The study was use a five-point Likert scale. Respondents was asked to give their opinion based on the study objectives. Likert Scale was used be used because it is easy to use on online or self-administered questionnaires. The questionnaire was divided into three sections; section 1: Demographic Data, section 2:. Section 3: and section 4: The researcher was obtain a research permit from Chandaria School of Business to help in authorization to collect data from banks.
According to Mugenda and Mugenda (2012), validity is the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the variables of the study. The research instrument was validated in terms of content and face validity.

3.5 Research Procedure

Questionnaires was used in the study to collect data. After approval was granted, a pilot test of the questionnaire was carried out to make sure that the tool was suitable before it was administered. The pilot test included administration of the questionnaire to a randomly selected population. The pilot test enabled fine tuning of the questionnaire in order to ensure that it was efficient and objective.

Standardization of the questionnaire was done to reduce interference from interpersonal factors. Questionnaires was hand delivered to the respondents. A research assistant was trained and used to administer questionnaires. Content validity was considered and the questions and statements were engineered in a manner that made them precise, clear and short in order to ensure that there was no repetition. A cover letter with the details of the purpose of the study was attached together with the questionnaire.

3.6 Data Analysis

Data collection can also be defined as the examination and making inference of the coded data (Kombo & Tromp, 2012). Data analysis is the process of analyzing, cleaning, transforming and modeling data collected in a research. Data analysis methods used in the study was quantitative techniques (Mugenda & Mugenda, 2012). Data collected was then coded, entered screened and cleaned using Statistical Package for Social Sciences (SPSS) and presented using percentages, means, standard deviations and frequencies.

To ensure a high response rate, respondents were given ample time to fill the questionnaires, in some instances, the researcher used the managers and supervisors to collect the data. Correlation analysis was done to determine relationship between independents and dependent variables. The information was displayed by use of tables and figures.
3.7 Chapter Summary

This chapter has discussed research methodology that was used in the study. It has also highlighted research design, population, sampling frame, sampling technique, sample size, data collection, and data analysis. Chapter four shows the results and findings obtained through data analysis.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results established from the data analysis done. This included results relating to the demography and specific research objectives aimed at establishing factors affecting SME’s access to credit or finance from commercial banks in Kenya.

4.1.1 Response Rate

The research issued a total of 96 questionnaires and a total of 80 were filled and returned giving a response rate of 83%. This was sufficient for the study as indicated in table 4.1

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filled and returned</td>
<td>80</td>
<td>83</td>
</tr>
<tr>
<td>Non-response</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2 Demographical Factors

The research analysed data with regard to the demographic factors and the results were presented as follows:

4.2.1 Respondents Age

Analysis of respondents age revealed a majority were aged between 31-39 years representing 41%, this was followed those aged 26-30 years accounting for 28%, while those aged above 40 represented 15%, while respondents aged 18-25 years were 16% as indicated in Figure 4.1

Figure 4.1: Respondents Age
4.2.2 Respondents Gender
Analysis of respondents gender revealed a majority were male representing 54%, while female respondents were 46% as indicated in Figure 4.2

![Figure 4.2: Respondents Gender](image)

4.2.3. Marital status
Analysis of respondents marital status revealed a majority were married representing 54%, while those who were single were 43%, and 2% were widowed as indicated in Figure 4.3

![Figure 4.3: Marital status](image)
4.2.4. Highest Education Level

To analyse the literacy levels the result established that majority of respondents accounting for 46% were degree holders while 31% had a masters degree, Diploma holders were 14%, and 9% were certificate holders as shown in Figure 4.4 below. This implies that the respondents were literate to comprehend the questions asked.

![Figure 4.4: Highest Education Level](image)

4.2.5. Number of years in Operation

To analyse the number of years in operation and the result established that majority of respondents accounting for 46% were degree holders while 31% had a masters degree, Diploma holders were 14%, and 9% were certificate holders as shown in Figure 4.4 below. This implies that the respondents were literate to comprehend the questions asked.

![Figure 4.5: Number of years in Operation](image)
4.2.6. Accessed Loans

To analyse loan access, the findings revealed that 56% had applied for a loan while 44% had not as shown in Figure 4.5 below.

![Figure 4.6: Accessed Loans](image)

4.2.7 Type of Financing Accessed

As indicated in Figure 4.7, majority accounting for 49% had sought informal funding, 28% sought bank loans, with 16% opting for personal loans and only 8% sought loans from friends and family. This implies that the respondents experience in accessing finance.

