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Challenges and Constraints towards Rural Credit Access among Small and Medium Enterprises in Kenya

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Abstract

This study has discussed the key inhibiting factors towards rural access to credit among small and medium enterprises. The specific objectives were to find out the effect of interest rate on the access to credit of rural small and medium enterprises, to evaluate the effect of business support services on access to credit of rural small and medium enterprises, to investigate the effect of transaction cost on access to credit of rural of small and medium enterprises and to assess the effect of collateral requirement on access to credit of rural small and medium enterprises. The study adopted a descriptive research design. The research collected primary data by use of questionnaires. The target population was 500 rural small and medium enterprises. A sample of 50 small and medium enterprises was used in the study. The study analyzed data using descriptive statistics and by use of Statistical Package for Social Sciences software. The results were presented in form of tables and charts. The study established that that interest rate, business support services, transaction cost and collateral requirements affects the access to finance of small and medium enterprises. The study however found that the effect of transaction cost on access to finance was insignificant unlike the other variables (interest rate, business support services and collateral requirements) which were all significant. The study therefore recommends that policy makers and the government should review the rates of interest, government should support training of small and medium enterprises owners and managers to impact the skills and the creation of institutions network in order to build social capital through small and medium enterprises association. Small and medium enterprises managers should develop business model that monitor transaction costs. The government should formulate legislation that enables lenders to establish diverse forms of security for loans. The study recommends further studies of the same study in varied areas within Kenya to determine if this challenges and constraints that affect access to credit are common. The study suggests further research on other factors which affect access of credit of SMEs such as awareness of financing opportunities, management skills, lack of internal competence and risk factors. The study also recommends a research on the supply side factors influencing access to credit of SMEs to understand factors limiting credit to the sector.

Keywords: Interest rates, access to credit, business support services, transaction costs

1 Introduction

The quick brown fox jumps over the lazy dog. The quick brown fox Small and medium enterprises (SMEs) have been ranked more competitive as compared to large enterprises due to their ability to adapt to market conditions more easily (Kayanula & Quartey, 2000). SMEs are crucial to the social economic and political infrastructure of both developing and developed countries. Agricultural sector has been identified as the backbone of many developing nations and the necessity to their economic growth as it contributes to over 60% employment rates and 20% GDP (International Finance Corporation, 2011).

Gichuki, Mutuku and Kinuthia (2014) records that out of the total adult population in Kenya, 38% cannot access credit, only 19% can access credit from financial institutions while more than 35% are prone to informal ways of accessing credit due to shortage of capital to lend to the many clients visiting those institutions, unacceptable business plans and collateral related challenges.

Access to credit has been a serious challenge to SMEs. Kimaiyo (2016) establishes that from the total number of SMEs which applied for loans at Uasin Gishu in 2008, only 27% got their loans approved and those whose loans were rejected cited greater demands on the part of collateral and failure to fulfill historical information requirements. Ndungu (2016) in Murang'a County established loan interest, collateral, literacy and number of lending institutions as some of the most crucial factors affecting access to credit in SMEs.

Okello (2010) having researched on the factors affecting growth of SME owned and managed by youths in Rachuonyo South District revealed that youth owned and operated SMEs perform poorly due to challenges of accessing business finance. Otieno (2015) having analyzed the factors influencing access to financial services among SMEs in Kasipul Sub County established that many clients lack access to financial services due to lack of collateral. This study aims to determine the inhibiting factors towards rural access to credit among SMEs.

According to Chowdhury and Alam (2017), small and medium enterprises in Bangladesh had an upper hand over other businesses due to the fact that they are able to adjust to hash economic environments because of their adaptability nature. The small and medium enterprises sector has been viewed as one of the most significant sectors in various economies due to the fact that they provide job openings and provide the government with taxes and provide new inventions into the market which drives the economy of a country. In addition, Chowdhury and Alam (2017) noted that small and medium enterprises have become the driving engine of Bangladesh economy.

In Vietnam, Minh (2012) in his study to determine what determines access to finance by small and medium enterprises found that the characteristic of an enterprises does not influence credit financing of the small and medium enterprises, but if an enterprise has an advanced economic capacity, it has high chances of getting external financing from banks. This study further found that the information possessed by the enterprise determines whether it borrows credit.

Haron, Said, Jayaraman and Ismail (2013) found in Malaysia on their study on factors influencing small and medium enterprises access to loans that availability of security helped enterprises to obtain loans. A study by Ackah and Vuvor (2011) in Ghana to find out the challenges faced by small and medium enterprises in obtaining finance showed that lack of security, high interest rates and poor record keeping makes financial institution to be reluctant in issuing finance to small enterprises.
According to Galindo and Schiantarelli (2013), both in the first world and third world, small and medium enterprises have been faced with lack of external funding and are more strained in their processes and development. Monteiro (2013) in his study found out that small and medium enterprises have restricted access to bank facilities due to high risks involved in lending to them since their operations are small and their record keeping is wanting. This leads to financial institutions shying away from lending to such enterprises since the risk involved is high.
In Kenya, the government has been in the front line in its effort to support small and medium enterprises. This has been done by the government through introduction various programmes aimed at building the capacity of SME's.

According to Deloitte Kenya Economic Outlook (2016), the small and medium enterprises are faced by challenges of growth such as insufficient funds, restricted market access, poor infrastructure, unskilled management and fast changes in the technology. Corruption and unfavorable laws and regulations are other factors which hinder the growth of SME'S. All these factors have an adverse effect on the growth of SME'S and this leads to the potential of the sector remaining unutilized due to bottlenecks.
The small and medium size enterprises sector has a huge potential of growth, if efforts are made to remove the bottlenecks derailing its growth. One of the notable contributors to the fast growth of this sector is access to finance for the businesses. Afande (2015) notes that when small and medium enterprises are able to access finance, they are likely to expand their operations and therefore grow in terms of volumes produced. The growth of the SME'S is greatly hindered by their incapacity to access finance due to lack of security to offer for issuance of finance. This has greatly affected the sector and many businesses struggle due to cash flow constrains.

