FINANCIAL FACTORS AFFECTING ACCESS TO CREDIT AMONG SMALL AND MEDIUM ENTERPRISES IN MACHAKOS TOWN SUB-COUNTY, KENYA

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DECLARATION

I understand that plagiarism is an offence and I therefore declare that this research project is my original work and has not been presented to any other Institution for any other award.

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This Research Project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

I dedicate this project work to my wife, for the support and sincere encouragement throughout the period. May God bless you abundantly.

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ABBREVIATIONS AND ACRONYMS

CBD : Central business Districts

CBK : Central Bank of Kenya

GDP : Gross Domestic Product

KBA : Kenya Bankers Association

KEs : Kenya Shillings

MFI : Microfinance Institutions

MSEs : Medium and small enterprises

MSEA : Micro Small Enterprise Authority

MSME : Micro, Small and Medium Enterprises

OECD : Organization for Economic Cooperation and Development

SACCO : Saving and credit cooperatives

SME : Small and Medium Enterprise

SMEs : Small and Medium Enterprises

SMEDC : Small and Medium Enterprises Development Council

SPSS : Statistical Package for Social Sciences

UK : United Kingdom

USD : United State Dollars

DEFINITION OF TERMS

Small and Medium Enterprises	**:**	Refers to those enterprises whose annual Turnover ranges below five million shillings and employs less than fifty Employees.
Cost of Credit	**:**	This refers to the amount of money, over And above the borrowed amount, that the Borrower has to pay. They include Processing fee, negotiation fees, and Interest rates, personal insurance, legal Fees and travelling expenses that the Entrepreneurs meet in the process of acquiring credit.
Business Risk	**:**	This is a condition of uncertainty encountered by the business owner(s) in the course of doing their business.
Credit	**:**	A source of finance provided by Financial institutions with arrangement of repayment at an agreed interest rate. It may include; or issuing equity or bonds to create long term obligation, or commercial paper to take on shorter term debt.
Access to credit	**:**	Refers to a situation where a business Or a person can obtain loan facility from lenders.
Financial institutions	**:**	These are institutions responsible for

		the supply of money to the market through the transfer of fund from investors to the companies/individuals in the form of loans, deposits, and investments. They include Commercial banks, Microfinance institutions and SACCOs.
Financial factors	**:**	These are factors that affect the Acquisition of funds and ensure the operation of the enterprise is not interfered with. They ensure the business has finances when it needs them.
Collateral	**:**	Collateral is a borrower's pledge of Specific property to a lender, to sufficiently secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default.
Financial Information	**:**	Financial information provides Information about the financial Position, performance and changes in Financial position of an enterprise that is useful to wide range users in making economic decisions

ABSTRACT

Small and medium enterprises (SME's) play a critical role in an economy. They improve the standard of living to both the employees and employers. They are a major source of innovations and entrepreneurial skills. The study was guided by the following objectives; to establish financial factors that affect access to credit among SMEs in Machakos Town Sub-county. Specifically, the study sort to find out the influence of collateral requirements, the effect of cost of credit on access to credit and the effect of business risks on access to credit among SMEs' in Machakos Town Sub-county, Kenya. It also sorts to establish the effect of financial information asymmetry on access to credit among SMEs in Machakos Town Sub-County. The study was guided by relevant theories such has; Credit rationing theory, Information asymmetry theory, pecking order theory and trade-off theory also, the study relied on the following independent variables; collateral, cost of credit, business risks and financial information asymmetry, with the dependent variable; access to credit among SMEs in Machakos town sub-county. The target population was 380 SMEs proprietors located in Machakos Town sub-county. The sample size was 57.The study employed descriptive study design. A stratified sampling technique was used in coming up with strata's and then a simple random sampling was applied to select respondents from the stratus. Primary data was collected using semi-structured questionnaires. The questionnaires were administered using the drop and pick method. The data analysis was done using SPSS and it captured both descriptive and inferential statistics. Descriptive statistics covered frequencies, mean, standard deviations and variances. Inferential statistics included Pearson's correlation and regression analysis. The results of the analysis were presented in tables. The study found out that cost of credit such as process and insurances fees are key determinant to access to credit among small and medium enterprises in Kenya. The study also found out that business risk affect access to credit thus financial institutions would not want to finance such businesses with high risks. The study found out that it is difficult to avail all financial information required about the businesses in order to access to credit. From the findings the study concluded that access to credit by SMEs from financial institutions has been constraint by a number of financial factors such as lack of conventional security as demanded by financial institutions, perceived business risks, associated cost incurred by SMEs in acquiring the credit and financial information asymmetry between borrowers and lenders of money. From the conclusion the study recommends that the government should provide credit guarantee to financial institutions lending to SMEs.This will act has a buffer them incase SMEs fails to honor their financial obligation. Further the study recommends that there is need for financial institutions to have flexible terms of loan repayment as well as simplified loan application process. This will encourage increased number of SMEs applying credit facilities.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This introduction chapter covers the general overview of the study. It begins with the contextual of the study, which deals with worldwide perspectives of SMEs. Additionally, it gives a general summary and profile of access to credit in the sub-county of Machakos town. It also outlines the statement of the problem and the objectives that the study will interrogate. It also justifies, gives the scope, and captures limitations and delimitation of the study.

1.1 Background of the Study

Small and Medium Enterprises are significant in economic growth. Floyd and McManus (2005), in their research, found out that there is an absence of many large firms in most developing countries, thus implying that the SME sector is the main engine of their development. SMEs and entrepreneurship are recognized as crucial foundations of innovation, flexibility, and dynamism in the advanced industrial economies, emerging markets, and developed economies, and are major net job makers in such economic blocks. Further, Formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies (OECD, 2006a; 2006b).

Nowadays, governments throughout the world are now focusing their attention on small and medium enterprises. This is because large industries have usually failed to promote and improve the lives of the majority of the population concerned (White Paper on International Development, 2000). There have been enhanced credit guarantees schemes for SMEs in developed countries. In the UK, for example, the Government guarantees up to 75% of loans to businesses in Japan, 80%, and South Korea 100% (Matavire & Duflo, 2013). In some instances, governments resort to direct lending to Small and Medium Enterprises through public institutions. For example, in Belgium, the ministry of SMEs provides a platform of pre-fund agreements that businesses use to obtain guaranteed loans from financial institutions. Sweden, as well increased by

50% credit access capacity of the subsidiary SME banks of state-owned business bank almi (Ingram, 2011).

The performance of SMEs in Africa has generally been quite poor, and many people still have solid persuasion that they act as an engine of growth in the continent, by creating skilled jobs and positive spillover effects and, more generally, by modernizing the economy (Bigsten & Soderbom, 2006). Aryeetey (2005), studied informal finance to SMEs in Ghana and found out that thirty –eight percent of the SMEs have limited access to credit. It was deduced that SMEs have inadequate access to finance due to the perceived high risk, information asymmetry, and high cost of capital.

According to Gunto and Alias (2014), the Malaysian Government has given small businesses, the SMEs precedence and has put in place institutional structure and policy guide that addresses their developmental needs. Kenya government set up in 2004 a National SME Development Council (SMEDC) chaired by the Prime Minister to make sure policy execution. The framework of fund for Small and Medium-Scale Industries' was established and the task, intended to develop SMEs via the provision of financial assistance, sustained to have relevance. The Government's programs and initiatives for SME development focused on achieving some targets, especially in the areas of developing human capabilities and the necessary enabling infrastructure that permits for the establishment of high performance and high value-added SMEs.

In the Libyan context, small businesses own upward of 80% of the private segment, while a small corporate owns only 16%, and 3% of SMEs are owned by families (Wahab 2014). Libya's SMEs has generally suffered from some challenges which hinder the sector to flourish. Among these challenges, easy access to credit has been rated as the main one. The other factors are social, economic, demographic, and political related. According to Abdesamed and Wahab (2014), although 96% and above of enterprises in Libya are SMEs, their contributions to the gross domestic product (GDP) growth is merely 4%. The difficulty of these enterprises in accessing credit is considered one of their main problems. Venture capital availability is almost entirely absent in the Libyan financial market.

In South Africa, SMEs account for about 91% of the formal business entities, subsidizing to about 57% of GDP, and provide almost 60% of employment (Kongolo, 2010). To support the importance of SMEs, the Government established a Ministry of Small Business Development in 2014. This has, in fact, helped the development of SME in various parts of the country (Waari 2015). As per Maziku (2012), in South Africa, SMEs face pressure in getting into both debt and equity financing. Virtually the problem of gain access to credit exist when there is a need for finances from a client with a worthwhile investment project that warrantees financing, but there exists inhibition to access the resources. This occurs due to the gaps that exist between the suppliers of external funding and the demand for financial resources.

In Kenya, Kithae, Gakure, and Munyao (2012) explain that SMEs are essential towards the achievement of the broad goals outlined in vision 2030 and are critical drivers towards making Kenya an industrialized country. In Kenya, 18% of the GDP and 80% of the workforce population are employed in SMEs, sector, according to Kithae (2012). Africa and the rest of the world, SMEs access to finance, and costs of investment appear in surveys and analysis as one of the leading hurdles to realizing growth. Since the capital needs of these enterprises can be satisfied by the use of internally generated funds and through debt. The source of funds from internal activities is subject to profit made by the firms in its operation.

1.1.1 Financial Factors

Financial factors are defined as those factors which affect the acquisition of funds in running the operations of the business and ensuring the funds are available when needed (Sarapaivanich, 2006). These financial factors include demand for collateral, business risks, cost of credit, and financial information asymmetry.

Security refers to the extent to which borrowers of monies commit their assets ahead of time before financing by financial institutions (Mulandi 2013). SMEs, in particular, provide security in the form of assets such as houses, cars, and anything that could bring back the principal in the incident of default on loans.

