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FACTORS AFFECTING CREDIT ACCESSIBILITY BY FINANCIAL INSTITUTIONS FROM MICRO AND SMALL ENTERPRISES IN KENYA: A CASE OF NYAMIRA COUNTY

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ABSTRACT

Micro and Small Enterprise (MSEs) are a strong option for Less Developed Countries (LDCs) to enable them create employment, generate wealth and reduce poverty. The biggest challenge of this development model in Kenya is that quite often than not, the MSEs die off before their second anniversary. One of the biggest constraints is their inability to access credit to boost their sustainability and survival.

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This study looked into the factors affecting accessibility to credit by MSEs in Kenya, a case study of Nyamira County. The specific objectives were; to determine the effect of collateral on credit accessibility by MSEs; to assess the effect of savings on credit accessibility by MSEs; to establish the effect of entrepreneurial behavior on credit accessibility by MSEs; and to analyze the effect of education and training on credit accessibility by MSEs in Nyamira County. The theoretical framework guiding this study was resource-based theory because credit is seen as additional financial resource to an enterprise. The methodology involved a descriptive survey design. The target population comprised of 74 MSEs sampled randomly from three markets in Nyamira County. Questionnaires were used to collect primary data and collection of relevant secondary data regarding MSEs was from the records of the County office in charge of markets. Data was analyzed using descriptive and inferential statistics, using SPSS version 17. Data presentation was done mainly using tables. The study established that, all the factors studied had varying effects on credit accessibility with savings having the highest effect and education level of customers with least effect. The study recommended that lending institutions should reduce the barriers to credit accessibility for overall economic development, the application of the concept of social business in Kenya, where the free market forces will direct capitalist resources to benefit enterprise development among the poor and also MSEs to use IT in their operations for efficiency and effectiveness. Furthermore, it recommended that MSEs should train their employees in customer care skills, in order to retain their customers as well as extend their market share.

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BACKGROUND OF THE STUDY

Micro and Small Enterprises (MSEs) which are defined broadly as income generating activities that employ between 1-50 persons, play a significant role in the development process of Kenya (Government of Kenya, 2005). This arises from the observation that during the early stages of economic development, these enterprises manifest unique opportunities for wealth and employment creation. In 1999 it was estimated that there were about 1.3 million MSEs in Kenya (International Centre for Economic Growth et al. 1999). Four years later, MSEs were estimated to employ 5.1 million people (Goverment of Kenya, 2003). Micro and Small Enterprises all over the world are known to play a major role in socio-economic development. International Finance Company (IFC) of the World Bank estimates that there are approximately 2.7 million enterprises in Tanzania for instance. A large majority of these (98%) are micro enterprises (employing less than 5 people), effective in the utilization of local resources using simple and affordable technology; and complementing large industrial requirements through business linkages, partnerships and subcontracting relationships (Olomi & Chijoringa, 2001). Moreover, MSEs are thought to be central in promoting an entrepreneurial culture and technological adaptation (Government of Kenya, 2005). The development of the sector is therefore crucial in reducing poverty in Kenya.

In Kenya, the small business sector has both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy. Recognizing the critical role small businesses play in the Kenya economy, the Government through Kenya Vision 2030 envisages the strengthening of MSMEs to become the key industries of tomorrow by improving their productivity and innovation (Ministry of Planning, National Development & Vision 2030, 2007).

Vision 2030 that is the current blue print for the government's development agenda envisages the promotion, stimulation, and transformation of MSEs into viable medium and large enterprises, and by this transformation, change Kenya into an industrial economy by the year

2030. This is through the implementation of 5 year Medium Term Plans (MTPs), starting from 2008-2012; 2013-2017; 2018-2022; 2023-2027 (MTPs) and so on (Government of Kenya, 2007). Micro and Small Enterprises are generally undercapitalized, suggesting major operational difficulties in accessing credit and pursuing corporate goals. In Tanzania, approximately one third of the GDP is originated from the MSEs and SME sectors. It is also estimated about 20% of the labour force in Tanzania which is almost 3 million people is engaged in small businesses, in which these are micro enterprises consisted of 1.7 million businesses which are operating in the informal sector alone (Mkwawa, 2008).

In most cases the access problem especially experienced from formal financial institutions is one created by the credit institutions. Commercial banks and other formal institutions fail to cater for the credit needs of smallholders mainly due to their lending terms and conditions. Kimuyu & Omiti (2000), observed that 18.4% of the MSEs in Kenya cite access to credit as their second most severe constraint after market access. Further the 1999 National Baseline survey (International Centre for Economic Growth, 1999) indicates that 70% of the MSEs in Kenya require loans that do not exceed Kshs. 20 000 (US$ 285) while 96.3% do not require loans exceeding Kshs.100 000 (US$ 1428). Ondiege (1996), demonstrated that access to credit is associated with improved performance of MSEs in Kenya. Moreover, Lunddvall & Hjalmarsson (1998), show that manufacturing enterprises in Kenya that have limited access to credit also tend to be less productive and cannot always move to points of best practice. This indicates that since the MSE sector does not have adequate access to credit, its potential role in transforming the country is unlikely to be realized. Although it can be recognized that MSEs are confronted with unique problems including heavy costs of compliance resulting from their size, insufficient working premises and limited access to finance, Business Development Services, namely services related to entrepreneurship, business training, marketing, and technology.