Small and medium enterprises remain one of the most important sectors in the economy of Kenya. This is because this sector supports the economy by creation of employment, and reducing poverty levels in the third world countries. The most evident public benefit of small and medium enterprises growth is the vital contribution in job creation (Kongolo, 2010).Kithae et al. (2012) notes that although the small and medium enterprise sector employs eighty percent of Kenya's working populace,its contribution to the economy is merely eighteen percent and therefore there is a need to work towards improving the output of the sector volumes.

This study was confined to Thika town which commands the largest number of rural SMEs in the country (Afande, 2015). Rural Small and medium enterprises in Thika town have limited choices of accessing credit. In spite of the financial difficulties they face; small and medium enterprises seek alternative sources of funds to sustain this significant sector (Thika subcounty Report, 2018).

It is hard for small and medium enterprises in Thika town to access credit for growth and expansion. Many rural small and medium enterprises in Thika town have collapsed and others are struggling to exist. It is believed that identification and management of such factors results to increased access and growth of these small and medium enterprises.
Many studies have been carried in connection with small and medium enteprises. Waari and Mwangi (2015) researched on factors influencing access to finance of small and medium enterprises in Meru, Kenya. Osano and Languitone (2016) the studied factors influencing factors influencing access to finance of small and medium enterprises in Mozambique. Haron et al. (2013) studied factors influencing small and medium enterprises in obtaining loans. These studies have not determined the challenges and constraints towards rural access to credit among SMEs in Kenya and in particular, Thika town. This study therefore aimed to fill the gap by determining the challenges and constraints towards rural access to credit among SMEs in Kenya.

The general objective of this study was to determine the factors affecting access to finance of small and medium sized enterprises in Thika town, Kenya. The specific objectives were to find out the effect of interest rate on the access to credit of rural small and medium enterprises, to evaluate the effect of business support services on access to credit of rural small and medium enterprises, to investigate the effect of transaction cost on access to credit of rural of small and medium enterprises and to assess the effect of collateral requirement on access to credit of rural small and medium enterprises. The study adopted a descriptive research design.

2. Literature Review

2.1 Interest Rate and Access to Credit

In Europe, Ashiqur, Twyeafur and Joroslav (2017) carried out a study with the aim of finding out the determinants of access to finance of SME'S in three countries of Slovak republic, Czech Republic and Hungary. Primary data was used for the study and was collected using surveys. The data was analyzed to understand various determinants of access to finance for various regions. The researchers found that organizations which have an upper hand in new inventions have more access to finance. Further the study found that as the interest rate increased, the amount of loan advanced increased proportionally this means that large amount of loans had high interest rates while small loans had low interest rate. From this study, it is evident that if SME'S requires obtaining financing from a lending institution, the interest rate is likely to be high and therefore reducing its chances of getting finance.

In Pakistan, Hussain (2012) carried a study to determine factors influencing demand for finance for formal and informal sources. Primary data was used for this study which was collected by use of questionnaires, distributed to three hundred and thirteen respondents. The findings of this study were that the literacy level of the respondents had a positive relationship with demand for finance from lending institutions whose interest rates was low, while literacy level did not have any relationship with demand for finance from informal sources.

In Nigeria Adebiyi, Banjo and Regin (2017) carried out a study to determine impact of finance on performance of SME'S in Lagos state. The researchers adopted a survey research design for the study. The target population was 11,663 small and medium enterprises in Lagos and the sample selected was two hundred and fifty small and medium enterprise owners and operators. Data was analyzed using correlation and regression analysis. The study found there was a relationship between small and medium enterprises finance and their growth. Further, the researchers found out that high interest rate charged by financial institutions posed bottleneck to small and medium sized enterprises to access finance. The researcher further found that there was a substantial connection between business management procedures and performance of small and medium enterprises.

In Kenya, Kalya (2013) carried out a study to determine the supply-side factors of commercial banks and how they relate to access to finance of small and medium enterprises. The study used both primary and secondary data. Primary data was collected through questionnaires distributed. Secondary data was obtained from central bank of Kenya on interest rates charged for a ten-year period from two thousand and four and two thousand and thirteen. The researcher used a descriptive research design and the sample size selected was forty-four commercial banks in Kenya. Correlation analysis and regression analysis was used for data analysis. The study found there was a converse significant relationship between banks issuing of loans and interest rate charged for loans.

A study to determine the factors affecting young entrepreneurs in Kenya was done by Maratha (2015). The study had a sample of was two hundred and twenty respondents. Primary data was collected for the study using open ended and closed ended questionnaires. The researcher used a descriptive research design. The study found that there was an insignificant positive relationship between interest rate charged by financial institutions and access to finance by small and medium enterprises.

2.2 Business Support Services and Access to Credit

In Australia, Xiang and Worthington (2017) did a research on the impacts of government financial assistance on the performance of small and medium enterprises in Australia. The researchers used a panel data developed over a period of five years obtained from the business longitudinal database prepared by the Australian Bureau of statistics. The effect of government financial assistance was measured by successive small and medium enterprises performance in terms of revenue from sales and returns and also changes in lack of other NGOs finance. The findings of this study were that government financial assistance helps small and medium enterprises expand their output. In addition, the researchers found out that small and medium enterprises have a high likelihood of receiving other nongovernmental finance assistance in future. The study further found out that factors which considerably influence small and medium enterprises output and access to finance includes business size, level of inventions and the skills of the management.

