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Challenges Facing Micro and Small Enterprises in Accessing Credit Facilities in Kangemi Harambee Market in Nairobi City County, Kenya

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ABSTRACT: Micro and Small (MSEs) play an important economic role in many countries. In Kenya, for example the MSE sector contributes over 50 per cent of new jobs created but despite their significance. The purpose of this study was to determine the challenges facing Micro and Small Enterprises in accessing credit facilities in Kangemi Harambee Market in Nairobi City County, Kenya. The study used descriptive research design. The study targeted a sample of 241 from a target population of 656 MSEs located in Kangemi Harambee market. Stratified random sampling was utilized in selecting the respondents for the study. Primary data was collected from the study respondents using questionnaires which wereself-administered and others researcher administered. Data was analyzed descriptively and presented through figures, tables, percentages, bar charts, arithmetic means, standard deviations, pie charts and tabulation to show differences in frequencies. Statistical Package for Social Sciences (SPSS) version 21.0 was used to aid in coding, entry and analysis of quantitative data obtained from the closed ended questions. The study revealed that the key challenges hindering micro and small enterprises from accessing credit facilities to be high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, high credit facilities' processing fees and short repayment period. Therefore it is recommended that financial institutions set more flexible, affordable and attractive requirements in financing micro and small enterprises.

KEY WORDS: Micro and Small Enterprises, credit facilities, financial institutions

1. INTRODUCTION

1.1 Background of the study

Micro and Small Enterprises (MSEs) are lifeblood of most economies. To be successful in this and other business sectors, finance plays a major role. As far as MSEs are concerned as part of business enterprises, they need finance to start up, expand, diversify and for working capital of the business firms. Without finance, no one business enterprise can achieve its objectives. Finance is the backbone of MSEs and any other business enterprise (Mckernan & Chen, 2005). Both in the developing and developed world small firms have been found to have less access to external finance and to be more constrained in their operation and growth (Galindo & Schiantarelli, 2003).

Micro, Small and Medium Enterprises (MSMEs) are viewed as a key driver of economic and social development in the African context. They represent a large number of businesses in a country, generate much wealth and employment and are widely considered to be vital to a country's competitiveness. MSMEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Pelham 2000). MSMEs tend to be large in number, accounting for about 90 percent of all enterprises in many African countries and over 80 percent of new jobs in a given country (Reinecke, 2002).

In Kenya, the small business sector has both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy. According to the last comprehensive survey conducted in 1999, the sector was estimated to employ over 50 per cent of the working population (accounting for 2.3 million people). As much as majority of the MSEs in Kenya operate informally, there are over 35,000 formal MSEs that employ over 40 per cent of the working population (Kenya Economic Report, 2013).

Recognizing the critical role small businesses play in the Kenya economy, the Government through Kenya Vision 2030 envisages the strengthening of MSMEs to become the key industries of tomorrow by improving their productivity and innovation (Ministry of Planning, National Development & Vision 2030 [MPNDV2030], 2007). However, it is generally recognized that MSMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. The International Finance Corporation (IFC) (2011) has identified various challenges faced by MSMEs including lack of innovative capacity, lack of managerial training and experience, inadequate education and skills, technological change, poor infrastructure, scanty market information and lack of access to credit.

The catalytic roles of micro and cottage businesses have been displayed in many countries of the world such as Malaysia, Japan, South Korea, Zambia, and India among other countries. They contribute substantially to the Gross Domestic Production (GDP), export earnings and employment opportunities of these countries. MSEs have been widely acknowledged as the springboard for sustainable economic development (Osotimehin,Jegede, Akinlabi, & Olajide, 2012). Apart from the fact that it contributes to the increase in per capital income and output, it also creates employment opportunities, encourage the development of indigenous entrepreneurship, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization that are considered to be critical in the area of engineering economic development (Oboh, 2004; Odeh, 2005).

The MSEs play a key role in triggering and sustaining economic growth and equitable development in both developed and developing countries. According to Government of Kenya Sessional Paper No.2 of 2005 on Development of MSEs cut across all sectors of the country's economy. They also provide one of the most prolific sources of employment, not to mention the breeding ground for entrepreneurs in medium and large industries, which are critical for industrialization. The exploitation of the potential of the indigenous sector as an engine for growth, using local resources and appropriate technology which is the nature of MSEs, is seen as an alternative development model to the traditional large-scale intensive "stages of growth" paradigm in developing economies (OECD, 2004). The MSE sector in Africa is a vibrant example of small enterprises activities leading to successful growth and development of African economies (Hope, 2001).

Despite their significance, past statistics indicate that 3 out of 5 businesses fail within the first few months of operation and those that continue 80 per cent fail before the fifth year (Kenya National Bureau of Statistics, 2007). This menace is attributed to poor financial management among small businesses. Accessing credit is a major constraint to the development and growth of MSEs and also to poor rural and urban households. This is mainly due to the behaviour of lenders in terms of hedging against borrowers' risks by demanding collateral, which they lack, and also information asymmetry. Consequently borrowers who are willing to pay prevailing credit interest rates cannot access the funds at those rates because lenders are unwilling to lend to them due to dearth of information about them and lack of collateralisable assets, severely constraining their access to credit. This behaviour is common amongst formal financial institutions. Evidence shows that such borrowers may then be forced to limit their investments to retained earnings (International Finance Corporation, 2000) thereby restricting enterprises growth and development.

A crucial element in the development of the MSE sector is access to finance, particularly to bank financing, given the relative importance of the banking sector in serving this segment. Firm-level data collected by the World Bank show that access to finance is perceived as one of the main obstacles to doing business. A number of studies have shown that financing is a greater obstacle for MSEs than it is for large firms, particularly in the developing world, and that access to finance adversely affect the growth of the MSE sector more than that of large companies (Schiffer, &Weder, 2001; Beck, T., Demirgüç-Kunt, &Maksimovic, 2005). It is, therefore, unsurprising that the international development community has listed small and micro enterprises (SMEs) access to finance as an important policy priority.

Africa's MSEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among MSEs and due to inadequate financial facilities. Small businesses in Africa can rarely meet the conditions set by financial institutions, which see MSEs as a risk because of poor guarantees and lack of information about their ability to repay loans.

The financial system in most of Africa is under-developed however and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for MSEs. Non-bank financial intermediaries, such as microcredit institutions, could be a big help in lending money to the smallest MSEs but they do not have the resources to follow up their customers when they expand (Kauffmann, 2005).

1.2 Statement of the Problem

In almost all economies of the world especially in developing countries in Africa, micro and small enterprises are crucial and are a key factor for sustained growth and development. MSEs play pivotal roles in creating dynamic, market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization.

Upon attainment of independence in 1963, the country's economic policy was articulated in Sessional paper No.10 of 1965, titled "*African socialism and its application to planning in Kenya*". The paper defined the strategy to promote rapid economic growth through public sector programmes, encouragement of both small-scale and large-scale farming, and the pursuit of accelerated growth of private sector investment representing 74 percent of Kenyan labour force (Obwocha, 2006).

The MSEs in Kenya have not performed creditably well and hence has not played expected vital and vibrant role in the economic growth and development of Kenya. This situation has been of great concern to the government, citizenry, operator's practitioners, and the organized private sector groups' year in year out. The government through its budget allocations, policies and pronouncements have signified interest and acknowledgement of the crucial role of the MSEs, sub-sectors of the economy and hence made policies for energizing the same. The Kenya National Bureau of Statistics, (2007) found that three out of five businesses in Kenya failed within the first few months of operation and those that continued 80 per cent failed before the fifth year. MSEs have unique issues, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development of the economy. Among those issues is inadequate access to credit facilities.

Despite the efforts by various stakeholders, lack of access to credit is almost universally indicated as a key problem facing MSE's. These credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. It also forces them to rely on high cost short term finance which is also complicated.

The study sought to establish the challenges facing MSEs in accessing credit facilities in Kangemi Harambee Market in Nairobi City County, Kenya. The specific objectives were; to establish the influence of collateral requirements on accessibility of credit facilities by MSEs in Kangemi Harambee market in Nairobi City County, Kenya; to determine the influence of cost of credit on accessibility of credit facilities by MSEs in Kangemi Harambee market in Nairobi City County, Kenya; to investigate the influence of availability of information on accessibility of credit facilities by MSEs in Kangemi Harambee market in Nairobi City County, Kenya and to establish the influence of business risks on accessibility of credit facilities by MSEs in Kangemi Harambee market in Nairobi City County, Kenya.

Considering the significance of MSEs in Kenya, it is important to understand the challenges facing MSEs in accessing credit facilities in Kangemi Harambee Market. The research is expected to benefit various groups of stakeholders as follows:

I. Policy makers

The research will enable the policy makers to come up with a viable and focused entrepreneurship strategy that can help MSEs access to credit facilities. The study will also generate empirical data and information beneficial to the Government and the University level.

