

**EFFECT OF SMALL AND MEDIUM ENTERPRISES CHALLENGES ON ACCESS
TO COMMERCIAL BANK CREDIT IN SEME SUB-COUNTY KENYA**

BY

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DECLARATION

Declaration by the Student

I hereby declare that this research project is my original work and has not been submitted in the same form or any other form to this or any other university or college for any examination. The work forms part fulfillment of the requirement of the award of a Master of Business Administration Degree of Maseno University.

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MBA/BE/00001/2014

Declaration by the Supervisor

This research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

I dedicate this project to God Almighty my creator, my strong pillar, my source of inspiration, wisdom, knowledge and understanding. He has been the source of my strength throughout this program and His wings only have I soared. I also dedicate this work to my wife; Mrs Lilian Adhiambo who has encouraged me all the way and whose encouragement has made sure that I give all it takes to finish what I had started. To my children; Jactone Otieno who have been affected in every way possible by this quest.

Thank you. My love for you all can never be quantified.

God bless you.

ABSTRACT

Small and medium enterprises (SMEs) sector has continued to play an important role in the economy both globally and regionally. The Kenyan government has therefore encouraged the commercial banks to provide credit facilities to this important sector of economy. However, reports have indicated that there is low accessibility of credit facilities among the SMEs from the commercial banks. This study therefore sought to determine the effect of small and medium enterprises challenges on access to commercial bank credit in Seme Sub-County Kenya. The specific objectives were; to examine the effect of SMEs cost of credit on access to commercial bank credit in Seme Sub-County Kenya, to establish the effect of SMEs regulation on access to commercial bank credit in Seme Sub-County Kenya and to establish the effect of SMEs information availability on access to commercial bank credit in Seme Sub-County Kenya. The research was anchored on the credit rationing theory and market failure theory. The study employed descriptive research design and was conducted in Seme Sub-County for the period 2010 to 2016 where most of the groups were registered and a population size of 300 SMEs this is according to the ministry of gender and social services in Seme Sub-County and data collected using the probability sampling technique. A sample size of 59 respondents was drawn from owners of the small and medium enterprises by probability sampling technique. Primary data was collected by administering Questionnaires to the 59 SME owners in the study area. Reliability of the instrument was computed by using Cronbach reliability test and a reliability coefficient of 0.7754 was obtained, while validity was ensured by submitting the instrument for expert judgment by the lecturers in the department. Quantitative data was analyzed using descriptive statistics (frequency, percentages, mean and standard deviation). Pearson correlation analysis was also employed in testing the relationship of small and medium enterprises challenges and accessibility to commercial bank credit in Seme Sub-County Kenya. Data was presented using bar charts and frequency distributing tables and percentages. The study found that there was a considerable negative significant ($n=51$, $r = -.663$, $p<0.05$) correlation between cost of credit facilities and accessibility of the credit facilities by the SMEs. It was also found that there was a weak positive significant ($n=51$, $r = .367$, $p<0.05$) correlation between SMEs regulations and accessibilities of credit facilities from the commercial banks. The study also found that there was a plausible positive significant ($n=51$, $r = .713$, $p<0.05$) correlation between SMEs information availability and accessibilities of accessed credit facilities from the commercial banks. The study recommended that commercial banks should come up with the system whereby collateral requirements will be affordable to SME owners. Besides, the management of credit giving institutions should consider lowering their interest rates in order to match the reality of life to SME owners as a way of encouraging credit accessibilities since the study found that high interest rate charged discourage credit accessibility among the SMEs. The credit giving institutions should come up with programs of educating, enlightening and informing the SME owners on how they can go about obtaining credit facilities, financial record keeping and basic business skills. These will counter problems of information that make SMEs risky for credit giving institutions. Further research should be done on financial management challenges facing the SMEs for expansion and growth, effects of training of SME owners on financial performance of the SMEs and effects of accessibilities of credit facilities on financial performance of the SMEs.

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ABBREVIATIONS AND ACRONYMS

SMEs	-Small and Medium Enterprises
CBs	-Commercial Banks
CRT	-Credit Rationing Theory
MFT	-Market Failure Theory
IAT	-Information Asymmetry Theory
GOK	-Government of Kenya
ROI	-Return on Investment
PMET	-Private Market Efficiency Theory
FRH	-Financial Repression hypothesis

OPERATIONAL DEFINITION OF TERMS

Credit –This is to allow SMEs to use a sum of money on the understanding that it will be repaid and earn interest.

Commercial Banks-These are financial institutions that loan money to small and medium enterprises.

Small and Medium Enterprises- These are businesses which employ less than 10 persons and has an annual turnover between ksh.1,000 (US dollar 10) and ksh.100,000 (US dollar 1,000) times the gross national income and who most of them borrow their capital from CBs.

Interest Rate –This is the price SMEs pay for the use of the money they borrow from CBs.

Cost of Credit – This refers to the amount of money the small and medium enterprises pay in process of borrowing from the CBs.

Bank Loans-This is a liability that arises as a result of an arrangement in which a CBs gives money to SMEs and the SMEs agree to repay the money, with interest, at some future agreed time.

SMEs Savings-This refers to the portion of income not spent on expenditures, or deferred consumption because of unforeseen uncertainties by SMEs

Regulation –These are steps involved in ensuring that small and medium enterprises comply with the laws governing the operation of business entities.

Availability of Information- This refers to the knowledge of knowing the available sources of credit by SMEs.

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CHAPTER ONE

INTRODUCTION

This Chapter provides the background of the study, the problem statement, the research objectives, research questions. It provides the scope and justification of the study and conceptual framework.

1.1 Background of the study

Tom Gibson and Vander (2010) defines small and medium enterprises as formal enterprises with annual turnover in Kenya shilling between ksh.100 (US dollar 10) and ksh.100,000 (US dollar 1,000) times the per capita gross national income, at purchasing power parity of the country in which it operates.

Dalitso and Quartey (2000) defines small businesses as enterprises that employ less than 10 persons while those that employ more than 10 persons are classified as medium and large-sized enterprises. This definition guided this study as there are no universally accepted definitions of small and medium enterprises. The SMEs in Seme Sub-County was categorized into four categories namely Service provision, Trade, Manufacturing and Agri-business. It's on this back drop that the study will be on the effect of small and medium enterprises (SMES) challenges on access to commercial bank credit in Seme Sub-County Kenya.

Independent Electoral and Boundaries Commission places Seme Sub-County at 190.20 square kilometers with a population size of 98805 as per censuses of 2009, it is located along Kisumu-Bondo Highway in the in Kisumu county Kenya. The main commercial activity in Seme Sub-County is small scale businesses; this has then brought about a large number of SMEs being operated in Seme Sub-County. Most of these SMEs source for credit through commercial banks; therefore the study will establish the effect of small and medium enterprises (SMEs) challenges on access to commercial bank credit in Seme Sub-County Kenya.

Ngetich and Wanjau (2011) Study in Meru Kenya on the effect of cost of credit by Small and Medium enterprises on access to credit using survey research design defines Interest rate as the price a borrower pay for the use of the money they borrow from lenders/financial institution or fee paid on borrowed assets. They revealed that Interest rate has significant effect on access to credit by small and medium enterprises.

Hallberge (2002) study in Uganda on market oriented strategy for small and medium enterprises using simple regression define the cost of credit accessibility as the amount of money the small and medium enterprises pay in process of borrowing money from the financial institutions and the key indicator of cost in this respect are processing fees, Negotiation fees, interest rates, personal insurance, legal fees and travelling expenses that the SMEs meet in the process of acquiring credit. He singled out high risks associated with lending SMEs and fixed cost associated in acquiring sound information about borrowers by financial institutions in his study as the major driving force to the high cost of credit by SMEs.

Hodgman (1960) asserts that the borrower would be unable to repay for the loan due to the increased interest rates that is the cost of borrowing would turn out to be higher than the return on investment (ROI), Due to the cost of loan the lender may desist from lending to a borrower whose demands for credit is lower and the interest rate are higher. Berger and Udell (2006) journal on small business credit availability and relationship lending using multiple regression reveals that high transaction cost does not only increase the cost of borrowing but can also restrict access to external finance for some SMEs. Transaction cost are restraining for all SMEs. SMEs diverse characteristics and their relative opaqueness increase the assessments and monitoring cost.

Gangata and Malavire, (2013) in their study on challenges facing SMEs in accessing finance from the financial institution in Bulawayo area Zimbabwe using quantitative research design found out that very few SMEs succeed in accessing funding from banks ,the main reason for failure is to meet the lending requirements chief among them being provision of collateral security. Fernando, Chakraborty and Mallick (2002) in his study in Namibia on study on effect of interest rate on access to credit by small and medium enterprises through banks revealed that for small businesses owner's characteristics and interest rate maybe the most determinants of banks' credit decision.

Stutely (2003) in their study in London on the essential business numeracy using simple regression reveal that every business needs financing, even though at first glance it might appear that funding is unnecessary. It is important that financing be as efficient as possible. The borrowers should be able to put the cost of financing on the same basis, comparing them and come up with one that gives the lowest cost financing option and this does not affect SMEs access to Credit.

Studies done by Ngetich and Wanjau (2011) in Meru Kenya on the effect of cost of credit by Small and Medium enterprises on access to credit using survey research design, Gangata and malavire, (2013) in their study on challenges facing SMES in accessing finance from the financial institution in Bulawayo area Zimbabwe using quantitative research design, Fernando, Chakraborty, Hallberge and Mallick (2002) in Namibia on study on effect of interest rate on access to credit by small and medium enterprises and Berger and Udell (2006) journal on small business credit availability and relationship lending using Multiple regression agree that SMEs cost of credit have apposite effect on access to bank credit contrary to studies done by Stutely (2003) in their study in London on the essential business numeracy using simple regression which reveal that SMEs cost of credit has insignificant effect on access to bank credit. According to the studies there are varied results, some studies reveal a positive significant effect of cost of credit by SMEs on access to credit while other study have contrary results that there is insignificant effect of cost of credit by SMEs on access to credit Using different research designs. However a study on the effect of SMEs cost of credit on access to commercial bank credit in Seme Sub-County Kenya is not known.

