

**EFFECT OF MICROFINANCE PRACTICES ON CREDIT ACCESSIBILITY BY
CONSUMER BASED SMALL SCALE BUSINESS IN KISUMU CITY**

BY

MARUTI EVELYN SYLVIA

**A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER IN SCIENCE FINANCE (MSC)**

SCHOOL OF BUSINESS AND ECONOMICS

MASENO UNIVERSITY

© 2022

DECLARATION

This project report is my original study which is yet to be presented at any higher learning institution for examination for an award of Master of Science in Finance.

MARUTI EVELYN SYLVIA

Sign.....Date.....

ADM NO: MSC/BE/00033/2018

Declaration by the Supervisor

The above named student has submitted this research project for examination with my approval as the Supervisor of the university.

DR. OMBOK O. BENJAMIN

Sign.....Date.....

School of Business and Economics

Department of Business Administration

Maseno University

ACKNOWLEDGEMENT

I would like to thank the Almighty God for the gift of life and His unending blessings. Secondly, I would like to thank the Board of Post Graduate Studies of Maseno University for allowing me to pursue this course. Special gratitude to my project Supervisor Dr. Benjamin Ombok whose professional guidance and advice enabled me to successfully complete this study. Also, my appreciation goes to all the lecturers, professors and students for supporting me through the entire period of my study. Also I would like to appreciate my family and friends who played a big role in giving me ample time to finalize the project within scheduled time. Lastly, my sincere gratitude goes to all consumer-based SMEs in Kisumu town who helped me get the needed information for my study.

DEDICATION

I dedicate my research project to my loving husband Zachary, my son Edin and my entire caring family. I also dedicate it to my close friends Sarah Kerubo, Sylvia Marian, Rosalyn Anziya and Gertrude Olang'o who never stopped supporting me throughout the process.

ABSTRACT

The SME sector is important for the growth of any economy, and responsible for job creation, contribution to GDP, mopping up of productive labour and alleviation of poverty in developing economies. However, consumer-based SMEs face a number of operational challenges; ranging from financial insufficiency, credit rationing, lack of proper documentation, high interest rates and lack of collateral; all of which affect their growth and sustainability. Access of sufficient credit by SMEs leads to income creation and reduction of unemployment rates; making it a strategy in enhancing financial growth, creation new jobs, expanding tax base, and promoting innovation in a country. Whereas existing information show that financial institution's credit lending to SME sector has increased significantly following increase in number of credit lending firms in Kenya, majority of the SMEs still face credit access challenges. Empirical studies still revealed high rate of failure in the SMEs' sector despite the rise in bank credit accessibility. The purpose of this study was therefore to determine the effect of microfinance practices such as training programs, repayment period, and credit availability on credit accessibility parameters like loan amount and collateral security by consumer-based SMEs. The specific objectives of the study were; to establish the effect of microfinance practices on loan amount accessed by consumer-based SMEs in Kisumu City and to determine effect of microfinance practices on collateral security by consumer-based SMEs in Kisumu City. The study was guided by three theories which are financial inclusion theory, quasi-hyperbolic preference theory and the theory of financial intermediation. This study was a quantitative study which adopted correlational research design. The study was conducted in Kisumu city covering a geographical area of 297km². The target population for the study was 80 consumer-based respondents consisting of managers and owners. A sample size of 80 potential respondents was selected through stratified random sampling. The study was conducted primarily based on primary data collected using structured questionnaire in which the study variables were measured on a Likert scale. Cronbach's Alpha coefficient was employed to establish the study's reliability where all the variables showed a strong alpha of greater than 0.7 while content validity measured the instrument's validity. Through ordinary correlation the study found that training programs, repayment period and credit availability had strong positive correlation with loan amount of Pearson correlation 0.932, 0.922 and 0.913 respectively and all significant with p values of 0.000 ($p < 0.05$). Training programs, repayment period and credit availability had strong positive correlation with collateral security of Pearson correlation 0.964, 0.897 and 0.909 respectively and all significant with p values of 0.000 ($p < 0.05$). Regression results on effect of microfinance practices on loan amount found the proportion of variance between microfinance practices and loan amount to be at 0.894 (89.4%). The study model was positively significant with p value 0.000. The regression analysis from ANOVA indicated that there was a significant relationship between microfinance practices and loan amount with significance of 0.000 and the results had unstandardized B values of 0.289, 0.388, and 0.373 for credit availability, repayment period and training programs respectively. Notably, the study found that training programs, repayment period and loan availability had a statistically significant effect on loan amount with p values of 0.039, 0.024 and 0.012 respectively (< 0.05) hence H_{01} was rejected. On the effect of microfinance practices on collateral security, the study achieved a proportion of variance of 0.935 (93.5%). The study model achieved a 0.000 significance level meaning the model is positively significant. The regression results from ANOVA showed a significant link between microfinance practices and collateral security with a significance of 0.000. Results also achieved unstandardized B values of 0.136, -0.334 and 1.390 for loan availability, repayment period and training programs respectively. The results ascertained that training program, repayment period and loan availability had a statistically significant effect on collateral security with p values of 0.000, 0.038 and 0.019 respectively (< 0.05). The study rejected null hypotheses H_{02} . The study concluded that microfinance practices-training programs, repayment period, and loan availability-and credit accessibility parameters; loan amount and collateral security had a positively significant correlation. The study concludes that training programs, repayment period and loan availability has a statistically significant effect on loan amount accessed by consumer-based SMEs. Noteworthy, the study concludes that training programs, repayment period and loan availability has a statistically significant effect on collateral security. The study recommends that government to put up policies and strategies that ensure SMEs access microfinance practices with ease and sufficiency. The study also recommends a partnership between MFIs and county governments and institutions in order to create awareness of their existence and the MFI loans access processes as well as the MFI practices that are beneficial to SMEs. The study therefore suggests that further research be carried out on consumer-based SMEs in the entire country to investigate the effects of microfinance practices on credit accessibility to ascertain whether there are similarities or different factors.

TABLE OF CONTENT

DECLARATION	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
ABSTRACT.....	v
TABLE OF CONTENT	vi
ACRONYMS AND ABBREVIATIONS	ix
OPERATIONAL DEFINITION OF TERMS	ix
LIST OF TABLES	x
LIST OF FIGURES	xi
CHAPTER ONE:INTRODUCTION.....	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	6
1.3 Objectives of the Study.....	7
1.3.0 Purpose of the Study	7
1.3.1 Specific Objectives of the Study.....	7
1.3.2 Hypotheses of the study:	8
1.4 Significance of the Study	8
1.5 Scope of the Study	8
1.6 Conceptual Framework.....	9
CHAPTER TWO:LITERATURE REVIEW.....	10
2.0 Introduction.....	10
2.1. Theoretical Framework.....	10

2.1.1 Financial Inclusion Theory	10
2.1.2 Quasi-Hyperbolic Preference Theory	11
2.1.3 Financial Intermediation Theory.....	12
2.2 Empirical Literature	13
2.2.1 Microfinancing and MFIs Practices.....	13
2.2.2 Credit Accessibility.....	20
CHAPTER THREE:METHODODOLOGY	24
3.1 Introduction.....	24
3.2 Study Design.....	24
3.3 Study Area, Target Population and Sampling Deisgn	24
3.3.1 Study Area	24
3.3.2 Target Population.....	25
3.3.3 Sampling Design.....	25
3.4 Data Collection	26
3.5 Research Instrument’s Validity and Reliability.....	26
3.6 Data Analysis and Presentation	27
3.6.1 Specification of the study Model	28
3.7 Ethical Consideration.....	32
CHAPTER FOUR : RESEARCH FINDINGS AND DISCUSSIONS	33
4.1 Introduction.....	34
4.2 Preliminary Results.....	34
4.2.1 Response Rate.....	34
4.2.2 Position in organization of the Respondents.....	34

4.2.3 Date of inception of the Respondents	35
4.2.4 Education of the Respondents.....	36
4.2.5 Gender of the Respondents	36
4.2.6 Age of the Respondents	37
4.2.7 Frequency of borrower’s application for loan	37
4.3 Descriptive Statistics.....	38
4.4 Inferential Statistics	39
4.4.1 Correlational Test.....	39
4.4.2 Regression Analysis.....	41
CHAPTER FIVE:SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	47
5.1 Introduction.....	47
5.2 Summary of Major Findings.....	47
5.3 Conclusions.....	48
5.4 Recommendations.....	49
5.5 Study Limitations.....	49
5.6 Further Study Suggestions	50
REFERENCES.....	51
APPENDICES.....	58

ACRONYMS AND ABBREVIATIONS

MFI- Micro-financing Institutions

SACCOS- Savings and Credit Co-operative

SME-Small and Medium Enterprise

FSD Kenya- Financial Sector Deepening Kenya

MSE- Micro and Small Enterprises

GDP-Gross Domestic Product

K-REP-Kenya Rural Enterprise Fund

OECD- Organization for Economic Cooperation and Development

TP- Training Programs

RP- Repayment period

LA- loan Availability

OPERATIONAL DEFINITION OF TERMS

Loan amount - Loan amount describes the total amount of money that an applicant is authorized to borrow or the amount the borrower promise to repay

Credit accessibility- is the ability of the business institutions to get the funds from people or financial organizations that would eventually lead out of the economic problems at the institution.

Microfinance - the provision of credit facilities like loan, financial services like savings account and training programs to SME borrowers for the purpose of growing and expanding the SME sector.

Microfinance practices - refers to the services and products provided by microfinance institutions

Training program - refers to set activities that entails participating one or more courses with the aim of boosting either personal or business performance or productivity and or acquiring skills, and knowledge.

Repayment period - means the period over which the principal amount of the Loan will be repaid which period begins and ends on the dates set forth in this Loan Agreement

LIST OF TABLES

Table 3.1 Reliability Statistics.....	27
Table 3.2 Multicollinearity.....	32
Table 4.1 Descriptive Statistics.....	38
Table 4.2 Correlation analysis for objective 1.....	39
Table 4.3 Correlation analysis for objective 1.....	40
Table 4.4 R square for objective 1.....	41
Table 4.5 ANOVA.....	42
Table 4.6 Coefficients table for objective 1.....	42
Table 4.7 R square for objective 2.....	42
Table 4.8 ANOVA.....	44
Table 4.9 Coefficients table for objective 2.....	45

LIST OF FIGURES

Figure 1.6: Conceptual Framework.....	10
Graph 3.1 Normality Test.....	35
Graph 3.2 Normality Probability.....	36
Graph 3.3 Homoscedasticity.....	37

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microfinance plays a critical role in assisting the business community to generate capital for the businesses. According to Marconatto, Cruz & Pedrozo (2016), microfinance is the provision of non-financial services, cash, credits, or deposits to the small business community without collateral to get them to repay when they generate income. Kwon (2010) also defines the microfinance as the supply of savings, loans, and other financial services to the people carrying out small businesses. The leading institutions engaged in the microfinancing in Kenya include the banks, cooperative, and credit unions. In recent times, non-governmental organizations in Kenya are also coming through to offer financial assistance to the community and offer them access to the credit facilities. The main features of MFIs include provision of short term credit/loans mostly less than a year for purposes of boosting working capital where repayment terms are immediately, weekly, monthly or regularly. Also, their disbursement is quick normally after approval especially for those looking for properly repeat loan. According to Khan (2008) MFI loans are simple to understand, easy to access and are found locally. From the above definition, one can define microfinance as the provision of credit facilities like loan, financial services like savings account and training programs to SME borrowers for the purpose of growing and expanding the SME sector.

Microfinance practices refer to the services and products provided by MFIs. The microfinance practices include provision of training programs, determining repayment period for the loan and provision of small loans otherwise known as credit availability to borrowers. Training program

refers to set activities that entail participating one or more courses with the aim of boosting either personal or business performance or productivity and or acquiring skills, and knowledge. Entrepreneurs who set up a business are keen to ensure it starts, survives and ultimately grow. However, various financial and non-financial constraints like lack of the necessary skills, knowledge, linkages, cohesive skills training, hinder their growth. A study conducted on the effects of business training provision to clients of microfinance in Tanzania shows that no entrepreneur's profit was reflected during training (Henriken & Svoldal, 2010). Business training enhanced the development of the business structures, which can result from to urging benefits. In another study, Akpan & Nneji (2015) investigated the contribution of microfinance banks to SMEs development in Nigeria. The study ascertained that MFI practices and the type of activities engaged in by SMEs play a primary role in enhancing SMEs growth in Nigeria. It also found that training programs provide by MFIs to SMEs per loan granted helps improve their performance. Notably, ensuring that SMEs owners and managers are financially literate plays a vital role in SMEs growth from one size to the other. According to Financial Sector Deepening 2009 report, the financial capacity of SMEs is a crucial element in SMEs' financial expansion as the report showed that SMEs capacity is enhanced by MFIs providing training on financial literacy.

Repayment period refers to the period over which the principal amount of the Loan will be repaid normally stated in the loan Agreement. The loan repayment schedules are determined based on borrowers' liquidity position as well as the investment's economic life and are made flexible to easily align with cash flow patterns of borrowers. Alhassan & Hoedoafia (2016) posits that affordable credit services can be accessed by SMEs through advanced microcredit systems basing on the repayment periods, which are friendly to them. A study conducted by Luyirika

(2010) on microfinance role in the improving socio-economic position of women in a society in Mpigi town, Uganda showed that short repayment periods-monthly and weekly basis- affected money flow from SMEs to the MFI. A study by Roslan & Zaini (2009) investigating the influence of borrowers' traits, project features and loan factors on loan repayment of agro bank micro credit scheme found that "race, education, age, previous occupation, number of dependency, experience, membership in business society, the distance of the business/project to the nearest agro bank office and revenue from the business doesn't influence default rate". Noteworthy, a study by Jemal, (2003) on Microfinance and loan repayment performance in Kuyu indicated that loan repayment performance is enhanced by learning, level of income, loan supervision, suitable repayment period, presence of a wide variety of credit sources and livestock. The study also found that loan default rate increases due to loan diversion and loan size.