II. Academicians and researchers

The study will be a source of reference material for future researchers on other related topics; it will also help other academicians who undertake the same topic in their studies.

III. Research institutions

The research will contribute to the future research materials for the research institutions.

IV. Financial institutions

The research will come up with products which are tailor made to fit into entrepreneurship financial needs.

V. Other Stakeholders

To stakeholders like financial institutions, investors, shareholders, employees, pressure groups, etc., the research provides information for suggesting improvement in service delivery of the respective credit facilities providers in Kenya.

VI. Scope of the Study

The study focused on MSEs in Kangemi Harambee Market in Nairobi CityCounty, Kenya and challenges they face in accessing credit facilities. The total number of MSEs registered with the Kangemi Harambee Market Association is 656 out of which 241were selected for the research purposes.

2. LITERATURE REVIEW

2.1 Introduction

This chapter on literature reviews various theories that underpin challenges facing MSEs in accessing credit facilities. Specifically, pecking order theory and credit rationing theory. This is followed by the conceptual framework, empirical review of literature related to the topic under study and the critique of this literature. Finally, the chapter delved on the gaps that arose from this literature and then the summary.

2.2 Theoretical Framework

2.2.1 Pecking Order Theory

Myers (1984) and Myers &Majluf (1984) developed the Pecking Order Theory (POT) based on the premise that 'inside' management are better informed of the true value of the firm than the 'outside' investors. These information asymmetries result in varying costs of additional external finance, as potential investors perceive equity to be riskier than debt. They propose that firms seek to overcome problems of undervaluation arising from information asymmetries, preferring to finance investment projects with internal funds in the first instance. When internal equity is exhausted, firms use debt financing before resulting to external equity. Authors state that the POT is even more relevant for the SME sector because the relatively greater information asymmetries and the higher cost of external equity for SMEs (Ibbotson, Sindelar & Ritter, 2001). Additionally, a common phenomenon in the sector is the desire of the firm owners to retain control of the firm and maintain managerial independence (Jordan, Lowe& Taylor, 1998).

These factors suggest that MSE owners source their capital from a pecking order of, first, their "own" money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt; and, least preferred of all, from the introduction of new equity investors, which represents the maximum intrusion. Empirical evidence supports applicability of the POT in explaining the finance of MSEs (Ou & Haynes, 2006). These studies emphasize that small firms rely on internal sources of finance and external borrowing to finance operations and growth, and only a very small number of firms use external equity. A number of studies report that firms operate under a constrained pecking order, and do not even consider raising external equity (Howorth, 2001).

Adherence to the POT is dependent not only on demand-side preferences, but also on the availability of the preferred source of financing. The supply of finance depends on many factors, particularly the stage of development of the firm. The most important source of funding for start-up and nascent firms are the personal funds of the firm owner, and funding from friends and family. Howorth (2001) investigated the pecking order, although the theory emerged in other literature: entrepreneurs tend to seek finance first from their own resources, and then friends and families, and then from other sources such as banks. Indeed, the money from family and friends is often essential (and often regarded as quasi-equity by the banks) to unlock support from commercial institutions.

2.2.2 Credit Rationing Theory

One of the most important theories that focused on financing gap analysis is the Credit Rationing Theory by Stiglitz& Weiss (1981). In their formulation, Stiglitz and Weiss (1981) argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reason why SMEs have constrained access to finance. They argued that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information). Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk.

Stiglitz and Weiss (1981) explained the choice among different financing sources under conditions of asymmetric information and credit rationing. Asymmetric information can lead to credit rationing conditions by modifying the risk-return distribution; this fact encourages banks to refuse capital for investments and produces divergence between capital demand and supply (Alfo &Trovato, 2006). Constrained access to finance derived from financial institutions' credit rationing behavior might not be efficient because managers work under conditions of asymmetric information. This may result in less profitable investments getting financed while more profitable investments are being left out and thus resulting in adverse selection and moral hazard risks. Therefore, asymmetric information can explain asymmetric of credit among firms with identical characteristics, the lenders not being aware of the exact bankruptcy likelihood for the firms, know only that this likelihood is positive and therefore choose to increase debts' cost.

Start-up small firms are more likely to be affected by information asymmetry problems. Deakins, North,Baldock and Whittam (2008) argued those information asymmetries are more acute in new and technology-based propositions. They argued at an early stage, information is limited and not always transparent and assets are often knowledge based exclusive associated with the founding entrepreneur. Especially with manufacturing and technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit.

There are some categories of SMEs that will face additional problems due to lack of security, such as young entrepreneurs or those from deprived areas. In addition, there may be asymmetries arising from location as well as sector. For example, owners of MSEs in rural environments may face difficulties with access to bank finance. Small firms are more likely to be rationed because they are seen

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as particularly risky. Although they might be willing to pay more to compensate for the additional risk, the banks will refuse to raise the interest rate sufficiently to equate supply and demand.

According to Atieno, (2001) also pointed out that access to credit by borrowers is affected mainly by credit rationing behavior of lending institutions who used descriptive statistics to analyze the role of institutional lending policies of formal and informal credit institutions in determining access to and uses of credit facilities by small-scale entrepreneurs in Kenya. Lack of information about credit and lack of required security are the major reasons and that the amount applied for was higher than the amount received from both formal and informal sources suggesting credit rationing by the institutions.

2.3 Conceptual Framework

A conceptual framework is a product of qualitative process of theorization which interlinks concept that together provides a comprehensive understanding of a phenomenon or phenomena (Jabareen, 2009). The concepts that constitute a conceptual framework support one another, articulate their respective phenomena, and establish a framework-specific philosophy that defines relationships. The conceptual framework of this study relates to independent variables; collateralrequirements, cost of credit, availability of information on finance, business risksand the dependent variable; Access to credit facilities by micro and small enterprises in KangemiHarambee market, Nairobi CityCounty, Kenya.

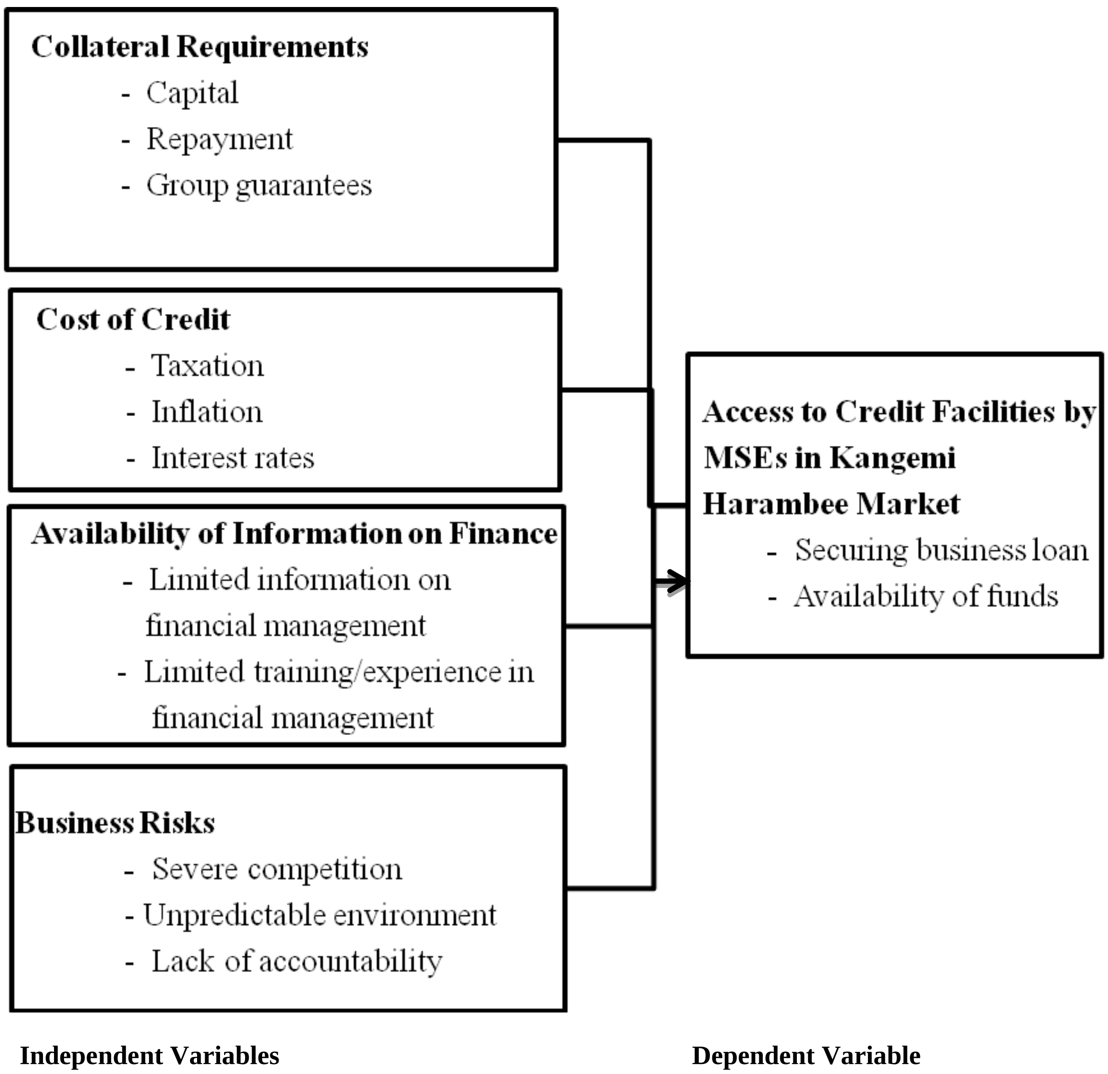


Figure 2.1: Conceptual Framework

2.3.1 Collateral Requirements

Historical development and the associated culture, of the banking system underpin the problem of the emphasis on the provision of collateral as a primary condition in lending. Banks have always adopted a risk adverse stance towards small firms, with an accompanying inability to focus on the income generating potential of the venture, when analyzing the likelihood of loan repayment (Beaver, 2002).