The cost of credit accessibility refers to the amount of money the entrepreneurs pay in the process of borrowing money from financial institutions. The key indicators of value in this respect are processing fees, negotiation fees, interest rates, personal insurance, legal fees, and travel expenses that the entrepreneurs meet in the process of acquiring credit (Gichuki 2014).

Risk (both business and financial risk) may be a dimension across which a financing gap might exist amongst SMEs. A firm's business risk (which focuses on a firm's operations), represents the uncertainty of the firm's return on its assets (Mwangi 2015).

To financial data in local lending, environments govern the extent to which small enterprises obtain sufficient external financing to exploit profitable projects. The right to use financial information is essential both from the SMEs' perspective and from the perspective of the providers of financial services and products.

1.1.2 Credit

Credit is defined as the ability of borrowers to access funds from the providers of funds. Financial institutions source funds for borrowers from the depositors, finders, or other sources (Atieno, 2009). In this way, financial institutions act as linkages between borrowers and depositors or investors of funds. The performance of any economy in the world is highly influenced by flow and awareness of credit. In his research, Mwongera (2014) did state that access to the credit allowed financial leverage, which, in the end, created wealth. Financial institutions play a crucial role in intermediating credit distribution in the economy at large. The Financial institution evaluates the borrowers using different parameters and extends credit to those it views less risky depending on the ability to repay. Lack of capacity of financial institutions to source for funds to lend to borrowers, then they will not be able to deliver their core business.

1.1.3 MSMEs in Kenya

The word micro and small enterprises (MSEs) or small and medium enterprises (MSMEs), refers to SMEs in Kenyan terms. Under the Micro and Small Enterprise Act of 2012, small enterprises have an annual turnover of up to KES 500,000 and with less than ten employees. Small enterprises have between KES 500, 000, and 5 million yearly turnovers and hire 10-49 persons. Medium enterprises are not covered by the Act but have been described as encompassing of enterprises with a turnover of between KES 5 million and 800 million and hiring 50-99 workers. There are 7.5M registered SMEs in Kenya contributing to 18% in GPD and create 80% employment and their involvement in various forms of businesses ranging from the manufacturing sector, Transport sector service sector, Agricultural sector and many other sectors (Mwangi, 2015).

In Kenya, SMEs are mostly have the limited capital base, and the technical skills and capacity to run these firms are also limited (Karanja 2012). The majority of the businesses in Machakos county fall under the SME category and are well spread across the province. A study by Karanja (2012), in the counties of Nairobi, Bomet, Kiambu, and Kwale, found out that the main challenges experienced by SMEs across the four counties attribute to limited access to finance despite the presence of various financial institutions in these counties.

According to the County Government of Machakos (2018), there are 380 SMEs in Machakos Town Sub-county. They cover all sectors of the economy (primary production, manufacturing, and services), and the ownership forms are a sole proprietorship, partnerships, or private limited companies. Some are located outdoors with little or no capital, while others are more formal and operate in market stalls and shops. According to Mwongera (2014), in Machakos County research, it was found out that most enterprises are owner-managed or mostly controlled and run as a family business. Most have the limited capital base, and the technical skills and capacity of those running the company are also limited.

1.1.4 Access to Credit

Access to credit refers to the ability of persons and enterprises to obtain external funding to enable them to ease cash flow problems (Pandula, 2013). A loan can also be short term or long term depending on the lenders' assessment of the borrowers' ability to repay. Access for credit by SMEs in Kenya has been identified as a necessary condition for job creation and economic growth (Njeri, 2012). SME segment in Kenya has grown remarkably between 2009 and 2013 and that the growth has been driven mainly by domestic banks. The total SME lending portfolio in December 2013 was estimated at KES 332 billion, representing 23.4% of the banks' entire loan portfolios (The USD equivalent is USD 3.84 billion, based on the exchange rate on December 31, 2013). Though as per the Central Bank of Kenya (2016), bank loaning to micro, small, and medium-sized enterprises (MSMEs) declined by 5.7%, thus threatening Private sector growth.

Credit access has remained a challenge facing SMEs, as documented by various scholars. For example, Bowen (2009) detected that non-access to loans is a major impediment to the growth and survival of SMEs in the manufacturing sector that are capital intensive. Atieno (2009) observed deficiency of credit or somewhat lack of it totally is attributed to a number of factors. Foremost, the nature of credit markets, which are segmented and incomplete. Secondly, on the supply side, most formal financial institutions consider SMEs not loanable due to their lack of growth potential and small size of their business activities.

The ability to access credit by businesses is a critical factor of private sector growth and especially for SMEs' that most often lack adequate capital that they need to grow and expand. In Rahaman's (2011)'s study, it was witnessed that an increase of 10% in bank loaning to a firm would lead to an increase of 18.14% in firm growth. On the other hand, lack of credit adversely affected earnings of the business than any other problem (Khandker 2013). 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). Financial institutions have packaged different credit facilities that are aimed at different forms of business. These products provide wide choices to SMEs, and in addition, once matched with their business needs, there would be improved performance, increased productivity, improved returns on investment, and increased incomes (Njeru, 2012).

Machakos Sub-county has got branches of some of the leading banks in Kenya, which include banks like: Cooperative, Kenya Commercial, Equity, Barclays, and Family. It also has got Micro Finance institutions such as Faulu Kenya and Kenya Women microfinance banks, other financial services offering institutions such as Savings and Credit Cooperatives, insurance firms, a branch of the Kenya Industrial Estates, among others. Mwongera (2014) ascribed challenges of access to credit amongst SMEs to the stringent conditions set by financial institutions on the SMEs before they can access financial support.

A study by Bani (2003), Most of the SMEs' applications in Africa are not granted. Also, Aryeetey (1998) observed half of SMEs applications for formal finance such as bank credit have any chance of success, and about two-thirds of applications from micro and small enterprises were likely to be successful. Bigsten (2000) observed that about 90%of small and medium enterprises are denied credit from financial institutions due to the inability to avail collateral security. Consistent with is, Mwangi (2015) showed that about 95% of the SMEs depend on their personal savings and loans from friends and relatives. Using data from six developing countries, Bigsten (2003) found that among those firms which applied for a loan, small firms had worse chances of getting a loan from financial institutions.

According to a survey conducted by KBA between April 2017 and June 2017, Bank Credit to the private sector is nearly grinding to a halt, with the most affected being unsecured personal loans. The study indicated that out of the 3.2 Million SMEs who applied for a loan from banks between the month of May 2017 and June 2017, only 1.1 million had their loans approved. This means over 2 Million applications were rejected, representing a 34 percent success rate. Further, the survey revealed that loan application and disbursement over the same period dropped from 2.2 million to below 750,000, representing a 32 percent decline. Machakos Town Sub-county SMEs' is not an exception to this Scenario of having a low success rate for loan applications, as indicated in the survey.

1.2 Statement of the Problem

Small businesses in the Kenyan economy are facing financial constraint, which adversely affects their development and hampers their potential to drive the national economy. Small scale businesses in Machakos Town sub-county lack audited financial statements and adequate collateral requirements by the banks before credit is advanced (Gichuki, 2014).

The significance of SMEs in contributing to the development and growth of an economy is enormous. They are vital in creating dynamic, market-oriented economic growth, employing the growing workforce in developing countries, alleviating poverty, and promoting democratization (World Bank, 2015). According to Kithae (2012), the SMEs sector funds 18% of the GDP and hires 80% of the workforce in the Kenyan economy. Hence, improving SMEs' access to finance is crucial to enable this dynamic segment to grow and deliver jobs.

According to the Institute of Economic Affairs (2015), the global financial gap in the SME sector stands at 56% but more severe in the developing countries.CBK (2017), in its financial report, indicated that the credit gap in Kenya on SMEs who are fully and partly constrained is 38.4 %. This was further emphasized by a survey conducted by

KBA between the month of April 2017 and June 2017, which indicated that for any loan applications done over the period; their success rate was 34%. This indicates there are factors affecting the success rate for any loan application done by SMEs, and they could contain but not limited to the charge of credit, collateral requirements for credit, information access, and business risk summary.

Njeru and Kinyua (2014), are among those who have done studies touching on credit access and SMEs. However, no study on access to credit and SMEs in Machakos Town-Sub-county had been done. The research sought to find out the financial factors affecting access to credit in Machakos Town Sub-county. The study focused on specific financial factors, namely collateral requirement, cost of credit, business risk, and financial information asymmetry. It answered the question; what effects do these factors have on access to credit among SMEs in Machakos Town Sub-county?

1.3 Objective of the Study

1.3.1 General Objective

The general purpose of the study was to investigate financial factors affecting credit access amongst SMEs in Machakos town Sub-county, Kenya.

1.3.2 Specific objectives were;

i. To find out the influence of collateral requirements on credit access among SMEs in Machakos town Sub-county, Kenya.
ii. To assess the effect of the cost of credit on access to credit among SMEs in Machakos Town Sub-County, Kenya.
iii. To explore the effect of financial information asymmetry among SME's on access to credit in Machakos Town Sub-county, Kenya
iv. To establish the effect of business risk on access to credit among SMEs in Machakos Town Sub-County, Kenya.

1.4 Research Questions

i. Does collateral requirement influence access to credit among SMEs in Machakos town Sub-county?

ii. Does the cost of credit influence access to credit among SMEs in Machakos town Sub-county?
iii. To what extent financial information asymmetry among SMEs affects their access to credit in Machakos town Sub-county?
iv. Do business risks affect access to credit among SMEs in Machakos town Sub-county?

1.5 Justification of the Study

The study will discover and generate new knowledge in the field of SMEs' access to financial assets from financial institutions. This information will be helpful to both lenders and debtors of funds in the financial sector. Further, the study will be critical for use by policymakers in enhancing access to credit among SMEs. Finally, this study will also provide a literature review for scholars who will wish to study related subject matter in the future. The scholars will benefit from the empirical information that will be collected and analyzed.