MFIs in Kenya were primarily established to provide credit and other financial services to SMEs (Marconatto, Cruz & Pedrozo 2016). According to Wilfred et al t (2013) "the loan is provided to the prospective entrepreneurs, low-income earners, or existing enterprises to establish, or expand their businesses". Ricupero (2002) suggests that the growth and survival of SMEs are mostly determined by the role of MFIs. The primary feature of MFIs is provision of small loans to SMEs at low cost. MFIs are flexible in delivery services, which enable the access of financial assistance from them by weak SMEs.

According to Mbogo (2011) SMEs in Kenya is the type of business with number of employees between one and fifty. According to Kisumu City Board (2020/2021) there are approximately 6000 SMEs in Kisumu City. The majority of SMEs are involved in the sale of consumer-based products, including groceries, food items, and fast-moving products. Such businesses would, as such, need to get access to credit/loan and micro financing with ease as a way of getting to

access the capital to run, operate, and expand the businesses. Generally, credit is the ability of an individual or firm to borrow money and the arrangements made for the repayment of that loan as well as the terms of the repayment schedule (Farlex Financial Dictionary, 2009). Credit is defined as a contractual agreement between two or more parties whereby the borrower gets something of value now and he or she agrees to pay back to the lender at a later date with stipulated interest (Kenton, 2020). Also, credit is a person's or company's credit history or creditworthiness.

Credit accessibility determines how well and easy a firm or individual can access loan as well as the amount. Accessibility to loan works when enterprises seek funds and other forms of capital from external sources in a bid to fund the institutional operations. Credit accessibility is measured in terms of loan amount. Loan amount describes the total amount of money that an applicant is authorized to borrow or the amount the borrower promise to repay (Osoro & Muturi 2013). Firms can access credit for a short or for the long-term depending on their ability to repay the loans (Nkundabanyanga et al., 2014). There are characteristics of an institution that the financial institutions would be looking at to get the information regarding the creditworthiness of the institution. Benhayoun, Chairi, El Gonnouni, & Lyhyaoui (2013) shows that the financial leverage is the main characteristic of an institution that will be useful in establishing the amount of loan qualified by the borrower. The financial leverage of the business would be created when there is proper bookkeeping that shows the financial transactions of the institution. The challenge of the institutions seeking financial assistance through credit access is their inability to demonstrate financial leverage. The amount of loan that an SME can access plays a key role in the firm's capital sufficiency and liquidity stability.

The SMEs looking for the credit facilities are primarily looking for the finances to expand on their business. The lenders would, therefore, evaluate the business before offering to give the credit. Brown, Earle, and Lup (2004) studies small enterprises in Romani and finds that there is a high possibility for the SMEs to survive when they have access to credit than when they are not. The Kenyan SMEs operate in the best manner possible to ensure that they get the financial facilities. However, due inadequate collateral security most SMEs fail to access credit when they need it. Collateral security is anything that is of more importance that is mostly applied in assuring that repay will be done by that individual to the asset. The insurance policy is one of the properties that act as the security item between the client and the bank on considering loan agreement in case its defaulted by the customer (Basu and Simon, 2001). Collateral is the loan security that significantly assures the lender on the borrower defaults that it is protecting (Indersta & Mueller 2007). The banking sector has failed in offering the best chances for the SMEs to get the credit facilities because of stringent lending terms and conditions. Peachey and Roe (2006) has also pointed to the needs and problems of the community as part of the challenges making it impossible to get the loans.

The loan amount offered by the financial institutions determines the number of clients it will have as well as the SMEs performance with regards to volume of sales, liquidity rate and cost of operation. Also the loan amount provided by the funding institutions affect the manner in which SMEs access that credit in that if the amount being sought is large the one being provided is small then it means the borrower can borrow and vice versa (Oleka, et al 2014 UWFT, 2005; Wanambisi 2013). For instance, Oleka, et al (2014) argue that there is a positively significant relationship between loan size SMEs growth and Wanambisi (2013) also argues that appropriate loan sizes for clients, matching SMEs needs influence the business sustainability. Also the loan

amount that SMEs is able to access helps grow its credit history and its relationship with the lender. This study analyzed the effect of microfinance practices such as training programs, loan repayment period and loan availability on credit accessibility in terms of loan amount and collateral security by consumer-based SMEs in Kisumu city.

1.2 Statement of the Problem

The SME sector is important for the growth of the economy, job creation and alleviation of poverty in any developing country. However, consumer-based SMEs face numerous operational challenges ranging from financial insufficiency, credit rationing, lack of proper documentation, high interest rates and lack of collateral which affects their growth. There has been increased number of credit firms in Kenya like banks, digital apps, SACCOs, chama, and MFIs in the recent times coupled with increase in credit lending by MFIs to SME sector. However, majority of the SMEs still face challenges in accessing sufficient loan amount resulting in high failure rate of SMEs. Also, SMEs fail to access sufficient loan amount due to denial of credit by MFIs because of strict and key practices that govern MFIs operation. This study therefore sought to examine the effect of microfinance practices on credit accessibility by consumer-based SMEs.

MFIs practices such as provision of training programs, determining repayment period for loans and loan availability is paramount to loan amount accessed and collateral security required by SMEs. Training program is offered by MFIs to SMEs to boost performance, productivity, skills, knowledge and improve financial literacy among SME operators. SMEs face various financial and non-financial constraints like lack of the necessary skills, knowledge, linkages, and cohesive skills training, hinder their growth. A study on the effect of providing training to MFIs clients in Tanzania shows no gain in profit to the client's business during the training. The study in

Nigerian on the contribution of MFIs to SMEs development found a positive relationship between the two variables. Also, reports indicate that provision of training programs by MFIs enhances financial literacy of SMEs. However, the relationship between training programs and credit accessibility is unclear hence the need to explore the relationship. Notably, previous studies dwell extensively on the role of microfinance on socio-economic development indicate the flow of money from SMEs to MFIs is affected by short repayment. Also some studies explore the effect of borrower's and loan characteristics affect loan repayment and find no effect. The studies fail to explain the relationship between repayment period and loan amount accessed by SMEs hence the reason for this study. Lastly, existing literature on the effect of credit availability as a practice of MFIs on loan amount and collateral security is vague and this study sought to find clarity.

1.3 Objectives of the Study

1.3.0 Purpose of the Study

The purpose of this study was to determine the effect of microfinance practices on credit accessibility by consumer-based SMEs in Kisumu city.

1.3.1 Specific Objectives of the Study

The study sought to meet the following specific objectives as a way of solving the challenges regarding credit accessibility;

- (i) Establish the effect of microfinance practices on loan amount accessed by consumer-based SMEs in Kisumu City
- (ii) Determine the association between microfinance practices and collateral security by consumer-based SMEs in Kisumu City

1.3.2 Hypotheses of the study:

- (i) H_{01} : There is no relationship between microfinance practices and loan amount accessed by consumer-based SMEs in Kisumu city
- (ii) H_{02} : There is no association between microfinance practices and collateral security required by consumer-based SMEs in Kisumu City

1.4 Significance of the Study

This project is applicable to different groups of people. The institutions offering microfinance services in Kisumu County can use the research to identify the impact they have on the growth of the SMEs in Kisumu. Therefore, they would develop strategies to get better approaches in which to use to get the business community working. Additionally, the small-scale business community can also make use of the study as a way of getting to understand the microfinance strategies they would need to employ to access more credit facilities. When both the microfinancing institutions and the small-scale business people have access to the information in this research, it provides a better way in which the two groups would be interacting. Further, the county government would also make use of information as a way of getting the right strategies to offer the small business community within the city access to microfinancing services and access to credit.

1.5 Scope of the Study

The research study sought to establish the effect of the microfinance practices on the access of the credit facilities in Kisumu City. The research covered the consumer-based SMEs within the markets in Kisumu City. While the study may have access to little business people working within the city but from neighboring towns, the focus of the city was within the major city markets.

1.6 Conceptual Framework

The conceptual framework highlights the steps the research will take in achieving the objectives of the study. The research made credit accessibility (loan amount and collateral security) the dependent variable in the study. The microfinance practices will be used as the independent variables in the study. The objective of the research was to explore the effect of microfinance practices like training programs, repayment period and loan availability has on credit accessibility parameters like loan amount and collateral security by consumer-based SMEs.

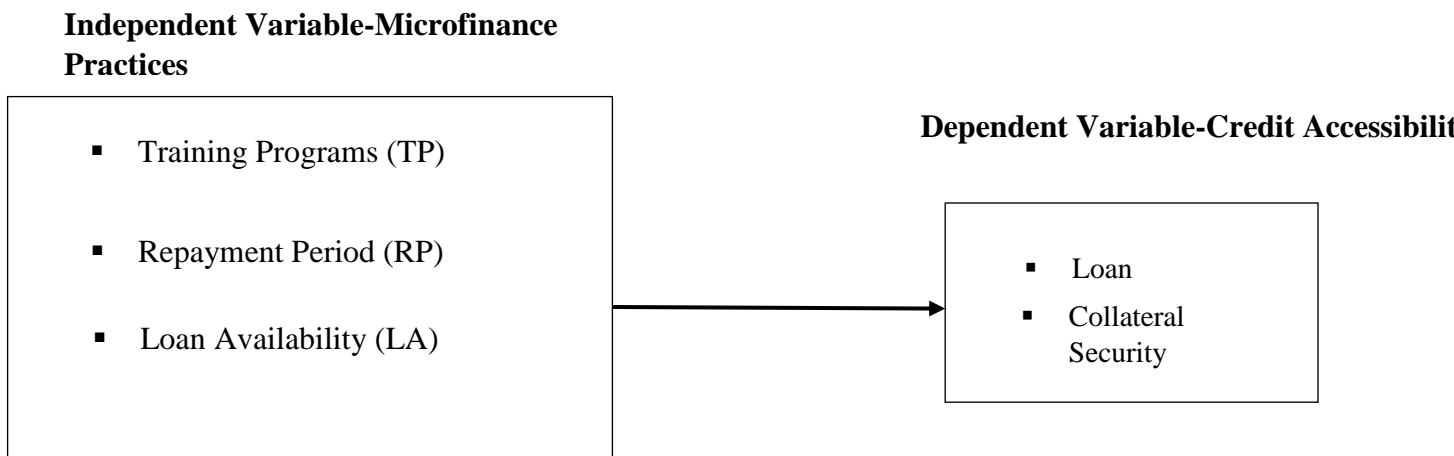


Figure 1.6: Conceptual Framework

Source: Research data

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review on the theories supporting the study objectives was discussed in this chapter. The chapter also reviewed some of the previous global and local studies that relate to microfinance practices and credit accessibility.

2.2. Theoretical Framework

The research is based on three theories, Financial Inclusion Theory, Quasi-Hyperbolic Preference Theory and the Theory of Financial Intermediation which helped the researcher in understanding the effect of the microfinance institutions practices on loan amount granted to consumer-based SME's in Kisumu City.

2.2.1 Financial Inclusion Theory

According to Chakrabarty (2011) financial inclusion is “the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner, by mainstream institutional players”. An inclusive financial sector that provides ‘access’ to credit for all ‘bankable’ people and firms, to insurance for all insurable people and firms, to savings and payment services for everyone (United Nations, 2006). Inclusive finance provides financial seekers with variety of service choices to pick from.

Kempson et al. (2004) report that low income earners are more prone to financial exclusion compared to those with moderate or high income. People with no employment depending on the USAs' social security payments are prone to as well as low income households from ethnic minority communities with minimal access financial services. Kempson et al. (2004) and Family Resources Survey 2002-2005 highlighted that in the UK, African-Caribbean, Black, Pakistani and Bangladeshi had low access to financial services and products suggesting that their religious beliefs could partially explain their exclusion. This theory was used to guide the study's main objective of analyzing the effect of MFIs practices on loan amount accessed by consumer-based SMEs.

2.2.2 Quasi-Hyperbolic Preference Theory

This theory was proposed by Fischer & Ghatak (2009) based on present-biased, quasi-hyperbolic preferences. The theory was proposed to capture majority of MFIs practitioners belief that seekers of MFIs services benefit from frequent repayment schedules. The theory is propelled by the MFIs pervasive sense that high repayment rates is achieved through frequent repayment periods. Yunus (2007) captures this belief well where he observed that loanees find it difficult to pay huge amount to lenders at once since one is hugely tempted to use family business money to fulfill immediate consumption needs. Borrowers perceive frequent repayment period to be easier compared to lump sum repayment due to life constraints

According to this model, when borrows are present-biased loan size increases with frequent repayment schedules as long as the repayment schedule is compatible to incentives but also present-biased borrowers are intuitively prone to default on large repayment. Spreading the payments out reduces the burden of instant repayment which lowers the temptation to default

(Fischer and Ghatak, 2009). When borrowers are subject to frequent repayment, they cultivate discipline which they can apply in business with positive benefits. Microfinance beneficiaries are largely borrowing to repay on frequent installment basis compared to lump sum hence the theory is in the biggest extend practiced in the microfinance lending. The researcher employed this theory in determining objective one.