Credit constraints can occur when banks increase collaterals for loans. As a result, low interest borrowers (including MSEs) may be removed from the list of potential customers and banks may skip these customers (Stiglitz& Weiss, 1981).Gangata &Matavire, (2013) in their study on challenges facing MSEs in accessing finance from financial institutions, found out that very few MSEs succeed in accessing funding from financial institutions, the main reason being failure to meet lending requirements, chief among them being provision of collateral security.

A study was done on challenges faced by Small & Medium Enterprises (SMEs) in obtaining credit in Ghana. Based on the responses received through the questionnaires circulated, it became evident that SMEs in Ghana like most SMEs in other countries are faced with major challenges in accessing credit. These challenges were revealed by the study to include, the inability of SMEs to provide collateral and other information needed by banks such as audited financial statement couple with the high cost of loan in terms of high interest rates make it extremely difficult to access bank loans (Vuvor&Ackah, 2011).

Cressy and Toivanen (2001) say that, "better borrowers get larger loans and lower interest rates; collateral provision and loan size reduce the interest rate paid …..the bank is shown to use qualitative as well as quantitative information in the structuring of loan contracts to small businesses." In effect, it may therefore be that simple because banks approach the lending process in a risk-averse way (in order to protect the funds of savers), and thus turn down a number of propositions perceived to be 'riskier', that there is an apparent 'discrimination' against for example women and ethnic minorities.

2.3.2 Cost of Credit

The cost of credit accessibility refers to the amount of money the entrepreneurs pay in process of borrowing money from financial institutions. The key indicators of cost in this respect are processing fees, negotiation fees, interest rates, personal insurance, legal fees and travelling expenses that the entrepreneurs meet in the process of acquiring credit. Hallberg, (2002) singled out high risks associated in lending SMEs and fixed costs associated in acquiring sound information about the borrower by financial institutions as the major driving force to the high cost of credit.

High transaction costs do therefore not only increase the cost of borrowing, but can also restrict access to external finance for some borrower groups. While transaction costs are restraining for all borrowers, there are arguments that they are even more constraining for small and micro enterprises. Their diverse characteristics and their relative opaqueness increases assessment and monitoring costs. Unlike other credit categories, such as consumer credit or mortgage lending, SME lending is still considered a high-cost lending product. More specifically, unlike other lending products that can be reduced to simple transactions, SME lending often still depends heavily on relationships between borrowers and lenders (Berger&Udell, 2006).

Every business needs financing, even though at first glance it might appear that funding is unnecessary. It is important that financing be as efficient as possible, Stutely (2003). Stutely, argues that the borrower should be able to put the cost of all financing on the same basis, comparing them and come up with the one that gives the lowest cost financing option. Banks have often been criticized for having high interest rates charged on loans. But sometimes, there are factors beyond their control. For example, the amount of interest payable on loans depend on interest rates charged, which is driven by the base lending rate of interest set by the Central Bank of Kenya (CBK). The amount of interest rate charged is sometimes, intertwined with the security of the loan, and the use for which it is to be used, or the nature of the business. That is, the more secure loans are charged low interest rates due to, their low risks involved. This leads MSEs to the Micro Finance Institutions (MFIs), who lend unsustainable interests short term loans.

A study carried out by Mwangi and Bwisa, (2013) on challenges facing entrepreneurs in accessing credit: a case of youth entrepreneurs in Makuyu, Kenya found out that most of youth entrepreneurs faced challenges in accessing credit due high cost of credit evidenced in high loan processing fees, high rate of legal fee, high rate of interest, high cost of credit insurance and high expenses incurred in travelling in the process looking for credit. The research recommends that the financial institutions should look for ways of developing credit products that would attract the youth. The lenders and other stakeholders should explore lowering rate of interest for credit products meant for the youth. Another study was done one ffects of access to financial credit on the growth of women owned small retail enterprises in Uasin Gishu County: a case of Kapseret Constituency. The study found out that interest rates affected access to credit by women entrepreneurs owning small scale business enterprises in Kapseret Constituency (Cheluget, 2013).

2.3.3 Availability of Information on finance

The access to credit information and the technology in local lending environments determine the extent to which small enterprises obtain sufficient external financing to exploit profitable projects. The extent to which the business environment inhibits the optimal provision of credit determines the size of the funding gap that small enterprises might face (Berger et al., 2004). Access to information is important both from the MSEs perspective and from the perspective of the providers of financial services and products. The MSE requires information with which to identify the potential suppliers of the financial products. It requires this information to evaluate the cost of the financial services and products that are being offered. The financial service providers require information with which to evaluate the risk of the MSE which is applying for finance, and to assess the prospects of the MSEs within the market segment.

One of the problems faced by small firms when attempting to raise finance is information asymmetry in that they cannot prove the quality of their investment projects to the provider of finance (usually banks). Small firm managers often suffer from a lack of financial sophistication, as they are often product or service specialist, not specialists in the area of finance. Thus, the information asymmetry problem is partly one relating to difficulties in the spheres of communication and credibility. This is compounded by the fact that new or recent start-ups businesses may be unable to provide evidence of a good financial performance track record. Banks in particular rely on past financial performance as an indicator for the future profitability of projects (Tucker & Lean, 2003).

Access to information is therefore a basic condition for providing loans to firms. Often the problem of inadequate information is mentioned as one of the main aspects limiting bank finance to MSEs (Observatory of European SMEs, 2003; Udell, 2004).Most of the information banks obtain from MSE operators come from the borrowers themselves: investment plans, working capital requirements and balance sheets. The required information is then scrutinized for internal consistency, and compared to other information the bank has at its disposal. However, interaction with the borrower is the next possible source of information for the bank from the MSE borrowers. By handling the borrower's accounts, the bank knows the borrower's volume of transaction and the trend of his/her business. As a result borrowers are most likely to obtain loans and overdraft facilities from a bank that they have been banking with for years.

According to the Observatory of European SMEs (2003:23), 60% of the SMEs in Europe regularly provide this type of information. The report further indicates that there is a positive correlation between the size of the enterprise and the information provided to banks. It further indicates that 70% of the SMEs without credit lines do not share financial information with the bank. The situation is even worse in the lesser developed countries where the level of literacy is dismally low. However, provision of information to the bank may be a necessity for creating a rating culture among MSEs for purposes of accessing external finance.

Small business owners most often possess more information about the potential of their own businesses but in some situations it can be difficult for business owners to articulate and give detailed information about the business as the financiers want. Additionally, some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of the business, since they believe in one way or the other, information about their business may leak through to competitors (Winborg &Landstrom, 2000).The importance of keeping proper accounts in promoting the growth of small businesses has been acknowledged in prior studies on small business growth and development (Abor&Biekpe, 2006,). Kinyanjui, (2006) records that some entrepreneurs felt that it was difficult to obtain loans as they had to show credit records and they did not fully understand the requirements of getting and paying loans.

2.3.4 Business Risks

Risk factor is another aspect that explains the access to credit facilities by MSEs. Total risk (both business and financial risk) may be a dimension across which a financing gap might exist. A firm's business risk (which focuses on a firm's operations), represents the uncertainty of the firm's return on its assets (Correia, Flynn &Wormald, 2008). Whereas, financial risks occurs when a firm makes use of debt (that is, financial leverage). In such instances, the firm takes on additional responsibility of financing the debt which is paying interest payments on time. The inability of the firm to pay the interest payments or repay the principal will result in a default that might lead to bankruptcy. As the amount of debt used by the firm increases, the chances of it defaulting will also go up due to constraints on its cash flows as a result of the interest payments. MSES rely more on external financing, thus the financial risk in the MSE sector is most likely to be very high.

