FACTORS AFFECTING ACCESS TO CREDIT BY SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE STUDY OF AGRICULTURE SECTOR IN NYERI COUNTY.

BY

ANN GATHONI THUKU

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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ANN GATHONI THUKU

A Project Report Submitted In Partial Fulfillment of the Requirement for the Degree of Masters of 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………………………………….

Ann Gathoni Thuku (646387)

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

Signed…………………………………. Date………………..…………………

Dr. Elizabeth Kalunda

Signed…………………………………… Date……………...…………………

Dean, Chandaria School of Business

ABSTRACT

The purpose of the study was to access factors affecting access to credit by Small and Medium Enterprises (SMEs) from financial institutions in Kenya, a case study of Nyeri County. The research was guided by the following objectives: to determine the influence of firm's characteristics on SMEs access to credit in Nyeri County, Kenya, to determine entrepreneur's characteristics on SMEs access to credit in Nyeri County, Kenya, to establish the influence of financial characteristics on SMEs access to credit in Nyeri County, Kenya.

A descriptive research design was employed to gather quantifiable information through use of open and close-ended questions. The target population was 200 SMEs in agriculture sector that have been in operation for more than 3 years. Stratified random sampling was used to select a sample size of 67. Data was analyzed using descriptive statistics and Statistical Package of Social Sciences (SPSS). Data obtained was coded according to different variables and descriptive statistics such as frequencies, mode, mean percentiles, variances and standard deviations was used to interpret. Tables, figures and charts were used for analysis and interpretation of data. Pearson correlation and regression analysis was done to determine the influence of independent variables on the dependent variable.

The findings on firm characteristics and access to credit revealed that majority of the respondents agreed that size of a firm and location affects access to finance and older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years. Credit does not enable SMEs to meet their expansion plan.

The findings on financial characteristics and access to credit revealed that respondents agreed that they have adequate book keeping records hence easy access to credit and audited financial statements and lack of collateral affects access to finance. Financial institutions are more reluctant to provide long term finance to SME's and credit does not have a positive effect on business performance and growth.

The findings on entrepreneur characteristics and access to credit revealed that banks prefer women to men when issuing credit. Use of networking does not influences access, groups/chama to financeuse of political ties and level of education / training does not influence access to finance.

The study concluded that small SME's experience a challenge accessing loans from banks as compared to big SME's, location of a firm also affects access to finance, banks prefer lending to women than men, access to finance is not influenced by networking, applying as a group, political, SME's have adequate book keeping records which have made it easy for them to access credit; audited financial statements and collateral are needed before a loan is approved. SME's are not able to generate profit due to challenges accessing credit, credit does not enable SME's achieve or meet their, banks are reluctant to issue SME's loan and credit does not have a positive effect on performance and growth.

The study only focused access to credit by SME's in the agricultural sector. It is recommended that other studies be done to determine other factors that affect access to finance. Further studies should also be conducted on the role of financial sector in development of agriculture sector.

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I gratefully appreciate my Supervisor Dr. Elizabeth Kalunda who worked closely with me in carrying out this research study. I extend my appreciation to Dr. Juliana Namada for her advice and guidance.

Finally my gratitude goes to all respondents from the SME's in Nyeri County who agreed to participate to fill the questionnaire and provided me with the necessary information that i needed.

DEDICATION

My special appreciation goes to the almighty God for his divine strength and wisdom.

I dedicate this project to my Son Lee Mugo for your endurance during this moment, at times you would accompany me to the University. My Mother Janet and Cousin Lilian, you always have a special way of encouraging me with funny jokes.

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ACRONYMS AND ABBREVIATIONS

OECD :Organization for Economic Co-operation and Development

SME's :Small and Medium Entrepreneurs'

MSE's :Medium and Small Entrepreneurs'

GDP :Gross Domestic Profit

ANOVA :Analysis of variances

SPSS :Scientific Package for Social Sciences

SACCO :Savings and Credit Cooperative Societies

GOK :Government of Kenya

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises (SMEs) are referred to as the back bone of any economy. They are considered as key drivers and players in national growth and development. The dynamic role they play in developing countries have been exceedingly emphasized, they are a major source of economic development in developing countries. According to Kayanula and Quartey (2000), SMES seem to have advantages over their big size competitors in that they are able to adapt more easily to market conditions and they are also able to withstand hostile economic conditions because of their flexible nature. They are labor intensive and more likely to succeed in smaller urban centers and rural.

The SMEs sector is considered very important in many economies because they provide job, pay taxes, are innovative and very instrumental in countries participations in the global market. Beck and Demirguc-Kunt (2005) state that SMEs activity and economic growth are important because of the relatively large share of the SMEs sector in most developing nations and the substantial international resources from sources like the World Bank group, that have been channeled into the SMEs sector of these nations. SMEs make significant contribution to the socio-economic and political infrastructure of developed and developing countries. Vibrant and expanding SMEs sector is very important for continual competitive advantage and economic growth for nations (Berger &Udell, 2006.)

According to a survey done by International Finance Corporation (2011) states that in developing countries the agriculture sector is vital for economic growth as it produces 60% of employment and 20% of GDP. These enterprises cut across all sectors of economy including general trade (wholesale and retail), services, farm activities and manufacturing (Atieno, 2009). The agriculture industry in Kenya is by far it's most prominent, important and dominant industry. As of 2015, the industry accounts for over 25% of the country's GDP, 20% of employment, 75% of the labor force, and over 50% of revenue from exports (Deloitte, 2016). According to the food security report of 2011 prepared by Kenya Agricultural Research Institute, the sector directly contributes 24% of the Gross Domestic Product (GDP) and 27% of GDP indirectly through linkages with manufacturing, distribution and other service related sectors. The report further indicates that approximately 45% of Government revenue is derived from agriculture and the sector contributes over 75% of industrial raw materials and more than 50% of the export earnings. The sector is the largest employer in the economy, accounting for 60 per cent of the total employment. Over 80% of the populations, especially living in rural areas, derive their livelihoods mainly from agricultural related activities (Kenya Economic Survey, 2012).

In 2008, the Government of Kenya (GOK) launched Kenya Vision 2030 as the new long-term development blueprint for the country whose focus is to create a “Globally competitive and prosperous country with a high quality of life by the year 2030”. It had six pillar target sectors i.e. agriculture, wholesale and trade, manufacturing, financial service, IT enabled services and tourism. The government of Kenya has identified the growth of the agricultural sector as one of the six priority sectors among the economic pillar that make up the vision 2030 (Kenya Vision 2030)

In the current corporate environment, every organization with the goal of maximizing profit and minimizing losses require some kind of financing to enable it to increase the value of the owners’ investment. Financing in this context is the funds or capital raised by investors or lenders into a business to effectively conduct its activities to achieve its goal (Farlex, 2003).

Finance is the backbone of SMEs 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).

Whereas access to financing continues to be one of the most significant challenges for the creation, survival and growth of SMEs especially innovative ones, the problem is strongly exacerbated by the financial and economic crisis as SMEs and entrepreneurs have suffered a double shock, a drastic drop in demand for goods and services and a tightening in credit terms, which are severely affecting their cash flows. Governments are responding generally by supporting sales and preventing depletion of SMEs’ working capital, enhancing SMEs access to liquidity, helping SMEs to maintain their investment level (Organization for Economic Co-operation and Development, 2013).

According to Adera (1995) commercial banks and other formal institutions fail to cater for the credit needs of small holders mainly due to their lending terms and conditions. It is generally these rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can’t afford the required collateral, they are considered uncreditworthy (Adera, 1995). Hence despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman & Guasch, 1986).

Earlier studies suggest that Banks and other financial institutions find it difficult to acquire information from SMEs to assist them in assessing their businesses before granting loans to them (McMahon & Holmes 1991; Mason & Stark 2004). SMEs in different economies (developed and developing markets) confront varying challenges in acquiring loans from lending institutions.

In the recent past, there has been an increased tendency to fund credit programs in the developing countries aimed at small-scale enterprises. In Kenya, despite emphasis on increasing the availability of credit to SMEs, access to credit by such enterprises remains one of the major constraints they face. A 1995 survey of small and microenterprises found that up to 32.7% of the entrepreneur’s surveyed mentioned lack of capital as their principal problem, while only about 10% had ever received credit (Daniels, 1995). Although causality cannot be inferred a priori from the relationship between credit and enterprise growth, it is an indicator of the importance of credit in enterprise development. The failure of specialized financial institutions to meet the credit needs of such enterprises has underlined the importance of a needs oriented financial system for SMEs.

Nyeri County is located in the central part of Kenya. According to the Kenya Geographic report (2012), The County covers an area of 3,337 square Km. The climate is cool and wet with temperatures range from a mean annual minimum of 12°C to a mean maximum of 27°C, and rainfall amounts of between 550mm and

1,500mm per annum. The County has six constituencies namely Nyeri town, Mukurweini Tetu, , Kieni, Mathira and Othaya Nyeri town (officially known as Nyeri Municipality) was the administrative headquarters of the country's former Central Province. According to the Kenya Population and housing census report (2009) by Kenya national Bureau of statistics the total population of Nyeri town was 119,273 with 36,412 households. The total population of Nyeri County was 693,558 with men forming 49% and women forming 51%. The population density was 208 people per square km. The total population of the country was 38.6M. The poverty level was33% compared to 46% in the country. Agribusiness serves as the main economic activity in the county with coffee and dairy farming being the major income earners for a lot of the farmers within the county. Other subsistence crops grown within the County include tea, potatoes and cabbages (County Government of Nyeri, 2016)

1.2 Statement of the Problem

MSEs are a driving force of economic growth, job creation and poverty reduction in developing countries. In addition, MSEs are faced with challenges such as lack of access to equity and debt financing (lack of access to capital), owners lack viable education which may help them in preparing their business plans, lack security or collateral, high risk, high competition, high taxation rate, delay in loan repayment and default in effecting loan repayment (Okpara & Wynn (2007)

According to Okello (2010), in his study on factors influencing growth of small and medium scale enterprises owned and managed by youth in Rachuonyo South District it was revealed that youth owned and operated small enterprises perform poorly due to challenges of accessing business finance. Rukwaro (2001) undertook a study on credit rationing by micro finance institutions and its influence on the operations of small and micro enterprises. Opiyo (2015), in his research on factors influencing access to financial services among small business holders in Kasipul Sub County, states that a lot of clients are not able to access financial services because they have poor or bad security hence incase of death it is not easy to recompense.

Wanyungu (2001) focused on the financial management practices of micro and small enterprises in Kibera, Kenya. Ochieng (2014), in his study on factors influencing accessibility of micro-finance products by low income entrepreneurs in Rongo constituency states that SMEs experience bottle necks of growth as accessing financial services remains a tall order for many establishing entrepreneurs they still remain too small for the formal lenders. Mwaura (2003) in his study he mainly focused on the environment as moderator of the relationship between business strategy and performance, a case of SMEs in Kenya. A lot of studies have not been done on agriculture sector therefore the study seeks to address this knowledge gap by focusing on factors affecting access to credit by small and medium enterprises in agricultural sector in Kenya

1.3 General Objective

The general objective of this research was to assess factors affecting access to credit by SMEs in Kenya, Agriculture sector in Nyeri County.

1.4 Specific Research Objective

This research study will be guided by the following research objective

- **1.4.1** To determine the effect of firm's characteristics on SMEs access to credit.
- **1.4.2** To establish the effect of financial characteristics on SMEs access to credit.
- **1.4.3** To determine entrepreneur's Characteristics on SMEs access to credit.