2.2.3 Financial Intermediation Theory

The financial intermediation theory was developed in the 1970s as part of the seminal contributions of scholars like Akerlof (1970); Spence (1973). The financial intermediaries are introduced in the credit world because they would assist in lowering the transaction costs between the borrowers and the lenders (Bernanke & Blinder, 1992). The financial intermediaries are critical in creating a perfect flow of information so they can improve efficiency in the financial markets. Spence (1973) explains the role of financial intermediates is essential in lowering the impact of the macroeconomic effects coming to the economy from the credit industry.

There are two ways of explaining the existence of financial intermediaries. The first strategy is the "provision of liquidity," and the second is "ability to transform the risk characteristics of assets." In both cases, the financial intermediaries are serving the role of lowering the cost of the transaction between the lenders and the borrowers. When the transaction cost is lower, it is possible that the lenders can efficiently allocate resources to the borrowers (Bernanke & Gertler, 1995). Adolfson (2002) proposes a separate model involving the risk-averse and uncertainty in timing the needs on consumption. The banks can ensure they are remaining competitive in the market when there is more risk shared by the intermediaries and other agents.

When the financial intermediaries are involved in the market, it is possible to have the investors getting a higher payoff. There are massive risk sharing and enhanced welfare, making it possible to get higher rates of return on investment. The principle works according to the optimal insurance contract, as proposed by scholars like Claus & Smith (1999). The financial intermediaries will remain active and effective in the market as there are still imperfections in the market. They would, as such, act to lower the direct trade between the borrowers and the lenders in the economy.

2.3 Empirical Literature

2.3.1 Micro financing and MFIs Practices

The year 2008 saw the rise of the need for small firms to access credit in recent times. Since then, the SMEs have developed ways to ensure they have access to finances. The financial crisis in 2008 came to place because of the inflated costs of assets. When the assets lost their value, it was a challenge to have an understanding of the owners of such assets, making them get disposed at throwaway prices. The banks did not want to lend, and such the economies fell because of "credit crunch" (Cowling et al., 2012). Countries like the United Kingdom had their banks experience challenges in recovery, holding back their economies (Fillipetti & Archibugi, 2011). Consequently, there was a rise in the case of microfinance institutions that were willing to supply SMEs with credits. The ability of the microfinance institutions to provide SMEs with loans and credit facilities made it possible for the economies to come up as a result of the increased cash flow.

Kenya has also taken off in the credit industry for the microfinance institutions. However, the Kenyan commercial banks have had a challenge in addressing the financial needs of the small

business community due to the strict regulations they have put in place regarding credit facilities. SMEs do not have assets to use as collaterals, making it a challenge for the small business community to get loans from the banking institutions (World Bank, 2009). There is a massive gap in meeting the financial needs of the small business communities that the banks would need to get the best ways of covering. According to Chandrasekhar (2004), women are the most affected by the gap in the financial markets. In 2001, there were more than 1.3 million SMEs in Kenya, offering employment to more than 2.4 million Kenyans. The result of the SMEs led to 70% of the total economic activities in the country (Hospes et al., 2002). In 2008, the numbers increased for SMEs to account for more than 75% of the total workforce, with 22% of the GDP coming from SMEs in Kenya.

The main reason the SMEs take time to develop in the country is lack of debt financing and equity (Idowv, 2009). Countries that have had enough microfinance funding for SMEs have experienced massive growth. For instance, Taiwan, Japan, and Korea attribute the economic growth to improved debt financing for SMEs. Major economies like China and Germany have also had the SMEs contributing massively to the economy's GDP. China has more than 10 million SMEs registered, contributing to 60% of the country's output. Japan, Germany, and the United States have their SMEs contributing 65%, 48%, and 45%, respectively. The data shows SMEs can be a significant backbone of an economy when there is effective financing and promotion of SMEs. Supporting SMEs through micro financing is one of the best strategies in enhancing financial growth, creating new jobs, expanding the tax base, and promoting innovation in the country. MFIs operate based on various practices like providing training programs, determining repayment period for credit offered and provision of small loans.

2.3.1.1 Training programs

Training program refers to the activities that pertain participating in one or a series of courses in a bid to improve performance and productivity or gain skills and new knowledge. Entrepreneurs who set up a business are keen to ensure it starts, survives and ultimately grow. However, businesses face various constraints in their operation ranging from lack of the necessary skills, knowledge, linkages and cohesive skills training that hinder their growth. A study conducted on the effects of business training provision to clients of microfinance in Tanzania shows that no entrepreneur's profit was reflected during training (Henriken & Svoldal, 2010). Business training enhanced the development of the business structures, which can result from to urging benefits. Karlan and Valdivia, (2006) agree that business training expands the thinking of entrepreneurs who are business owners on how to develop multiple businesses, which can generate more profits.

Kyeremateng (2012) carried out a study where he examined "the impact of SMEs training on loan repayment in Ghana using cross-sectional design with a sample of 100 SMEs". The study found that there is a significant relationship between training and loan repayment. In 2015 Fauster studied the effect of MFIs on SMEs business performance in Ghana using ANOVA and Sperman's coefficients and found a statistically significant relationship between microfinance training, amount of loan and SMEs performance.

Akpan & Nneji (2015) investigated the contribution of microfinance banks to SMEs development in Nigeria. Primary data was collected using a structured questionnaire shared to 100 SME operators and 80 micro finance businesse operators; constituting a sample size of 180. The collected data was analysed using the OLS multiple regression technique which found that

microfinancing enhances growth of SMEs in Nigeria. Furthermore, the growth and performance level of the SMEs depends largely on the activities of SMEs operating in that vicinity. The study also showed that SMEs performance improve when MFIs provide training programs per loan granted.

Notably, ensuring SMEs owners and managers are financially literate plays a major role in their growth and expansion. According to Financial Sector Deepening 2009 report, the financial capacity of SMEs is key to SMEs' financial expansion with the report noting that MFIs enhanced SMEs capacity through provision of training on financial literacy. However, FSD report indicated that building this capacity at institutional stage is highly unsustainable and is a costly MFIs approach. Thus, despite the will for MFIs to give SMEs desired financial capacity, majority of MFIs are constrained cost-wise and the possibility of passing the extra cost to borrowers contradicts original concept of providing affordable financing to SMEs.

The literature reviewed showed a gap on research that directly examine the effect of microfinance practices on of credit accessibility by SMEs. Studies concentrated on the effect of MFIs on SMEs performance and growth hence the purpose for this study to determine the of MFI's practices on credit accessibility by consumer-based SMEs in Kisumu.

2.3.1.2 Repayment Period

The loans' repayment period is ascertained based on borrowers' liquidity state and the investments' economic life. It is necessary to ensure repayment schedules are flexible in order to easily adjust to the cash flow pattern of the borrower. The affordable credit services can be accessed by SMEs through advanced microcredit systems basing on the repayment periods, which are friendly to them (Alhassan & Hoedoafia, 2016). A study conducted by Luyirika

(2010) on the microfinance role in improving the socio-economic position of women in a society in Mpigi town, Uganda indicated that the flow of money from the business to the MFI is mostly affected by short periods of repayment. Quantitative and qualitative methods were employed in the study whereby data was collected using interviews and questionnaires and results were presented using tables, graphs and numbers. The findings indicated that MFIs in Mpigi town “provide services-training and skills development, savings mobilisation, banking facilities, supervision and monitoring of the clients, provision of agriculture inputs like seeds and chemicals and physical items like animals (cows, goats)”- to women groups, salaried individuals, individual men and women. The study found that repayment plan was majorly on weekly and monthly basis depending on loan size granted by the MFIs and the required collateral for credit was found to be group collateral, salary and others necessary determined MFIs.

The study established that women who accessed MFI credit improved their socio-economic position through business startups and expansion and meeting of various other financial needs. According to the study also, women face various constrains like high interest rates, low ROI, unfavorable repayment periods, small loan amounts, short grace periods etc when accessing and utilizing MFI services. According to Luyirika (2010), the MFIs can consider assessment on the basis of their client's utilization of loans and the period for repayment. Also, make a step in consulting and discussing with the client before start claiming their properties. It is considering the client's suggestion on the flexibility of the conditions and terms which would enhance them repay their loans.

Roslan and Zaini (2009) investigate the “effect of borrowers’ characteristics, project characteristics and loan characteristics on loan repayment of agro bank micro credit scheme in terms of gender, marital status, race, level of education, age, occupation, number of dependents,

experience, membership in business society and training. The characteristics of the project are ownership structure of the project, type of the project, distance of the project to nearest agro bank office, and revenue from project. The loan characteristics are amount of loan and length of repayment period. The study employed primary data, which was collected through a survey carried out among agro-bank micro credit scheme borrowers in 86 branches of agro bank throughout Malaysia. Self-explanatory questionnaire were provided to the respondents, where 2630 borrowers were chosen for the analysis by a simple random sampling. In order to determine the effect of borrowers characteristics on the probability of default, an econometric approach that relies on both probit and logit models were employed. Generally, the estimated result of the research from both probit and logit models suggests that the probability to default is not influenced by race, education, age, previous occupation, number of dependency, experience, membership in business society, the distance of the business/project to the nearest agro bank office and revenue from the business or project.

Noteworthy, Jemal, (2003) conducted a study on “Microfinance and loan repayment performance in Kuyu case study of the Oromia Credit and Savings Share Company (OCSSCO)”. The study employed logit model and descriptive statistics in its methodology with a sample of 203. The study parameters included “borrower’s age, sex, education level, loan size, timely disbursement of loan, diversion rate of loans, annual income from loan financed activities, annual income from other activities, livestock value, favorable repayment period, adequacy of loan supervision, borrowers’ resident location, number of dependents number of times borrowed. The study found that education level, income level, loan supervisory services, favorable repayment period, presence of different credit sources and livestock improves loan repayment

rate, while loan default rate is significantly increased through loan diversion and the amount of loan.

Despite the extensive previous literature discussed above, regarding training programs most studies concentrate on the types of training programs offered by MFIs to SMEs, however, the studies do not show how training programs provided affect credit accessibility by SMEs hence the need to explore this study. Secondly, previous research tells us the primary goal of MFIs is provision of small loans but, it does not elaborate the relationship between provision of small loans by MFIs and qualified loan amount and collateral security requirement to SMEs. Lastly, numerous studies examine the effect of loan repayment on SMEs growth, performance and role of microfinance; however the effect of repayment period on credit accessibility is a topic worth exploring. This study sought to explore the effect of MFIs practices on credit accessed by consumer-based SMEs in Kisumu city.

2.3.1.3 Credit Availability

MFIs in Kenya were primarily established to provide SMEs with credit and other services- financial and non-financial (Marconatto, Cruz & Pedrozo 2016). According to Wilfred et al t (2013) “the loan is provided to the prospective entrepreneurs, low-income earners, or existing enterprises to establish, or expand their businesses”. Ricupero (2002) suggests that the growth and survival of SMEs are mostly determined by the role of MFIs. The primary sign of MFIs is that they provide services at low cost to SMEs, and they are flexible in delivery services, which enables the access of financial assistance from them by weak SMEs. However, they have got disadvantages, which include depending on donor funding, limited provision of technical help, ineffective management, and operational of information systems, and inadequate

internal controls. SMEs find ease in acquiring the latest technologies and undertaking more productive investments to expand their business from MFIs hence resulting to strong export base, the attraction of the private sectors, free and fair environment for operation, more chances for job opportunities are created and ensuring more accumulation of profits (Cuttler, 2001).

Due to new technologies and globalization more competitive environment is faced by SMEs. The solution is accessing the full range of the products in this environment so as to solve the problems related to finance. Also, the need for consultation from MFIs is valuable to them, and those consultations include business management and operation, financial help, and business plans. SMEs find assistance from MFIs in environment adaptation changes through the improvement of primary competencies in various sectors in which include credit management and policy, marketing, distribution, and automation (Cuttler, 2001). According to Ricupero (2002), MFIs can aid in implementing modern technology to help SMEs achieve effectiveness and efficiency in operation by ensuring credit is available and sufficient.

2.3.2 Credit Accessibility

The SMEs looking for the credit facilities are primarily looking for the finances to expand on their business. The lenders would, therefore, evaluate the business before offering to give the credit. Brown, Earle, and Lup (2004) studies small enterprises in Romania and finds that there is a high possibility for the SMEs to survive when they have access to credit than when they are not. The SMEs make use of the profits to improve the living standards of the people in the country. Santem (2010) argues that states can lower unemployment rates and increase income growth when more small businesses are coming up in the country. Banks and other financial institutions have a critical role to play in providing the finances in the economy. They are a

significant source of investment in delivering for startup capital and financing the businesses. Coming up with the ways of ensuring there are ways of SMEs getting the best financing. Access to credit by SMEs is measured in terms of loan amount and availability of collateral security.

2.3.2.1 Loan Amount

The SMEs looking for the credit facilities are primarily looking for the finances to expand on their business. The lenders would, therefore, evaluate the business before offering to give the credit. Brown, Earle, and Lup (2004) studies small enterprises in Romani the research finds that there is a high possibility for the SMEs to survive when they have access to credit than when they are not. The SMEs make use of the profits to improve the living standards of the people in the country. Santem (2010) argues that states can lower unemployment rates and increase income growth when more small businesses are coming up in the country. Banks and other financial institutions have a critical role to play in providing the finances in the economy. They are a significant source of investment in delivering for startup capital and financing the businesses. Coming up with the ways of ensuring there are ways of SMEs getting the best financing.