Green (2003) argued that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. In addition, organization and administrative deficiencies, lower quality management and a lack of appropriate accounting systems may compromise the accessibility and reliability of information from small firms on their repayment capacity.

The difficulties faced by MSEs in accessing credit facilities are attributed to their perceived higher risk profile. Lending institutions regard MSEs as riskier enterprises for a number of reasons which include: uncertain competitive environment; inadequate accounting systems; more unpredictable operating environment in the developing and emerging markets; assets not properly registered; delayed payments for the products and services rendered; less equipped in terms of both human and financial resources to withstand economic resources (Van Aardt & Fatoki, 2012).

2.3.5 Access to Credit Facilities

Access to finance helps all firms to grow and prosper. However, lack of access to credit is a major impediment inhibiting the growth of micro enterprises (GOK, 2005). Furthermore, firms with greater access to capital are more able to exploit growth and investment opportunities (Beck, Demirgüç-Kunt, Laeven, &Maksimovic, 2006). There is no structured institutional mechanism in Kenya to facilitate the flow of financial resources from the formal sector through micro finance institutions to such enterprises. Generally, such enterprises operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit. They are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials as well as for meeting day-to-day expenses. This is because, on account of their low goodwill and little fixed investment, they find it difficult to borrow at reasonable interest rates. As a result, they have to depend largely on internal resources. The problem is even acute in rural areas where banks branches are far apart or non-existent (GOK, 2005).

As emphasized by Hatega, (2007), Kauffmann (2005) and the IFC (2006) report "Making finance work for Africa", it is relatively clear that weakly functioning financial markets is the far most important obstacle for SME entry, growth investment.Ntakobajira, (2013), in his study found out that access to finance affected performance of SMEs to a great extent because it limited the entrepreneurs' ability to take advantage of opportunity as and when they arose. Nalwelishe (2003) as cited in Ondieki, Nashappi, and Moraa (2013) carried out a research on sources of finance available to small scale enterprises in Nairobi. His objectives were to identify which types of credit are easily obtainable by SSEs and to evaluate the credit policies of SSEs. On access to credit, majority of entrepreneurs relied on limited own and family savings for start-up and additional capital. They hardly rely on external sources of finance. Therefore, these enterprises have poor access to credit. Concerning supply of credit; urban-located enterprises were noted to have achieved a higher success rate than the rural ones.

Interest in access to finance has increased significantly in recent years, as growing evidence suggests that lack of access to credit prevents low-income household and small firms from financing high return investment projects, having an adverse effect on growth and poverty alleviation. They examined literature on the causal relationship between access to financial services and its impact on agricultural production. The literature, mostly observation from a few case studies, reveals that access to financial services by the rural people (or low income population segments) can improve their incomes and therefore their welfare (Mutua &Oyugi, 2005). According to de la Torre et al. (2008) cited in Njeru, Namusonge&Kihoro, (2012), given the small scale entrepreneurial projects and a higher information asymmetry and higher risk, financial institutions find it costly to monitor small businesses, even if advances in technology (including the risk scoring techniques) imply that the banking sector is capable of handling the entrepreneurial finance better than in the past.

2.4 Empirical Review

Access to external sources of finance may increase growth possibilities since it facilitates the development and improvement of firm's products and services or hire new employees. In transition economies, the development that financial markets experience may create barriers linked to the access to finance. Hence, academic research considers financial constraints as an important obstacle for entrepreneurship and firm growth. Empirical evidence supporting the importance of access to external finance for business growth can be found in Brown, Earlem & Lup,(2005), who examines firm growth determinants. Conversely, Johnson, McMillan and Woodruff (2000) evaluate institutional reforms in five Eastern European countries (including Romania), and they conclude that access to bank finance does not prevent business growth.

Lack of access to credit facilities is almost universally indicated as key problem for small and micro enterprises. In most cases, even where credit is available mainly through banks, the entrepreneurs may lack freedom of choice because the banks' lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the bank. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and relatives. Lack of access to long-term credit for micro, small and medium enterprise forces them to rely on high cost short term finance (Wanjohi & Mugure, 2008).

Matavire et al., (2013), in their study on challenges facing SMEs in accessing finance from financial institutions: The case of Belaway, Zimbabwe found out that SMEs fail to secure loans because of restrictive requirements of the financial institutions, top among them being collateral security. Among their recommendations is that the government should play its role of enabling SMEs to obtain finance from financial institutions. Makena, et al., (2014), in their study on challenges facing women entrepreneurs in accessing business finance in Kenya: Case of Ruiru Township, Kiambu County, lack of collateral was one of the objectives. However, the study found out that lack of collateral was a greater hindrance to credit accessibility by women entrepreneurs. This is due to lack of tangible assets like land, which are used as assets to secure credits. Among their recommendations is that the government should play its role of enabling SMEs to obtain finance from financial institutions.

Gitari, (2012) in her study on factors affecting women entrepreneurs' financial performance in Kenya: a case of Ngara Market found out that lack of information on who is offering what and the cost of obtaining such services limit them and that high inventory costing are some of the major drawbacks for success in women entrepreneurship. The high cost of running the entrepreneurs is a big threat to the women development due to lack of adequate capital and on the other hand lack of information on how to access funds to boost the business also is a major threat. Ntakobajira, (2013), did a study on factors affecting the performance of MSEs traders at City Park hawkers market in Nairobi County, Kenya. The study concluded that access to finance affected performance of MSEs to a great extent because it limited the entrepreneurs' ability to take advantage of opportunity as and when they arose.

Another study was done which sought to identify critical factors that influence access to bank credit by MSEs. The study indicated that entrepreneurial orientation is a direct determinant of access to credit by MSEs. Further, knowledge-based resources gained from maturation (age), training, previous startup experience and vicariously through entrepreneurial parents were found to be associated with greater levels of entrepreneurial orientation. Overall, these findings support the literature that underscores the primacy of entrepreneurial factors, over operating environment in facilitating small enterprises' access to bank credit (Wagema, 2006). Nalyanya, (2012) in his study on investigation into factors affecting the performance of small scale enterprises in ASAL areas Hola Town – Tana River District, recommended that the government could consider giving cheap loans to small scale enterprises without collaterals.

2.5 Critique of Existing Literature Relevant to the Study

Although most studies indicated that there were problems relating to cost of credit, availability of information on finance, collateral requirements and business risks, there have been few studies that have dealt with all in combination. For instance, Gitari, (2012) found in her study on factors affecting women entrepreneurs' financial performance in Kenya: a case of Ngara Market that lack of information on who is offering what and the cost of obtaining such services limit them and that high inventory costing are some of the major drawbacks for success in women entrepreneurship. She however did not study the effect of cost of credit and collateral provision on accessibility of credit facilities.

Mira and Ogollah, (2013) in their study on challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central Business in Kenya concluded that lack of information accessibility, insufficient skill and knowledge level, lack of collaterals required and socio-cultural roles had a strong and negative influence towards the accessibility of finance. However, they did not look at the effect of cost of credit on accessibility of credit facilities. This study therefore sought to find out how collateral requirements, cost of credit, availability of information on finance and business risks affect accessibility of credit facilities by MSEs in Kangemi Harambee Market in Nairobi City County, Kenya.

2.6 Research Gaps

A lot of research has been carried out locally and internationally reviewing challenges facing micro and small enterprises in accessing credit facilities. Most of these researches concentrated on their study areas based on their own objectives. The literature available does not concern itself on collateral requirements, cost of credit, and availability of information on finance and business risks in one combination. Therefore, the study sought to address the challenges facing micro and small enterprises in accessing credit facilities in Kangemi Harambee Market in Nairobi City County, Kenya.

2.7 Summary

The independent variables were collateral requirements, cost of credit, and availability of information on finance and business risks. The dependent variable was access to credit facilities by micro and small entrepreneurs in Kangemi Harambee market in Nairobi City County, Kenya. The theories were pecking order theory and credit rationing theory.

2. METHODOLOGY

3.1 Introduction

This chapter on research methodology presents the research design adopted by the study, target population, sample frame, sample size and sampling technique, data collection instruments, data collection procedure, data analysis and data presentation.

3.2 Research Design

This study adopted descriptive research design. A research design is the strategy for a study and the plan by which the strategy is to be carried out. It specifies the methods and procedures for the collection, measurement, and analysis of data.The main purpose of this design was to describe what was prevalent with respect to the issue or problem under study. It provided answers to questions like *who, what, when, where and* sometimes *how.* It enables respondents to give more information freely. It also determines and reports the way things are and attempts to describe such things as possible behavior, attitudes, values and characters (Mugenda&Mugenda, 2003).