1.6 Scope of the Study

The study was carried out in the months of November 2018 to May 2019. The scope of this research was limited to SMEs, which are registered in Machakos Sub-County, Single Registration Licenses (2018). The study laid emphasis on financial aspects affecting access to credit by SME's in Machakos Sub-County in Machakos County. The study was undertaken within the effect of cost of credit, a security requirement, financial information asymmetry, and business risk on how they influence access to credit by SMEs operating in Machakos Town Sub-County in Machakos County.

1.7 Limitation of the Study

The study had numerous challenges; first, the respondents were unwilling to offer their opinions. Secondly, in a situation where business owners were unavailable, employees were unwilling to disclose information about the business for fear of probable reprisal by their bosses.

1.8 Delimitation of the Study

The researcher assured the respondents' confidentiality of the information and made it clear that the research was for academic purposes. Moreover, the researcher notified the respondents in advance and built a consensus on an appropriate date and time to administer the questionnaire.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter appraises the relevant literature on access to credit amongst SMEs from financial institutions. It further captures theories, empirical studies, research gap and conceptual framework for research at very end of the chapter.

2.1 Theoretical Review

This section looks at the various theories that relay to access to credit by SMEs which include; Theory of equilibrium credit rationing, imperfect information theory, Pecking order theory and financial inclusion theory.

2.1.1 Theory of Equilibrium Credit Rationing

Hodgeman (1960), developed the theory of credit rationing based on default risk. He defined credit rationing as a situation where all or some loan applicants are not awarded the entire loan amount they applied for at a prevailing interest rate. In this model, lenders evaluate potential borrowers on the basis of the loan's expected return-expected loss ratio. In addition, it is assumes that there is a maximum repayment that the borrower can credibly promise, which effectively limits how much the lender will offer the borrower regardless of the interest rate. In this case the expected losses become too great relative to the expected return .In addition, the theory is of the view that lenders do not provide all the loans that borrowers wish to obtain because they cannot distinguish between safe and risky borrowers. It also assumes imperfect credit markets due to information asymmetry, which lenders attempt to solve by imposing interest rate and collateral. Further, it assumes that demand for commercial bank loans exceeds their supply at the prevailing interest rate and that borrowers need to provide equal amount of collateral. He observed that whenever a borrower's demand curve intersects with a vertical portion of the relevant supply curve, the particular borrower will be unable to obtain additional borrowed funds by promising to pay additional interest. Furthermore as the supply curve shifts to the left and upward, the borrower will encounter more stringent restrictions on the supply of funds which he will be unable to overcome by offering to pay more interest. However, Hodgeman observed that another borrower with a good credit rating may continue to borrow as much as he wishes and may not be required to pay much additional interest to meet the qualifications imposed by the lender. The theory is important to this study because financial institutions usually classify MSEs as excessive risk borrowers therefore leading to some obtaining credit whereas others are restricted or denied.

2.1.2 Imperfect Information Theory

George A. Akerlof (1970), Introduced the concept of asymmetric information .He detected that Information imperfection occurs when one party to a transaction has more and timely information than another party. This imbalance can cause one party to enter into a transaction or make costly decisions. George A. Akerlof contended that information asymmetry is a common feature of any market interactions for example at the stage of making borrowing verdict, a borrower knows more than the lender about his creditworthiness.

The Theory stresses that imperfect information can produce adverse selection in the markets such that when a lender or a buyer has imperfect information, a borrower with weak repayment prospects or a seller of low-quality products may crowd out everyone else from their side of the market thereby hindering mutually advantageous transactions. This theory additionally assumes Banks cannot effectively differentiate between high risk and low risk loan applicants. The theory is relevant to the study because that financial institutions struggle to overcome this obstacle by using of credit scoring techniques and building strong connections with all applicable stakeholders in the industry.

2.1.3 Pecking Order Theory

Myers and Majluf (1984) amended the work of Donaldson (1961) to enhance the Pecking order theory. The theory assumes that enterprises follow a financing hierarchy and that source of finance is either internal or external. They observed, priority is given to internal funds over external funds. The theory stipulates that enterprises seek external funding only when internal resources are depleted. They argued the external funds need to be necessary, safer and without control restrictions for the enterprise. The owners of enterprises prefer debt financing with little or no collateral or covenants. In addition, issue costs are least for internal funds, low for equity and highest for debt. This theory is applicable to Kenyan SMEs because it touches on collateral and that business owners in Kenya usually prefer internal sources of funds over the other sources of finance.

2.1.4 Financial Intermediation Theory

Gurley and Shaw (1960), Developed the theory of financial intermediation which is based on information asymmetry. They argued that, the existence of financial intermediaries is explained by the existence of the following categories of factors: high cost of transaction, lack of complete information in useful time; and the method of regulation. The theory describes the process where surplus units (savers) give funds, that is, through deposits, to intermediaries who include financial institutions such as banks, credit unions, mutual funds and insurance companies) who in return channel out the funds to deficit units (spenders or borrowers) .

The theory emphasizes resource allocation based on perfect markets and thus the transaction costs and asymmetric information are important in understanding financial intermediation. They observed financial intermediaries bring together the depositors and the borrowers matching their transaction needs and providing other services and as a result reduce the transaction costs and eliminate information costs. Depositors entrust their funds with these intermediaries who in turn invest them through loans and other investment projects, with the depositors able to liquidate (through withdrawals) their savings at any given time.

SMEs engagement with the financial institutions can therefore be summarized from the roles played by the financial institutions as financial intermediaries. SMEs can both be depositors and or borrowers and are bound to receive, from the financial institutions, such services including transactions services, provision of liquidity, financial consultancy, analysis and evaluation of assets, issuance of financial assets, loan granting, monitoring services, risk management, insurance services, and other services.

2.2 Empirical Review of Literature

Mwongera (2014) studied the effects of cost of credit charged on accessing credit by women entrepreneurs in Athi River Machakos County. Primary data collected from 214 women and 18 Microfinance institutions through questionnaire instrument was analyzed by regression analysis .Access to credit was measured by number of clients granted loans, uptake of loans and number of microfinance institutions offering credit services in the region. The cost of credit was measured per loan term, amount borrowed and penalty for delayed payment. The study found a positive relationship between the two variables. Further the findings found that cost of credit to a great extent affects access to credit.

Kung'u (2011) conducted a survey Westland town, Kenya to examine factor affecting credit access to SMEs. Data was collected using 115 questionnaires. Participants were randomly selected from 6 sectors, namely industrial, technology, electrical, shopping, building and travel. This study found that start up business (those under 3 years) was faced with credit access, setbacks due to lack of collateral and information. He concluded that there is positive relationship between business information, collateral and access to credit.

Mulandi (2013) studied the factor affecting credit access for Biogas sub sector in Kenya. Primary data were collected from 48 firms by random sampling technique and secondary data was also from the published report on Biogas industry. Among the determinant of access to credit studied were age, size, capital investment, financial accounts, and information access and risk preference. Capital investment (security) was measured using an amount that respondents were asked to indicate the worthiness. The study disclosed that all independent variables were positively correlated with the level of access, to credit among SMEs.

Aghion and Bolton (2012) studied on collateral perfection process and external debt found that it is costly and time consuming to create and perfect collateral in Kenya. It takes an average at 90 days for mortgage collateral and more than 21 days to perfect a security interest in equipment, not including the time taken to approve the loan and the collateral in each case. Each process cost over 5% of the loan amount, and expense which often must be pre-paid by the borrower. The process of registering a charge on a security is tedious and time consuming and therefore there should be accrued benefit on provision of security.

Gangata and Matavire, (2013) in their study on challenges facing SMEs in accessing finance from financial institutions, found out that very few SMEs succeed in accessing funding from financial institutions, the main reason being failure to meet lending requirements, key among them being pledging of collateral security.

Hallberg (2002),studied the relationship between business risk and access to credit and found out that high risks in SMEs businesses and fixed costs incurred by financial institutions as the major driving force to high cost of credit. Berger and Udell (2006),studied the effects of transaction costs and access to external finance and found out that high transaction costs not only increase the cost of borrowing, but can also restrict access to external finance for some borrower groups.

Fatoki and Dehejia (2012) on the study on business risks and access to credit realized that there are difficulties faced by SMEs in accessing credit facilities due to their perceived high risk profile. They identified that lending institutions regard SMEs as riskier enterprises for a number of reasons which include: uncertain competitive environment; inadequate accounting systems; more unpredictable operating environment.

Gichuki (2014) conducted a study on SMEs businesses risks and access to credit and found that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. The study found out that firms are by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. In addition, organization and administrative deficiencies, lower quality management and a lack of appropriate accounting systems may compromise the accessibility and reliability of information from small firms on their repayment capacity.

A study carried out by Mwangi (2014) on challenges facing entrepreneurs in accessing credit: a case of youth entrepreneurs in Makuyu, Kenya found out that most of youth entrepreneurs faced challenges in accessing credit due high cost of credit evidenced in high loan processing fees, high rate of legal fee, high rate of interest, high cost of credit insurance and high expenses incurred in travelling in the process looking for credit. Another study was done on effects of access to financial credit on the growth of women owned small retail enterprises in Uasin Gishu County: a case of Kapseret Constituency. The study found out that interest rates affected access to credit by women entrepreneurs owning small scale business enterprises in Kapseret Constituency (Cheluget, 2013)

2.3 Research Gaps

Wangai and Omboi (2011) did a study on factors influencing demand for credit among small scale investors. Their study limited itself to the individual characteristics of the borrower and their influence towards access to credit facilities as opposed to financial factors. Gichuki, Njeru and Tirimba (2014) also did a study on challenges facing micro and small enterprises in accessing credit facilities in Kangemi Harambee Market in Nairobi City County. Their study failed to include medium enterprises and concentrated on general factors as opposed to financial factors influencing access to finance.