The Kenyan SMEs operate in the best manner possible to ensure that they get the financial facilities. The banking sector has failed in offering the best chances for the SMEs to get the credit facilities. The lending terms and conditions do not favor small business people. The people operating the SMEs are equally needy and, as such, cannot afford collaterals (Adera, 1995). Peachey and Roe (2006) has also pointed to the needs and problems of the community as part of the challenges making it impossible to get the loans. The SMEs should get ways of managing the challenges in a bid to ensure they are getting credit facilities.

The loan amount offered by the financial institutions determines the number of clients it will have as well as the performance of SMEs in terms of sales, liquidity and even the operating costs. Also the loan amount provided by the funding institutions affect the manner in which SMEs access that credit in that if the amount being sought is large the one being provided is small then it means the borrower can borrow and vice versa (Oleka, et al 2014 UWFT, 2005; Wanambisi 2013). For example, Oleka, et al (2014) argue that the loan size positively influence the growth of SMEs. It was also argued that the business that receive adequate amount of loan frequently perform better than the ones that do not and (Wanambisi, 2013) also argued that appropriate loan sizes for clients, matching SMEs needs influence the business sustainability. Also the loan amount that an SMEs is able to access helps grow its credit history and its relationship with the lender. Loan amount goes hand in hand with interest rate applied. SMEs finds significant help in finding affordable credit services in advanced microcredit system (Alhassan & Hoedoafia, 2016). When the interest is low at the microfinance credit, then SMEs can easily afford the credit service from them. The performance of SMEs has been improved by the access to low-interest rates (Mwangi 2011, Kamau and Kalio 2014). Also, SMEs develop risk coping strategies, abilities to risk-bearing hence enabling smooth consumption due to access to low loans.

2.2.2.2 Collateral security

Collateral security is anything that is of more importance that is mostly applied in assuring that repay will be done by that individual to the asset. The insurance policy is one of the properties that act as the security item between the client and the bank on considering loan agreement in case its defaulted by the customer (Basu and Simon, 2001). Collateral is the loan security that significantly assures the lender on the borrower defaults that it is protecting (Indersta & Mueller

2007). Most of the researches explain that credit problems are reduced by the more emerging collateral in firms, which enables companies to access more loans (Wang, 2004). SMEs can find assistance from an advanced system of microcredit in the system, which can provide lower and affordable credit services; consequently, if there is affordability in the requirements of collateral (Alhassan & Hoedoafia, 2016).

Charles Goodluck and Mori G. Neema (2016) carried out a research on the “effect of the collateral on loan repayment: evidence from an Informal lending institution”. The two examined the collateral used by informal lenders to ensure loan repayment. The study primarily measured how the use of movable and immovable assets affects loan repayment and delinquency rate, and assessed the extent to which guarantor-ship and relationship-lending act as collateral to improve loan repayment. The researchers ran a descriptive and econometric model based on a sample of 835 individual borrowers who were drawn from an informal Tanzanian lending institution. The results of the study suggested that movable assets increase the likelihood that borrowers perceived to be less creditworthy will obtain loans from informal sources and repay them. The study also found a few number of customers to have pledged immovable assets as collateral when borrowing from informal lenders. Also, the results showed a positive effect of referral, implying that relationship lending and social collateral is key to increasing access to finance through informal lenders.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlined the methods and methodology employed in the study, the study design, population and the techniques used in sampling the data collected.

3.2 Study Design

Mugenda and Mugenda (2005) defines methodology as the principles, procedures and practices governing research. The research design defines the study's method of sampling, sample size, measurement as well the processes of data analysis. This study used correlational research design. "Correlational research design is a non-experimental method where the measurement of two variables occurs" (Gaille 2020). Correlational design helps the researcher to look for variables that seem to interact with each other where if one variable changes the researcher has an idea of how the other is going to change. Notably, one can employ survey method in correlational design and also variables do not go through a manipulative process therefore the results of this design can easily be classified.

3.3 Study Area, Target Population and Sampling Design

3.3.1 Study Area

The study refers to a subject area chosen for a study directly related to primary objectives. It is the area within which field data is collected to identify the study's variables. The study area for this research was the Kisumu city covering 297km².

3.3.2 Target Population

Saunders, et al. (2009) defines a Population as a set of individuals, objects, or data from where a statistical simple can be drawn. Cooper and Schindler (2003) further add that a population is the total sum of collected units from which the researcher draws conclusions for a study. According to Kisumu City Board (2020/2021) there are approximately 6000 SMEs in Kisumu City. This study targeted a population of 80 consumer-based SMEs in Kisumu city.

3.3.3 Sampling Design

Sampling design generally refers to the manner in which a researcher selects the cases for observation. It outlines the procedure undertaken to come up with the sample of the study. Cooper & Schindler (2011), notes that a commendable sample should represent the study population. Stratified sampling method was employed in this report which aims at lowering costs, and ensuring quick data collection based on the availability of the elements population.

3.3.3.1 Sampling Frame

Mugenda & Mugenda (2005 defined sampling frame as the list of events, individuals, material source or devices used to draw a sample. It entails a list of all items contained in a population capable of being sampled including people, a community, firms and institutions (Saunders et al., 2009). This research engaged SMEs managers and owners in Kisumu Town were.

3.3.3.2 Sample Size

According to Ligthelm and Van Wyk (2005) sample size refers to a smaller set of the larger population. Stratified random sampling was adopted targeting a sample of 80 consumer-based SMEs with Kisumu town.

3.4 Data Collection

Primary data was collected through structured questionnaires. In order to ensure uniformity in response and to encourage participation, the questionnaires were kept short and structured with mostly multiple-choice selections in a Likert scale. Mugenda and Mugenda (2003) asserts that “questionnaires are commonly used to obtain important information about a population under study”.

3.5 Research Instrument’s Validity and Reliability

Validity is the extent to which a given concept is quantified accurately in a study. This study measured content validity which refers to being able to draw inferences about a study concept’ test scores. Reliability refers to the potentiality of a study instrument to yield similar outcomes when employed repeatedly in similar situation. According to Kothari (2010) “a measuring instrument is deemed reliable if it provides consistent results”. Cronbach’s Alpha coefficient was used to establish the study’s reliability in order to assess the instrument’s consistency since only one testing session is required. The Cronbach Alpha coefficient ranges from 0 to 1 where a higher value is the show of items consistency in gauging the area of interest. According to Henson (2001), recommended Cronbach alpha is 0.7 and above. Training programs achieved a Cronbach’s alpha of 0.954 on 15 items, repayment had an alpha of 0.932 on 15 items, loan availability attained 0.966 alpha on 15 items, loan amount had 0.920 on 5 items and collateral security achieved 0.920 alpha on 3 items. The findings of the study indicated that variables had a strong alpha of greater than 0.7 as indicated in table 3.1 below:

Table 3.1

Reliability Statistics		
	Cronbach's Alpha	N of Items
Training programs	.954	15
Repayment period	.932	15
Loan Availability	.966	12
Loan Amount	.920	5
Collateral Security	.920	3

Source: Research data

3.6 Data Analysis and Presentation

The researcher employed quantitative measures. One uses quantitative research to quantify the study's problem through generation of numerical data which are easily transferable to usable statistics. As posited by Zikmund et al, (2013) it quantifies attitudes, behaviors, opinions, perspectives et cetera. Data analysis is the process through which data collected is analyzed, cleaned, transformed and modelled (Sekaran and Bougie, 2016). The collected data for the study was coded based on various statistical measures like sum, means, percentages and standard deviations for easy entry and interpretation of data. The mean used to measure the respondent's general response to the questions and the standard deviation was used to measure the variability in the responses to questions. The study used the responses from the Likert scale to ascertain the effect of microfinance practices on credit accessibility through use of sSPSS and regression analysis.

Regarding cleaning, editing and coding of the data, the study employed SPSS version 2.0. Ordinary regression analysis, ANOVA and correlation was used to analyze the collected data for

the study. ANOVA was used to determine the link between microfinancing practices and credit accessibility by consumer-based SMEs. Ordinary regression explains the relationship between multiple independent variables and one dependent variable. Tables, graphs and charts were used to present the results.

3.6.1 Specification of the study Model

The regression model was as below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y= Credit accessibility

β_0 = Intercept

$\beta_1, \beta_2, \text{ and } \beta_3$ = Beta coefficients

X_1 = Training programs

X_2 = Repayment period

X_3 = loan availability

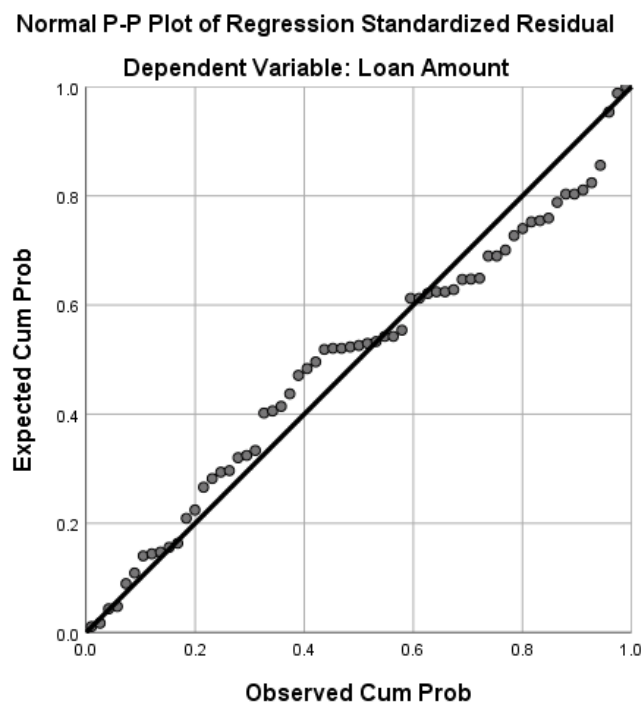
ε = error term

3.6.1.1 Testing the Assumptions of Linear Regression

The use of linear regression models to draw inferences and prediction is justified by four key assumptions namely; normality, homoscedasticity, linearity and multi-collinearity.

Normality. For one to draw accurate inferences from a study's regression, the regression error terms/residuals must follow a normal distribution. An error term simply refers to the variation between observed values of the dependent variable and the predicted value. By examining a Predicted Probability (P-P) plot, one can ascertain if the error terms have a normal distribution pattern. Normally distributed residuals conform to the diagonal normality line normally in the plot. The findings were as below:

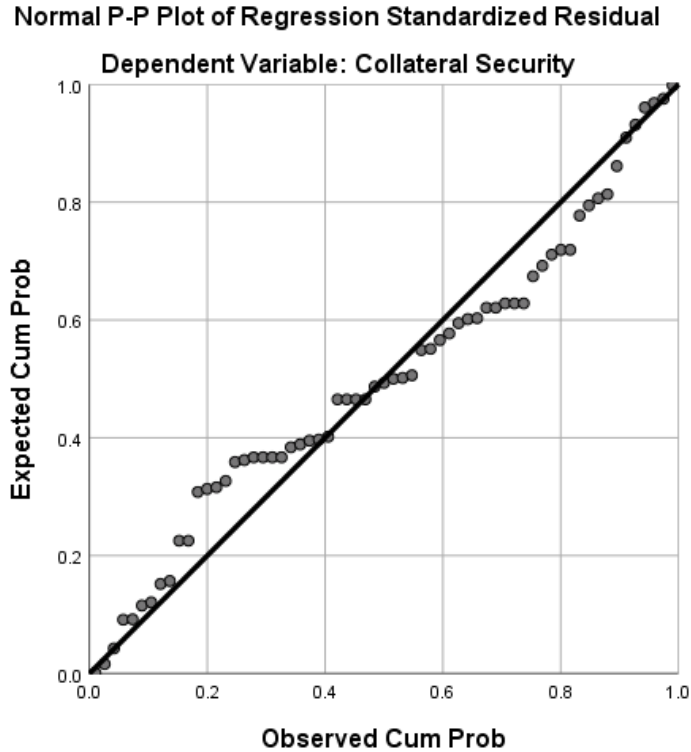
Graph 3.1



Source: Research data

Normal probability-probability plot indicate that points are all scattered close to the plot.

Graph 3.2

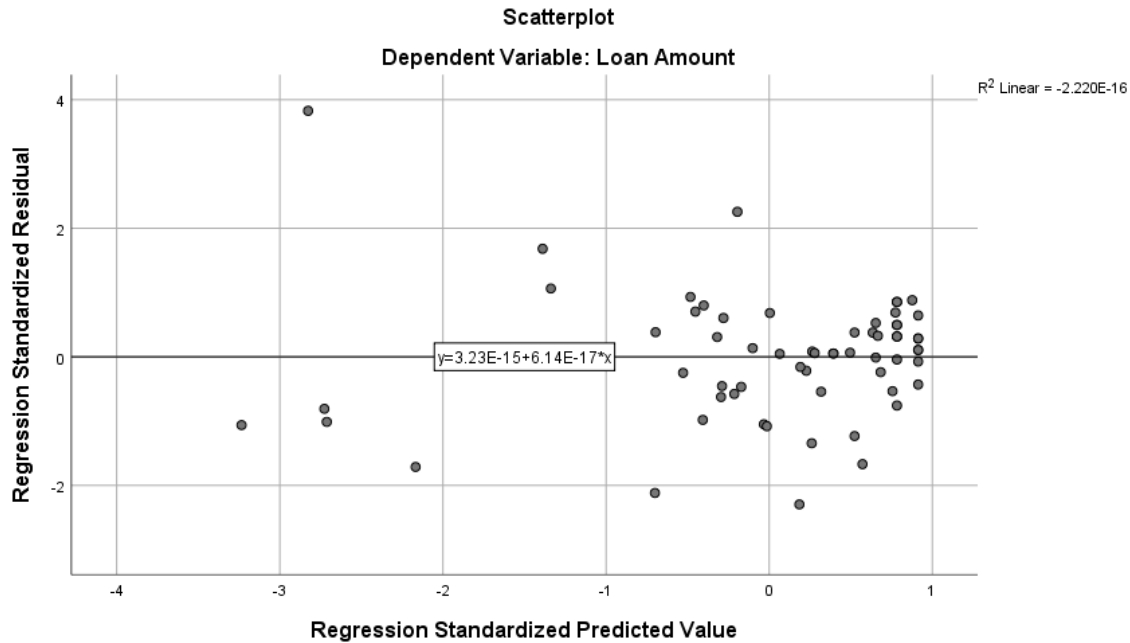


Source: Research data

Normal probability-probability plot indicate that points are all scattered close to the plot.