1.5 Significance of the study

1.5.1 Academicians and Researchers

The findings of the research will increase the knowledge of factors affecting access to credit by SMEs. It will also be important to future researchers who may want to use the findings of this research as a basis for advancing their arguments.

1.5.2 Government Policy Makers

This study will provide useful insights to government policy makers on the need to have SMEs access credit more easily and the subsequent impact of money lend to SMEs have on their performance. This research is both an important field of study for the Kenyan government, which in line with Vision 2030, in working towards a sustainable economy that achieves the Millennium Development Goals like solving the problem of unemployment and poverty.

1.5.3 Financial Institutions

Financial institutions will see the various ways in which to provide credit to SMEs and the impact of this credit to the performance of the said SMEs. The development of SMEs and their sustenance is paramount to economic development and this study will be of great benefit to financial institutions that are credit averse when it comes to lending money to SMEs.

1.5.4 Potential and Existing Investors in SMEs

Other SMEs will find this study very valuable as it will shed light to existing and potential shed light on the various forms of credit that is available to them and how they can benefit from it and improve their performance.

1.6 Scope of the Study

The study will focus on three objectives; the influence of firm’s characteristics on SMEs access to credit, the influence of financial characteristics on SMEs access to credit and the influence of entrepreneur’s characteristics on SMEs access to credit. The study will be carried out from May until August 2017 and it will be conducted among in SMEs in Nyeri County, Kenya.

1.7 Definition of Terms

1.7.1 Small and Medium Enterprise (SMEs)

Micro are rated as firms employing 1 to 10 employees, Small are classified as firms employing 11 to 50 employees while Medium firms are classified as those employing 51 to 100 employees. MSMEs include both MSEs and SMEs (Onyango, 2010).

1.7.2 Access to Credit

Refers to the ease with which SMEs can secure financial assistance or loans from lending institutions (Kitili, 2012)

1.7.3 Entrepreneurship

This is the managerial process for creating and managing innovations (Drucker, 2014).

1.7.4 Gross Domestic Product (GPD)

Gross Domestic Product is an indicator of economic activity. It measures the total value of all final goods and services that are newly produced within the borders of a country over the course of a year (O'Neill, 2014).

1.7.5 Firm Characteristics

Firm characteristics are defined as firm personalities or attributes that tend to describe a firm or tell us about the firm (Lucky, 2011).

1.7.6 Financial Characteristics

Financial characteristics can be categorized into audited financial statements, asset tangibility, and firm performance (Kung'u, 2011).

1.7.7 Entrepreneur Characteristic

The possession of certain personality that exposes an individual towards entrepreneurial behavior (Westhead, 2011)

r. **1.8 Chapter Summary**

This chapter has provided the background of the study. It has It has also highlighted objectives of the study, significance of the study and scope of the study. Chapter two discusses literature review. Chapter three highlights research methodology that was used in the study while chapter four will discuss research methodology and chapter five covers summary and findings of the study

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews various theories on factors affecting access to credit by SMEs. It l looked on various literatures previously done by other scholars. The study was guided by research specific objectives: to determine how collateral requirements influence access to credit by SMEs, to evaluate the influence of firm's characteristic on SMEs access to credit and to establish the impact of transaction costs on access to credit by SMEs and establish the sources of financing for SMEs.

2.2 Firm's Characteristics that Influence Access to Credit

Firm's characteristics affect SMEs access to credit. They have been categorized into four variables which include location of the firm, firm size, age of the firm and ownership type of the firm.

2.2.1 Size of the Firm

Firm size is one of the most important variables in literature related to access to credit. Numerous studies have discussed that small and medium-sized enterprises are financially more constrained than large firms (Carpenter & Petersen, 2002). With SME's, there is a high risk involved because small firms have high failure rate compared to large firms. For example, Schiffer and Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender. These factors make it very difficult for financial institutions to lend to SME's and as a result impact on their performance.

According to a research done by Berger and Udell (2002) on small business credit availability and relationship lending: the importance of bank organizational structure found that smaller and younger firms are more likely to face higher cost of financing and at the same time they are required to offer collateral. Smaller firms have fewer assets to offer as collateral. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instrument.

Beck (2008) asserts that banks consider the SME segment to be highly profitable, but perceive macroeconomic instability in developing countries and competition in developed countries as the main obstacles. In addition, compared with large firms, banks are less exposed to small enterprises, charge them higher interest rates and fees, and experience more non-performing loans from lending to them. Factors that can reduce the risk and uncertainty and improve the probability of loan success such as institutional stability and predictability are often absent in emerging economies (Ahlstrom & Bruton, 2006). Undeveloped property rights, unpredictable law enforcement and insufficient business data reduce the ability of local banks to follow the standard procedures and force them to rely on different lending practices in these countries (Ngoc, 2009).

According to a study done by Fatoki and Asah (2011) on the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in King Williams' town found that firm size impacts SMEs access to debt finance from commercial banks whereby small enterprises are less favored to large firms. Consequently, it's hypothetical existence of a positive association between the firm size and SMEs access to debt financing.

According to a research done by Oliveira and Fortunato (2006) on firm growth and liquidity constraints found that small firms face greater financial constraints hence having a negative impact on their growth. In addition, medium-sized firms face greater financial constraints than large firms. Small firms cannot exploit economies of scale in the same way as large firms can. These authors claim that since young companies have not accumulated sufficient cash flow and are unable to rely on bank financing, they have to depend on the original equity investment of their owners.

Generally, in either developing and developed economies, rate of credit access is a very important factor in accelerating investments and creating job thus, transforming small businesses into strong enterprises. For example, the United Kingdom governments have made such efforts possible by working in close links with lenders and this has resulted into consumers having access to credit at any time (Merton &

Poll, 2008). Traditionally, in many African states, access to credit has been prioritized towards corporate bodies, therefore leaving out individuals and SMEs even though they make up a huge mass of consumers. However, countries like Egypt, Nigeria and Libya have worked hard towards enabling individuals and SMEs have access to credit facilities in banks.

In Kenya, the case hasn't been any better as access to credit has been complicated by the stringent conditions levied by commercial banks. For banks to be able to gain more confident towards small borrowers, the Credit Information Sharing mechanism was launched in Kenya following Credit Bureau Regulations 2008 in July 2010. The Regulations demanded for the Deposit Protection Fund and institutes certified under the Banking Act to share data on Non-Performing Loans through the licensed credit reference bureaus (FSD Kenya, 2008).

Credit is offered to individuals in the context of information asymmetry (Fischer, 1995) as a result it can be resolved by indicating creditworthiness and viability of a project. However, because of poor accounting practices and lack of record keeping among many SMEs has limited this (Cook & Nixon, 2000). This leads to a rise in risks and transaction costs for screening and monitoring of SME lending. Banks and financial institutions require collateral to manage this risk and such issues aggravate other problems suffered by SMEs. For instance, they determine not just the level but also the nature of investment that SMEs can partake (Cobham, 1999).This study is therefore set to determine whether size of the firm affect credit accessibility by SMEs in Nyeri County.

2.2.2 Age of the Firm

Firm age in years is frequently used to control for the fact that older firm may have more experiences of applying for loans and have deeply long relationship with banks and therefore more probability to get bank loans. It seems that financial life-cycle pattern is homogenous for different industry and consistent over time (La Rocca, 2011). As business is in the start-up life cycle stage, the main challenge that they face is how to mobilize money because they need overestimated money for formation of fixed asset and working capital. Whereas in the growth life stage, businesses faces challenges based on time and money. A number of studies have found that there is a correlation between firm age and access to credit. Being in the business for many years suggests that the firms are at least competitive on average. It can be argued that being an older firm means there is lower informational opacity.

According to Chandler (2009) the longer a firm stays in operation, the more persistence it is to unpleasant economic circumstances. According to a study done by Klapper (2010) on entry regulation as a barrier to entrepreneurship states that firms with less than 5 years (younger firms) in operation are less likely to rely on debt financing from lenders. According to a research done by Ngoc, Le and Nguyen (2009) on the impact of networking on bank financing in Vietnam supported the argument that younger firms face hardship and more costs in accessing external financing from lenders because information asymmetry. Consequently, it is hypothetical existence of a positive relationship between firm's age and access to debt finance by SMEs.

According to Ngoc (2009) states that young SMEs face more difficulty to access bank financing and incur higher costs, due to information asymmetry between the banks and the firms. The lenders use the financial information obtained from the firm's financial statements to determine the possibility of delinquency. According to Sarapaivanich and Kotey (2006) asserts that lack of adequate information leads to information asymmetry and credit rationing. Since young and small firms will not likely have a well-established record keeping system and readily available audited financial statements, they suffer more from the asymmetric information problem.

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

The firm's size has a crucial impact on the proportion of debt in the firm's capital structure since real assets have an impact on the long debt whenever vital (Burkart & Ellingsen, 2004). Large organizations tend to be sufficiently diversified thus influencing their stability (Honhyan, 2009). Cassar (2004) also stipulated that SMEs find it very expensive in solving glitches associated with information asymmetry with creditors. In most African states, most SMEs face growth barriers accompanied by a shortage of finance. Fatoki and Asah (2011) established that firm size influences SMEs access to debt investment from commercial banks whereby small institutions are less ideal in comparison to large ones.

Firms' sources of finance change with time. For instance, a firm which starts off as a family business by utilizing internal financing like personal and family savings may grow to obtain funds from its suppliers. When it has established a good track record, developed accounting systems and reputable legal identity, it may qualify and obtain a loan from a banks or other financial institution. Therefore, the firm age is very important. In addition, the growth stage where the SME is at can also have a significant impact on its accessibility to finance. Previous studies done have established that financing constraints are particularly severe in startup and relatively young enterprises of under three years in age. For example, Aryeetey (1994) early 90s survey of 133 firms in various industries in Ghana found out that only 10 percent of the startup were able to obtain bank loans contrary to older firms who were offered credit three times more. A similar survey by Levy (1993) in Sri Lanka and Tanzania reported that 80 percent of small firms with 6 or more years in operation are easily able to access bank loans, compared to the success rate of around 55 percent for similar firms with fewer employees of similar age, and decline with the composition.

Moreover, older firms gain from their established relations with banks to reduce asymmetric information problems (Berger &Udell 2002). In addition, bank financing may be limited for research and design for projects run by young firms and this is due to the high default risk of the firms (Fritsch *et al.* 2006). Czarnitzki and Kraft (2007) also emphasize that young firms lack a track record and such uncertainty in their prospects results into low rating, thus bank loans would be considered too expensive for them. This study is set to determine whether a firm age affect credit accessibility by SMEs in Nyeri County.

According to Pandula (2001), a number of studies have found that there is a correlation between firm age and access to credit. Being in the business for many years suggests that the firms are at least competitive on average. It can be argued that being an older firm means there is lower informational opacity. The reason is information required by the lenders to evaluate and process applications is readily available because these businesses have an established reputation or track record

2.2.3 Location of the Firm

According to Pandula (2011), asserts that spatial variations exist in both cost and availability of finance, especially for small firms. In rural areas, there are a variety of factors which may contribute to spatial variations in the availability of bank finance for small firms. Firstly, there may be an absence of financial institutions in these rural areas. Sometimes, there may be a single bank branch available to the location, which may enjoy a monopoly power in the area, and small firms may not have much financing alternatives available. Due to this, they may end up paying high interest on bank loans or may have to adhere to restricted covenants such as collateral and other conditions (Pandula, 2011).

