FACTORS INFLUENCING SMALL AND MEDIUM SIZE ENTERPRISES
ACCESS TO FINANCING: A CASE OF KIAMBU COUNTY, KENYA.

BY

MARGARET MUTIRIA

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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BY
MARGARET MUTIRIA

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STUDENTS DECLARATION

I, the undersigned hereby declare that this project is my original work and has not been presented to any institution of higher learning for academic credit other than United States International University-Africa

Signed: …………………………… Date: ………………………

Margaret Mutiria (622247)

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

Signed ……………………………………… Date…………………………

Dr. Amos Njuguna

Signed ……………………………………… Date…………………………

Dean, Chandaria School of Business
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ABSTRACT

The purpose of this study was to determine factors that influence SMEs access to financing in Kiambu county. This study was guided by the following research questions: What are the types of financing do SMEs? What are the challenges SME’s face in accessing financing? What are the measures taken to enhance access to SME funding?

A descriptive survey research design was adopted to carry out the study. The study had a population of 2,750 SMEs in Kiambu county, out of which, a stratified sampling technique was used to pick a sample of 384 respondents. The sampling frame was adopted from office of economics and statistical data in Kiambu county. This study utilized primary data. Data was collected using structured questionnaire. A pilot test was conducted using ten questionnaires to ensure data validity and reliability. The Statistical Package for Social Sciences (SPSS) version 20 was used for data analysis. The study data was analyzed for descriptive statistics (frequencies and percentages), while inferential statistics were analyzed for correlations and regression.

The findings on types of SME financing revealed a significant relationship exists between types of SME financing and access to finance. Under this question personal savings, funds from family and friends, bank loans, micro finance loans, venture capital funds, asset-based financing, SACCO loans, NGO loans and government loans were explored, and were all statistically significant.

The findings on challenges facing SMEs in access to financing also revealed the existence of statistically significant relationship between challenges and access financing. Challenges explored included need for collateral, high loan processing fees, high legal loan processing fees, stringent loan conditions, high interest rates, high loan risks, and lack of information on SME loans. All these components contributed to the significance of the relationship.

Finally, this study findings revealed the existence of significant relationship between measures taken to enhance SME financing and access to financing. Measures considered included government intervention like youth funds, exclusive bank loan products to SMEs, Micro-finance loan products to SMEs, finance skills training, well-wisher’s funds, and utilization of rotating savings and cooperating associations (ROSCAs) all contributed significantly in enhancing access to SME financing.
This study concludes that equity financing including personal savings, funds from family and friends significantly contributes to SMEs access to financing. The study also concludes that debt financing including bank loans, micro finance loans, venture capital funds, asset-based financing, SACCO loans, NGO loans and government loans were statistically significant, and important in enhancing access to finance by SMEs. This study also concludes that banks and financial institutions’ need for high levels of collateral inhibits SMEs access to financing. High loan processing fees, high legal loan processing fees, and high interest rates also inhibits SMEs access to financing. Banks and financial institutions stringent loan conditions, and lack of information on SME loans significantly inhibits SMEs access to financing. Finally, this study concludes that provision of exclusive bank loan products to SMEs, Micro-finance loan products to SMEs, finance skills training significantly contributes to SMEs access to business finance. Finally, the study well-wisher’s funds and utilization of rotating savings and cooperating associations (ROSCAs) are important and significantly enhance SMEs access to financing.

This study recommends that SME owners should enhance their personal savings for financing their business ventures since this is regarded as the hallmark of commitment to the business entity. There is also need for banks to develop mechanisms for credit provision that cut for the SMEs, since SMEs do not have the capability to compete with well-established corporates and businesses for loan products from commercial banks. This also study recommends that banks and other financial institutions should reduce higher level of collateral requirements even for smaller loans. There is need to do a case to case analysis of SME loan applicants, rather than subjecting them to a blanket evaluation and appraisal. Finally, this study recommends that government intervention like youth funds should be enhanced to allow more young entrepreneurs in SME businesses to access financing.
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DEDICATION

This project is dedicated to my mom, family and friends for their unwavering support throughout my masters and their encouragement that helped me complete this research project.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

The Small and Medium Sized Enterprises (SME) sector is one of the primary driving forces for economic growth and job creation. SMEs and micro-enterprises constitute over 95 per cent of all enterprises and account for two thirds to one half of total non-farm employment and gross domestic product (GDP) worldwide. SMEs play pivotal roles in creating dynamic, market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization (Mira & Ogollah, 2013). SMEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Vera & Onji, 2010). SMEs, just like any other business, need access to finance to be able to implement business plans, develop products and services, and market the products and services to potential customer (Badulescu, 2011).

According to World Bank (2015) approximately (70%) of all SMEs in developing markets lack access to credit making it difficult for SMEs business to survive. In as much as the gap varies significantly between regions and countries, it is particularly wide in Africa and Asia. In Africa, access to credit gap for formal SMEs was estimated to be US$ 1.2 trillion, while the credit gap for informal SMEs stood at US$ 1.4 trillion. The World Bank study further suggests that between 365-445 million SMEs are in the emerging markets, out of which, about 30 million are formal SMEs; about 70 million are formal micro enterprises, and about 345 million are informal enterprises. One of the major challenges emerging markets face is moving informal SMEs from the informal sector to the formal sector, to enable them enhance access to financial credit and other government support services. The large number of SMEs both in the in the formal and informal sector need better access to finances (Rambo, 2013). Therefore, enhancing access to finance to SMEs will not only enhance their capability to be established and to thrive, but also expand governments development and growth, in addition to reducing unemployment (Niskanen, 2010).

In Colombia, the government quest to enhance SMEs access to financing was achieved by securitizing movable assets that allowed more than 100, 000 SMEs to access US$ 3.43 billion funding. Badulescu and Badulescu (2010) notes that in 2011 countries in Middle East and Africa increased access to SME funding from World Bank to a tune of US$ 1 billion.
benefiting Tunisia, Egypt, Morocco, Lebanon, and Jordan. However, this funding did not reach other Sub-Saharan countries making it difficult for countries with budgetary constraints to enhance SMEs funding.

In Sub-Saharan Africa, access to SMEs financing is particularly important since SMEs account for about (90%) of all enterprises and over (80%) of all new jobs that are created of new jobs (Rambo, 2013). Poor management of natural resources, poor government revenues, budgetary constraints, and lack of adequate policy on financing of SMEs have made it difficult for SMEs to access financing (Obura & Matuvo, 2011). However, some Sub-Saharan countries have begun placing mechanisms in place to enhance SMEs access to financing. For instance, in 2014, the Liberian government securitized moveable assets making it possible for farmers and other SMEs to use these movable assets to access financing. Less than a year after the launch of SME financing initiative, more than US$ 227 million was accessed by SMEs in Liberia (World Bank, 2015).

Evidence shows that such borrowers may then be forced to limit their investments to retained earnings (Iota & Wehinger, 2015) thereby restricting enterprises growth and development perceived as one of the main obstacles to doing business. Several studies have shown that financing is a greater obstacle for SMEs than it is for large firms, particularly in the developing world, and that access to finance adversely affect the growth of the SME sector more than that of large companies (Osano & Languitone, 2016; Rambo, 2013; Schäfer, Werwatz, & Zimmermann, 2014). It is, therefore, unsurprising that the international development community has listed small and micro enterprises (SMEs) access to finance as an important policy priority.

Firms’ characteristics have been shown to significantly influence access to financing by SMEs (Kira & Zhongzhi, 2012). They stated that physical closeness between lenders and borrowers produce an improved form of environmental scrutinize that aid SMEs to access credit from lenders. Consequently, there is a positive relationship between firm’s location and access to debt financing by SMEs. Abor (2007) evidenced that SMEs operate in the agricultural industry has strongest capital structure and asset structure whereby wholesale and retail industry demonstrated the weakest asset structure as well as debt ratio. Fatoki and Asah (2011) find out that firm size impacts SMEs access to debt finance from commercial banks whereby small enterprises are less favored to large firms. Consequently, it’s hypothetical
existence of a positive association between the firm size and SMEs access to debt financing (Kira & Zhongzhi, 2012).

Firm-level data collected by the World Bank shows that access to finance is perceived as one of the main obstacles to doing business. Africa’s SMEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. Small businesses in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans (International Journal of Scientific and Research Publications, 2014).

The financial system in most of Africa is under-developed however and so provides few financial instruments. Capital markets are in their infancy; shareholding is rare and no long-term financing is available for SMEs. Non-bank financial intermediaries, such as microcredit institutions, could be a big help in lending money to the smallest SMEs but they do not have the resources to follow up their customers when they expand (Badulescu & Badulescu, 2010). Bank loan is the principal source of external financing for SMEs. Low productivity banks find it costly to evaluate and monitor small-value loans. Introduction of public credit institutions, such as a CRB makes the evaluation of firm credibility cheaper for banks; however, lack of adequate market penetration of CRB information concerning SMEs dissuades them from lending to small enterprises. Moreover, deficiencies in the legal system hinder the enforcement of contracts, especially debt, and result in relatively high collateral requirements that small firms find slightly more difficult to meet (Rambo, 2013). SMEs require easy access to short and long term capital. In general terms, it appears that lending to SMEs is seen as a high-risk business since most of these enterprises lack collateral. The problem does not appear to be lack of funds but rather how to make them accessible to SMEs by increasing information symmetry between SME to external financiers (Badulescu and Badulescu, 2010).

According to Gatari (2012), the small business sector was estimated to employ over 83 per cent of the working population. As such, the Kenyan government in recognition of the critical role SMEs play in the economy, incorporated SMEs in the economic pillar of Kenya Vision
2030 as a way of improving their productivity and innovation. However, it is generally recognized that SMEs face unique challenges, in their ability to access finance necessary to contribute effectively to sustainable development (Wanjohi, 2010).

Iota and Wehinger (2015) study identified various challenges faced by SMEs including lack of innovative capacity, lack of managerial training and experience, inadequate education and skills, technological change, poor infrastructure, scanty market information and lack of access to credit. In Kenya, the informal SME sector (referred to as the Jua Kali) has continued to play an important role in absorbing unemployed persons in the labor force. Informal sector covers all small-scale activities that are semi organized and unregulated, use low and simple technologies. Majority of the small businesses such as retailers, hawkers, boda boda riders and other service providers fall in this sector. The ease of entry and exit into the sector coupled with the use of low level or no technology makes it an easy avenue for employment creation (Obura & Matuvo, 2011).

