

**FACTORS AFFECTING ACCESS TO FORMAL FINANCE
BY YOUTH OWNED SMES IN KENYA: A CASE OF
KIAMBU COUNTY**

BY

PATRICK KIMANI BABU

UNITED STATES INTERNATIONAL UNIVERSITY

AFRICA

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**A Research Project Report Submitted to the Chandaria School
of Business in Partial Fulfillment of the Requirement for the
Degree of Masters in Business Administration (MBA)**

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AFRICA

SUMMER 2017

DECLARATION

I declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed.....

Date

Patrick KimaniBabu (ID: 646098)

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

Signed.....

Date

Dr. Elizabeth Kalunda

Signed.....

Date

Dean, Chandaria School of Business

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ABSTRACT

The purpose of the study was to determine the factors affecting financial access to youth owned businesses in the small and medium sized enterprises in Kenya using Kiambu County as a case study. The study was guided by the following research questions; What is the effects of entrepreneur characteristics on financial access among the youth SMEs in Kiambu County, how does lending requirement affect financial access for youth owned businesses in Kiambu County and What is the effect of business characteristics on financial access for youth owned businesses in Kiambu County

Descriptive research design was used to carry out the study. The target population was 2,750 registered youth SMEs in Kiambu County. Of the registered SMEs in Kiambu County an estimated 2,751 registered SMEs have between 1 and 50 employees. This study employed stratified random sampling design in obtaining sample from the clients. Descriptive statistics was used to analyze data that was collected. Pearson correlation and regression analysis were used to determine how independent variables influences dependent variable. Statistical Package for Social Sciences (SPSS) software was used to analyze the data. Out of 96 questionnaires that were distributed only 57 were filled and returned giving a response rate of 59%. The first objective set to establish effect of business characteristics on financial access for youth owned businesses in Kiambu County.

Findings revealed that manufacturing industries faces more challenge accessing finance as compared to SME's in trading and service industry, smaller SME's experience a challenge accessing finance as compared to larger SME's, years of business has been around influences access to finance and registered SME's are more likely to borrow than non-registered SME's.

The second objective set to establish effect of lending requirement on financial access among youth SME's in Kiambu County. Findings revealed that high interest rate influences access to finance, financial institutions use collateral as security before issuing finance to SME's, SME's have enough collateral to qualify for a loan and proper maintained and managed financial records and loan repayment period affects SME's access to finance.

The third objective set to establish effect of entrepreneur characteristics on financial access among youth SME's in Kiambu County. The findings revealed that respondents that gender and networking influence access to finance. In addition, through networking SME's are able to improve their performance. SME's need more training to access loan and lenders consider education level before offering funds.

The study concluded that manufacturing sector faces a challenge accessing finance more than SME's in trading and service industry, size and age, interest rate, collateral financial record, gender and networking influences access to finance. It was recommended that more research to be done to determine other factors that SME's access to finance. Furthermore, this study was based on SME's in Kiambu County only it is therefore recommends that a similar research should be done in other counties to determine whether the factors affecting SME's access to finance are similar to another.

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I must also express my very profound gratitude to my mum and my wife for providing me with unfailing support and continuous encouragement throughout my years of study and through the process of researching and writing this thesis. This accomplishment would not have been possible without them. Thank you.

DEDICATION

I dedicate this thesis to my wife Winnie, whose patience and immerse and immerse help has guided me in completing the project. The long nights have finally paid off.

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ABBREVIATION AND ACRONYMS

ALMP : Active Labor Market Policies

GDP: Gross Domestic Profit

GOK: Government of Kenya

SME's : Small and Medium Sized Enterprises

SPSS : Social Package for Social Science

UK : United Kingdom

WEDF : Women Enterprise Development Fund

YEDF: Youth Enterprise Development Fund

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Access to finance is vital for any business development; this is because investment and innovation are impossible without adequate financing. Challenges of acquiring adequate finance is named among the main barrier to the growth of many small and medium sized enterprises (SMEs). Access to finance is still a major problem to several SMEs and a comparison of the different enterprises has revealed so despite many youths venturing into self-employment(Caliendo&Schmidl, 2015).

According to Kati (2014), small and medium-sized enterprises are the backbone of U.S. economy as they make up 99 percent of all organizations, and employ over a half of private sector employees, and create two thirds of new private jobs in the market. America has 28 million SMEs which contribute to half of its Gross Domestic Product (GDP). SMEs have also mastered the export business and account for 98 percent of all U.S. exporters and generate over 35 percent of export revenue. For SMEs to continuously grow and contribute to theeconomy they need access to cash flow and credit. Academic studies suggest that financing is the single most robust determinant of firm growth (Meghana, Demirgüç-Kunt&Maksimovic, 2006). However, small firms consistently face a higher financing hurdle than large counterpartsthis is due to their limited assets, and fund limitation through credit markets or equity.

According to Peek, (2013), SMEs have a greater volatility in earning and growth than larger firms; they are viewedas riskier investments, and therefore are subject to higher cost of capital. Thorsten, Demirgüç-Kunt, Laeven and Maksimovic (2006) suggest that with limited staff and time, SMEs get a tough time cultivating relationships with lenders and investors. Credit conditions for American based SMEs have deteriorated as a result of the 2008 financial crisis, and tight regulatory environment. Youth unemployment is one of the biggest development challenges in the Third World today since the 2008 economic crisis;the rates of European youth unemployment have been on the rise, being estimated at around about 20% on average. Most of, European nations have a yearly budget set upto activate labor market programs (ALMP) with the aim of improving the integration

projections of struggling youths. Among the common programs utilized include training, assistance with job search as well as public work programs(Caliendo&Schmidl, 2015).

Eurostat (2013) in England, majority of lending awarded to SMEs is via commercial banks, about 90 percent of SMEs however still approach current account provider for a loan. Banks have provided two thirds of gross funding to SMEs between 2010 and 2015. However, the evidence on SME attitudes towards banks is a mixed one. Many businesses approach their current banks to apply for loans and this is fostered by their familiarity with the bank and the product offered. However, some SMEs affected by the financial crisis still hold a negative perception about the banks. In the UK, it has been noted that older business owners approach banks with very low expectations compared to the younger business once that are more willing to explore other non-bank options from the start (Eurostat, 2013).

Looking at comparators in emerging economies, research has established that SMEs in India, are estimated at 30 million and have pioneered innovations in manufacturing and service sectors, and continue to represent the link between supply chain and corporate entities. SMEs in India are estimated to contribute to 20 percent of the national GDP, 45 per cent of industrial production, 40 per cent of all exports, and employ up to 60 million people, by creating 1.3 million jobs yearly (Capacity Development Centre, 2012). Generally, business persons tend to rely heavily on financial institutions as the major source of finance for investment into their businesses; yet accessing these funds come with a price. In this light, lending firms demand substantive collaterals as a prequalification to obtain a given amount of funds. Basing his investigations on the role of microfinance on the growth of the small and micro enterprises in Singapore, Maisiba and Gongera (2013) observed that improved accessibility of such services by the cadre of small business holders had greatly contributed to the realization of steady growth of the country's GDP. He further noted that the drivers of accessibility of financial facilities comprised of substantial collaterals, availability of financial institutions, heightened awareness campaigns to sensitize the potential beneficiaries on such products and the emerging culture of aggressiveness for personal growth.

According to Capacity Development Centre Ghana (2012), almost 92% of firms registered are micro, small and medium enterprises. They have been applauded for contributing to over 70% of the country's GDP and therefore significantly

impact economic growth, employment and income. Ogechukwu (2011) reveals that SMEs have contributed greatly to the growth of nations and account for a huge portion of new jobs in African countries thus demonstrating a strong employment record and driver for GDP growth in most of them.

Ouma and Mullumba, (2012) in Kenya over 15 million people live below the poverty line, with over three million classified as unemployed. Youth account for about 55% of the unemployed in Kenya, implying that unemployment is a predominantly youth issue. The rapidly increasing youth unemployment levels have been aggravated by changes in economic policies. Subsequently, over the past decade, there has been a steady shift from formal to informal sector employment, popularly known as 'Jua Kali'. Secondary negative effects such as the systematic erosion of the social value of education, crime, prostitution and drug abuse have increased as a direct consequence (Ouma&Mullumba, 2012).

Government of Kenya, (2011) to address the youth challenges in accessing finance, the Youth Enterprise Development Fund (YEDF) was introduced on 8th December, 2006 and later formed into a State Corporation on 11th May, 2010. The Fund has engaged in partnership with 32 Financial Intermediaries to enable the youth access funds directly either as individuals or as organized entities. Apart from the on-lending component of the fund through financial intermediaries, there is the Constituency Youth Enterprise Scheme which funds enterprises of youth groups in all constituencies. YEDF focuses on enterprise development as a key strategy for increasing economic opportunities for, and participation of Kenyan youth in nation building (Government of Kenya, 2011). In spite of these measures, youth enterprises continue to face immense challenges in access to financing.

The Youth Enterprise Development Fund (YEDF) concept is based on the premise that encouraging micro, small and medium enterprise development initiatives is likely to have the biggest impact on job creation (MOYAs, 2010). The Fund has continued to diversify its product base by focusing on interventions that are more responsive to the needs of the youth and are geared towards addressing specific challenges facing young entrepreneurs (MOYAs, 2011). In addition the Kenya government also developed women enterprise development fund (WEDF) and Uwezo fund to enable SME's access funds.

Onwubiko (2014) several investigations in the sector of small and micro enterprises reveal that accessibility of financial services still remains a challenge, despite the acknowledgement that financial investment is critical to growth of all ventures. However, accessibility of financial products must be addressed so as to support the youth to actively engage in economic development through small enterprises, bearing in mind that employment opportunities have been dwarfed by population explosions. Onwubiko (2014) recommended that young entrepreneurs be assisted to obtain cheap credits which do not overemphasize a lot on collaterals, given necessary training on resource mobilization and more micro finance that are pro poor developed.

Across the globe, small and medium business enterprises are regarded among the greatest contributors to job creation and poverty reduction strategies. In this interest, the government has over time encouraged the growth of this sector through its fiscal facilities such as youth enterprise development funds, women enterprise development fund and the most recently established, Uwezo fund in order to facilitate accessibility of funds for business (Odera, 2014). However, the uptake of the former two facilities has been wanting, as in other areas the potential beneficiaries have failed to service the borrowed funds due to inadequate knowledge in credit management, while others cite frustrating procedures in accessing the funds and yet for others the institutions that provide these facilities are far from their reach (Mutai, 2015).

Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, *et al.*, 2006). Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2013).

Education is one of the factors that affect positively on growth of firms (King & McGrath, 2012). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments. Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Oketch, 2013). Another major challenge is that of difficult in

accessing youth funds set aside to benefit youth businesses or even mismanagement of the same.

GOK (2010) the complex interplay experienced by the youth is made worse by lack of financial independence due to lack of employment opportunities or lack of successful engagements in income generating projects. Over 50 percent of the Kenyan population is made up of youthful citizens and, though this youthful population constitutes about 60 percent of the Kenyan labor force, approximately 65 percent of this available labor force is languishing in unemployment regardless of their qualifications and skills. However, the same age-bracket is said to be poorly prepared for labor market having had poor systems that emphasize on skills acquisition. Unemployment is not just lack of jobs, but also lack of job skills due to inadequacy of the training infrastructure as well as the means to acquire skills, due to poverty (GOK, 2010).