![Figure 4.7: Type of Financing Accessed](image)

4.3 SME’s Profile and Access to Credit

The first study sought to investigate how SME’s Profile affected access to credit. To achieve this, the respondents were required to rate the level of disagreement or agreement with the outline statement using a 5 scale guideline as shown below.
4.3.1 Descriptive of SME’s Profile and Access to Credit

The study revealed that age of owner/manager affects access to finance (m=3.87, sd=1.252), and women are frequently discouraged to apply for bank credit (m=4.17, sd=.950) and level of education affects SME’s access to finance (m=4.23, sd=.919). Majority also revealed they have knowledge and skills to run the business (m=4.30, sd=0.664). There was uncertainty that men can easily access loan as compared to women (m=3.53, sd= 1.306). I have a challenge in Keeping financial records (m=3.37, sd=0.252).

Table 4.2: Descriptive of SME’s Profile and Access to Credit

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of owner/manager affects access to finance</td>
<td>80</td>
<td>3.87</td>
<td>1.252</td>
</tr>
<tr>
<td>Men can easily access loan as compared to women</td>
<td>80</td>
<td>3.53</td>
<td>1.306</td>
</tr>
<tr>
<td>Women are frequently discouraged to apply for bank credit</td>
<td>80</td>
<td>4.17</td>
<td>.950</td>
</tr>
<tr>
<td>Level of education affects SME’s access to finance</td>
<td>80</td>
<td>4.23</td>
<td>.919</td>
</tr>
<tr>
<td>I have knowledge and skills to run the business</td>
<td>80</td>
<td>4.30</td>
<td>0.664</td>
</tr>
<tr>
<td>I have a challenge in Keeping financial records</td>
<td>80</td>
<td>3.37</td>
<td>0.252</td>
</tr>
</tbody>
</table>

4.4 Collateral and Access to Finance

The second objective sought to investigate collateral affected access to credit. To achieve this, the respondents were required to rate the level of disagreement or agreement with the outline statement using a 5 scale guideline as shown.

4.4.1 Descriptive of Collateral and Access to Finance

The finding revealed that majority agrees that banks require collateral before issuing a loan (m=4.12, sd=.994). It was also established that a majority have been denied loan due to lack of collateral (m=4.31, sd=.941), and creditworthy information influences access to finance (m=4.28, sd=.832). Majority also revealed uncertainty on keeping good accounting records (m=3.67, sd=.863), although they admitted to giving accurate financial information to the bank before applying for a loan (m=4.81, sd=.971) as well as having received adequate information from the bank regarding loan they issue (m=4.02,
sd=.956). The analysis also show that the type and size of loan affects repayment (m=4.35, sd=.826) and the period of repayment does not affect repayment of the loan (m=4.21, sd=.764) as indicated in table 4.3

Table 4.3: Descriptive of Collateral and Access to Finance

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Banks require collateral before issuing a loan</td>
<td>80</td>
<td>4.12</td>
<td>.994</td>
</tr>
<tr>
<td>2  I have been denied loan due to lack of collateral</td>
<td>80</td>
<td>4.31</td>
<td>.941</td>
</tr>
<tr>
<td>3  Creditworthy information influences access to finance</td>
<td>80</td>
<td>4.28</td>
<td>.832</td>
</tr>
<tr>
<td>4  I keep good accounting records</td>
<td>80</td>
<td>3.67</td>
<td>.863</td>
</tr>
<tr>
<td>5  I give accurate financial information to the bank before applying for a loan</td>
<td>80</td>
<td>4.81</td>
<td>.971</td>
</tr>
<tr>
<td>6  I receives adequate information from the bank regarding loan they issue</td>
<td>80</td>
<td>4.02</td>
<td>.956</td>
</tr>
<tr>
<td>7. Type and size of loan affects repayment</td>
<td>80</td>
<td>4.35</td>
<td>.826</td>
</tr>
<tr>
<td>8. Period of repayment does not affect repayment of the loan</td>
<td>80</td>
<td>4.21</td>
<td>.764</td>
</tr>
</tbody>
</table>

4.5 Financial Performance and Access to Finance

The last objective sought to investigate how financial performance affected access to credit. To achieve this, the respondents were required to rate the level of disagreement or agreement with the outline statement using a 5 scale guideline as follows.

