FACTORS AFFECTING CREDIT ACCESSIBILITY AMONG YOUNG ENTREPRENEURS IN KENYA: A CASE OF FAMILY BANK LIMITED

BY

VIVIAN MURATHA

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Research Project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Executive Master of Organizational Development (EMOD)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2015
STUDENT’S DECLARATION

I, the undersigned, 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: __________________________

Vivian Muratha (252536)

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

Signed____________________________  Date__________________________

Prof. Scott Bellows

Signed____________________________  Date__________________________

Dean, Chandaria School of Business
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ABSTRACT

The purpose of this study was to determine factors affecting credit accessibility among youth entrepreneurs in Kenya. The research questions were: To the extent to which market segmentation theory influences interest rates during credit accessibility among young entrepreneurs in Kenya? To what extent market segmentation influence credit awareness during credit accessibility among the young entrepreneurs in Kenya? What is the relationship between Market Segmentation Theory and collaterals during credit accessibility among young entrepreneurs in Kenya? How does the Market Segmentation Theory influence managerial competencies during credit accessibility among young entrepreneurs in Kenya?

The study adopted descriptive research design. The population of the study consisted of 437 young entrepreneurs in Nairobi. Stratified was used to determine the sample size of 251 entrepreneurs from the total population. Data was collected using structured questionnaires based on the research questions. Descriptive statistics used to analyze data included frequencies and percentages distribution tables, and mean. For inferential statistics, correlation, linear regression and multiple regression were used to analyze data.

The findings on the extent to which market segmentation theory influences interest rates during credit accessibility among young entrepreneurs in Kenya revealed that there exists a positive relationship between interest rates and young entrepreneurs credit accessibility.

The findings on the extent to which market segmentation influences credit awareness during credit accessibility among the young entrepreneurs indicated the existence of a significant positive relationship between credit awareness and young entrepreneur’s credit accessibility.

The findings on relationship between Market Segmentation Theory and collaterals during credit accessibility among young entrepreneurs revealed the existence of a positive relationship between collateral and young entrepreneurs credit accessibility.

Finally, the findings on how the Market Segmentation Theory influences managerial competencies during credit accessibility among young entrepreneurs revealed the existence of a positive relationship between managerial influence and young entrepreneur’s credit accessibility.
In conclusion, the relationship between interest rates and young entrepreneurs’ credit accessibility was statistically significant. The relationship between credit awareness and young entrepreneurs’ credit accessibility was statistically significant. The relationship between collateral and young entrepreneurs credit accessibility was statistically significant and finally, the relationship between managerial influence and young entrepreneurs’ credit accessibility was statistically.

Recommendations for improvement on interest rates and young entrepreneurs’ accessibility to credit include the enhancement of lines of credit through youth microfinance institutions through discounted interest rates. On credit awareness and young entrepreneur’s credit accessibility, the study recommends that the government should put mechanisms enhance young entrepreneurs’ business education and training on access to credit. On collateral and young entrepreneur’s credit accessibility, the study recommends that the government should subsidize collateral requirements for young entrepreneurs to enable them access line of credit for business easily. Finally on managerial influence and young entrepreneur’s credit accessibility, the study recommends that managers from credit institutions should establish credit accessibility training and management for young entrepreneurs’ in Kenya.
ACKNOWLEDGEMENT

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I want to also thank Prof. Scott Bellows for his wonderful guidance throughout the various stages of this project. Thanks for taking your time, and being patient with me to ensure that this project met high quality standards. Thank you.
DEDICATION

To my loving family for their encouragement and continuous support throughout my studies.
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>CT</td>
<td>Competency Theory</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>GOK</td>
<td>Government of Kenya</td>
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<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>KIPPRA</td>
<td>Kenya Institute for Public Policy Research and Analysis</td>
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<tr>
<td>MSMEs</td>
<td>Micro, Small and Medium Sized Enterprises</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>R-A</td>
<td>Resource-Advantage</td>
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<td>SMEs</td>
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<td>SPSS</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

In the recent past, there have been great concerns towards challenges related to youth unemployment, reinforcing policy debate on various issues affecting youth development (Kinyanjui, 2010). The economic challenges facing the youth differ from those of the rest of the population in a number of ways. Apart from unemployment, which forms the basis for enhancing youth livelihoods, the youth also encounter more profound challenges when it comes to access to finance and entrepreneurial skills. Considering these challenges, a targeted policy approach for increasing entrepreneurial activities to both youth and women is increasingly acknowledged as a measure to address livelihood insecurity (Meager, Martin & Carta, 2011).