Banks may be reluctant to lend to small firms located in rural areas, as the assets offered as collateral by these firms may have less market value, and in case of default, they may find it difficult to realize these assets (Pandula, 2011). However, According to Rand (2007) probability of accessing credit is higher in rural than in urban areas. He further states that most of government bank credit is allocated towards rural areas confirming that local governments often are distinctly protective of firms in rural areas, which are more oriented towards serving local markets and therefore tend to escape from some of the credit barriers inherent in larger, possibly more outward oriented markets (Rand, 2007, p.10). Another contradictory argument of some researchers is that the distance between lenders and borrowers has no influence on financing small businesses is the development of new.

According to a research done by Fatoki and Asah (2011) on the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in King Williams' town found that SMEs located in urban are successful in access to debt financing compared those located in rural areas. Physical closeness between lenders and borrowers produce an improved form of environmental scrutinize that aid SMEs to access credit from lenders. Consequently, there is a positive relationship between firm's location and access to debt financing by SME

2.3 Financial Characteristics that Influence Access to Credit

2.3.1 Asset Base / Firm's Collateral

Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). The security assets should be used to recover the principal in case of default. SMEs in particular provide security in form of properties (houses, the businesses, the car, and anything that could actually bring back the principal) in case of default on loans (Garrett, 2009). Security for loans must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. However, in most banks, in order to finance SMEs and to accept loan proposals, the collateral must be 100% or more, equal to the amount of credit extension or finance product (Mullei & Bokea, 2000).

According to a survey done by Kamau (2009), found that collateral security is a major constraint to credit access. In addition, 92% of enterprises studied had applied for loans, and were rejected while others had decided not to apply since they knew they would not be granted for lack of collateral security. McMahon (2005) stats that other factors held constant, firms with more intangible assets need to borrow less compared to firms with more tangible assets because of collateral factor. SMEs have fewer collateral and sable assets than large firms. Banks have always adopted a risk adverse attitude 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).

According to Cressy and Toivanen (2001), states that better borrowers are able to get larger loans and lower interest rates and provision of collateral and loan size helps reduce interest rate that will be paid when a firm borrows. In addition, banks use qualitative and quantitative information in the structuring of loan contracts to small businesses. In order to protect the funds of savers, banks approach the lending process in a risk-averse way hence turn down a number of propositions perceived to be 'riskier'. Agricultural enterprises faces unfavorable factors hence financial service providers classify farmers as high risk clients who cannot use their farms as collateral for credit (Rahaji & Fakayode, 2009; De Klerk, 2008).

According to Airs (2007), in most emerging and some developed economies, it is hard for SMEs to obtain any form of loan without collateral and sufficient documentations. From the lenders' point of view, financing SMEs are seemly riskier due to the vagueness of the transactions as compared to larger companies therefore, making collateral requirement for granting loans very essential (Berger &Udell 2006; Haron, 2013). Haron (2013) also asserts that collateral is mostly required from small enterprises and new firms but larger, old and well established firms easily get loans without collateral.

According to a study done by Vuvor and Ackah (2011) on challenges faced by small & medium enterprises (SMEs) in obtaining credit in Ghana findings revealed that SMEs in Ghana like most SMEs in other countries are faced with major challenges in accessing credit. These challenges include; the inability of SMEs to provide collateral and other information needed by banks such as audited financial statement couple with high cost of loan in terms of high interest rates make it extremely difficult to access bank loans. Fatoki and Asah (2011) suggested that operators of SMEs have to own more tangible assets that can create higher value on their firm to accelerate borrowing security. Because, the higher the value of assets the lower the interest rates of the debt to be secured by those assets. Consequently, it is hypothetical of a strong positive relationship between collateral and access of debt financing by SMEs.

2.3.2 Quality of Audited Financial Statements

According to Pandula (2010), states that audited financial statements are very useful in accessing credit from financial institutions. Often, banks require audited financial statements before granting credit. However, most SMEs in South Asia have difficulty in getting credit from formal financial institutions due to lack of proper financial records. In addition, most SMEs usually keep multiple sets of books and do not have audited financial statements based on reliable accounting standards hence, getting loans at a higher interest rates.

According to studies done by McKenzie and Baker (2011); Olawale (2010) and Epstein (2007) quality financial statements should serve as an anchor between the bank and SMEs to predict the level of perceived risk. This means that fair presentation of financial statements reflects transparency in the financial position; cash flows and revenue projections of the SMEs to enhance lending parties make informed decisions to extend finance. According to Ball (2006), quality financial statements should serve as an anchor to influence access to finance. This is based on the premise that once financial statements reduce the level of information asymmetry bank are able to estimate the perceived risk and extend finance to SMEs.

According to a research done by Nanyondo, (2014) it was revealed that quality of financial statements has a significant positive association with access to finance. In addition, Nanyondo, (2014) states that if no relationship is found between quality of a financial statement and access to finance, this may imply that SMEs owners/managers are ignorant of how the quality of their financial statements, perceived risk and information asymmetry affect their chances of accessing finance. In terms of policy implication this may mean that in order to improve SMEs access to finance, the SMEs owner/managers will need some training.

According to Tweedie (2010) states that for SMEs to access finance from banks, quality of financial statement is paramount. Levitt (1998) asserts SMEs that have quality financial states are able to access finance easily than SMEs that do not have quality financial statements. In addition, according to a study done by Lumbert *et al* (2006) on accounting information, disclosure, and the lost capital found that the quality of reported quality of financial information is related to access to finance.

According to firms Wanjohi, (2009) a lot of SMEs in Kenya faces a challenge accessing credit from formal financial institutions due to lack of proper financial records. Most SMEs keep multiple sets of books and do not have audited financial statements based on reliable accounting standards hence getting loans at a higher interest rates because banks considered them as high risk borrowers.

Credit-worthiness variables have been mentioned in a number of studies for instance Libby (1979) narrates that the sources of information that inform of the credit worthiness of a firm is the financial statement data. When banks are dealing with firms, the audit reports are the most reliable information used in order to understand and evaluate firms' ability to repay its debt. Sacerdoti (2005) noted that banks are very reluctant to giving loans to small firms who don't have formal financial statements and audited accounts and this is attributed to information asymmetry. Allee (2007) asserts that on that note firms that possess audited financial statements benefit from a higher probability of getting credit and lower cost of credit than their counterparts that lack the same.

2.3.3Firm Performance

According to studies done by Wagenvoort, (2003); Beck, et al (2005); Khandker, Samad and Ali, (2013) states that SMEs usually have difficulties accessing formal source of credit hence affecting their performance and growth. According to a study done by Shinozaki (2012) on a new regime of SMEs finance in emerging Asia it was revealed that access to credit has a positive effect on SMEs growth. Whereas a study done by Malesky and Taussig (2009) on where is credit due? Legal institutions, connections, and the efficiency of bank lending in Vietnam it was revealed that there was no relationship between access to credit and firm performance.

According to Hyytinen & Toivanen, (2005) ;Ughetto, (2008); Canepa & Stoneman, (2008); Ojah(2010) states that limited access to external finance negatively affect small firms' decision to invest in fixed capital and research and development, which subsequently limit their growth, innovativeness and performance. In addition, literature indicates that effect of financial constraint on firm growth varies across firms of different.

According Dalberg (2011) states that credit has significant positive impact on SMEs performance. Akoten, 2006; Shinozaki, 2012 states that confirms that SMEs benefit more when borrowing form bank rather than informal source. According to a study done by Kanyugi (2001) on impact of microfinance credit on financial performance of SMEs in Kenya the study found that as SMEs grow they need funds to finance growth in fixed assets and increase working capital. According to a study done by Njoroge (2008), determinants of financial performance in savings and credit cooperative societies in Nairobi it was revealed that access to financial services has improved the performance of businesses in the manufacturing sector.

2.4 Entrepreneur's Characteristics that Influence Access to Credit

Entrepreneurial characteristics have profound consequences for running a business. In the case of SMEs the owner's characteristics are hard to separate from those of the business (Kung'u, 2011).

2.4.1 Owner's Affiliation

Owner's affiliation is defined as belonging to and participating in any business or social group with similar characteristics and financing needs (Pandula, 2011, Kumah, 2011). Andula, (2011) finds that networks ease SME's access to credit because affiliation to social ties or professional associations allows SME operators to establish relations with bankers. Several studies have indicated that membership with an association increase SMEs' access to finance (Vos, 2004; Pandula, 2011, Kumah, 2011). This is because group liability is preferred by financial institutions especially microfinance institutions because it mitigates both the adverse selection and moral hazard problems which results in credit market failures (McKenzie, 2009). Group lending increases a firm's access to credit because group members have the incentive to screen and monitor their group members to ensure that they invest their funds wisely (McKenzie, 2009).

Researchers have also emphasized that networks can be used as the solutions to overcome the problems of access to limited resources and markets (Atieno, 2009). It is also argued that networks help to provide advice, information and capital to small firms. Applying this idea in the context of banking, it can also be argued that, being associated with a professional, trade or social associations such as clubs, societies or associations may also lead to having access to bank loans.

The political surroundings exert a huge impact on the performance of SMEs. It determines investor confidence and the expected returns that rely upon the capability of a firm to operate profitably (OECD, 2000). Political balance promotes an awesome enterprise environment and reduces the need for political assistance. However, in regimes with strong political impact, SMEs must seek survival methods. Many SME owners are pushed to seek political connections for help in securing their investments, specifically within the long run (OECD, 2000). Political connections might assist

SMEs benefit from information that is unavailable to competitors. Such statistics is vital in strategic making plans and selection making. Securing investment is also less complicated with the assistance of politicians, creating an advantage for marketers but, most SMEs are own family-owned companies, consequently, engaging politicians in a firm's operations impacts its shape (De Kok, 2006).

A study by means of Zhou (2011) indicated that political connection is the maximum critical aspect for SME sectors in evolved and growing international locations. Moreover, this locating indicates how and why political connections affect their relationships with SMEs in exceptional nations to reap get entry to finance. Xu, Xu and Yuan (2010) indicated that the investment conduct of SMEs and the impact of SMEs ends in political connections and their investments create an awesome relationship among SMEs and the financial system, as shown through an evaluation of 600 SMEs in China between 2001t0 2008. Another study focused on the relationship among get entry to financing and political connections. This means that proprietors/managers of small and medium who've a terrific political connection that helps to acquire get admission to investment and keep away from a number of the difficulties and troubles which could occur on the small and medium enterprise's investments (Wahab *et al*, 2009).

2.4.2 Education Background

Past research found a positive relationship between higher educational qualifications and business growth (Kozan *et al*, 2006). Education affects entrepreneurs' motivation (Smallbone & Wyer, 2000). Furthermore, education helps to enhance the exploratory skills, improves communication skills and foresight. These enhanced skills are positively related to presenting a plausible case for a loan to a banker at the time of preparing a loan proposal and hence convincing the banker during the client interview**.**

Kumar & Francisco (2005), found a strong education effect in explaining access to financial services in Brazil. They also found that graduates had the least difficulties raising finance from banks. The researchers have given three interpretations for this finding. Firstly, more educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs. Secondly, the educated managers/owners have the skills to manage the other functions of the business such as human resources, finance, marketing, and these skills results to high performance of the business which helps those firms to access finance without any challenges. The third reason is from the supply side, where the bankers value higher education level of the owner/manager in the loan approval process as an important criterion.

The owner's level of education also increases the probability of SMEs' access to credit. This is because highly qualified owners/managers of SMEs are more efficient in their work and moreover, providers of funds have more confidence in those with higher academic qualifications than those with lower levels of qualification (Berger and Udell, 2006). Educated managers/owners are able to understand the loan application procedures, present positive financial information and build closer relationships with their bankers (Pandula, 2011). However, most SMEs owners in developing countries tend to have low level of formal education. Most firm owners learn their trade through apprenticeship with an experienced master (Aryeetey, 1994).