Homoscedasticity. Homoscedasticity refers to whether these residuals are equally distributed, or whether they tend to bunch together at some values, and at other values, spread far apart. In the context of t-tests and ANOVAs, homoscedasticity is referred to as equality of variances or homogeneity of variances. Data is considered homoscedastic if it looks somewhat like a shotgun blast of randomly distributed data. Results were as shown below:

Graph 3.3



Source: Research data

From the Loess curve, it shows a roughly linear relationship between standardized predicted value and residuals around zero indicating that the link between the dependent variable and independent to be zero as residuals are scattered randomly around zero.

Linearity. Linearity means that a regression model, predictor variables and outcome variables produce a straight line relationship. Linearity is simply achieved when there is normality and homoscedasticity in the residuals.

Multicollinearity. It refers to when there is a high correlation between the study's predictor variables which is a point of concern as it implies the study's regression model cannot accurately correlate the outcome variable with the right predictor variable. This leads to mixed up results and invalid inferences only applicable to multiple linear regression.

Table 3.2

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Credit accessibility	.267	3.751
	Repayment Period	.157	6.354
	Training Program	.161	6.229

Source: Research data

The Tolerance for each variable is greater than 0.1 and The Variance Inflation Factors are all less than 10. This indicates absence of multicollinearity.

3.7 Ethical Consideration

Research ethics involve requirements on daily work, the protection of dignity of subjects and the publication of the information in the research. The key ethical parameters explored in this report included informed consent, beneficence- do not harm, respect for anonymity and confidentiality and respect for privacy. According to Amirger (1997) informed consent "it means that a person knowingly, voluntarily and intelligently, and in a clear and manifest way, gives his consent". Informed consent is when scholars provide adequate information and assurances to participants regarding their involvement in order for them to understand the implication. Doing so helps respondents to make a decision that is fully informed, considered and freely given without pressure or coercion (Saunders, Lewis and Thornhill, 2012). Noteworthy, according to ANA (1985) a respondent's anonymity is protected when there is no link between subject's identity

and personal responses. If the researcher is not able to promise anonymity then he or she must ensure there is confidentiality, which refers to the ability to manage one's personal details by the scholar to protect the identity of the subject. For this study the researcher ensured to acquire the respondent's informed consent and ensure the information provided by the respondent remains confidential. A letter of permission from the university was also obtained to aid in data collection.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

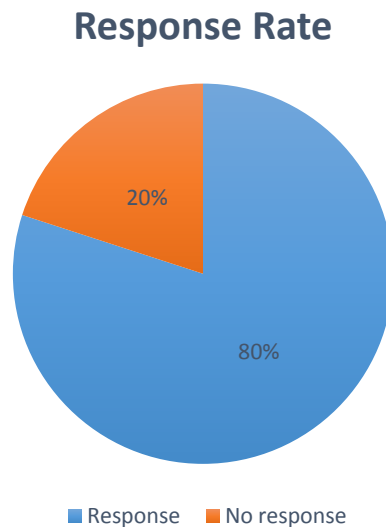
4.1 Introduction

This chapter presents the results of the study on effect of microfinance practices on credit accessibility by consumer based SMEs in Kisumu city. Data was used to determine the relationship between microfinance practices and credit accessibility parameters on consumer based SMEs, to establish the effect of microfinance practices on loan amount accessed by consumer-based SMEs; to determine effect of microfinance practices on collateral security by consumer-based SMEs in Kisumu City.

4.2 Preliminary Results

4.2.1 Response Rate

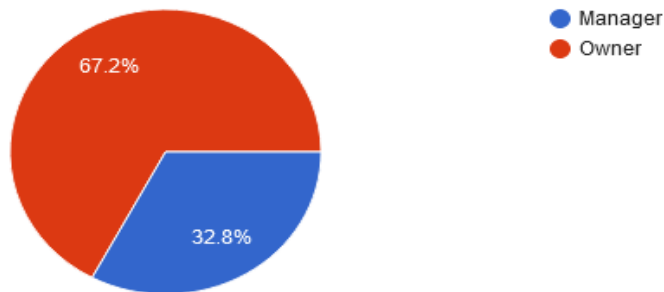
The study achieved 80% response rate and shown in the chart 4.1 below



Source: Research data 2021

4.2.2 Position in organization of the Respondents

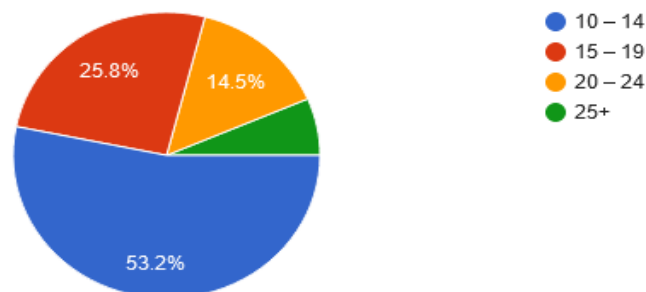
Chart 4.2 indicates the distribution statistics in terms of the position of the respondents which revealed that most of the study participants were owners (67.2%). Managers comprised the minority at 32.8%.



Source: Research data 2021

4.2.3 Date of inception of the Respondents

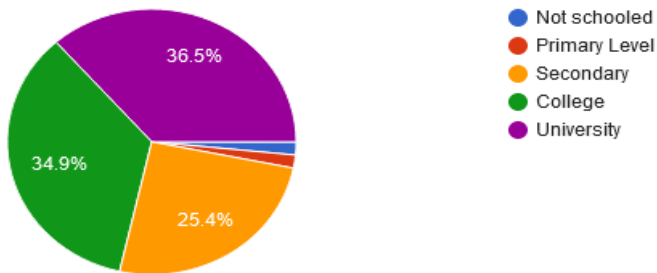
Chart 4.3 shows results based on inception dates of the consumer-based SMEs which revealed that most consumer based SMEs that were interviewed were incepted between 10-14 years ago (53.2%), 25.8% of the consumer based SMEs were incepted between 15-19years, 14.5% of the consumer based SMEs were incepted between 20-24 years and on the minority side were consumer based SMEs incepted 25 years and above at 6.5%.



Source: Research data 2021

4.2.4 Education of the Respondents

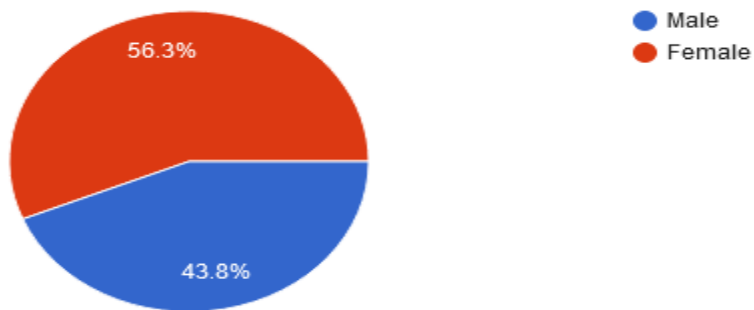
Chart 4.4 indicates the distribution statistics in terms of education level of the respondents. Most of the respondents were university level at 36.5%, college level came in second at 34.9%, secondary level at 25.4%, minority level was primary level and non-schooled with a 1.6% each.



Source: Research data 2021

4.2.5 Gender of the Respondents

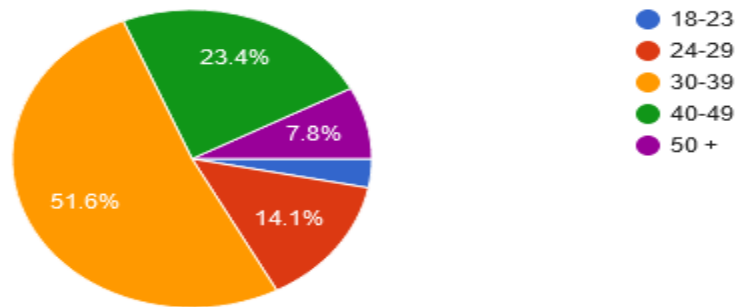
Chart 4.5 shows gender wise distribution statistics revealed that most of the study participants were females (56.3%). Males comprised the minority at 43.8%.



Source: Research data 2021

4.2.6 Age of the Respondents

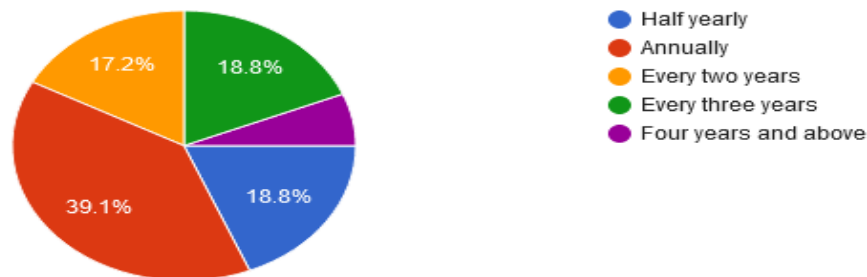
Chart 4.6 shows the distribution statistics in terms of age of the respondents which revealed that majority of the study participants were age group 30-39 (51.6%), age group 40-49 were 23.4%, age group 24-29 were 14.1%, age group 50 and above were 7.8% and the minority were age group 18-23%.



Source: Research data 2021

4.2.7 Frequency of borrower's application for loan

Chart 4.7 indicates the distribution statistics in terms of the borrowers' loan application frequency which showed that most respondents apply for loans annually (39.1%), 18.8% of respondents apply for loan both every three years and half yearly, 17.2% apply for loans every two years and minority apply for loans every four years and above (6.1%).



Source: Research data 2021

4.3 Descriptive Statistics

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Training Programs	64	1.40	5.00	3.8583	.98715
Repayment Period	64	1.67	4.87	3.8688	.88371
Loan Availability	64	1.08	4.92	3.8789	1.10991
Loan Amount	64	1.00	5.00	3.8406	1.06439
Collateral Security	64	1.00	5.00	3.7604	1.27860

Source: Research data 2021

Table 4.1 shows the descriptive statistics of the study variables with respect to minimum, maximum, mean and standard deviation. The study achieved a total of 64 responses indicated by N. Training programs achieved a minimum of 1.40 which was the lowest scores average, a maximum of 5.00 which was the highest scores average, a mean of 3.8583 which was the average of minimum and maximum and a standard deviation of 0.98715. Repayment period attained a minimum of 1.67 which was the lowest scores average, a maximum of 4.87 which was the highest scores average, a mean of 3.8688 which was the average of minimum and maximum and a standard deviation of 0.88371. Credit availability had a minimum of 1.08 which was the lowest scores average, a maximum of 4.92 which was the highest scores average, a mean of 3.8789 which was the average of minimum and maximum and a standard deviation of 1.10991. Loan amount achieved a minimum of 1.00 which was the lowest scores average, a maximum of 5.00 which was the highest scores average, a mean of 3.8406 which was the average of minimum and maximum and a standard deviation of 1.06439. Collateral security had a minimum of 1.00 which was the lowest scores average, a maximum of 5.00 which was the highest scores average, a mean of 3.7604 which was the average of minimum and maximum and a standard deviation of 1.27860. The standard deviation shows the rate deflection of the variable from the mean.

4.4 Inferential Statistics

4.4.1 Correlational Test

4.4.1.1 Association between microfinance practices and loan amount

Table 4.2: Pearson Correlation

		Training Programs	Repayment Period	Loan Availability
Loan Amount	Pearson Correlation	.932**	.922**	.913**
	Sig. (2-tailed)	.000	.000	.000
	N	64	64	64

Source: Research data 2021

Correlation analysis is used to test whether there is an association between given variable. It is also used to show the strength or magnitude of the relationship and the direction of the relationship between variables. A value of 0.000 shows an association between dependent and independent variables of the study. Microfinance practices were found to have a positively significant association with loan amount. Training programs, repayment period and credit availability had strong positive correlation with loan amount of Pearson correlation 0.932, 0.922 and 0.913 respectively and all significant ($p < 0.05$). The results mean that raising loan availability by one unit causes an increase of 91.3% in loan amount borrowed. An increase in one unit of repayment period and training program causes an increase of 92.2% and 93.2% respectively of the loan amount borrowed as shows in table 4.2.

Previous literature also consent that microfinance practices affect loan amounted qualified by SMEs. In 2015 Fauster studied the effect of MFIs on SMEs business performance in Ghana using ANOVA and Sperman's coefficients and found a statistically significant relationship between microfinance training, amount of loan and SMEs performance. Akpan & Nneji (2015)

investigated the contribution of microfinance banks to SMEs development in Nigeria. Primary data was collected using a structured questionnaire shared to 100 SME operators and 80 micro finance business operators; constituting a sample size of 180. The collected data was analysed using the OLS multiple regression technique which found that microfinancing enhances growth of SMEs in Nigeria. Furthermore, the growth and performance level of the SMEs depends largely on the activities of SMEs operating in that vicinity. The study also showed that SMEs performance improve when MFIs provide training programs per loan granted.