3.2 Target Population

The target population was drawn from all micro and small enterprises in Kangemi Harambee market in Nairobi City County, Kenya. Currently the total micro and small enterprises registered with Kangemi Harambee Market Association (2014) are 656. The businesses in operation are mainly in green groceries, clothing and shoe vendors, food vendors, salons, cereals vendors, and poultry vendors. This is shown in Table 3.1.

The business owners responded to the questionnaires since most of these businesses are ran by the owners.

Table 3.1 Population

Nature of Business	Population
Green groceries	193
Clothing & shoe vendors	357
Food vendors	39
Salons	20
Cereals vendors	25
Poultry vendors	22
Total	**656**

3.3 Sampling and Sampling Techniques

This section discussed how the sample size was arrived at and the sampling techniques used.

3.3.1 Sample Size

As described by Mugenda and Mugenda (2003) a simplified formula for calculating sample size of a population that is less than 10, 000 is given.

$$nf = \frac{n}{1 + n/N}$$

nf= the desired sample size when the population is less than 10,000

n = the desired sample when the population is more than 10,000

N = the estimate of the population size

$$nf = \frac{384}{1 + 384/656} = 241$$

Table 3.2 Sample Size

Nature of Business	Population	Sample size 37%
Green groceries	193	71
Clothing & shoe vendors	357	132
Food vendors	39	14
Salons	20	7
Cereals vendors	25	9

Poultry vendors	22	8
Total	**656**	**241**

3.3.2 Sampling Techniques

The study used stratified random sampling technique to select the sample. The study grouped the population into strata. From each stratum the study used simple random sampling to select 241 respondents. This sampling design was used because the population of study was not homogenous and was to be sub-divided into sub-units namely green groceries, clothing and shoe vendors, food vendors, salons, cereals vendors, and poultry vendors. Kothari (2004) recommends stratified random sampling because it is accurate, easily accessible, divisible into relevant strata and it enhances better comparison; hence representation across strata. Another advantage of stratified random sampling is said to be its ability to ensure inclusion of sub-groups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population.

3.4 Data Collection Instruments

The study used questionnaires to collect data. Questionnaires were constructed based on the research objectives. Questionnaires were preferred since they were easy to administer and time saving (Mugenda&Mugenda, 2003). The questionnaire contained closed-ended questions using a liker scale (ranging from 1= No Extent; 2= Little Extent; 3= Moderate Extent; 4= Large Extent; 5=Very Large Extent).A few open-ended questions which elicited qualitative data on subjective thoughts and different responses related to access to credit facilities. Self-administered questionnaires were completed by those who could interpret the questionnaire. The researcher administered questionnaires to respondents who did not have the ability to easily interpret the questions probably because of their educational or literacy levels. The questionnaires had three sections: Section I gave general information on business enterprises, Section II provided information on collateral challenges facing micro and small enterprises in accessing credit facilities.

3.5 Data Collection Procedure

The study used two categories of data which were primary and secondary data. Primary data was collected using self-administered questionnaires and researcher administered questionnaires to sampled MSEs respondents. For the self-administered, drop and pick method was used. This allowed the respondents to give their responses in a free environment and helped the researcher get information that would not be given if interviews were to be used. The questionnaires consisted of close and open-ended questions. The open-ended questions provided additional information that would not be captured in the close-ended questions. The researcher trained two research assistants on all issues pertaining to the data collection procedures and techniques before carrying out the study. The research assistants assisted the researcher in gathering the information. A set of 241questionnaires were issued to micro and small entrepreneurs in Kangemi Harambee market in Nairobi City County. Secondary data was retrieved from online and other sources such as books, journals, research articles, brochures and previous reports.

Prior to data collection, an introduction letter authorizing data collection was obtained from the School of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology. Other relevant authorities from the Kangemi Harambee Market Association were also obtained to facilitate the data collection process.

3.6 Data Analysis and Presentation

This section discusses how data was analyzed and how it was presented.

3.6.1 Data Analysis

According to Mugenda and Mugenda (2003) data obtained from the field in raw form is difficult to interpret unless it is cleaned, coded and analyzed. Qualitative analysis consisted of examining, categorizing, tabulating and recombining evidences to address the research questions. Qualitative data was grouped into meaningful patterns and themes that were observed to help in the summarizing and organization of the data. Quantitative analysis was analyzed through the use of statistical techniques such as frequency counts, percentages, arithmetic means, standard deviations, pie charts and tabulation to show differences in frequencies. Qualitative data was analyzed descriptively through the use of questionnaires. Bar charts were used to display nominal or ordinal data. Statistical Package for Social Sciences (SPSS) version 21.0wasused to aid in coding, entry and analysis of quantitative data obtained from the closed ended questions.

3.6.2 Data Presentation

Quantitative data was presented through the use of statistical techniques such as bar charts, pie charts, percentages and frequency counts. Qualitative data was presented descriptively.

3. FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of data collected from respondents. The collected data was edited and cleaned for completeness and consistency in preparation for coding. Once coded, the data was keyed into the Statistical Package for Social Sciences (SPSS) for analysis.

4.2 Results of the Pilot Study

4.2.1 Data Reliability

A pre-test of 5% of the population size was conducted to give a representation of the selected population thus the designed questionnaire was tested on 12 potential respondents (Mugenda and Mugenda, 2003). To test the internal consistency of the Likert scale used in this study, reliability analysis was done using Cronbach's Alpha as the measure. A reliability co-efficient of $\alpha \geq 0.7$ was considered adequate. A co-efficient of 0.761 was registered indicating that the scale used had a high level of internal consistency. This indicated that the scale was reliable enough to test the extent to which micro and small enterprises faced challenges in accessing credit facilities. The results of the reliability analysis are shown in Table 4.1;

Table 4.1: Results of the Pilot Study

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.761	0.780	22

4.3 Demographic Information

4.3.1 Response Rate

The researcher administered a total of 241 questionnaires and 169 were completed and returned. This represents a response rate of 70.12% as shown in Table 4.2. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study. The study sought to establish the influence of collateral requirements, cost of credit, availability of information and business risks on accessibility of credit facilities by MSEs in Kangemi Harambee market in Nairobi City County, Kenya.

Table 4.2: Response Rate

Response rate	**Frequency**	**Percentage**
Completed and Returned	169	70.12
Not Returned	72	29.88
Total	**241**	**100**

4.3.2 Gender of the Respondents

The study sought to know the distribution of the respondents by gender. The study findings indicated that 62.7% of the respondents' were female while 37.3% were male. This implied that the businesses at KangemiHarambee market in NairobiCity County were dominated by the female gender. The findings also indicated that the researcher observed gender balance during the administration of questionnaires. The results of the study are as shown in Figure 4.1;

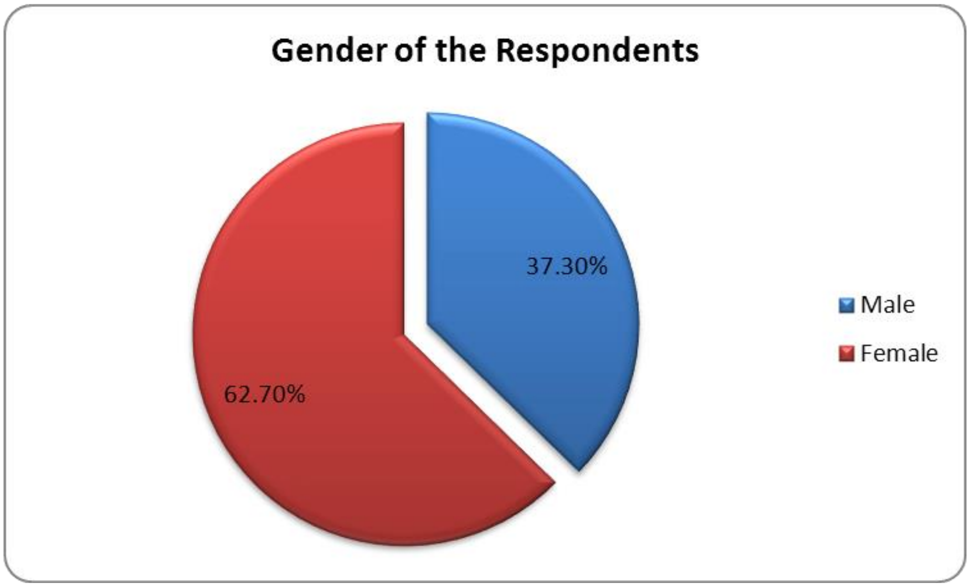


Figure 4.1: Gender of the Respondents

4.3.3 Level of Education

The study also sought the distribution of the respondents by their level of education. The study established that most (50.3%) of the respondents' were college leavers followed by secondary school leavers at 39.6% and then primary school leavers at 7.7%. Only 2.4% had a university level education. This implies that the respondents were educated enough to understand the issues being sought by the researcher. The results of the study are as shown in Table 4.2;