In Spain, a study to determine the effect of government subsided and guaranteed credit during economic crisis to small and medium enterprises was conducted by Briozzo and Cardone-Riportella (2016) to find out the effects of 2 Spanish programs that supported small and medium enterprises by providing funded credit and bank credit secured by mutual guaranteed society. The impacts of the programs were compared during crisis period and during normal times. The findings were that during normal periods, these programmes led to increase in assets base and turnover while during a disaster period the impacts was increase in employment and turnover to staff ratio increases.

In Mauritius, Sambajee and Dhumun (2015) did a study on the relationship between the government and small and medium enterprises in Maldives and Mauritius. Their major objective was to relate and differentiate the roles played by the government and to find out the policies employed by small and medium enterprises operating in friendly and unfriendly environment. The researchers used small and medium enterprises in the tourism industry where questionnaires were used and qualitative research approach was applied. The study targeted 17 respondents comprising of 6 government officials 8 small and medium enterprises owners, 1 private bank owner, 1 academician and 1 hotel owner. The finding of the research was that the government of Maldivian was reluctant in supporting its small and medium enterprises when compared to the government of Mauritius. The inability of the government of Maldives to ease the access of finance and offer other support services to small and medium enterprises has led them to use other means to survive in the harsh environment. Small and medium enterprises in Mauritius despite operating in friendly environments have resulted in use same tactics used by SME'S in harsh environments due to mistrust of the government's sponsored programs.

In Kenya, Afande (2015) did a study to assess the factors influencing growth of small and microenterprises in Nairobi central business district. The specific objectives of the study were to examine the effects of access to finance on growth of small and medium enterprises in Nairobi, to investigate how the age of a firm influence growth and to investigate how the level of education of entrepreneur affects the growth of SME'S in Nairobi central business district. The dependent variable of the study was the firm's growth while the independent variables were access to finance, age of the firm, and education level of the entrepreneurs.

The research embraced a descriptive research design. The sample was eighty respondents. The findings of this study were that access to finance was ranked the most influencing factor on growth followed by education level of the entrepreneur and age of the firm was ranked as the least factor in influencing growth.

Another study was done by Manwari, Ngare and Kipsang (2017) to find out the challenges and opportunities affecting access to finance for women entrepreneurs in Kenya .The study was to investigate the challenges and opportunities facing women entrepreneurs. The challenges discussed includes insufficient capital, inadequate management and business skills, inaccessibility to finance, insufficient finance amounts, lack of loan security high tax rates, difficulties in loan repayments, high competitions, and insufficient business skills. Primary data was used for this study. Questionnaires and organized interviews were used to collect the data. The data was analyzed using the correlation analysis .The findings of the study were that among the challenges faced by women entrepreneurs the highest ranking was insufficient capital inaccessibility to loan, inadequate loan repayment .On government support to women entrepreneurs, the respondents indicated that smooth license process, provision of loans through banks and Sacco's, and business support services are major support services which the government should provide to enable women entrepreneurs access to finance.

2.3. Transaction Cost and Access to Credit

In Iran, a study to determine the transaction costs of obtaining credit in rural Iran was carried out by Hosseini, Khaledi, Ghorbani and Brewin (2012) to find out the transaction costs of obtaining credit from formal and informal institutions. The researchers used survey to collect the information to determine the transaction costs that are borne by borrowers in access to finance. House hold data was employed to this study. Data was collected from four hundred fifty-nine households where two hundred seventy-two were borrowers.

The data was analyzed using ordinary least square regression. The findings of this research were that access to finance in Iraq for small and medium enterprises, financial institutions imposed high transaction costs. In addition, and the study found out that factors such as contract cost, size of the loan among others are used to determine the transaction cost.

In Ghana, Sulistya and Darwanto (2016) carried out a study on transaction costs of small and medium enterprises access to finance in Ghana. The main objective of the study was to investigate the finance procedure and the transaction costs involved in the process, to review individual and group lending and relate the costs involved on each. The data was analyzed using multiple, methods of analysis to measure the individual lending and group lending and their transaction costs involved. The findings of this study were that the transaction costs of the two models were not the same. The transaction cost incurred by a group of members was much lower than the transaction cost of a single member. It should be noted that for the transaction costs to be lower for small and medium enterprises, individual members can regroup and seek access to finance as a group at much lower cost.

In Uganda, a study to determine the relationship between access to finance with transaction costs and lending interest was done by (Sseggujja, 2010). The study objectives were to determine the relationship between relationship lending, transaction costs and interest rates. Primary data was used for this study and it was collected from fourteen commercial banks in Uganda and their borrowers. The target population was five hundred and sixty-six large and medium enterprises and bank employees in Uganda and the sample size was two hundred and twenty-five. The collected data was analyzed using linear regression model. The findings of this study were that relationship lending had a major negative influence on lending interest rates and transaction costs.

In Kenya, Micheni, Muketha and Lule (2013) did a study to investigate the impact of transaction costs and facilitating conditions in adoption of mobile money in Kenya. The main objective was to investigate how transaction costs and other facilitation fees affect the access of mobile money by mobile subscribers in Kenya. The researchers used survey to collect the data for the study. The data was coded and input into SPSS software for analysis. The data was analyzed using the confirmatory factor analysis. The findings of the research were that facilitating conditions have an effect on the adoption or intake of mobile money.

2.4 Collateral requirement and Access to Credit

In Bangladesh, Chowdhury and Alam (2017) did a study to determine the factors affecting access to finance for small and medium enterprises in Bangladesh. His objectives were to find out whether factors such as firm's characteristics, age size and ability to produce collateral, financial characteristics such as ability to repay advanced finance, willingness to pay the finance advanced, ability to present business plan, and entrepreneurial characteristics such as education background, management capacity had any effect on access to finance. Primary data and secondary data were used for this study. Primary data was collected by administration of questionnaires issued to a sample of eighty-six Small and medium enterprises selected. The findings of the study were that the size and age of the organization, managerial competency of the management, and unfriendly lending conditions such as high interest charges and requirement of production of collateral to access finance were some of the biggest drawback to firms in accessing finance.