Most of Kenyan youth may have academic qualifications that are devoid of any practical use in skill-oriented world. As a result, our society is populated with youths who have academic qualifications but with inability to translate theoretical knowledge into practical idea of any economic gain (Bett, 2016). This can be blamed on the wrong perceptions about personal initiatives as opposed to white-collar jobs. The problem of youth unemployment is mainly a youth issue. Regardless of whether one is educated or uneducated, youth are increasingly becoming frustrated and disillusioned because of lack of employment opportunities and the increased pressures of transition that demand them to be independent financially. Such frustrations and disillusionment of youth has been blamed for increased youth crime, involvement in high-risk activities, drug addictions and more recently radicalization in the major cities in Kenya (Ngeno, 2014).

Haftendorn and Salzano, (2003), Government efforts in addressing youth unemployment is illustrated by the creation of youth fund and Uwezo fund that targets to empower the youth and offer credit facilities to youth and women in order to enable them to start their own small enterprises hence job creation. The ever increasing demand to the county governments to improve conditions that are conducive for small businesses is an indication that this is a major way of solving this unemployment problem that greatly affects the youth. The government's campaign promise to creation of jobs for the youth is therefore based on the ability to emphasize and to support self-employment opportunities. Enterprises are the places where the jobs are (Haftendorn & Salzano, 2013). Nevertheless,

there is need to investigate the factors affecting the growth and the development of enterprises initiated by the youth in order to address issues that may affect the sustainability of this great idea of development of enterprises as an avenue towards the achievement of Vision 2030.

According to a survey done by Danish government in Kenya, 2010 the survey revealed that SME's are not satisfied with access to finance especially from financial institutions. Around 65% of SME's stated that they were not able to get any financial assistance from financial institutions during difficult economic times whereas, 12% of SME's said they were able to receive help with good repayment rearm (Kungu, 2011). The best way therefore the youth can create opportunities is through entrepreneurship (Sagwe, Gicharu, &Mahea, 2011).The study is aimed at broadening understanding about the factors affecting financial access to youth enterprises in Kiambu County. It also aimed at giving remedial measures to the financial access problems faced by youth enterprises in order to improve their performance and realize their goals

1.2 Statement of the Problem

The small and medium enterprises play an important role in the Kenyan Economy. According to the Economic Survey (2016), the sector contributed over 50 percent of new jobs created in the year 2015.Despitetheir significance, past statisticsindicate that three out of five businesses fail within the first fewmonths of operation (Kenya National Bureau of Statistics, 2010) due to various reasons.While little evidence exists that these small firms grow into medium-size firms (employing 50 to 100 workers), many of these smallfirms have the potential to grow and add one to five employees (Fadahunsi, 2012). The Government of Kenya conceived the idea of institutional financing to provide young peoplewith access to finance for self-employment activities andentrepreneurial skills development as a way of addressing unemployment and poverty, which essentially are youth problems (GOK, 2014).

In spite of the initiatives undertaken through the YEDF, youth enterprises continue to face challenges in accessing finance. In a study with its focus on factors influencing growth of small scale businesses in Bomet Constituency by Bett (2016) found that small business entrepreneurs faced challenges of accessing funds to be put to their enterprises, since there are just few facilities to offer the products. The study further noted that many potential beneficiaries feared such credit due to high interest rates, while others are not

informed on the availability of more affordable services on offer. According to Okello (2015), in a study undertaken at Kasipul Constituency, youth owned and operated small enterprises performed poorly, majorly due to inadequate accessibility to finance.

Notably, the studies reviewed have ignored the factors that continue to limit youth enterprises from accessing finances. Specifically, the study will seek to evaluate the effect of business characteristics on financial access among the youth businesses in Kiambu County, to examine the effect of lending requirement on financial access among the youth businesses in Kiambu County and to establish the effects of entrepreneur characteristics on financial access among the youth businesses in Kiambu County.

1.3 Purpose of the Study

The purpose of the study was to determine the factors affecting financial access to youth owned businesses in the small and medium sized enterprises in Kenya using Kiambu County as a case study.

1.4 Research Questions

This study was guided by the following research questions

1.4.1 What is the effect of business characteristics on financial access for youth owned businesses?

1.4.2 How does lending requirement affect financial access for youth owned businesses?

1.4.3 What is the effect of entrepreneur characteristics on financial access among youth owned businesses?

1.5 Importance of the Study

The study is geared towards the recognition of the importance of micro financing for the youth enterprises in securing youth employment and ensuring the growth of SMEs and economic development. Numerous efforts have been put by the government of Kenya including establishment of Youth Enterprise Development Fund (YEDF). In spite of these measures, youth enterprises continue to suffer from lack of access to financing. Youth SMEs' have benefited from YEDF through the provision of equity/capital for start-ups. The study will therefore be significant to the various parties that include the youths

running SMEs, the Youth Enterprise Development Fund and financial institutions, government and the general public.

1.5.1 Youth Owning the SMEs

The SMEs will benefit from the study since the study will recommend ways of overcoming the factors limiting them from accessing finances. Further, they will benefit from policy changes/formulation as a result of the study.

1.5.3 Government

The government will benefit from the study from the growth of youth enterprises. The aim of every government is to create jobs for the citizens and hence this objective will be achieved by this study. The government will also be able to raise more revenue in form of taxes from the growth in youth SMEs.

The Youth Enterprise Development Fund and financial institutions will also benefit from the study since they will be able to understand the factors limiting youth SMEs from accessing financial services. This will enable them to serve the youth better and offer them more financial services. YEDF will benefit from this study by determining how fast it can provide funds and motivate the business owners towards spreading their ability in funding the youth SMEs'. This study will also broaden the level of thinking in sourcing equity/capital through YEDF and develop saving scheme skills for businesses thereby broadening the scope and ability to fund businesses. It will thereafter raise the living standards by enabling the youth develop businesses that may be of an increment to their normal income.

1.5.4 Community

The findings of this study will increase the profitability of SMEs which will rise more jobs 'creation and will highly contribute to the rise and continuously boost the living standards in Kenya which increase the rate of economy growth due to the expansion of financial market development.

1.5.5 Researchers and Academicians

Scholars will benefit from the study since this study will form basis for future research. The findings will act as reference to other academicians who would be interested in exploring further on SMEs and help the country achieving its vision 2030.

1.6 Scope of the Study

These are the range of things that a subject, an organization or an activity deals with. The study determined factors that influencing access to finance by youth SMEs. The factors sought were on the access to YEDF, microfinance institutions and other financial institutions including the banks. The enterprises studied were those in Kiambu County. The businesses to be studied was from all sectors and included butcheries, cyber cafes, boutiques, Jua Kali firms, barbershops, hardware, foodstuff shops, and groceries among others.

This research study targeted youth SMEs' in Kiambu County. The scope of the study was to determine the factors the affecting financial access among youth businesses at Kiambu County, Kenya. The study was limited by the scope where not all youth enterprises in Kiambu were studied and only the sampled firms were studied. The sampled firms may not represent all the firms in Kiambu County. The study was only done in Kiambu County and excluded other Counties. Additionally, access to information may be faced by challenges where the respondents may not be comfortable sharing the information due to confidentiality issues. The study was conducted from May to August 2017.

1.7 Definition of Terms

1.7.1 Cost of Credit

Cost of credit is the bank charges and levies on bank facilities enjoyed by lenders from financial institutions (Johnson, 2011).

1.7.3 Collateral

Financial services describe bank products, both saving and credit facilities offered to Clients for business investment (Johnson, 2011).

1.7.4 Youth

Youth are persons aged 18- 35 years both male and female (Government of Kenya, 2011).

1.7.5 Youth Enterprises

Youth Enterprises are business established and being run by persons aged 18- 35 years both male and female (Government of Kenya, 2011).

1.7.6 Business Characteristics

Business characteristics are business personalities or attributes that tend to describe a business or tell us about the business

1.7.7 Lending Requirement

Lending requirement are policies that are set in place to create universal guidelines within a financial institution for all potential borrowers (Houghton, 2009)

1.7.8 Entrepreneur

An entrepreneur is a person who organizes and manages a business undertaking and assumes the risks of a business or the enterprise for the sake of profits (Dessler, 2000).

1.7.9 Financial Access

Financial access is the process of securing financial assistance or loans from formal or informal sectors (Schiffer & Weder, 2001)

1.8 Chapter Summary

The chapter presents the background of the study, statement of the problem, objectives of the study, research questions, significance of the study, limitation of the study, scope of the study and definition of terms. The next chapter presents the literature review. Chapter three presents research methodology that was used. Chapter four discusses results and findings and chapter five presents summary findings and conclusion.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The chapter presents the theoretical literature on financial access, youth enterprises and SMEs. The chapter covers the sources of financing for youth business, financial training and financial access among the youth businesses, financial literacy on financial access among the youth businesses and challenges limiting financial access among the youth businesses.

2.2 Business Characteristics and Access to Credit

Business characteristics are defined as firm personalities or attributes that tend to describe a firm or tell us about the business. Three major areas, the nature of the business, business knowledge, and business size, represent business characteristics (Lucky, 2011). According to a study done by Nkuah (2013) on financing small and medium enterprises (SMEs) in Ghana: challenges and determinants in accessing bank credit findings for the study revealed that there was a positive relationship between certain attributes of a business and access to credits.

According to Le (2012) business characteristics are not the main factor to influence SME's financing, but if a business has higher financial leverage the higher the probability of obtaining bank loans. In addition, the level of information in the possession of the SMEs, owners contributes to whether to borrow credit based on past audited data of the company

2.2.1 Business Size

According to Beck,(2007) the growth of small firms is reduced by 10% due to financial constrains whereas the growth of large firms is reduced by 6%. Small firms are more affected by lack of financial access. According to Ngoc (2009) states that SMEs faces a challenge accessing credit due to lack of information asymmetry between banks and SMEs. Fatoki and Asah (2011) states that firm size influences SMEs access to credit from banks and other lending institutions whereby small SMEs are usually less favored compared to large SMEs. In addition, in their study on the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in KingWilliams it was

revealed that there was a positive relationship between firm size and access to finance. However a study done by done by Schiffer and Weder (2001) on firm size and the business environment findings revealed that there is a negative relationship between size of a business and risk it might pose to a lender

According to Monteiro (2013), smaller SMEs have limited access to credit due to lack to creditworthiness in their information. Due to lack of creditworthiness, inadequate credit history, high transaction costs and lack of collateral small firms find it difficult to access credit from banks and other lending institutions (IFC, 2009). In Malaysia, many micro firms lack collateral and insufficient documents to support their loan application (Chin 2004). According to a study done by Kira and He (2012), on the impact of firm characteristics in access of financing by small and medium-sized enterprises in Tanzania the study looked at size of the business, age, location of the firm and gender. The study revealed that access to finance is positively influenced by size of the business.

According to a study done by Mohieldin and Write (2000), on formal and informal Credit markets in Egypt revealed that size of SMEs, education level and collateral are example of factors that determine access to credit. According to studies done by Burkart and Ellingsen (2011); Honhyan (2009); Cassar (2011) findings revealed that there is a positive relationship between size of firm and access to finance. Beck, Demirgüç-Kunand Maksimovic(2006) asserts that due to finance smaller firms are more affected by lack of financial access hence reduction in growth as compared to large firms.

According to a survey done by Schiffer and Weder (2001), on firm size and the business environment the survey revealed that there is a negative relationship between size of a business and risk it might pose to a lender. According to a study done by Kumar and Francisco (2005), on enterprise size, financing patterns and credit constraints in Brazil findings revealed that there is a positive relationship between firm size and access to finance. Pandula (2011) states that smaller firms usually faces a challenge accessing finance due to lack of audited financial reports and less assets to offer as collateral as compared to larger firms.