The SME sector is a vibrant example of small enterprises activities leading to successful growth and development in Kenya. Despite the SME significance, past statistics indicate that 3 out of 5 businesses fail within the first few months of operation and those that continue 80 per cent fail before the fifth year (Gichuki, Njeru, & Tirimba, 2014). Accessing credit is a major constraint to the development and growth of SMEs and particularly to poor rural and urban households. This is mainly due to the behavior of lenders in terms of hedging against borrowers’ risks by demanding collateral, which they lack, and also information asymmetry. Consequently, borrowers who are willing to pay prevailing credit interest rates cannot access the funds at those rates because lenders deem them as high risk. This behavior is common amongst formal financial institutions (Guitard, 2009)

Previous studies on small enterprise development in Kenya (Mira & Ogollah, 2013; Kiraithe 2015) have largely focused on social, economic and administrative expertise that hinders development of the SMEs. However, the proposed investigation focused on major sources of formal and informal financing of SMEs. Even though previous studies on financing SMEs were carried out in some parts of Kenya, there is no sufficient specific information in the Kiambu area and in most parts of Kenya. The proposed study area i.e. Kiambu County is one of the country’s most prolific business towns, which has very little documentation on financing SMEs. This therefore makes the basis of the proposed investigation.
1.2 Statement of the Problem

In almost all economies of the world especially in emerging economies in Africa, micro and small enterprises are crucial and play a key role in sustained growth and development. SMEs play pivotal roles in creating dynamic, market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization. However, most of this SMEs have challenges in accessing financing for product development, marketing, and for enhancing income generation, employment and livelihood sustainability.

The World Bank (2015) report revealed that three out of five SMEs in Kenya failed within the first few months of operation and those that continued 80 per cent failed before the fifth year. SMEs have unique challenges influencing their growth and sustainable development; diminish their ability to contribute effectively to sustainable development of the economy. Most crucial of these challenges is inadequate access to credit facilities. Though significant strides have been made lack of access to credit is almost universally indicated as a key problem facing SME’s. These credit constraints operate in variety of ways in Kenya where entrepreneurs mainly rely on self-financing or borrowing from friends or relatives and are forced to utilize high cost short term financing from quarks, mobile loan providers and shylocks who charge exorbitant interest rates with complicated access demands.

Previous studies on small enterprise development in Kenya (Obura & Matuvo, 2011; Mira & Ogollah, 2013; and Kiraithe 2015) largely focused on social, economic and administrative expertise that hinders development of the SMEs. The factors that precipitate SME financing and lack thereof in Kenya have not been exhaustively been explored. Similarly, studies that have been carried out on SMEs in Kenya have not focused on Kiambu county, one of the most prolific SMEs county in Kenya. Thus, this study sought to fill this gap, by exploring the factors influencing access to SMEs financing in Kenya, while focusing on Kiambu County. The study explored challenges to access of this finances, and strategies that SMEs could adopt to enhance financial access.

1.3 Purpose of the Study

The purpose of this study was to determine factors that influence access to finance by small and medium enterprises.
1.4 Research Questions

The research was guided by the following research questions:

1.4.1 What are the types of financing accessible to are SME’s?
1.4.2 What are the challenges SME’s face in accessing financing?
1.4.3 What measures can be taken to enhance SMEs access to financing?

1.5 Significance of the Study

Considering the significance of SMEs in Kenya, it is important to understand the challenges facing SMEs in accessing credit facilities in Kiambu County. The research is expected to benefit various groups of stakeholders as follows:

1.5.1 SMEs in Kiambu

The most to benefit from the findings of the study are SMEs which may use findings of the study to position themselves favorably to take advantage of financial resources to finance their business activities.

1.5.2 Policy Makers

The research will enable the policy makers to come up with a viable and focused development strategy that can help SMEs in Kiambu County access to credit facilities. The outcomes of the study will also generate empirical data and information beneficial to the Government and further opportunity for research and study.

1.5.3 Financial institutions

The research will generate vital information that can assist Financial institutions develop solutions to narrow the SME financial needs gap and better serve their stakeholders.

1.5.4 Academicians and Researchers

The study will be a source of reference material for future academic research on other related topics or expansion of knowledge on the same

1.6 Scope of the Study

This study focused on SMEs in Kiambu County in Kenya. The study was focused on factors influencing SMEs access to financing, but limited to types of financing, challenges of
financing, and measures taken to enhance access to SME financing. The study took place between January and April 2017. The study population was 2750 registered SMEs in Kiambu, out of which 250 were selected for the research purposes.

1.7 Definition of Terms

1.7.1 Access to Finance

Access to finance is defined as the formal channels through which SMEs can be able to get finances for their business start-ups and operations at affordable rates or cost (Niskanen, 2010).

1.7.2 Challenges to Financing

Challenges to financing are obstacles that SMEs face in accessing, or attempting to access finances through official or bureaucratic formal channels (Rambo, 2013).

1.7.3 Financing Strategies

Financing strategies are the mechanisms that SMEs use to access funds for their business, whether formal or informal (Badulescu & Badulescu, 2010).

1.8 Chapter Summary

This chapter has provided the background of the study on factors influencing SMEs access to finance. This chapter has also presented the problem of the statement, purpose of the study, research questions, significance and scope of the study. Chapter two has presented the literature review, chapter three the study methodology, chapter four the results and findings, while chapter five has presented conclusion, discussions and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review based on the study research questions. Literature review on type of SME financing is presented first, followed by challenges that SME’s face in access to financing, and finally literature review on measures that can be taken to access to SME financing.

2.2 Types of Financing for Small-Medium-Sized Enterprise

2.2.1 Equity Financing

Equity financing is an important part of raising financial resources for the business ventures particularly for SMEs (Badulescu, 2011). One of the major challenges facing entrepreneurs is how to raise adequate levels of funding to finance their business concepts. For a relatively small business, it is easy to raise funds from an entrepreneur’s savings that it is for a medium to large business start-up (Bonfim & Daniel, 2012). To this end, it is important that business entrepreneurs conduct feasibility studies to determine the level of financing their might require for their business concepts and how that the capital outlay may affect the type and source of financing (Daskalakis et al., 2013). Equity financing is defined as the capital investment into a business venture without expecting a return on a specific date, and more so, where the owner of the capital is basically investing in the business (Wu, Song, & Zeng, 2008).

Access to SME financing is one of the most critical aspects of SME survival (Wanjohi, 2010). Scholars like Birundu (2015); Berger et al., (2009); and Badulescu, (2011) posit that the growth on any SME venture is determined by access to finance at different stages of product and service development. Access to financing is also important in that it enables the business to develop profitable product and service mix for specific niche markets. According to Wanjohi and Mugure (2008) argues that SME financing can be classified in two types: equity and debt financing. Equity in this case refers to owner’s capital, while debt financing refers to bank loans, trade credits, leases among others.
According to Vera and Onji (2010), equity capital can be raised internally or externally. Internally, this can be through owner personal savings, or earnings, while external equity is from can be received from business partners, friends, family and relations. In most instances in SME ventures, equity funding is more preferable than debt financing. This is because young SMEs do undergo cash flow challenges making it difficult for them to secure loans with adequate collateral during the founding phase (Bonfim & Daniel, 2012). Similarly, Vera and Onji (2010) argue that equity financing offers SMEs long term financing with very minimum cash outflows unlike the debt financing option. Several scholars agree that equity financing can take different forms and shapes including personal financing, Venture Capital equity, Joint venture equity, and from relatives, family and friends (Kira & Zhongzhi, 2012; Asah, 2011; Kiraithe, 2015)

2.2.1.1 Personal Financing

Personal financing is defined as the situation in which the owner of a business venture contributes funds from his or her own savings to fund business activities (Asah, 2011). The importance of personal funding is that it helps SME start-ups mobilize additional resources since owners tend to have more confidence in the business and can invest without expecting an immediate return. In most cases, start-up SMEs are financed by owners since they don’t want external interference in the business model they have adopted for the SME (Kiraithe, 2015). A study done by Schäfer, Werwatz, and Zimmerman (2014) among young entrepreneurs in Germany found that risky ventures were hardly financed by debt, but rather personal financing. They further noted that the over-reliance on personal financing by these young entrepreneurs was not out of choice, but rather, most financial institutions were not willing to fund risky ventures, and more so, run by youth. According to OECD (2012) the challenge inherent in personal financing for most SMEs is lack of adequate personal savings that can effectively finance SME foundational operations. This is particularly the case in South America, and Sub-Saharan Africa where majority of individuals seeking to venture into business are necessity entrepreneurs seeking to escape the trap of unemployment. To this Wangui et al., (2014) and Charbonneau and Menon (2013) this kind of financing is not sustainable since young entrepreneurs in Sub-Saharan Africa do not have adequate savings to invest into business ventures. This notwithstanding, Fatoki and Asah (2011) posits that the best source of new SME financing is through entrepreneurs’ own funds. The importance of this form of SME financing is that it is easy to access, easy to use,
with no pay back terms that will require transfer of equity. Similarly, Vera and Onji (2010) contend that personal financing of SMEs is good for start-ups that later needs additional capital since it demonstrates to potential investors that the owner (entrepreneur) is willing to risk his funds, and therefore creates a perception that he can take care of their investments when such a time comes.

2.2.1.2 Venture Capital Financing

Venture capital financing a form of business financing where funds are raised from investors who trade in risk and returns for the business funds’ investments (Potter & Porto, 2007; Odit & Gobardhun, 2011). Venture capitalists are the people who provide the financing that entrepreneurs need to effectively run their business. The importance of venture capital financing is that the venture capitals not only invest their money, but also their skills in monitoring and providing advisory services to the business venture (Fatoki & Asah, 2011; Kira & Zhongzhi, 2012). Equally, the importance of having venture capital financing is that by performing monitoring of business start-ups venture capitalist can help the SMEs participate in strategic planning and decision making for the SME (Atherton, 2012).

Venture capitalist do usually include individuals, corporate organizations, and small business investment corporations (Odit and Gobardhun, 2011). The interesting characteristics of venture capitalist is that they invest in SMEs that have asymmetrical information and high intangible assets making their investments high risk, however, with high returns. Therefore, one could argue that the main incentive that draws venture capitalists to SME ventures and investments is the anticipated returns. It is possible to make super normal profits on their equity since they usually hold a stake in addition to the profit sharing (Asah, 2011). According to Daskalakis et al., (2013) SMEs should highly consider using venture capitalist as a way of financing since venture capitalist usually have connections to a network of suppliers and markets that SMEs can sell their products, as well as linkages to long term strategic partners.