In Croatia, Harc (2015) carried a study to determine the relationship between tangible assets and access to finance for small and medium sized enterprises in Croatia. The researcher wanted to find out whether tangible assets in SME'S had any influence on the enterprise ability to obtain finance from a lending institution. The researcher used a sample of five hundred small and medium sized companies in Croatia and compared the data over a five-year period from 2005 to 2010.Secondary data was used for the study and it was obtained from audited annual financial statements of the companies. The researcher used the audited financial statement due to their reliability. The data was analyzed using the Pearson correlation analysis to find how the two variables, tangible assets and access to finance relate and to what extent. The finding of this research was that tangible assets had a positive effect on the long-term access to finance on Croatian SME'S, while tangible assets had a negative effect on the short-term access to finance. This is because small and medium enterprises use their assets to act as a security to obtain long term finance for their operation.

In Tanzania, Kira and He (2012) carried out a study to find out the impacts of firm's characteristics in access to finance by SME'S in Tanzania. His main objectives were to find out whether a firm with assets was better placed to access to finance. Primary data was used for this study and questionnaires were distributed to a sample selected of one hundred and sixty three respondents. The researcher used descriptive analysis and product moment correlation coefficient to describe whether the two variables were linearly related and to what extent they related. The findings of the research were that small and medium sized enterprises with collateral had high chances of assessing finance than SME'S without collateral.

Another study was carried out by Kung'u (2011) in Westlands town Kenya to determine the factors affecting access to finance for small and medium size enterprises. Primary data was used for this study and data was collected by use of questionnaires. The questionnaires were filled by a sample of one hundred and fifteen SME'S owners. The sample was selected from six sectors which were industrial, technology, electrical, shopping, building and travel. The findings of this study were that small and medium enterprises which were less than three years old faced finance access hurdles due to lack of security required by financial and lending institutions.

A study to find out the factors that affected access to finance among women entrepreneurs was done by Karanja, Mwangi and Nyakarimi (2014) to find out whether collateral requirement had any effect on access to finance for the women entrepreneurs in Isiolo County. The researchers carried out a survey on the six financial institutions registered, eighteen top management staff, and twenty business women. The researchers adopted a descriptive research design for their study. The data was analyzed and chi square was used to test the assumptions of the study. The findings of the study were that there was a major relationship between security requirement and access to finance. In addition, the study found that out of the three financial institutions reviewed, two of them asked for motor vehicle logbook as security for amount advanced.

3. Research Methodology

This study adopted a descriptive research design. The target population was 500 SME's in Thika town that operates in transport, trading retail and wholesale, manufacturing, distribution and hospitality. According to County Government of Kiambu licensing office (2018), there are 500 SME's in Thika town, Kenya as shown in appendix I
Stratified random sampling technique was adopted for sampling purposes. Cooper and Schindler (2008), defines stratified sampling as a technique used where the population is not homogeneous. The SME'S were stratified according to the nature of businesses then samples selected from each stratum using simple random sampling. This method of sampling was prefered because small and medium enterprises are highly heterogeneous. A sample of between 10-30% is considered sufficients for a study Mugenda & Mugenda, (2003).The study therefore adopted a sample of 10% making the total sample size 50 as shown below in appendix II.
This study used primary data. Primary data was gathered through administration of structured questionnaires. The advantages of using questionnaire are; the responses are gathered in a standardized way, they are relatively quick to collect information and essential information can be collected from a large portion the sample population. Structured questions have predetermined choices of responses and are easier for the researcher to code and analyze and they reduce the amount of thinking that a respondent needs to undertake to complete the task (Timpany, 2011). Before the start of the data collection, the researcher visited the sampled firms and requested the management to allow him to carry out the data collection by presenting a self-introductory letter and an introduction letter from the faculty.

Data was summarized, coded and analyzed using Statistical Package for Social Sciences (SPSS) software version 21. The study also used descriptive statistics in data analysis which applied multiple regression model as shown in equation (i)

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ …………equation (i)

Where:
Y = access to Credit
X_1 = interest rate
X_2 = business support services
X_3 = transaction cost
X_4 = collateral requirements
β_0= constant
β_1- β_4=Coefficients of independent Variables
ε=error term
The analyzed data was presented in form of tables and charts.

4. Findings of the Study

4.1 Response rate

The study sampled 50 respondents in collecting data on factors affecting access to credit of small and medium enterprises in Thika town. The questionnaire return rate results are shown in Table 4.1:

Table 4.1: Response rate on questionnaires used in the study

	Number
Questionnaires administered	50
Questionnaires returned	43
Percentage response rate	86%

The study had a response rate of 86% as shown by the table 4.1 above. In line with Mugenda and Mugenda (2003), this response rate was considered adequate for analysis. They noted that a response rate that is more than 70% is outstanding and therefore enough to analyze and draw meaningful conclusions from the findings.

4.2 Background Information of Respondents

4.2.1 Gender

The respondents indicated their gender on the questionnaires in order to determine the involvement of the two genders in business. The number of respondents was 43, out of which 15 were female representing 34.9 % while 28 were male representing 65.1% of the respondents. The findings on the gender of respondents is shown in figure 4.1

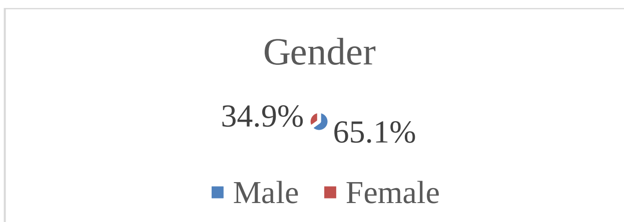

Figure 4.1: Gender of the Respondents

The findings shows that majority of the respondents were male at 65.1 % while the rest 34.9 % were female as indicated by figure 4.1 above. The findings imply that both genders were represented in the study.