According to World Development Report (2004), states that small firms get only 30% of their financing from external sources, whereas large firms get up to 48% of their financing from external financing. Nunes, Gonçalves and Serrasqueiro (2013) asserts that smaller SMEs are facing a challenge accessing finance than large firms due to fewer

lending institutions, poor infrastructure, higher production costs and non-conducive business environment. According to Kamau(2011), small and medium sized enterprise faces a challenge accessing finance more that large firms. This is because small firms are not able to provide financial information that is required to access finance as compared to large firms

Oliveira and Fortunato (2006) small firms face greater financial constraints as compared to larger firms hence affecting their growth. This is because smaller firms are not able to exploit economies of scale in the same way as larger firms. In addition, smaller firms do not have enough cash flow and are not able to rely on bank financing hence depending on the original equity investment of their owners. According to World Bank Report (2010), limited access to external finance affects SME'S performance. Additionally, loans that banks give SME's are usually smaller compared to large firms

2.2.2 Age of the business

According to a study done by Oboh and Kushwaha(2009), on socio-economic determinants of Farmers Loan Size in Benue State, Nigeria revealed that age, education, farm size, household size, length of loan delay and visitation by lenders are example of factors that affect the rate of credit allocation. Deakins (2010) states due to the age of the business, size, access to collateral and geographical location SMEs faces a challenge accessing finance. Ajagbe (2012) based on his study on analysis of access to and demand for credit by small scale entrepreneurs evidence from Oyo State, Nigeria findings revealed that age, value of asset, education and nature of the credit market are factors that determine SMEs, access to finance.

According to Klapper (2010), firms with less than 5 years (younger firms) in operation are less likely to rely on debt financing from lenders. Ngoc, Le and Nguyen (2009) assert that younger firms face hardship in accessing finance from lenders because of information asymmetry. In their research on it findings revealed that there is a positive relationship between the age of the firm and access to debt. According to a study done by Mulandi (2013),on factor affecting credit access for Biogas sub sector in Kenya findings revealed that age, size, capital investment, financial records, information access are examples of factors that determine access to finance. Lore (2007) asserts that in Kenya younger SMEs are less likely to access fiancé from banks due to lack of enough resources whereas older

entrepreneurs are able to access finance from bank due to availability of resources, work experience, education and social contacts.

According to World Bank report (2007), studies reveal that age, capital, size, information access, risk and financial records, interest rates, education level and past financial performance are factors that limit SMEs from accessing finance. Nguyen and Luu (2013) based on their study it was revealed that age does not have significant effect on access to finance. Furthermore, Slavec and Prodan (2012) also found out that age and debt financing do not have significant relationship.

2.2.3 Nature of Business

Muñoz-Torres (2010) SMEs can be in the form of production, manufacturing, services and it can also be in any form of ownership: sole proprietorship, partnerships, or private limited companies. Some SME's are located outdoors with little or no capital while others are more formal and operate in market stalls and shops. In Kenya, most enterprises are owner-managed or largely controlled and run as a family business and most have limited capital base and the technical skills and capacity of those running the business is also limited (Karanja, 2012). According to a study done by Sakara (2014), on socio economic determinants of small and medium enterprises (SME's) access to credit from Barclays Bank in Tamale-Ghana. Quantitative research was used. SME's were stratified to get quotes. Findings revealed that business and sector of business, business size, attitude towards risk, number of employees and number of fixed assets are factors that affects SME's to access credit.

Deakinset al (2010) manufacturing SMEs have less access to credit compared to SME's in other industry. This is due to the fact that SME's in the manufacturing industry are supposed to provide more information (new products, new technology and diversification) before being given credit. Baah-Nuakoh (2003) in his study on studies on the Ghanaian Economy study revealed that 200 manufacturing firms in Ghana, agreed access to finance has been a challenge to SME's manufacturing wood, garments and furniture. According to Kumar (2011), firms in the service industry are more likely to access finance easily compared to SME's in the agricultural industry. This is due to low level of risk and increase in sales and revenue.

According to Beck *et al* (2006), incorporated SME's are more likely to borrow from banks as compared to unincorporated SME's. This is because unincorporated SME's have unlimited liability hence increase in risk. Kimuyu and Omiti, (2000) sole proprietorship SME's are less inclined to seek for credit under other ownership structures as they are less prone to risk taking. Furthermore, entrepreneurs who belong to a support group borrow more than those who do not because of the externality enjoyed by group members. Additionally formally registered SME's are more likely to borrow than informal ones. This is because, most unregistered SME's have low productivity, inadequate access to infrastructure and poor property rights over their business premises (Kimuyu&Omiti 2000)

2.3 Lending Requirement and Access to Credit

Karanja (2014) in his study on the analysis of factors influencing access to credit services by Women Entrepreneurs in Kenya established that Lending procedures were found to be rigid and does not accommodate the needs of women entrepreneurs. Collins (2007) asserts that lending institutions screen bad borrowers from good ones but insufficient disclosure prevent them from getting relevant information, thus making it difficult to extend finance. Quality financial information is also important because it reduces information asymmetry between the management of the enterprise and the banks; its reduction has desirable effects on the cost of finance (Leuzet *al*, 2012; Bushee&Leuz, 2005)

2.3.1 Interest Rate

Kimutai (2003) interest rate is the price one pays for using borrowed money. Bett (2013), based on her research on factors influencing growth of small scale businesses in Bomet Constituency stated that SMEs face challenges accessing credit due to availability of fewer facilities to offer finance. In addition, most SMEs fear applying for credit due to high interest rates and lack of information on availability of more affordable services that are being offered. According to research done by Kaufmann and Wilhelm, (2006); World Bank (2003); USAID (2005); USAID (2007), findings revealed that in Mozambique, SMEs faces a challenge accessing finance due to high interest rate and inefficient banking services. In Mozambique interest rates are high compared to other Sub-Saharan African countries. Moreover, the differences in interest rates vary based on the currencies. The

loans made on the domestic currency Metical (MZN) carry higher interest rates than those made in US dollar (USAID, 2007).

Ochieng(2014) asserts that in China lending institutions are offering young entrepreneurs finance at an affordable interest rate hence encouraging access to credit. Mwangi and Bwisa, (2013) based on their study on challenges facing entrepreneurs in accessing credit. The study used random sampling. Findings revealed that SMEs faces a challenge to access credit due to high cost of credit,high rate of legal fee, high rate of interest, high cost of credit insurance and travel expenses. The research recommends that financial institutions have credit products that would attract youths and offer credit at a lower interest rate. Peek (2013), states that high interest rates discourage SMEs form borrowing. This is because the interest payment come out of profit and can be reduced by the borrowing business if profit and trading conditions are unfavorable. Yörük (2001) states that SMEs in Turkey faces a challenge in accessing credit due to high interest rate, short maturity terms an insufficient loan sizes.

According toBeck, Demirguc-Kunt, and Peria (2011), higher interest rate will increase cost of credit hence discouraging SMEs from borrowing. Muthoka (2012) in his study on effect of microfinance on financial sustainability of small and medium enterprises in Nairobi found that SMEs prefer loans from microfinance institutions, and they seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. Munene (2009) in his study on the perceived impact of credit reference bureaus in accessing finance by small and medium enterprises (SMES) in Kenya findings revealed that credit bureaus enabled the lenders assess credit worthiness, ability to pay back a loan, and this affects the interest rate and other terms of a loan. Bett (2013) in her study on effects of lending interest rates on profitability of savings, credit and cooperative societies in Kenya study revealed that lending interest rate of Sacco's is positively correlated with profitability.In Kenya, most SMEs use credit from the MFIs to finance their operations. According to Mwindi (2002), higher amounts of credit granted to SMEs are charged higher levels of interest rates but enablethem to meet more of their planned operations. This resultsin higher profitability to the MSEs hence a positive relationship existsbetween the interest rates charged byMFIs and the profits of the MSEs mainly because of the amount of credit associated with these high interest rates.

2.3.2 Collateral

According to Gitman (2015), collateral is the extent to which assets are used by borrowers to a lender as security for debt payment. Tadesse (2014) states that a lot of MSEs faces a challenge accessing finance due to lack of collateral. This is because banks and other financial institutions do not have confidence on MSEs in repaying the loan on the specified period. According to a study done by Osano and Languitane (2016), on factors influencing access to finance by SMEs in Mozambique the study found that collateral requirements influence access to finance by SMEs. In addition a lot of SMEs are denied and discriminated by lenders when accessing finance. This is because most SMEs do not have adequate resources to provide as collateral.

According to a study done by Kung'u (2011), on factors affecting access to SMEs study found that start up SMEs faces challenges accessing credit due to lack of collateral and information. According to a study done by Karanja, Mwangi, and Nyakarimi (2014), on factors that influenced access to credit among women entrepreneur in Isiolo town findings revealed that there was a positive relationship between collateral requirement and access to credit services. It was also revealed that out of 3 firms studied, 80% asked for motor vehicles to secure borrower's credit. Gangata and Matavire, (2013) in their study on challenges facing MSEs in accessing finance from financial institutions, found out that very few MSEs succeed in accessing funding from financial institutions, this is because of lack of collateral security.

According to a study done by Vuvor and Ackah (2011), on challenge facing Small & Medium Enterprises (SMEs) in obtaining credit in Ghana study revealed that SMEs faces a challenge in accessing credit due to lack of collateral and audited financial statements. Makena (2014), in their study on challenges facing women entrepreneurs in accessing business finance in Kenya the study found out that lack of collateral was a major challenge that women entrepreneurs faces when accessing credit due to lack of tangible assets like land. Mira and Ogollah (2013) in their study on challenges facing accessibility of credit facilities among women owned enterprises in Nairobi Central Business in Kenya the study found that lack of collateral, information accessibility, knowledge level and insufficient skills had a strong negative influence on access to finance

Kira and He (2012) examined the impact of firms' characteristics on accessing finance by SMEs in Tanzania study revealed that there is a significant relationship between availability of collateral and access to finance. According to a report done by Kamau (2009), on 'challenges facing small and micro enterprises in Kenya' it was revealed SMEs faces a challenge accessing finance due to lack of collateral as security. The study also revealed that 92% of respondents studied had applied for a loan and were rejected while others had decided not to apply because they knew they would not get a loan due to lack of collateral.

Matavire (2013), in their study on challenges facing SMEs in accessing finance from financial institutions in Belaway, Zimbabwe, found out that SMEs fail to secure loans because of restrictive requirements of the financial institutions, top among them being collateral security. Among their recommendations is that the government should play its role of enabling SMEs to obtain finance from financial institutions. According to Olanrewaju, Ansary, and Agumba (2016), states that SMEs faces a challenge to access credit due to lack of assets to use as collateral. Banks use collateral for protection in case a borrower fails to make payment. Collateral also helps solve information asymmetric problems. In their study it was revealed that there was a strong positive relationship between collateral and access to finance.

2.3.3 Repayment Period

Yehuala (2008) in his study on determinants of smallholder farmer's access to formal credit, metemaworeda North Gondar. The study look at perception of the strengths and weaknesses of formal financial institutions, status of women and different wealth group's access to formal and informal credit sources identify factors that affect small-holder farmer's access to formal credit. The research used a two stage sampling method findings revealed that loan repayment period has a negative influence on access to credit. This is because repayment period affects the total amount that SME's will repay.

According to a study done by Kakuru (2008), on the supply-demand factors interface and credit flow to small and micro enterprises (SMEs) in Uganda. The study examined organizational structure, banking lending culture, information asymmetry, bank lending policies and practices. Multiple methods of data collection were used. Findings revealed that when SMEs perceive repayment period as inflexible, they will not apply for the loans.