Wanjohi, and Mugure (2008) study on Factors affecting the growth of MSEs in rural areas of Kenyan Kiserian Township, Kajiado District of Kenya using quantitative research design on 1000 MSEs reveals that detailed registration and licensing of SMEs affects their access to credit as the bank will only recognize those that are registered in terms of credit access. Larry Reed(1999) study on measures of improving access to credit in Kenya reveals that SMEs can only get access to credit facilities from commercial banks by complying to the laws governing registration and licensing. Republic of Kenya Sessional paper No.2 of 1992 asserts that there has been complains regarding tedious registration and certification processes of SMEs in Kenya. As Various bodies have their requirements and require money and time and this do not affect credit access by SMEs.

Studies done by Larry Reed (1999) on measures of improving access to credit of SMEs in Kenya ,Wanjohi and Mugure (2008) study on Factors affecting the growth of MSEs in rural areas of Kenya in Kiserian Township, Kajiado District of Kenya using quantitative research design on 1000 MSEs agrees that SMEs regulation has a positive significant effect on access to credit contrary to study by Republic of Kenya Sessional paper No.2 of 1992 which reveals that SMEs regulation has insignificant effect on access to credit.

According to the studies there are varied results, some study reveal a positive significant effect of regulation of small and medium enterprises on access to credit, while other study have contrary results that there is insignificant effect of regulation of small and medium enterprises on access to credit. However a study on the effect of small and medium enterprises regulation on access to commercial bank credit in Seme Sub-County Kenya is not known.

Observatory of European SMEs (2003) on SMEs and access to finance using survey research design asserts that the access to credit information and the technology in local lending environments determine the extent to which SMEs obtain sufficient external financing to exploit profitable projects. Winborg and Landstrom (2000) on financial bootstrapping in small business, examining small business managers resource acquisition behavior with a population of 1000 SMEs Argues that access to information is therefore a basic condition for providing loans to firms. Often the problem of inadequate information is mentioned as one of the main aspects limiting bank credit to SMEs. SME often passes more information about the potentiality of their own businesses but in some situations it can be difficult for business owners to articulate and give detailed information about the business as the financiers want.

Abor and Biekpe (2006) in Ghana on small business financing initiative problem and perspective in management Asserts that some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of the business, since they believe in one way or the other, information about their business may leak through to competitors and this affects access to credit.

Udell, (2004) in New York on asset base finance using survey research design confirm that most of the information banks obtain from SMEs operators come from the borrowers themselves: Investment plans, working capital requirements and balance sheets. The required information is then scrutinized for internal consistency and compared to other information the bank has as its disposal. However the interaction with the borrower is the next possible source of information for the banks for SMEs borrowers. By handling the borrowers' accounts, the bank knows the borrowers source of volume of transaction and the trend of his/her business. As a result borrowers are most likely to obtain loans and overdraft facilities from banks that they have been banking with for years.

Vuvor and Ackah,(2011) in Ghana on challenges faced by SMEs in obtaining credit using quantitative research design reveals that the inability of SMEs to provide collateral and other information needed by banks such as audited financial statements couple with high cost of loan in terms of high interest rates makes it extremely difficult to access bank loans.

Berger et al (2006) journal on small business credit availability and relationship lending using quantitative research design with a population size of 400 SMEs asserts that the extent to which business environment inhibits the optimal provision of credit determines the size of the funding gap those SMEs might face. The SMEs require information with which to identify the potential suppliers of the financial products. They require information to evaluate the risk of the SMEs which is applying the finance and to access the prospects of the SMEs within the market segment and this has not been the case by some SMEs.

Studies by Observatory of European SMEs (2003) on SMEs and access to finance using survey research design, Winborg and Landstrom (2000) on financial bootstrapping in small business, examining small business managers resource acquisition behavior with a population of 1000 SMEs, Abor and Biekpe (2006) in Ghana on small business financing initiative problem and perspective in management, Udell, (2004) in New York on asset base finance using survey research design and Vuvor and Ackah,(2011) in Ghana on challenges faced by SMEs in obtaining credit using quantitative research design agree that SMEs information availability has a positive significant effect on access to credit contrary to study done by Berger et al (2006) journal on small business credit availability and relationship lending using quantitative research design with a population size of 400 SMEs reveal that information availability has insignificant effect on access to credit.

According to the studies there are varied results, some studies reveal a positive significant effect of information on access to credit by small and medium enterprises, while other studies have contrary results that there is insignificant effect of information on access to credit by small and medium enterprises Using different research designs. However a study on the effect of SMEs information availability on access to commercial bank credit in Seme Sub-County Kenya is not known.

1.2 Statement of research problem

SMEs are business units with the main aim of maximizing profit, CBs has a role of offering financial assistance to SMEs. But most SMEs are faced with many challenges. The relationship of SMEs cost of credit, regulation and information availability on access to credit has been studied by many scholars, and from the literatures scholars have different contradicting opinions. As a result of different opinions it is therefore not clear whether it is positive or negative. The relationship between the effects of SMEs challenges and access to commercial bank credit in Seme Sub-County Kenya is not known. Therefore the purpose of this study will seek to determine the effect of SMEs challenges on access to commercial bank credit in Seme Sub-County Kenya.

1.3 Objectives of the Study

The general objective of this study was to determine the effect of small and medium enterprises challenges on access to commercial bank credit in Seme Sub-County Kenya.

1.4 Specific objectives are to;

- i. Examine the effect of SMEs cost of credit on access to commercial bank credit in Seme Sub-County Kenya.
- ii. Establish the effect of SMEs regulation on access to commercial bank credit in Seme Sub-County Kenya.
- iii. Establish the effect of SMEs information availability on access to commercial bank credit in Seme Sub-County Kenya.

1.5 Research Questions

- i. To what extent does the cost of credit has on access to credit by SMEs?
- ii. What is the contribution of SMEs regulation on access to credit?
- iii. What is the role of information availability on access to credit by SMEs?

1.6 Scope of Study

The study was limited to Seme Sub-County and carried out within the 28 Sub-Locations of the four wards in Seme Sub-County Namely; West Seme, Central Seme, North Seme and East Seme. The study collected data on Small and Medium Enterprises.

1.7 Justification of the Study

The study contributed to the body of knowledge on the effect of challenges of small and medium enterprises, particularly on the access to commercial bank credit. This study therefore gave an impetus to already existing studies for the consumption of academicians,

researchers, policy makers, county planners, political leadership and persons interested in community development.

1.8 Conceptual Framework

This diagrammatic representation shows the relationship between the independent and dependent variables to determine the effect of small and medium enterprises challenges on the access to commercial bank credit. The study evaluated if the effect of SMEs challenges have effect on access to commercial bank credit in Seme Sub-County Kenya or not.

Independent Variable

Dependent variable

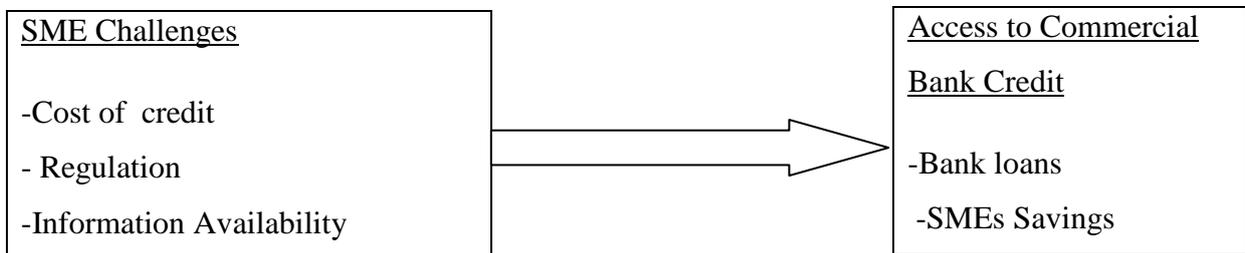


Fig. 1.1; Conceptual Framework showing Relationship between SMEs challenges and access to commercial bank credit in Seme Sub-County Kisumu County Kenya.

Source; Adopted from stiglitz and Weiss (1981) and Modigliani (1969)

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses literature related to the effect of SMEs challenges on access to credit. It focuses on two substantive literature aspects. First, theoretical reviews of the conceptual theories so far advanced in the field of access to credit, concepts and the empirical review for evidences about access to credit and performance in various parts of the world.

2.2 Theoretical Review

The study situates its arguments on credit Rationing theory, market failure theory and information asymmetry theory;

2.2.1 Credit Rationing Theory

Keiding (2013) the financial institutions are mostly private entities which are guided by profit maximization objective. Contrary to this objective not all individuals who apply for financing are granted access. Thus the market is not balanced through the price mechanism. Individuals may be denied credits even if they are willing to pay arbitrarily high interest rates. De Meza and Webb(1987)states that the credit market is not like the normal market where demand is equivalent to supply as the borrowers' who are willing to pay higher interest rates may find it difficult when it comes to repayments. Stiglitz and Weiss (1981) and Modigliani, (1969) Define Credit Rationing as a situation in which there is an excess demand for commercial bank loans at the prevailing commercial loan rates which most SMEs faces. Stiglitz and Weiss (1981) theory asserts that credit rationing arises when financial institutions realize their expected returns are below expectation. The non-monotonic relationship between the expected returns and interest rates arises due to factors such as adverse selection effect and adverse incentive effect. This study was anchored on this theory as it tends to explain the financing gap that may exist within the finance market.

2.2.2 Market Failure Theory

This theory justifies the reason behind the inefficient supply of finances to SMEs in the market. According to private market efficiency theory (PMET) as emphasized by Mendes (2004) denotes that under certain circumstances private markets will allocate goods and services among individuals efficiently in the sense that no waste occurs and that individual tastes are matching with the economy's productive abilities. The hue and cry of SMEs in meeting all the requirements as the policy of lending in the financial institutions stipulates. Banks do try and are able to provide efficient outcomes and if the SMEs were providing the right atmosphere, then there would be little or no scope of lack of finances. In many cases, however, conditions for private market efficiency are violated from the demand side through factors like information asymmetry; lack of clear risk management policy among others. Marlow (1995) put it that under ideal conditions related to competition, information and the absence of externalities, private competitive markets allocate resources efficiently. For financier (credit providers) do play a legitimate role. The ideal conditions must be present and efficiency must be the most important criterion for directing resource allocation. "market failure" occurs therefore when financial service providers in the markets do not allocate goods or services efficiently. The existence of market failure provides an efficiency based rationale for concluding that SMEs are being limited in access to finance. This study was also anchored on this theory.