Waari and Mwangi, (2015) did a study on factors influencing access to finance by micro, small and medium enterprises in Meru County. The study also concentrated on general factors as opposed to financial factors influencing access to finance by SMEs. Makena, (2011) did a study on challenges faced by small and medium enterprises accessing finance in Kiambu town. The study limited itself to the individual characteristics of the borrower and their influence towards access to credit facilities as opposed to financial factors. Therefore, the present study will seek to bridge these gaps by examining the financial factors influencing access to finance by SMEs in Kenya.

Avortri, Bunyaminu and Wereko (2013) examined factors that affect SMEs in Accra metropolis, Ghana. Stratified sampling technique was adopted in the administration of questionnaires based on consumables, wares and cosmetics, motorcar spare parts, constructional material and stationaries/ pharmaceuticals. Descriptive statistics as well as regression analysis were used to establish the relationship between the dependent variable and independent variables. However, this study erred in choosing 20 respondents in each stratum while these strata were not of equal size, hence the principle mechanism of stratified sampling was not observed. The sample size should be true representative of the target population and therefore a proportionate number of sample units to be included in the sample size should be selected from each stratum (Kothari, 2007).

2.4 Conceptual Framework

This framework exemplifies the linkage between dependent and independent variables in the Study (Mugenda & Mugenda, 2003). The independent variables for this study are: cost of credit, collateral requirement, and financial information asymmetry and business risk. The dependent Variable is access to credit among the Small and Medium Enterprises.

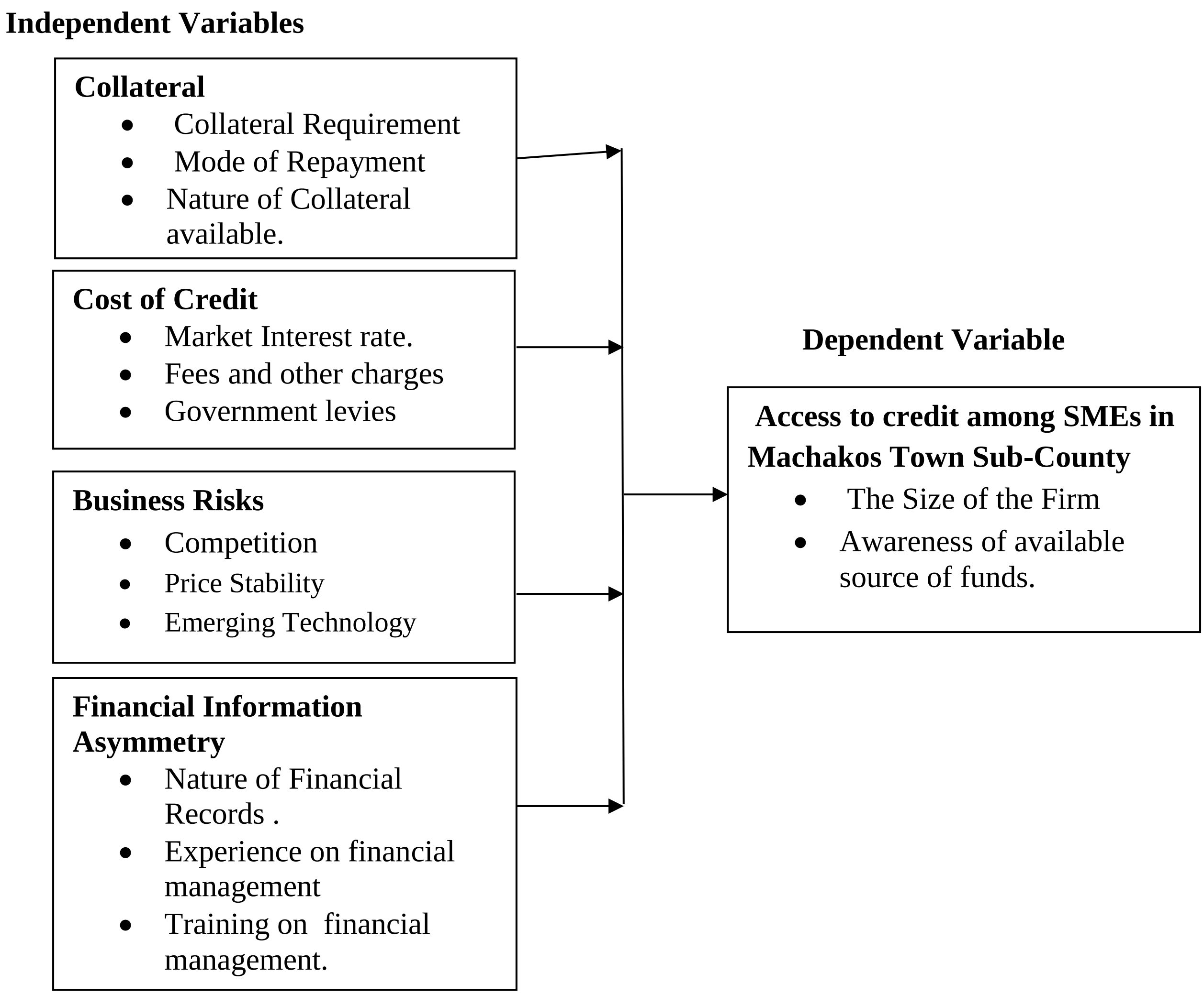

Figure 2.1 Conceptual Framework

Source:Author (2019)

2.4.1 Collateral requirement

Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment. It must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. Collateral reduces the riskiness of a loan by giving the financial institution a claim on the tangible asset without diminishing its claim on the outstanding debt. The willingness of the entrepreneur to pledge collateral positively influences the quality of credit request as perceived by the bank.

2.4.2 Cost of Credit

The cost of credit accessibility refers to the amount of money the entrepreneurs pay in process of borrowing money from financial institutions. The key indicators of cost in this respect are processing fees, negotiation fees, interest rates, personal insurance, legal fees and travelling expenses that the entrepreneurs meet in the process of acquiring credit .The amount of interest rate charged is sometimes, intertwined with the security of the loan, and the use for which it is to be used, or the nature of the business. That is, the more secure loans are charged low interest rates due to, their low risks involved. This leads MSEs to the Micro Finance Institutions (MFIs), who lend unsustainable interests short term loans.

2.4.3 Business Risks

Total risk (both business and financial risk) may be a dimension across which a financing gap might exist amongst SMEs. A firm's business risk (which focuses on a firm's operations), represents refers to the uncertainty of the firm's return on its assets. It comprises of operational risks and financial risks. Operational risks are uncertainty of the firm to efficiently use its resources for the optimum return. Whereas, financial risks occurs when a firm makes use of debt (that is, financial leverage). The inability of the firm to pay the interest payments or repay the principal will result in a default that might lead to bankruptcy. As the amount of debt used by the firm increases, the chances of it defaulting will also go up due to constraints on its cash flows as a result of the interest payments.

2.4.4 Financial Information Asymmetry

Access to financial information is important both from the SMEs perspective and from the perspective of the providers of financial services and products. SMEs require information with which to identify the potential suppliers of the financial products. They requires this information to evaluate the cost of the financial services and products that are being offered. The financial service suppliers on the other hand require information with which to evaluate the risk profile of the SMEs applying for finance and to assess the prospects of the SMEs within the market segment.

2.4.5 Access to credit

Access to credit is universally indicated as a key problem for SMEs. Most SMEs business owners Rely on their own-savings or borrowing from friends or relatives which is usually not enough to run their businesses optimally. Credit constraints for small and medium enterprises forces them to forego some their business opportunities and this indeed affect their performance. Further the lack of credit access affects SMEs business operations therefore threatening they are in ever competitive market.

CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter gives the methodology that was adopted in the study to attain the objective. It starts with a description of research design that was selected and the justification of its choice. This is was followed by a description of the population, the sampling frame and justification for the same. The ensuing section described the data collection method followed by various methods that was used in the analysis of data.

3.1 Research Design

The study employed descriptive survey design for it gives an accurate profile of situations (Cooper & Schindler, 2008). This was designed to describe the characteristics of a particular phenomenon in a situation. It was used to obtain information concerning the current status of the sector and what existed with respect to the conditions in a situation. Orodho and okombo, (2002) reckon that this design is suitable because it is used to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behaviors or ideals. This design was used since it enabled the researcher gather data across the sampled respondents using the same tools at the same time.

This was also stated by Gay (2006) that descriptive design study determines and reports the way things are and commonly involve evaluating attitudes and sentiments towards individuals, organizations and processes. The descriptive research design allowed the researcher to summarize the findings in a way that will provide information on the financial elements affecting access to credit among SMEs in Machakos Sub-County.

3.2 Target Population

According to Mugenda and Mugenda (2008**),** a population is an entire group of individuals or events or objects having common noticeable characteristics that conform to a given specification. The study directed to all small and medium sized enterprises businesses like retail, transport, hospitality, manufacturing and agrovets, etc in Machakos County, with permits from the county government. The population of the study consisted of 380 SMEs operating in the Sub-County as at 31^{st} December, 2018.This is shown by the table 3.2.

Table 3.2: Target population

Sector (Proprietors)	Frequence
Medical	13
Agricultural	31
Metal Works	35
Electronics	25
Mechanics	32
Woodworks	60
General Supplies	25
Mini-Stores	41
Bookshops	16
Transport	84
Entertainment	10
Others	8
Total	**380**

3.3 Sample and Sampling Technique

A sample of 57 (15%) enterprises was selected for data collection. Mugenda & Mugenda (2003) stipulated that a sample of between 10-30% of the population was adequate enough for finding generalization to the entire population. a stratified sampling technique was used to come up with 57 Small Medium Enterprises to be involved in the study. Stratified sampling technique and simple random sampling procedures were used in which SMEs from each stratum were selected. Caution was exercised to ensure a proportionate representation from strata stratum was cater for. This sampling procedure was used since it gave chance to each individual element in the stratum each chance of being selected. Sampling is important as it saves on expenses and time that could have been used in studying the entire population (Robson, 2002).For the purpose of this study data was collected from for every stratum as indicated in the table 3.3.