2.2.2 Debt Financing

Debt financing is defined as the use of external funds to finance an organizational business activity (Smolarski & Kut, 2011). This means that accessing external funds by SMEs is regarded as debt financing. According to Akim (2011) traditional forms of debt financing for SMEs include bank loans, credit lines, and bank overdrafts. Newer forms of debt financing
include asset-based financing, factoring, and trade credit. This study will look at bank loans, asset-based financing, and trade credit as types of debt financing accessible to SMEs.

### 2.2.2.1 Bank Loans

Bank loans are important for SMEs seeking to raise start-up or additional business capital. Bonfim and Daniel (2012) posits that business entrepreneurs that have adequate forms of collateral find it easy to access bank loans compared to entrepreneurs who do not have collateral. As such, Tardieu, (2007) points out that lack of adequate collateral has made it difficult for most SMEs to access bank loans. Disadvantaged groups such as women and youth in Sub-Saharan Africa find it even more difficult to access bank loans (Kiraithe, 2015). The patriarchal society of Sub-Saharan Africa has over the years made it difficult for women and youth to own property, or inherit property, thus, making it difficult for this groups to raise adequate collateral for bank loans (Birundu, 2015).

According to Badulescu (2011), access to credit by SMEs is usually affected by credit rationing behavior by banks. Lack of adequate collateral and information concerning entrepreneurs credit worthiness do constitute major reasons bank loan declines. Most SMEs, particularly in the startup stage lack the necessary relationship connections with banks, therefore decreasing the banks willingness to advance credit (Bonfim and Daniel, 2012).

Daskalakis et al., (2013) argues that unlike large corporations that have access to broader choice of selecting financial sources compared to SMEs, tend to gravitate towards commercial banks for short term debt financing that can be reviewed and renewed for long term debt. Abdesamed and Wahab (2014) notes that information asymmetry is acute in SMEs compared to large firm, and thus, the lending relationship between banks and the SMEs are important. SMEs tend to be managed by owners and as a result, the agency cost and agency problems can stand in the way of formulating asymmetrical information exchange between owner and the banks due to different of owners and managers (Tardieu, 2007; De Young et al., 2004). As a result of this argument, it is possible to conclude that agency problem can have adverse impact on accessibility to bank loans by SMEs. SMEs can improve access to this loans through collateral and enhanced relations with the banks. However, as noted earlier by Kiraithe (2015) and Badulescu (2011), collateral has been one of the major stumbling blocks for SMEs seeking financing in their formative stages. Therefore, it can be
counterproductive for banks to keep insisting on collateral on SME start-ups that are not able to raise the collateral. Different approaches can be use by banks to enhance access to bank loan. However, if status quo remains, with all factors constant, SMEs will continue to have difficulties in accessing bank loans for the foreseeable future (Berg et al., 2015; Wangui et al., 2014).

2.2.2.2 Asset-Based Financing

Asset-based financing is defined as a form of obtaining financing based on the value of an asset one holds, rather than on its own credit standing (OECD, 2012). In this regard, the working capital and term loans are secured by account receivables, inventory, and equipment etcetera (Aabii, 2014). One of the major advantages of asset-based financing by SMEs is that firms can easily access funds under flexible terms than they could have obtained under commercial bank loans. Asset based financing does not consider the nature of future cash flows from the business as banks would. Equally, asset -based financing SMEs that lack credit history can still secure funding through the asset itself, and thus may not be exposed to rigorous credit rating or worthiness compared to traditional bank loans (Alfo & Trovato, 2006; Charbonneau & Menon, 2013)

According to Aabii (2014) the edge asset-based financing gives SMEs is that the do not generally require personal guarantee from entrepreneurs, nor do they require the entrepreneurs to give up equity. The only challenge associated with asset-based financing for SMEs lies within the determination of the asset value. Asset appraisal may have to be conducted before the value is ascertained and funds advanced against it, which might take time (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2010). Similarly, upfront legal costs may reduce involved in securing asset-based financing may eat into the SMEs profitability. Thus, SMEs have to tread a thin line between using asset-based financing in a way that enhances their firms leverage and profitability compared to alternative traditional bank loans. If they find this not to be the case, then asset-based financing can still be costly and out of reach for most SME start-ups (Bonfim & Daniel, 2012).

2.3 Challenges Small and Medium Enterprises Face in Accessing Financing

There are numerous challenges that SMEs face in their quest to access financing for business growth and development. According to OECD (2015), this challenges vary from stringent
loan conditions, cost of credit, lack of adequate information, and short repayment period among others. Individual challenges are discussed as follows:

2.3.1 Stringent Loan Conditions

Stringent loan conditions are a major inhibitor for SMEs access to finance. A study conducted by Kiraithe (2015) revealed the existence of a strong relationship between stringent loan conditions and access to finance. The study revealed that stringent loan conditions had inhibited SMEs access to financing particularly from the banking sector and major financial institutions. According to Wangui et al., (2014) many SMEs are not able to access loans from financial institutions due to the stringent conditions that loanees have to fulfil. Thus, financial institutions hold back from lending to SMEs since most of them do not have acceptable levels of collateral. Collateral is defined as a form of assets that is offered as security to financial institutions. Collateral is deemed important in this case by banks since most banks do not trust that SMEs have the capacity to repay should they go into default (Aabii, 2014). Consequentially, without adequate collateral, banks have limited mechanisms to protect the loan assets. In this regard, the stringent collateral conditions are imposed to cushion and mitigate risks associated with SME loans.

According to Wanjohi (2010), in so much as SMEs complain difficulties in access to credit from banks and financial institutions, financial institutions have to protect their bottom lines. If a bank feels that a given SME offers high risk of default, they are obligated to deny them financing. This is not just a wise idea, but one that is also geared at protecting banks and financial institutions bottom lines (Bert et al., 2015). Gangata and Matavire (2013) study on challenges facing SMEs access to financial credit found that few SMEs succeed in accessing financial credit. The reason behind this failure to access credit was attributed SME failure to meet stringent financial conditions, chief among this conditions being high collateral demands. To this OECD (2015) noted the need to have states develop alternative funding mechanisms for SMEs, particularly those seeking to do business start-ups, with viable trade and market outlook.

2.3.2 Cost of Credit

Cost of credit is defined as the financial burden that one has to incur to access a given financial credit from a bank or other financial institution (Gitari, 2012). On the other hand, Niskanen (2010) argues that cost of credit refers to the amount of money the entrepreneur has
to pay in the process of accessing or borrowing a loan from a bank or financial institution. Vuvor and Ackah (2011) posits that key indicators for cost of credit include loan processing fees, interest rates, loan negotiation fees, loan insurance fees, legal fees and traveling fees that an entrepreneur has to incur to acquire a loan. The other significant area singled out by Obura and Matuvo (2011) is the fixed cost associated with acquisition of information concerning the SME by the lending bank. Any cost incurred by the financial institution in doing credit appraisal is transferred as cost of credit to the borrower, thus, making borrowing expensive for SMEs.

In essence, high transaction costs do not only increase the cost of borrowing, but restrict access to external borrowing by SMEs (Van AardtSmit & Olawale, 2012). While it is the case that high transaction costs are restraining for all borrowers, there are also arguments that high costs impact SMEs negatively, adversely affecting their ventures. In this regard, unlike other credit categories such as mortgage lending or customer credit, SMEs are still high cost products that are prohibitive in access, and unfriendly in repayment terms (Vuvor & Ackah, 2011). According to Aabii (2014), banks have often been criticized for considering their super normal profits more than the plight of SMEs seeking financing. Banks usually argue that high cost credit is beyond their control as the base interest rates are set by central banks, however, in reality, the interest rates that banks offer to SMEs are far higher compared to the base rate offered central banks (Charbonneau & Menon, 2013). For instance, in Kenya, over the last five years, the central bank base rate has been 8%, however, banks have been charging SMEs up to 24% to access credit facilities. This is 16 points above the base rate (Wanjohi, 2010). Whichever way one looks at it, the exploitative nature of banks towards SMEs seeking loans pushes costs of credit high, and thus, unaffordable for most SMEs.

A study by Mwangi and Bwisa (2013) on challenges SMEs face in access to credit in Makuyu Kenya, found that a significant relationship between access to loan facilities by SMEs and high cost of credit. The findings revealed that high loan processing fees, high legal fees make loans accessibility expensive for local SMEs. The study recommended that financial institutions should look at mechanisms for enhancing credit products for SMEs as a way of attracting new clients, and in the process enhancing credit accessibility. Cheluget (2013) argues for the need to have banks and financial institutions lower interest rates as a way of enhancing access to financial credit. Lower cost of credit does enable SMEs
particularly startups ventures which need more financial input when pivoting new business ideas (Rambo, 2013).

2.3.3 Availability of Information on Finance

Information in business is extremely essential not only in enhancing business performance, access to customers, and competitiveness, but also in access to credit by SMEs. To this, Gangata and Matavire (2013) posit that information concerning access to credit is very important for entrepreneurs who are starting business, and those who have been in business, and are seeking additional funding. Therefore, one could argue that information on access to credit facilities and lending environments largely affects SMEs financing prospects. There is need therefore for financial institutions to ensure that information is not only available within their operational environments, but in areas that SMEs can get access to this information (Rambo, 2013).

According to Vuvor and Ackah (2011) SMEs need access to information to be able to identify potential suppliers in the market for financial products. Similarly, SMEs require information to use in evaluating and analyzing the cost of credit. Lack of this information inhibits entrepreneur’s choice of credible financial provider. This means that an SME may not be aware that there are institutions that are financing their nature and kind of business concepts. One of the other reasons SMEs require financial information is that it helps them evaluate risk component associated with accessing a given type of credit facility, or collateral requirements on the same (OECD, 2015). As such, when SEMs lack access to this information, they are inhibited in access to credit, since they are not able to prepare adequately on the requirements for accessing the credit facility (Niskanen, 2010)

Lack of information is also inhibitory since SMEs attempting to raise finance lack information symmetry, as such, cannot prove the quality of their investments to financial institutions (Ramsden & Bennett, 2005). Lack of financial information mean that managers from this SMEs cannot develop financial sophistication that is usually necessary when negotiating for a loan. In most instances, SME managers are usually product and service specialists, which a narrow understanding of how the financial markets do operate making it difficult for the SMEs to secure funding. According to Charbonneau and Menon (2013) contends that lack of information asymmetry problem is directly attributable to poor communication frameworks. Equally, new business start-ups may not be able to provide good
financial records that can add credence ad credibility from those they are seeking information from. Nonetheless, Wanjohi (2010) argues that there exists a positive relationship between availability of financial information and access to financial credit by SMEs.