2.2.3 Information Asymmetry Theory

This theory was first introduced by Akerlof's in 1970. His argument was that in many markets, the seller uses some market statistics to measure the value of goods he is selling in the market. In this scenario of the credit market the buyer sees the average prices of the loans (credit) in the market he is intending to buy while the seller has more intimate knowledge of each specific loan product. Akerlof's in 1970 put the seller at more advantage thus able to sell goods of less than the average market quality. In such circumstances the limitation of the information available to the buyer may lead to the seller offering average quality of goods in the market which eventually leads to reduction in size of the market. Information asymmetry has been found to increase the transaction cost. In a research paper conducted by Jensen and Thursby (2001) they found out that a licensee of technology or invention sometimes incurs more cost in a bid to transfer technology from the inventor. This arises due to the fact that the inventor may retain valuable information pertinent to the invention but not contained in the patent or contract document. In the entrepreneurship perspective where there are instances of

information asymmetry both the financial institution and the entrepreneur may turn to several methods to bridge this gap. The entrepreneur according to the Leland and Pyle (1977) may decide to invest or put her personal finance to the business. This is referred to as signaling or a show of commitment on the part of the entrepreneur that the business he or she wants to be funded by the financial institution is a going concern. In the other instances the financial institution may go for co-financing on the other hand the financial institution have been resorting to offering financial guarantees, information brochures, branding their credit facilities all this is geared towards reducing information asymmetry. And to further reduce information gap both the seller and the buyer can resort to evaluation of product quantities and their own dimensions. Stigler (1961) products have search, experience and credence qualities which customers can use in determining whether to purchase the products. Also the sellers can build some indicators surrounding these qualities stating that search qualities are those characteristics that can be used only after purchase and credence is hard to evaluate even after experiencing the product. This third quality needs more than constant promotion and organization image to maintain within the customers mind. Through this discourse we can infer that Stigler implies that repeat customers are easier to serve and are more preferred than the first time buyers. This may be the reason why financial institution prefers repeat customers. Financial institutions are called upon to identify credence indicators that are identifiable by their customers to facilitate the evaluation mechanism by interested entrepreneurs searching for finance. Reicheld and Sasser (1990) explains the reason why financial institution prefer repeat customers is due to less cost involved in attracting business with them. The information gap between the institution and the customers has drastically reduced due to the attribute of experience. He continues to impute that firms should develop capabilities and resources within the firm that are contingent on the services qualities that they are providing. The borrowed funds come with some conditions which have to be met by parties to these transactions. This theory supported the third objective of this study.

2.3 Concepts

2.3.1 Cost of Credit

High lending rates affect business because they influence both their own direct costs and the ability of their customers to borrow and spend. Though these capital intensive businesses can transfer the extra cost incurred from borrowing expensive loans to the consumer through pricing power, experts say it's unfortunate many of them have the least price elasticity and are least able to offset increasing borrowing costs with higher prices. Since SMEs often borrows short term loans to cover shortfall in the expenditure, higher interest rate will be

translated to costly shortfalls, since the business will have to pay more interest back to lenders. This will in one way leads to a drop in borrowing by the SMEs .High risk associated with lending SMEs and fixed cost associated in acquiring sound information about borrowers by financial institutions is the major driving force to the high cost of credit. High transaction cost does not only increase the cost of borrowing but can also restrict the source of external finance by some SMEs (Berger and Udell 2006)

2.3.2 Regulation

There has been complains regarding tedious registration and certification processes of SMEs in Kenya. Various bodies have their requirements and require money and time. one option left to an entrepreneur dealing in small and medium enterprises is to evade the process but this proves more expensive at the end because of the penalty given, for example for an entrepreneur running food related businesses, a certificate is needed from ministry of health or similar authority to show that the products or services offered have been analyzed and found to be safe. The authority may also require the product to conform to the standards and this when not done affects access to credit by SMEs impacting on their growth (Republic of Kenya Sessional paper No.2 of 1992).

2.3.3 Information Availability

The access of credit information and the technology in local lending environments determine the extent to which SMEs obtain sufficient external financing to exploit profitable projects. Access to information is important both from the commercial Banks perspective of providers of financial services and products and SMEs. SMEs require information with which to identify the potential suppliers of the financial products. CBs also require information to evaluate the risk of the SMEs who applies for the finance and also to access the prospects of the SMEs within the market segment and therefore poor access to information both affect SMEs and CBs (Observatory of European SMEs 2003)

2.3.4 Bank loans

Bank loans is a liability that arises as a result of an arrangement in which a CBs gives money to SMEs and the SMEs agree to repay the money, with interest, at some future agreed time. Usually, there is a predetermined time for repaying a loan, and generally the CBs has to bear the risk that the SMEs may not repay a loan. That's the reason why the CBs interest on loan is mostly high. The CBs loans to SMEs are normally small in size. The major challenge for intermediaries is to keep costs low (and revenues sufficiently high). Cost management is

especially challenging when average loan size is small, since transaction costs do not automatically fall as loan size declines. Successful commercial Banks institutions (CBs) employ creative procedures to hold down their costs, while setting interest rates at cost-covering levels (Anthony J. Ody, et al, 2007).Barrier to faster development of the SMEs is a shortage of both debt and equity financing. Access to finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2001).

2.3.5 SMEs Savings

Savings is the portion of income not spent on expenditures, or deferred consumption. Because of unforeseen uncertainties SMEs make savings with CBs, these saving increase SMEs chances to get more credit and also take care of any household or business emergencies. Over the last decade, commercial Banks (CBs) have found that SMEs are interested in a variety of savings services and products. Deposit services allow low-income households to save for investment. Access to savings services can protect low-income households by making them less vulnerable and giving them the opportunity for a positive real return. Research has found that, for commercial banks clients, savings products are as popular as working capital and credit for investments (Aldermore, 2014).

2.4 Empirical Review

2.4.1Effect of SMEs Cost of credit on access to commercial bank credit

Kofiknuah and Tanyeh (2013) study with the main objective on the challenges and determination of access to bank credit in Ghana waa Municipality using stratified sampling technique and quantitative research design focusing on cost of credit of SMEs on access credit on 80 small and medium enterprises consisting of chop bar, operators/fast food operators/restaurants, fabricating, repair services, Auto repairs, chemical/sellers and retailers, the study reveals that high cost of credit affects access to credit by SMEs and this only happens if credit is accessible. SMEs are seen to be playing strategic role in the economic growth of Ghana, despite facing difficulties in accessing financing from CBs to finance there working capital. In cases where SMEs succeed in accessing financial resources, cost of credit are high which sometimes leads to high default rates or non-performing loans and these now calls for a need to overcome challenges that would impede their access to financial resources.

Vuvor and Ackah (2011) study carried out in Ghana on challenges faced by small and medium enterprises (SMEs) in obtaining credit using survey research design, based on the responses received through the questionnaires sent, circulated and received back, it becomes evident that most SMEs in Ghana like most SMEs in other countries are faced with major challenges in accessing credit. These challenges were revealed by the study to include inability of SMEs to provide collateral and other information needed by banks such as audited financial statement coupled with high cost of loan in terms of high interest rates which makes it extremely difficult to access bank loans.

Graham (1996) and Udell (2004) journal on Debt and marginal tax rate and Asset based finance respectively asserts that policies such as imposition of ceilings on deposits and lending rates, directed credit policies and exchange rate controls leads to artificially low interest rate and high reserve requirements often result in financial market distortion and such distortions are basically in the form of fragmented financial markets where the financial needs of SMEs crowd out of financial activities of formal financial institutions. In the end low risk borrowers (SMEs) have limited access to formal financial institution hence resorting to the informal financial institutions for assistance; which in most cases are not adequate due to their small financial base.

Studies by Kofiknuah and Tanyeh (2013) in Ghana Waa Municipality study with main objective on the challenges and determination of access to bank credit by using stratified sampling technique and quantitative research design with specific objective on effect of cost of credit by SMEs on access credit and Vuvor and Ackah (2011) in Ghana on challenges faced by small and medium enterprises (SMEs) in obtaining credit using survey research design, have both indicated that SMEs high cost of credit have a significant positive effect on access to credit contrary to the study done by Graham (1996) and Udell (2004) journal on Debt and marginal tax rate and Asset based finance respectively indicated a contrary opinion that there was insignificant relationship between SMEs cost of credit and access to credit.

According to the literature reviewed there are varied results, some studies reveal a positive significant effect of SMEs high cost of credit on access to credit, while other study have contrary results that there is insignificant effect of SMEs high cost of credit on access to credit Using different research designs such as quantitative and survey research designs.

However a study on the effect of SMEs cost of credit on access to commercial bank credit in Seme Sub-County Kenya is not known.

2.4.2 Effect of SMEs Regulation on access to commercial bank credit

Kitisha (2013) study with the main objective of establishing the influence of regulation of SMEs growth and development in Huruma Nairobi on access to credit using descriptive survey research design and focusing on 600 registered SMEs .The study revealed that majority 67.3% of business were registered while 32.7% of the business were not registered, on taxation challenges 60.4% of the respondents indicates that taxation was very challenging for the SMEs , 26.7% indicates it was challenging and 12.9% indicates it was not challenging. On procedure involved in Business registration 63.3% of the respondent indicate it was very challenging and 20.8% indicate it was challenging and 12.9% indicates it was not challenging. On access to finance in commercial banks 80% indicates that access to finance from banks was a problem and only 20% indicates it was not challenging, the study established that some SMEs businesses are registered although quite a good number had not registered their businesses which affect their application for bank loans for growth.

Graham (1996) and Udell (1992) Journal on Debt and marginal tax rate and some evidence on the empirical significance of credit rationing respectively asserts that there are many demanding requirement for access to credit by SMEs , in addition to the bureaucratic lending procedures by the formal financial institutions as the biggest effect to access to credit by SMEs. This is what leads to most SMEs resorting to informal financial institution such as own savings and traditional money lenders from friends and relatives .Financial Repression Hypothesis (FRH) and Credit rationing theory (CRT) captured this phenomenon.