4.4.1.2 Association between microfinance practices and collateral security

Table 4.3: Pearson Correlation

		Training Programs	Repayment Period	Loan Availability
Collateral Security	Pearson Correlation	.964**	.897**	.909**
	Sig. (2-tailed)	.000	.000	.000
	N	64	64	64

Source: Research data 2021

Microfinance practices were found to have a positively significant association with collateral security. Training programs, repayment period and credit availability had strong positive correlation with collateral security of Pearson correlation 0.964, 0.897 and 0.909 respectively and all significant ($p < 0.05$). An increase in one unit of training program, repayment period and loan availability causes an increase of 96.4%, 89.7% and 90.9% respectively on collateral security.

Existing research also agrees there is a positive correlation between microfinance practices and collateral security especially with regards to what MFIs consider proper collateral. As per Charles Goodluck and Mori G. Neema, "the importance of equity on debt payment: proof from

an informal lending institution" (2016). The two researchers investigated how lending institutions utilized assets to guarantee loan repayment. The study looked at how the use of portable and permanent assets affects loan payback and delinquency rates, as well as how guarantor ship and connection lending might be used as protection to aid loan repayment. The researchers developed a descriptive and inferential statistics model based on a survey of 835 consumer loans obtained from an informal Tanzanian lending organization. The study's findings revealed that having transportable assets makes it more likely for borrowers who are considered less creditworthy to secure and repay loans from unofficial sources. A limited minority of clients put up personal assets as insurance when borrowing from informal lenders, according to the report. Furthermore, recommendation had a positive effect, illustrating the importance of consumer loans and social leverage in widening access to finance through lending institutions.

4.4.2 Regression Analysis

4.4.2.1 Effect of microfinance practices on loan amount

Table 4.4: Regression analysis for Loan Amount

Model	R	R Square	Adjusted R Square	Std. Error of theEstimate
1	.945 ^a	.894	.889	.35539

a. Predictors: (Constant), Loan Availability, Repayment Period, Training Programs

Source: Research data 2021

The R, R Square and Adjusted R Square for the study was found to be 0.945, 0.894 and 0.889 respectively. R square explains the amount of variation on the Dependent variable from the Independent variable. The standard Error of the study Estimate was 0.35539. Together,

microfinance practices account for 89.4% variation on loan amount. The remaining 11.6% is unaccounted for and is attributed to factors included in the disturbance term.

Table 4.5

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	63.796	3	21.265	168.367	.000 ^b
	Residual	7.578	60	.126		
	Total	71.374	63			

Source: Research data 2021

a. Dependent Variable: Loan Amount

b. Predictors: (Constant), Loan availability, Repayment Period, Training Program

From the ANOVA table above, the study achieved a total sum of squares of 71.374, a total degree of freedom of 63, a mean square of 21.265 and an F value of 168.367. Notably, the study model achieved a significance level of 0.000.

Table 4.6: ANOVA Coefficients for loan amount

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.217	.207		-1.050	.298
	Training Programs	.373	.176	.346	2.113	.039
	Repayment Period	.388	.167	.322	2.324	.024
	Loan Availability	.289	.111	.301	2.598	.012

Source: Research data 2021

a. Dependent Variable: Loan Amount

From the coefficients table above credit availability, repayment period and training program had unstandardized B values of 0.289, 0.388, and 0.373 respectively. For every unit increase in credit availability, loan amount increases by 28.9%. Also, for every unit increase in repayment period and training program, loan amount increases by 38.8% and 37.3% respectively. Training programs, repayment period and loan availability, had a statistically significant effect on loan amount with p values of 0.039, 0.024 and 0.012 respectively (<0.05). Independent variable affects dependent variables significantly when the significance level is 0.05 and below otherwise the effect is insignificant. From the results above, the research hypothesis (H_{01}) of there is no significant relationship between microfinance practices and loan amount accessed by SMEs was rejected.

$$\text{Loan Amount} = -0.217 + 0.373\text{Training Program} + 0.388\text{Repayment Period} + 0.289\text{Loan Availability}$$

Previous studies yielded contradicting results regarding microfinance practices role on loan amount accessed. A study conducted by Fauster (2015) on “the effect of MFIs on SMEs business performance in Ghana using analysis of variance (ANOVA) and Spearman’s correlation coefficient” showed a significant relationship between microfinance training, loan amount and SMEs performance. A study conducted on the effect of providing business training microfinance clients in Tanzania showed that no entrepreneur’s profit was reflected during training (Henriken & Svoldal, 2010). The study did not find sufficient evidence to ascertain a positive treatment effect from business training; neither on the entrepreneurs “total profit, nor on their profits per working hour”. Notably, Akpan & Nneji (2015) investigated the contribution of microfinance banks to SMEs development in Nigeria. The collected data was analyzed using the OLS multiple

regression technique which found that micro financing enhances growth of SMEs in Nigeria. The study also asserted that business performance of SMEs improves when MFIs provide training programs per loan granted. Both studies did not ascertain the effect of training programs on loan amount.

4.4.2.2 Effect of microfinance practices on Collateral Security

Table 4.7: Regression analysis for collateral security

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.967 ^a	.935	.931	.33480

Source: Research data 2021

a. Predictors: (Constant), Loan Availability, Repayment Period, Training Programs

The R, R Square and Adjusted R Square for the study was found to be 0.967, 0.935 and 0.931 respectively. R square explains the amount of variation on the Dependent variable from the Independent variable. The standard Error of the study Estimate was 0.33480. Together, microfinance practices account for 93.5 % variation on collateral security. The remaining 6.5% is unaccounted for and is attributed to factors included in the disturbance term.

Table 4.8

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	96.267	3	32.089	286.269	.000 ^b
	Residual	6.726	60	.112		
	Total	102.993	63			

Source: Research data 2021

a. Dependent Variable: Collateral Security

b. Predictors: (Constant), Loan availability, Training, Repayment Period

From the ANOVA table above, the study achieved a total sum of squares of 102.993, a total degree of freedom of 63, a mean square of 32.089, and an F value of 286.269. Notably, the study model was significant p value 0.000.

Table 4.9: ANOVA Coefficients for collateral security

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.840	.195		-4.311	.000
	Training Programs	1.390	.166	1.073	8.361	.000
	Repayment Period	-.334	.157	-.231	-2.125	.038
	Loan Availability	.136	.105	.118	1.301	.019

Source: Research data 2021

From the coefficients table above training program, repayment period and credit availability had unstandardized B values of 1.390, -0.334, and 0.136 respectively. For every unit increase in credit availability, collateral security increases by 13.6%. Also, for every unit increase in repayment period and training program, collateral security increases by -33.4% and 139% respectively. Independent variable affects in dependent variables significantly when the significance level is 0.05 and below otherwise the effect is insignificant. Training program, repayment period and loan availability had a statistically significant effect on collateral security with p values of 0.000, 0.038 and 0.019 respectively (<0.05). From the results above, the research hypothesis (H_{02}) of there is no effect of microfinance practices and collateral security required by SMEs was rejected.

Collateral security = -0.840 + 1.39 Training Program - 0.334 Repayment Period + 0.136 Loan Availability

Contrary to these results, Goodluck & Neema (2016) conducted a study on “the effect of the collateral on loan repayment: evidence from an Informal lending institution”. The two examined the collateral used by informal lenders to ensure loan repayment. The results of the study suggested that movable assets increase the likelihood that borrowers perceived to be less creditworthy will obtain loans from informal sources and repay them. The study also found a few number of customers to have pledged immovable assets as collateral when borrowing from informal lenders. Also, the results showed a positive effect of referral, implying that relationship lending and social collateral is key to increasing access to finance through informal lenders.

Another study conducted by Luyirika (2010) on microfinance role in bettering the socio-economic growth of women in Mpigi town, Uganda indicated that the flow of money from the business to the MFI is mostly affected by short periods of repayment. The findings indicated that MFIs provide various services including training as well as skills nurturing, savings mobilization, banking products and services- to women groups, salaried individuals, individual men and women. The loan repayment schedules vary between weekly and monthly depending on loan amount with applicable security being group borrowing and client’s salary. The results established improvement in socio-economic life of women who qualified for loans and also determined that insufficient loan amount, huge interest rates, unfavorable repayment schedules and deviation in funds deterred women from accessing credit. Noteworthy, Jemal, (2003) study on Microfinance and performance of loan repayment in Kuyu conducted using tobit model stated that “education, income, loan supervision, suitability of repayment period, availability of other credit sources and livestock are important and significant factors that enhance the loan repayment performance, while loan diversion and loan size are found to significantly increase loan default”.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study sought to investigate the effect of microfinance practices on credit accessibility by Consumer-based SMEs in Kisumu city, Kenya. This chapter provides a brief summary of the findings based on the study's objectives, conclusions of the study, recommendations of the study, limitations and suggestion fields for further research.

5.2 Summary of Major Findings

Training programs, repayment period and credit availability had strong positive correlation with loan amount of Pearson correlation 0.932, 0.922 and 0.913 respectively and all significant with p values of 0.000($p < 0.05$). Also, the study found a positively significant correlation between microfinance practices and collateral security on the Pearson correlation.

The study found the proportion of variance between microfinance practices and loan amount to be at 0.894 (89.4%). The regression analysis from ANOVA indicated that there was a significant relationship between microfinance practices and loan amount with significance of 0.000. In terms of unstandardized B values the results indicated that for every unit increase in credit availability, loan amount increases by 28.9%. Also, for every unit increase in repayment period and training program, loan amount increases by 38.8% and 37.3% respectively. Notably, the study found that training programs, repayment period and loan availability had a statistically significant effect on loan amount with p values of 0.039, 0.024 and 0.012 respectively (< 0.05).

Notably, the study model achieved a significance level of 0.000 meaning the model is significant.

With regards to the effect of microfinance practices on collateral security, the study achieved an R square of 0.935 (93.5%). The regression results from ANOVA showed there was a significant relationship between microfinance practices and collateral security with a significance of 0.000. Results also indicated that in terms of unstandardized B values, for every unit increase in credit availability, collateral security increases by 13.6%. Also, for every unit increase in repayment period and training program, collateral security increases by -33.4% and 139% respectively. The results ascertained that training program, repayment period and loan availability had a statistically significant effect on collateral security with p values of 0.000, 0.038 and 0.019 respectively (<0.05). Also the study found that most SMEs apply for loans annually. Nevertheless, the study model achieved a significance level of 0.000 meaning the model is significant.

5.3 Conclusions

The study concludes that there is a positively significant correlation between the microfinance practices-training programs, repayment period, and loan availability-and credit accessibility parameters; loan amount and collateral security. The study concludes that microfinance practices have statistically significant effect on credit accessibility. The study concludes that training programs, repayment period and loan availability has a statistically significant effect on loan amount accessed by consumer-based SMEs. Noteworthy, the study concludes that training programs, repayment period and loan availability has a statistically significant effect on collateral security.

5.4 Recommendations

SMEs need an enabling environment to grow and thrive which raises the need to develop and implement strategies that better accessibility to microfinance credit by consumer based SMEs from MFIs. This calls for the government to put up policies and strategies that ensure SMEs access microfinance practices with ease and sufficiency. The government must ensure the policies and strategies align with SMEs owners and financial institutions to avoid locking out potential and credit worthiness of clients who aim to start or expand their businesses. Doing so will provide an environment for economy's growth and development consequently leading to high employment rates eventually bettering the economic financial position.

MFIs should see to it that SMEs owners and managers are sensitized on the best financial management practices for better accountability for borrowed funds. MFIs should also offer training programs on project appraisals and viability to ensure owners and managers make wise investment decisions. The study recommends a partnership between counties and MFIs with the aim to create awareness of their existence and the accepted credit accessibility processes and practices set by MFI that are beneficial to SMEs. The study recommends that the Central Bank sets up policies and procedures to combat barriers that hinder sufficient credit access by potential SMEs in a bid to create a conducive environment for their growth and expansion.

5.5 Study Limitations

The researcher employed a regression model with five parameters: three on the independent variables (training programs, repayment period and loan availability) and two dependent variables (loan amount and collateral security). Future scholars can employ the same model but look at other parameters/practices that may affect credit accessibility in order to draw

conclusions from the findings. This study was also carried out in a limited period and resources which hindered its scope and depth.

5.6 Further Study Suggestions

The main focus of the study was on consumer-based SMEs in Kisumu city and there the results cannot be used to generalize the entire SMEs sector in Kenya. It therefore recommends that further research be carried out on consumer-based SMEs in the entire country to investigate the effects of microfinance practices on credit accessibility to ascertain any similarities or different in results. The research majored on consumer-based SMEs, it is vital to conduct identical study on large organizations in order to determine the effect of microfinance practices on credit accessibility in larger firms.