2.3.4 Business Risk

Business risk is defined as the probability of potential loss within a given business entity that can threaten the survival of such an entity (Briozzo & Vigier, 2009). Risk factor is a critical component in loan appraisal that banks and financial institution use to access the viability of a business venture (Berg et al., 2015). Business risk factor explains why some SMEs have access to funding while others do not. In most instances, when an SME has a poor business risk rating, financial institutions would hardly advance loans to such entities. Worse still, if an SME has a bad appraisal for both business and financial risk, the probability for accessing loans through established financial institutions become close to zero (Obura & Matuvo, 2011). According to Briozzo and Vigier (2009) financial risks for SMEs occur when the business venture utilizes financial leverage to a larger extent to finance operations. As such, the SME has the obligation to finance the loan through interest payments on given schedule. When looking for a new loan, such an SME will be categorized as facing a financial risk of default, they are usually denied access to financial credit (Kira & Zhongzhi, 2012).

According to Abor (2007) the inability of an SME to pay interest payments or to repay principal loans results in defaults, poor credit rating, which mean that the firm will find it difficult accessing financial credit. Poor credit rating is a major sign to financial institutions that an SME can easily go into default. When an appraisal rating of an SME provides such indicators, this means that any further loan to the SME would increase further the probability of default. To this end, Beck, Demirgüç-Kunt, Laeven, and Maksimovic (2006) note that commercial banks tend to impute very high risk to SMEs and therefore, are reluctant to extent financial credit. Similarly, Kira and Zhongzhi, (2012) posit that SMEs exhibit high mortality rates, and thus, are risky financing options for banks who tend to stay like traditional ventures that have exhibited a successful long life in business operations. The nature of SMEs, being young in conception of business ideas, and lack of clear structure equally presents a moral hazard for commercial banks to invest in. Additionally, lack of organizational and administrative structures, poor or low quality management, and lack of proper accounting systems compound ineligibility to funding, and access to reliable information concerning SMEs ability to repay loans (Van Aardt & Fatoki, 2012).
2.4 Measures Undertaken to Enhance SMEs Access to Finance

2.4.1 Government Intervention

Governments all over the world have designed a number of support services for SMEs which include the policy initiatives and support programs for the purpose of creating and developing the SME sector. Support programs are designed to assist SMEs in order to link them to the larger developmental vision of the nation with the main focus being poverty reduction and growth of small firms (Charbonneau and Menon, 2013). In the European Union and other countries, such initiatives are covered by the specific acts of SMEs: in India by Micro and SME Development Act, in Kenya by Micro and Small Enterprises Act, in Malaysia by SME Master plan, in Tanzania by the SME Development Policy, and in the USA by the Small Business Act (Charbonneau and Menon, 2013).

According to Rambo (2013) the Kenyan government has put mechanisms in place such as the Micro and Small Enterprises Act as initiative aimed at encouraging Kenyans in the SMEs sector to access financing. The SME Act established an enabling environment for small businesses to thrive and enhancing access to funding. Similarly, Kiraithe (2015) notes that other Kenya Government national initiatives including establishment of Youth Entrepreneurship Development Fund (YEDF) aimed at empowering young entrepreneurs by providing an enabling environment. In addition to financing mechanisms and access to business credit. In this light, the Kenyan government seems to be cognizant of the fact that SMEs need access to financial credit for them to grow and flourish. In Kenya, Osano and Languitone (2016) posits that the YEDF provides Ksh. 50, 000 revolving fund to young entrepreneurs as a way of boosting their start-up capital for their SME ventures. In as much as this model has been criticized for high default rates, it is still the most viable alternative to financial institutions that SMEs being run by young entrepreneurs can access funding.

Similarly, the government of Kenya has established other like UWEZO Fund that was established in 2013 to finance youth entrepreneurship ventures. The UWEO fund initiative was not exclusively meant to provide access to finance, but also to train SMEs, particularly those owed by the youth on business development services, create market opportunities, facilitate supply chain linkages, in addition to creating infrastructural support for youth SMEs (Wanjohi, 2010). By the end of September 2011, UWEZO fund had disbursed loans to SMEs worth Kshs.5.9 billion to approximately 158, 000 enterprises. Similarly, Kiraithe (2015) notes
that through other financial intermediaries, the fund has financed approximately 141, 552 SMEs fundamentally enhancing SMEs access to financial credit.

2.4.2 Improved Access to Credit Information

Improved access to credit information is essential in enhancing SMEs access to financial credit (Gangata & Matavire, 2013; Rambo, 2013). In Mozambique for instance, the government has taken initiatives on educating the community to know and use channels for financing SMEs. This forum brings together entrepreneurs, banks, and insurers to discuss finance constraints by SMEs (MIC, 2007). The Mozambique model was adopted from the successes initiated by the Kenyan government in funding SMEs. The role of formal financial institutions in creating and enhancing enabling environments for SMEs to access finance can’t be over emphasized. The discordance in information access and transparency between SME practitioners and Banking institutions has to be bridged to enhance procurement of relevant adequate information among the stakeholders. This will be effected adequately based on personal motivation, insight, education and training (Donckels & Degadt, 1985).

The Banking Association South Africa study on SME Financial Literacy in South Africa stipulated the role of Government as key in promoting, enhancing and implementing of a national SME access to financial credit and financial education (Vuvor & Ackah, 2011). Some of the basic education that SMEs need include SME management competencies, understanding of consumer/personal finance, understanding of modern accounting and financial management systems, and understanding of financial services options (Tucker & Lean, 2003). Equally, Berg et al., (2015) argues that governments play a critical role in enlightening SMEs within local communities on types of funding options available to SME, access to finance requirements, and awareness SME trainings on financial risk management.

None state actors can also play a critical role in developing training programs that enhance entrepreneurs access to funding (Wu et al., 2008). Additionally, non-state actors can help SMEs by developing database that contains names of financial institutions that are friendly in funding SMEs, and the conditions necessary to receive this funds. According to Vera and Onji (2010), availability of relevant credit information and appropriation of suitable information technologies and systems influence SME ability to access finance and to exploit prime opportunities. Similarly, Obura and Matuvo (2011) argue that by enhancing access to adequate information, SMEs will and financial institutions will have a better working relationship and thus, able to access credit on favorable terms. Obura et al., (2008) argues that
there is a need for collaboration between various industrial and trade organizations, professional bodies, private enterprises and government departments to set up systems and undertake measures to ensure adequate SME access to finance at economically sensible terms. A prevalent lack of financial astuteness by many SMEs, due to a bias in product or service expertise prevents a challenge in developing sound communication strategies to improve their credibility with external financiers. The very nature of banks in relying on past documented financial performance which many startups lack further impedes ability to interact favorably with SMEs (Tucker & Lean, 2003).

2.4.3 Streamlining Information flow between Borrowers and Financiers

Most of the information banks obtain from SME operators come from the borrowers themselves: investment plans, working capital requirements and balance sheets. By handling the borrower's accounts, the bank knows the borrower's volume of transaction and the trend of the borrower’s business. As a result, borrowers are most likely to obtain such facilities as loans and overdrafts from a bank that they have been banking with for years (Wu et al., 2008). According Vera and Onji (2010) SMEs in Europe regularly provide financial information to business developers and start-ups as a way of enhancing access to financial credit compared to developing nations. Thus, there exists a positive correlation between streamlined financial information between borrowers and borrowers, and SMEs access to finance (Wanjohi (2010)

Briozzo and Vigier (2009) content that most start up SMEs don’t share their financial information with banks and banks do not share their financial credit conditional requirements with SMEs, making it difficult for SMEs to demonstrate their viability in financing a loan. The situation is even worse in the lesser developed countries where the level of literacy is dismally low. However, provision of information to the bank may be a necessity for creating a rating culture among SMEs for purposes of accessing external finance. According to Strong, Lee and Wang (1997), poor information quality can create chaos. The importance of keeping proper accounts in promoting the growth of small businesses has been acknowledged in prior studies on small business growth and development (Abor & Biekpe, 2006). Kinyanjui, (2006) contents that entrepreneurs find it difficult to obtain loans as they have to show credit their records to bankers who end up not financing them, which is demoralizing to SMEs.
Gitari, (2012) conducted a study on factors affecting women entrepreneurs’ financial performance in Ngara Market in Kenya and found that lack of streamlined information had significant negative impact on access to finance by SMEs operating in the market. The major impediment to information flow was the cost of obtaining such information, high inventory costs by banks, and lack of interest by entrepreneurs. Mira and Ogollah, (2013) in their study on challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central Business in Kenya concluded that lack of information accessibility significantly influences access to finances. When financial institutions can’t find important accounting records from SMEs, then it becomes difficult to streamline information on financing the SMEs, and difficult in providing advisory services to SMEs on loan services (ACCA, 2014)

2.4.4 Rotating and Savings Associations (ROSCAs)

Rotating Savings and Credit Associations (ROSCAs) are an important source of credit for SMEs. According to Kiraithe (2015), entrepreneurship groups that embrace the use of ROSCAs hardly lack access from internal financing. ROSCAs work by contributing set amount of funds into a kitty that one member is given for that particular month or period so they can invest in their ventures. The rotation is done until each member within the group has received the credit. According to Wanjohi (2010), one of the members can decide to forfeit their turn and loan it to another member of the group at a minimal interest rate. This ensures that there is adequate flow of finance to members who need additional operational financing for their organization (Rambo, 2013).

In most cases, ROSCAs are mostly utilized both in rural and urban areas through registered group and provide credit facilities to other groups or SMEs that are not able to access credit from financial institutions and commercial banks (Mira & Ogollah, 2013). According to Charbonneau and Menon (2013 ROSCAs have gained prominence in Sub-Saharan Africa in response to lack of access to credit facilities for SMEs. Lack of access to finance from financial institutions propelled both registered and unregistered groups to develop their own sources of accessing funding for their businesses. Savings are usually integrated into finance credit schemes that members and none members can borrow. As such, Niskanen (2010) contends that ROSCAs are important mechanisms that can be used to enhance access to finance by SMEs, particularly in Sub-Saharan Africa.
2.5 Chapter Summary

This chapter has presented literature review based on research questions of the study. The type of finances that SMEs are accessing have been presented first; followed by challenges SMEs experience in accessing finance, and finally measured that can be adopted to enhance SMEs access to finance. The next chapter presents the research methodology adopted for the study.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the study methodology that adopted for this study. This chapter covers the study research design that used to carry out the research. The study population and sampling design have also been presented followed by the data collection methodology, data analysis, and research procedures.