Mwangi and Bwisa (2013) on challenges facing entrepreneurs in accessing credit: a case of youth entrepreneurs in makuyu- Kenya using quantitative research design occasioned by registration and licensing processes found out that some of the youth entrepreneurs are faced with challenges in accessing credit due to registration and licensing of their businesses. The research recommends that financial institutions should look for ways of developing credit products that will attract and are more accessible to the youth. The lenders and other stakeholders should explore coming with policies that can assist the youth in accessing credit.

Studies by Kitisha (2013) in Huruma Nairobi with the main objective of establishing the influence of regulation of SMEs growth and development on access to credit using descriptive survey research design and focusing on 600 registered SMEs and Graham (1996) and Udell (1992) in Ghana on challenges facing small and medium enterprises on access to credit using survey research design, reveals a significant positive relationship between effect of SMEs regulation and access to credit contrary to studies by Mwangi and Bwisa (2013) in Makuyu- Kenya on challenges facing entrepreneurs in accessing credit: a case of youth entrepreneurs using quantitative research design reveal insignificant effect of SMEs regulation and access to credit.

According to the literature reviewed there are varied results, some studies reveal a positive significant effect of SMEs regulation on access to credit, while other study have contrary results that there is insignificant effect of SMEs regulation on access to credit Using different research designs such as quantitative, and survey research designs conducted in different places. However a study on the effect of SMEs regulation on access to commercial bank credit in Seme Sub-County Kenya is not known.

2.4.3 Effect information availability on access to commercial bank credit

Jahangir and Mohammad (2014) on identification of small and medium enterprises on access to credit in Iran with focus on availability of information using quantitative research design on 5037 SMEs reveals Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even personal contacts for market related information. This is due to inability to interpret the statistical data and poor connectivity especially in rural areas, since there is a vast amount of information and lack of statistical knowledge to interpret information. Small enterprises entrepreneurs need to be supported and there is a renewed hope for the SMEs with connectivity being enhanced.

Ntakobajira (2013) on factors affecting the performance of MSEs traders at city park Nairobi hawkers in Nairobi County Kenya using Survey research design ,the study concluded that access to finance affects performance of SMEs to a great extend in that it limits the entrepreneurs ability to take advantage of opportunity as and when they arose.

Wagama (2006) in his study on investigation into factors affecting the performance of small scale enterprise in Hola Town Tana River District in Kenya using quantitative research design recommended that the government could consider giving cheap loans to small enterprises without collaterals.

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

Gitari (2012) in her study of factors affecting women entrepreneurs in financial performance in Kenya a case of Ngara market found out that lack of information on who is offering what and the cost of obtaining such services limit them and that high inventory costing are some of the major drawbacks for success in women entrepreneurship as oppose to male entrepreneurs who have wide access to information. The high cost of running the entrepreneurs is a big threat to the women development due to lack of information on adequate capital access unlikely to male entrepreneurs.

Studies done by Jahangir and Mohammad (2014) in Iran on identification of small and medium enterprises on access to credit with focus on availability of information using quantitative research design, Ntakobajira (2013) in Nairobi County Kenya on factors affecting the performance of MSEs traders at city park hawkers using Survey research design, Wagama (2006) In Hola Town Tana River District study on investigation into factors affecting the performance of small scale enterprise in Kenya using quantitative research design and Observatory of European SMEs (2003) on SMEs and access to finance reveals a significant positive relationship between SMEs poor availability of information and access to credit contrary to study by Gitari (2012) in Ngara market Kenya on study of factors affecting women entrepreneurs financial performance reveal insignificant relationship between SMEs information availability and access to credit.

According to the literature reviewed there are varied results, some studies reveal a positive significant effect of SMEs information availability on access to credit, while other study have contrary results that there is insignificant effect of SMEs information availability on access to credit conducted in different places and using different research designs. However a study on the effect of SME information availability on access to commercial bank credit in Seme Sub-County Kenya is not known.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presents detailed descriptions of the methodology which was adopted by the study. It includes research design, study area, target population, sample population, sampling procedure, data collection methods and data analysis methods.

3.1 Research Design

This study adopted descriptive research design to assess the effect of small and medium enterprises challenges on access to commercial bank credit in Seme Sub-County as it constitute the blue print for the collection ,measurement and analysis of data .Research design is the strategy for a study and the plan by which the strategy is to be carried out. It specifies the methods and the procedure for the collection, measurement and analysis of data(Mugenda and Mugenda, 2003).Descriptive research design is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Mugenda and Mugenda, 2003).

3.2 Study Area

The research was conducted in Seme Sub-County, which is situated in Kisumu County along Kisumu-Bondo highway. It lies on latitude 0° 07' 03" South and longitude 34° 32' 27" East (statements in degrees, minutes and seconds respectively) and height of 2,101 metres above sea level. The study focused on SMEs operated by the youth groups within the Sub-County as it is their only source of income.

3.3 Target Population

The target population of this study was 300 small and medium enterprises owned by youth groups in Seme Sub-County operating small and medium enterprises according to the Ministry of Gender and Social Services in Seme Sub-County. The group members were respondents

3.4 Sampling size and Sampling Technique

The study adopted probability sampling technique and the sample size is to be 59 respondents consisting of members of groups. According to Gay (1992) sample size is a representative of all elements in a population where a sample is drawn and is representing the salient characteristics of the target population. Sampling Technique refers to sampling method used

to draw individual respondents or items that constitute a sample. The sample size being calculated using a formulae by Chava and Nachmias (1996)

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

Where; n- Represents the sample size

N- Represents the Population

e- Acceptable margin error (e=0.05)

q- Sample population estimated to have characteristics being measured,

Assume (q=0.95) confidence level

$$p = 1 - q$$

Z- Standard normal deviate at the required confidence level=1.96

The sample size for the Small and Medium enterprises is given by;

$$n = \frac{1.96^2 \times 0.95 \times (1-0.95) \times 300}{0.05^2 (300-1) + 1.96^2 \times 0.95(1-0.95)}$$

$$n = 59$$

3.5 Data collections

3.5.1 Sources of Data

Both quantitative and qualitative data was used. Primary data was the only source of data used and was collected through structured questionnaires and interviews.

3.5.2 Data Collection Procedure

The researcher before proceeding to collect data sought for permission and afterwards granted with an introductory letter from School of Graduate studies to the persons to be interviewed. Data was collected primarily using structured questionnaires and interviews.

3.5.3 Instruments of Data Collection

This study employed research Instrument such as self-administered questionnaire with a series of questions designed to elicit information and interviews.

3.5.4 Reliability of Data Collection Instrument

The test-retest coefficient was obtained to establish reliability of the research instruments as established by Fishers' 0.7 coefficients. To achieve these 15 respondents which include owners of SMEs in Seme Sub-County was used to test reliability and they were not to be

used again as part of the sample, instead the remaining 44 respondents consisting of owners of SMEs was used as the sample. Data reliability is a cornerstone of making a successful and meaningful study. In order to collect reliable data, the researcher designed the interviews and questionnaires through an elaborate procedure. Also quotes from interview and statement from questionnaires was used as references in ensuring reliability. The study measured the reliability of the questionnaire and also to determine its consistency. According to Nachmias and Nachmias, 1996, reliability is concerned with consistency, dependability or stability of a test.

3.5.5 Validity of Data Collection Instrument

According to Mugenda and Mugenda (2003), Validity is the accuracy and meaningfulness of inferences, which are based on the research results. The study tested inferences obtained from the 15 respondents who were not used again as part of sample to ascertain validity out of the 59 respondents hence leaving the sample size to 44 respondents and also validity was ensured by submitting the instrument for expert judgment by the lecturers in the department.

3.6 Data Analysis

Data was analyzed using descriptive statistics such as mean, standard deviation, mode and median to test the role of information and regulations on access to SMEs credit and Pearson correlation analysis was also employed in testing the relationship of effect of SMEs cost of credit and access to commercial bank credit in Seme Sub-County.

3.6.1 Data Presentation

In this study quantitative data was presented through the use of statistical technique such as bar charts and percentages while qualitative data was presented descriptively.

CHAPTER FOUR

RESULTS AND DISCUSSION OF THE FINDINGS

4.1: Introduction

This Chapter underscores the study findings, their interpretations and discussions. The findings of the study are based on the research objective as provided in chapter one, which were to; examine the effect of SMEs cost of credit on access to commercial bank credit in Seme Sub-County Kenya, establish the effect of SMEs regulation on access to commercial bank credit in Seme Sub-County Kenya and establish the effect of SMEs information availability on access to commercial bank credit in Seme Sub-County Kenya. The data was analyzed using both descriptive and inferential statistics such as Pearson Moment correlation. The descriptive statistics was used to describe and summarize the data inform of frequency distribution tables. The inferential statistics was used to make inferences and draw conclusions. This was very useful in determining effect of small and medium enterprises challenges on access to commercial bank credit in Seme Sub-County Kenya. Microsoft Excel and Statistical Package for Social Sciences (SSPS) version 22 were used in tandem to analyze the data.

4.2 Response Return Rate

The study administered the questionnaires to 59 youth group owners of SMEs in Seme Sub-County Kenya. Table 4.1 shows the comprehensive return rate for respondents and sample target.

Table 4.1 Response Return Rate

Questionnaires	Number Responded to	No response	Percentage response rate
59	51	8	86.4

Source: Researcher's data, 2017

Out of the targeted 59 respondents, 51 returned the questionnaires duly filled. This shows that the study achieved 86.4% response return rate. This was achieved because the researcher visited all the sampled SME youth groups in Seme Sub-County during data collection and administered the instruments to each respondent in person to ensure that each and every respondent took part in the study. However, only 8 respondents did not participate in the study because they could not comprehend the question asked.

4.3. Demographic Information of the Respondents

In investigating the demographic information of the respondents, the researcher sought to find out the distribution of their gender, number of years in operating the business and level of education.