4.2.2 Age

The SME's were requested to indicate the category of their age. The outcome of the findings shows that those below 30 years were the least at 11.6%, those aged between 31 and 40 years at 21%, while majority of respondents 37.2%, were aged between 41 and 50 years and those above 50 years at 30.2 %. The age profile is shown in table 4.2

Table 4.2: Age of Respondents

	Frequency	Percent
Below 30 years	**5**	11.6
Between 31 and 40 years		21
Between 41 and 50 years	**16**	37.2
Above 50 years	**13**	30.2

Generally, age distribution was uneven among the respondents. The findings imply that different age profile was represented in the study.

4.2.3 Form of Business Ownership

The researcher collected data on the form of business operating in Thika town. The study findings are shown in table 4.3 below.

Table 4.3: Forms of Business Ownership

	Frequency	Percent
Sole proprietorship	**23**	53.5
Partnership		30.2
Private limited company	**7**	16.3

According to table 4.3, majority of the SME'S businesses in Thika town were sole proprietorship at 53.5%. They were followed by partnership form of businesses at 30.2% and the least forms of businesses were the private limited firms at 16.3%. The findings indicate that different forms of business were represented in this study

4.2.4 Period in Operation

The respondents were asked to state how many years they were involved in business. This was important in order to ascertain their level of expertise in the SME'S sector. Table 4.4 shows the outcome.

Table 4.4: Period in Operation

	Frequency	Percent
Less than 2 years	**10**	23.3
Between 3 and 5 years	**13**	30.2
Between 6 and 10 years	**12**	27.9
More than 10 years	**8**	18.6

The study revealed that a high number of SME'S (30.2%) had been in business for 3-5 years. Second were those who had been in the SME's sector for 6-10 years at (27.9%) and the least are those who have been in the sector for above 10 years (18.6%). Those involved in the sector for less than two years were at 23.3% as shown in table 4.4 above. The findings imply that businesses with diverse period in operations were represented in this research.

4.2.5 Level of Education

The respondents were requested to state the highest level of formal education attained. This was to determine their level of literacy and how well they were able to understand and fill the questionnaires to get valid results. Table 4.5 shows the outcome.

Table 4.5: Level of Education

	Frequency	Percent
Primary	**9**	20.9
Secondary	**20**	46.5
College	**8**	18.6
University	**6**	14
None	**0**	0

The study findings, table above 4.5 on formal education level attained by SME'S indicated that the highest number of respondents had secondary school level of education at 46.5%, primary school level at 20.9%, colleges at 18.6%, while those with university education at 14% and none without formal education. The findings imply that respondents were well educated to understand, interpret and fill the questionnaires for this study.

4.3 Study Variables

4.3.1 Interest Rate and Access to Credit

The respondents were asked whether interest rate affected the access to finance of SME'S. They indicated their response as shown in table 4.6:

Table 4.6: Interest Rate and Access to Credit

Indicators	Mean	Standard deviation
The rate of borrowing from financial institutions denies my business access to finance	3.07	1.117
Fines and penalties charged on defaulted loans are too high thus denying me access to finance	4.13	0.918
Fixed interest rate is expensive thus affecting my cash flow limiting my future access to finance	3.04	1.200
Rates of interest affects the amount I can borrow from banks and other lenders and this reduces my ability to access finance	3.51	0.924
The current interest rates charges eat up a large portion of my profits hence reducing my repayment ability in the future	3.70	0.944
Interest capping has made loans from commercial banks affordable and this makes access to finance easy	3.67	1.210
Interest repayment (moratorium) makes it easy for me access finance for my business and this leads to expand my business	3.27	1.211

Respondents indicated that the rate of borrowing from financial institutions denied their business access to finance as supported by a mean of 3.07 and standard deviation of 1.117. Respondents indicated fines and penalties charged on defaulted loans were too high denying their business access to finance as supported by a mean of 4.13 and standard deviation of 0.918. Respondents indicated that fixed interest rate is expensive thus affecting cash flow limiting access to finance as supported by a mean of 3.04 and standard deviation of 1.2. Respondents noted rate of interest affect amount business can borrow hence limiting access to finance as supported by a mean of 3.51 and standard deviation of 0.924. Respondents indicated that the current interest rates charges takes a large portion of business profits hence reducing repayment ability as supported by a mean of 3.70 and standard deviation of 0.944.Respondents indicated that interest capping made loans from commercial banks affordable and this improves access to finance as supported by a mean of 3.67 and standard deviation of 1.210. Further, respondents indicated that interest repayment moratorium made it easy for business to access finance as supported by a mean of 3.27 and standard deviation of 1.211.

The findings indicate interest rate affect access to finance of small and medium enterprises. These findings agree with those of Ashiqur et al. (2017) who found that the interest rates and related costs affected the small and medium sized entities in accessing finance and it limits their ability to access finance. The findings are also similar to those of Kalya (2013) who found a converse significant relationship between banks issuing of loans and interest rate charged for loans.

4.3.2 Business Support Services and Access to Credit

The study sought to understand the extent to which business support services affected access to finance of small and medium enterprises of Thika town. The responses are presented in table 4.7

Table 4.7: Business Support Services and Access to Credit

Indicators	Mean	Standard deviation.
It is easier for business to access finance where the business has good financial information system.	2.19	0.839
Good record keeping makes it easier to lenders to loan my business	3.16	0.947
The presence of strong internal controls makes access to finance much easier	3.03	1.067
Access to information on various financing options makes firm have choices on loans which influences the overall access to finance	3.66	1.007
Good records on our performance make our communication with lenders more productive thus improving our access to finance.	3.29	0.995
Favorable credit rating improves my access to finance from formal lenders	3.77	1.061

Respondents indicated that it was easier to access finance for business with an outstanding financial information system as supported by a mean of 2.19 and standard deviation of 0.839. Respondents indicated that good record keeping made it easier for leaders to offer finance to small and medium enterprises as supported by a mean of 3.16 and standard deviation of 0.947 Equally, the study found a mean of 3.03 and standard deviation 1.067 when the respondents were asked whether the presence of strong internal controls made access to finance easier for their businesses.