3.2 Research Design

Polit and Hungler (1999) describe the research design as a blueprint, or outline the path a research would utilize to conduct the study. The research design also provides the researcher a plan to control how the study will be guided, control, without interfering or influencing the study environment. The research design is the researcher’s overall plan for obtaining answers to the research questions. Mugenda and Mugenda (2011) argues that a research design provides a study framework for streamlining the scope of the scope and mechanics through which the study objectives are achieved.
This study adopted a descriptive survey research design. According to Bickman and Rog (1998) a descriptive study answers questions such as what is or what was. A descriptive research determines and reports the way things are. Creswell, (2002) observes that a descriptive research design is used when data that is to be collected has to describe persons, organizations, settings, or phenomena. Descriptive design was ideal for this study since the aim of the researcher is to describe the nature of respondents, nature of results and findings in a manner that answers the research questions. Equally, the descriptive research design will help define an opinion, attitude, or behavior of respondents. This enabled the measurement of the significance of the results on the overall population to be studied, as well as the changes of respondent’s opinions, attitudes, and behaviors over time. Descriptive research portrays accurate profile events or situation (Robinson, 2002)

3.3 Population and Sampling Design

3.3.1 Population

Sekaran and Bougie (2013) describe a population as the entire group of people, events or things of interest that the researcher wishes to investigate. Similarly, Mugenda and Mugenda (2011) define population as the total entities or elements from which a researcher wished to draw a sample for the study. Population forms the subject of the study. For the purpose of this study, the target population constituted of registered SME’s in Kiambu County in Kenya. The entire target population comprises of 2750 registered SME’s (Kiambu County, 2014). The population distribution is highlighted in table 3.1

Table 3.1: Population Distribution Table

<table>
<thead>
<tr>
<th>SME Sector</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large, medium &amp; small retails</td>
<td>628</td>
<td>23%</td>
</tr>
<tr>
<td>General merchants &amp; kiosks</td>
<td>760</td>
<td>28%</td>
</tr>
<tr>
<td>Hawkers &amp; other informal traders</td>
<td>312</td>
<td>11%</td>
</tr>
<tr>
<td>Transport business</td>
<td>436</td>
<td>16%</td>
</tr>
<tr>
<td>Agricultural producers &amp; processors</td>
<td>480</td>
<td>17%</td>
</tr>
<tr>
<td>Lodging hotels &amp; restaurants</td>
<td>134</td>
<td>5%</td>
</tr>
</tbody>
</table>
3.3.2 Sampling Design

3.3.2.1 Sampling Frame

The sample frame is defined as a list containing all the population elements a researcher relied on to draw a sample size (Cooper & Schindler, 2012). The sampling frame is important in that it ensures that a researcher is only dealing with a population that is current and credible. For this study, the sampling frame was obtained from office of economics and statistical data in Kiambu County.

3.3.2.2 Sampling Technique

A sampling technique is defined as the method that a researcher employs to pick a sample size from the entire population (Cooper & Schindler, 2012). Stratified sampling technique was adopted for this study. According to Mugenda and Mugenda (2011) stratified sampling is ideal for a study that is heterogeneous. Since this study is looking at different heterogeneous categories of SMEs within Kiambu county, Stratified sampling is ideal. The stratified sampling enabled the researcher to group SMEs from different Wards, and within different sectors within Kiambu county into strata from which the actual sample size was drawn. This ensured that one sector, or Ward within the county is not over sampled. After different stratum, has been developed, the researcher used random sampling to pick respondents from each group. This ensured that each SME has an equal chance of being sampled.

3.3.2.3 Sample Size

A sample size is defined as the element of a study that represents the actual population, or that elements to be examined within a study, from which, inference was made to the entire population (Babbie, 2010). For this study, Krejcie and Morgan (1997) formula was used to determine the sample size of 348 SMEs as follows:

\[ S = X^2NP (1-P) / d^2 (N-1) + X^2P (1-P) \]

S= Required sample size

\( X^2 = \) Chi Square Value at 1 degree of freedom (3.841)

N = Population Size

P = Population proportion with desired characteristics (assumed to be 0.5)
d = Degree of accuracy as a proportion (0.50)

Sample Size Calculation = \(3.841 \times 2,750 \times 0.50(1-0.50) / \{(0.05^2 \times (2,750 - 1) + 3.841 \times 0.50(1-0.50))\} = 384\)

The sample size distribution is highlighted in table 3.2

<table>
<thead>
<tr>
<th>SME Sector</th>
<th>Population</th>
<th>Sample Size</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large, medium &amp; small retails</td>
<td>628</td>
<td>88</td>
<td>23%</td>
</tr>
<tr>
<td>General merchants &amp; kiosks</td>
<td>760</td>
<td>108</td>
<td>28%</td>
</tr>
<tr>
<td>Hawkers &amp; other informal traders</td>
<td>312</td>
<td>42</td>
<td>11%</td>
</tr>
<tr>
<td>Transport business</td>
<td>436</td>
<td>70</td>
<td>16%</td>
</tr>
<tr>
<td>Agricultural producers &amp; processors</td>
<td>480</td>
<td>65</td>
<td>17%</td>
</tr>
<tr>
<td>Lodging hotels &amp; restaurants</td>
<td>134</td>
<td>11</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,750</strong></td>
<td><strong>384</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

### 3.4 Data Collection Methods

Copper and Schindler (2012) define data collection methods as mechanisms a researcher employs to collect data from respondents of the study so as to answer the research questions. This study utilized a questionnaire tool to collect primary data. A questionnaire tool in research is used to collect data where a researcher wants structured responses (Cox & Hassard, 2010). The researcher adopted a questionnaire tool with a five level Likert scale ranging from strongly disagree, disagree, neutral, agree and strongly agree). Section 1 of the
questionnaire dealt with the demographic data of the respondents, section II dealt with type of SMEs financing; section III dealt with challenges SMEs face in accessing financing; section IV dealt with measure undertaken to enhance financing, while the final section V dealt with access to SME financing (the dependent variable)

3.5 Research Procedures

According to Cox and Hassard (2010) research procedures are the step by step processes that guide a researcher on how to conduct the study, or how to collect data for the study. Prior to data collection, an introduction letter authorizing data collection was obtained from the School of Business, USIU and submitted to county offices of Kiambu for relevant approvals. After approvals was granted, the researcher pilot the questionnaire using SMEs in Nairobi central business district (CBD), to ensure the study validity and reliability. The feedback from the pilot was be used to adjust the questionnaire too. After this is done, some questionnaires were administered by use of drop and pick approach to SMEs Owners/Managers where respondents were given 2 hours to fill in the questionnaire. The remaining questionnaires were administered through face-to-face approach; whereby some Owners/Managers completed the questionnaire. The respondents were given a chance to ask for clarifications, while those that are literally challenged, the data collectors translated the questionnaire from English into appropriate language response can understand. All questionnaires were collected back by the data collectors and checked for completeness or missing data before submitting them to the researcher. For the questions that had missing data, the enumerators were asked to go back to the respective respondent and have the missing information collected.

3.6 Data Analysis

Data analysis is defined as the process through which raw data is converted and summarized in a way that makes sense and meaning to the user of the data or the research report (Copper and Schindler, 2012). The Statistical Package for Social Studies (SPSS) was be used to analyzed descriptive statistics (percentages, and frequencies); and inferential statistics (correlations, ANOVA, and regressions). Analyzed data was presented using tables and figures.
3.7 Chapter Summary

This chapter has presented the research methodology the researcher adopted to carry out the study. First, the descriptive survey research design has been presented, followed by population and sampling design which has articulated how data was sampled from the population. The sample size has also been presented, followed by data collection methods, research procedures and data analysis and presentation methods. The next chapter presents the results and findings for the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The study findings and results are presented in this chapter. The findings on types SME financing has been presented first, followed by challenges SMEs face in accessing funding, and finally, findings on measures undertaken to enhance access to SME financing are presented last. The study had a response rate of (55%); out of 384 questionnaires that were given to respondents, 212 were returned fully returned. A reliability analysis was also conducted to determine the validity and reliability of the study. For a study to be valid and reliable, the study tool has to have a Cronbach Alpha of more than (0.7). For this study, types of SME financing had a Cronbach value of (0.792), Challenges of SME financing had a value of (0.864), while measures taken to enhance access to SME finance as summarized in table 4.1

Table 4.3: Reliability Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>No. Items</th>
<th>Alpha Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of SME Financing</td>
<td>9</td>
<td>0.792</td>
</tr>
<tr>
<td>Challenges to SME Financing</td>
<td>8</td>
<td>0.864</td>
</tr>
<tr>
<td>Measures to Enhance Access to Financing</td>
<td>8</td>
<td>0.798</td>
</tr>
</tbody>
</table>

4.2 General Information

The general information respondents were asked to provide included their age, number of years in the SME area, respondents sub county, and type of SMEs respondents were involved in.

4.2.1 Respondents Gender

When respondents of the study were asked for their gender, (57%) indicated they were male, while (43%) were female as highlighted in figure 4.1
4.2.2 Respondents Age Group

When respondents were asked to indicate their age group, (33%) indicated they were aged 41-50 years; (29%) were aged 31-40 years; (28%) were aged 18-30 years, while the remaining (9%) were aged 51-60 years as summarized in table

Figure 4.2: Respondents Age Group

4.2.3 Respondents Sub County

The study sought to determine the sub counties where respondent came from. The findings show that (23%) were from Kiambu, and Thika respectively; (22%) were from Kikuyu; (19%) were from Limuru, while the remaining (13%) were from Ruiru as summarized in figure 4.3
4.2.4 Respondents SME Sectors

When respondents of the study were asked to indicate the SME sector they were engaged in, the findings show that (27%) were in Agricultural sector; (17%) were in transport and in general merchant kiosks sector; (15%) were in the lodging and hotel, and retail business; while (13%) were hawkers and informal traders as summarized in figure 4.4

4.2.5 Number of Years in the SME Sector

Respondents of the study were asked to indicate the number of years they had spent in the SME sector. The findings show that (39%) of respondents had spent 1-3 years; (27%) had
spent 4-6 years; (15%) had spent 10-12 years; (10%) had over 13 years, while the remaining (10%) had spent 7-9 years as summarized in figure 4.5 below.