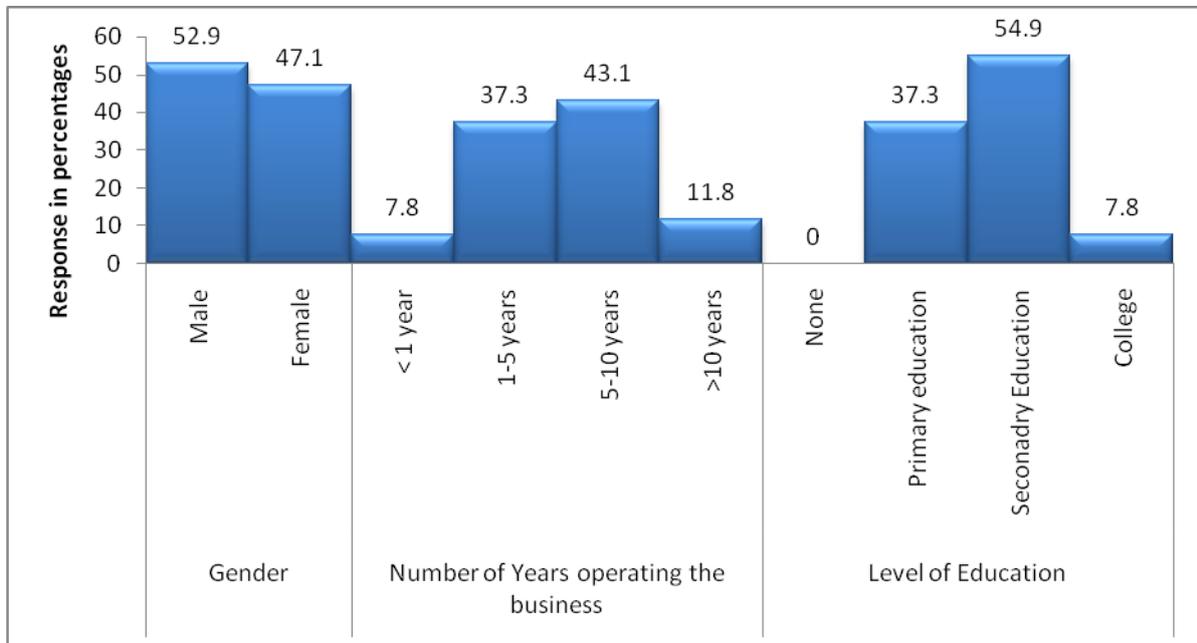


Figure 4:1 Demographic Information of the respondents

The findings of figure 4.1 showed that the distribution of respondents based on their gender was almost equal. The male respondents were represented by 52.9%, while 47.1% were females. Although the gender distribution was almost par, male respondents were slightly above their female counter parts, an indication that slightly more male youth were operating their SME business than female youth. In number of years, the study found that most of the respondents at 43.1% had operated their business between 5-10 years, 37.3% indicated 1-5 years, 11.8% indicated more than 10 years. This shows that most of the respondents had been in the business long enough to be having adequate information on challenges they were facing in accessing credit facilities from the commercial banks. Based on level of education, the study established that majority of the respondents at 54.9% had obtained secondary school education, 37.3% had primary education, while only 7.8% had college education as none had none education.

4.4 Accessibility of credit facilities from commercial banks

In assessing the accessibility of credit facilities from commercial banks, SMEs owners were probed on their source of startup capital, whether they had access to bank loan and if yes, the amount obtained. The results were as shown in Figure 4.2

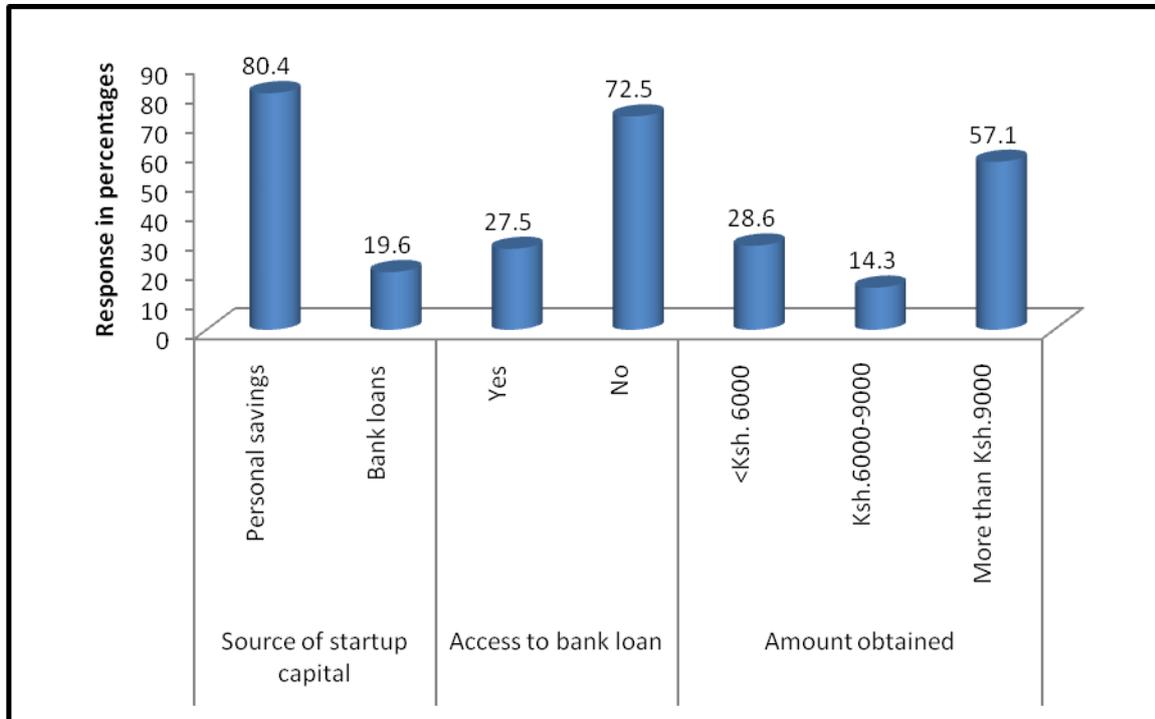


Figure 4:2 Accessibility of credit facilities from commercial banks

The study found that majority of the respondents at 80.4% used their personal saving to start up their businesses, while only 19.6% acquired bank loans. In fact, when asked on whether they accessed loan in their business, majority of the respondents at 72.5% disagreed, while only 27.5% agreed. This indicated dismal performance in loan accessibility among the youth starting their business. Although several factors may be attributed to this, the present study looked at whether cost of credit facilities, availability of information and SME regulations may influence loan accessibility among the SME owners. For those who accessed the loans, more than half of the respondents at 57.1% indicated that they got above Ksh. 9000, 14.3% indicated Ksh. 6000-9000, while less than 28.6% indicated Ksh. 6000. This shows that commercial banks were willing to provide substantial credit facilities to the SMEs so long as they were eligible.

4.5 Saving ability with the banks

The study sought to assess the saving culture of the SMEs owners. Therefore, respondents were asked to indicate the amount they obtained per month from their businesses.

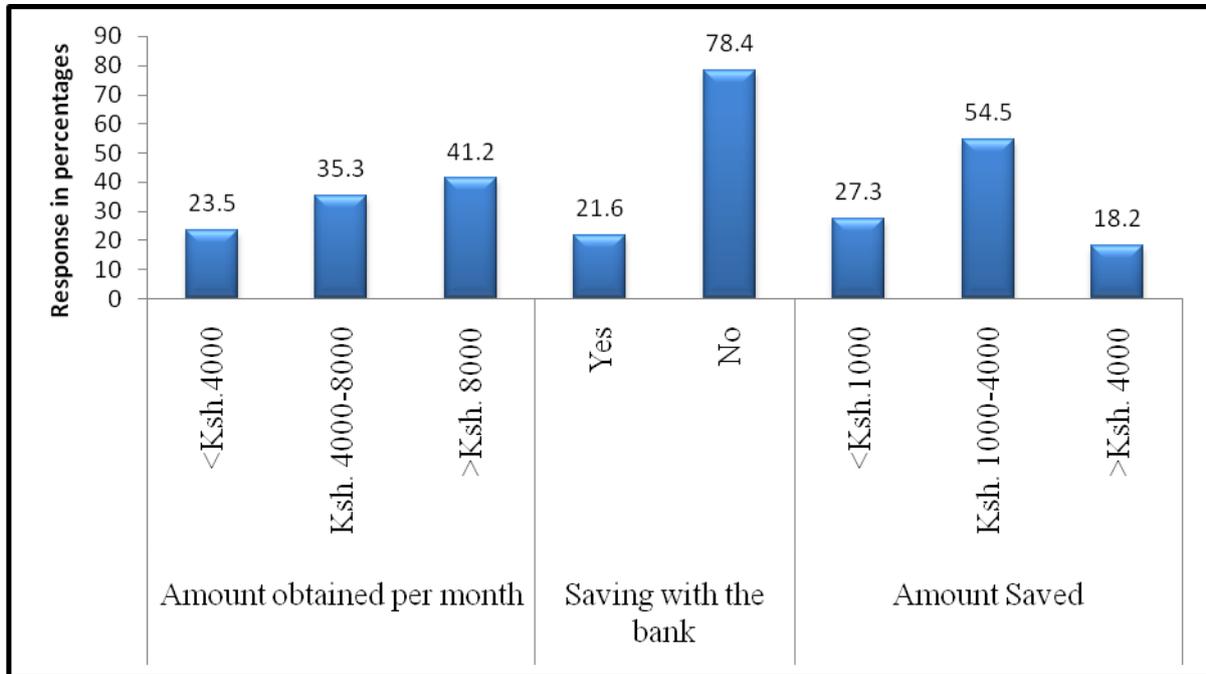


Figure 4:3 saving ability with the banks

The study established that 41.2% earned more than Ksh. 8000 from their businesses, 35.3% indicated Ksh.4000-8000, while only 23.5% earned Ksh.4000. When probed on whether they save part of this earning to the bank, over three quarters at 78.4% disagreed, while only 21.6% agreed. This shows that most of the SMEs had poor bank saving culture hence lacked cash flow records, which could also be used by the banks to provide loans. Of those who saved, only 18.2% could save above Ks. 4000, while 54.5% indicated that they could only save between Ksh.1000-4000.