Akisirire (2010) in his research on microfinance credit terms and performance of SMEs in Uganda: a case study of SMEs in Mbarara Municipality. Simple random sampling was used. SME's are still facing a challenge accessing finance due to rigid credit terms such as loan repayment schedules, interest rates and securities. Results revealed that the credit terms offered by MFIs were not favorable. SME's were not satisfied with maximum loan amounts, flexibility in collection procedures, favorable repayment schedules, low interest rates as well as adequacy of the information provided in relation to the loans.

Godquin (2004) age and size of loans have an inverse relationship to repayment performance. According to Chong (2010), amount of debt determines repayment obligations. Moreover, SME's usually find it a challenge to repay a loan when they are given big loans. Efficient loan sizes fit borrowers' repayment capacity and stimulate enterprise. If the amount of loan released is enough for the purposes intended, it has a positive impact on the borrower's capacity to repay. Bragg (2010:597) "the short time frame reduces the risk of non-repayment to the bank, which can be reasonably certain that the business's fortunes will not decline so far within such a short time period that it cannot repay the loan, while the bank will also be protected from long-term variations in the interest rate"

2.4 Characteristics of Entrepreneurs and Access to Credit

2.4.1 Education

Nguyen and Luu (2013) in their study on determinants of financing pattern and access to formal-informal credit revealed that there is a positive relationship between educational qualification and access to finance. Muturi and Ogubazghi (2014) in their study on the effect of age and educational level of owner/managers on SMEs access to bank loan in Eritrea findings revealed that education level of the owner/manager was positive and statistically significant. Mukiri (2012) in his study on the effect of educational level and training on access to bank loan indirectly through entrepreneurial orientation it was revealed that educational level of the entrepreneur has positive effect on access to finance. Kira (2013) states that SMEs that have owners/managers who have educational qualification of vocational level and beyond are more likely to be favored by banks to access credit.

Wangai and Omboi (2011) based on their research on factors that influence the demand for credit among small-scale investors the study found that that education level has a positive impact on an entrepreneur's access to finance. Ellis (2010) lack of financial literacy on how to use financial services reduces SMEs ability to borrow. Pandula (2011) in his study on an empirical investigation of small and medium enterprises' access to bank finance examined) findings revealed that, entrepreneur education and belonging to business association, has a positive effect on access to finance. According to a study done by Zarook, Rahman and Khanam, (2013); and Slavec and Prodan, (2012) findings revealed that there was a significant positive correlation between education level (literacy level) and access to finance.

Zarook *et al*, (2013); Slavec and Prodan (2012) in their research findings revealed that that educational level of owners has a positive correlation with access to finance. Okpara and Wynn (2007) states that MSEs faces a challenge accessing finance due to lack of education, high taxation rate, and high risk. According to a research done by Andoh and Nunoo (2014), on whether financial literacy matter in four districts of The Great Accra Region of Ghana the research found that there is a positive significant relationship between financial literacy and access to finance.

According to a study done by Kiplimo, *et al* (2015), on to determine access to credit by smallholder farmers in Kenya the Western region (Bungoma and Siaya counties) and Eastern region (Embu, Meru and Tharaka Nithi) the study found that that education level (literacy) in years had significant positive effects on access to credit. According to a research done by Kumar and Francisco (2005), on access to finance in Brazil it was revealed that there is a strong relationship between education and access to finance. In addition, it was revealed that educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs.

2.4.2 Gender

While account ownership is nearly universal in high-income countries, women have less access to banking than men do in all the selected countries, with Kenya, Uganda and Tanzania registering the largest gaps in access (Wanjala, 2014). Wandibba, Nangendo, and Mulemi (2012) add that psychological differences are also a major determinant of

access to finance for men and women. Wandibba *et al* (2012), men and women differ in their willingness to take risks in that women tend to be more averse to risk than men and that, other things equal, women are likely to forego activities that offer higher returns if these opportunities require them to bear too much risk.

Presbitero *et al* (2014) state that gender equality concerning the access to financial resources is a key issue in order to promote the empowerment of women as well as economic growth and sustainable development. Presbitero *et al* (2014) add that a better provision of financial resources available to women would empower them not only economically but also politically and socially yet; women receive very little support in their businesses and often do not know about their rights to seek financial services. In his study in Pakistan, Zulfiqar (2017) concluded that access to financial resources remains limited in developing countries for women. According to the author, despite the existence of programs specifically focused on women in developing countries, there is a long way to go in ensuring equal gender access to financial services, particularly in rural areas.

Nkuah and Gaeten (2013) in their study on challenges and determinants in accessing bank credit by SMEs in Ghana findings revealed that in Ghana, male entrepreneurs were able to access finance easily than female entrepreneurs this is because financial institutions favored male entrepreneurs more than female entrepreneurs.

Women face a wide range of constraints that hamper their access to financial services (Ahmad & Muhammad Arif, 2016). In addition, this is because they are likely to lack time due to their role in the household and mobility to interact with financial service providers. Women, according to Mendonca and Sequeira (2016) are often in a weaker position to take on funding for their microenterprises and SMEs as traditions and cultural rules combined with a lack of property rights can discriminate against them in terms of access to property and lack of sufficient assets that can be accepted as collateral. In certain African societies, lending practices may be influenced by institutional barriers and practices such as requiring husbands to co-sign for a loan, to ensure that women's initiatives are approved by their husbands (Aterido, Beck & Iacovone, 2013).

Onchiri and Patrick (2015) agree that legal regulations and customary rules often restrict women's access to and control over assets that can be accepted as collateral such as land or livestock. Onchiri and Patrick (2015) adds that women are much less likely to have land titled under their name, even when their families own land, and are less likely than

men to have control over land, even when they do formally own. Allen *et al* (2014) also noted that inheritance laws favor men over women reducing women's access to family assets and in turn the need for financial services. The authors add that rural women's access to financial resources is also limited by biased lending practices evidenced when financial institutions consider them less experienced and therefore less attractive clients, or when institutions lack the knowledge to offer products tailored to women's preferences and constraints

2.4.3 Networking

Network ties refer to a firm's relationships with its business partners, government offices, and financial institutions (Wu & Leung, 2005). Olekamma (2016) networks can also be used by SMEs to overcome the challenge of accessing limited resources and markets. Through networking SMEs are able to access information, and get advice and capital. According to Atieno (2009), networks can be used as the solutions to overcome the problems of access to limited resources and markets. In addition SMEs that are associated with professional trade or social association are able to easily access credit as compared to SMEs that do not belong to any association. In her research on linkages, access to finance and the performance of small-scale enterprises in Kenya it was revealed that there is a positive relationship between SMEs networking with government officials and access to credit. Le and Nguyen (2009) networking with government officials promotes usage of bank financing in SMEs' capital structure. In their study on the impact of networking on bank financing it was revealed that there is a positive relationship between SMEs networking and access to finance. Finding consists with a research done by Javed (2011) on determinants of business success of small and medium enterprises which revealed that financial resources and government support have a positive and significant influence on business success.

Zizahet *al*, (2010) in his research on influential factors for SME internationalization in Malaysia found that SMEs that network with government agencies and other institutions are able to get relevant and updated information about their business. Nurbani *et al*. (2010) through networking with the government agencies SMEs are trained on procedures that are required when applying for a loan and easier and faster ways to promote their products abroad. Hoang and Antoncic, (2003); Peng, (2001) thorough networking SMEs are able to access external finance, spread knowledge about a firms existence and share

information and get needed support. Through social networks SMEs are able to access and share knowledge from other SMEs and also access external finance from banks and other lending institutions (Ngoc & Nguyen, 2009).

Talavera *et al* (2010) in their research on the impact of social capital on financial obstacles faced by entrepreneurs found that smaller business managers and owners use networking to get key information, business opportunities and gain access to finance. Chua *et al.* (2011) asserts that most SMEs are too small and lack resources to make use of networking (social capital) to gain access to debt finance. However according to a research done by Pandula (2011) on findings revealed that there is a positive relationship between networking and access to finance. Thrikawala (2011) SMEs that network with government agencies are able to improve their performance and access credit. According to a study done by Tafadzwa and Olawale on the impact of networking on access to debt finance and performance of small and medium enterprises in South Africa it was revealed that there is a positive relationship between SMES access to finance and networking.

2.5 Chapter Summary

It is clear that youth enterprises encounter several challenges in their attempts to access financial services from commercial lending institutions and government schemes like Youth Enterprise Development Fund. These include inadequate education and financial literacy, high cost of credit, high bank charges and fees. A general lack of experience and exposure also restricts youth enterprise holders from venturing out and dealing with financial institutions and government schemes. Financial institutions also require collateral and hence restrict the money youths borrow. Chapter three presents research methodology that was used in the study.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter features components of the research methodology that was employed in study. The chapter presents the research design, target population, sample size and sampling procedure. The chapter also discusses on the data collection procedures and methods of data analysis.

3.2 Research Design

According to Bhattacharjee (2012), research design is the arrangement of the conditions for collections and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This is the conceptual structure in which research is conducted and constitutes the blue print for the collection, measurements and analysis of data. In this study, a descriptive survey research design was adopted. Descriptive research is directed at making careful observations and detailed documentation of a phenomenon of interest. These observations must be based on the scientific method must be replicable, precise, and therefore, are more reliable than casual observations by untrained people (Bhattacharjee, 2012).

Descriptive survey research design was used since it is considered as the best method available to social scientists and other educators who are interested in collecting original data for purposes of describing a population which is too large to observe directly. This research design is therefore considered appropriate in studying factors affecting financial access by youth SMEs in Kiambu County.

3.3 Population and Sampling Design

3.3.1 Population

Target population in statistics is the specific population from which information is desired (Bhattacharjee, 2012). The target population under the study was 2,750 registered youth SMEs in Kiambu County. Of the registered SMEs in Kiambu County an estimated 2,750 registered SMEs have between 1 and 50 employees. 179 SMEs are in manufacturing, 837 services and 1,734 are in trade sector. (Kiambu County, 2015). Population of the study is

presented in table 3.1. The respondents will be the owners or senior managers (employees) of the SMEs.

Table 3.1: Population Distribution

Sector	No of SMEs	Percentage
Manufacturing	179	7
Services	837	30
Trading	1,734	63
Total	2,750	100

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

A sampling frame is a list of all the elements in the population from which the sample is drawn (Maylor &Blackmon, 2005). It is a complete list of everyone or everything to be studied. The study sampled youth enterprises in Kiambu County. Based on Kiambu county data base there are around 2,750 SME's in Kiambu. However, the study sampled 96 SME's 6 operate in the manufacturing sector, 29 service sector and 61 trading sector.

3.3.2.2 Sampling Technique

This study employed stratified random sampling design in obtaining sample from the clients; a design of sampling in which each item from the target population was accorded equal chance of being included in the final sample, hence ascertaining objectivity in sample selection. Stratification was done based on the sector the firms are operating that includes manufacturing, services or trading. The number of SMEs studied was based on the weight of the sector in relation to total population

3.3.2.3 Sample Size

Sample size refers to the number of respondents to be studied. Slovin's formula was used to identify the sample size. By applying the formula, a sample size of 96 SMEs was studied using at 10% margin of error. Stratified random sampling was used to identify a sample under each stratum. The weight of the stratum was identified by relating the population under the strata in relation to the entire population (Sekaran and Bougie,

2011). The study sampled 96 youth owned SMES. Distribution of the SMEs per sector was manufacturing6, services29 and trading 61.