In some studies like Kasseeah and Thoplan (2012), educational level is measured via ordered measures depending on the level of the participant as either primary, secondary or tertiary level etc. Several studies concur that the quality of human capital increases with increased schooling and training. From the funds supply perspective banks and financial institutions perceive small business owners with higher educational qualification as being more creditworthy. Therefore, in such a case well educated entrepreneurs have a higher likelihood of accessing bank loan than those without. These authors also suggested that educated managers also possess the necessary confidence to overcome any barriers they might come across when seeking access to bank loan and are well informed in regard to bank credit services and requirements. Thus, it is more likely that such individuals tend to apply for loan more than those with lower educational qualification.

Zarook*et al.* (2013); Slavec and Prodan (2012) observed that educational level of owners has big tremendous correlation with access to financial institution loan. Ahmed and Hamid (2011) used the top manager's stage of schooling as a measure of the satisfactory of human capital and determined huge fantastic dating among academic level and the possibility of getting access to financial institution finance. Pandula (2011) also received a result that suggests that educational background has vast dating with get admission to bank loan. Nguyen and Luu (2013) dealt with schooling into three unique variables, particularly: fundamental academic level, expert academic level and knowledge approximately enterprise law and Tax regulation. This observation confirmed that all these proxies of instructional qualification of the proprietor/supervisor have widespread wonderful effect on get entry to finance.

Mukiri (2012) investigated the effect of educational degree and schooling on access to bank mortgage indirectly via entrepreneurial orientation findings revealed that academic education level of the entrepreneur has positive effect on getting entry to finance. Kira (2013) highlighted that SMEs with proprietor/manager who have instructional qualification of training and past are much more likely to be favored by banks to get admission to credit score. Le et al. (2006) asserts that there is a positive impact between tutorial degrees on networking. Additionally, networking impacts companies' accessibility to bank financing. In contrary, Abdesamed and AbdWahab (2012) in their study on do experience, education and business plan influence SMEs start-up bank loan findings established that educational degree of the owner/manage has a positive correlation but insignificant impact on firms' qualification for financial institution loan for startup.

2.4.3 Gender

Business ownership has traditionally been viewed as a male preserve where women have been involved in ventures but often only as silent or invisible partners. Mahadea (2001) asserts that women entrepreneurs in Africa remain on the periphery of the national economy. The female total entrepreneurial activity index shows that participation rates for men tend to be on average 50% higher than those for women (Minniti, 2005). According to Maas & Herrington (2006), globally the average for female entrepreneurship is 7.72% of the population.

Empirical studies by Cole and Mehran (2009) on the relationship between gender differences in the ownership of privately held U.S. firms and the availability of credit indicates that, female-owned firms are significantly more likely to be credit constrained because they are more likely to be discouraged from applying for credit. However, Beck and Cull (2014) observe that female-managed firms are also more likely to have credit than male-managed firms in Sub-Saharan Africa.

Demirgüç-Kunt, Beck, and Honohan, (2008) a lot of SMEs faces a challenge accessing finance. In addition, in both developed and developing countries, women entrepreneurs face more challenge accessing finance compared to male entrepreneurs. In contrast to this statement, according to a study done by Freel (2010) and Mama and Ewoudou (2010) findings revealed that gender is not a factor in access to credit and discouragement about obtaining it. Roper & Scott (2009) and Mijid (2009), however, find that gender is a factor in the demand for and availability of credit

According to a study done by Macharia and Wanjiru (1998) on women small-scale entrepreneurs in the garment manufacturing sector of the textile industry in Nyeri it was revealed that lack of start-up (seed) capital, lack of awareness of existing credit schemes, high interest rates, lengthy and vigorous procedure for loan applications, and lack of collateral security for finance are example of factors that women face when accessing finance. MahbubulHaq (2000), states that in Kenya, women are almost invisible to formal financial institutions they receive less than 10 per cent of commercial credits. According to a study done by Mansor and Mat (2010), on it was revealed that in Malaysia, women faces a challenge accessing finance because that are perceived to be risky borrowers due to lack of adequate collateral.

2.5 Chapter Summary

This chapter has discussed literature review based on the following research objectives; to analyze the Influence of firm’s characteristics on SMEs access to credit in Nyeri County, Kenya, influence of financial characteristics on SMEs access to credit in Nyeri County, Kenya, influence of entrepreneur’s characteristics on SMEs access to credit in Nyeri County, Kenya. Chapter three discusses research methodology that was used in the study**.**

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents research methodology that was used in the study. It also discussed research design, population and sample size, data collection methods, research procedures and data analysis and the presentation methods to be used in this research.

3.2 Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Chandran, 2004). On the other hand it is a detailed plan of how a research study is going to be conducted starting from data collection to data analysis of the research (Cooper & Schindler 2014).

This study used a descriptive research design. Burns and Bush (2010), state that a descriptive research design is a set of methods and procedures that describe variables. In addition, a descriptive research is also used to answer the question what, how and why (Sekaran & Bougie, 2013). Quantitative research was used to gain better knowledge and in depth understanding of the results. The dependent variable is access to credit whereas the independent variables are firm characteristics, financial characteristics and entrepreneurs characteristics. The main objective of this study is to provide determine factors affecting access to credit by small and medium enterprises in Kenya.

3.3 Population and Sampling Design

3.3.1 Population

Population refers to the entire group of individuals, events or objects having common observable characteristics. It is the aggregate of all that conforms to a given specification (Mugenda and Mugenda, 2003). According to Cooper and Schindler (2008), population is the total of all elements (an element is the subject on which measurement is being taken) upon which inferences can be made. The study population was 200 agricultural SMEs in Nyeri County. This information was obtained from Nyeri municipal county database. The study targeted dairy, food crop and cash crop farmers.

Table 3.1: Population

Names of SMEs	Frequency	% Distribution
Dairy	34	17
Cash crop	66	33
Food Crop	100	50
Total	**200**	**100**

Source: Nyeri Municipal Council Data Base (2017)

3.3.2 Sampling Design

According to Sekaran and Bougie (2013), in probability sampling, the elements in the population have some known, nonzero chance or probability of being selected as sample subjects. This design is used when the representatives of the sample is of importance in the interest of wider generalize ability. This is the design that the study adopted, as the sample was inferred to the population.

3.3.2.1 Sampling Frame

Cooper and Schindler (2003) define a sampling frame as a list of sampling units from which the sample was drawn. Saunders (2016) a sampling frame is a comprehensive list of all individuals or unit in a population from which a sample would be drawn. The sample frame of the study was the agricultural SMEs in Nyeri.

3.3.2.2 Sampling Technique

According to Cooper &Schindler (2014) a sampling technique is a method of selecting elements from the population that represent the population. In addition, it is usually used to determine whether the sample of the study is a true representative of the whole population from which it is drawn or not. Stratified random sampling technique was used. Stratified random sampling divides a population into subgroups or strata, and random samples are selected from each stratum (Mbwesa, 2006).

3.3.2.3 Sample Size

The sample size is a smaller set of the larger population (Cooper & Schindler, 2014).A sample is a set of entities drawn from a population with the aim of estimating characteristic of the population (Siegel 2003). It is a fraction or portion of a population selected such that the selected portion represents the population adequately.

$$n = \frac{N}{1 + N(e^2)}$$

Where n = number of samples, N = total population and e = error margin / margin of error.

$$N = \frac{200}{[(1 + 200\,(0.1)^2]}$$

$$= \quad 67$$

Table 3.2: Sample Size

Types	Frequency	% Distribution
Dairy	13	17
Food Crop	24	33
Cash Crop	30	50
Total	**67**	**100**

3.4 Data Collections Method

Data collection instrument is a device used to collect data in an objective and a systematic manner. Primary data was collected using structured questionnaire. According to Sandakos (2005), use of questionnaire is apporpriate because questionnaires are stable, consistent, and uniform. The questionnaire were self-administered. Ample time was given to respondents to fill in the questionnaires. Questionnaires were collected immediately once respondents were done answering hence reducing bias. Likert scale was used. This is because Likert scale is easy to understand and code. The questionnaire was subdivided into five sections. The first section was address demography, the second, third and fourth sections addressed research objectives and the fifth section dependent variable.

3.5 Research Procedures

According to Creswell (2003) research procedure is a method of collecting and analyzing data for a particular purpose. A pilot study was conducted. Pilot testing is important in ascertaining the validity and the reliability of the questionnaire. The pilot testing also helped the researcher to identify errors in the questionnaire, to identify areas where the respondents found difficulty in answering. According to Barnett (1991), a pre-test is essential in checking that the questions are properly understood and interpreted. The study used five respondents to conduct the pilot study.

3.6 Data Analysis Method

Data analysis is a process of transforming a mass of raw data into tables, charts, with frequency distribution and percentages (Saunders & Thornhill, 2009). Data collected from the field was sorted and summarized in tables and charts. The Statistical Package of Social Sciences (SPSS) was used to analyze data. The process of data analysis involved several stages. Completed questionnaires were edited for completeness and consistency. The data was then coded and checked for any errors and omissions (Kaewsonth & Harding, 1992). Quantitative data collected was analyzed using inferential statistics. Mean and standard deviation was used to measure the central tendencies of the variables. The formula ($Y= \beta_0+ \beta_1X_1 + \beta_2X_2 + \beta_3X_3$), where Y represents the dependent variable access to credit**,** X_1 represents firm characteristics**,** X_2 represents financial characteristics**,** and X_3 represents entrepreneur characteristics, was used to determine the correlation between the variables. Bar graphs and pie charts was used to present findings.

3.7 Chapter summary

This chapter has addressed research methodology that was used in the study. It has also discussed research design, target population and sampling design and technique, research procedure, design and data analysis methods that were used. Chapter four presents the analysis and findings of the study

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results established from the study. The chapter presents results on demographic data of the respondents such as gender, age, level of education, number of years in the organization, and ever applied for a loan. The chapter gives results based on specific objectives.

4.1.1 Response Rate

The response rate is utilized to find out the statistical authority of a test and the higher the response rate the higher the statistical power. In this study, the researcher distributed 67 questionnaires and only 59 were filled and returned. This represents a response rate of 88% as shown in table 4.1.

Table 4.1: Response Rate

Questionnaires	Number	Percentage
Filled and collected	59	88
Non Responded	8	12
Total	**67**	**100**

4.2 Demographical Factors

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

4.2.1 Gender

To establish gender of the respondents, findings revealed that majority of the respondents were female this represents 66% of the total population followed by male representing 34% of the population as shown in figure 4.1. This shows that there are more female SME’s operating agricultural business in Nyeri County as compared to male SME’s.