REFERENCES

- 2019 FinAccess Household Survey. In partnership with Central Bank of Kenya, FSD Kenya and Kenya National Bureau of Statistics.
- Adera, A. (1995). Instituting Effective Linkages between Formal and Informal Financial Sector in Africa: A Proposal. *Saving and Development*, 1/1995:5-22
- Adolfson, M. (2002). Optimal monetary policy delegation under incomplete exchange rate pass-through, SSE/EFI Working Paper Series in Economics and Finance: 477.
- Aftab, J. (2001). The borrowers' curse: Optimism, finance and entrepreneurship. *Economic Journal* 106, 375–386.
- Akerlof, G. (1970). The market for lemons: quality uncertainty and the market mechanism, *Quarterly Journal of Economics*: 48:488-500.
- Alhassan, E.A & Hoedoafia, M.A. (2016). The effect of microcredit on profitability and challenges of women owned SMEs: Evidence from Northern Ghana. *Journal of Entrepreneurship and Business Innovation*, 3(1): 2947
- Archibugi, D. (2013), Filippetti, A., & Frenz, M., (2013) Economic Crisis And Innovation: Is Destruction Prevailing Over Accumulation?. *Research Policy* 42 (2013) 303– 314
- Bakht, L. (2008). High tech firms and credit rationing. *Journal of Economic Behavior and Organization*, 33: 39-59.
- Basu, A. and Altinay, E. (2000). The interaction between Culture and Entrepreneurship in London's Immigrant Businesses. <http://www.surrey.ac.uk/politics/cse/facetsarchive>
- Bateman, M. (2012). The role of microfinance in contemporary rural development finance policy and practice: imposing neoliberalism as 'best practice'. *Journal of Agrarian Change*, 12(4), 587-600.
- Benhayoun, N., Chairi, I., El Gonnouni, A., & Lyhyaoui, A. (2013). Financial intelligence in prediction of firm's creditworthiness risk: evidence from support vector machine approach. *Procedia Economics and Finance*, 5, 103-112.
- Bernanke, B. S. & Gertler, M. (1995). Inside the black box: the credit channel of monetary policy transmission, *The Journal of Economic Perspectives* 9: 2748.
- Bernanke, S. & Blinder, S. (1992). The federal funds rate and the channels of monetary transmission, *The American Economic Review*: 82:90-92.
- Bragg, S.M. (2010). *The Ultimate Accountants' Reference: Including GAAP, IRS & SEC Regulations, Leases and More*. 3rd edition. John Wiley & Sons Inc

- Brown JD, Earle JS, Lup D (2003). "What makes small firms grow? Finance, human capital, technical assistance, and the business environment in Romania". Staff Working Paper, Upjohn Institute, Kalamazoo, Retrieved at www.upjohn.org/publications/wp/03-94.pdf
- Brown, I., Cajee, Z., Davies, D. and Stroebel, S. (2003). Cell phone banking: Predictors of adoption in South Africa: An exploratory study. *International Journal of Information Management*, 23(5), 381-394.
- Brown, J., Earle, J. & Lup, D. (2004). What Makes Small Firms Grow? Finance, Human Capital, Technical Assistance, And The Business Environment In Romania. Upjohn Institute Working Paper No. 03-94. Kalamazoo, MI: W.E. Upjohn Institute For Employment Research
- Bruder, J., Neuberger, D., & R athke-D oppner, S. (2011). Financial constraints of ethnic entrepreneurship: evidence from Germany. *International Journal of Entrepreneurial Behavior & Research*.
- Bruton, G., Khavul, S., Siegel, D., & Wright, M. (2015). New financial alternatives in seeding entrepreneurship: Microfinance, crowdfunding, and peer-to-peer innovations. *Entrepreneurship Theory and Practice*, 39(1), 9-26.
- Chandrasekhar, V. (2004). Panel Debate: Banking Technology: Challenges And Opportunities. Bangladesh, IN: Chief Technology Officer Bank Of Baroda.
- Charles Goodluck & Mori G. Neema (2016). The Effect of the Collateral on Loan Repayment: Evidence from on Informal Lending Institution. *Journal of African Business* 17(2):254-272. Retrieved from:[10.1080/15228916.2016.1151474](https://doi.org/10.1080/15228916.2016.1151474)
- Claus, I. & Smith, C. (1999). Financial intermediation and the monetary transmission mechanism, Reserve Bank of New Zealand Bulletin, 62, 4-6
- Credit. (n.d.) Farlex Financial Dictionary. (2009). Retrieved May 31 2020 from <https://financial-dictionary.thefreedictionary.com/credit>
- Cooper, D.R., & Schindler, P.S. (2011). Business Research Methods. (8th Ed.). Boston, MA: Mcgraw-Hill Irwin.
- Cuttler, C. (2001). Rheinisch Savings Banks and Giro Association. Presentation for the Expert Meeting on Improving Competitiveness of SMEs. UNCTAD. Geneva, 22–23 October Issue
- Dondo, A.C., (1999). The status of micro finance in Kenya. Paper presented at the annual conference on "New development finance". 27 September to 1 October 1999 Goethe University of Frankfurt.
- Dupas, P., & Robinson, J. (2013). Savings constraints and microenterprise development: Evidence from a field experiment in Kenya. *American Economic Journal: Applied Economics*, 5(1), 163-92.

- Fatoki, O., & Odeyemi, A. (2010). Which new small and medium enterprises in South Africa have access to bank credit? *International Journal of Business and Management*, 5(10), 128.
- Fillipetti, A., & Archibugi, D. (2011). Innovation in Times of Crisis: National Systems of Innovation, Structure, and Demand. *Research Policy*, 40(2), 179-192
- FSD Kenya (2015) Edited By Heyer Amrik & King Michael. Kenya's Financial Transformation in the 21st Century. KMA Centre, Nairobi Kenya.
- GoK (2012). Micro and Small Enterprises Act No. 55. National Council for Law Reporting with the Authority of the Attorney-General
- Goss, D. (2015). *Small Business and Society* (Routledge Revivals). Routledge.
- Government of Kenya (2007). *Kenya Vision 2030: A Globally Competitive and Prosperous Kenya*. Nairobi, KE: Government Printers
- Henriken, G. L., & Svoldal, E. O. (2010). The impact of providing business training to microfinance clients: Empirical Evidence from Tanzania. Thesis Submitted in the University of Norges Handelshoyskole.
- Hospes, O., Musinga, M., & Ongoaya, M. (2002). An Evaluation of Microfinance Programs In Kenya As Supported Through The Dutch Co-Financing Programme: With A Focus On KWFT, Netherlands Cofinancing Programme. *International Food Policy Research (IPFR)*. Retrieved On 11th July, 2017 From [Www.Gdrc.Org/Icm/](http://www.Gdrc.Org/Icm/)
- Hurst, E., & Pugsley, B. W. (2011). What do small businesses do? (No. w17041). National Bureau of Economic Research.
- Idowu, F. C (2010). Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria.
- Indersta, Romanand Mueller, Holger M. (June 2007). A lender-based theory of collateral. *Journal of Financial Economics*, Volume 84, Issue 3
- Jaffee, D. M. and Russell, T. (1996). Imperfect information, uncertainty, and credit rationing. *Quarterly Journal of Economics* 90, 651 -666.
- Jones, R., & Rowley, J. (2011). Entrepreneurial marketing in small businesses: A conceptual exploration. *International small business journal*, 29(1), 25-36.
- Kamau, A & Kalio, A.M. (2014). The effect of microfinance lending on the financial performance of the business: A case study of small and medium enterprises in Nakuru, East Sub County, Kenya. *International journal of science and research*.
- Karlan, D.S. & Valdivia, M. (2006). Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions (Center Discussion Paper No. 941, July 2006). New Haven, CT: Yale University, Economic Growth Center. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=920487

- Kashyap, K. Stein, C. and Wilcox, W. (1993). Monetary policy and credit conditions: Evidence from the Composition of External Finance, *The American Economic Review*: 83, 78-98
- Kenya Open Data (2013). Kiambu County. Retrieved from:
<http://www.investmentkenya.com/kenya-by-county?id=95&tmpl=component>
- Kevan. B., &Wydick, B.(2001). Micro Enterprise Lending To Female Entrepreneurs: Sacrificing Economic Growth for Poverty Alleviation?*World Development and Cultural Change*, 47(4): 853–869.
- Kiambu Sub-County Authorities (2014). List of SMEs in Thika County. Unpublished Document from Kiambu Sub-County Authorities.
- Kibet, K, Achesa, K, & Gedion, O. (2015). Effects of microfinance credit on the performance of small and medium enterprises in Uasin Gishu County, Kenya. *International Journal of Small and Entrepreneurship Research*, 3(7): 57-78
- Kongolo, M. (2010) Job Creation versus Job Shedding and the Role of Smes in Economic Development. *African Journal of Business Management* 4(11), 8895.
- Kwon, W. J. (2010). An analysis of organisational, market and socio-cultural factors affecting the supply of insurance and other financial services by microfinance institutions in developing economies. *The Geneva Papers on Risk and Insurance-Issues and Practice*, 35(1), 130-160.
- Ledgerwood, J. (1999). Microfinance handbook: An institutional and financial perspective. World Bank: Washington, D.C.
- Luyirika, M. N. (2010). The Role of Microfinance in the Socio-Economic Development of Women in a Community: A Case Study of Mpigi Town Council in Uganda. A Thesis Submitted to the University of South Africa.
- Madole, H. (2013). The Impact of Microfinance Credit on the Performance of Smes in Tanzania: A Case Study of National Microfinance Bank- Morogoro. Unpublished MBA Dissertation, Mzumbe University
- Marconatto, D., Cruz, L. B., & Pedrozo, E. A. (2016). Going beyond microfinance fuzziness. *Journal of cleaner production*, 115, 5-22.
- Maurer T.J., & Weiss, E. (2010). Continuous Learning Skill Demands: Associations with Managerial Job Content, Age, and Experience. *J Bus Psychol* 25(1)1-13.
- Mbogo, M. (2011). Influence of Managerial Accounting Skills on SME's on the Success and Growth of Small and Medium Enterprises in Kenya. *Journal of Language, Technology & Entrepreneurship in Africa*, 3(1), 109-132.
- McGrath, R. G. (2010). Business models: A discovery driven approach. *Long range planning*, 43(2-3), 247-261.

- Mugenda, A. & Mugenda, O. (2003). *Research Methods: Quantitative And Qualitative Approaches*, Nairobi, KE: African Centre For Technology Studies.
- Mills, K., & McCarthy, B. (2014). The state of small business lending: Credit access during the recovery and how technology may change the game. Harvard Business School General Management Unit Working Paper, (15-004).
- Mwangi, S.W. (2011). Factors affecting growth of micro and small enterprises funded by Nelson, J. (2010). "The impact of microfinance institutions (MFIs) on the development of small and medium size business (SMEs) in Cameroon." Swedish University of Agricultural Sciences.
- Nkundabanyanga, S. K., Kasozi, D., Nalukenge, I., & Tauringana, V. (2014). Lending terms, financial literacy and formal credit accessibility. *International Journal of Social Economics*.
- Normah, M. (2007). *Smes: Building Blocksfor Economic Growth*. Paper Presented In National Statistics Conference 4 -5 September 2006. New York, NY: Department Of Statistics
- Nyabwanga, R. N., & Ojera, P. (2012). Inventory management practices and business performance for small-scale enterprises in Kenya. *KCA Journal of Business Management*, 4(1), 11-28.
- Ochieng, P. A., & Sije, A. (2013). Strategy adoption and women entrepreneurs in accessing credit facilities in Kenyan financial institutions a case of women entrepreneurs in Komala municipality, Kisumu Country. *International Journal of Small Business and Entrepreneurship Research*, 1(4), 1-10.
- Ochanda, M. M. (2014). Effect of financial deepening on growth of small and medium sized enterprises in Kenya: A case of Nairobi County. *International Journal of Social Sciences and Entrepreneurship*, 1(11), 191-208.
- OECD (2010). *SMEs, Entrepreneurship and Innovation*. Retrieved From [Http://Www.Oecd.Org/Cfe/Smesentrepreneurshipandinnovation.Htm](http://www.oecd.org/cfe/smesentrepreneurshipandinnovation.htm)
- OECD (2010). *Innovative SMEs and entrepreneurship for job creation and growth*. (p.9). OECD Publishing.
- Omar, S., Arokiasamy, L., Ismail, M. (2009). The Background and Challenges Faced by the Small Medium Enterprises. A Human Resource Development Perspective. *International Journal of Business and Management* 4 (10) 1-13
- Omondi, R. I., & Jagongo, A. (2018). Microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya. *International academic journal of economics and finance*, 3(1), 24-43.
- Ong'olo, D & Odhiambo, S. (2013). SMEs development in the devolved governance system. *CUTS International*, 1(1), 6-15