Slovin's formula is:

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

Where n = number of samples, N = total population and e = error margin / margin of error.

$$\begin{aligned} N &= \frac{2,751}{[(1 + 2751(0.1)^2)]} \\ &= 96 \end{aligned}$$

The distribution of the SMEs per sector was manufacturing6, services29 and trading 61.

Table 3.2: Sample Size

Sector	Population	Weight	Sample Size
Manufacturing	179	7%	6
Services	837	30%	29
Trading	1734	63%	61
Total	2750	100%	96

3.4 Data Collection Methods

Data was collected from primary sources using questionnaires. To ensure that data collected address the study objectives, the data collection instruments were selected appropriately to avoid collecting irrelevant information. In this study, the researcher developed questionnaire for purposes of obtaining data from the respondents. Questionnaire is regarded as one of the most effective tools used for data collection in cases where the study targets a large population that is vastly spread in a wide geographical area. The questionnaire items comprised of both closed-ended and open-ended questions that gave the advantage of collecting both qualitative and quantitative information. The questionnaire to be used is presented in Appendix 1; Section A covers

questions regarding SMEs and the respondents. The other sections have questions based on research questions.

3.5 Research Procedure

Online and self-administered questionnaires were used to collect data. Self-administered questionnaires were dropped and picked immediately respondents were done answering. A pilot study was done to determine the reliability of the questionnaire. Information obtained from the pilot study was used to improve the quality of the questionnaire. Standardization of the questionnaire was done to reduce interference from interpersonal factors. Respondents were given enough to fill in the questionnaires. The respondents were required to complete questionnaire as honestly as possible. The information that was received was treated confidentially. The researcher also applied for a research permit from the National Council for Science and Technology which authorized the data collection process.

3.6 Data Analysis Methods

Data analysis refers to the examination of data collected in a study and making deductions and references. It also involves uncovering the underlying structures, extracting important variables, detecting anomalies, scrutinizing the acquired information and testing underlying assumptions (Mugenda and Mugenda, 2013). Data collected was cleaned to ensure that only relevant data was retained for analysis. The study used Pearson correlation and regression to determine the influence of independent variables on the dependent variable. Statistical Packages for Social Scientist (SPSS) was used to analyze data. Qualitative data was analyzed by making inferences from views and opinions of respondents. The information obtained was then summarized and organized according to research objectives. Data was presented using frequency, tables, and figures.

3.7 Chapter Summary

The chapter presents research methodology that was used by the study. The chapter also discusses research design, population and sampling, data collection, research procedure and data analysis methods. Chapter four presents results and findings of the study.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents results and findings achieved for the data analysis done. It presents findings from demographic data and also from each research question.

4.1.1 Response Rate

This is a representation of the total elements who gave a response in terms of the questionnaires distributed. A total of 96 questionnaires were distributed and out of which only 57 responded, giving a 59% response rate. The study sampled 61 SME's from trading sector only 28 responded, 29 from service sector, only 23 responded and 6 from manufacturing and all of them responded. This was deemed sufficient for the study and is indicated in Table 4.1

Table 4.1: Response Rate

Variable	Sample	Responded		Non-respondents	
		Frequency	Percentage	Frequency	Percentage
Trading	61	28	46	33	54
Service	29	23	79	6	21
Manufacturing	6	6	100	0	0
Total	96	57		39	

4.2 Descriptive Analysis

This section presents demographic information obtained from the field.

4.2.1 Demographic Information

4.2.1.1 Age

To investigate age of the respondent's findings revealed that 39% of the respondents are between 30-35 years and above, 33% are between age group 25-30 and 28% are between age group 30-35 years as shown in figure 4.1 below

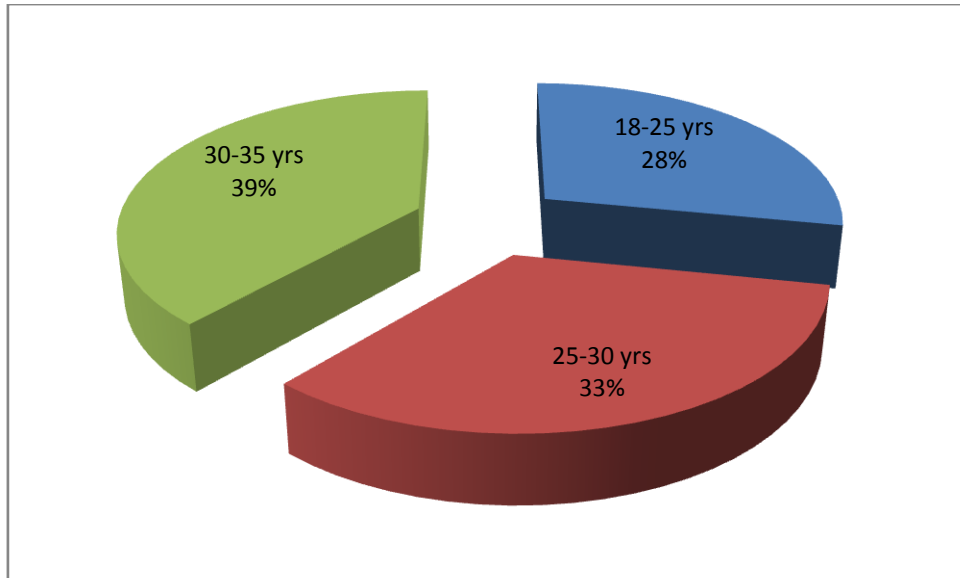


Figure 4.1: Age of Respondents

4.2.2 Gender

To investigate the gender of the respondent's findings revealed that 56% of the respondents are female and 44% are male. As shown in figure 4.2. This shows that a lot of SME's are being owned by women as compared to male

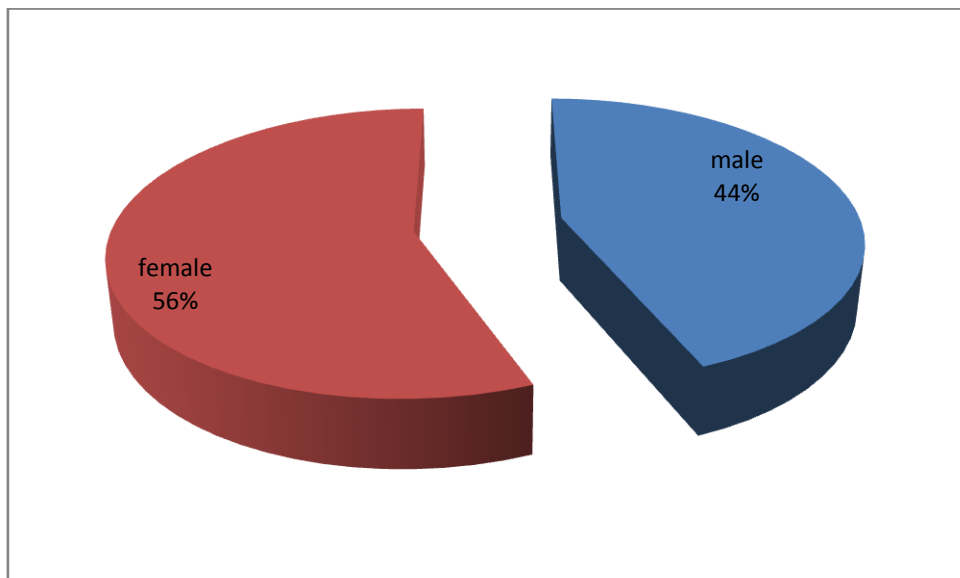


Figure 4.2: Gender

4.2.3 Business Sector in the Industry

To investigate sector of business sector SME's belong to findings revealed that 49% of respondents are in the trading sector, 40% are in service sector and 11% are in manufacturing sector as shown in figure 4.3 below.

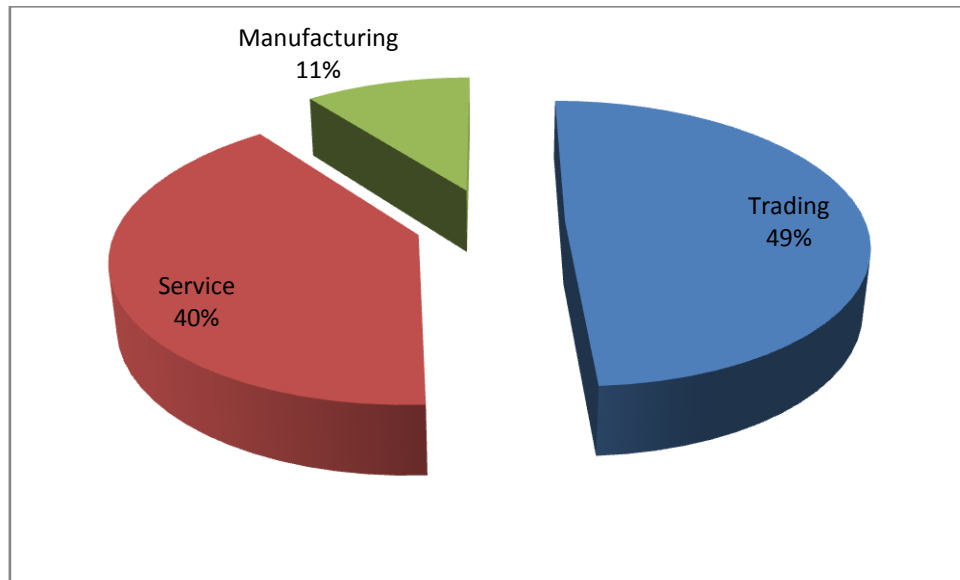


Figure 4.3: Business Sector in the Industry

4.2.4 Years in the Business

To investigate number of years respondents have been in the business findings revealed that 28 respondents have been in the business for 3-5 years representing 49% of the population, 14 respondents have been in the business for 0-2 years representing 25% of the population, 9 respondents have been in business for 6-8 years representing 16% of the population, 4 respondents have been in business for 9-11 years representing 7% of the population and 2 respondents have been in business for more than 11 years representing 4% of the population as shown in table 4.2 below

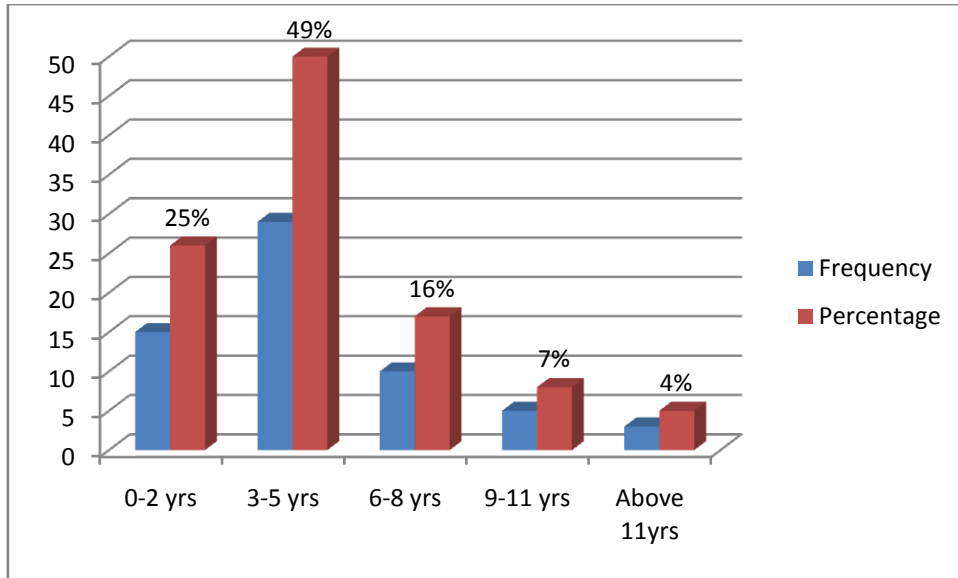


Figure 4.4: Years in the Business

4.2.5 Level of Education

To investigate respondents level of education findings revealed that 18 respondents have a degree this represents 32% of the population, 17 respondents have a diploma this represents 30% of the population, 8 respondents has secondary education this represents 14% of the population, 7 respondents have certificate this represents 12% of the population 3% have primary school education this represents 5% of the population and 1% have PHD this represents 2% of the population as shown in figure 4.5 below