Respondents indicated that access to information on various financing options enabled the small and medium enterprises have several choices of finance as supported by a mean of 3.66 and standard deviation of 1.007. Respondents indicated that good records on performance facilitated productive communication with lenders improving business access to finance as supported by a mean of 3.29 and standard deviation of 0.995. Respondents indicated that favorable credit rating improves SME'S access to finance from formal lenders as supported by a mean of 3.77 and standard deviation of 1.061.

The findings shows business support services affect access to finance. The findings are similar to Charbonneau and Menon (2013) who found that for SME'S sustenance they needed to be supported to improve their chances of getting credits. They cited the need to teach them how to use ICT to make them become more competitive. The study findings also agrees with those of Briozzo et al (2016) who established that business support services provided by the government of spain to the small and medium size enterprises enabled them to access to finance.

4.3.3 Transaction Cost and Access to Credit

The respondents were asked whether transaction costs affected the access to finance of SME's in Thika town. Respondents indicated that the legal costs associated with loans denied their businesses access to finance as supported by a mean of 1.06 and standard deviation of 0.238. Respondents indicated that the loan processing fees inhibited businesses from accessing finance as supported by a mean of 2.42 and standard deviation of 1.301. Equally, respondents indicated that too much paper work was expensive and this limited access to finance as supported by a mean of 2.70 and standard deviation of 1.677. The findings are as shown in the table 4.8.

Table 4.8: Transaction Costs and Access to Credit Finance

Indicators	Mean	Standard deviation.
There are too much legal costs associated with loans thus reducing my access to such facilities	1.06	0.238
Loan processing fees are too much thus inhibiting my access to bank loans	2.42	1.301
Too much paperwork is expensive for my business and this limits my access to finance	2.70	1.677
Loan application fees are high therefore making loans too expensive	2.96	1.019
Clearance with credit reference bureaus is expensive and this increases to the cost of credit facilities	3.13	1.288

Respondents indicated that loan application fees was escalating loans costs as supported by a mean of 2.96 and standard deviation of 1.019. Respondents indicated that clearance of a business with credit reference bureau increased the cost of credit as supported by a mean of 3.13 and standard deviation of 1.288

The findings shows transaction costs affect access to finance. The findings of this study agree with those of Sulistya et al (2016) who found that small and medium sized enterprises incurred high transaction costs and this was hindering their access to finance in Ghana. Equally, the findings agree with those of Hosseini et al (2012) who found that small and medium enterprises in Iran incurred huge transaction costs such as legal cost,insurance costs and loan processing fees to access finance for their businesses.

4.3.4 Collateral Requirements and Access to Credit

The study sought to determine the effect of collateral requirements on access to finance of SME'S. The respondents were asked whether collateral requirements affected the access to finance of SME'S. They indicated their response as depicted in table 4.9.

Table 4.9: Collateral Requirements and Access to Credit

Indicators	Mean	Standard deviation.
Most financial institutions demand collateral for loans which makes access to such facilities difficult	4.10	0.931
Loan insurance is costly to my business and this makes it hard to access credit	3.91	1.108
Long term loans require high valued assets which my business lacks thus inhibiting my access to long term financing	3.86	1.041
Collateral requirements can make me lose my assets when I am unable to pay and this scares me from taking up loans with formal financial institutions.	4.23	0.824

Respondents indicated that most financial institutions demand collateral for loans which makes access to finance difficult as supported by a mean of 4.10 and standard deviation of 0.931. Respondents indicated that loan insurance is costly making it hard for business to access credit as supported by a mean of 3.91 and standard deviation of 1.108. Equally, respondents indicated that long term loans requires high valued assets which businesses lacks and this limits access to finance as supported by a mean of 3.86 and standard deviation of 1.041.Respondents indicated that collateral requirements leads to lose of assets when business is unable to repay scaring them from taking credit as supported by a mean of 4.23 and standard deviation of 0.824

The findings shows that collateral requirements affect access to finance. This finding are in agreement with research done by Ackah and Vuvor

(2011) which indicated that SME'S faces a challenge accessing credit due to lack of collateral. Further, findings showed that SME'S are not ready to risk their assets by attaching them as security to loans for fear of being taken away in the event they fail to repay borrowed money

4.4 Multiple Regression

The multiple linear regression model was used establish which of the independent variables had a significant influence on access to finance of SME'S. The model was used to depict the influence of each independent variable to the dependent variable thus determining the relationship between them. Computing of the data was done using Statistical Package for Social sciences (SPSS) version 21.

4.4.1 Regression Model

Table 4.10: Regression model summary

R	R- Square	Adjusted R-Square	Standard Error of the Estimate	Sig.
0.8497[a]	0.722	0.691	0.34802	0.0042

a. Predictors: (Constant), Interest rate, business support services, transaction costs and collateral requirements

R^2 is the coefficient of determination indicated the level of access of finance varied with variation in interest rate, business support services, transaction costs and collateral requirements. The value of R^2 is 0.72.2 an indication that interest rate, business support services, transaction costs and collateral requirements explains 72.2% change in access to finance. The remaining 27.8% variation in access to finance is because of other factors not captured in this study.