The provision of credit has increasingly been regarded as an important tool for raising the incomes of rural populations, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the rural poor to facilitate their taking advantage of the developing entrepreneurial activities. The generation of self-employment in non-farm activities requires investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income, can help the poor to accumulate their own capital and invest in employment-generating activities (Hossain, 1988).

Despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the expansion of credit in the rural areas of these countries, the majority still had only limited access to bank services to support their private initiatives (Braverman & Guasch, 1986). Hence, this study intended to determine the factors affecting credit accessibility by Micro and Small Enterprises in Kenya, focusing on MSEs in Nyamira County, Kenya.

STATEMENT OF THE PROBLEM

Although a lot of studies had been conducted on challenges faced by Small and Medium Enterprises (SMEs) in accessing credit (Binks & Ennew, 1996) very little had been done in the case of Micro and Small Enterprises (MSEs). The attempts to explain the limited access to credit by MSEs in Kenya had broadly taken two arguably complimentary, perspectives. The first highlighted the prevalence of factors external to MSEs including the limited capacity, outreach and linkages by financial intermediaries as the main constraints to MSEs access to credit (Atieno R. , 2001). A hostile legal and regulatory framework for financial services underlies such constraints (Government of Kenya, 2005). The second perspective also acknowledged the problem of macro level constraints, but emphasized the greater explanatory powers of the relatively weak MSEs capacities including lack of tangible security and limited human capital (Kimuyu & Omiti, 2000). Although both perspectives had enhanced our understanding of the factors that affect the likelihood of MSEs to access credit, they had not been useful in offering practical guidance and/or developing appropriate policies. Consequently, it was imperative to study other aspects which included: collateral, savings, entrepreneurial behaviour, and education and training. In this project the researcher sought to determine factors affecting accessibility to credit by MSEs in Nyamira County, Kenya.

OBJECTIVES OF THE STUDY

The purpose of this study was to determine factors affecting credit accessibility by Micro and Small Enterprises in Nyamira County, Kenya.

SPECIFIC OBJECTIVES

The specific objectives of this study were:

1. To determine the effect of collateral on credit accessibility by MSEs in Kenya.
2. To assess the effect of savings on credit accessibility by MSEs in Kenya.
3. To establish the effect of entrepreneurial behavior on credit accessibility by MSEs in Kenya.
4. To analyze the effect of education on credit accessibility by MSEs in Kenya.

RESEARCH QUESTIONS

The study addressed the following questions:

1. What is the effect of collateral requirements on credit accessibility by MSEs in Kenya?
2. What is the effect of savings on credit accessibility by MSEs in Kenya?
3. What is the effect of entrepreneurial behavior on credit accessibility by MSEs in Kenya?
4. What is the effect of education on credit accessibility by MSEs in Kenya?

JUSTIFICATION OF THE STUDY

The study was expected to increase knowledge and understanding of how the factors under study affected credit accessibility by MSEs. It was also hoped that organizations and institutions that provide credit to MSEs would be able to understand the impact of the factors on their own performance. This report could act as a source of information for MSEs and Micro-financing institutions in other counties. They would be interested to learn from the experience of the area under study thus improve their own programmes. The economy of Kenya would also grow when various mitigating factors have been considered in order to increase accessibility to credit by MSEs. Academically, this study was expected to contribute to knowledge expansion in the field of micro-financing. It could also stimulate further studies in related academic areas.

LIMITATIONS OF THE STUDY

The study would address in detail the problem of the MSEs' limited access to credit as a limitation to the growth of the MSEs, in Nyamira County. All respondents were from Nyamira County, and there was a chance of bias when making recommendations for general application. The study was financed solely by the researcher, and hence subject to the challenges of limited financial resources. The time of the research was limited to 6 months to present the findings, and this would perhaps constrain efficiency. Finally there were 4 independent variables and one dependent variable to be considered. There might be several variables that might moderate the outcome.

LITERATURE REVIEW

THEORETICAL FRAMEWORK

The major component of discussion here is the resource based theory, the one upon which this study is based.

RESOURCE BASED THEORY

This research project was guided by the resource-based theory which is predominantly used to analyze strategic resources that are available to firms. Resources include all assets, organizational processes, firm attributes, information and knowledge that are controlled by firms and which enable them to conceive of and implement strategies that improve efficiency and effectiveness (Barney, 1991). Credit is actually a resource since it is considered a new source of finance (Wagema, 2000). The fundamental principle of the resource-based theory is that the basis for a competitive advantage of a firm lies basically in the application of the bundle of valuable resources at the disposal of the firm. This requires resources to be heterogeneous in nature and not perfectly mobile (Barney 1991). It also means valuable resources should not be perfectly imitable or substitutable without great effort. If these conditions hold, the firm's bundle of resources can assist the firm to have unique disposition that leads to superior outcomes.