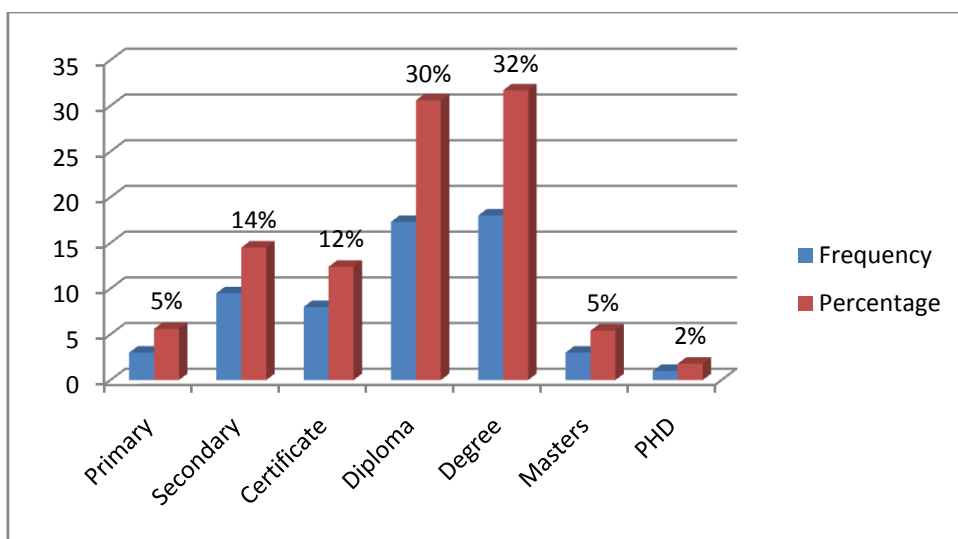


Figure 4.5:Level of Education

4.2.6 Type of Financing

To investigate types of financing respondents have accessed findings revealed that 18 respondents have used personal savings this represents 32% of the population, 18 respondents also have accessed more than on type of financing this represents 32% of the respondents, 10 respondents have accessed loan from banks this represents 18% of the population, 5 respondents have accessed loan from families this represents 9% of the population, 4 respondents have accessed informal loan this represents 7% of the respondents, 2% have accessed loan from business angels this represents 4% as shown in figure 4.6 below

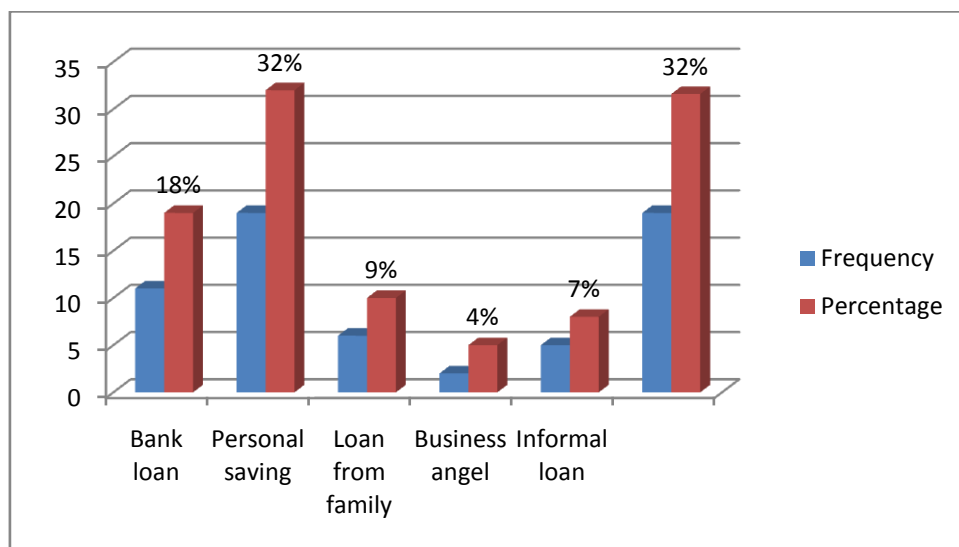


Figure 4.6: Type of Financing

4.3 Descriptive Analysis

4.3.1 Effect of Business Characteristics on Financial Access for Youth Owned Businesses in Kiambu County

The first objective of the study sought to establish effect of business characteristics on financial access for youth owned businesses in Kiambu County. Respondents were asked several questions that they were rating with the least being Strongly Disagree (1) and the highest being Strongly Agree (5).

4.3.1.1 Business Characteristics

The findings revealed that 47% of respondents strongly agreed that SME's experience a challenge accessing finance as compared to larger SME's, 26% did not reach an

agreement and 9% agreed. It was noted that 47% agreed that they would have qualified for higher loan amount if their business would have been around longer, 32% strongly agreed and 9% strongly disagreed. The study also revealed that 54% agreed that banks consider length of operation before giving a loan, 30% strongly agreed while 7% disagree. In addition, findings also revealed that 47% agreed that registered SME's access finance easily than non registered SME's while 25% strongly agreed and 19% disagreed. It was noted that 54% disagreed that it is easy to access finance as an individually owned SME than as a group owned SME, 21% did not reach an agreement and 11% agreed. It was also revealed that 51% agreed that registered SME's are more likely to borrow than non-registered SME's, 21% strongly agreed, 12% did not reach an agreement. 44% agreed that SMEs in the manufacturing industries faces more challenge accessing finance as compared to SME's in trading and service industry, 28% did not reach an agreement, 7% agreed.

On analysis of the mean variable banks consider my length of operation before giving a loan had the highest mean of (4.07) and a standard deviation of (1.202) whereas it is easy to access finance as an individually owned SME than as a group owned SME had the lowest mean of (2.62) and standard deviation of (1.077)

Table 4.2: Business Characteristics on Financial Access

Variable	SD	D	N	A	SA	Mean	STD	Missing
	%	%	%	%	%			
Smaller SME's faces a challenge accessing finance as compared to large SME's	5	7	26	9	47	3.19	1.134	5
If my business had been around longer I would qualify for higher loan amounts.	9	7	5	47	32	3.86	1.202	0
Banks consider my length of operation before giving a loan	0	7	9	54	30	4.07	0.821	0
Registered SMES access finance easily that non registered SMES	2	19	7	47	25	3.74	1.094	0
It is easy to access finance as an individually owned SME than as a group owned SME	5	54	21	9	11	2.65	1.077	0
Registered SME's are more likely to borrow than non-registered SME's	9	7	12	51	21	3.68	1.152	0
SMEs in the manufacturing industries faces more challenge accessing finance as compared to SME's in trading and service industry	5	14	28	44	7	3.34	0.996	2

1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree

4.4 Descriptive Analysis

4.4.1: How Lending Requirement Affects Access to Financial among Youth SME's in Kiambu County

The third objective sought to establish how lending requirement affects access to financial among youth SME's in Kiambu County. Respondents were asked several questions that they were rating with the least being Strongly Disagree (1) and the highest being Strongly Agree (5).

4.4.1.1 Lending Requirement

The findings revealed that 44% strongly agreed that they consider amount of interest rates charged before seeking finance, 28% agreed and 18% disagreed. It was noted that 40% agreed that they face challenges accessing finance due to high interest rate, 28% strongly agreed and 18% disagreed. In addition, 37% agreed that they have enough collateral to

qualify for a loan, 21% disagreed, 18% strongly disagreed. It was also revealed that 44% strongly agreed that financiers consider collateral before awarding a loan, 35% agreed, 4% disagreed. It was noted that 44% agreed that they maintain proper financial record, 28% strongly agreed, 21% never responded. It was revealed that 37% agreed that well managed financial records assist in getting loan in my firm, 35% strongly agreed, while 14% never responded. 26% did not reach an agreement on banks offer flexible loan repayment terms, 23% also disagreed, 18% strongly disagrees. It was noted that 37% disagreed that loan repayment period does not affect my decision in accessing finance, 28% agreed and 25% strongly disagreed.

On analysis of the mean variable financiers consider collateral before awarding a loan had the highest mean of (4.12) and standard deviation of (1.019) whereas, loan repayment period does not affect my decision in accessing finance had the lowest mean of (2.56) and standard deviation of (1.323)

Table 4.3: Lending Requirement on Financial Access

Variable	SD	D	N	A	SA	Mean	STD	Missing
	%	%	%	%	%			
I consider the amount of interest rates charged before seeking finance	0	12	16	28	44	4.04	1.052	0
I face challenges accessing finance due to high interest rate	4	18	5	40	28	3.76	1.181	0
I have enough collateral to qualify for a loan.	18	21	9	37	16	3.12	1.39	0
Financiers consider collateral before awarding a loan	4	4	14	35	44	4.12	1.019	0
I maintain proper financial record	4	4	21	44	28	3.89	0.976	0
well managed financial records assist in getting loan in my firm	2	12	14	37	35	3.91	1.074	0
Banks offer flexible loan repayment terms	18	23	26	23	7	2.82	1.234	4
Loan repayment period does not affect my decision in accessing finance	25	37	4	28	7	2.56	1.323	0

1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree

4.5 Descriptive Analysis

4.5.1 Effects of Entrepreneur Characteristics on Financial Access among Youth SMES in Kiambu County

The third objective sought to establish entrepreneur characteristics on financial access among youth SMES in Kiambu County. Respondents were asked several questions that they were rating with the least being Strongly Disagree (1) and the highest being Strongly Agree (5)

4.5.1 Entrepreneur Characteristics

The findings revealed that 33% agreed that they require more business training to access loans, 28% strongly agreed and 26% did not reach an agreement. 35% agreed that lenders consider education level before offering funds, 25% strongly disagreed, 23% disagreed. It was revealed that 33% disagreed that gender influence the amount of loans awarded by banks, 25% strongly disagreed, 18% strongly agreed. It was noted that 23% did not reach an agreement in men and women have different risk appetite towards loans, 23% agreed while 18% disagreed. Findings also revealed that 28% agreed that keeping the right network has enabled them get access to loans, 26% strongly agreed, 25% did not reach an agreement. It was noted that 49% agreed that SMEs that network with government agencies are able to improve their performance and access credit, 25% strongly agreed, and 16% did not reach an agreement. On analysis of the mean SMEs that network with government agencies are able to improve their performance and access credit had the highest mean (3.81) and standard deviation of (1.076) whereas, lenders consider education level before offering funds had the highest mean of (2.61) and standard deviation of (1.235).