4.6 Effect of cost of credit on access to credit by small and medium enterprise

The first research objective sought to examine the effect of SMEs cost of credit on access to commercial bank credit in Some Sub-County Kenya. Respondents (SMEs youth group owners) were therefore asked to indicate their level of agreement with the following statements on a five point Likert scale, where, SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree and SD=Strongly Disagree. Table 4.2 shows the response.

Table 4.2 Effect of cost of credit on access to credit by small and medium enterprise

Statement	SA	A	N	D	SD	Mean	STDEV
I have a problem servicing the Bank loan sufficiently	31 (60.8%)	10 (19.6%)	3 (5.9%)	4 (7.8%)	3 (5.9%)	4.22	1.144
Interest rate charged by the financial institutions are not favorable	36 (70.6%)	9 (17.6%)	3 (5.9%)	1 (2.0%)	2 (3.9%)	4.49	1.430
The loan repayment period is not affordable	35 (68.6%)	7 (13.7%)	4 (7.8%)	1 (2.0%)	4 (7.8%)	4.33	1.378
There is no grace period or the grace period is too short	30 (58.8%)	11 (21.6%)	5 (9.8%)	3 (5.9%)	2 (3.9%)	4.25	1.402
Getting loan from the bank is too bureaucratic	29 (56.9%)	13 (25.5%)	4 (7.8%)	2 (3.9%)	3 (5.9%)	4.24	1.421

According to the study findings, two thirds of the respondents (60.8%) strongly agreed with the statement that they had problems with sufficiently servicing the bank loans and cumulatively, (80.4%, mean=4.22) confirmed the statement, while only 12.7% refuted the statement. Inability to efficiently service bank loans would be one of the major impediments for SMEs to access loans in financial institutions. The study also found that interest rate charged by the commercial banks was mostly unfavorable to SMEs, hence limiting them from accessing the credit facilities. This was confirmed by majority of the respondents at 70.6% who strongly agreed with the statement. Only 5.9% disagreed with the statement as another 5.9% remained neutral.

Over two thirds of the respondents at 68.6% also strongly agreed with the statement that loan repayment period was not affordable among most of the SMEs hence this challenge would discourage them from accessing credit facilities. Cumulatively, (82.3%; Mean=4.33) confirmed this statement, while only 9.8% indicated otherwise as 7.8% remained neutral. This shows that one of the costs of credit that would influence its accessibility among the SMEs was loan repayment period. The study also found that in most cases, there was no grace period or the grace period was too short as mentioned by over half of the respondents at 58.8%. Only 9.8% disputed the statement, while another 9.8% remained neutral. This indicates that absence of grace period or too short grace period was a hurdle for accessibility of credit facilities among the SMEs.

Majority of the respondents at 82.4% confirmed the statement that getting loan from the commercial banks was too bureaucratic, while only 9.8% indicated otherwise. This shows that accessibility of credit facilities by the SMEs was accompanied by unnecessary

bureaucratic processes hence discouraging most of the SME owners from accessing the loans. Generally, the study revealed that high interest rate is critical problem. The study found out that the loans do not have a grace period making it very difficult for micro entrepreneurs to repay. From the research done it was found that most of respondents complained at this condition blaming the commercial banks and arguing that this might be an impediment towards majority of small entrepreneurs as they believed that loan beneficiary particularly small entrepreneurs need more time in order to be in a good position of repaying the interest rate of the loans that were lending from the institution. Evidence abounds to prove that big firms are given even lower interest rates than small scale entrepreneurs (World Bank Survey; 2001). These findings are consistent with studies done by (Stieglitz and Weiss, 1981) and (Obamuyi, 2007) who argue that changes in interest rate affects lending through bank's capital, particularly when banks' lending is constrained by a capital adequacy requirement and market and regulator imposed capital requirements. The study found out that access to credit facilities by small scale enterprises is highly limited by high repayment cost of credit given.

In establishing relationship between cost of credit and its accessibility among small and medium enterprise, the research computed the aggregate scores of the cost of credit and that of dependent variable (accessibility of the credit facilities) by the SMEs. The relationship was computed using Pearson's Product-Moment Coefficient of correlation between the two variables, as shown in Table 4.3.

Table 4.3 Correlation between cost of credit and its accessibility among SMEs

		Cost of Credit	Credit accessibility among SMEs
Cost of Credit	Pearson Correlation	1	-.663**
	Sig. (2-tailed)		.000
	N	51	51
Credit accessibility among SMEs	Pearson Correlation	-.663**	1
	Sig. (2-tailed)	.000	
	N	51	51

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

Researcher's Data, 2017

From the SSPS analysis presented in Table 4.3, the study established a considerable negative significant (n=51, $r = -.663$, $p < 0.05$) correlation between the two variables. This implies that the more the cost of credit facilities, the less likely they will be accessed by the SMEs. Similarly, Vuvor and Ackah (2011) in their study in Ghana on challenges faced by small and medium enterprises (SMEs) also found that inability of SMEs to provide collateral

and other information needed by banks such as audited financial statement coupled with high cost of loan in terms of high interest rates which makes it extremely difficult to access bank loans.

4.7 Effect of SMEs Regulations on access to Credit from Commercial Bank

The second research objective sought to establish the effect of SME regulation on access to commercial bank credit in Seme Sub-County Kenya. Respondents (SMEs youth group owners) were therefore asked to indicate their level of agreement with the following statements on a five point Likert scale, where, SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree and SD=Strongly Disagree. Table 4.4 shows the response.

Table 4.4 Effect of SMEs Regulations on access to Credit from Commercial Bank

Statement	SA	A	N	D	SD	Mean	STDEV
Most of the SMEs do not have valid license hence discourage commercial banks from giving them loans	28 (54.9%)	14 (27.5%)	3 (5.9%)	4 (7.8%)	2 (3.9%)	4.22	1.144
Bureaucratic registration process of SMEs, discourage some SMEs from accessing credit facilities from the commercial banks	31 (60.8%)	12 (23.5%)	4 (7.8%)	1 (2.0%)	3 (5.9%)	4.31	1.430
Regulations on interest rate charged by the commercial banks discourage some SMEs from accessing credit facilities from the banks	30 (58.8%)	7 (13.7%)	6 (11.8%)	4 (7.8%)	4 (7.8%)	4.08	1.378
Regulations on SMEs registration process may discourage some SMEs from accessing credit facilities from the commercial banks order to access the loan	29 (56.9%)	12 (23.5%)	4 (7.8%)	4 (7.8%)	2 (3.9%)	4.22	1.402
Some government policies SME registration are unfavorable hence discourage commercial banks from entrusting them with credit facilities	31 (60.8%)	13 (25.5%)	3 (5.9%)	1 (2.0%)	3 (5.9%)	4.33	1.421

According to the study findings, over half of the respondents at 54.9% strongly agreed with the statement that most of the SMEs did not have valid license hence discouraged commercial banks from giving them credit facilities. Only 14.7% cumulatively disputed the statement. This shows that non registered SMEs find it hard to access the credit facilities from the financial institutions. On whether complicated bureaucratic registration process of SMEs, discouraged some SMEs from accessing credit facilities from the commercial banks, two thirds of the respondents (60.8%) supported the statement, while only 7.9% did not. This shows that complicated legal requirement for SMEs registration may discourage them from accessing credit facilities from the commercial banks. Majority of the respondents (58.8%) also agreed with the statement that regulations on interest rate charged by the commercial banks which may sometimes not favor them may discourage some SMEs from accessing credit facilities from the banks, while 11.8% remained neutral with the statement.

It was also found that some government policies on commencement of SMEs may be unfavorable for their growth and expansion hence discouraging commercial banks from entrusting them with credit facilities as supported by 86.3% of the respondents. Only 7.9% indicated otherwise. However, a study by Kitisha (2013) on influence of regulation of SMEs growth and development on access to credit and that of Udell (1992) in Ghana on challenges facing small and medium enterprises on access to credit using survey research design, reveals a significant positive relationship between effect of SMEs regulation and access to credit facilities from commercial banks. This contradicts the findings of Mwangi and Bwisa (2013) in makuyu- Kenya on challenges facing entrepreneurs in accessing credit, which found that there was a negative effect of SMEs regulation on accessibility to credit facilities.

In establishing relationship between SMEs regulation and accessibility of credit facilities among small and medium enterprises, the research computed the aggregate scores of the SMEs regulation and that of dependent variable (accessibility of the credit facilities) by the SMEs. The relationship was computed using Pearson's Product-Moment Coefficient of correlation between the two variables, as shown in Table 4.5.

Table 4.5 Correlation between SMEs regulations and accessibility of credit facilities among them

		SMEs regulation	Credit accessibility among SMEs
SMES Regulation	Pearson Correlation	1	.367**
	Sig. (2-tailed)		.000
	N	51	51
Credit accessibility among SMEs	Pearson Correlation	.367**	1
	Sig. (2-tailed)	.000	
	N	51	51

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

Researcher's Data, 2017

From the SSPS analysis presented in Table 4.5, the study established a weak positive significant (n=51, r = .367, p<0.05) correlation between the two variables. This implies that the more SMEs were under strict regulations, the more likely they would accessed credit facilities from the commercial banks. This supports the findings of Kitisha (2013) who also established that some SMEs businesses are registered although quite a good number had not registered their businesses which affect their application for bank loans for growth.

4.8 SMEs information availability and accessibility to credit facilities from Commercial Banks

The third research objective sought to establish the effect of SMEs information availability on access to commercial bank credit in Seme Sub-County Kenya. Respondents (SMEs youth group owners) were therefore asked to indicate their level of agreement with the following statements on a five point Likert scale, where, SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree and SD=Strongly Disagree. Table 4.6 shows the response.