The importance of resource-based theory in small business finance is that it allows the identification of the resources associated with successful access to bank credit. It also provides adequate explanation underlying key propositions. It helps identify the types of relationships between its key concepts. Hence it allows for a comprehensive and integrated framework that can be used to identify effective interventions (Wagema, 2000). Resources are either property-based or knowledge-based (Wiklund & Shepherd, 2003). Property based resources are tradable and non-specific to the firm while knowledge-based resources are the way in which firms combine and transform tangible input resources. Therefore knowledge-based resources may be important in providing sustainable competitive advantage (Barney 1991). Age and education are two common sources of knowledge-based resources, which influence access to bank credit (Kimuyu, 2000; Zeller 1993; 1994). Other sources of knowledge-based resources which have the potential to influence bank credit include family business history, entrepreneurial experience, industry specific knowhow, training and social capital (Lore, 2007).

Barney (1991) argues that valuable, rare, and inimitable resources are necessary but not sufficient to facilitate better outcomes. Firms must also have an appropriate organization in place to take advantage of these resources. Entrepreneurial orientation is an important measure of the way firms are organized (Wiklund & Shepherd, 2003). Organizing in MSEs includes cognitive aspects of planning, decision making or failure considerations and resource acquisition actions.

There is no single strictly acceptable definition of micro, small, medium and large enterprises. Different countries use different criteria of measuring the size of an enterprise depending on the level of development. The commonly used criteria are the number of employees, total capital invested and sales turnover. It is also important to note that the value addition criteria is a necessary, though not a sufficient condition, in determining if an activity is an enterprise. The Government of Republic of Kenya(1999) National Micro and Small Enterprise Baseline Survey, P12, defines a Micro-Enterprise as one having no more than 10 employees, with up to 10 million capital invested; a Small-Enterprise is that with 11 – 50 employees, with above 10m to 100m capital invested; the Medium–Enterprise as having 51-99 employees, with above 100m to 500m capital invested; Large-Enterprises as having 100 and above employees, with above 500m capital invested.

Note that farm holdings are excluded from the definition of MSEs except where farm based enterprises involve some kind of processing before marketing (i.e. value addition). For example a farmer who goes to the market or roadside to sell roasted maize is considered as operating a MSE. This is the definition upheld in the Sessional Paper No 2 of 2005 (Goverment of Kenya, 1996), therefore the term MSEs covers the range of establishments including formal and informal economic enterprises employing up to 50 persons: (Stevenson & St-Onge, 2000). Credit provides capital invested in MSEs which results in significant short-term increases in working capital, while it also increases household expenditure and welfare. MSEs Credit programmes support economic growth in the informal sector through fostering increased capitalization of business employment creation, and long term income growth. Therefore targeting micro enterprise credit in certain circumstances does appear to embody a trade- off of economic growth in favour of poverty reduction (Kevin, and Bruce, 2001) The slow growth of firms, in turn, has been attributed by some researchers to the lack of access to financial resources (Nkurunziza, 2005). Access to external resources is needed to ensure flexibility in resource allocation and reduce the impact of cash flow problems (Bigsten, 2000). Credit also enables individuals to smooth out consumption in the face of varying incomes, provides incomes for investment and improves ability to cope with unexpected expenditure shocks (Atieno, 2001).

Sources of credit to small-scale investments in Kenya currently include the formal credit institutions which include commercial banks, development finance institutions (DFIs) such as KIE, ICDC (current Centum Investments), JLBS and non- governmental organizations such as KWFT and K-REP, and the informal financial institutions such as ROSCAs, ASCAs, family,

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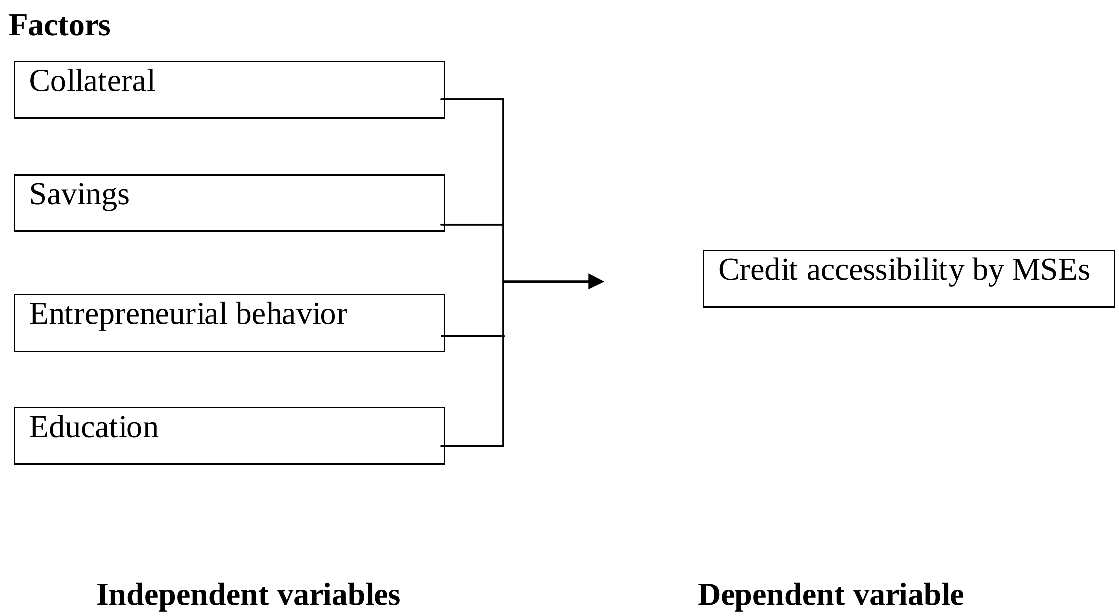
friends, money lenders and trade credit supplies. Providers of external finance include; governments, donors, commercial banks, cooperative stakeholders such as Kenya National Union of Credit Cooperatives (KUSCCO), Cooperative Insurance Company (CIC), Africa Confederation of Cooperatives and Credit Associations (ACCOSCA) and World Council of Credit Unions (WOCCU), other SACCOS and international financial institutions such as IMF and world bank. All the three sources of finance have a direct influence on the performance of an organization (Pandey, 2005). Lack of short term finance will have a negative effect on operating activities and thus profitability, whereas lack of long term finance will affect investment decisions and hence growth and return. It is therefore necessary to determine the various components of external financing and how they affect the financial performance of SACCOS. In Kenya, SACCOS contribute 45 % of the country's GDP and to date the sub-sector has effectively mobilized over Kshs. 200 billion deposits and assets totaling to Kshs. 210 billion, (Ministry of Cooperative Development and Marketing., 2008).