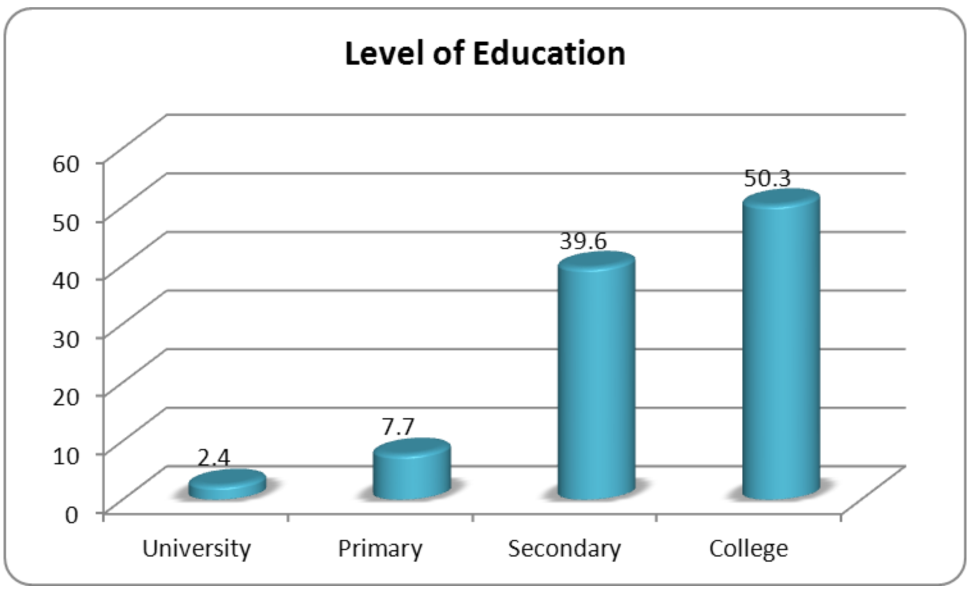


Figure 4.2: Level of Education

4.3.4 Main Business Activity

In this section, the study sought to know the distribution of respondents by the nature of business they were engaged in. According to the study findings, most (47.3%) of the respondents were in the clothing and shoes followed by 28.4% of green grocery dealers. Cereals dealers accounted for 9.5%. This indicates that the researcher sought views from people of diverse businesses to avoid any bias. The findings are shown in Table 4.3;

Table 4.3: Main Business Activity

	Frequency	Percent
Clothing & Shoes	80	47.3
Green grocery	48	28.4
Cereals	16	9.5
Hotel	11	6.5
Salon	9	5.3
Poultry	4	2.4
Others	1	0.6
Total	**169**	**100.0**

4.3.5 Duration of Business Existence

The study further sought to know the duration the businesses had been in existence. The study found out thatmost (52.1%) of the businesses had been in existence for 2-4 years followed by 25.4% of the businesses that had been existence for 5-7 years. Only 10.2% of the businesses had less than 2 years' existence. This implies that the researcher sought opinions from respondents who had been in business long enough to understand the challenges faced when trying to access credit facilities. The study findings are as shown in Table 4.4;

Table 4.4: Duration of Business Existence

	Frequency	Percent
2 - 4 years	88	52.1
5 - 7 years	43	25.4
8 - 10 years	20	11.8
Less than 2 years	18	10.7
Total	**169**	**100.0**

4.3.6 Size of Business

The study sought to know the size of the business by virtue of the number of employees that they had. The study established that majority of the business consisted of only 0-5 employees followed by 4.7% of the businesses with 6-10 employees. Those with 11-15 employees and above consisted of 0.6% each. This implies that the researcher sought views of micro and small enterprises in Kangemi Harambee Market. The results are as shown in Figure 4.3;

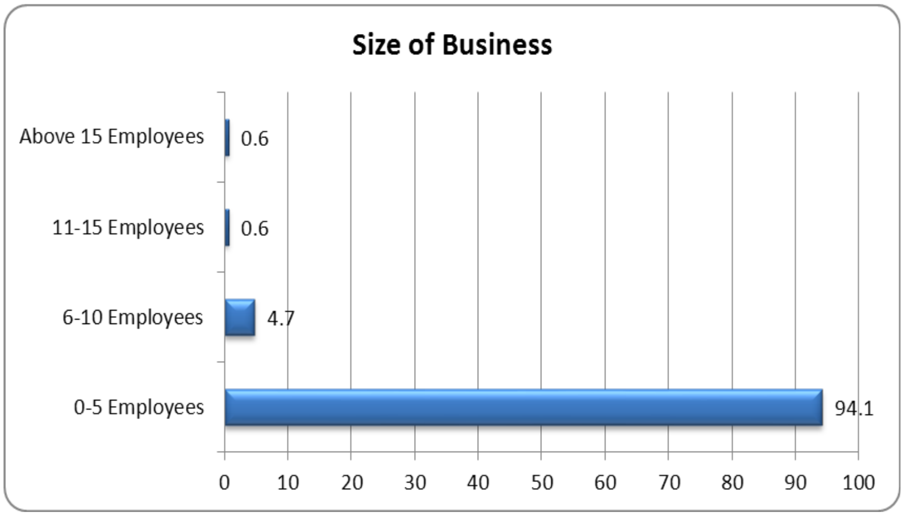


Figure 4.3: Size of Business

4.3.7 Source of Start-up Capital

The respondents were requested to indicate where they obtained their start-up capital. The study found out that majority (69.2%) of the respondents obtained their start-up capital from personal savings followed by 11.2% of the respondents who obtained theirs from family/relatives. Only a 10.7% obtained start-up capital from banking institutions.

This means that the respondents chose to get their start-up capital from sources that didn't have strict requirements such as collateral security and high repayment cost. The results of the study are as shown in Figure 4.3;

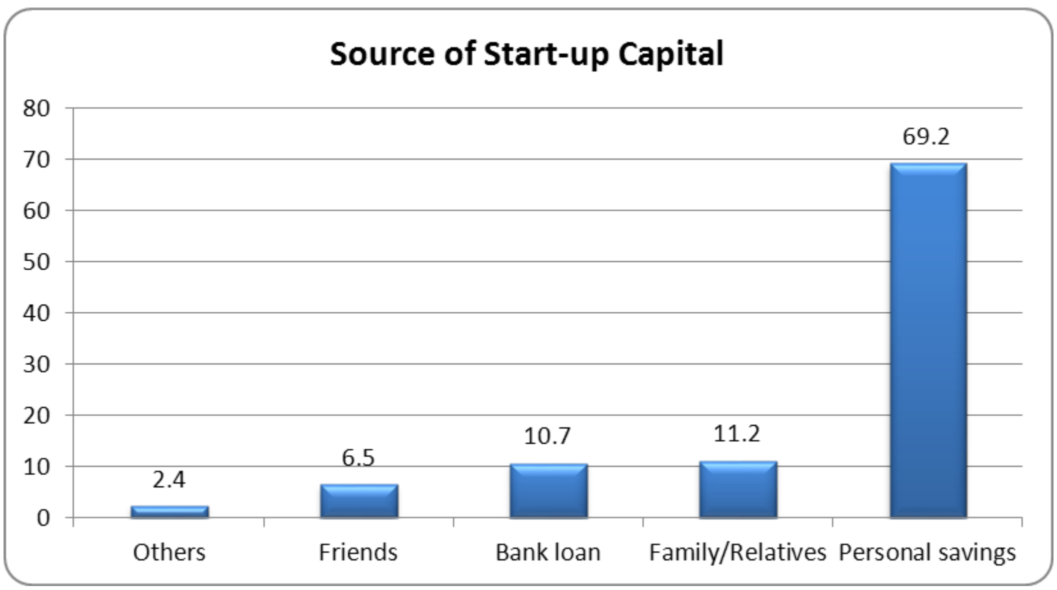
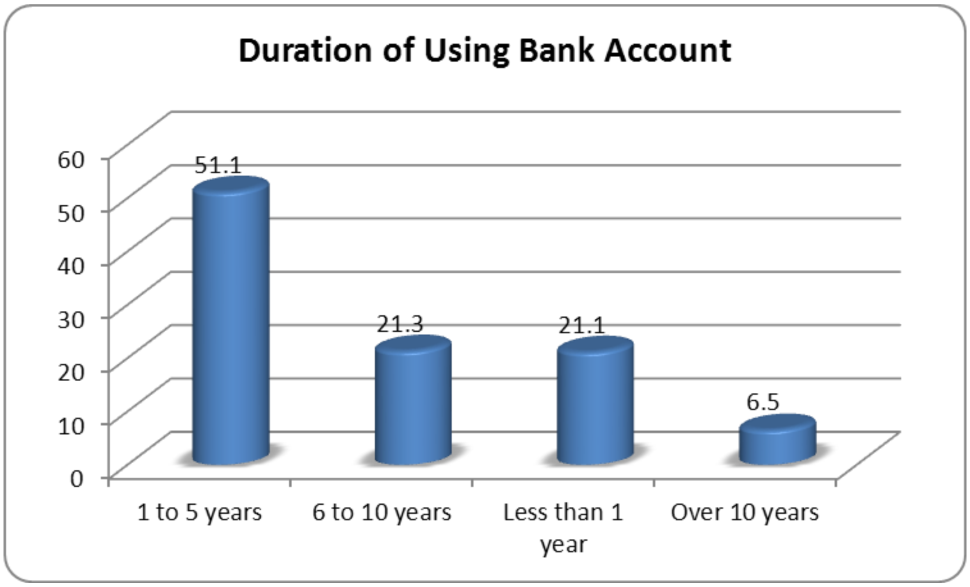