4.5.1 Descriptive of Financial Performance and Access to Finance

The study established that lack of finance has affected business performance (m=4.81, sd=.826). In addition, lack of management skills affects performance (m=4.12, sd=.993). It was also revealed that use of advanced technology increase performance (m=4.35, sd=.765). Respondents have not undergone training to help them run the business (m=2.80, sd=.896). There was a lack of certainty about capital structure affects financial performance of my organization (m=3.92, sd=1.06) and having enough capital to run business (m=3.48, sd=.659), or size of a firm affecting performance (m=3.72, sd=.853).
4.6 Access to Finance

To analyze financial access, it was revealed that SMEs need experience on finance access (m=4.12, sd=.993), and the industry regulation influences access to finance (m=4.35, sd=.765). It was also revealed that SMEs having knowledge on available finance services (m=3.81, sd=.826), however, respondents lacked certainty about competent personnel influencing financial access (m=3.42 , sd=1.06) as shown in Table 4.5

Table 4.5: Descriptive of Access to Finance

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 SMEs have knowledge on available finance services</td>
<td>80</td>
<td>3.81</td>
<td>.826</td>
</tr>
<tr>
<td>2 Competent personnel influence financial access</td>
<td>80</td>
<td>3.42</td>
<td>1.06</td>
</tr>
<tr>
<td>3 SMEs need experience on finance access</td>
<td>80</td>
<td>4.12</td>
<td>.993</td>
</tr>
<tr>
<td>4 Industry regulation influences access to finance</td>
<td>80</td>
<td>4.35</td>
<td>.765</td>
</tr>
</tbody>
</table>

4.7 Inferential statistics

4.7.1 Correlation analysis

A Pearson correlation analysis was done to establish the relationship between the financial access against SME profile, collateral access, and financial performance. The result established a positive and relationship between the variables as indicated in Table
Therefore, an increase in combined variables of SME profile \((r=0.570, p=0.000)\), collateral access \((r=0.164, p=0.012)\), and financial performance \((r=0.403, p=0.050)\), increase the chances of an SME acquiring financial access.

### Table 4.6: Correlation Analysis of Financial Access against Co-Factors

<table>
<thead>
<tr>
<th></th>
<th>Financial Access</th>
<th>SP</th>
<th>CA</th>
<th>FP</th>
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</thead>
<tbody>
<tr>
<td>Financial Access</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME Profile (SP)</td>
<td>Pearson Correlation</td>
<td>.570**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collateral (CA)</td>
<td>Pearson Correlation</td>
<td>.164*</td>
<td>.467**</td>
<td>1</td>
</tr>
<tr>
<td>Access</td>
<td>Sig. (2-tailed)</td>
<td>.012</td>
<td>.002</td>
<td></td>
</tr>
<tr>
<td>Financial Performance</td>
<td>Pearson Correlation</td>
<td>.403*</td>
<td>.683**</td>
<td>.307*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.050</td>
<td>.000</td>
<td>.044</td>
</tr>
<tr>
<td>(FP)</td>
<td>N</td>
<td>80</td>
<td>80</td>
<td>80</td>
</tr>
</tbody>
</table>

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

### 4.8 Chapter Summary

This chapter has highlighted results and findings obtained from the analysis done. The first section provided an analysis of demographic data of the respondents, the second section dealt with data SME profile, the third section looked at the data on collateral, and the fourth section covered issues of financial performance. In chapter five this results arebe discussed and relevant conclusions and recommendations made with regard to financial access by SMEs.
CHAPTER FIVE

5.0 DISCUSSION CONCLUSION AND RECOMMENDATION

5.1 Introduction

This section sought to analyse the findings and this will be done by comparing and contrasting them with previous literature on financial access as discussed under the literature review in Chapter two. This will be organized based on the specific research questions which sought to establish how SME profile, collateral access, and financial performance affect financial access.

5.2 Summary

The general purpose of the study was to investigate factors affecting SME’s access to credit or finance from commercial banks in Kenya. This study was guided by three research questions; To what extent does an SME’s profile affect its access to credit? How do collateral requirements affect SME’s access to credit? What is the effect of financial performance on SME’s access to credit?