- Osoro, K., & Muturi, W. (2013). The role of micro financial institutions on the growth of SMEs in Kenya: A case study of micro financial institutions in Kisi Town. *IOSR Journal of Humanities and Social Science (IOSR-JHSS)*, 16(1), 2279-0837.
- Owino, M., & Otieno, M. (2013). The effect of the lending policies on the levels of non-performing loans (NPLS) of commercial banks in Kenya. Unpublished Thesis, University of Nairobi.
- Peachey, R., & Roe, A. (2006). Bank Consolidation In The ECA Region: A Multicountry Study: Summary Report, New York, NY: World Bank (Unpublished).
- Pinaki, B. (1998). Formal and Informal sector interaction in rural credit markets. *Journal of Development Economics*, 56:265-280
- Rahman, M. Davanzo, J. and Sutradhar, C. (2006). Impact of the Grameen bank on childhood mortality in Bangladesh. *Glimpse*, 18 (1): 8.
- Rahman, S.(2010). Consumption difference between microcredit borrowers" and nonborrowers: a Bangladesh experience. *Journal of Developing Areas*, 43(2):313326.
- Ricupero,R. (2002). Improving the Competitiveness of SMEs in Developing Countries: The Role of Finance to Enhance Enterprise Development. United Nations Conference on Trade and Development Report.
- Rotich, I., Lagat, C & Kogei, J. (2015).Effect of microfinance services on the performance of small and medium enterprises in Kenya. *African Journal of Business Management*, 9 (5): 206-211
- Saunders, M., Lewis, P. & Thornhill, A. (2009). Research Methods for Business Students, 5th Ed., Harlow, UK: Pearson Education.
- Spence, M. (1993). Job market signaling, *Quarterly Journal of Economics*, 87, 355374.
- Stiglitz, E. & Weiss, A. (1981). Credit rationing in markets with imperfect information. *The American Economic Review*: 71, 393-410.
- Swain, B. Van Sanh, N. and Van Tuan, V. (2008). Microfinance and Poverty Reduction in the Mekong delta in Vietnam. *African and Asian Studies*, 7 (2-3): 191-215
- Tagoe, N. (2005). Financial Challenges Facing Urban SMEs under Financial Sector Liberalization in Ghana. *Journal of Small Business Management* 43(3), pp. 331–343
- Temu, B. (2009). Revisiting the Micro and Small Enterprise Sector in Tanzania. London, UK: Blackwell Publishing Ltd.
- United Nations Industrial Development Organization (UNIDO) (2003). Rural and women entrepreneurship development: Small and Medium Enterprises Branch in Vienna, Austria [Online]. Available from: <http://www.unido.org>

- United Nations Industrial Development Organization (UNIDO) (2003). Rural and women entrepreneurship development: Small and Medium Enterprises Branch in Vienna, Austria [Online]. Available from: <http://www.unido.org> (Accessed on January 30, 2013).
- Venesaar, U., & Loomets, P. (2006). The Role of Entrepreneurship in Economic Development and Implications for SME Policy in Estonia. Tallinn University of Technology, School Of Economics and Business Administration.
- Walsh, C. E. (1998). Monetary theory and policy, The MIT Press, chapter 7:285-320.
- Wanambisi, A.N. (2013). Effects of microfinance on business performance: A survey of micro and small enterprises in Kitale municipality, Kenya. *International Journal of Academic, Research in Business and Social Science*, 3(7): 56-67
- Olomi, D., (2009): African Entrepreneurship and small business development, otme publishers, Dar es Salaam.
- Ong'olo David & Odhiambo Samson (2013). SMEs Development in the Devolved Governance System Policy Options for Institutional and Regulatory Reforms in Kenya Policy Brief No. 1
- Wang, Yanzhong. (2004). Financing Difficulties and Structural Characteristics of SMEs in China. *China and World Economy Journal*, Vol 12, No.2,
- Waruguru, M., Bwisa, H., & Kihoro, J. (2017). An Assessment of the Opportunity Component of Entrepreneurship Policy in the Youth, Women, and Uwezo Funds in Kenya. *International Journal of Academic Research in Business and Social Sciences*, 7(1), 283-305.
- Waweru, N., & Spraakman, G. (2012). The use of performance measures: case studies from the microfinance sector in Kenya. *Qualitative Research in Accounting & Management*.
- World Bank (2009). Policy Note On Smes Access To Finance In Tunisia. Retrieved From <https://www.openknowledge.worldbank.org/handle/10986/12951>
- World Bank (2012). World Bank development report 2010. A better investment climate for everyone, IBRD/World bank, Washington D.C
- Wang Wenying, P. (2004), "A discussion on two aspects and scoring model of SMEs' credit. *Inquiry into Economic Problems*, 12, 61-62

APPENDICES

APPENDIX 1: QUESTIONNAIRE

Survey on effect of Microfinance practices on Credit Accessibility by consumer-based SMES in Kisumu city. The purpose of this survey is to study the effect of microfinance practices on credit accessibility by consumer-based SMEs in Kisumu city. The information obtained will only be used for academic purposes and shall be treated with utmost confidentiality. You are kindly requested to complete this questionnaire objectively.

Instructions: This survey is completely voluntary in nature and you are free to decide not to participate at any time during the process of completing the questionnaire. Only person's 18 years and above are requested to participate in this survey and completing the questionnaire means one has consented to both participate in this survey and publication of the results of this research with the understanding that anonymity will be preserved. It will take approximately 20 minutes to finish.

Section A: Demographics

1. Business Name(Optional)_____
2. Business Nature_____
3. What is your position?
 Manager
 Owner
4. What is the total number of employees in your business? _____(persons)
5. Date of inception (years)

Date of inception (years)	10 – 14	15 – 19	20 – 24	25+

6. Demographic profile

Education level	Not schooled	Primary Level	Secondary level	College level	University level
Gender	Male	Female			
Age	18-23	24-29	30-39	40-49	50 +

7. What is the frequency of applying for loans? 1= Half yearly; 2= Annually; 3= Every two years; 4= Every three years; 5= Four years and above

Frequency of borrower's application for loan	1	2	3	4	5
How frequent					

Section B: Effect of Microfinance Practices on Credit Accessibility by Consumer Based

SMEs in Kisumu City

1. Have you participated in training programs from any of the microfinance institution below?
(You can tick more than one)

S/N	MFI	Yes	No
1	Accumulating Savings and Credit Associations (ASCAs) []		
2	Rotating Savings Credit Associations (ROSCAS) []		
3	Money lenders []		
4	Microfinance NGOs []		
5	Faulu Kenya []		
6	Opportunity international		
7	KWFT		
8	Micro Kenya		
9	Jitegemee credit		
10	Kenya ECLOF		
11	Commercial Banks (Coop, Absa, Kcb)		
12	Microfinance Banks (K-rep, Equity, Family		
13	SACCOs		
14	Savings bank (Post bank)		
15	MESP TRUST		
16	OIKO CREDIT		
17	SMEP		

2. What type of training did you participate in? (You can tick more than one)

S/N	Type of Training	
1	On-site training	
2	Before borrowing training	
3	During credit period training	

3. How often have you been approached or advertised by the MFIs to undergo training? 1=

Monthly; 2=Half yearly; 3=Quarterly; 4= Annually; 5= Every two years; 6= Four years and above 7= Never

S/N	Frequency of borrower's application for loan	1	2	3	4	5	6	7
1	How often							

4. How long did the training last? (tick appropriately, you can tick more than one)

S/N	Length of training	
1	Hours	
2	Days	
3	Weeks	
4	Months	
5	Years	

5. What was the training based on?

S/N	Basis of training	
1	Prescriptive basis (credit to purpose application)	
2	Capacity basis (skills on business management, leadership, tax law, marketing, enterprise law, HRM)	
3	Feedback analysis	

6. Have you borrowed funds in the last two years?

Yes []

No []

7. If yes, which of the following microfinance sources did you obtain the loan from? (You can tick more than one)

S/N	MFI	Yes	No
1	Accumulating Savings and Credit Associations (ASCAs) []		
2	Rotating Savings Credit Associations (ROSCAS) []		
3	Money lenders []		
4	Microfinance NGOs []		
5	Faulu Kenya []		
6	Opportunity international		
7	KWFT		
8	Micro Kenya		
9	Jitegemee credit		
10	Kenya ECLOF		
11	Commercial Banks (Coop, Absa, Kcb)		
12	Microfinance Banks (K-rep, Equity, Family		
13	SACCOs		
14	Savings bank (Post bank)		
15	MESP TRUST		
16	OIKO CREDIT		
17	SMEP		

8. What type of credit/loan did you apply for? (You can choose more than one)

S/N	Credit Type	Yes	No
1	Home loan		
2	Personal loan		
3	Short term business loan		
4	Education loan		
5	Flexi loan		
6	Vehicle loan		
7	Loan against property (LAP)		
8	Loan against insurance policy		

9. How often do you apply for these loans? (you can tick more than one) 1= Monthly;
2=quarterly; 3=Half annually; 4= annually; 5= Every two years; 6= Four years and above 7=
Never

S/N	Frequency of borrower's application for loan	1	2	3	4	5	6	7
1	How often							

10. On a scale of 1 to 5 how adequate or sufficient was loan? Where 1= extremely not adequate;
2= fairly not adequate; 3=adequate; 4=fairly adequate; extremely adequate

S/N	Adequacy of the loan	1	2	3	4	5
1	How adequate					

11. What is the mode of interest payment for the loans you have qualified for?

S/N	Mode of interest payment	
1	Daily	
2	Weekly	
3	Monthly	
4	Quarterly	
5	Semi-annual	
6	Annually	

12. In case of default, what default measures are applied by the MFIs you have engaged with?

(You can tick more than one)

S/N	Default measures	
1	Additional daily charges	
2	Reduction of loan your limit	
3	Involving of your guarantors by contacting them	
4	Being listed in CRB	
5	Auctioning of personal belongings	

13. What is the current status of the loan?

S/N	Loan status	
1	Fully paid	
2	Current outstanding	
3	Overdue	
4	Rolled-over	

14. In your credit application what collateral security was used? (You can tick more than one)

S/N	Type of collateral security	
1	Vehicle/motorbike log book	
2	House	
3	Property	
4	Title deed	
5	Insurance cover	
6	Guarantor	
7	Personal appliances(tvs,phones)	
8	Your business value	
9	Nothing	

15. Comment on your consideration of the contribution of each of the following **training programs** which are applied by the MFIs in their Information Management Systems to promote Accessibility of their credit products. Each factor is assigned a scale of numbers 1 – 5;Where 1 = Very low consideration, 2 = Low consideration, 3 = Fair consideration, 4 = High consideration, 5 = Very high consideration

No.		1	2	3	4	5
1.	Credit Purpose based (Prescriptive) training					
2.	Business skills and management training					
3.	Business leadership orientation					
4.	Business tax management					
5.	Business Market positioning					
6.	Human Resource management					
7.	Training frequency					
8.	Training duration					
9.	Feedback analysis					
10.	Credit volume and application simulation					
11.	Credit cost management regulations					
12.	Credit source/agent behaviour					
13.	Credit type management procedures					
14.	Credit capacity and qualification procedures					
15.	Credit to Capital adequacy					

16. Give information on experience on how the following MFIs' **repayment period schedules related issues** are considered in your opinion, on how they contributed to credit accessibility by your Small or Medium Business. Each factor is assigned a scale of numbers 1 – 5; Where 1 = Very low consideration, 2 = Low consideration, 3 = Fair consideration, 4 = High consideration, 5 = Very high consideration

No.		1	2	3	4	5
1	Loan duration (Long, Medium and Short term loans)					
2	Mode of Interest Payment					
3	Credit/Loan charges (Admin, Insurance, Guarantee, Others)					
4	Default Costs (Additional daily charges, Reduction of Loan Limits, Guarantors' attachment, CRB listing, Auctioning of Private Assets)					
5	Business experience					
6	Loan monitoring (follow up and supervision)					
7	The formality of the business					
8	The total household income					
9	The total sales					
10	Gender of the borrower					
11	Age of the borrower					
12	The business experience					
13	Borrowing in groups(availability of established groups and strengths of the groups)					
14	Availability of market for the business					
16	Business training on intrapreneurship factors					

17. Give experience on how the following MFIs' **loan availability** management have in your opinion contributed to credit accessibility by your Small or Medium Business. Each factor is assigned a scale of numbers 1-5; With 1 being Strongly disagree, 2 being Disagree, 3 being Not certain, 4 being Agree and 5 being Strongly agree

No.		1	2	3	4	5
1	Debt-to-income ratio					
2	The borrower's credit score					
3	The borrower's credit history					
4	Interest rate was too high					
5	The business' financial profile/financial standing					
6	The type of reference required					
7	Investigating regional trade risk					
8	Assessing of the company's/person's financial health					
9	Poor performance of the business					
10	The MFIs approached did not offer the loan amount applied for					
11	Lack of proper documentation					
12	MFIs as small loan providers are doing great at ensuring every SMEs can access credit					

18. To what extent do you agree with the following statements with regards to **credit accessibility**? Tick as appropriate where: 1-Strongly disagree, 2-Disagree,3-Not certain,4-Agree,5-Strongly agree

No.	Question	1	2	3	4	5
1	Access to sufficient loan amount is easy for any SME dealing in consumer goods					
2	It is easier and simpler for SMEs to access loan from MFIs					
3	The type of loan/credit applied for by an SME determines ones' credit accessibility (personal loan, Business loan, education loan, short term loan, flexi loan, vehicle loan etc.)					
4	The purpose of the loan determines the amount of loan accessed by a business (business expansion, urgent temporary capital shortage, debt payment, financing new projects etc.)					
5	The amount of loan accessed from MFIs fulfilled the project value needs					
6	Collateral security requirement if necessary for small short term loans					
7	Use of tangible assets as collateral requirement when applying for credit is paramount (properties, land, investments, log books etc.)					
8	Lenders consider level of ownership of the collateral, the value of the collateral, type of the collateral, how well the collateral mitigates risk in setting requirements for credit access					

That's the end of the survey. Thank you for your time and attempt in responding to this questionnaire, you are highly appreciated.

Name: Maruti Evelyn Sylvia

Phone no. +254718716373.

APPENDIX 2: BUDGET

The following is the approximated budget until the conclusion of the study:

Description	Amount(KES)
Printing charges	5,000.00
Binding	4,000.00
Transport & fuel	15,000.00
Stationery	2,000.00
Internet	8,000.00
Miscellaneous	12,000.00
Publishing	20,000.00
Total	76,000.00

APPENDIX 3: WORK SCHEDULE

The table below shows my work schedule during the entire study period.

	Jan-May 2021	June 2021	July 2021	August 2021
Proposal writing				
Presentation				
Correction & data collection				
Data Analysis & Review				
Publishing				