Figure 4.4: Source of Start-up Capital

4.3.8 Business Bank Account

The respondents were further requested to indicate if their businesses had bank accounts and the duration they had been operating the accounts if they had any. The study found out that 65.7% of the businesses had bank accounts while 34.3% had no bank accounts for their businesses. Further, the study found out that most (51.1%) of the respondents' with bank accounts had been using them for 1-5 years followed by those using theirs for 6-10 years. Only 6.5% of the respondents had been using their bank accounts for over 10 years. This implies that there are a huge number of businesses that have not yet accessed banking services. The results of the study are as shown in Figure 4.5;



4.5. Duration of Using Bank Account

Factors Influencing Accessing to Credit Facilities

The study sought to know the extent to which various factors influenced access to credit facilities for micro and small enterprises in Kangemi Harambee Market. The extent to which the factors influenced access to credit was measured on a Likert scale of 1-5 where 1- No extent, 2- Small Extent, 3- To a Moderate Extent, 4- To a Great Extent and 5- To a very great extent. The key for interpreting the means recorded is as shown in Table 4.5;

Table 4.5: Means Interpretation Key

Range	Extent of Influence
1.0 – 1.5	No Extent
1.6 – 2.5	Small Extent
2.6 – 3.5	Moderate Extent
3.5 – 4.5	Great Extent
4.6 – 5.0	Very Great Extent

4.4 Collateral Requirements

The study found out that group guarantees influenced access to credit facilities to a moderate extent (*M*= 3.05, *SD*= 0.701) while individual guarantors influenced access to financing to a moderate extent also (*M*= 2.98, *SD*= 0.631). The influence of having a bank account was to a moderate extent (*M*= 2.86, *SD*= 0.684) and so did ownership of assets such as title deeds, log books (*M*= 2.80, *SD*= 0.559). Equity capital had the least influence but still it was to a moderate extent (*M*= 2.79, *SD*= 0.547). The standard deviations indicated the extent to which the responses were dispersed from the mean. Overall, collateral requirements influenced access to credit facilities only to a moderate extent (*M*= 2.90, *SD*= 0.624). This implies that access to credit was highly limited by strict collateral requirements such as group guarantees, individual guarantors, having a bank account, having equity capital and assets such as title deeds and log books. The results are as shown in Table 4.6.These findings are in line with those of Matavire et al (2013) who their study on challenges facing SMEs in accessing finance from financial institutions, the case of Belaway, Zimbabwe found out that SMEs fail to secure loans because of restrictive requirements, top among them being collateral security.

Table 4.6 Collateral Requirements

Factors Under Consideration	Mean	Std. Deviation
Group guarantees	3.05	.701
Individual guarantors	2.98	.631
An account	2.86	.684

Assets: Title deeds, log books etc.	2.80	.559
Equity capital	2.79	.547
Average	**2.90**	**0.624**

4.5 Cost of Credit

On the extent to which cost of credit influenced access to credit, the study found out that the influence was to a moderate extent (*M*= 3.42, *SD*= 0.73). Repayment period influenced access to credit to a great extent (*M*= 3.50, *SD*= 0.817) followed by taxation at a moderate extent (*M*= 3.44, *SD*= 0.697) and then fluctuation of interest rates also at a moderate extent (*M*= 3.43, *SD*= 0.713). Amount of interest paid on loan had an influence to a moderate extent (*M*= 3.38, *SD*= 0.731) while the amount of credit facilities processing fees also influenced access to credit facility to a moderate extent (*M*= 3.35, *SD*= 0.692). The results are as shown in Table 4.7.These findings reflect those of a study carried out by Mwangi and Bwisa, (2013) on challenges facing entrepreneurs in accessing credit: a case of youth entrepreneurs in Makuyu, Kenya where they found out that most of youth entrepreneurs faced challenges in accessing credit due high cost of credit. This was evidenced by high loan processing fees, high rate of legal fee, high rate of interests, high cost of credit insurance and high expenses incurred in travelling in the process looking for credit.

Table 4.7 Cost of Credit

Factors Under Consideration	Mean	Std. Deviation
Repayment period	3.50	.817
Taxation	3.44	.697
Fluctuation interest rates	3.43	.713
Amount of interest paid on loan	3.38	.731
Amount of credit facilities processing fees	3.35	.692
Average	**3.42**	**0.73**

4.6 Availability of Information on Finance

The study revealed that availability of information on finance influenced access to credit facilities only to a small extent (*M*= 2.11, *SD*= 0.551). Availability of information on how to go about securing credit facility was the only one that had a moderate influence (*M*= 2.91, *SD*= 0.934). The other factors had $M \leq 2.5 \geq 1.6$ indicating their influence was only to a small extent. The factor with the least influence was training on financial management (*M*= 2.05, *SD*= 0.565). The results are as shown in Table 4.8. These results are support of the findings of the study conducted by Kinyanjui, (2006) where some entrepreneurs felt that it was difficult to obtain loans as they had to show credit records and they did not fully understand the requirements of getting and paying loans.

Table 4.8: Availability of Information on Finance

Factors Under Consideration	Mean	Std. Deviation
Availability of info on how to go about securing credit facilities	2.91	.934
Availability of info on who is offering credit facilities	2.22	.543
Ability to compile financial records and accounts	2.12	.502
Experience on financial management	2.09	.576
Business plan knowledge	2.08	.571
Training on financial management	2.05	.565

Factors Under Consideration	Mean	Std. Deviation
Availability of info on how to go about securing credit facilities	2.91	.934
Availability of info on who is offering credit facilities	2.22	.543
Ability to compile financial records and accounts	2.12	.502
Experience on financial management	2.09	.576
Business plan knowledge	2.08	.571
Training on financial management	2.05	.565
Average	**2.11**	**.551**

4.7 Business Risks

In regard to the extent to which business risks influenced access to credit facilities by the micro and small enterprises, the study established that business risk had an influence to a great extent (*M*= 4.20, *SD*= 0.689). The risk of severe competition influenced access to credit to a great extent (*M*= 4.38, *SD*= 0.645) while the risk of accountability had an influence to a great extent (*M*= 4.33, *SD*= 0.730). The factor with the least influence was the risk of inadequate human and financial capital which influenced access to credit also to a great extent. The results of the study are as shown in Table 4.9. These findings are supported by Green (2003), who argued that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them especially due to their small size and inherent vulnerability to market fluctuations and the mortality rates of small enterprises.

Table 4.9: Business Risks

Factors Under Consideration	Mean	Std. Deviation
Severe competition	4.38	.645
Accountability	4.33	.643
Unpredictable operating environment	4.30	.730
Poor inventory management	4.21	.656
Delayed payments	4.11	.655
Inadequate human and financial capital	4.06	.761
Average	**4.20**	**.689**

4.8 Access to Credit Facilities

4.8.1 Extent of Access to Credit

The study sought to know the extent to which businesses in KangemiHarambee Market are able to access credit facilities. The study found out that 36.1% could access credit facilities only to a little extent while 26% could only access credit to a moderate extent. Only 4.2% could not access credit at all. This indicates that more than half of the respondents can barely access credit facilities. The results of the study are as shown in Table 5.0;

Table 5.0: Extent of Access to Credit

	Frequency	Percent

Little extent	61	36.1
Moderate extent	44	26.0
Large extent	39	23.1
Very large extent	18	10.7
No extent	7	4.2
Total	**169**	**100.0**

4.9 Application for Credit Facilities

The study sought to know if the respondents had ever applied for credit facilities and whether they received any financing after applying for it. The studies found out that majority (94.7%) of the respondents have at one time applied for a credit facility to expand their businesses while 5.3% had never applied for any credit facility.

The results for the study are as shown in Table 5.1. Further, the study revealed that 94.7% of those who applied for the credit were successful in getting the financing while 5.3% were not successful.