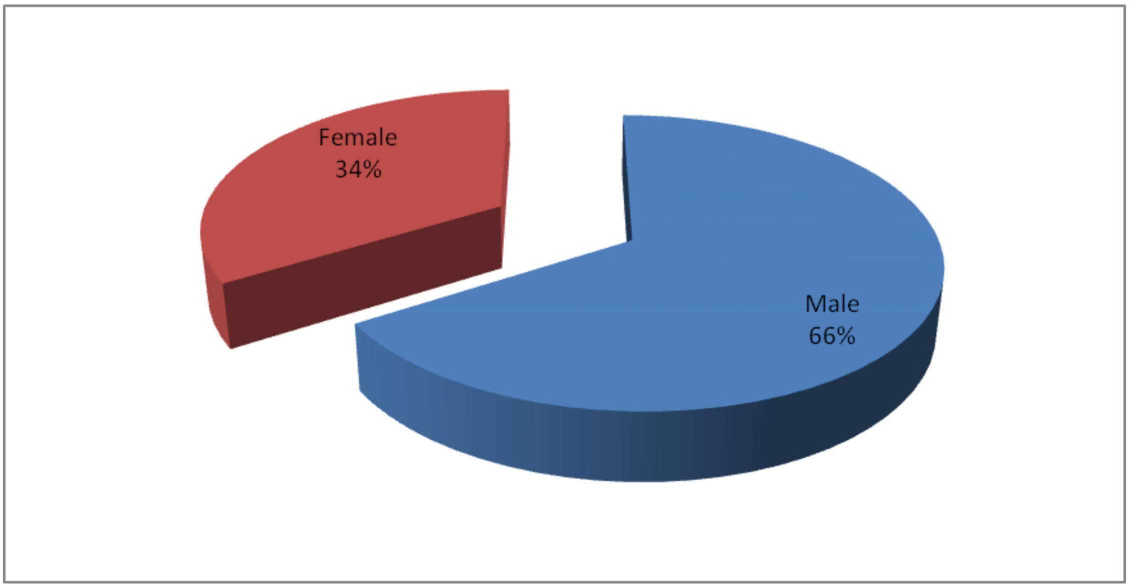

Figure 4.1: Gender

4.2.2 Age

To analyse age of the respondents, the study established that 23 respondents who are between 21-30 years representing 39% of the population, 30 respondents were between 31-40 years this represents 51% of the respondents and 6 respondents were above 40 years representing 10% of the population as shown in figure 4.2 below. This shows that most of the employees in the agriculture SME's are in the age bracket of 31 – 40 years.

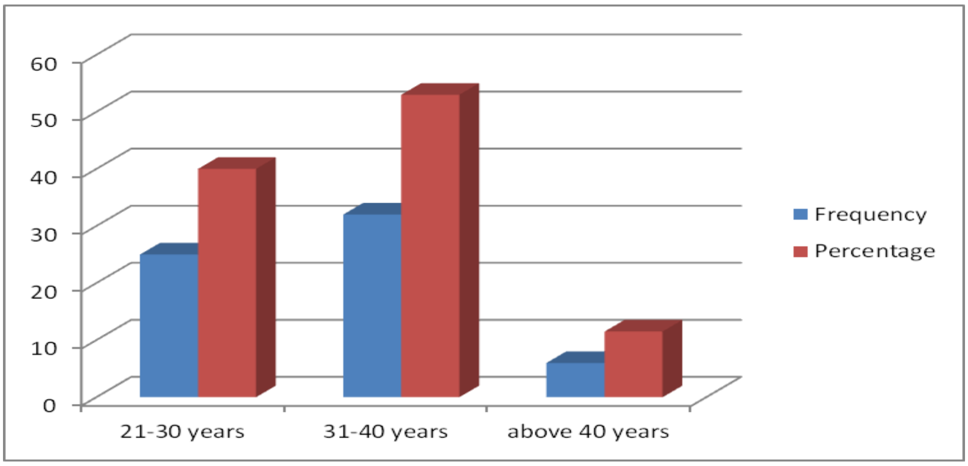

Figure 4.2: Age

4.2.3 Level of Education

To analyse the highest level of education the result established that 1 respondent was a form four lever representing 2% of the total population, 4 respondents have a certificate representing 7% of the total population, 9 respondents have a diploma representing 15% of the population, 34 respondents have a degree this represents 58% of the total population, 11 respondents have post graduate representing 19% of the total population as shown in figure 4.3 below.

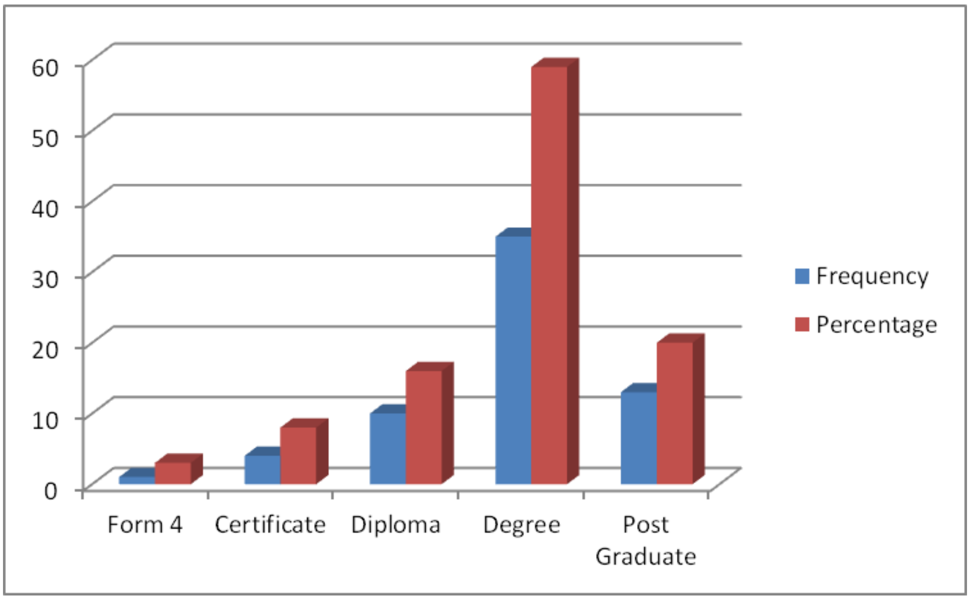

Figure 4.3: Level of Education

4.2.4 Years Worked in the Organization

To establish the year's respondents have been in the organization, findings revealed that 22 respondents have been in the organization for less than a year representing 37% of the population, 26 respondents have been in the organization for 1-5 years this represents 44% of the population, 9 respondents have been in the organization for 6-10 years representing 15% of the population and 2 respondents have been in the organization for over 10 years representing 3% of the population as shown in figure 4.4 below

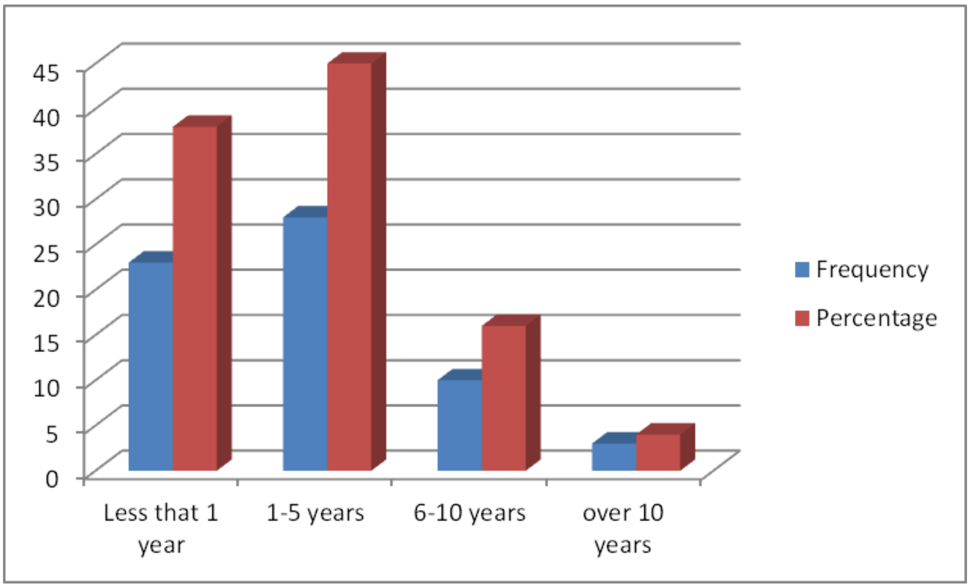

Figure 4.4: Years worked in the organization

4.2.3 Loan Application

To investigate if respondents have ever applied for a loan from the bank 61% said "Yes" whereas 36% said "No" and 3% was missing as shown in figure 4.5 below.

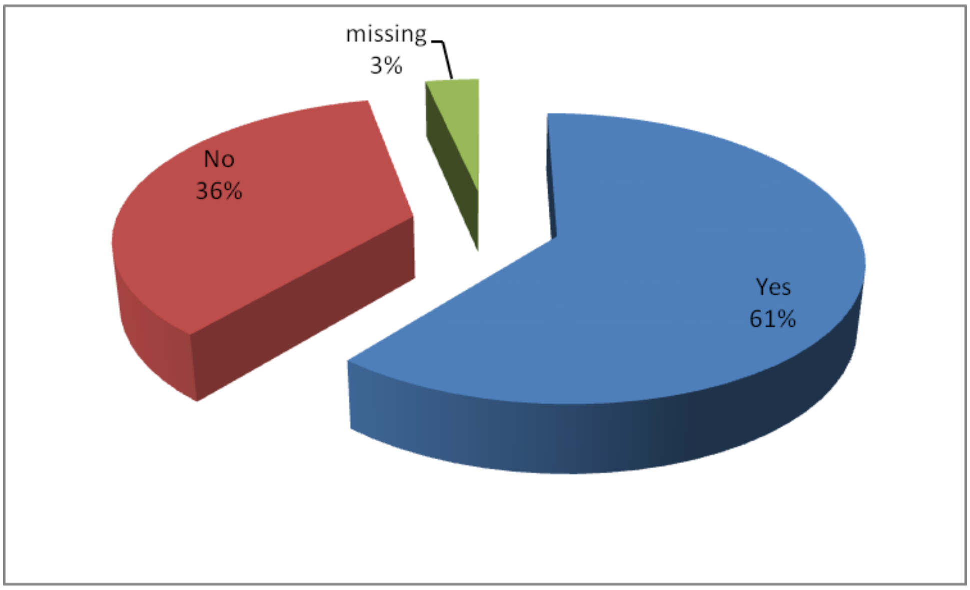

Figure 4.5: Loan Application

4.2.3.1 If no Say why

To analyze why SME's have not accessed loan from a bank 12% of the respondents stated that it was due to high interest rate, 7% of the respondents said it was due to lack of lack of collateral, 5% said it was because banks are expensive, 3% of the respondents said it was because of lack of guarantors and another 3% said it was time limitation, 2% said it was because they prefer using SACCO than banks this represents and 68% of the respondents never answered as shown in figure 4.6 below

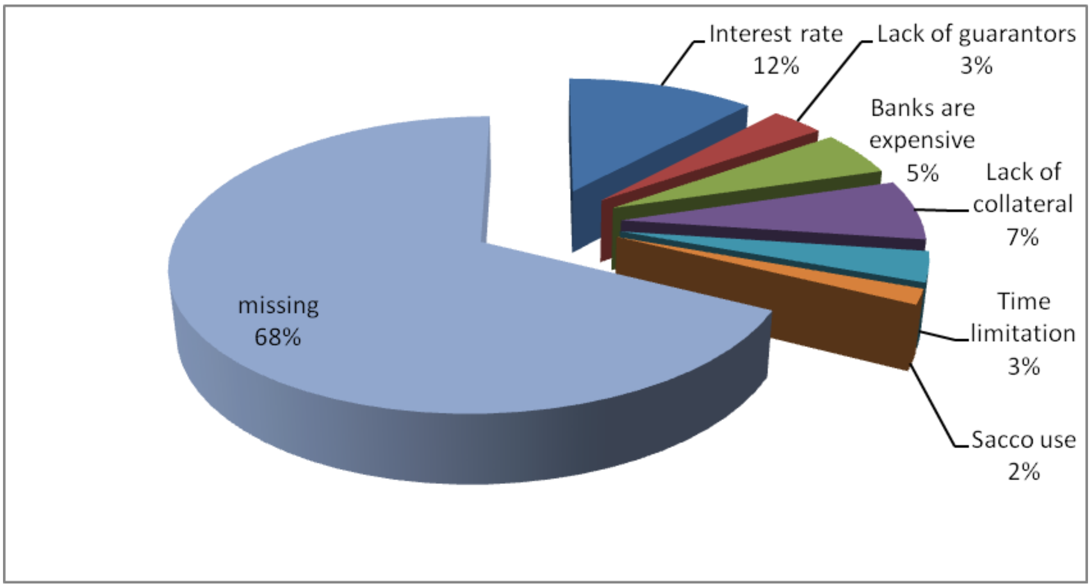

Figure 4.6: If no say why

4.3 Effects of Access to Credit

The study set to establish effects of access to credit. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related access to credit. Using a five point Likert scale where 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree the findings revealed that 51 respondents strongly disagreed and 53 strongly agree as shown in table 4.2.