Figure 4.5: Number of Years in the SME Sector

4.3 Types of Financing for Small and Medium Enterprises

This study sought to determine the types of financing the SMEs had access to. Those who funded their business from personal savings, (52%) had 21-40% contribution from their savings, (34%) of respondents had 1-20% contribution from their savings, while (14%) had a contribution of 41-60% from their personal savings. On funding from family sources, (64%) had 21-40% funding, while (36%) had 41-60% funding from family. On funding from friends, (37%) had 1-20% contribution, (27%) has 21-40% contributions, while (0.5%) had 41-60% contributions. On funding from venture capitals, (40%) or respondents had a contribution of 1-20%; (38%) of respondents had 21-40%; while (2%) had 41-60%. On funding from asset based financing, (42%) had 21-40% contribution, (33%) had 1-20% contribution, (20%) had 41-60% contribution, while (0.5%) had 61-100% contribution. On funding contribution from bank loans, (45%) had 21-40% contribution, (38%) had 1-20% contribution, while (25%) had 41-60% contribution. On funding contribution from SACCO loans, (64%) had 21-40% contribution. On funding from government sources, (40%) had 1-20% contribution, (38%) had 21-40 contribution, while (2%) had 41-60% contribution. Finally, on contribution from NGO incubation funds, (45%) had 21-40% contribution, (30%) had 1-20% contribution, while (25%) had 41-60% contribution as summarized in table
### 4.4 Challenges Small and Medium Enterprises Face in Access to Financing

This study sought to investigate the challenges SMEs face in access to financing. The study findings are highlighted as follows:

#### 4.4.1 Stringent Loan Conditions

When respondents of the study were asked to indicate whether stringent loan conditions were one of the challenges they faced in accessing financing. The findings show that (48%) strongly agreed, (41%) agreed, while (11%) remained neutral as indicated in table 4.5

#### Table 4.5: Stringent Loan Conditions

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>24</td>
<td>11</td>
</tr>
<tr>
<td>Agree</td>
<td>101</td>
<td>48</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>87</td>
<td>41</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.4.2 Need for Collateral

On the question on whether the need for collateral was one of the challenges SMEs experienced in accessing financing, (69%) strongly agreed, while the remaining (31%) greed as indicated in table 4.6

Table 4.6: Need for Collateral

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>65</td>
<td>30.7</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>147</td>
<td>69.3</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.3 Need for Previous Business Account Records

Respondents were asked whether need for previous business accounts records was a challenge in accessing SME financing. The findings show that (47%) strongly agreed this to be the case, (43%) agreed, while the remaining (10%) as summarized in table 4.7

Table 4.7: Need for Previous Business Account Records

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>Agree</td>
<td>99</td>
<td>47</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>91</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.4 High Loan Processing Fee

On the question on whether high loan processing fee was a challenge to accessing SME financing, (60%) of respondents strongly agreed, while (40%) agreed as summarized in table 4.8
Table 4.8: High Loan Processing Fee

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>85</td>
<td>40</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>127</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.5 High Loan Legal Fees

When respondents were asked whether high loan legal fee was a challenge in accessing financing, (46%) strongly agreed, (37%) agreed, while the remaining (17%) were neutral on the same as highlighted in table 4.9.

Table 4.9: High Loan Legal Fees

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>37</td>
<td>17</td>
</tr>
<tr>
<td>Agree</td>
<td>78</td>
<td>37</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>97</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.6 High Interest rates on Loans

When respondents were asked whether high interest rates on loans were a challenge in accessing SME financing, (43%) strongly agreed, (43%) agreed, while (12%) remained neutral as indicated in table 4.10.

Table 4.10: High Interest Rates on Loans

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>26</td>
<td>12</td>
</tr>
<tr>
<td>Agree</td>
<td>94</td>
<td>44</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>92</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.4.7 Lack of Information on Loans and Grants

Respondents were asked whether lack of information on loans and grants was a challenge in accessing SME financing. The findings show that (69%) of respondents strongly agreed, while the remaining (31%) agreed as indicated in table 4.11.

Table 4.11: Lack of Information on Loans and Grants

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>65</td>
<td>31</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>147</td>
<td>69</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.8 Lack of Risk Mitigation Measures

On the question on whether lack of risk mitigation measures was a challenge in accessing SME financing, (47%) strongly agreed, (40%) agreed, while the remaining (13%) were neutral as indicated in table 4.12.

Table 4.12: Lack of Risk Mitigation Measures

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>27</td>
<td>13</td>
</tr>
<tr>
<td>Agree</td>
<td>86</td>
<td>40</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>99</td>
<td>47</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5 Measures to Enhance Small and Medium Enterprise Access to Financing

This study sought to determine whether measures undertaken to enhance access to SME financing were adequate. The findings are presented as follows:

4.5.1 Government Youth Fund Initiatives

Respondents were asked to indicate whether government initiatives like the youth fund had enhanced SMEs access to finance. The findings show that majority (61%) of respondents strongly agreed, (37%) agreed, while the remaining (2%) were neutral as highlighted in table 4.13.
Table 4.13: Government Youth Fund Initiatives

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Agree</td>
<td>78</td>
<td>37</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>130</td>
<td>61</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.2 Government UWEZO Fund Initiatives

When respondents were asked whether government initiatives like the UWEZO had enhanced access to SME financing. The findings show that (49%) of respondents strongly agreed, (35%) agreed while the remaining (16%) remained neutral as indicated in table 4.14

Table 4.14: Government UWEZO Fund Initiatives

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>35</td>
<td>16</td>
</tr>
<tr>
<td>Agree</td>
<td>74</td>
<td>35</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>103</td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.3 Exclusive Bank SMEs Finance Products

On the question on whether banks provision for exclusive SME finance products had enhanced access to finance, (46%) strongly agreed, (45%) agreed, while the remaining (7%) were neutral as indicated in table 4.15.

Table 4.15: Exclusive Banks SMEs Finance Products

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>Agree</td>
<td>96</td>
<td>45</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>101</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.5.4 Micro-Finance SME Funds

When respondents were asked whether micro-finance loans had enhanced access to SME financing, (46%) strongly agrees. (45%) agreed, while (7%) were neutral as highlighted in table 4.16

Table 4.16: Micro-Finance SME Funds

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>78</td>
<td>37</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>134</td>
<td>63</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.5 Non-Governmental Actors Fund

Respondents of the study were asked whether non-governmental actors fund can be used to enhance access to SME financing. The findings show that (45%) strongly agreed, (43%) agreed, while the remaining (12%) were neutral as highlighted in table 4.17

Table 4.17: Non-Governmental Actors Fund

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>26</td>
<td>12</td>
</tr>
<tr>
<td>Agree</td>
<td>91</td>
<td>43</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>95</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.6 Well-Wishers Grants

When asked if well-wishers grant was essential in enhancing SME access to finance, majority (60%) strongly agreed while the remaining (40%) agreed as summarized in table 4.18

Table 4.18: Well-Wishers Grants

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>85</td>
<td>40</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>127</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.5.7 SME’s Financial Skills Training

On the issue on whether SME’s financial skills training could enhance access to finance, (43%) strongly agreed, (41%) agreed while the remaining (16%) were neutral as highlighted in table 4.19

Table 4.19: SMEs Financial Skills Training

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>34</td>
<td>16</td>
</tr>
<tr>
<td>Agree</td>
<td>88</td>
<td>41</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>90</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.8 Rotating and Savings Cooperative Associations (ROSCAs)

When respondents were asked whether rotating and savings cooperative associations could enhance access to SME financing, (48%) agreed this to be the case, (41%) strongly agreed, while the remaining (11%)

Table 4.20: Rotating and Savings Cooperative Associations (ROSCAs)

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>24</td>
<td>11</td>
</tr>
<tr>
<td>Agree</td>
<td>101</td>
<td>48</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>87</td>
<td>41</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.9 University and Research Institutions

When respondents were asked whether funds from university grants and research institutions enhance access to SME funding. The findings show that (69%) strongly agreed, while (31%) agreed as indicated in table 4.21
Table 4.21: University and Research Institutions

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>65</td>
<td>31</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>147</td>
<td>69</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.6 Correlation Analysis

A correlation analysis was conducted for this study to determine whether there existed any relationship between the study variables. The findings show that types of SME financing had the strongest relationship with access to finance, $r(0.865); p < 0.01$. This was followed by a relationship between strategies for accessing SME financing, $r(0.661); p < 0.01$; and finally, the relationship between challenges facing access to finance, $r(0.608); p < 0.01$. All variables were statistically significant as summarized in table 4.22.

Table 4.22: Correlation Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
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<tbody>
<tr>
<td>Access to finance</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
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<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>212</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Types of SME finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.000</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.865**</td>
<td>.585**</td>
<td></td>
<td></td>
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<tr>
<td>N</td>
<td>212</td>
<td>212</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Challenges SME Facing Access</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.005</td>
<td>.004</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.608**</td>
<td>.628**</td>
<td>.732**</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>212</td>
<td>212</td>
<td>212</td>
<td></td>
</tr>
<tr>
<td>Strategies for Accessing SME</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.661**</td>
<td>.444**</td>
<td>.865**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>212</td>
<td>212</td>
<td>212</td>
<td>212</td>
</tr>
</tbody>
</table>

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

Since all variables exhibited statistically significant relationships, a regression was conducted to determine the level of significance. The findings in table 4.23 show an adjusted R squared of (.423); which mean that about 42% of access to SME financing is attributed to types of SME financing, challenges facing access to SME financing, and strategies for accessing SME financing. The remaining 58% attributed to access to SME financing is covered by other factors not considered in this study.

**Table 4.23: Regression Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.632a</td>
<td>.617</td>
<td>.423</td>
<td>.384</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Strategies for Access, Types SME, Challenges Facing Access

The ANOVA for the study in table 4.24 shows F (3, 208) = 4.221; p value (0.000) which is less than 0.05; meaning the study variables are statistically significant.