5.1 Application for Credit Facilities

	Frequency	Percent
Yes	160	94.7
No	9	5.3
Total	**169**	**100.0**

4.10 Frequency of Application for Credit

In this section, the study sought to know the frequency with which the respondents apply for credit facilities from banking and non-banking institutions. The study found out that majority (60%) apply for credit facilities from non-banking institutions very frequently while 75.7% of the respondents rarely apply for credit facilities from banking institutions. This implies that the respondents' prefer to get financing from non-banking institutions where the terms are more lenient. The study findings are as shown in Table 5.2;

Table 5.2: Frequency of Application for Credit

Frequency	Non-Banking (%)	Banking (%)
Very frequently	60.0	0.0
Frequently	42.6	24.3
Rarely	2.4	75.7
Total	**100.0**	**100.0**

4.11 Amount for Credit Applied for Recently

The study further sought to know the amount of credit applied for by the respondents recently. The study revealed that 96.4% of the respondents' have applied for credits amounting between Ksh. 0 – 50,000 recently while only 3.6% have applied for a credit ranging between Ksh. 51,000 – 100, 000. This indicates that the businesses at KangemiHarambee Market apply for little amount of credit to expand their businesses. The results of the study are as shown in Figure 4.6;

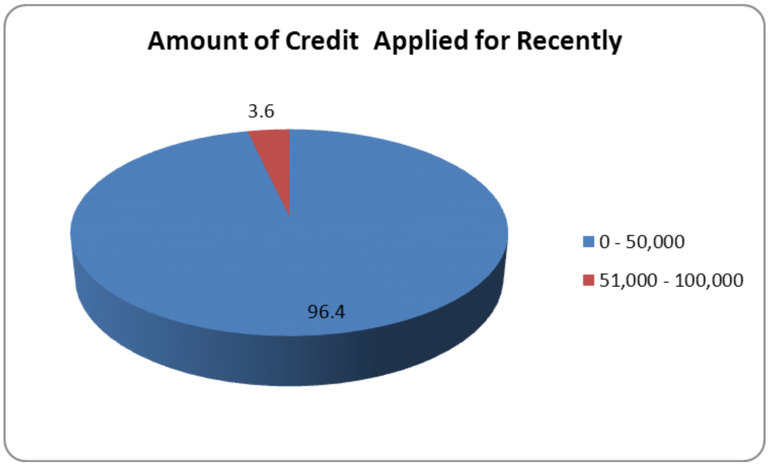


Figure 4.6: Amount for Credit Applied for Recently

4.12 Performance of Commercial Banks

The study further sought to know how the commercial banks were performing in relation to offering of credit facilities. The study found out that the commercial banks were rated to be performing fairly by 58.6% of the respondents while 34.3% felt that the performance of banks was good. Only 3.6% of the respondents said the performance was either very good or bad. This implies that the commercial banks are not doing enough to ease access to credit by the micro and small enterprises as shown in Table 5.3;

Table 5.3: Performance of Commercial Banks

	Frequency	Percent
Fair	99	58.6
Good	58	34.3
Very good	6	3.6
Bad	6	3.6
Total	**169**	**100.0**

4.13 Government Support

The study further sought the opinion of the respondent on whether the government was doing enough to support the micro and small enterprises in accessing credit facilities in Kenya. The study found out that 40.6% of the respondents felt that the government was doing enough while 59.4% felt it was not doing enough in helping the micro and small enterprises in accessing credit facilities.

4.14 Key Challenges Faced when Accessing Credit Facilities

The study also sought to know the key challenges being faced by micro and small enterprises when accessing credit facilities The study found out that the key challenges hindering micro and small enterprises from accessing credit facilities were found out to be high cost of repayment, strict collateral requirements, not getting the exact amount applied for, unwillingness of people to act as guarantors, lack of enough collateral and short payment period.

4.15 Measures of Improving Access to Credit

Lastly, the study sought to know the measures that can be taken to ease access to credit facilities by the micro and small enterprises. The respondents suggested various strategies that needed to be adopted. These include lowering the interest rates, lengthening the loan payment period, reconsidering of the collateral security policy, and expansion of product portfolios, constant project appraisal and increase in the customer outreach. Barry, (2000); Cheston, Susy and Larry Reed (1999) also supported the above strategies. Much as the strategies have to be put in place, there is need of considering the investors motives of targeting a particular rate of return on investment.

4. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter provides a summary of major findings, discussions and conclusions drawn thereof. The researcher then presents the recommendations for both the research and for the policy change and practice.

5.2 Summary of Major Findings
The study sought to establish the extent to which collateral requirements, cost of credit, availability of information and business risks influence access to credit facilities by MSEs in Kangemi Harambee market in Nairobi City County, Kenya. A total of 241 questionnaires were administered and the study managed to obtain 169 completed questionnaires representing 70.12% response rate. The questionnaires contained questions that addressed the objectives of the study.

5.2.1 Collateral Requirements
The study established that majority of the respondents obtained their start-up capital from personal savings followed by family and relatives indicating that the respondents chose to get their start-up capital from sources that do not have strict requirements such as collateral security and high repayment cost.

5.2.2 Cost of Credit
The study established that repayment period, taxation, loan processing fees and fluctuation of interest rates influenced access to credit to a great extent.

5.2.3 Availability of Information on Finance
The study revealed that availability of information on finance influenced access to credit facilities only to a small extent. These results support the findings of the study conducted by Kinyanjui, (2006) where some entrepreneurs felt that it was difficult to obtain loans as they had to show credit records and they did not fully understand the requirements of getting and paying loans.

5.2.4 Business Risks

On business risks, the study established that the financial institutions tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them especially due to small size, severe competition and inherent vulnerability to market fluctuations.

5.2.5 Access to Credit
The study found out that the key challenges hindering micro and small enterprises from accessing credit facilities to be high cost of repayment, strict collateral requirements, not getting the exact amount applied for, unwillingness of people to act as guarantors, lack of enough collateral, high credit facilities processing fees and short payment period. Measures proposed to improve access to credit were lowering the interest rates, lengthening the loan payment period, reconsidering of the collateral security policy, and expansion of product portfolio and increase in the customer outreach. Barry, (2000); Cheston, Susy and Larry (1999) also supported these strategies.

5.3 Conclusions
The study sought to establish the extent to which collateral requirements, cost of credit, availability of information and business risks influence access to credit facilities by MSEs in Kangemi Harambee market in Nairobi City County, Kenya. From the study findings, this study concludes that business risks influences accessibility to credit facilities to a great extent followed by collateral requirements and cost of credit which influenced access to credit facilities to a moderate extent and then availability of information on finance which has an influence in accessing credit facilities for micro and small enterprises only to a small extent.

The study concludes further that the respondents preferred to get their start-up capital from personal savings, relatives and friends because the collateral requirements and high repayment costs by financial institutions.

5.4 Recommendations
The study findings yielded the following recommendations in view of the challenges faced by MSEs when accessing credit facilities for the expansion of their businesses.

The study found out that many respondents did not have bank accounts for their businesses. The management of banks should stretch further to more business people so as to be able to serve their banking needs. This will serve in increasing their chance of securing credit facilities.

5.4.1 Collateral Requirements

The study found out that access to credit facilities was highly limited by strict collateral requirements such as group guarantees, individual guarantors, having a bank account, having equity capital and assets as title deeds and log books. This study therefore recommended that credit giving institutions should come up with products for MSEs where collateral requirements are lenient.

5.4.2 Cost of Credit

The study found out that access to credit facilities by micro and small enterprises is highly limited by high repayment cost of credit given. This study therefore recommends that the management of credit giving institutions should consider lowering their interest rates as a way of encouraging MSEs to borrow from them.

5.4.3 Availability of Information on Finance

The study found out that some micro and small enterprises find it difficult to obtain credit facilities since they do not fully understand the requirements and procedures of acquiring credit facilities. This study recommends that the credit giving institutions come up with programmes of educating the MSEs on how they can go about obtaining credit facilities. The study therefore recommends that the management of these businesses should put in place proper accounting practices and adequate internal control systems which will counter problems of information asymmetry that make MSEs risky for credit giving institutions.

5.4.4 Business Risks

The study found out that the business risks hinder micro and small enterprises from accessing credit facilities to a great extent. This is because the credit giving institutions consider MSEs to be highly risky due to the small size and vulnerability to market fluctuations. The study recommends that the management of MSEs should differentiate their products and services as a way of coping with severe competition and other business risks.

5.4.5 Access to credit facilities

The study found out that very few MSEs have access to credit facilities. Most of the respondents preferred to use personal savings and contributions from relatives and friends since they find it difficult to access to credit from credit giving institutions. They study therefore recommends that the management of the institutions should increase their product portfolios they offered to MSEs. The marketing departments should endeavor to research on the clients' desired options and be able to include the probable and realistic ones onto the list. This will help to reach out to the MSEs that cannot access to credit facilities.

5.5 Areas for Further Research

The study recommends further research in the following areas; the effect of credit on the profitability of micro and small enterprises; the effect of information technology on MSEs access to credit facilities in Kenya.

In future, a similar research should be done covering other towns as this research only covered micro and small enterprises in Kangemi Harambee Market.

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