The Conceptual Framework

Figure 2.1: **Conceptual Framework**



METHODOLOGY

RESEARCH DESIGN

Research design refers to the plan, or structure of investigation conceived to obtain answers to the research questions and to control variance (Kerlinger, 1973). The Case study research design was adopted in this study. The research design was preferred because it is a quantitative approach which enables the researcher to collect data from a sample by administering questionnaires which captures the opinions and perceptions of the respondents (Dundore, 1985).

TARGET POPULATION

The target population comprised of MSEs from the three markets picked from among the markets in the county using the systematic sampling approach. The researcher took one enterprise in every six enterprises relying on the county's authorized and licensed MSEs records. These records were obtained from the officers in charge of market levies collection, and the County Office in charge of issuing licenses. Using this approach, the distribution of MSEs in the markets studied was: Kebigo 24, Esani 18, and Keroka 32 giving a total of 74 MSEs of various sizes, which made the target population.

SAMPLING FRAME

The sampling frame is the source or list from which the sample size of MSEs of the three markets was obtained (Mugenda and Mugenda, 1999). In this case the sample size was 43, calculated as explained below. The sample frame was obtained from records of licensed stall and shop operators in each market, kept at the County Office in charge of markets. The source carried the details of all MSEs.

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SAMPLE AND SAMPLING TECHNIQUES

A sample is a subset of the population under study (Amin, 2005). A sample size was determined and drawn from the target population of 74 MSEs using Nasiurma's model (2000). Using this model sample size n was calculated as:

$n= (Ncv^2)/(cv^2+(N-1)e^2)$, ………………………formula 3.1

Where N is the target population, cv is the coefficient of variation taken to be (0.5) and e is the tolerance level at 95% confidence level (0.05). See table 1 below showing the sample size as derived from the target population of 74 MSEs from the three markets.

Table 1 below shows the sample size as being 43 MSEs and its distribution in the three markets in Nyamira County as follows; Kebirigo 14 (19%), Esani,10 (13%), and Keroka 19 (26%) bringing the total to 43, which was 58% as the sample studied. The arrival at sample size was based on 95% level of confidence and a margin of error of 5%. According to Saunders, et al (2007), for most business and management researches, a margin of error of 3-5% is sufficient to estimate the population characteristics. A sample of 58% of the total population was adequate as Mugenda & Mugenda (2004), recommended that at least 10 % of the target population is enough and representative for descriptive survey studies.

TABLE 1: **SAMPLE SIZE**

Sample size using Nasiurma's Model	Kebirigo Market	Esani Market	Keroka Market	Total
Target population				
Sample size	24	18	32	74
Sample size as a % of	14	10	19	43
target	19%	13%	26%	58 %
population				

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RESEARCH INSTRUMENTS

In this study semi-structured questionnaire and internal records were used as the main tools to meet the research objectives. Questionnaire and document analysis were the most effective way of data collection for the purpose of this study because a lot of data was collected and documented at very low cost and within little time (Mugenda, 2004).

QUESTIONNAIRES

Questionnaires were designed and used to collect data from each of the sampled MSEs. The questionnaires were distributed to the enterprises to collect both quantitative and qualitative data on the perception, feelings and attitudes of the MSEs' operators towards accessibility to credit of MSEs.

DATA COLLECTION PROCEDURE

After the approval of research proposal, the researcher sought permission and authority to proceed to the field to collect data. The researcher used one research assistant, who underwent through some training in order to be conversant with the research objectives and how to help those respondents who might find difficulty in filling the questionnaire. Data was gathered in a span of two weeks.