**Table 4.24: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regression</td>
<td>3</td>
<td>4.180</td>
<td>4.221</td>
<td>.000b</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>208</td>
<td>.147</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>31.189</td>
<td>211</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Access to finance
b. Predictors: (Constant), Strategies for Access, Types SME, Challenges Facing Access

Regression coefficients indicated in table 4.25 show that types of SME financing had the highest beta coefficient β (0.837); p value = (0.000); followed by challenges facing access to SME financing with a beta coefficient β (0.540); p value = (0.000); and strategies for accessing SME financing with a beta coefficient β (0.447); p value = (0.014). All the coefficients were statistically significant since the p values were less than 0.05 as summarized in table 4.25
Table 4.25: Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>5.053</td>
<td>.530</td>
<td>.837</td>
<td>9.531</td>
</tr>
<tr>
<td>Types of SME Financing</td>
<td>1.050</td>
<td>.095</td>
<td>.526</td>
<td>.000</td>
</tr>
<tr>
<td>Strategies for Accessing SME financing</td>
<td>.550</td>
<td>.195</td>
<td>.447</td>
<td>4.798</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Access to finance

4.8 Chapter Summary

The results and findings of this study have been presented in this chapter. The findings on types of SME financing has been presented followed by challenges of accessing SME financing, and strategies to enhance access to SME financing. The major findings of the study show that there exists a significant and positive relationship between types of SME financing, challenges to financing, measures to SME financing and access to finance. The next chapter presents study discussions, conclusions and recommendation.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study discussion, conclusion and recommendations are presented in this chapter. Discussion on types of SME financing is presented first, followed by challenges in SME accessing financing, and finally measures to enhance SME access to financing. The study conclusion, and recommendations are presented in the same order.

5.2 Summary

The purpose of this study was to determine factors that influence SMEs access to financing in Kiambu county. This study was guided by the following research questions: What are the types of financing do SMEs? What are the challenges SME’s face in accessing financing? What are the measures taken to enhance access to SME funding?

A descriptive survey research design was adopted to carry out the study. The study had a population of 2,750 SMEs in Kiambu county, out of which, a stratified sampling technique was used to pick a sample of 384 respondents. The sampling frame was adopted from office of economics and statistical data in Kiambu county. This study utilized primary data. Data was collected using structured questionnaire. A pilot test was conducted using ten questionnaires to ensure data validity and reliability. The Statistical Package for Social Sciences (SPSS) version 20 was used for data analysis. The study data was analyzed for descriptive statistics (frequencies and percentages), while inferential statistics were analyzed for correlations and regression.

The findings on types of SME financing revealed a significant relationship exists between types of SME financing and access to finance, $r (0.865); p < 0.01$. Under this question personal savings, funds from family and friends, bank loans, micro finance loans, venture capital funds, asset-based financing, SACCO loans, NGO loans and government loans were explored, and were all statistically significant.

The findings on challenges facing SMEs in access to financing also revealed the existence of statistically significant relationship between challenges and access financing, $r (0.608); p < 0.01$. Challenges explored included need for collateral, high loan processing fees, high legal loan processing fees, stringent loan conditions, high interest rates, high loan risks, and lack of
information on SME loans. All these components contributed to the significance of the relationship.

Finally, this study findings revealed the existence of significant relationship between measures taken to enhance SME financing and access to financing, $r (0.661); p < 0.01$. Measures considered included government intervention like youth funds, exclusive bank loan products to SMEs, Micro-finance loan products to SMEs, finance skills training, well-wisher’s funds, and utilization of rotating savings and cooperating associations (ROSCAs) all contributed significantly in enhancing access to SME financing.

5.3 Discussion

5.3.1 Types of Financing for Small and Medium Enterprises

The findings of this study have revealed the existence of a significant relationship between types of financing and access to SME financing. Personal savings, funds from family and friends, bank loans, micro finance loans, venture capital funds, asset-based financing, SACCO loans, NGO loans and government loans were explored, and were all statistically significant. These findings are in line with the study conducted by Birundu (2015); Berger et al., (2009) and Badulescu (2011) that indicated the existence of a significant relationship between types of SME financing and SMEs access to financing. Further, Birundu (2015) had argued that the growth on any SMEs is determined by access to finance at different stages of product and service development. Meaning, is SMEs have access to adequate channels of financing.

This study findings show that personal financing was very essential channel for funding SMEs. This is in line with a study by Wanjohi and Mugure (2008) that noted that personal financing was part of equity financing that is essential for any entrepreneur seeking to venture into business. Personal financing demonstrates the owner’s ability to finance his/her business ventures, and also, owner’s commitment towards the success of the business venture. This means that in cases where the owner is not willing to put his/her money down to start the business, they might lack the commitment necessary to ensure the success of the business. Therefore, in seeking access to SME financing, is important that owners of the business ventures demonstrate their personal capability to finance a portion of the business operations, or capital requirements. A study by Schäfer et al., (2014) in Germany revealed one of the of the channels to finance risky SME startups was through personal financing. The study further
revealed that the reliance on personal financing is not always a matter of personal preference by entrepreneurs. It was the case that most young entrepreneurs could not get access to funding from mainstream financiers, leaving personal financing as one of the main channels of financing SMEs.

This study found that venture capital financing was also preferred as a source of financing by SMEs. Venture capitals enabled SMEs to have not only access to financing, but also technical expertise they require to run their business entities. Studies by Potter and Porto (2007); Odit and Gobardhun (2011) indicated the importance of venture capital funding and access to SME financing. Therefore, one could argue that the main incentive that draws venture capitalists to SME ventures and investments is the anticipated returns. It is possible to make super normal profits on their equity since they usually hold a stake in addition to the profit sharing (Asah, 2011).

This study also found that debt financing such as use of bank loans greatly contributed to SMEs access to business financing. In as much as the level of access through bank loans is available, SMEs still struggle to access this channel of financing. This is in line with Bonfim and Daniel (2012) who argued that bank loans are important for SMEs seeking to raise start-up capital or additional business capital. However, they contended that only SME owners that have a adequate levels of collateral have access to this kind of funding. This means that SMEs that do not have adequate levels of collateral for specific loans, lack access to this funding. Equally, Tardieu, (2007) points out that lack of adequate collateral has made it difficult for most SMEs to access bank loans. On the other hand, the patriarchal nature of society in Sub-Saharan Africa has made it difficult for women and youth to own property, or inherit property, thus, making it difficult for this groups to raise adequate collateral for bank loans (Birundu, 2015). For women and youth to be able to compete with their male counterparts effectively in seeking banks loans, it is both important and necessary that women and youth be allowed to own property.

This study found that SACCOs and government funds are essential channels for accessing financing for SMEs. For SACCOs, this was particularly significant for rotating and savings cooperative societies (ROSCAs). Members of ROSCAs find it easy to access financing from their SACCO compared to non-members. This is so because members make their monthly contributions that they can seek loan against, as collateral. This is in with Daskalakis et al., (2013) who argued that unlike large corporations that have access to broader choice of
selecting financial sources, SMEs best option for financing is through SACCOS. Meaning, SMEs should be encouraged to join a ROSCA through which they can seek easier access to business financing.

5.3.2 Challenges Facing Small and Medium Enterprises Access to Financing

The findings of this study revealed the existence of a positive relationship between challenges and access to financing by SMEs. Most of the areas explored for challenges included need for collateral, high loan processing fees, legal fees, stringent loan conditions, high interest rates, high loan risks, and lack of information on SME loans to business entrepreneurs. All this factors significantly affect access to SME financing. These findings are also in line with findings by Kiraithe (2015) and Wangui et al (2014) that revealed that stringent loan conditions were a major inhibitor to SMEs access to financing. Equally, the studies noted the existence of a relationship between stringent loan conditions and access to SME financing. Thus, one can argue that stringent loan conditions inhibit SMEs access, since the conditions that are set by commercial banks and other financial institutions are not friendly to SMEs. Similarly, Wangui et al., (2014) noted that SMEs are sometime required to demonstrate how cashflows will enhance a business’ performance, while at the same time allow for repayment of the loans that are pegged as a percentage of principal plus interest. This can be very difficult for business SME start-ups that have not yet established a systematic way of projecting cashflows, and profits to be able to determine the breakeven point that could allow them to make payments without crushing their business entity.

This study also found that need for collateral and need for previous business account records was a major hindrance for SMEs accessing financing. Gangata and Matavire (2013) had noted that need for previous financial records as a way for SMEs to demonstrate viability of running a business entity was one of the major hindrances to accessing SME financing. In as much as previous records are important in seeking funding, financial institutions should do a case to case basis of assessing each business loan applicant on the merit of their business idea and revenue generation. Lack of this consideration sometimes does lock out potential SMEs from accessing finding, yet they are credible viable entities. High collateral demands equally inhibit SMEs access since most start-ups do not have adequate levels of collateral for the
loans they are seeking, and thus end up being locked out, when they in deed have viable business ideas and ventures. To this OECD (2015) noted the need to have states develop alternative funding mechanisms that does not require stringent collateral particularly for business start-ups with viable trade and market outlook.

This study also found that the cost of acquiring credit is a major challenge for SMEs seeking business financing. In any business, the cost of doing business or acquiring a loan to do business should not out way the revenues and profits from the business. To this, Vuvor and Ackah (2011) argued that the cost of credit includes loan processing fees, interest rates, loan negotiation fees, loan insurance fees, legal fees and traveling fees, which can be detrimental to business operations, or even access to loan for business operations. One of the other challenges established by this study, and singled out by Obura and Matuvo (2011) is the fixed cost associated with acquisition of information concerning the SME by the lending bank. Any cost incurred by the financial institution in doing credit appraisal is transferred as cost of credit to the borrower, thus, making borrowing expensive for SMEs. For SMEs, there is need to ensure that the burden of accessing a business loan is not transferred to them, and as such, this will make SME loans much cheaper.

This study found that lack of business risk mitigation measures by SMEs was one of the other challenge inhibiting access to financing. Risk factor is a critical component in loan appraisal that banks and financial institution use to access the viability of a business venture (Berg et al., 2015). Business risk factor explains why some SMEs have access to funding while others do not. In most instances, when an SME has a poor business risk rating, financial institutions would hardly advance loans to such entities. Worse still, if an SME has a bad appraisal for both business and financial risk, the probability for accessing loans through established financial institutions become close to zero (Obura & Matuvo, 2011). There is need for SMEs seeking a business loan to ensure that they have put they internal operations in order before seeking a loan. No lender could willingly grant a loan facility to an SME in the face of unmitigated business risk.