A descriptive research was adopted because the study was aimed at collecting information from respondents on their perceptions in relation to factors affecting financial access. Further, the correlational approach was adopted as the study was seeking to describe relationship between SME’s profile, collateral requirements, financial performance and SME’s access to credit? The target population for this study was 126 SMEs operating in Starehe constituency in Nairobi. The sampling technique was stratified random sampling method. From the initial target population of 126 and by utilizing a sample size formula a sample of 96 respondents was arrived at, out of whom a total of 80 questionnaires were filled and returned giving a response rate of 83%.

The first research question sought to investigate how SME’s Profile affected access to credit and the study revealed that age of owner/manager affects access to finance (m=3.87, sd=1.252), and also women are frequently discouraged to apply for bank credit (m=4.17, sd=.950). The findings also indicated that level of education affects SME’s access to finance (m=4.23, sd=.919). Majority also revealed they have knowledge and skills to run the business (m=4.30, sd=0.664). There was uncertainty that men can easily
access loan as compared to women (m=3.53, sd=1.306) or the respondents experiencing a challenge in keeping financial records (m=3.37, sd=0.252).

The second research question sought to investigate collateral affected access to credit. The finding revealed that majority agrees that banks require collateral before issuing a loan (m=4.12, sd=.994). It was also established that a majority have been denied loan due to lack of collateral (m=4.31, sd=.941), and creditworthy information influences access to finance (m=4.28, sd=.832). Majority also revealed uncertainty on keeping good accounting records (m=3.67, sd=.863), although they admitted to giving accurate financial information to the bank before applying for a loan (m=4.81, sd=.971) as well as having received adequate information from the bank regarding loan they issue (m=4.02, sd=.956). The analysis also show that the type and size of loan affects repayment (m=4.35, sd=.826) and the period of repayment does not affect repayment of the loan (m=4.21, sd=.764).

The last research question sought to investigate how financial performance affected access to credit. The study established that lack of finance has affected business performance (m=4.81, sd=.826). In addition, lack of management skills affects performance (m=4.12, sd=.993). It was also revealed that use of advanced technology increase performance (m=4.35, sd=.765). Respondents have not undergone training to help them run the business (m=2.80, sd=.896). There was a lack of certainty about capital structure affects financial performance of the organization (m=3.92, sd=1.06), having enough capital to run business (m=3.48, sd=.659), or size of a firm affecting performance (m=3.72, sd=.853).

5.3 Discussion

5.3.1 SME’s Profile and Access to Credit
The first study sought to investigate how SME’s Profile affected access to credit and the study revealed that age of owner/manager affects access to finance. This concurs with a study done by Olekamama and Tang (2016), on the influence of entrepreneurial characteristics on small and medium-sized enterprise accessibility to debt finance in Nigeria findings revealed that there was a positive relationship between owner/managers age and access to finance. This study was also in line with a study done by Nguyen and Luu (2013) on determinants of financing pattern and access to formal-informal credit.
Findings also revealed that there was a positive relationship between access to credit and age of the entrepreneur.

Slavec and Prodan (2012) in their study on also on the influence of entrepreneur’s characteristics on small manufacturing firm debt financing it was established that age and debt financing do not have significant relationship. However, according to a study done by Abdulsaleh and Worthington (2013) on Small and medium-sized enterprises financing findings revealed that there is a positive relationship between age and access to credit. Anthony and Frank (2013) in his study on determinants of credit rationing to private sector in Ghana it was established that age of an entrepreneur has a positive effect on credit allocation.

The study also established that women are frequently discouraged to apply for bank credit. According to Asiedu Asiedu, Freeman and Nti-Addae (2012) studies have showed that minority and women-owned businesses face discrimination in loan approval and interest rates. In addition, it is also suggested that women are being asked for more collateral than men for loans moreover women are also refused loan more frequently than men. Brixiová and Kangoye (2016), in their study on findings revealed that in Swaziland women owned SME’S faces a challenge accessing credit as compared to male owned SME’s. Waweru (2016) in Italy, women SME’s are facing a challenge accessing finance. This is because most SME’s owned by women are located in sectors that are already traditionally women dominated hence banks consider them as having lower growth potential and not attractive to investors and lender.