4.3.1 Descriptive of Effects of Access to Credit

Majority of respondents agreed that they prefer personal loans from family and friends (4.15). There was however uncertainty on respondents have received loan from a bank where personal contacts existed (3.62), it is very difficult accessing credit (3.34). In addition, respondents disagreed on whether they consider loans from banks or other financial institutions as being expensive (2.35) and undergone bankruptcy before starting the current enterprise (1.52) as shown in table 4.2 below

On analysis of the standard deviation they prefer personal loans from family and friends had the highest deviation of (1.286) whereas they had undergone bankruptcy before starting the current enterprise (0.773) had the lowest standard deviation. This means that there was little variation amongst respondents on those who agreed, disagreed and neutral.

Table 4.2: Descriptive of Effects of Access to Credit

Variable	1	2	3	4	5	Mean	Standard deviation
	%	%	%	%	%		
It is very difficult accessing credit	2	16	12	20	8	3.34	1.122
I have only received a loan from a bank where personal contacts existed	7	22	9	15	6	3.62	1.244
I prefer personal loans from family and friends	5	10	7	20	17	4.15	1.286
I consider loans from banks or other financial institutions as being expensive	0	5	6	26	22	2.35	0.899
I had undergone bankruptcy before starting the current enterprise	37	12	9	0	0	1.52	0.772

1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree

4.3.2 Experience in Accessing Credit

To analyze SME's experience when accessing credit 42% of the respondents agreed that it was difficult accessing credit due to time limitation given to them to repay back the loan, 36% of the respondents was due to interest capping, 7% of the respondents stated that it was because of bureaucracy, and another 7% due to high transaction cost, 5% of the respondents agreed that collateral was required, and 3% of respondents agreed that they prefer using mobile money as shown in figure 4.7 below

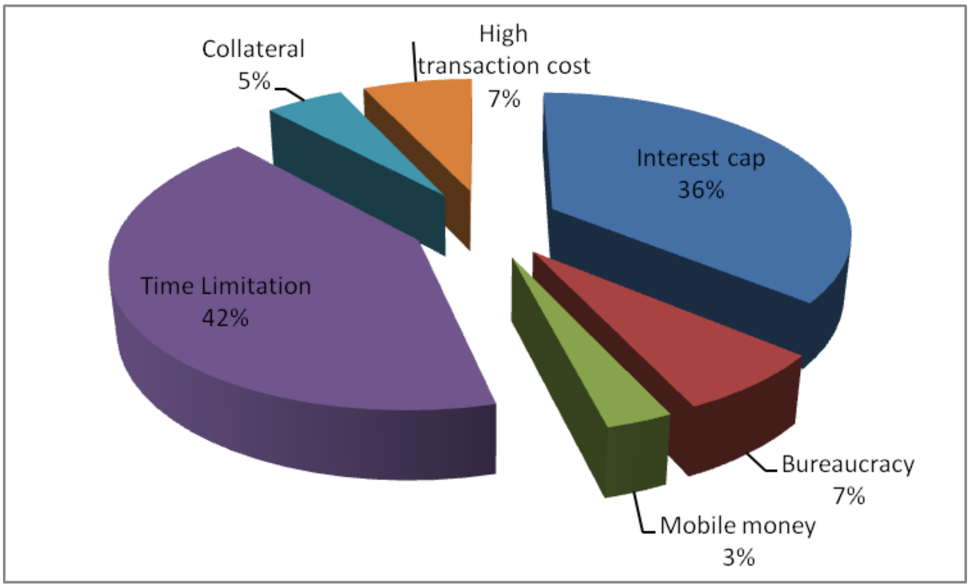

Figure 4.7: Experience in accessing Credit

4.4 Firm Characteristics on SME's Access to Credit

The first objective set to establish the effect of firm characteristics on SME's access to credit. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to effect of firm characteristics on SME's access to credit. Using a five point Likert scale where 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree the findings revealed that 6 respondents strongly disagreed and 58 strongly agree as shown in table 4.3.

4.4.1 Firm Characteristics on SME's Access to Credit

Majority of respondents agreed that small firms size have problems in accessing loans than big firms (4.41), SME's located in urban are successful in access to debt financing compared those located in rural areas (4.28) and older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years (4.30). There was however uncertainty on credit enables SMEs to meet their expansion plan (3.97), younger firms (less than 3 years) face challenge accessing loans as compared to older firms (3.88) and banks are unwilling to lend to small firms located in rural areas (3.85) as shown in table

On analysis of the standard deviation SMEs located in urban are successful in access to debt financing compared those located in rural areas had the highest deviation of

(1.765) whereas Older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years had the lowest deviation of (0.525). This means that there was little variation amongst respondents on those who agreed, disagreed and neutral

Table 4.3: Descriptive of Effects of Access to Credit

Variable	1	2	3	4	5	Mean	Standard deviation
	%	%	%	%	%		
Small firms size have problems in accessing loans than big firms	0	2	30	27	0	4.41	.581
Credit enables SMEs to meet their expansion plan	0	4	7	35	13	3.97	.784
Older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years	0	0	2	38	19	4.30	.525
Younger firms (less than 3 years) face challenge accessing loans as compared to older firms.	1	6	10	26	16	3.88	.985
Banks are unwilling to lend to small firms located in rural areas		2	14	33	10	3.85	.728
SMEs located in urban are successful in access to debt financing compared those located in rural areas	5	2	15	6	0	4.28	1.765

1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree

4.4.2 Other Firm Characteristics

To analyze other firm characteristics that influence access to credit, findings revealed that 4 respondents stated that management affects access to finance this represents 7% of the population, 2 respondents stated that government policy affects access to finance this represents 3% of the population, 14 respondents stated that bank statement affects access to finance this represents 24% of the population, 8 respondents stated that networking/political ties affects access to finance representing 14% of the population, 7 respondents stated that nature of business affects access to finance representing 12% of the population, 11 respondents stated that assets affects access to finance representing 19% of the population, 6 respondents stated that risk assessment affects access to finance this represent 10% of the population, as shown in figure 4.8

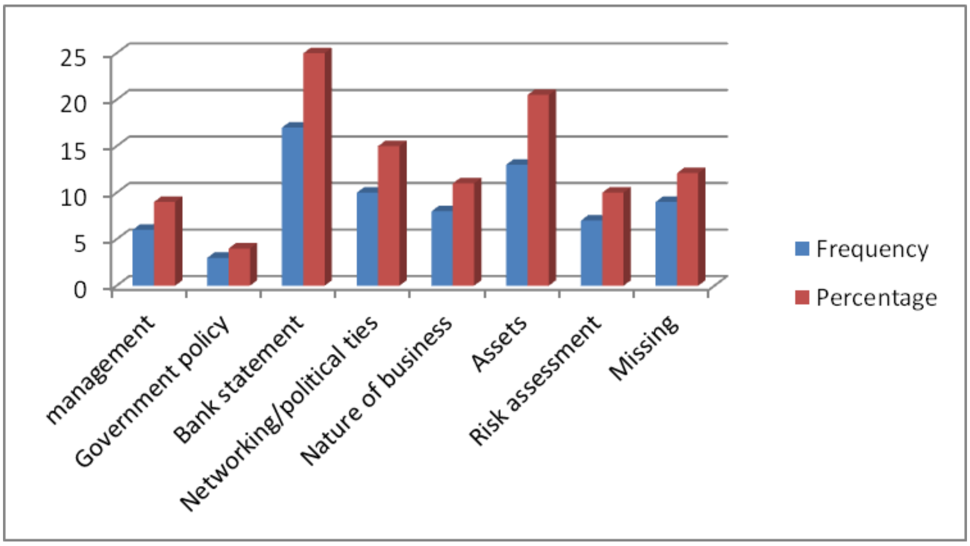

Figure 4.8: Other Firm Characteristics

4.5 Financial Characteristics on SME's Access to Credit

The second objective set to establish the influence of financial characteristics on SME's access to credit. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to influence of financial characteristics on SME's access to credit. Using a five point Likert scale where 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree the findings revealed that 46 respondents strongly disagreed and 81 strongly agree

4.5.1 Financial Characteristics on SME's Access to Credit

Majority of respondents agreed that they have adequate book keeping records which have made it easy for them to access credit (4.33), audited financial statements are needed before a loan is approved (4.08) and lack of collateral affects access to finance (4.05). There was however uncertainty on firms that do not generate profits experience challenges accessing credit (3.91) and financial institutions are reluctant to provide long term finance to SME's (3.47). In addition, respondent also disagreed on credit has a positive effect on business performance and growth (1.24) as shown in table 4.4 below

On analysis of the standard deviation financial institutions are reluctant to provide long term finance to SME's had the highest deviation of (1.765) whereas Credit has a positive effect on business performance and growth had the lowest deviation of (0.432). This means that there was little variation amongst respondents on those who agreed, disagreed and neutral

Table 4.4: Descriptive of Financial Characteristics on SME's Access to Credit

Variable	1	2	3	4	5	Mean	Standard deviation
	%	%	%	%	%		
Lack of collateral affects access to finance	0	3	7	34	15	4.41	.773
Financial institutions are reluctant to provide long term finance to SME's	4	6	12	31	6	3.47	1.026
I have adequate book keeping records which has made it easy for me to access credit	0	1	6	28	24	4.33	.709
Audited financial statements are needed before a loan is approved	0	2	8	31	18	4.08	771
Firms that do not generate profits have challenges accessing credit	1	3	13	22	18	3.91	.955
Credit has a positive effect on business performance and growth	41	15	0	0	0	1.24	.432

1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree

4.5.2 Types of Collateral or Securities Accepted

To analyze type of collateral or securities accepted findings revealed that that 71% of the respondents agreed that title deed is required as part of collateral/security when accessing credit and 23% also agreed that fixed assets is also considered as part of collateral as shown in figure 4.9