PILOT TEST OF THE INSTRUMENTS

According to Kothari (2011), pilot-testing is an important step in research process because it reveals vague questions and unclear instructions in the instruments. It also captures important comments and suggestions from the respondents that enable the researcher to improve the efficiency of the instruments, adjust strategies and approaches to maximize response rate. The researcher carried out pre-testing interviews among the targeted population. The data from the pilot testing was not included in the final analysis, but only used to make the research instrument better.

VALIDITY OF RESEARCH INSTRUMENTS

Mugenda & Mugenda (2004), defines validity as the accuracy and meaningfulness of inferences, which are based on research results. The research instruments were exposed to experts and supervisors for validity checks. Face validity was ensured by the supervisors' expertise while construct validity was ensured through a thorough theoretical grounding in the subject matter.

RELIABILITY OF THE RESEARCH INSTRUMENTS

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. It is influenced by random error. As random error increases, reliability decreases. Random error is the deviation from a true measurement due to factors that have not been addressed by the researcher. Errors may arise from inaccurate coding, fatigue and bias Mugenda & Mugenda (2004). To test reliability of the research instrument, the instruments were administered to the same group of individuals on two separate occassions. The results were compared by correlating the sets of scores and calculating reliability coefficient using Croabach Alfa coefficient of 0.60 which is recommended by Bagozzi & Yi (1988) as a good indicator of reliability.

DATA ANALYSIS

Data was analyzed using computer aided data analysis software SPSS and stat pages. Tables were used, were used in data presentation, to show the sources of credit finance, the sample size and respondents distribution per market, and to compare the extent of effect of each of the independent variables under study on the dependent variable, access to credit in Nyamira County. They were used to show the effects of collateral, savings, entrepreneurial behavior and education on accessibility to credit. Percentages were used to compare the strength of influence of each of the independent variables on the dependent variable.

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RESEARCH FINDINGS AND DISCUSSIONS

INTRODUCTION

The study was carried in Nyamira County in Kenya to study the factors affecting credit accessibility in MSEs with a sample size of 43 respondents comprising of licenced stall and shop operators from Kebirigo, Esani and Keroka markets from a target population of 74 respondents. A questionnaire was the main instrument of data collection whereby the same questionnaire was issued to the sampled respondents. The data was analyzed qualitatively and quantitatively using descriptive (variance) and inferential statistics i.e. correlation to describe the association and direction among the variables under study and presented in form of tables. This chapter presents analysis and findings of the study based on data collected from the field.

The study established that the business enterprises had been in operation between 2 years and 7 years with 23 respondents agreeing that they have been in operation between 2-5 years and 20 respondents agreeing between 6-7 years. On the line of business, 15 respondents were engaged in vegetables and fruits, 9 respondents tailoring, 13 respondents on second hand clothes and general household while 6 were in other businesses. This was attributed to the fact that the small businesses required small capital to start. Hence, MSEs were better placed in applying for loans in order to meet their sole objective of alleviating poverty among the rural poor.

The study further established that most enterprises had employed less than 12 people. This was evident as 40 respondents agreed that they employed 6 people while 3 respondents agreed that they employed between 6-12 people. This can largely be attributed to the fact that most businesses were small enterprises which can solely rely on 1 employee as they are obliged to repay their loans, besides meeting their running costs.

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SOURCES OF FINANCE

Six sources of finance were explored from the study sample and the following data was generated and tabulated in table 2

TABLE 2 SOURCES OF CREDIT FINANCE

Source	Frequency	Percent
MFI's	9	20.9
Bank	10	23.3
SACCOs	8	18.6
ROSCAs	11	25.6
Friends	4	9.3
Family	1	2.3
Total	**43**	**100.0**

The study sampled 43 respondents in collecting data with regard to evaluate the factors affecting credit accessibility by Micro and Small Enterprises for financing. From the study, 9 out of 43 sampled respondents were from Micro finance institutions, constituting 20.9%. 10 out of 43 were from Banks constituting 23.3%. 8 out of 43 came from Sacco's representing 18.6% 11 came from, ROSCAs representing 25.6%. 4 out of 43 respondents accessed credit from friends representing 9.3% whereas only 1 respondent out of the 43 accessed credit from family circles constituting to 2.3%.

On the amount granted by lenders to loan applicant MSEs, 43 respondents agreed that less than 50% was granted as applied. This was due the fact that MSEs serve many customers with the objective of alleviating poverty among the rural poor and may be lack of funds, or fear of the customers possibility of failure to meet their repayment obligations. However, all the respondents agreed that the loan was advanced within the stipulated period.

The study analyzed all items in the questionnaire both qualitatively and quantitatively. The main objective of qualitative analysis was to use qualitative data in a process of inductive reasoning within the context of economic theory in order to generate ideas as regards to credit accessibility by MSEs, as opposed to hypothesis testing. However, keen analysis was done of the objectives that guided the study with the sole aim of establishing the factors affecting credit accessibility by MSEs in Kenya.

FACTORS AFFECTING CREDIT ACCESSIBILITY

The findings of the study regarding the factors affecting credit accessibility studied: collateral, savings, entrepreneurial behavior and education were discussed and tabulated, respectively as can be seen below.