Table 3.3 Sample size

Sector Proprietors	Frequency	Sample Size (15%)
Medical	13	2
Agricultural	31	4
Metal Works	35	6
Electronics	25	4
Mechanics	32	5
Woodworks	60	9
General Supplies	25	4
Mini-Stores	41	6
Bookshops	16	3
Transport	84	13
Entertainment	10	2
Others	8	1
Total	**380**	**57**

Source: Author (2019)

3.4 Research Instrument

This study used a self-administered semi-structured questionnaire to collect data. There respondents to the questionnaires were Machakos town Sub-county SMEs Proprietors or their managers as identified in the sample size. Questionnaires are the most appropriate tools for collecting data in survey studies since it is possible to administer them on a relatively large number of respondents. The instrument was structured in a way that enabled collection of data that would objectively address all study variables.

3.4.1 Pre-Testing of Research Instruments

A pre-testing of questionnaires was conducted before carrying out the main study. The pilot study involved 10% the size of the sample size (Kothari, 2004). There six (6) respondents were randomly drawn from Kaiti sub-county, Makueni County. The participants in the pre-testing were not involved in the final study. The main aim of pre-testing the research instrument was to ensure that it was both valid and reliable for data collection.

3.4.2 Validity Testing

Validity is the extent to which inferences made on the basis of numerical scores are appropriate, meaningful and useful. Kothari (2004), states that validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to evaluate. A pilot study was carried out on six respondents to exam validity of research instrument used. It also ensured any vagueness was corrected and consistency of the research tool. Ambiguity and irrelevant information noted in the questionnaires were modified for validity purpose. The respondents were also requested to respond on the clarity of the questions presented to them**.**

3.4.3 Reliability Testing

Reliability as a measure of internal consistency of a research instrument .The study used the Cronbach alpha coefficient which is recommended test of reliability. Using the Cronbach alpha coefficient, reliability ranges from 0 to 1 with higher values indicating greater reliability. The reliability threshold is alpha coefficient 0.7 for each study construct (Kimberlin & Winterstein, 2008).This was calculated with the help of statistical package for social sciences (SPSS).

3.5 Data Collection Technique

Before collecting data, consent of the University and that of the proprietors of the SMEs in Machakos Sub-County in the County Government was sought. The entire period of data collection was carried for six months from November, 2018 and April, 2019.The major tool of data collection for this study was the questionnaire for primary data. Questionnaires gave respondents freedom to express their views or opinion and also to make suggestions. Research assistants used questionnaires so that they can obtain information about the thoughts, feelings, attitudes, beliefs, values, perceptions, personality, and interactive intentions of the research participants in a large population. The questionnaire was structured in Section A which captured the background information about the respondents and Section B which covered the research objectives. Respondents likert scale was from 1 to 5 where 5 = strongly disagree 4 = disagree, 3= neutral, 2 = agree and 1 = strongly agree.

3.6 Data Presentation and Analysis

Gay (2006) stated that data analysis involves organizing, accounting for and explaining that data; that is making sense out of data in terms of SME's definition of the situation noting patterns, themes, categories and regularities. Data was analyzed using descriptive statistics and regression analysis. Closed questions were analyzed using quantitative analysis while open ended questions were analyzed using qualitative method.

3.6.1 Analytical Model

This study aimed at determining the relationship between financial factors and access to credit amongst SMEs by financial institutions in Machakos Sub-County. The financial factors was represented by β (independent variables) and access to credit among SMEs was be represented by Y (dependent variable).

The regression equation .

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

Where:

Y = access to credit.

$\mathbf{X_1}$ = collateral requirement

$\mathbf{X_2}$ = Cost of Credit.

$\mathbf{X_3}$ = Financial Information Asymmetry.

$\mathbf{X_4}$= Business Risks

$\boldsymbol{\varepsilon}$ = Error Term

B0 = Constant,

$\boldsymbol{\beta_1, \beta_2, \beta_3, \beta_4}$ represents Regression Coefficients for Independent variables.

The equation was solved by the use of statistical model where SPSS was applied.

3.7 Ethical Consideration

On the part of the researcher, ethical consideration included assurance to respondents that the research was for academic purpose only. Confidential business information was not to be disclosed to third party entities and at all times permission was sought from SMEs owners or managers before conducting the research. SMEs were requested to be truthful to the best of their knowledge. Authorizing communication for the research were sought from relevant authorities. This included; defense of the research proposal, issuance of certificate of fieldwork; defense of final project and certificate of correction. This ensured high academic standards.

CHAPTER FOUR

DATA FINDINGS, PRESENTATION AND INTERPRETATION

4.0 Introduction

The chapter discusses techniques applied in analysing and presenting research findings. The response rate was analyzed and actual respondents who participated were determined. The questionnaire that addressed each research objective were analyzed separately. Both quantitative analysis and qualitative techniques were applied to ensure that the study findings were reliable and contributed towards establishment of the research topic. The analysis was done from which a summary of the analysis was made and conclusions made from the analysis.

4.1 Response Level

This study had a sample size of 57 respondents. The response rate was 91% where only 52 Out of 57 respondents were able to return their questionnaires. According to Kothari (2004) any response of 50% and above is satisfactory for analysis thus 91% was excellent. The response rate is shown in the Table 4.1 below.

Table 4.1 Response Rate

Issued questionnaires	Returned questionnaires	Response rate (%)
57	**52**	**91**

4.2 Reliability Analysis

To establish the reliability of the research instrument Cronbach's Alpha coefficient was used.it measured the internal consistency and the correctness of the data gathered. Cronbach's alpha was calculated using SPSS. The Value of alpha coefficient ranges from 0-1 and a higher value indicates a more reliable generated scale. Cooper & Schindler (2008) indicated 0.7 to be acceptable reliability coefficient. The table below shows that collateral requirement had the highest reliability (α=0.889) followed by cost of credit (α=0.823), then financial information asymmetry (α=0.792) and business risk (α=0.767).

Following Cronbach Alpha tests the four scales were reliable as their reliability values exceeded the acceptable threshold of 0.7 coefficient.

Table 4.2 Reliability Test.

Scale	Cronbach's Alpha	Number of items	Comments
Collateral Requirement	0.889	6	Reliable
Cost of Credit	0.823	5	Reliable
Financial Information Asymmetry	0.792	4	Reliable
Business Risk	0.76	4	Reliable

4.3 Background information

The study collected information regarding level of education, business type, documents held by respondents, number of employees, sales turn-over and number of years in business among SMEs in Machakos Town Sub-county.

4.2.1 Level of Education

The table below indicates information on the level of education

Table 4.3 Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary	6	10.0	10.0	10.0
	Secondary	11	20.0	20.0	30.0
	Diploma	14	26.7	26.7	56.7
	Degree	19	36.7	36.7	93.3
	Post graduate	2	6.7	6.7	100.0
	Total	52	100.0	100.0	

The table shows that 70% of the SME's are run by people with the diploma, degree and postgraduate education. The literacy level is important in business management because it helps one to keep records which are important in acquiring or accessing loans.

4.2.2 Business Type

The respondents indicated the type of their businesses.

Table 4.4 Type of Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sole Proprietorship	44	85.0	85.0	85.0
	Partnership	5	8.3	8.3	93.3
	Company Director	3	6.7	6.7	100.0
	Total	52	100.0	100.0	

The findings on above table shows that majority of the businesses are sole proprietorships, only a small number are partnerships or limited companies.

4.2.3 Number of Years of the Business

This was to know the duration for which these businesses have been in operation.

Table 4.5 Number of Years in Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than one year	4	6.7	6.7	6.7
	1-3 years	12	21.7	21.7	28.3
	4-7 years	27	51.7	51.7	80.0
	8-10 years	6	11.7	11.7	91.7
	Above 10 years	3	8.3	8.3	100.0
	Total	52	100.0	100.0	

The table indicate that 72% of the businesses have been in existence for more than three years. This period is considered fairly enough for any business owner or operator to have accessed loan or having some knowledge to do with the acquisition of loans.

4.2.4 Number of Employees

This was to ascertain the number of employees these businesses have. This information was vital because it gives the businesses to qualify for this research which is on SME's.

Table 4.6 Number of Employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<10	44	85.0	85.0	85.0
	10-49	8	15.0	15.0	100.0
	Total	52	100.0	100.0	

The table indicates that all the businesses had less than 50 employees which qualifies them to be SME's.

4.2.5 Documents Held by Businesses

The respondents indicated the kind of documents their businesses have as shown by the table below.

Table 4.7 Documents Held by Businesses

Documents held	Frequency	Percent
VAT registration certificate	33	64
County council single business permit	48	92
PIN Certificate	27	52
Tax compliance certificate	11	21
Annual tax returns	15	29
Monthly VAT Returns	8	15
Others	4	8

The table shows that at least each business had one of the documents required by the county and national government to function. This information was important to show the legality of the businesses for which this research was carried out.

4.2.6 Annual Turnover

The researcher wanted to know the annual turnover for these businesses under study. The information is as tabulated below.

Table 4.8 Annual turnover

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 500,000	32	61.7	61.7	61.7
	500,000-2,000,000	12	21.7	21.7	83.3
	2,000,000-5,000,000	8	16.7	16.7	100.0
	Total	52	100.0	100.0	

The table indicates, most businesses, 83% are operating within the limits of SME's with their annual turnover of businesses being less than Kshs. 2,000,000 therefore making it qualify to be SME's.

4.3 Descriptive Statistics

The study collected opinions from the respondents in regard to collateral requirement, cost of credit, business risks and financial information asymmetry on access to credit among SMES in Machakos Town Sub-county. The responses were on likert scale of five points where 1,2,3,4 and 5 represented strongly agree, agree, neutral, disagree and strongly disagree respectively.