Table 4.4: Entrepreneur Characteristics on Financial Access

Variable	SD	D	N	A	SA	Mean	STD	Missing
	%	%	%	%	%			
I require more business training to access loans	4	9	26	33	28	3.74	1.0780	
Lenders consider education level before offering funds	25	23	12	35	2	2.61	1.235	3
I believe gender influence the amount of loans awarded by banks	25	33	11	12	18	2.62	1.446	2
Men and women have different risk appetite towards loans	18	7	23	23	30	3.40	1.438	0
Keeping the right network has enabled me get access to loans	2	12	25	28	26	3.70	1.085	7
SMEs that network with government agencies are able to improve their performance and access credit	7	4	16	49	25	3.81	1.076	0

Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree

4.6 Formal Financial Access

The study sought to establish effects of formal financial access on entrepreneur characteristics, business characteristics and lending requirement. Respondents were asked several questions that they were rating with the least being strongly Disagree (1) and the highest being Strongly Agree (5).

4.5.1 Formal Financial Access

The findings revealed that 33% agreed that they have access to credit from the youth enterprise development fund, 30% agreed and 16% strongly disagreed. It was noted that 35% agreed that they are aware of the youth enterprise development fund as a source of credit for my business, 21% strongly agreed, 16% strongly disagreed. In addition, it was also revealed that 35% agreed that there is an increased need for external financing over the past 6 months, 26% disagreed and 11% strongly disagreed. It was noted that 30% strongly disagreed that their firm have applied for and gotten a loan from the youth enterprise development fund, 23% agreed and 18% did not reach an agreement.

On analysis of the mean I have enough access to credit from the youth enterprise development fund had the highest mean of (3.51) and standard deviation of (1.428) and there is an increased need for external financing over the past 6 months. Had the lowest mean of (2.81) and standard deviation of (1.315).

Table 4.5: Formal Financial Access

Variable	SD	D	N	A	SA	Mean	STD	Missing
	%	%	%	%	%			
I have enough access to credit from the youth enterprise development fund	16	11	11	33	30	3.51	1.428	0
I am aware of the youth enterprise development fund as a source of credit for my business	16	9	19	35	21	3.37	1.3450	
There is an increased need for external financing over the past 6 months.	21	26	11	35	7	2.81	1.3150	
My firm has applied for and gotten a loan from the youth enterprise development fund	30	11	18	23	16	2.84	1.500	4

Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree

18% disagreed that they have access to credit from the youth enterprise development fund, 14% strongly disagreed and 7% agreed.

4.7 Inferential Statistics

4.7.1 ANOVA

An ANOVA analysis was done between business characteristics on access to finance. At 95% confidence level, the F value = 5.641, P<021) therefore it is established that there is a liner relationship between business characteristics and access to financeare shown in table 4.3 below.

Table 4.6: ANOVA Access to Finance and Business Characteristics

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.931	1	4.931	5.641	.021 ^b
	Residual	48.082	55	.874		
	Total	53.013	56			

a. Dependent Variable: Access to finance

b. Predictors: (Constant), Business characteristics

4.7.1.1 Regression between Business Characteristics and Access to Finance

A regression analysis was done between business characteristics and access to finance. On analysis, the R square value was 0.093 and a p-value of (0.021) was significant as indicated in Table 4.4. This means that 9.3% of the variation in business characteristics was caused by access to finance.

Table 4.7: Model Summary on Access to Finance and Business Characteristics, Lending Procedure and Entrepreneur’s Characteristics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.305 ^a	.093	.077	.93500	.093	5.641	1	55	.021

a. Predictors: (Constant) business characteristics

4.8.1 ANOVA

An ANOVA analysis was done lending procedure on access to finance. At 95% confidence level, the F value=4.127, P<0.047) therefore it is established that there is a liner relationship between lending requirement and access to finance are shown in table 4.8 below

Table 4.8: ANOVA Lending Requirement and Access to Finance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.701	1	3.701	4.127	.047 ^b
	Residual	49.313	55	.897		
	Total	53.013	56			

a. Dependent Variable: Access to finance

b. Predictors: (Constant), lending procedure

4.8.1.1 Regression between Lending Requirement and Access to finance

A regression analysis was done between access to finance and lending requirement. On analysis, the R square value was 0.070 and a p-value of (0.047) was significant as indicated in Table 4.7 This means that 7% of the variation in lending requirement was caused by access to finance

Table 4.9: Model Summary on Lending Requirement and Access to Finance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.264 ^a	.070	.053	.94689	.070	4.127	1	55	.047

a. Predictors: (Constant) lending procedure

4.9.1. ANOVA

An ANOVA analysis was done between entrepreneur characteristics' on access to finance. At 95% confidence level, the F value= 18.556, P<0.000) therefore it is established that there is a liner relationship between entrepreneur characteristics and access to finance are shown in table 4.10 below

Table 4.10: ANOVA Entrepreneur Characteristics on Financial Access

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.374	1	13.374	18.556	.000 ^b
	Residual	39.639	55	.721		
	Total	53.013	56			

a. Dependent Variable: Access to finance

b. Predictors: (Constant), Entrepreneur Characteristics

4.9.1.1 Regression between Entrepreneur Characteristics and Access to Finance

A regression analysis was done between entrepreneur characteristics and access to finance. On analysis, the R square value was 0.252 and a p-value of (0.000) was significant as indicated in Table 4.10 This means that 25% of the variation in entrepreneur characteristics was caused by access to finance.

Table 4.11: Model Summary on Entrepreneur Characteristics on Financial Access

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.502 ^a	.252	.239	.84895	.252	18.556	1	55	.000

a. Predictors: (Constant) Entrepreneur Characteristics

4.10.1 ANOVA

An ANOVA analysis was done between business characteristics, lending procedure and entrepreneur characteristics' on access to finance. At 95% confidence level, the F value=7.015, P<0.000) therefore it is established that business characteristics, lending procedure and entrepreneur characteristics has significant effect on access to finance the results are shown in table 4.12 below

Table 4.12: ANOVA Access to Finance and Business Characteristics, Lending Procedure and Entrepreneur's Characteristics

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.068	3	5.023	7.015	.000 ^b
	Residual	37.945	53	.716		
	Total	53.013	56			

a. Dependent Variable: Access to finance

b. Predictors: (Constant), business characteristics, lending procedure and entrepreneur characteristics

4.10.1.1: Regression between Access to Finance and Business Characteristics, Lending Procedure and Entrepreneur Characteristics

A regression analysis was done between access to finance and other factors. On analysis, the R square value was 0.284 and a p-value of (0.000) was significant as indicated in

Table 4.13. This means that 28% of the variation in access to finance was caused by the combined effects of business characteristics, lending procedure and entrepreneur's characteristics.

Table 4.13: Model Summary on Access to Finance and Business Characteristics, Lending Procedure and Entrepreneur's Characteristics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.533 ^a	.284	.244	.84614	.284	7.015	3	53	.000
a. Predictors: (Constant) business characteristics, lending procedure and entrepreneur characteristics'									

4.8 Chapter Summary

This chapter discusses results and findings based on data that was collected from SME's in Kiambu County. It also gives an analysis on information regarding demographic business characteristic lending procedure and entrepreneur characteristics. The next chapter will entail the summary of the findings, discussion, conclusions and recommendation from the study as well as those for further studies

CHAPTER FIVE

5.0 DISCUSSION CONCLUSION AND RECOMMENDATION

5.1 Introduction

This section gives an analysis of on findings obtained. Findings were discussed based on literature review that is for or against the findings. The chapter also gives conclusion and recommendation for improvements and further studies.

5.2 Summary

The purpose of the study was to determine the factors affecting financial access to youth owned businesses in the small and medium sized enterprises in Kenya using Kiambu County as a case study. The study was guided by the following research questions; What is the effects of entrepreneur characteristics on financial access among the youth SMEs in Kiambu County, how does lending requirement affect financial access for youth owned businesses in Kiambu County and What is the effect of business characteristics on financial access for youth owned businesses in Kiambu County

Descriptive research design was used to carry out the study. The target population was 2,750 registered youth SMEs in Kiambu County. Of the registered SMEs in Kiambu County an estimated 2,751 registered SMEs have between 1 and 50 employees. This study employed stratified random sampling design in obtaining sample from the clients. Descriptive statistics was used to analyze data that was collected. Pearson correlation and regression analysis were used to determine how independent variables influences dependent variable. Statistical Package for Social Sciences (SPSS) software was used to analyze the data. Out of 69 questionnaires that were distributed, only 57 were filled and returned giving a response rate of 83%.

The first objective set to establish effect of business characteristics on financial access for youth owned businesses in Kiambu County. Findings revealed that most respondents strongly agreed that SMEs in the manufacturing industries faces more challenge accessing finance as compared to SME's in trading and service industry. In addition, respondents agreed that smaller SME's experience a challenge accessing finance as compared to larger SME's, they would have qualified for higher loan amount if their business would have been around longer, banks consider length of operation before giving a loan, that it is easy to access finance as an individually owned SME than as a

group owned SME, registered SME's are more likely to borrow than non-registered SME's. However it was revealed that respondents equally agreed and disagreed on registered SME's access finance easily

The second objective set to establish effect of lending requirement on financial access among youth SME's in Kiambu County. Findings revealed that respondents strongly agreed that that they face challenges accessing finance due to high interest rate and financiers consider collateral before awarding a loan. Additionally respondents agreed that they consider amount of interest rates charged before seeking finance, they have enough collateral to qualify for a loan; SME's maintain proper financial record and well managed financial records assist in getting loan in my firm. However respondents disagreed that loan repayment period does not affect my decision in accessing finance and banks offer flexible loan repayment terms.

The third objective set to establish effect of entrepreneur characteristics on financial access among youth SME's in Kiambu County. The findings revealed that respondents agreed that they require more business training to access loans, lenders consider education level before offering funds, men and women have different risk appetite towards loans, keeping the right network has enabled them get access to loans, SMEs that network with government agencies are able to improve their performance and access credit. Respondents disagreed that gender influence the amount of loans awarded by banks. However, respondents did not reach an agreement on they require more business training to access loans and on lenders consider education level before offering funds.

5.3 Discussion

5.3.1 Effect of Business Characteristics on Financial Access for Youth Owned Businesses in Kiambu County

The study intended to establish effects of business characteristics on financial access. Findings revealed that SMEs in the manufacturing industries faces more challenge accessing finance as compared to SME's in trading and service industry. This is in line with a study done by Sakara (2014) who revealed that business sector also influences access to finance. A study done by Deakin *et al* (2010); Baah-Nuakoh (2003) revealed that manufacturing SMEs have less access to credit compared to SME's in other industry.

Kumah (2011) states that firms in the service industry are more likely to access finance easily compared to SME's in the agricultural industry.

Findings also revealed that smaller SME's experience a challenge accessing finance as compared to larger SME's. This is in line with similar studies done by Monteiro (2013); (IFC, 2009) Fatoki and Asah (2011) and Kira and He (2012) in their study, they revealed access to finance is positively influenced by size of the business. In addition it was also revealed that small SME's faces a challenge accessing finance due to lack of credit worthy information, collateral and insufficient documents. However, survey done by done by Schiffer and Weder (2001), on firm size and the business environment the survey revealed that there is a negative relationship between size of a business and risk it might pose to a lender.

Findings revealed that banks consider length of operation before giving a loan and they would have qualified for higher loan amount if their business would have been around longer. This is similar to study done by Deakins (2010); Mulandi (2013); Ajagbe (2012) ;Lore (2007)in their study it was revealed that SME's faces a challenge accessing finance due to their age of the business, size, access to collateral, geographical location capital investment, financial records, information access, value of asset, education, nature of the credit market, work experience and social contacts.. Klapper (2010), asserts that firms with less than 5 years (younger firms) in operation are less likely to rely on debt financing from lenders whereas Ngoc, Le and Nguyen (2009) revealed that younger firms face hardship in accessing finance from lenders because of information asymmetry. It was also revealed that there was a positive relationship between the age of the firm and access to debt. However a study done by Nguyen and Luu (2013); Slavec and Prodan (2012) revealed that age does not have significant effect on access to finance.