COLLATERAL AND CREDIT ACCESSIBILITY

Credit worthiness is one of the major constraints to the growth of MSEs. On the supply side most formal institutions consider MSEs uncreditworthy, thus denying them credit (Atieno, 2009). The study sought to determine how collateral affects credit accessibility by MSEs in Nyamira County and the respondents were asked to state whether collaterals were required in order to access credit and results were tabulated in table 3

TABLE 3 EFFECT OF COLLATERAL REQUIREMENTS ON CREDIT ACCESSIBILITY BY MSES IN KENYA

Collateral	Required	Frequency	Percent
	Yes	40	93.0
	No	3	7.0
	Total	43	100.0

All respondents answered this question and majority of the respondents agreed that collateral was required upon accessing of the loan with 93% whereas those who disagreed represented 7%.

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Those who disagreed majorly got loans from friends and family. This may be attributed to the fact that collaterals induce the borrower to exert effort to repay the loan by ensuring that the business succeeds because if the business fails, the borrower loses his collateral. On the other hand, collateral may create a long-term relationship between borrower and the bank which may in future reduce the need for collateral (Arnoud, Boot ,Anjan and Thakor, 1991).

Hence, Collaterals are crucial as they reduce the risk of loss to the lender when a borrower defaults on a loan as the lender can use the collateral to recover his loan. Thus securing loans are safer for the lender than unsecured loans.

On the 3 respondents who obtained the capital for their enterprises from friends and family, the result can be attributed to the fact that borrowers fear to take loans due to predatory lending in which a lender knowingly makes a loan that is harmful to the borrower where a borrower posts a lot of collateral which might tempt the lender to finance a project even if he knows the project has a negative Net Present Value (Philip, Musto, and Yilmaz 2005).

SAVINGS AND CREDIT ACCESSIBILITY

Respondents were asked to give their opinion about the extent to which savings influenced credit accessibility and the following data was generated as tabulated in table 4.

TABLE 4 EXTENT TO WHICH SAVINGS MATTER

Valid	**Frequency**	**Percent**
To a very small extent	1	2.3
To a small extent	17	39.5
To a large extent	18	41.9
To a very large extent	7	16.3
Total	**43**	**100.0**

On the extent to which savings affect respondents on credit accessibility, majority of the respondents, 18 out of 43, agreed that to a large extent savings were an influential factor to credit accessibility with a percentage of 41.9%. Seven 7 out of 43 responded that to a very large extent, Savings were a major factor in accessing credit. Only 1 respondent out of the sampled 43 was of the contrary view.

On a closer look, it was found that respondents who accessed loans from SACCOs and ROSCAs agreed that savings do matter to a greater extent. This is majorly due to the underlying formation clauses in Memorandum and Articles of Association. Hence, this study established that savings were important in accessing credit finance by MSEs.

These findings concurred with Robinson, (2001), who argued that compulsory saving is among the requirement or preconditions for receiving credit in MFIs. MFI clients are supposed to deposit certain amount on weekly or bi-weekly or monthly in order to attain certain percent before being disbursed as loans and clients are not allowed to withdrawal their savings until they are loan free or decide to leave the organization. On the other hand, compulsory savings are used as loan insurance or cash collateral for loans and a part of the loan is secured by the savings.

According to Brett Hudson et al (2010), on group savings and loans associations, assess the impact of group savings and loans associations on their users' livelihoods and the potential market. They conclude that loans by microfinance institutions are not fairly allocated and there is a wide spread complaint that funds would be easily and immediately lent out, leaving many members without access. Therefore in the long run, the majority of the members lose confidence in the association and leave.

Lilian, (2011) underscores the fact that financial institutions lent their financial support to small and medium enterprises (SMEs). Despite catalytic role expected to be played by MFIs in facilitating economic growth through SMEs, the enterprises have continually faced persistent barriers in accessing funds for investments. This is characterized by the hurdles enterprises are supposed to jump over, that is, group formation by likeminded individuals, collateral requirements, high interest rate, minimum savings to qualify for loan advancement and element of fear in individuals. Therefore the issue of barriers in accessing funds for investments remains valid as long as such hurdles exist.

ENTREPRENEURIAL BEHAVIOUR AND CREDIT ACCESSIBILITY

The respondents were presented with two questions to establish the effect of entrepreneurial behaviour on credit accessibility and were analyzed as follows:

As to whether entrepreneurial behaviour is considered when applying for a loan, the study established that entrepreneurial behaviour was crucial because all 43 respondents agreed that it is used as a determinant for repayment ability. These findings were in agreement to Maragia (2008) who argued that risk taking is at the centre of entrepreneurial behaviour. This means risk averse individuals will not venture into any undertaking carrying any degree of uncertainty hence, they can't be entrepreneurs.

On the second question on the success of loan application, the respondents' opinion was tabulated in table 5.