Table 4.6 Effect of SMEs information availability on access to credit facilities from Commercial Banks

Statement	SA	A	N	D	SD	Mean	STDEV
There is lack of financial records in business of SMEs	32 (62.7%)	11 (21.6%)	2 (3.9%)	4 (7.8%)	2 (3.9%)	4.31	1.144
Small entrepreneurs lack confidence in accessing loan	34 (66.7%)	12 (23.5%)	1 (2.0%)	1 (2.0%)	3 (5.9%)	4.43	1.430
Small entrepreneurs lack of awareness of financial services availability	33 (64.7%)	7 (13.7%)	3 (5.9%)	4 (7.8%)	4 (7.8%)	4.20	1.378
Most of the entrepreneurs were not aware of the types collateral securities required by the bank in order to access the loan	32 (62.7%)	10 (19.6%)	3 (5.9%)	4 (7.8%)	2 (3.9%)	4.29	1.402
There is Lack of entrepreneurs skill	31 (60.8%)	11 (21.6%)	4 (7.8%)	2 (3.9%)	3 (5.9%)	4.27	1.421

The study found that most of the respondents at 62.7% agreed with the statement that there was lack of financial records in business of SMEs, which would deny them credit facilities from commercial banks, especially from those banks that peg eligibility of credit finances on cash flow of the businesses. Only 11.7% did not agree with the statement. In addition, over two thirds of the respondents at 66.7% agreed with the statement that most of the small entrepreneurs lacked confidence in accessing loans from commercial banks, while only 7.9% saw it otherwise.

Over two thirds at 64.7% strongly supported the statement that small entrepreneurs lacked awareness of financial services availability and this could as well deny them chance to access credit facilities from commercial institutions. Only 15.6% cumulatively disagreed with the statement, while 5.9% remained neutral. On knowledge of types collateral securities required, the study found that majority of the respondents at 62.7% agreed with the statement that most of the entrepreneurs were not aware of the types of collateral securities required by the bank in order to access the loan. Only 11.7% disputed the statement, while 5.9% remained neutral. Another 60.8% of the respondents strongly agreed with the statement that there was lack of entrepreneurs' skill among most of the SMEs hence making the commercial banks to fear giving them loans. Based on the research findings, if true and quality information are supplied to banks and other financial institutions, it would be easy to assess creditworthiness of businesses and reduce risk of default. This would also enable financial institutions to give

small scale enterprises favorable terms of payment. This finding is in line with what (Ricipero, 2002) said, part of the reluctance of banks to lend SMEs is the banks' inability to evaluate risk because of lack of reliable financial information. It further suggests that the availability of information is a challenge to small entrepreneurs in accessing loan from banks. This analysis is supported by (Airs, 2007) who did an empirical study in Malaysia "In Malaysia, SMEs generally face difficulties in obtaining finance with lack of collateral and insufficient documents to support loan application. This lack of financial track record is the main constraints which face the SMEs in accessing financing'.

In establishing relationship between availability of information among the SMEs and accessibility of credit facilities among small and medium enterprises, the research computed the aggregate scores of the availability of information among the SMEs and that of dependent variable (accessibility of the credit facilities) by the SMEs. The relationship was computed using Pearson's Product-Moment Coefficient of correlation between the two variables, as shown in Table 4.7.

Table 4.7 Correlation between availability of information among the SMEs and accessibility of credit facilities among them

		Availability of information among the SMEs	Credit accessibility among SMEs
Availability of information among the SMEs	Pearson Correlation	1	.713 ^{**}
	Sig. (2-tailed)		.000
	N	51	51
Credit accessibility among SMEs	Pearson Correlation	.713 ^{**}	1
	Sig. (2-tailed)	.000	
	N	51	51

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

Researcher's Data, 2017

From the SSPS analysis presented in Table 4.7, the study established a plausible positive significant (n=51, r = .713, p<0.05) correlation between the two variables. This implies that the more the informed SMEs were, the more likely would accessed credit facilities from the commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This Chapter provides a summary of this study in the following order; purpose of the study, objectives, methodology, major findings and conclusions. It also provides both policy and academic recommendations based on the study findings.

5.2 Summary of study findings

The purpose of the study was to determine the effect of small and medium enterprises challenges on access to commercial bank credit in Seme Sub-County Kenya. The summary and conclusion are presented according to themes derived from the research questions that guided the study.

5.2.1 Effect of Cost of Credit on Access to commercial bank credit among the SMEs in Seme Sub-County Kenya.

The study established that two thirds of the respondents (60.8%) strongly agreed with the statement that they had problems with sufficiently servicing the bank loans and cumulatively, (80.4%, mean=4.22) confirmed the statement. The study also found that interest rate charged by the commercial banks was mostly unfavorable to SMEs, hence limiting them from accessing the credit facilities. This was confirmed by majority of the respondents at 70.6% who strongly agreed with the statement. Only 5.9% disagreed with the statement as another 5.9% remained neutral. It was also found that over two thirds of the respondents at 68.6% also strongly agreed with the statement that loan repayment period was not affordable among most of the SMEs hence this challenge would discourage them from accessing credit facilities. Cumulatively, (82.3%; Mean=4.33) confirmed this statement, while only 9.8% indicated otherwise as 7.8% remained neutral. The study also found that in most cases, there was no grace period or the grace period was too short as mentioned by over half of the respondents at 58.8%. Only 9.8% disputed the statement, while another 9.8% remained neutral. This indicates that absence of grace period or too short grace period was a hurdle for accessibility of credit facilities among the SMEs. Majority of the respondents at 82.4% also confirmed the statement that getting loan from the commercial banks was too bureaucratic, while only 9.8% indicated otherwise. In establishing relationship between cost of credit and its accessibility among small and medium enterprise, using Pearson moment correlation the study established a considerable negative significant ($n=51$, $r = -.663$, $p<0.05$) correlation

between the two variables. This implies that the more the cost of credit facilities, the less likely they will be accessed by the SMEs.

5.2.2 Effect of SMEs Regulations on access to Commercial Bank Credit

The second research objective sought to establish the effect of SME regulation on access to commercial bank credit in Seme Sub-County Kenya. Major findings were that over half of the respondents at 54.9% strongly agreed with the statement that most of the SMEs did not have valid license hence discouraged commercial banks from giving them credit facilities. Only 14.7% cumulatively disputed the statement. On whether complicated bureaucratic registration process of SMEs, discouraged some SMEs from accessing credit facilities from the commercial banks, two thirds of the respondents (60.8%) supported the statement, while only 7.9% did not. This shows that complicated legal requirement for SMEs registration may discourage them from accessing credit facilities from the commercial banks. Majority of the respondents (58.8%) also agreed with the statement that regulations on interest rate charged by the commercial banks which may sometimes not favor them may discourage some SMEs from accessing credit facilities from the banks, while 11.8% remained neutral with the statement. It was also found that some government policies on commencement of SMEs may be unfavorable for their growth and expansion hence discouraging commercial banks from entrusting them with credit facilities as supported by 86.3% of the respondents. Only 7.9% indicated otherwise. Using Pearson Correlation to establish the relationship between the variables, the study established a weak positive significant ($n=51$, $r = .367$, $p<0.05$) correlation between the two variables. This implies that the more SMEs were registered and regulated with the existing government policies, the more likely they would access credit facilities from the commercial banks.

5.2.3 Effect of SMEs information availability on access to Commercial Bank Credit

The third research objective sought to establish the effect of SMEs information availability on access to commercial bank credit in Seme Sub-County Kenya. The study found that most of the respondents at 62.7% agreed with the statement that there was lack of financial records in business of SMEs, which would deny them credit facilities from commercial banks, especially from those banks that peg eligibility of credit finances on cash flow of the businesses. Only 11.7% did not agree with the statement. In addition, over two thirds of the respondents at 66.7% agreed with the statement that most of the small entrepreneurs lacked confidence in accessing loans from commercial banks, while only 7.9% saw it otherwise. Over two thirds at 64.7% strongly supported the statement that small entrepreneurs lacked

awareness of financial services availability and this could as well deny them chance to access credit facilities from commercial institutions. Only 15.6% cumulatively disagreed with the statement, while 5.9% remained neutral. On knowledge of types collateral securities required, the study found that majority of the respondents at 62.7% agreed with the statement that most of the entrepreneurs were not aware of the types of collateral securities required by the bank in order to access the loan. Only 11.7% disputed the statement, while 5.9% remained neutral. Another 60.8% of the respondents strongly agreed with the statement that there was lack of entrepreneurs' skill among most of the SMEs hence making the commercial banks to fear giving them loans. Using Pearson Correlation to establish the relationship between the variables, the study established a plausible positive significant ($n=51$, $r = .713$, $p<0.05$) correlation between the two variables. This implies that the more the informed SMEs were, the more likely would accessed credit facilities from the commercial banks.

5.3 Conclusion

Based on the study findings, the following conclusions were made based on the study objectives; in the first study objective, the study concluded that high interest rate is critical problem which deter SMEs from accessing credit facilities from the commercial banks. The study also concluded that most loans do not have a grace period making it very difficult for micro entrepreneurs to repay. From the study findings it can also be concluded that other challenges such as short repayment period or short grace period was an impediment towards majority of small entrepreneurs as they believed that loan beneficiary particularly small entrepreneurs need more time in order to be in a good position of repaying the interest rate of the loans that were lending from the institution. Therefore, using Pearson moment correlation, the study concluded that there was a considerable negative significant ($n=51$, $r = -.663$, $p<0.05$) correlation between the two variables. This implies that the more the cost of credit facilities, the less likely they will be accessed by the SMEs.

In the second research objective, the study concluded that SMEs owners who did not have valid license would not access credit facilities from the commercial banks. The study also concluded that complicated bureaucratic registration process of SMEs, discouraged some SMEs from accessing credit facilities from the commercial banks. Moreover, regulations on interest rate charged by the commercial banks may sometimes not favor them may discourage some SMEs from accessing credit facilities. Some government policies on commencement of SMEs may be unfavorable for their growth and expansion hence discouraging commercial

banks from entrusting them with credit facilities. Using Pearson Correlation to establish the relationship between the variables, the study established a weak positive significant ($n=51$, $r = .367$, $p<0.05$) correlation between the two variables. This implies that the more SMEs were registered and regulated with the existing government policies, the more likely they would access credit facilities from the commercial banks.