4.4.2 Coefficients

Table 4.11: Regression Coefficients

Access to Credit of SME's	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant (β_O)	1.643	.274		5.225	.000
Interest rate (X_1)	-0.119	0.056	-0.234	-2.862	0.007
Business support services (X_2)	0.098	0.047	0.192	2.070	0.040
Transaction costs (X_3)	-0.072	0.055	-0.103	-1.310	0.192
Collateral requirements (X_4)	-0.177	0.066	-0.311	-3.149	0.001

At 5% level of significance; interest rate, business support services and collateral requirements were statistically significant since the p-values were less than 0.05. Transaction costs were not significant with p-value being higher than 0.05. These results imply that interest rate, business support services and collateral requirements had a significant influence on access to finance as given by their p-values of 0.007,0.040 and 0.001 respectively, whereas transaction costs had no significant influence on access to finance with p-value of 0.192 which is higher than 0.05.

5. Summary of Findings, Conclusions & Recommendations

5.1 Summary of the Findings

The findings were based on the objectives of the study and the research questions that were meant to be answered. They are summarized as follows:

5.1.1 Interest Rate and Access to Credit

The study established interest affected access to finance and majority of the respondents were on the affirmative to that fact. Fines and penalties charged on defaulted loans were considered too high for the small and medium enterprises as they contributed greatly towards denying them access to finance. Equally, the respondents indicated that interest rate affected the amount one can borrow from the lenders. The fixed interest rate was neither expensive nor cheap for the small and medium enterprises borrower despite affecting cash flow of the business.

Further, the study noted that interest rate charges take a large portion of small and medium enterprises profits hence reducing their ability to some extent. Respondents agreed interest rate capping had made loans from commercial bank affordable thus making access easier, with interest repayment moratorium moderately affecting access to finances of small and medium enterprises. The relationship between interest rate and access to finance of SME's in Thika town was significant.

5.1.2 Business Support Services and Access to Credit

The study found that small and medium enterprises business support services affected the access to credit. Good financial information system did not guarantee easier access to finance. However, the presence of good records and strong internal controls made it moderately easier for lenders to loan SME'S. In addition, the records made communication between the small and medium enterprises and the lenders more productive thus improving access.

The respondents indicated that availability of information on financing options contributed greatly to overall access to credit. This means there was potential to turn around the way small and medium enterprises access finance in the market. The study further found that favorable credit rating improved access to finance of small and medium enterprises from lenders. The relationship between business support services and access to credit of SME's in Thika town was significant.

5.1.3 Transaction Costs and Access to Credit

The study indicated that transaction costs affect access to credit. The legal cost associated with loans did not rank high in the mind of small and medium enterprises when considering access to finance. The respondents indicated that legal costs limited access to finance of small and medium enterprises. Equally they did not view loan processing fees as expensive.

The respondents neither agreed nor disagreed whether too much paper work, loan application fees and cost of clearance with reference bureaus was expensive hence limiting access to finance. The relationship between transaction costs and access to credit of SME's in Thika town was insignificant implying there was little influence by transaction costs on access to finance.

5.1.4 Collateral Requirements and Access to Credit

The study showed that collateral requirements did affect access to credit significantly. The study established that most financial institutions demand for collateral before loans are granted. Loans insurance is costly to small and medium enterprises which makes access to credit hard for SME'S. Respondents agreed highly valued assets have to be provided to secure long term loans advanced by financial institutions and which mostly small and medium enterprises lack.

The risk of losing asset pledged was real in case small and medium enterprises were unable to repay amount obtained from lenders. Therefore access to finance of small and medium enterprises was found to be limited mostly by financial institutions through restrictive requirements such as provision for security and lending policies. The relationship between collateral requirements and access to credit by SME's in Thika town was significant.

5.2 Conclusions of the Study

5.2.1 Interest Rate and Access to Credit

The study found that fines and penalties are to large extent act as deterrent for small and medium enterprises from taking loans to finance their businesses. Further, existing interest rate charges undermining their profit margin reducing ability to repay, leading to decline in the demand for credit since they are not favorable to small and medium enterprises .SME'S are unable to access finances due to current interest rate undermining their performance. A significant association exists between interest rate and access to finance of SME's in Thika town. The study concludes that interest rate affect access to credit of SMEs.

5.2.2 Business Support Services and Access to Credit

The presence of good records and strong internal provided information that was useful in the assessment of small and medium enterprises. Dissemination of financing options information and favorable credit rating improved access to finance to greater extent. There exists significant relationship between business support services and access to credit of SMEs in Thika town. Thus, this study concludes that business support services affect access to credit of SMEs.

5.2.3 Transaction Costs and Access to Credit

It is apparent from the study legal costs, paper work, loan application fees and cost of clearance does not rank high in the process of accessing finance by small and medium enterprises. It shows transaction costs did not escalate the cost of accessing finance. Respondents indicated that transaction costs affect access to finance. Therefore, the study concludes that transaction costs affect the access to credit by SMEs. However the study found that there is no significant relationship between transaction costs and access to credit.

5.2.4 Collateral Requirements and Access to Credit

The study established access to credit of small and medium enterprise are limited mostly by financial institutions through restrictive measures such as loan insurance, collateral requirements before credit is granted. SME's are not willing to risk their assets by attaching them as security. The study noted collateral limits loan demand and in extreme act as a barrier to access to finance. A strong significant relationship exists between collateral requirements and access to credit of SME's in Thika town. Hence, the study concludes that collateral requirements requested by lenders greatly affect the access to credit of SME's.

5.3 Recommendations to policy makers

5.3.1 Interest Rate

The study found that interest rate affects the access to credit SMEs in Thika town, Kenya. This study therefore recommends that policy makers and the government should review the rates of interest to make them favorable and affordable for the purpose of increasing financial inclusion especially to the SMEs in Thika town, Kenya

5.3.2 Business Support Services

The study found that business support services affect the access to credit SMEs in Thika town, Kenya. The study recommends that government should support training of SMEs owners and managers to impact the skills and the mind set needed to manage SME'S successfully .The government should also support creation of institutions network in order to build social capital through SME'S association.

5.3.3 Transaction Cost

The study found that transaction cost affect the access to credit SMEs in Thika town, though no significant relationship between transaction costs and access to finance was found. The study recommends SMEs managers should develop business model that allows them to successfully scale up and grow when monitoring costs including transaction costs.