Findings revealed that it is easy to access finance as an individually owned SME than as a group owned SME. This is in contrast to a study done by Kimuyu and Omiti, (2000) sole proprietorship SME's are less inclined to seek for credit under other ownership structures as they are less prone to risk taking. Furthermore, entrepreneurs who belong to a support group borrow more than those who do not because of the externality enjoyed by group members.

Findings revealed that registered SME's are more likely to borrow than non-registered SME's. This is in line with study done by Demirgüç-Kunt *et al* (2006); Kimuyu and

Omiti, (2000) who stated that incorporated and registered SME's are more likely to borrow from banks than unregistered and unincorporated SME's

5.3.2 Effect of Lending Requirement on Financial Access among Youth SME's In Kiambu County

The study intended to establish effect of lending requirement on financial access among youth SME's in Kiambu County they consider amount of interest rates charged before seeking finance and agreed that they face challenges accessing finance due to high interest rate. This is in line to study done by Bett (2013), Kaufmann and Wilhelm, 2006; World Bank (2003); USAID (2005); USAID (2007) findings revealed that SMEs face challenges accessing credit due to availability of fewer facilities to offer finance. It was also noted that most SMEs fear applying for credit due to high interest rates and lack of information on availability of more affordable services that are being offered. In support to a study done by Bwisa, (2013); Yörük (2001) also revealed that SMEs faces a challenge to access credit due to high cost of credit, high rate of legal fee, high rate of interest, high cost of credit insurance, travel expenses and short maturity terms and insufficient loan sizes.

Findings also revealed that financiers consider collateral before awarding a loan. In support to this statement, study done by Tadesse (2014); Osano and Languitone (2016) revealed that a lot of SME' are denied credit by financial institutions due to lack of enough resources to provide as collateral. This is because banks and other financial institutions do not have confidence on MSEs in repaying the loan on the specified Findings also revealed that there was a significant relationship between collateral and access to finance

Findings revealed that respondents have enough collateral to qualify for a loan. This is in contrast to study done by Kira and He (2012); Kamau (2009) and Matavire (2013), which revealed that SME's faces a challenge accessing finance due to lack of collateral and. However our study shows that SME's have collateral hence are able to access finance.

Findings revealed that SME's have proper maintained records which are well managed hence able to get credit. This is in line with study done by Leuz *et al*, 2012; Bushee and Leuz, (2005) quality financial information is also important because it reduces

information asymmetry between the management of the enterprise and the banks; its reduction has desirable effects on the cost of finance

Findings revealed that loan repayment period does not affect respondent's decision in accessing finance. This is in line with study done by Kakuru (2008); Yehuala (2008); Akisimire (2010) findings revealed that repayment period does affect SME's access to finance this is because that when SMEs perceive repayment period as inflexible, they will not apply for the loans, repayment period affects the total amount that SME's will repay, SME's were not satisfied with maximum loan amounts and favorable repayment schedules

5.3.2 Effect of Entrepreneur Characteristic on Financial Access among Youth SME's In Kiambu County

Findings revealed that gender influence the amount of loans awarded by banks, and men and women have different risk appetite towards loans. Findings are similar to study done by Nkuah and Gaeten (2013) which revealed that in Ghana, male entrepreneurs were able to access finance easily than female entrepreneurs this is because financial institutions favored male entrepreneur's more than female entrepreneurs. Study done by Onchiri and Patrick (2015); Allen *et al* (2014); Ahmad and Muhammad (2015); Mendonca and Sequeira (2016) revealed that women face challenges accessing finance more than men due to lack of time due to their role in the household and mobility to interact with financial service providers, lack of land titled, legal regulations, customary rules and traditions.

Wandibba *et al* (2014) men and women differ in their willingness to take risks in that women tend to be more averse to risk than men and that, other things equal, women are likely to forego activities that offer higher returns if these opportunities require them to bear too much risk.

Findings revealed that keeping the right network has enabled access to loans and SMEs that network with government agencies are able to improve their performance and access credit. This is similar to study done by Olekamma (2016); Atieno (2009); Le and Nguyen (2009); Javed (2011); Zizah *et al*, (2010); Hoang and Antoncic, (2003); Peng, (2001) which revealed that networks can also be used by SMEs to overcome the challenge of accessing limited resources and markets. In addition, through networking with government officials will enable SME's get relevant and updated information about their

business, trained on procedures that are required when applying for a loan and easier and faster ways to promote their products abroad and access external finance from banks and other lending institutions

Findings revealed that lenders consider education level before offering funds. This is in line with study done by Kira (2013); Ellis (2010) lack of financial literacy on how to use financial services reduces SMEs ability to borrow however, owners/managers who have educational qualification of vocational level and beyond are more likely to be favored by banks to access credit. Study done by Nguyen and Luu (2013); Muturi and Ogubazghi(2014); Mukiri (2012); Wangai and Omboi (2011); Pandula (2011) revealed that there was a positive relationship between education level and access to finance

5.4 Conclusions

5.4.1 Effect of Business Characteristics on Financial Access for Youth Owned Businesses in Kiambu County

Based on the findings it can be concluded SME's in the manufacturing sector faces a challenge accessing finance more than SME's in trading and service industry, smaller SME's faces a challenge accessing finance compared to larger SME's, length of operation of SME's have operated is considered by banks before issuing finance.

5.4.2 Effect of Lending Requirement on Financial Access among Youth SME's In Kiambu County

Findings revealed that high interest rate affects SME's access to finance; collateral is required by financial institutions, SME's have enough collateral to qualify for a loan; SME's have proper maintained and managed financial record

5.4.3 Effect of entrepreneur characteristics on Financial Access among Youth SME's In Kiambu County

It was revealed that gender influences access to finance, men and women has different risk appetite towards loans, networking also has enabled SME's access finance in addition, SME's that network with government agencies are able to improve their performance and access credit. However respondents did not reach an agreement on they require more business training.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Effect of Business Characteristics on Financial Access for Youth Owned Businesses in Kiambu County

SME'S should ensure that they are registered. Though this they will be able to easily access finance from financial institutions and increase their financial performance hence become competitive.

5.5.1.2 Effect of Lending Requirement on Financial Access among Youth SME's In Kiambu County

The research recommends that financial institutions should develop products that will favorer and encourages SME's to access finance. SME's should also ensure that that have proper financial records that will enable them access finance easily

5.5.1.2 Effect of entrepreneur characteristics on Financial Access among Youth SME's In Kiambu County

Government should develop products that will create gender equality. In addition, Government can create women fund or kitty that will enable women access finance easily. Women should also be encouraged to own assets. Through this they will be able to access finance easily. County Government should also train SME's on different ways to run their business.

5.5.2 Recommendations for Further Studies

This study focused on the factors affecting access to formal finance by youth owned SME's in Kenya. However, the study was not exhaustive and therefore more research is recommended to determine other factors that SME's access to finance. Furthermore, this study was based on SME's in Kiambu County only it is therefore recommends that a similar research should be done in other counties to determine whether the factors affecting SME's access to finance are similar to another

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APPENDICES

Appendix I: Questionnaire

This questionnaire is designed to gather research information regarding the Factors Affecting Financial Access to Youth Owned Businesses in the Small and Medium Sized Enterprises in Kenya: A Case Study of Kiambu County, Kenya. Kindly respond to all items using a tick or filling in the blanks where appropriate.

SECTION A: DEMOGRAPHIC INFORMATION

1. What is your age bracket?

- | | |
|-------|--------------------------|
| 18-25 | <input type="checkbox"/> |
| 25-30 | <input type="checkbox"/> |
| 30-35 | <input type="checkbox"/> |

2. What is your Gender?

- | | |
|--------|--------------------------|
| Male | <input type="checkbox"/> |
| Female | <input type="checkbox"/> |

3. What sector best described your business engagement

- | | |
|---------------|--------------------------|
| Trading | <input type="checkbox"/> |
| Service | <input type="checkbox"/> |
| Manufacturing | <input type="checkbox"/> |

4. How long have you been running this business?

- | | |
|----------------|--------------------------|
| 0-2 years | <input type="checkbox"/> |
| 3-5 years | <input type="checkbox"/> |
| 6-8 years | <input type="checkbox"/> |
| 9-11 years | <input type="checkbox"/> |
| Above 11 years | <input type="checkbox"/> |

5. What is your level of formal education?

Primary	<input type="checkbox"/>	Degree	<input type="checkbox"/>
Secondary	<input type="checkbox"/>	Masters	<input type="checkbox"/>
Certificate	<input type="checkbox"/>	PhD	<input type="checkbox"/>
Diploma	<input type="checkbox"/>		

6. What type of financing have you accessed. Tick where relevant

Bank Loan	<input type="checkbox"/>
Grants	<input type="checkbox"/>
Personal Saving	<input type="checkbox"/>
Loan from Family	<input type="checkbox"/>
Business Angel	<input type="checkbox"/>
Informal loan	<input type="checkbox"/>

SECTION B: Effect of Business Characteristics on Financial Access for Youth Owned Businesses in Kiambu County

To what extent do you agree with the following statements on business characteristics and its effects on access to finance? Kindly use a scale of 1 to 5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = Agree and 5 = strongly agree.

Statement	1	2	3	4	5
SMES faces a challenge accessing finance as compared to large SMES					
If my business had been around longer I would qualify for higher loan amounts.					
Banks consider my length of operation before giving a loan					
Registered SMES access finance easily that non registered SMES					
It is easy to access finance as an individually owned SME than as a group owned SME					

Registered SME's are more likely to borrow than non-registered SME's					
SMEs in the manufacturing industries faces more challenge accessing finance as compared to SME's in trading and service industry					

SECTION C: Effects of Lending Requirement Affect Financial Access for Youth Owned Businesses in Kiambu County

To what extent do you agree with the following statements on lending characteristics and its effects on access to finance? Kindly use a scale of 1 to 5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = Agree and 5 = strongly agree.

Statement	1	2	3	4	5
I consider the amount of interest rates charged before seeking finance.					
I face challenges accessing finance due to high interest rate					
I have enough collateral to qualify for a loan.					
Financiers consider collateral before awarding a loan.					
I maintain proper financial record					
well managed financial records assist in getting loan in my firm					
Banks offer flexible loan repayment terms					
Loan repayment period does not affect my decision in accessing finance					

SECTION D: Effects of Entrepreneur Characteristics on Financial Access among Youth SMES in Kiambu County

To what extent do you agree with the following statements on characteristics of the entrepreneur and its effects on access to finance? Kindly use a scale of 1 to 5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = Agree and 5 = strongly agree.

Entrepreneur Characteristics	1	2	3	4	5
I require more business training to access loans					
Lenders consider education level before offering funds.					
I believe gender influence the amount of loans awarded by banks					
Men and women have different risk appetite towards loans					
Keeping the right network has enabled me get access to loans					
SMEs that network with government agencies are able to improve their performance and access credit					

SECTION E: Formal Financial Access

To what extent do you agree with the following statements on access to finance? Kindly use a scale of 1 to 5 where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = Agree and 5 = strongly agree.

Formal Financial Access	1	2	3	4	5
I have enough access to credit from the youth enterprise development fund					
I am aware of the youth enterprise development fund as a source of credit for my business					
There is an increased need for external financing over the past 6 months.					
My firm has applied for and gotten a loan from the youth enterprise development fund					
Financing availability by the youth enterprise development fund has improved over the years.					