5.3.3 Measures to Enhance Small and Medium Enterprises Access to Financing

The findings of this study revealed the existence of significant relationship between measures taken by SMEs to enhance access to financing, and actual access to finance. The study
considered measured taken by SMEs including government youth funds, Uwezo funds, exclusive bank loan products to SMEs, Micro-finance loan products to SMEs, finance skills training, well-wisher’s funds, and utilization of rotating savings and cooperating associations (ROSCAs), which all were important in establishing the significant relationship between current measures and access to SME financing. These findings are in line the findings established by Rambo (2013) and Kiraithe (2013) in Kenya that revealed that the establishment of Youth Entrepreneurship Development Fund (YEDF) to empower the youth on SMEs had enhanced SMEs access to financing. Empowering. As such, one can argue that the Kenyan government was cognizant of the importance of government intervention in availing credit to SMEs that would otherwise lack access through normal financial institutional channels.

This study also found that access to information on funding is important in enhancing SMEs finance. Improved access to credit information is essential in enhancing SMEs access to financial credit (Rambo, 2013). In a study that was conducted in Mozambique by Gangata and Matavire, (2013), noted that the government initiatives to educate the community on channels and requirements of SME funding had enhanced access to funding. The awareness campaign brought together banks, micro-finance, NGOs and SACCOs provided information on how SMEs and business start-ups can enhance financing, which in the long run, did enhance SMEs access to financing. As such, the success of government intervention in Mozambique and the resultant success, the model was adopted by the Kenyan government in funding SMEs. One of the key reasons why they seem to be a lack of information for SMEs is that formal financial institution do not target this group for financing and loans. Highly established institutions, businesses and corporate institutions are targeted instead. As such, SME groups usually have information discordance which makes it difficult for them to make good decisions on where to seek financing (Donckels & Degadt, 1985). The Banking Association of South Africa found that the role of government in promoting and enhancing SME access to financing was essential and significant (Vuvor & Ackah, 2011).

The findings of this study also show that financial training was essential in enhancing SMEs access to financing. SMEs that had adequate information and training on business financial management had a much better access to finances compared to those that did not. Some of the basic education that SMEs need include SME management competencies, understanding of consumer/personal finance, understanding of modern accounting and financial management systems, and understanding of financial services options (Tucker & Lean,
This financial training and education will not only enhance access to SME finances, but will enhance the probability of the SME venture performing better.

This study found that streamlining of information on loan products and requirements was essential for enhancing access to SME financing. Vera and Onji (2010) in studying SMEs in Europe noted that provision of regular financial information to business developers and start-ups marked as an important in access to finance by SMEs. Wanjohi (2010) on the other hand noted the existence of a positive relationship between streamlined financial information between borrowers and borrowers, and SMEs access to finance. Briozzo and Vigier (2009) also noted that banks that had a policy of sharing information with businesses on loan acquisition had a higher rate of SME application for loans compared to those banks that did not have streamlined information on loan products.

5.4 Conclusion

5.4.1 Types of Financing for Small and Medium Enterprises

This study sought to establish whether the types of SME financing influences access to financing. The findings show that there exists a significant relationship exists between types of SME financing and access to finance. Therefore, the study concludes that equity financing including personal savings, funds from family and friends significantly contributes to SMEs access to financing. The study also concludes that debt financing including bank loans, micro finance loans, venture capital funds, asset-based financing, SACCO loans, NGO loans and government loans were statistically significant, and important in enhancing access to finance by SMEs.

5.4.2 Challenges Small and Medium Enterprises Face in Access to Financing

This study sought to determine the challenges that affect SMEs access to business financing. The findings show that challenges facing SMEs in access to financing also revealed the existence of statistically significant relationship between challenges and access financing. Therefore, this study concludes that banks and financial institutions’ need for high levels of collateral inhibits SMEs access to financing. The study also concludes that high loan processing fees, high legal loan processing fees, and high interest rates also inhibits SMEs access to financing. Finally, the study concludes that banks and financial institutions stringent loan conditions, and lack of information on SME loans significantly inhibits SMEs access to financing.
5.4.3 Measures to Enhance Small and Medium Enterprise Access to Financing

This study sought to establish measures that can be used by SMEs to access financing. The study findings show that there exists a significant relationship between measures taken to enhance SME financing and access to financing. Therefore, the study concludes that government intervention like youth funds are important for SMEs accessing financing since they avail needful finance channels that are less stringent compared to conventional commercial financial institutions. The study also concludes that provision of exclusive bank loan products to SMEs, Micro-finance loan products to SMEs, finance skills training significantly contributes to SMEs access to business finance. Finally, the study well-wisher’s funds and utilization of rotating savings and cooperating associations (ROSCAs) are important and significantly enhance SMEs access to financing.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Types of Financing for Small and Medium Enterprises

Since this study has established the existence of a significant relationship between types of financing and SMEs access to financing, the study recommends that SME owners should enhance their personal savings for financing their business ventures since this is regarded as the hallmark of commitment to the business entity. There is also need for banks to develop mechanisms for credit provision that cut for the SMEs, since SMEs do not have the capability to compete with well-established corporates and businesses for loan products from commercial banks. The study further recommends that SACCOs loans should enhance mechanisms if granting loans to non-members who need to start SMEs. There is also need for government to establish more channels of SME financing like the youth entrepreneurship funds, women and people with disabilities fund engaged in SME ventures.

5.5.1.2 Challenges Small and Medium Enterprises Face in Access to Financing

This study established the existence of a significant relationship between challenges and access to SME financing. This study recommends that banks and other financial institutions should reduce higher level of collateral requirements even for smaller loans. There is need to
do a case to case analysis of SME loan applicants, rather than subjecting them to a blanket evaluation and appraisal.

There is also need for banks and other financial institutions lending to SMEs to review their loan processing fees, high legal loan processing fees, and high interest rates to the minimal to enhance SMEs access to the loan facilities. This study also recommends that banks and financial institutions should review stringent loan conditions, and lack of information on SME loans towards SMEs and ensure adequate financial training and clinics that will enhance SMEs knowledge of loan products, and means of access this loans

5.5.1.3 Measures to Enhance Small and Medium Enterprises Access to Financing

Since this study established the existence of a significant relationship between measures for enhancing access to SME financing and actual access to SME financing, the study recommends that government intervention like youth funds should be enhanced to allow more young entrepreneurs in SME businesses to access financing. The study also concludes that there is need for commercial banks and other financial institutions to provide exclusive bank loan products to SMEs, and, Micro-finance loan products to SMEs should carry sufficient finance skills training on business finance management, loan application, and loan repayment. Finally, the study recommends that rotating savings and cooperating associations (ROSCAs) should also be enhanced since they are essential and necessary channels for enhancing SMEs access to financing.

5.5.2 Recommendations for Future Studies

This study sought to determine factors influencing SME’s access to financing. The study was therefore limited to types of SME financing, challenges facing SME financing, and measures to enhance SME financing. Factors considered under this study were not exhaustive to explain SMEs access to financing. Therefore, scholars and academicians seeking to conduct further studies on this topic should consider other variables not covered under this study. For instance, there is need to explore difference between opportunity entrepreneurs and necessity entrepreneurs access to SME financing.
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June 187-221


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APPENDICES

APPENDIX I: COVER LETTER

Margaret Mutiria
P.O.BOX 52623 00200
Nairobi
Dear Respondent,

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH PROPOSAL

My name is Margaret Mutiria a student at USIU, currently doing my research project towards the conferment of a Master of Business Administration (MBA) at United States International University-Africa. As part of fulfilling the degree requirements, I am to conduct a study on “Factors influencing SMEs Access to Financing: A Case of Kiambu County”

You have been selected randomly to participate in this study. Any information you provide will be treated confidentially. I highly appreciate your participation.

Yours Sincerely,
Margaret Mutiria
APPENDIX II: RESEARCH QUESTIONNAIRE

SECTION I: GENERAL INFORMATION

Kindly tick (✓) in the box for the appropriate answer.

1. What is your gender?
   Male ☐
   Female ☐

2. What is your age group?
   18-30 yrs. ☐
   31-40 yrs. ☐
   41-50 yrs. ☐
   51-60 yrs. ☐
   Over 61 yrs. ☐

3. Kindly indicate your sub-county ward where you operate from

   Kiambu ☐
   Limuru ☐
   Thika ☐
   Kikuyu ☐
   Ruiru ☐

4. Kindly indicate the sector of your SME

   Retail business ☐
   General merchants & kiosks ☐
   Hawkers & other informal trader ☐
   Transport business ☐
   Agricultural producers or processors ☐
   Lodging hotels & restaurants ☐

   Other (Kindly specify) ________________________________

5. How long have you been in the SME business?

   ☐

58
SECTION II: – Type of Financing Available to SMES

6. Please indicate the percentage of funding you have received from the following sources:

(Kindly tick in the appropriate area)

<table>
<thead>
<tr>
<th>Source</th>
<th>0%</th>
<th>1%-20%</th>
<th>21%-40%</th>
<th>41%-60%</th>
<th>60%-100%</th>
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<tbody>
<tr>
<td>Personal Savings</td>
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<td>Family</td>
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<tr>
<td>Friends</td>
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<td>Venture Capitalists</td>
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<td>Asset based Financing</td>
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<td>Bank Loan</td>
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<td>SACCO Loan</td>
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<td>Government Funds</td>
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<td>NGO Incubation funds</td>
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SECTION III: – Challenges Facing Access to SMES Financing

Kindly use the following Likert Scale (1= very small extent; 2 = Small Extent; 3 = Moderate Extent; 4 = to a large extent; 5 = To a very large extent)

7. To what extent do you face the following challenges in access to finance

<table>
<thead>
<tr>
<th>Challenge</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Stringent loan conditions</td>
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<td>Need for collateral</td>
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<td>Need for previous accounts records</td>
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<tr>
<td>High loan processing fee</td>
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</table>
High loan legal fees
High interest rates on loans
Lack of information on loans and grants
Lack of risk mitigation measures

SECTION IV: Mechanisms to Enhance Access to SME financing

Kindly use the following Likert Scale (1 = very small extent; 2 = Small Extent; 3 = Moderate Extent; 4 = to a large extent; 5 = To a very large extent)

8. To what extent can the following mediums help you access SME financing?

<table>
<thead>
<tr>
<th>QUESTIONS</th>
<th>1</th>
<th>2</th>
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<th>4</th>
<th>5</th>
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<tr>
<td>Government interventions like the youth fund</td>
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<td>Government interventions like UWEZO funds</td>
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<td>Exclusive bank SMEs financing products</td>
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<td>Micro-finance SME Funds</td>
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<td>Non-governmental actors Funds</td>
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<td>Well-wishers Grants</td>
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<td>SMEs Financial Skills training</td>
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<td>Rotating and savings Cooperative Associations (ROSCAs)</td>
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<tr>
<td>University and research institution Grants</td>
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Thank You.