4.3.1 Collateral Requirements

The respondents indicated the extent to which they collateral requirements affect access to credit from financial organizations. The information collected was as in the table below.

Table 4.9 Collateral Requirements

N=52	maximum	minimum	Mean	Std. Deviation	Variance
Adequate collateral determines amount and loan term.	1	5	1.15	.360	.130
Costs charged on security perfection discourage borrowing.	1	5	2.00	.883	.780
Time taken to complete registration of a charge discourages borrowing.	1	5	3.37	.991	.982
Stringent credit policies scare potential borrowers.	1	5	3.40	1.509	2.278
Nature of available collateral affects amount and loan term given.	1	5	1.15	.360	.130
Flexibility of loan repayment affects amounts and loan term.	1	5	1.28	.585	.342

The table indicates that respondents agreed that collateral adequacy and availability determines the amount and loan term given (mean=1.15:std dev=.0.36). They also agreed that costs charged affects amounts of loan (mean=2:std dev=.0.883).Further the study agreed that loan repayment flexibility affects loan amount and loan term (mean=1.28:std dev =0.585). However respondent disagreed that time taken to complete registration of charge (mean = 3.37:Std Dev =0.991).It also disagreed that stringent credit policies scare away potential borrowers (mean=3.40:std dev.=1.509).

From the above results, means range from 3.40 to 1.15 as measures of central tendency while standard deviation and variance as measures of variability range from .360 to 1.509 and from .130 to 2.278 respectively. This demonstrates that spread of data set is low indicating that the data points are close to the mean hence the information on collateral requirements collected from the sample distribution represents the population.

4.3.2 Cost of Credit

The respondents indicated their opinions on the subsequent statements on the effect of cost of credit on advances. The following table tabulates the responses.

Table 4.10 Cost of Credit

N=52

Statement	**Maximum**	**Minimum**	**Mean**	**Std. Deviation**	**Variance**
Processing fees, insurance and legal fees are huge.	1	5	1.12	.324	.105
Processing fees, insurance fees and legal fees can be negotiated.	1	5	3.65	.860	.740
Secured loans have low interest rate compared to unsecured ones.	1	5	3.17	1.076	1.158
A less liquid security attracts high interest rate.	1	5	3.05	1.307	1.709
Loan term affects the interest charged on loans.	1	5	1.47	.650	.423
Government costs affects access to loans.	1	5	3.55	.852	.726

The table shows that the respondents agreed there is high fees on the loans (mean=1.12;std dev.=0.324),they also agreed loan term affects interest rate charged (mean=1.47;std dev.=0.650).However it disagreed fees on loan can be negotiated (mean=3.65;std dev.=0.860), disagreed liquid security attracts high interest rates(mean=3.05;std dev.1.307),more over they disagreed government costs affects access to credit(mean=3.55;std dev.0.852).Finally the respondents disagreed that secured loans have low interest rates compared to unsecured loans (mean=3.17;std dev.=1.07).

From the above results, means range from 1.12 to 3.65 as measures of central tendency while standard deviation and variance as measures of variability range from .324 to 1.307 and from .105 to 1.709 respectively. This demonstrates that spread of data set is low that is, indicating that the data points are close to the mean hence the information on cost of credit collected from the sample distribution represents the population spread.

4.3.3 Business Risks

The researcher sought to know respondents estimations on the matching statements .The responses were as shown in the table below.

Table 4.11 Business Risks

N=52

Statement	Maximum	Minimum	Mean	Std. Deviation	Variance
There is competition from large and relatively similar enterprises.	1	5	1.18	.469	.220
Most business expansions are regarded risky.	1	5	1.22	.415	.173
Price instability negatively affects profit in most cases.	1	5	1.90	1.203	1.447
Emerging technology negatively affects businesses.	1	5	2.22	.922	.851
Funds for business expansion in most cases are inadequate.	1	5	1.23	.500	.250

The respondents agreed that small businesses face competition from large and small businesses (mean=1.18;std dev.0.469).they also agreed expansion of businesses is regarded as risk by financial institutions(mean=1.22;std dev.0.415). respondents agreed price instability negatively affect profits (Mean=1.90;std dev.1.203),funds for business expansion are inadequate(mean-1.23;std dev.=0.500),emerging technology negatively affects businesses(mean=2.22;std dev.0.922).

From the above results, means range from 1.22 to 2.22 as measures of central tendency while standard deviation and variance as measures of variability range from .415 to 1.203 and from .173 to 1.447 respectively. This demonstrates that spread of data set is low that is, indicating that the data points are close to the mean hence the information on business risks collected from the sample distribution represents the population.

4.3.4 Financial Information Asymmetry

The researcher wanted to know whether financial information was affecting the access to loans by SME's. The respondents were therefore asked to respond on the following statements. The response was then tabulated as below.

Table 4.12 Financial Information Asymmetry

N=52

Statement	**maximum**	**Minimum**	**Mean**	**Std. Deviation**	**Variance** .
There is hidden charges on loans.	1	5	2.17	1.181	1.395
There are complex application procedures and restrictive rules on specific credit purpose which discourages borrowing.	1	5	2.32	1.142	1.305
It is really difficult to comply with credit conditions regarding provision of financial information of the business.	1	5	2.00	.864	.746
It is difficult to evaluate cost of credit due to financial information illiteracy/semi-literacy.	1	5	2.77	1.047	1.097
Financial information is required in identifying the potential suppliers of credit.	1	5	1.03	.181	.033
It is easy to access second and other subsequent loans.	1	5	2.37	.920	.846
It is easy to differentiate between risky and safe projects.	1	5	1.33	.629	.395

The respondents agreed that financial institutions have hidden charges on loans(mean=2.17;std dev,=1.18), there are complex application procedures and restrictive rules on specific credit purpose(mean=.2.32;std dev.1.142).Further they agreed that it is really difficult to meet the conditions of providing financial information regarding businesses(mean=2.00;std dev.0.864). In addition the respondent agreed it is difficult to evaluate cost of credit due to financial information illiteracy/semi-literacy of the borrowers (mean=2.77;std dev.=1.047). Finally respondents also agree that It easy to access second and other subsequent loans (means=2.37;std dev.=0.92), and also its easy differentiate between risky and safe projects(mean=. 1.33;std dev.=0.629).

From the above results, means range from 1.03 to 2.77 as measures of central tendency while standard deviation and variance as measures of variability range from .181 to 1.181 and from .033 to 1.395 respectively. This demonstrates that spread of data set is low that is, indicating that the data points are close to the mean hence the information on financial information asymmetry collected from the sample distribution represents the population.

4.3.5 Access to Credit

The respondents thoughts on the following statements on the access to credit via their businesses.

Table 4.13 Access to Credit

N=52					
Statement	**Maximum**	**Minimum**	**Mean**	**Std. Deviation**	**Variance**
Large enterprises are likely to access credit easily compared to medium and small enterprises.	1	5	1.40	.527	.278
Borrowers deemed to be not credit worthy are denied loans completely.	1	5	1.33	.510	.260
Lack of awareness on funding opportunities leads to poor credit access by SMEs.	1	5	1.73	.936	.877
There is inadequate credit to invest into new business expansion.	1	5	2.28	1.277	1.630

From the above results, means range from 1.33 to 2.28 as measures of central tendency while standard deviation and variance as measures of variability range from .510 to 1.277 and from .260 to 1.630 respectively. This demonstrates that spread of data set is low that is, indicating that the data points are close to the mean hence the information on access credit collected from the sample distribution represents the population.

4.4 Correlation

The study used a Pearson correlation and the finding are as per the table below.

Table 4.14 Correlations

		Financial Factors Affecting access to Credit among SMEs in Machakos town Sub-County	Collateral Requirement	Cost of Credit	Business Risks	Financial Information
Financial Factors Affecting access to Credit among SMEs in Machakos town Sub-County	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	52				
Collateral Requirement	Pearson Correlation	-.968**	1			
	Sig. (2-tailed)	.000				
	N	52	52			
Cost of Credit	Pearson Correlation	-.888**	.907**	1		
	Sig. (2-tailed)	.000	.000			
	N	52	52	52		
Business Risks	Pearson Correlation	-.886**	.901**	.964**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	52	52	52	52	
Financial Information	Pearson Correlation	-.854**	.875**	.942**	.951**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	52	52	52	52	52

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

The study sort to discover if there is a significant linear relationship among variables under study. The following results were obtained:

The relationship between access to credit amongst SMES and security requirements, cost of credit, and financial asymmetry exposed strong negative relationship as made known by the correlation coefficients -0.968, -888**, -.854** but strong negative relationship between business risk and access to credit 0f -.886**. This shows that holding other factors constant a unit increase in access to credit would lead to decrease of collateral, cost and financial information variables by 0.98**,0.88 ** and 0.854** respectively. Though a unit increase in access to loans would lead to unit decrease in business risk by 0.886** .This relationship is statistically significant since the p-value 0.000 was less than significant at the 0.01 level (2-tailed). The association between collateral requirements and cost of credit revealed solid positive relationship as revealed by the correlation coefficients of 0.907**, whereas the relationship between collateral requirements and business risks and information on financials as indicated by correlation coefficients of .901** and .875** respectively. This relationship was statistically significant since the p-value 0.000 was less than significant at the 0.01 level (2-tailed).

The relationship between cost of credit and business risks and financial information revealed a strong positive relationship as shown by the correlation coefficients of .964** and .942** respectively. This relationship was statistically significant since the p-value 0.000 was less than significant at the 0.01 level (2-tailed).

The relationship between business risks and information on financial revealed a strong positive bond as made known by the correlation coefficients .942** and .951** respectively. This correlation was statistically significant as the p-value 0.000 was less than significant at the 0.01 level (2-tailed).

4.5 Regression Analysis

The study analyzed the effect of financial factors (collateral, cost of credit, business risk and information on financial).This was achieved through multiple regression analysis. The pertinent results are as shown in Tables below.