TABLE 5 ENTREPRENEURIAL BEHAVIOUR AND SUCCESS OF LOAN APPLICATIONS

Valid	Frequency	Percent
To a very small extent	0	0
To a small extent	7	16.3
To a large extent	18	41.9
To a very large extent	18	41.9
Total	**43**	**100.0**

From the study, 36 respondents agreed that the success of loans applied for largely dependent on entrepreneurial behaviour of enterprises while 7 respondents disagreed. These can

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be attributed to the fact financial institutions were emphasizing on group lending as opposed to individual lending to reduce default rate. This encourages enterprises to form groups with successful entities in order to access these loans. The respondents who disagreement was explained as a consequence of inadequate training on entrepreneurial skills and competencies.

The fundamental reason for accepting loans from either formal or informal financial institutions is that it is almost, practically, impossible to fully finance all economic activities single handedly, especially when there is high level of economic turndown. Therefore, a loan is a liability for the individuals or corporation receiving it, but an asset for a lending institution, because it provides income to such institution. The study deduced that a loan is an important tool in an economic life of the holder if it is, effectively, employed in the income generating projects and that it does not affect other sources of income of the loanee. Hence, entrepreneurial behaviour is crucial.

EDUCATION AND CREDIT ACCESSIBILITY

The study sought to determine the education levels of respondents and if the level of education indicated the level of credit worthiness. Data from the respondents was tabulated in tables 6 and 7 respectively.

TABLE 6 LEVEL OF EDUCATION OF RESPONDENTS

Education		Frequency	Percent
	Below primary	4	9.3
	Primary	20	46.5
	Certificate	14	32.6
	Diploma	5	11.6
	Total	**43**	**100.0**

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Majority of the respondents 46.5% had Primary education followed by those with certificate at 35 %. Only 11.6% had higher qualifications in diploma. Only a small proportion of the respondents had below Primary level of education with 9.3%. Among the respondents none was a graduate or a post-graduate degree holder. These findings were illustrated in the size of the businesses as the majority possessed lower level education qualifications.

TABLE 7 WHETHER THE LEVEL OF EDUCATION INDICATES THE LEVEL OF CREDIT WORTHINESS

Valid		**Frequency**	**Percent**
	Yes	17	39.5
	No	26	60.5
	Total	**43**	**100.0**

Majority of the respondents disagreed that Education influences credit accessibility with a response of 60.5% saying NO and 39.5% saying YES as table 5 indicates. Further analysis was carried out to indicate the spread of the effects among different levels of education. Majority of the respondents who believed that education influenced credit accessibility to a small extent were from Primary level at 27.9%, closely followed by those at Diploma level at 14%, while those with lower primary level of Education were 7%.

These findings were attributed to the fact that financial institutions were concerned with reducing poverty levels among the rural poor. It is worthy to note that, all respondent members were responsible for loan recovery from any individual defaulter in their group. The study revealed that the financial burdens for participants were so overwhelming to the extent that members more often than not found themselves in vicious debt circles. The participants had to borrow to conceal debts and there by postpone the debt problems until they finally could not borrow anymore and it was time to face the “debt monster”, a scenario that was in most cases fatal to household wellbeing. It came out clear that some members in some groups had lost their

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very valuable assets due to being sold by groups to recover credit extended to them by/through the groups, leaving them in a more worse off state than they were in before.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

In this chapter the researcher examines how the objectives of the project were addressed using case study. The findings and contributions of the project to the determination of factors which affect accessibility by MSEs in Kenya are also discussed. Summary, Conclusions and recommendations are also given.

SUMMARY OF FINDINGS

The researcher applied case study in determining the factors which affect credit accessibility by MSEs in Kenya. This underscores the argument as put forward by William (2000) as cited Mwaura, (2011) that case study is an exploratory (single in-depth study) or explanatory (cross-case analysis) research strategy, which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. `

It is worthwhile to note that an intensive examination of four factors namely: collateral, savings, entrepreneurial behaviour and education was done and they were found to have an effect on credit accessibility. Most of the respondents were upper primary graduates and could be considered literate.

The findings indicated that there existed very little effect of education on credit accessibility as majority of the respondents disagreed that Education influences credit accessibility with a response of 60.5% saying NO and 39.5% saying YES. Further analysis to indicated spread of the effects among different levels of education. Majority of the respondents believed that education influenced credit accessibility to a small extent were from Primary level at 27.9%, closely followed by those at Diploma level at 14% while those with lower primary level of Education were 7%.

Collaterals were also found to have a positive effect on credit accessibility by MSEs as majority of the respondents agreed that collateral was required upon accessing of the loan with 93% whereas those who disagreed represented 7% and those who disagreed majorly got loans from friends and family. This was attributed to the fact that collaterals induce the borrower to exert effort to repay the loan by ensuring that the business succeeds because if the business fails, the borrower loses his collateral.

On Entrepreneurial behaviour, 36 respondents agreed that the success of applied loans largely dependent on entrepreneurial behaviour of enterprises while 7 respondents disagreed. This was attributed to the fact financial institutions were emphasizing on group lending as opposed to individual lending to reduce default rate. This encourages enterprises to form groups with successful entities in order to access these loans.

Finally on Savings, majority of the respondents agreed that to a larger extent savings were a factor to credit accessibility with a percentage of 41.9%. Seven 7 out of 43 or 16.3% responded that to a very large extent, Savings were a major factor in accessing credit. Only 1 respondent out of the sampled 43 was in the contrary to this.