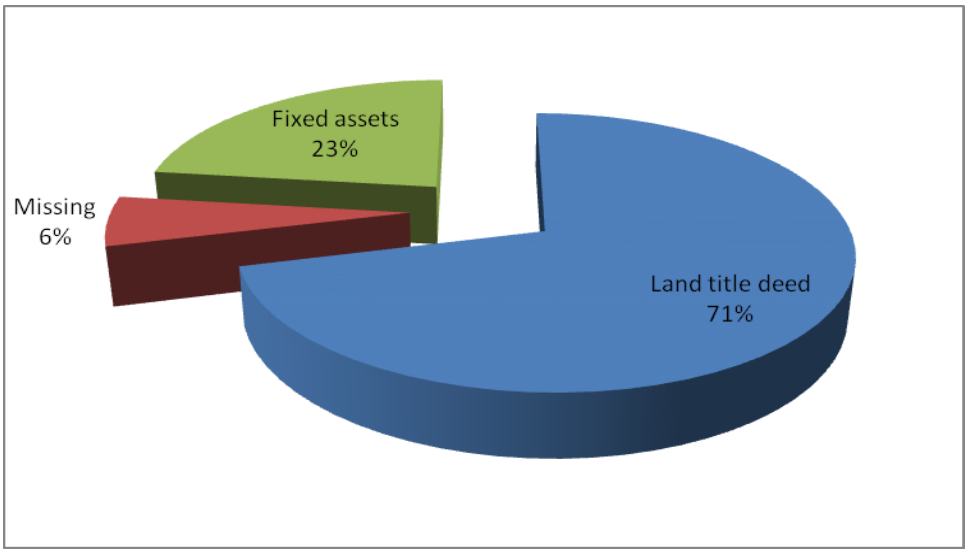

Figure 4.9: Types of Collateral or Securities Accepted

4.6 Entrepreneur's Characteristics on SME's Access to Credit

The third objective set to determine entrepreneur's characteristics on SME's access to credit. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to determine entrepreneur's characteristics on SME's access to credit. Using a five point Likert scale where 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree, 39 respondents strongly disagreed and 49 strongly agree

4.6.1 Entrepreneur's Characteristics on SME's Access to Credit

Majority of respondents agreed that banks prefer women to men when issuing credit (4.25). There was however uncertainty on use of networking influences access to finance (3.74). In addition, respondents disagreed on applying a loan as a group is easy because of access to co guarantors (2.94), use of political ties helps an entrepreneur access finances (2.91), level of education/training affects access to finance (2.73) and banks consider training and skills one has to access credit (2.24) as shown in table 4.5

On analysis of the standard deviation banks prefer women to men when issuing credit had the highest deviation of (1.524) whereas Credit level of education / training affects access to finance had the lowest standard deviation of (0.953). This means that there was little variation amongst respondents on those who agreed, disagreed and neutral.

Table 4.5: Entrepreneur's Characteristics on SME's Access to Credit

Variable	1	2	3	4	5	Mean	Standard deviation
	%	%	%	%	%		
Through networking I have been able to access credit	0	10	11	21	17	3.74	1.042
Appling a loan as a group is easy because I can get co guarantors	5	18	19	13	4	2.94	1.036
Use of political ties helps an entrepreneur access finances	7	14	19	16	3	2.91	1.106
The level of education/ training one has affects in accessing finance	4	21	22	10	2	2.73	.953
Banks consider the training and skills one has to access credit	18	13	14	4	18	2.24	.978
Banks prefer women to men when issuing credit	5	3	7	19	5	4.25	1.524

1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree

4.6.2 Ways to Enhance Women Access to Credit

To analyze other ways financial institutions can use to ensure that women are able to access finance, 5 respondents agreed that women should be able to own assets this represents 8% of the population, 3 respondents agreed that government policies should be developed to favor women this represents 5% of the total population, 7 respondents agreed that gender equality should be adhered to this represents 12 % of the population, 20 respondents agreed that training should be offered this represents 34% of the population, 7 respondents agreed that women kitty should be developed this represent 12% of the population and 17 respondents agreed that women should join self-help groups this represents 29% of the population as shown in figure 4.10

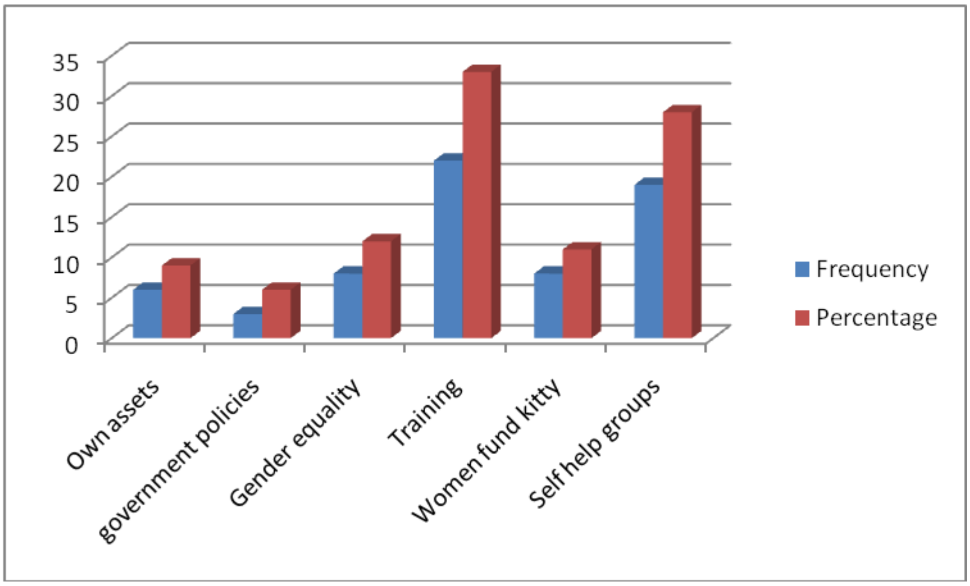

Figure 4.10: Ways to Enhance Women Access to Credit

4.7 Inferential Statistics

4.7.1 Correlation between Access to Finance and Other factors

The study undertook a correlation analysis to identify the relationship between access to finance and other factors. The findings revealed that only firm characteristics had a positive correlation with access to finance ($r=0.292$, $p<0.05$). These findings show that with every improvement on firm characteristics there is a positive increase in access to finance.

Table 4.6: Correlation between Access to Finance and Other Factors

	Access to finance	Firm characteristics	Financial characteristics	Entrepreneur characteristics
Access to finance	1	.509*	-.086	-.472*
Sig. (2-tailed)		.037	.744	.041
Firm characteristics	.509*	1	.409**	-.030
Sig. (2-tailed)	.037		.004	.838
Financial characteristics	-.086	.409**	1	.092
Sig. (2-tailed)	.744	.004		.514
Entrepreneur characteristics	-.472*	-.030	.092	1
Sig. (2-tailed)	.041	.838	.514	

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

4.7.2 Regression Analysis of Access to Finance and Other Factors

The study was set to determine factors affecting access to credit by small and medium enterprises in Kenya. A regression analysis was done to determine if firm characteristics, financial characteristics and entrepreneur characteristics determines access to finance

4.7.2.1 Model Summary

The results established that the R^2 was 0.104 which indicates that 10% of access to credit is determined by firm characteristics, financial characteristics and entrepreneur characteristics as shown in table 4.7 below

Table 4.7: Model summary of Access to Finance and Other Variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df 2	Sig. F Cha nge
1	.323[a]	.104	.054	1.090	.104	2.093	3	54	.323[a]

Predictors: (Constant), firm characteristics, financial characteristics, entrepreneur characteristics

4.7.2.2 ANOVA

An ANOVA analysis was done between firm characteristics, financial characteristics and entrepreneur characteristics on access to finance. At 95% confidence level, the F value=2.093, P<0.095) therefore it is established that firm characteristics, financial characteristics and entrepreneur characteristics has a significant effect on access to finance the results are shown in table

Table 4.8: Anova Access to finance and other factors

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.457	3	2.486	2.093	.112[b]
	Residual	64.129	54	1.188		
	Total	71.586	57			

a. Dependent Variable: Access to finance
b. Predictors: (Constant), firm characteristics, financial characteristics and entrepreneur characteristics

Table 4.9: Coefficients of Access to Finance and Other Factors

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.460	1.349		.341	.734
firm characteristics	.502	.268	.252	1.870	.067
financial characteristics	.001	.193	.001	.007	.995
entrepreneur characteristics	.159	.144	.149	1.101	.276

a. Dependent Variable: Access to Credit

As per Table 4.9, the equation ($Y= \beta_0+ \beta_1X_1 + \beta_2X_2 + \beta_3X_3$) becomes:

$Y= 0.460+ 0.502X_1 + 0.001X_2+ 0.159X_3$

Where Y is the dependent variable Access to Credit

X_1 – firm characteristics

X_2 – financial characteristics

X_3 – entrepreneur characteristics

The regression equation illustrated in Table 4.9 has established that taking all factors into account (firm characteristics, financial characteristics and entrepreneur characteristics) all other factors held constant access to finance increased by 0.460. The findings presented also showed that with all other variables held at zero, a unit change in firm characteristics would lead to a 0.502 increase in access to finance, and a unit change in financial characteristics would lead to 0.001 increase in access to finance. Additionally, the study also showed that a unit change in entrepreneur characteristics would result in 0.159 increase in access to finance.

4.7 Chapter Summary

This chapter discusses results and findings. The first part provided an analysis of demographic data of the respondents, the second section dealt with data on access to finance, the third part looked at the data on firm characteristics, the fourth part covered issues on financial characteristics and the fifth part discussed issues on entrepreneur characteristics. The chapter has also discussed regression and correlation. Chapter five will present discussion conclusion and recommendation.

CHAPTER FIVE

5.0 DISCUSSION CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents a summary of findings of the study. Findings are discussed in relation to previous literature review. This will be organized based on the specific research objectives which sought to establish firm characteristics, financial; characteristics and entrepreneur characteristics affected access to finance

5.2 Summary of Findings

The purpose of the study is to access factors affecting access to credit by Small and Medium Enterprises (SMEs) from financial institutions in Kenya, a case study of Nyeri County. The research was guided by the following objectives: to determine the influence of firm's characteristics on SMEs access to credit in Nyeri County, Kenya, to determine Entrepreneur's Characteristics on SMEs access to credit in Nyeri County, Kenya, to establish the influence of financial characteristics on SMEs access to credit in Nyeri County, Kenya.

A descriptive research design was employed in this study to gather quantifiable information through use of open and close-ended questions. The target population was 84 SMEs in agriculture sector that have been in operation for more than 3 years. Stratified random sampling was used to select a sample size of 67. Data was analyzed using descriptive statistics and Statistical Package of Social Sciences (SPSS). Data obtained was coded according to different variables and descriptive statistics such as frequencies, mode, mean percentiles, variances and standard deviations was used to interpret. Tables, figures and charts were used for analysis and interpretation of data. Pearson correlation and regression analysis was done to determine the influence of independent variables on the dependent variable.

The findings on firm characteristics and access to credit revealed majority of the respondents agreed that small firms size have problems in accessing loans than big firms, SME's located in urban are successful in access to debt financing compared to those located in rural areas, older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years. There was however uncertainty on credit enables SMEs to meet their expansion plan, younger firms (less than 3 years) face challenge accessing loans as compared to older firms and banks are unwilling to lend to small firms located in rural areas.

The findings on financial characteristics and access to credit revealed that respondents agreed that they have adequate book keeping records which have made it easy for them to access credit, audited financial statements are needed before a loan is approved and lack of collateral affects access to finance. There was however uncertainty on firms that do not generate profits experience challenges accessing credit and financial institutions are reluctant to provide long term finance to SME’s. In addition, respondent also disagreed on credit has a positive effect on business performance and growth.