Table 4.15 Regression Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.869[a]	.838	.834	.247

a. Predictors: (Constant), collateral requirement, financial information, business risks,cost of credit)

The study concludes in the above table that the summary of the model in which R square (.838) indicate that 83.8% of the variation in the financial factors affecting access to credit among SMEs in Machakos Sub-County town are due to variables under study, whereas 16.2% accounts for other variables not in the study. The adjusted R squared (.834) indicate that if population was used rather than a sample then the variation in the Financial Factors Affecting access to Credit among SMEs in Machakos town Sub-County would be 16.6% less. A correlation coefficient R as indicated by (.838) illustrates a strong positive relationship between the variables.

4.6 Analysis of Variance (ANOVA)

The study verified the significance of the model through analysis of variance. The calculated value was greater than the critical value (208.324 > 2.50) an indication that all the variable in the study have significant effect on loaning to SMEs. The significance value was less than 0.05 indicating that the model was significant. This is indicated in the table below.

Table 4.16

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.829	4	12.707	208.342	.000b
	Residual	3.355	47	.061		
	Total	54.183	51			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.337	.085		3.965	.000
	Collateral Requirement	.626	.057	.906	11.016	.000
	Cost of Credit	-.102	.090	-.003	-.025	.980
	Business Risks	.077	.090	.125	.858	.395
	Financial Information	-.036	.075	- .055	-.486	.629

Critical value=2.50

4.7 Coefficients of Determination

Table 4.16 Coefficients

As per the SPSS generated output as presented in table above, the equation ($\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$) becomes:

$\mathbf{Y = 0.337 + (-0.626x_1) + (-0.102x_2) + 0.077x_3 + (-0.036x_4) + 0.085}$

From the regression model found above, a unit increase in collateral requirements would lead to a decrease in access to credit amongst SMEs by a factor of 0.626; a unit change in cost of credit would inversely affect access to credit by 0.102 ;a unit increase in risk of doing business would lead to an increase in access to credit to SMEs by a 0.077 and a unit increase in financial information would lead to a reduction in access to credit to SMEs by a factor of 0.036 and vice versa. The analysis was undertaken at 5% significance level. The benchmark for relating whether the predictor variables were significant in the model was prepared by relating the calculated value and α=0.05. If the probability value was less than α, then the predictor variable was significant. It was noted that the predictor variables were significant in the model as the calculated values were lower than α=0.05.

4.8 Summary of Data Analysis

This study used 57 respondents from the target population from which 52 questionnaires were received dully answered, representing response rate of 86.7%. Quantifiable data was analyzed through descriptive informations by using SPSS and presented descriptively. Majority of the SME's are run by people with the basic education thus means they are able to keep of records needed in accessing loans.

Many of the businesses are sole proprietors while only a few are partnerships and limited companies with less than 50 employees and operating within the limits of SME's with annual turnover of less than Kshs. 2,000,000. The businesses are legal because all have one or more of the required documents to operate a business.

The respondents agreed that collateral adequacy and availability, Costs charged and the Flexibility of loan repayment affects access to loan. Duration taken to register and create a charge on the security and stringent credit terms are not seen as entrances to accessing credit. The loan fee charged, not negotiable, interests attached does not depend on security but on loan term and government regulations does not affect access to loans.

The study found that there was strong negative relationship between access to credit amongst SMEs and collateral, as shown factor of 0.968 at significance level of less than 0.01 effective at significant value of 0.00, the study established a strong positive correlation between access to credit and its cost as indicated by coefficient of 0.888, the significant value was 0.00 which was less than 0.01, the study also observed strong negative correlation between credit access among SMEs and business risk as shown by correlation of 0.886,the significant value was 0.00 which is less than 0.01.Lastly the study established a strong positive correlation between access to credit among SMEs and financial information with a coefficient of 0.854,the significant value was 0.00 which is less than 0.01.

The research results showed that a unit increase in collateral terms would lead to a decrease in access to credit to SMEs by a factor of 0.626; a unit change in cost of credit would inversely affect access to credit by 0.102 ;a unit increase on business risks would lead to a increase in access to creditong SMEs by a factor of 0.077 and a unit increase in financial information would lead to an decrease in access to credit among SMEs by a factor of 0.036 and vice versa. The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and $\alpha=0.05$. If the probability value was less than α, then the predictor variable was significant otherwise it was not. All the independent variables were significant in the model as their p-values were less than $\alpha=0.05$.

CHAPTER FIVE

DISCUSSION OF MAJOR FINDINGS

5.0 Introduction

The growth of SMEs sector has been constraint by lack of credit from financial institutions. Access to credit by SMEs has been influenced by a number of financial factors such as lack of conventional security as demanded by financial institutions, perceived business risks, associated cost incurred by SMEs in acquiring the credit and financial information asymmetry between borrowers and lenders of money. Generally financial institutions perceives SMEs sector as risky and as a result only a few SMEs access credit from them.

The study investigated financial factors affecting access to credit among SMEs in Machakos town Sub-county in Kenya. The specific objectives were, the effect of collateral terms, cost of credit, financial information and the effect of business risk on access to credit amongst the SME's.

5.1 Collateral Requirement

The study found out that collateral adequacy and availability is a key determinant on the amount given to SMEs. This simply means the fact that one has collateral for a loan is not enough but it should be adequate to cover the amount of loan one is seeking from the financial institution. The researcher also found out that the cost incurred in registration of the collateral offered was high and this discourages borrowing. The study established that collateral to be a factor in accessing credit because they were perceived to be good in paying their loans. These findings concur with those of Aghion and Bolton (2012 that very few SMEs succeed in accessing credit from financial institutions, the main reason being failure to meet collateral harsh terms and condition.

However the study disagreed with the Mwongera (2014), who found out that time taken to complete the security registration process scares away potential borrowers. This meant that SMEs were more willing to wait for the registration process for their collateral to be completed no matter how long it took. Further the study disagreed with Githuki (2014) that stringent credit policies discourage borrowing. This points out that SMEs are willing to comply with any credit policy for them to access credit. This is also indicator that SMEs are in dire need for credit. The results concurs with Fatoki (2012) who established a strong negative correlation between collateral requirements and credit access by SMEs. The study concluded that collateral can solve problems derived from asymmetries in valuation of projects, uncertainty about the quality of projects and the riskiness of borrowers, and problems related to the cost of monitoring or supervising borrowers' behavior.

5.2 Cost of Credit

SMEs are deemed to have high default risk by lending institutions hence high interest rates are applied when they borrow. The respondent agreed that process fees and insurances fees are very high and also not negotiable. A study carried out by Mwangi (2014) on challenges that face entrepreneurs on accessibility of credit: a case of youth entrepreneurs in Makuyu, Kenya, agrees with the conclusions of this study indicating that entrepreneurs face challenges in accessing credit due high cost of credit evidenced in high loan processing fees, high rate of legal fee, high rate of interest, high cost of credit insurance and high expenses incurred in travelling in the process looking for credit.

However, the study differed with Fatoki (2012) that less liquid security attracts high interest rate and also it differs with Bolton and Aghion (2012), that loans with collateral have lower interest rates. This means financial institutions are charging same interest rates to all forms of loans either secured or unsecured. It is also worth noting that regardless of whether the security presented is easily liquid or illiquid. The study established that government costs in terms of taxes, excise levies and other business costs does not affect access to credit. The study agrees with Njeru (2014) who found out that strong negative correlation between cost of credit and access to credit among SMEs.

5.3 Business Risk

Many risks are facing SME's businesses and thus the financial institutions would not want to finance such businesses with high risks. The research established that SME's are facing risks such as competition from large and small businesses, businesses expansion risk, price instability and emerging technology and therefore making the ability of these SME's accessing loans difficult. This concurs with the finding of Mwongera (2014) who found that due to the perceived business risk for SMEs sector financial institutions charge high monitoring costs. The study has also revealed that assets of most SMEs face the risk of obsolescence therefore may not be offered as collateral. These findings are in line with the results of Mulandi (2013) who argued that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them.

The study found that the SMEs funds for expansion is often insufficient which concurs with Dehejia (2012), that inner sources of finance for a business is not enough to cater for business requirements and therefore the need for external sources of finance. The study also found a negative linear relationship between access to credit and business risk. That is a decrease in risk of business profile would result to an increase to access in credit.

5.4 Financial Information Asymmetry

The respondents agreed that financial institutions have hidden charges on loans, loans application procedures are complicated and there are restrictions on specific credit purpose and it is really difficult to avail all financial information required about the businesses in an event of seeking funds. In addition is agreed that is difficult to evaluate cost of credit due to financial information illiteracy/semi-literacy of the borrowers. Finally the study also agreed that It easy to access second and other subsequent loans and also its easy differentiate between risky and safe projects. This agrees with Mulandi (2013), that Banks are not interested in granting credit to SMEs because it is particularly difficult to overcome information asymmetries and resulting screening, monitoring, and enforcement problems.

The study disagreed With Mwangi (2015), that SMEs businesses have difficulty in differentiating risky and safe projects. This indicates that SMEs are well vast with their businesses and are able to evaluate their business activities and make good decisions. It also means that they do proper feasibility study to identify viable expansion plans or safe projects for their businesses. Further the study disagree that financial information is needed in identifying potential supplier of funds. SMEs are more focused on getting funds for their businesses rather than prerequisite financial information.

5.5 Access to Credit

It was admitted that large enterprises are likely to access loans easily compared to medium and small enterprises. The respondents also concurred that awareness on funding opportunities can assist credit access to small businesses. It was agreed that collateral is a major determinant in accessing credit by SMEs. Respondents also agreed that borrowers deemed to be not credit worthy are denied loans completely. Finally, the financial factors of collateral, cost of credit, business risk and financial information were fundamental in access to credit among SME's in Machakos town Sub County. These study findings agree with results of Gichuki (2014), about his research on sources of finance available to SMEs enterprises in Nairobi, the study established that access to credit is central to business operations.