Ongena and Popov (2015) studied the causal effect of gender bias on access to bank credit using data on 5,905 small business firms from 17 European countries. The study findings revealed that in countries with higher gender bias, female-owned firms were more frequently discouraged to apply for bank credit and rely on informal finance. On the other hand, the research concluded that the negative effect of gender bias on credit access is primarily manifested through a reluctance of female entrepreneurs to apply for formal credit which is driven by their belief that their credit application was denied.

The findings revealed that the level of education affects SME’s access to finance. Financial literacy refers to the ability of an individual to understand how money works, how it’s earned, managed and invested. It is very important for any business entrepreneur to have knowledge on how to manage the business so that they can oversee its growth
(Andoh & Nunoo, 2012). According to a study done by Kiplimo, Ngenoh, Koech, and Bett (2015) on to determine access to credit by smallholder farmers in Kenya in Western region (Bungoma and Siaya counties) and Eastern region (Embu, Meru and Tharaka Nithi). Findings revealed that education level (literacy) in years had significant positive effects on access to credit. Hussain (2012) in his research factor influencing demand for credit from formal and informal sources Ingujranwala district, Pakistan. Findings established that the level of education (literacy level) had a positive significant relationship with demand for credit from the banks, while literacy level had an insignificant positive relationship with demand for credit from informal sources.

5.3.2 Collateral and Access to Finance

The finding revealed that majority agrees that banks require collateral before issuing a loan. Other studies have also the same, and according to a research done by Ndungu (2014) on factors affecting credit access among small and medium enterprises in Murang’a County. Findings revealed that there was a positive relationship between collateral and access to finance. In addition, it was suggested that lending institutions should evaluate their lending policies hence encourage SME’s to take credit. Karanja, Mwangi, and Nyakarimi (2014) in their study on analysis of factor influencing access to credit services by women entrepreneurs in Kenya findings revealed that there was a significant relationship between collateral and access to credit services. Kira and He (2012) in their study on the evaluation of the factors influence the access to debt financing by Tanzanian SMEs findings revealed that use of collateral as security has a significant relationship to access to finance.

Ubon and Chukwuemeka, (2014) in their study on an analysis of access to credit markets and the performance of small scale agro-based enterprises in the Nigeria delta region of Nigeria. It was established that collateral, age of enterprise, and education has a positive influence on access to finance. Mensah and Agbekpornu (2015) in their study on determinants of access to credit by agribusiness operators in the Kumasi Metropolis, Ghana it was established that there was a positive significant relationship between collateral and access to finance. According to a study done by Gangata and Matavire (2013) on challenges facing MSEs with access to finance from financial institution it was establish that a lot of financial institutions turn down MSE’s access to finance because of lack of security.
It was also established that a majority have been denied loan due to lack of collateral. Kira and Zhongzhi (2012) in their study on the impact of firm characteristics in access of financing by small and medium-sized enterprises in Tanzania findings revealed that collateral has a positive influence on access to finance. Kihimbo, Ayako and Omoka (2012) asserts that most SME’s are denied and discriminated by finance institutions because of high risk and lack of enough resources to provide as collateral. Jessop, Diallo, Duursma (2012) according to world bank a lot of SME’s are denied loans by financial institutions due to lack of sufficient collateral. Furthermore, this might be due to lack of adequate ownership documentation. According to a study done by Edward and Newton (2015) basic and applied research formal conditions that affect agricultural credit supply to small-scale farmers in rural Kenya: case study for Kiambu county findings revealed that there was a positive correlation between collateral and access to finance. It was also recommended that financial institutions should tailor make products that suit small scale farmers.

5.3.3 Financial Performance and Access to Finance
The study established that lack of finance has affected business performance. IFC (2012) report also reveal that same and pointed out that a lack of credit is one of the challenges that SME’s are facings hence affecting their growth. According to a study done by Akinyi (2012), on the effect of bank financing on the financial performance of small and medium-sized enterprises. Findings revealed that there was a significant positive relationship between bank financing and the financial performance of SMEs. It was recommended that CBK should frequently reform the terms of bank financing to increase SME’s access to access credit from the financial institutions. Similarly, Murigi (2014) in her study on the effect of financial access on the financial performance of small and micro enterprises in mukuru slums it was concluded that informal sources of finance lead to better financial performance on SMEs that formal and semi-formal sources of finance. It was also revealed that access to finance has a positive influence on financial performance.