The findings on entrepreneur characteristics and access to credit revealed that majority of respondents agreed that banks prefer women to men when issuing credit. There was however uncertainty on use of networking influences access to finance. In addition, respondents disagreed on applying a loan as a group is easy because of access to co guarantors, use of political ties helps an entrepreneur access finances, level of education / training affects access to finance and banks consider training and skills one has to access credit

5.3 Discussion

5.3.1 Effect of Firm’s Characteristics on SME’s Access to Credit

The findings revealed that t small firms size have problems in accessing loans than big firms and older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years. This is in support to study done by Berger and Udell (2002), and Fatoki and Asah (2011) who indicated that firm size influences SME’s access to finance. This is because smaller and younger SME’s are less favored by banks hence facing higher cost of financing as compared to big and older firms. In their study, they also revealed that there was a positive relationship between firm size and SMEs access to debt financing. In addition, Oliveira and Fortunato (2006) indicated that smaller firms faces a challenge accessing finance hence affecting their growth because of lack of sufficient cash flow and are unable to rely on bank financing.

The findings revealed that SME's located in urban areas are able to easily access debt financing as compared to those located in rural areas. This is in agreement with a research done by Fatoki and Asah (2011) in their research findings revealed that there was a positive relationship between location and access to debt financing by SME's

Findings revealed banks are willing to lend to small firms located in rural areas. This is in support to a study done by Rand (2007) who indicated that SME's in rural areas are able to access credit from banks because most government bank credit are located towards rural areas. However this is in contrast study done by Pandula (2011) who indicated that banks are more reluctant to lend to small firms located in rural areas because most SME's have collateral that have less market value and in case of default, they may find it difficult to realize these assets.

Findings revealed younger firms do not (less than 3 years) face challenge accessing loans as compared to older firms. In contrast study done by Klapper (2010) and Ngoc, Le and Nguyen (2009) it was established that firms face hardship and more costs in accessing external financing from lenders because information asymmetry. In addition, it was also revealed that there was a positive relationship between firm's age and access to debt financing by SME'S.

5.3.2 Effect of Financial Characteristics on SME's Access to Credit

Findings revealed that respondents have adequate book keeping records which have made it easy for them to access credit and audited financial statements are needed before a loan is approved. This is line with study done by Pandula (2010) and Nanyondo, (2014) who indicated that audited financial statements and quality of financial statement has a significant positive association with access to finance. However, In contrast, a study done by Sarapaivanich and Kotey (2006) indicates that young and small firms experience a challenge accessing credit due to lack of well-established record keeping system and readily available audited financial statements.

Findings revealed that respondents agreed that lack of collateral affects access to finance. This is in agreement with research done y done by Kamau (2009) and Vuvor and Ackah (2011) which indicated that SME's faces a challenge accessing credit due to lack of collateral.

Findings revealed that financial institutions are reluctant to provide long term finance to SME's, credit has a positive effect on business performance and growth and firms that do not generate profits experience challenges accessing credit. This is in line with study done by Rahaji and Fakayode, (2009); De Klerk, (2008) who indicated that agricultural SME's faces unfavorable factors which hinders them from accessing finance and also financial service providers classify farmers as high risk clients who cannot use their farms as collateral for credit.

This was also in line with study done by Wagenvoort, (2003); Beck, et al (2005); Khandker *et al* (2013) indicated that SME's performance and growth is affected due to lack of accessing formal finance. Study done by Shinozaki (2012) revealed that access to credit has a positive effect on SMEs growth whereas a study done by Malesky and Taussig (2009) revealed that there was no relationship between access to credit and firm performance.

5.3.3 Effect of Entrepreneurs Characteristics on SME's Access to Credit

Findings revealed that respondents agreed that banks prefer women to men when issuing credit. This is in line with a study done by Demirgüç-Kunt, Beck, and Honohan, (2008), Cole and Mehran (2009) who indicated that women entrepreneurs face more challenge accessing finance compared to male entrepreneurs. It is also in line with study done by Roper & Scott (2009) and Mijid (2009), in their findings it was established that that gender is a factor in the demand for and availability of credit. However, in contrast a study done by Beck and Cull (2014) and Mama and Ewoudou (2010) findings revealed that gender is not a factor in access to credit and discouragement about obtaining it

Findings revealed that use of networking influences does not influence access to finance, applying for a loan as a group is easy because of access to co guarantors and use of political ties helps an entrepreneur access finances. In contrast, according to Atieno (2009), Andula, (2011) findings established that networks help to provide advice, information and capital to small firms, social ties or professional associations allows SME operators to establish relations with bankers. This was also in line with studies done by Vos, (2004); Pandula, (2011), Kumah, (2011), McKenzie, (2009) and OECD, 2000 who indicated that group liability is preferred by financial institutions, membership with an association increase SMEs' access to finance, group lending increases a firm's access to credit and political surroundings exert a huge impact on the performance of SMEs.

Findings revealed that level of education/training does not affect access to finance and banks consider training and skills one has to access credit. In contrast according to Zarook*et al.* (2013); Slavec and Prodan (2012) it was revealed that educational level of owners has big tremendous correlation with access to financial institution loan. This was also in line to study done by Abdesamed and AbdWahab (2012) Kira (2013) and Mukiri (2012) which indicated that that academic education level of the entrepreneur has positive effect on getting entry to finance and also that SMEs with proprietor/manager who have instructional qualification of training and past are much more likely to be favored by banks to get admission to credit score.

5.4 Conclusions

5.4.1 Firm Characteristics on SME's Access to Credit

Small firms experience a challenge accessing loans from banks as compared to big SME's, location of a firm also affects access to finance, older firms that have been around for a long time have more experience in accessing finance than younger firms. Credit does not enable SME's achieve or meet their expansion plan.

5.4.2 Financial Characteristics on SME's Access to Credit

SME's have adequate book keeping records which have made it easy for them to access credit; audited financial statements and collateral are needed before a loan is approved. SME's are not able to generate profit due to challenges accessing credit, SME's are not able to access long term financing because financial institution consider them as being risky and credit does not have a positive effect on performance and growth.

5.4.3 Entrepreneur's Characteristics on SME's Access to Credit

Banks prefer lending to women than men, access to finance is not influenced by networking, applying as a group, political ties, level of education and training and skills entrepreneurs have.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Firm Characteristics on SME's Access to Credit

It is recommended that financial institutions should develop products that will target SME's located in rural areas. Awareness should also be created. Through this SME's will be encouraged and motivated to access credit from financial institutions.

5.5.1.2 Financial Characteristics on SME's Access to Credit

SME's should ensure that they have collateral and sufficient documentations before accessing credit. Through this they will be able to access finance. Through this financial institutions will be less reluctant to give them long term loan. Access to credit will also enable SME's grow and invest.

5.5.1.3 Entrepreneur's Characteristics on SME's Access to Credit

SME's should be encouraged to access credit as a group or chama. This is because that will be able to easily get guarantors hence making it easy to access loans. Entrepreneurs should be encouraged to attend training and seminars that will enable them network, share ideas and gain more knowledge of how to prepare a marketable business plan and access credit.

5.5.2 Recommendation for Further Studies

The study only focused access to credit by SME's in the agricultural sector. It is recommended that other studies be done to determine other factors that affect access to finance. Further studies should be conducted on the role of financial sector in development of agriculture sector.

Research can also be done on the financial market deepening to look at the reachability of the financial services to the informal sector due to the impact SMEs have on our GDP.

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APPENDIX I: INTRODUCTION LETTER

Ann Gathoni Thuku
United States International University - Africa,
P.O. Box 14634, 00800,
Nairobi. Kenya.
July 1, 2017
Dear Respondent,

<u>RE: GRADUATE RESEARCH QUESTIONNAIRE</u>
I am a student at United States International University - Africa pursuing Masters of Business Administration degree. As part of the requirements of the program I am undertaking a research on "**Factors Affecting Access to Credit by SMEs in Kenya: A Case Study of Agriculture Sector in Nyeri County".**

You have been selected to participate in the study. I therefore request you to complete / assist the researcher to complete the attached questionnaire. It is estimated that it will take 15-20 minutes to complete the questionnaire. The information and data provided is needed for academic purposes only and will be treated strictly confidential and no instance will your name be mentioned in this report thereof.

Thank you for your anticipated kindest response.

Yours Sincerely,

Ann Thuku

APPENDIX II - QUESTIONNAIRE

FACTORS AFFECTING ACCESS TO CREDIT BY SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF AGRICULTURE SECTOR IN NYERI COUNTY

This questionnaire assists in data collection for academic purpose. The research intends to give an analysis of firm's characteristics, financial characteristics, and entrepreneur's characteristics in relation to access to finance. All information obtained, will be handled with high level of confidentiality. Do not incorporate identification or names in the questionnaire.

Please answer every question as in outlined by using either a cross(x) or (ticking) in the option that applies.

SECTION A: DEMOGRAPHIC DETAILS

1. Gender

Male ☐

Female ☐

2. Age

Below 20 years ☐ 21–30 years ☐ 31 – 40 years ☐ above 40 years ☐

3. What is your highest education level?

Form 4 ☐ Certificate ☐ Diploma ☐ Degree ☐ Post graduate ☐

5. How long have you been working in the organization

Less than one year ☐ 1-5 years ☐ 6-10 years ☐ over 10 years ☐

6. Have you ever applied for loan from a bank? Yes [ ] **No** [ ]

If no say why ____

____

SECTIONE B: 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**

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	It is very difficult accessing credit					
	I have only received a loan from a bank where personal contacts existed					
	I prefer personal loans from family and friends					
	I consider loans from banks or other financial institutions as being expensive					
	I had undergone bankruptcy before starting the current enterprise					

In your opinion what is your experience in accessing credit?

____

____

SECTION C: Firm's Characteristics on SMES 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**

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Small firms size have problems in accessing loans than big firms					
	Credit enables SMEs to meet their expansion plan					
	Older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years.					
	Younger firms (less than 3 years) face challenge accessing loans as compared to older firms.					
	Banks are unwilling to lend to small firms located in rural areas					
	SMEs located in urban are successful in access to debt financing compared those located in rural areas					

In your own opinion what other firm characteristics influence access to credit?

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____

SECTION D: Financial Characteristics on SMES Access to Credit

Please indicate your opinion as per the level of disagreement or agreement with the outline statement using1 to 5 scale guideline. **1= Strongly Disagree 2= Disagree, 3= Neutral, 4 = Agree, 5= Strongly Agree**

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Lack of collateral affects access to finance					
	Financial institutions are reluctant to provide long term finance to SME's					
	I have adequate book keeping records which has made it easy for me to access credit					
	Audited financial statements are needed before a loan is approved					
	Firms that do not generate profits have challenges accessing credit					
	Credit has a positive effect on business performance and growth					

What collateral / securities are commonly acceptable by financial institutions for SMES accessing credit?

____

____

SECTION E: Entrepreneur's Characteristics on SMEs access to credit

Please indicate your opinion as per the level of disagreement or agreement with the outline statement using1 to 5 scale guideline. **1= Strongly Disagree 2= Disagree, 3= Neutral, 4 = Agree, 5= Strongly Agree**

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Through networking I have been able to access credit					
	Appling a loan as a group is easy because I can get co guarantors					

	Use of political ties helps an entrepreneur access finances					
	The level of education / training one has affects in accessing finance					
	Banks consider the training and skills one has to access credit					
	Banks prefer women to men when issuing credit					

According to you are there other ways of enhancing women SMES credit access?

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Thank you for your participation

APPENDIX III: WORK PLAN

Activity	**MAY, 2017**	**JUNE-JULY ,2017**	**AUGUST,2017**
Selection of topic			
Topic approval			
Research proposal writing			
Questionnaire formulation			
Project submission			

APPENDIX IV: RESEARCH BUDGET

	Examination items	Amount (Ksh)
1.	Flash disk	1,500
2.	Stationery	6,000
3.	Transport	5,000
4.	Telephone / internet cost	6,000
5	Research Assistant	10,000
	Total	28,500