Major conclusion drawn from the third research objective were that lack of financial records in business of SMEs, would deny their owners credit facilities from commercial banks, especially from those banks that peg eligibility of credit finances on cash flow of the businesses. Most of the small entrepreneurs lacked confidence in accessing loans from commercial banks. Moreover, small entrepreneurs lacked awareness of financial services availability and this could as well deny them chance to access credit facilities from commercial institutions. On knowledge of types of collateral securities required, the study concluded that majority of entrepreneurs were not aware of the types collateral securities required by the bank in order to access the loan. In addition, lack of entrepreneurs' skill among most of the SMEs make commercial banks to fear giving them loans. Using Pearson Correlation to establish the relationship between the variables, the study established a plausible positive significant ($n=51$, $r = .713$, $p<0.05$) correlation between the two variables. This implies that the more the informed SMEs were, the more likely would accessed credit facilities from the commercial banks.

5.4. Recommendations

The following recommendations were made based on the findings of the study;

This study recommends that loan giver should come up with the system whereby collateral requirements will be affordable to SME owners. Besides, the management of credit giving institutions should consider lowering their interest rates in order to match the reality of life to SME owners as a way of encouraging credit accessibilities since the study found that high interest rate charged discourage credit accessibility among the SMEs.

This study recommends that the credit giving institutions come up with programs of educating, enlightening and informing the SME owners on how they can go about obtaining credit facilities, financial record keeping and basic business skills. These will counter problems of information that make SMEs risky for credit giving institutions.

Though government and other non-governmental organizations have put in much effort to ease access to credit in the country, there is still a lot that needs to be done. The government can ease access by ensuring that the central bank reduce the base rate for loans offered to

SMEs by providing subsidies to the financial institutions supporting the small business sector. The government with the help of the central bank should designate a financial institution whose sole responsibility should be supporting the small and medium enterprise sector with, for example, credit facilities and training entrepreneurs on business management and credit management.

5.5 Suggested Areas for Further Research

From the research findings of this study, there is need for further research. A number of areas could be looked into. An empirical survey should be done on;

- i. Financial management challenges facing the SMEs for expansion and growth
- ii. Effects of training of SME owners on financial performance of the SMEs
- iii. Effects of accessibilities of credit facilities on financial performance of the SMEs

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APPENDICES

Appendix I: Letter of Introduction

Dear Respondents,

This is an academic survey questionnaire which is aimed at identifying and collecting data about the effect of small and medium enterprises challenges on access to commercial bank credit. The researcher who is a student from Maseno University and pursuing his Master of Business administration is making a formal request to the respondents of the administered questionnaire to participate and that your full cooperation will be highly appreciated, this questionnaire aims at collecting data required for the study titled: EFFECT OF SMALL AND MEDIUM ENTERPRISES CHALLENGES ON ACCESS TO COMMERCIAL BANK CREDIT IN SEME SUB-COUNTY KENYA. The data collected would be strictly for academic purposes and any correspondence given be treated as confidential. Respondents are requested to confine themselves to details relevant for the topic. The interviewer is in any case not allowed to force any respondent to give information.

Thanks.

Name of the interviewer.....

Appendix II: Data Collection Instrument

EFFECTS OF SMALL AND MEDIUM ENTERPRISES CHALLENGES ON ACCESS TO COMMERCIAL BANK CREDIT IN SEME SUB-COUNTY KENYA.

Part One;

Please tick [] the option that best suits your opinion on the corresponding statements.

General Information

- 1) What is the Name of your business.....
- 2) What is your gender?
 - a. Male []
 - b. Female []
- 3) What is your level of education?
 - a) None []
 - b) Primary []
 - c) Secondary []
 - d) College []
- 4) How long have you been operating this business in Seme?
 - a. Less than one year []
 - b. Between 1 to 5 years []
 - c. Between 5 to 10 years []
 - d. Above 10 years []
- 5) Indicate category under which you represent this enterprise
 - a. SME owner []
 - b. Employee []
 - c. Manager []
 - d. Other _____ (Please specify)
- 5) Where did you get money to start up your business?
 - a) Personal savings []
 - b) Bank Loan []
- 6) Have you had access to a Bank loan?
 - a) YES []
 - b) NO []

7) If yes, how much amount of Loan did you get?

- a) Less than 6,000 []
- b) 6001 to 9000 []
- c) Above 9,000 []

8) What is your income per month?

- a) Less than 4,000 []
- b) 4,000 to 8,000 []
- c) Above 8,000 []

9) Have you been saving with the Bank?

- a) YES []
- b) NO []

10) If yes, how much do you save per month

- a) Less than 1,000 []
- b) 1001 to 4000 []
- c) Above 4,000 []

Part two

a) Effects of cost of credit on accessibility to credit facilities by small and medium enterprise

The following statements relates with cost of credit facilities, please indicate using a tick [√] your level of agreement with the statement based on five point Likert scale, where SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree and SD=Strongly Disagree.

Statement	SA	A	N	D	SD
I have a problem servicing the Bank loan sufficiently					
Interest rate charged by the financial institutions are not favorable					
The loan repayment period is not affordable					
There is no grace period or the grace period is too short					
Getting loan from the bank is too bureaucratic					

b) Effects of SME regulations on accessibility to credit facilities by small and medium enterprise

The following statements relates with SME regulations, please indicate using a tick [√] your level of agreement with the statement based on five point Likert scale, where SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree and SD=Strongly Disagree.

Statement	SA	A	N	D	SD
Most of the SMEs do not have valid license hence discourage commercial banks from giving them loans					
Bureaucratic registration process of SMEs, discourage some SMEs from accessing credit facilities from the commercial banks					
Regulations on interest rate charged by the commercial banks discourage some SMEs from accessing credit facilities from the banks					
Regulations on SMEs registration process may discourage some SMEs from accessing credit facilities from the commercial banks order to access the loan					
Some government policies SME registration are unfavorable hence discourage commercial banks from entrusting them with credit facilities					

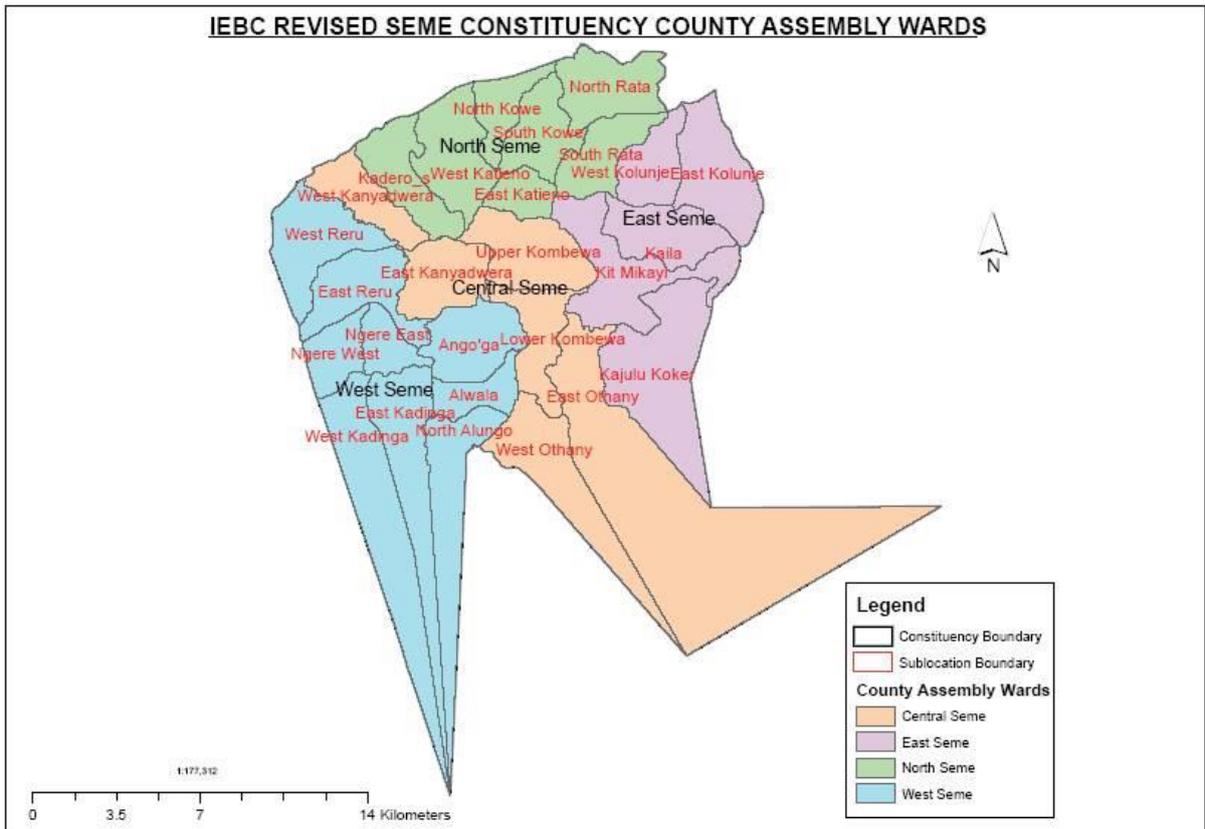
c) Effects of SME information availability on accessibility to credit facilities by small and medium enterprise

The following statements relates with SME information availability, please indicate using a tick [√] your level of agreement with the statement based on five point Likert scale, where SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree and SD=Strongly Disagree.

Statement	SA	A	N	D	SD
There is lack of financial records in business of SSE					
Small entrepreneurs lack confidence in accessing loan					
Small entrepreneurs lack of awareness of financial services availability					
Most of the entrepreneurs were not aware of the types collateral securities required by the bank in order to access the loan					
There is Lack of entrepreneurs skill					

Thank you

Appendix III:Map of Seme Sub-County



Appendix IV: Research Plan

	Item/Activity	JAN. 2017	MAR. 2017	APRIL 2017	JUNE 2017	JUNE 2017	JULY 2017	JULY 2017	AUG 2017	SEP 2017
1	Conception of the idea and draft proposal development									
2	Literature search and final proposal development									
3	Development of study tools (questionnaires & FGD guides)									
4	Training of field assistants									
5	Pre-testing of research tools									
6	Actual data collection									
7	Data Analysis									
8	Development of a draft report and Submission									
9	Submission of final Report									

Appendix V: Research Budget

ITEM NO.	PARTICULARS	AMOUNT (KSHS.)
1.	Transport	6,000.00
2.	Binding	3,000.00
3.	Printing	12,000.00
4.	Research on line (secondary data)	8,000.00
5.	Photocopying	7,000.00
TOTAL		36,000.00