The study also revealed that a lack of management skills affects performance. Kinyua (2014) in his study on factors affecting the performance of SMEs in the Juja Kali sector in Nakuru town findings revealed management skills, ; macro environment were found to positively and significantly affect performance of SMEs whereas did not have a significant effect on performance of SME’s. The study also established that
number of years in the industry also influences performance. Murigi., (2014) in her study on the effect of financial access on the financial performance of small and micro enterprises in mukuru slums The size of the SME and the age were found to have positive and significant effect on financial performance.

According to Antony (2012), in his research on determinants of credit rationing to the private sector in Ghana findings revealed that lack of managerial skills, equipment and technology, regulatory issues and lack of capital affects firm’s financial performance. Kipesha (2013) in his research on impact of size and age on firm performance: evidences from microfinance institutions in Tanzania. It was noted that age of a firm has a positive impact on sustainability, revenue level and efficiency but it has a negative effect on profitability of a firm. However, firm size has an impact on the performance of the firm. Almajali and AlamroAl-Soub (2012) in their study on factors affecting the financial performance of Jordanian insurance companies listed at Amman stock exchange it was established that liquidity, size, leverage and management competence has a significant impact on the firm’s performance whereas age has no impact on the firm’s performance.

The findings revealed that respondents have not undergone training to help them run the business. Other scholars suggest that training should be done. For instance, Kinyua (2014) in her study on factors affecting the performance of small and medium enterprises in the jua kali sector in Nakuru findings revealed that management skills were found to positively and significantly affect performance of SMEs; macro environment factors were found to significantly affect performance and Infrastructure did not significantly affect performance of SMEs in the study area. Kamunyu and Theuri (2017) in their study on factors affecting growth of women owned small and medium enterprises in Kenya it was established that inadequate capital, lack of business skills and lack of access are factors that affect growth of women owned SMEs. Kamunge, Njeru and Tirimba (2014) in their study on factors affecting the performance of small and micro enterprises in Limuru Town Market of Kiambu it was revealed that managerial skills and experience has an effect on performance of an organization.
5.4 Conclusion

5.4.1 SME’s Profile and Access to Credit
The study concluded that SME’s Profile affected access to credit and similarly, before getting access to the loans age of owner/manager influence access to finance. Despite the changes in the SME profile, as far a access to bank credit is concerned, women are still marginalized. Education levels are very vital with regard access to finance, in addition for success of the SMEs knowledge and skills to run the business are also very vital attributes.

5.4.2 Collateral and Access to Finance
The findings revealed that commercial banks require collateral before issuing a loan to small and medium enterprises. SMEs have failed secure due to lack of collateral. The data given by loan applicants also plays a part in influencing loan. It is not certain that SMEs keep good accounting records, however proprietors admit to issuing accurate financial information to the bank before applying for a loan. SMEs have been able to access adequate information from the bank regarding loan and the repayment depend on the type and size of loan.

5.4.3 Financial Performance and Access to Finance
Lack of finance and management skills can be a hinderance to business performance. In addition, lack of affects performance. Use of advanced technology can be applied to increase performance. There is a lack of ample training to help them entreprenures in the running of the business.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 SME’s Profile and Access to Credit
Banks should customize the policies to cater for loan access by SMEs and to ensure that age of owner/manager does not impede the access to finance. Banks should also create products that enable women increase access to credit. Financial institutions need to organize seminars and trainings to offer financial education to SME’s. The enterprises also needs to be encouraged to keep proper financial records.
5.5.1.2 Collateral and Access to Finance
SMES ought to strive as much as possible to attain assets that can be used as collateral in the course of business. The enterprises also need to honour any debts owed in order to improve their access to finance. At the same time, the firms need to ensure that they issue accurate financial information to the bank before applying for a loan in order to minimize cases of information asymmetry. Before undertaking a loan, it is advised that the lenders received adequate information from the bank regarding loan they issue as the type and size of loan affects repayment.

5.5.1.3 Financial Performance and Access to Finance
Management need to ensure they have the necessary skills for effective organization performance. There is also a need for the enterprises to advanced technology in order to gain competitive advantage. The managers should be proactive in seeking training opportunities.