CHAPTER SIX
CONCLUSION AND RECOMMENDATIONS

6.0 Conclusion

Financial institutions put emphasis on adequacy, availability and the nature of collateral before advancing credit to SMEs. Hence, insufficient or no collateral has led to poor or complete denial of credit amongst SMES.

The cost of credit includes contract cost, processing levies, insurance fees, negotiation fees and interests of the loan. Since lending to SMEs is deemed risky by financial institutions, this cost is usually high. Nevertheless the cost depends on the nature of the security offered and the apparent riskiness of the debtor. In order to increase access to credit among SMEs both the government and financial institutions should strive to ensure these costs are reduced.

Businesses are faced with various forms of risks and therefore financial institutions use different tools in assessing credit worth of businesses. Some of them are regarded as risky while others are perceived to be safe business ventures. In most cases risky businesses are deprived of credit or have limited access to credit while the safe businesses have easy access to credit. In light of this therefore, SMEs proprietors should reduce risks in their businesses to ensure increased access to credit facilities.

There is typically financial information asymmetry between lenders and borrowers. This creates mistrusting and suspicious interaction between lenders and borrowers of money. The SMEs and their businesses are not well understood by financial institutions and vice versa .A lot of time is wasted and unnecessary procedures are undertaken by these parties in trying to understand each other. This circumstances hamper free flow of credit .In this regard, financial institutions should have a deliberate efforts in building strong business relationship with their current and potential SMEs customers.

6.1 Recommendations to Practitioners

The study recommends that; SMEs access to credit should depend on relationships between creditors and debtors and therefore the financial institutions require simplifying loan application process to avoid unnecessary expenses. The financial institutions should also ensure that loan repayment process is flexible for SMEs. Moreover, they should consider making credit policies friendly to this category of businesses. They should ensure service providers in their panel charge fair cost on their services in terms of valuation fees and lawyers' fees. Further financial institutions should offer basic financial training to SMEs on record keeping, entrepreneur skills and loan investment evaluation. This will impart positively to SMEs enabling them to operate viable businesses and minimize risks. In addition an alternative need for loan collateral such as allowing SMEs to guarantee among themselves would increase access to credit.

6.2 Recommendations on Policy

SME are usually credit constrained than other segments of the economy because of lack of collateral, cost of credit, business risk and financial information. Consequently in process of protecting and assisting SMEs access to credit, the government should provide credit guarantee arrangements that would act as alternative to the lending institution in case SMEs fails to pay. One of the deterrents of access to credit is the cost of credit and hence the government through the ministry of finance should ensure that they allow concessional interest rates and implement it. The Micro Small Enterprise Authority (MSEA) should have systematic process of financial education targeting the SMEs .This will facilitate the necessary information on how and where to access cheap loans other than relying on the main stream financial institutions. In addition, SMEs operators will have basics knowledge on financial and business management skills. Additionally, the should create a framework of assisting SMEs register their businesses as well as aiding them in the event of changing their business from practice to another.

6.3 Areas of Further Study

This research was limited to SME's access to credit focusing on only four factors which the researcher thought they were key for the study. However the same research can be carried on other factors which could be affecting SME's access to credit. In addition another research can be carried out taking into considerations on the forms of businesses and their credit accessibility. Finally a research can also be done to scrutinize why SMEs time engaged to complete registration process did not depress access to credit.

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Appendix i: Letter of Introduction

Amos Kyalo Mutinda,
South Eastern Kenya University
P.O. Box 505 - 90100
Machakos, Kenya

Dear Sir/ Madam,

Re: Permission to Collect Research Data

I am a Master of Business Administration in finance student at South Eastern University, undertaking a Research Project on the "**Financial Factors affecting Credit Access among SMEs in Machakos Town Sub-County**". I am carrying out the research as part of the requirements of obtaining the degree. You have been selected to form part of this study and am kindly requesting you to assist in data collection by responding to questions in the attached questionnaire. The information you will provide will only be used for academic purposes only and will be treated with utmost confidence. You are free to request for a soft copy of this questionnaire which can be sent to you via email. Your assistance and cooperation will be highly appreciated.

Yours faithfully

....

Amos Kyalo Mutinda

Appendix ii: Questionnaire

The purpose of this Questionnaire is to seek answers to that will assist analyse access to credit from among Small and Micro Enterprises operating in Machakos Town Sub-county: Confidentiality on the information which the respondents will provide is guaranteed, and will be used for academic purposes only.

SECTION A: Demographic Information

1. What is your highest level of Education? (Tick as applicable)

a) Primary level

b) secondary level

c) Diploma

d) Degree

e) Post graduate

2 What type of business organization is this? Tick where appropriate

Sole Proprietorship { } Partnership { } Limited Company { }

3. Indicate the number in years the business has been running.

a) Less than one year

b) 1-3 years

c) 4-7 years

d) 8-10 years

e) Above 10 years

4. How many employees do the business? (Full time and Part time basis including directors and owners)

a) < 10

b) 10-49

c) > 49

5. Which of the following documents does the firm hold? (Please tick all that apply)

a) VAT Registration Certificate ( )

b) County Council Single Business Permit ( )

c) PIN Certificate ( )

d) Tax Compliance Certificate ( )

e) Annual Tax Returns ( )

f) Monthly VAT Returns ( )

g) Others

6. What is the annual turnover of the enterprise (Amount in kshs).

a) Below 500,000 (   )

b) 500,001-2,000,000 (   )

c) 2,000,001-5,000,000 ( )

d) >5,000,000 (   )

SECTION B: Financial Factors

Collateral Requirements

7. Indicate, by ticking appropriately, the effects of collateral requirements in accessing credit from financial institutions where is **(1-strongly agree, 2-agree, 3-Neutral, 4-Disagree, 5-strongly disagree).**

Statement	**Strongly agree 1**	**Agree 2**	**Neutral 3**	**Disagree 4**	**Strongly disagree 5**
Adequate collateral determines amount and loan term.					
Costs charged on security perfection discourage borrowing.					
Duration taken to register and create a charge on the security discourages borrowing.					

Stringent credit terms discourage potential borrowers.					
Nature of available collateral affects amount and loan term given.					
Flexibility of loan repayment affects loan amounts and loan term.					

Cost of Credit

8. Please tick appropriately whether you **(1 strongly agree, 2 Agree, 3 not sure/Neutral, 4 Disagree, and 5 Strongly Disagree**) with each of these statements.

Statement	**Strongly agree 1**	**Agree 2**	**Neutral 3**	**Disagree 4**	**Strongly Disagree 5**
Processing fees, insurance and legal fees are huge.					
Processing fees, insurance fees and legal fees can be negotiated.					
Secured loans have low interest rate compared to unsecured ones.					
A less liquid security attracts high interest rate.					
Loan term affects the interest charged on loans.					
Government costs such as taxes and excess levy affects access to loans.					

Business Risk

9. Please tick appropriately whether you **(1 strongly agree, 2 Agree, 3 not sure/Neutral, 4 Disagree, and 5 Strongly Disagree)** with each of these statements.

Statement	**Strongly agree 1**	**Agree 2**	**Neutral 3**	**Disagree 4**	**Strongly Disagree 5**
There is competition from large and relatively similar enterprises.					
Most business expansions are regarded risky.					
Price instability negatively affects profit in most cases.					
Emerging technology negatively affects businesses.					
Funds for business expansion in most cases are inadequate.					

Financial Information Asymmetry

10. Please tick appropriately whether you **(1 strongly agree, 2 Agree, 3 not sure/Neutral, 4 Disagree, and 5 Strongly Disagree**) with each of these statements.

Statement	**Strongly agree 1**	**Agree 2**	**Neutral 3**	**Disagree 4**	**Strongly disagree 5**
There is hidden charges on loans.					
There are complex application procedures and restrictive rules on specific credit purpose which discourages borrowing.					
It is really difficult to comply on credit conditions regarding provision of financial information of the businesses..					

It is difficult to evaluate cost of credit due to financial information illiteracy/semi-literacy.					
Financial information is required in identifying the potential suppliers of credit.					
It easy to access second and other subsequent loans.					
It is easy differentiate between risky and safe projects.					

Accessing Credit

11. Please tick appropriately whether you **(1 strongly agree, 2 Agree, 3 not sure/Neutral, 4 Disagree, and 5 Strongly Disagree)** with each of these statements.

Statement	**Strongly agree 1**	**Agree 2**	**Neutral 3**	**Disagree 4**	**Strongly Disagree 5**
Inadequate or non-existence of collateral has led to poor access of credit.					
Large enterprises are likely to access credit easily compared to medium and small enterprises.					
Borrowers deemed to be not credit worthy are denied loans completely.					
Lack of awareness on funding opportunities leads to poor access to credit by SMEs.					
There is inadequate credit to invest into new business expansion.					

Thank you for your time and cooperation.

Appendix iv: Work Plan

	Activity	January-Dec 2018		Jan-March 2019		March- June 2019	
1	Proposal development						
2	Data collection						
3	Data analysis						
4	Chapter iv, v & vi						
5	Project presentation						

Appendix v: Research Budget

	PARTICULARS	RATE (ksh)	Cost (ksh)
A	**Stationery and other resources**		
	Four reams of ruled papers	450	1800
	Three spring files	40	120
	Binding charges-7 copies proposal	60	420
	Binding charges-5 copies report	700	3500
	Subtotal		**5840**
B	**Printing services**		
	Proposal 50 pages for 7 copies	10	3500
	Project- 75 pages for 5 copies	10	3750
	Questionnaire- 4 pages for 129 copies	10	5160
	Subtotal		**12,410**
C	**Field work**		
	Piloting and data collection		23000
	Field assessment		10000
	Telephone and internet access		6000
	Computerized data analysis		10000
	Subtotal		**49000**
	Total		**6,7250**