CONCLUSION

The study was a success as all the respondents who were issued with the questionnaire completed all the questions as required and the research assistant used did not experience much difficult in interpreting the questionnaire to the respondents. This was attributed to the fact that the respondents were literate. The study established that the use of savings in order to advance a credit to MSEs was a prerequisite and was found to have a greater effect as compared to other factors. This was after, 97.7% agreed that it influenced credit accessibility as opposed to 2.3%.

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Collaterals were also found to have a positive effect on credit accessibility by MSEs as majority of the respondents agreed that collateral was required upon accessing of the loan with 93% whereas those who disagreed represented 7% and those who disagreed majorly got loans from friends and family.

On entrepreneurial behaviour, 36 respondents agreed that the success of applied loan largely dependent on entrepreneurial behaviour of enterprises while 7 respondents disagreed. Education was found to have least effect as majority of the respondents disagreed that Education influences credit accessibility with a response of 60.5% saying NO and 39.5% saying YES. This finding however, contradicted the Bureau of Entrepreneurship (2013) study, which asserted that, to go into business one needs education and training so as to exploit fully the hidden potential in a business idea, and good record keeping is of paramount importance in influencing credit provision to any size of enterprise by any lender. In addition, Kumar (2003) found a strong education effect in explaining access to financial services in Brazil.

The study therefore concluded that, all the factors studied had varying effects on credit accessibility with savings having the highest effect and education level of customers with least effect. Therefore the lending institutions should endeavor to reduce the barriers to credit accessibility for overall economic development.

RECOMMENDATIONS

Collateral can overcome underinvestment through issuing secured credit to allow MSEs to take advantage of investment opportunities with a positive Net Present Value that it otherwise could not. Taking advantage of such investment opportunities is desirable because it increases the SMEs value. Hence, lending institutions should increase their share of financial support to SMEs to promote their growth using collaterals that SMEs are willing to offer. However, the problem to the MSEs is that they are, often, not able to raise the required collateral to enable them access credit so as to pursue their business ideas however brilliant they may be. Hence, the requirement for collateral, in most cases than not, render many MSEs startups uncredit worthy in Kenya.

To overcome the obstacle of collateral to creditworthiness, and enable MSEs access funds for implementing their entrepreneurial dreams, it will be plausible to encourage and embrace the concept of Social Business as advocated for by Yunus (2007). He argues that social business is an achievable approach of exploiting capitalism to help the poor develop and live comfortably alongside the affluent. He further argues that the rich don't have to simply donate to the less privileged. He demonstrates that the free market forces can be used to the advantage of the less well off. The 2006 Nobel Prize Winner offers a business model wherein the free market capitalist principles can be applied to eradicate poverty, homelessness and protect the environment without simply targeting corporate profits. He believes that with appropriate loan products, the poor can also be creditworthy. The concept is already working well in Bangladesh and in the West, especially the USA.

Savings were found to have a positive greater effect on credit accessibility by SMEs. It was noteworthy, that all SMEs were required to deposit some savings before credit was advanced to them to increase their borrowing ability. The study therefore, recommended that, although savings are crucial, lending institutions should advance credit facility first for start-up enterprises to enable them acquire enough stock for their enterprises for greater competitiveness. It was worthy to note that different business enterprises have different entrepreneurial behaviors which are important for sustainability and growth of SMEs. The study established that, lending institutions use entrepreneurial behavior as criteria of advancing credit to enterprises. The study, therefore recommended that lending institutions should educate the SMEs on entrepreneurial traits taking cultural orientation into account.

On education, respondents agreed that it was not a major huddle to credit accessibility. However, the study established that most of the enterprises which seemed to be unsuccessful, their owners had a primary education and below unlike their competitors in certificate and above qualifications. Thus, the study recommended that lenders should be keen on education levels of borrowers so as to ensure that their decision making skills are enhanced for overall enterprise growth. Education is important, as it can form the basis of training, to enable MSEs personnel acquire useful business skills, that may make a difference in their operations. Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). According to Isaac Maragia (2008), education contributes a lot to managerial skills, technical abilities and techniques needed to undertake risk. Educated entrepreneurs have a broad perception of risk and innovation.

The study established that all credit seekers were accessing their credit by visiting the financial institutions or using agents in order to transact. The study therefore recommended that the financial institutions should adopt more advanced information technology in carrying out their businesses and carry out training onto their customers to increase efficiency and effectiveness in their operations. For instance could be useful, if MSEs entrepreneurs trained in such skills as customer care. This could enhance their relationship marketing strategies with a view to improve on their customer retention, and extension of their market share for survival in the face of a competitive market environment. The findings in this study on the whole can be replicated to other financial sectors to increase credit accessibility.

AREAS FOR FURTHER STUDY

This study formed a basis for further research in determining the degree and association of the independent and dependent variables. The findings can also form a basis on carrying out a research as to how these factors influence the default rate commonly experienced in relation to the youth and women in Kenya. It is also possible to use this study as a basis to undertake a study on how much entrepreneurial behavior does influence the growth of MSEs in Kenya.

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