5.5.2 Recommendation for Further Studies
Based on the findings in the present study, A comparative study ought to be carried out to examine factors influencing credit access among SMEs in Nairobi County. Further research on both large and small enterprises in Kenya in order to analyze the existing discrepancies between the two and therefore bridge the financing gaps that exist.
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Korankye (2014)


Levy (2015)


Zikmund and Babin (2012)
APPENDIX I: Introduction Letter

Abdifatah Adan Mumin

P.O Box 14634-0000

Nairobi,

KENYA

Dear Respondent,

Re: Data collection for research study

I am a student at United States International University. I am conducting an investigation to investigate factors affecting SME’s access to credit or finance from commercial banks in Kenya. Please answer the following questions honestly and objectively to the best of your knowledge, the information obtained will be treated with strict confidentiality. Please do not write your name on the questionnaire.

Thank you for your acceptance and support.

Yours faithfully

Abdifatah Adan Mumin
APPENDIX II: Questionnaire

SECTION A: DEMOGRAPHIC FACTORS

Please tick the most appropriate answer (√)

1. Age
   18-25 yrs □
   26-30 yrs □
   31-39 yrs □
   40 yrs and Above □

2. Gender
   Male □
   Female □

3. Marital status
   Single □
   Married □
   Divorced □
   Widowed □

4. What is your highest education level?
   Certificate □
   Degree □
   PHD □
   Diploma □
   Masters □
5. Number of years you have been in business?

- Less than 1 year [ ]
- 2-4 years [ ]
- 5-9 years [ ]
- Above 10 years [ ]

6. Have you ever applied for a loan? Yes [ ] NO [ ] If no state why

7. Indicate type of financing have you accessed. Please tick where necessary

- Bank Loan [ ]
- Informal [ ]
- Personal [ ]
- Loan from friends and family [ ]

SECTION B: SME’s Profile and Its Effect Its Access to Credit

Please indicate your opinion as per the level of disagreement or agreement with the outline statement using 1 to 5 scale guideline. 1= Strongly Disagree 2= Disagree, 3= Neutral, 4 =Agree, 5= Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Age of owner/manager affects access to finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Men can easily access loan as compared to women</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Women are frequently discouraged to apply for bank credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Level of education affects SME’s access to finance</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>5 I have knowledge and skills to run the business</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 capital investment, financial records,</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
SECTION C: Collateral and Access to Finance

Please indicate your opinion as per the level of disagreement or agreement with the outline statement using 1 to 5 scale guideline. 1= Strongly Disagree 2- Disagree, 3= Neutral, 4 =Agree, 5= Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th>N</th>
<th>A</th>
<th>SA</th>
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</thead>
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<td>Banks require collateral before issuing a loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>I have been denied loan due to lack of collateral</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Creditworthy information influences access to finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>I keep good accounting records</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>I give accurate financial information to the bank before applying for a loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>I receive adequate information from the bank regarding loan they issue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Type and size of loan affects repayment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Period of repayment does not affect repayment of the loan</td>
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</tbody>
</table>

SECTION D: Financial Performance and Access to Finance
Please indicate your opinion as per the level of disagreement or agreement with the outline statement using 1 to 5 scale guideline. 1= **Strongly Disagree** 2- **Disagree**, 3= **Neutral**, 4 =**Agree**, 5= **Strongly Agree**

<table>
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<tr>
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<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Lack of finance has affected my business performance</td>
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<tr>
<td>2</td>
<td>Capital structure affects financial performance of an organization</td>
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<tr>
<td>3</td>
<td>Lack of management skills affects performance</td>
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</tr>
<tr>
<td>4</td>
<td>Use of advanced technology increase performance</td>
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<tr>
<td>5</td>
<td>I have undergone training that has helped me run the business</td>
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<tr>
<td>6</td>
<td>I have enough capital to run my business</td>
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<td>7</td>
<td>Size of a firm affects performance</td>
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</table>

**SECTION E: Access to Finance**

Please indicate your opinion as per the level of disagreement or agreement with the outline statement using 1 to 5 scale guideline. 1= **Strongly Disagree** 2- **Disagree**, 3= **Neutral**, 4 =**Agree**, 5= **Strongly Agree**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>SMEs have knowledge on available finance services</td>
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</tr>
<tr>
<td>2</td>
<td>Competent personnel influence financial access</td>
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<td></td>
</tr>
<tr>
<td>3</td>
<td>SMEs need experience on finance access</td>
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</tr>
<tr>
<td>4</td>
<td>Industry regulation influences access to finance</td>
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</tbody>
</table>

Thank you for your participation