5.3.4 Collateral Requirements

The study found that collateral requirements affect the access to finance SMEs in Thika town, Kenya. This study therefore recommends that policy makers and the government formulate legislation that enables lenders to establish diverse and various forms of security to be offered as collateral way from the tradition one.

5.4 Areas for Further Study

A similar study is recommended to other areas within the country to determine if this challenges and constraints that affect access to credit are common. The study suggests further research on other factors which affect access of credit of SMEs such as awareness of financing opportunities, management skills, lack of internal competence and risk factors. The study also recommends a research on the supply side factors influencing access to credit of SMEs to understand factors limiting credit to the sector.

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Appendix I: Target Population

Category	Frequency
Hotel and accommodation	50
Manufacturer, process and assembly.	25
Distribution/traders	150
Transport operators	100
Production/grain storage/mills	90
Professional firms	20
Private education institutions	65
Total	**500**

Appendix II: Sample Size

Category	Frequency	Sample size
Hotel and accommodation	50	5
Manufacturer, process and assembly.	25	3
Distribution/traders	150	15
Transport operators	100	10
Production/grain storage/mills	90	9
Professional firms	20	2
Private Education institutions	65	6
Total	**500**	**50**

Appendix III: Sample Size

	NAME OF THE BUSINESS	ADDRESS
1.	THREE SHADE HOTEL	P.O BOX 509 - 160THIKA
2.	RAMBOGO BAR AND RESTAURANT	P.O BOX262 -01000 THKA
3.	MCGEORGE BAR	P.O BOX 562 -01000 THKA
4.	RWATHE HOTEL	P.O BOX 288 – KENOL
5.	GITHUMU BUTCHERY AND HOTEL	P.O BOX 847 -01000 THKA
6.	ADSON GENERAL WORKSHOP	P.O BOX 667-01000 THIKA
7.	MAASAI WORKSHOP	P.O BOX 1299 -01000 THIKA
8.	KANGUI CLOTH AND UNIFORM	P.O BOX 772-01000 THIKA
9.	ESCO GENERAL TRADERS	P.O BOX1204-O1000 THIKA
10.	KIMARI GENERAL STORES	P.O BOX 1807 -160 THIKA
11.	ISINYA DITRIBUTORS	P.O BOX 989 -01000 THIKA
12.	KANINI WHOLESALERS	P.O BOX 1290 -160 THIKA
13.	WENTO HARDWARE	P.O BOX 560 -01000 THIKA
14.	PIMA ELECTRICAL /HARDWARE	P.O BOX 2071 -01000 THIKA
15.	JAMEX ELECTRICAL SHOP	P.O BOX 556 -01000 THIKA
16.	MEGA GENERAL SUPPLIES	P.O BOX 886 -01000 THIKA
17.	CHEMOQUIP LIMITED	P.O BOX 2565- 01000 THIKA
18.	HESHIMA GENERAL SHOP	P.O BOX 1881 -01000 THIKA
19.	MUNJO ENTERPRISES	P.O BOX 01000-160 THIKA
20.	KISA BOOKSHOP	P.O BOX 897 -01000 THIKA
21.	NGABABA HARDWARE	P.O BOX 2970 -01000 THIKA
22.	REMUERBEN BOOKSHOP	P.O BOX 1976 -00100 NAIROBI
23.	PENDRUM TRADERS	P.O BOX 1004-01000 THIKA
24.	TKN SACCO	P.O BOX 545 KANGARI
25.	2NTTS SACCO	P.O BOX 1893 -01000 THKA
26.	GT SACCO	P.O BOX 432 – GATUNDU

27.	MURANGA MOTOR GARAGE	P.O BOX 671 -01000 THKA
28.	KIMANDI TRANSPORTERS	P.O BOX 201 – GATANGA
29.	SIMFA TRANSPORTERS	P.O BOX 994 -01000 THKA
30.	GIAKUMBI DRIVING SCHOOL	P.O BOX 1267 – MURANGA
31.	WELL PETROL STATION	P.O BOX 404 -01000 THKA
32.	CHANI TRAVELLERS SACCO	P.O BOX 2906-01000 THKA
33.	GATITU PETROL STATION	P.O BOX 264-01000 THKA
34.	KURUMBUIYA GENERAL MILLERS	P.O BOX 507 -0160 THKA
35.	ANKUR GRAIN TRADERS	P.O BOX 109 -01000 THKA
36.	MORNING GENERAL TRADERS	P.O BOX 769 - 01000 THIKA
37.	NDAKAINI ANIMAL FEEDS	P.O BOX 667-01000 THIKA
38.	KUKASA CONFETIONARY AND CAKES	P.O BOX 312 -01000 THIKA
39.	JOYKA TMBER AND FURNITURE	P.O BOX 829 -01000 THIKA
40.	GENX FURNITURE AND TIMBER	P.O BOX 1348 -01000 THIKA
41.	MWAMA STORES	P.O BOX 128 -01000 THIKA
42.	DEMIKAM POSHO MILL	P.O BOX 280 -01000 THIKA
43.	NEW MEADOW INSURANCE AGENTS	P.O BOX 447 -01000 THKA
44.	KAGO BUILDING CONTRACTORS	P.O BOX 060 -01000 THIKA
45.	THIKA FALLS ACADEMY	P.O BOX 2904 -01000 THKA
46.	HOMELAND COLLEGE	P.O BOX 421 -01000 THKA
47.	UZURI INSTITUTE	P.O BOX 2201 -01000 THKA
48.	STEPPING STONE ACADEMY	P.O BOX 977 -01000 THKA
49.	AFRICANA COLLEGE	P.O BOX 548 -01000 THKA
50.	EXCEL INSTITUTE	P.O BOX 1786 -01000 THKA