Across many countries, this outlook is widely reflected in the enterprise based youth employment policies. Among the range of policy interventions include enhancing greater access to credit facilities. In Kenya, the flagship initiative that is mandated to increase youth and women accessibility to credit in a bid to create employment opportunities includes Youth Enterprise Development Fund and Women Enterprise Fund (Kuzilwa, 2010). According to Shepherd (2011), business financing is a very important factor in growth and performance of businesses; he noted that one of the major problems in the new ventures and especially the small businesses is obtaining financial assistance. For the entrepreneur, available financing needs to be considered from the perspective of debts versus equity and using external versus external funds. The concern of this study is debt financing or external credit facilities.

The external finances or credit facility is the type of finance that is obtained from persons other than the actual owners of the company, which are creditors to the company. Manasseh (2010) noted that credit facilities can be in any of the following forms; loan debentures, overdrafts, lease finance, trade creditors, and many others. The main focus the study will be on factors affecting credit accessibility among young entrepreneurs in Kenya. Manasseh (2010) found out those financial institutions such as banks offer finances to businesses which are mostly short term in nature. This is because the deposits made with them are demand deposits, which cannot be lent on long term basis. Due to this fact the financing role of commercial banks is limited to short term loans exceeding four years.
Short term loans range from three months to a maximum of four years and are given to established customers of the banks who have the necessary security. These are expensive as the customers will have to only pay interest on them, but also the insurance of the security (Manasseh, 2010).

Regionally given the increasing youth population in developing countries, the high levels of youth unemployment and limited economic opportunities for youth, governments are increasingly looking for proactive approaches to help youth realize their full economic potential. Increased access to financial services and increased financial capability to use those services effectively to invest in their businesses, enterprises, and futures may provide that beacon (Braverman & Guasch, 2013). Yet youth face many barriers in accessing financial services, including stringent requirements in banks and regulatory environment, inappropriate and inaccessible products and services and low financial capability (Omondi, 2013).

As the country gears towards Vision 2030, the Kenyan youth faces important challenges, particularly in the economic context of entrepreneurship. A large population of young people is without work and many more are engaged in short-term, low-paid jobs or in the informal economy (Kenya Vision 2030, 2011). In general the growth and performance of business may be affected by its capital base. The capital depends on its balance between own sources and borrowed sources of capital, or the amount attributable to credit. The portion of the capital structure that depends on credit is not always to the small scale traders. There may be many reasons available for this situation, the study will concentrate on how the following factors affect the small scale traders’ accessibility to credit facilities. They include; interest rate, literacy levels, the number of lending institutions, and the security for the loans.

Kenya shows a disproportionately high rate of youth unemployment as compared with adult unemployment rates. The youth, those aged 18 to 34, represent 43% of the working age population in Kenya, and these youth constitute 70% of total unemployment. According to the Economic Survey figures (Kenya National Bureau of Statistics, 2008), approximately 800,000 youth from primary, secondary and high learning institutions enter the job market annually, with only 50,000 getting employment into the formal sector (Kenya National Bureau of Statistics 2011). Access to credit facilities would bridge the gap between an impoverished youth and sustainable livelihoods. Youth entrepreneurs who
gain financial services geared towards their enterprises would equally drive the economy towards objectives of Vision 2030 in line with the Millennium Development Goals (Sun & Xuemin, 2012).

According to Awogbenle and Iwuamadi (2010) youth entrepreneurship is critical in promoting innovation and resilience among the youth. Innovation is central to modern theories of growth and development (Verspagen, 2013). In a broader sense youth entrepreneurship helps young women and men develop new skills and experiences that can be applied to many other challenges in life. Youth entrepreneurship also promotes the revitalization of the local communities by providing valuable goods and services. Despite the numerous benefits, the development of youth entrepreneurship in many countries faces numerous challenges. These include unfavorable administrative and regulatory burdens, poor access to finance, market, entrepreneurship education and business development services for the start-ups by young people in high-income and developing countries (Kelley, Singer & Harrington, 2011).

A key solution coming out of the events was cultivating and supporting youth entrepreneurship. Equally important, all relevant government ministries, employers’ organizations, the private sector, workers’ organizations, youth organizations and diverse youth must work together to create relevant youth-specific entrepreneurship and technical skills training, education, and access to labor market information combined with financial and technical inputs to develop businesses. Consequently, Kinyanjui (2010) lamented that in Kenya, Zambia and Tanzania, weak regulatory frameworks to support enterprise growth including weak infrastructure, complicated and expensive licensing requirements, inadequate access to business advice and support services were blamed for the lack of youth-led micro, small and medium sized enterprises (MSMEs).

Most potential young entrepreneurs are not aware of government programmes specifically designed to help them. Brooks, Zorya and Gautam (2012) stated that access to government financial support is a problem in South Africa. Lack of awareness of the existence of government programmes is another problem faced by youth. Most youths are not aware of the various support programmes available and as a result, youths with entrepreneurial tendencies perceive that there is no support from government (Kauffman, 2010). Therefore, Ehlers and Lazen (2011) provide evidence that economic forces can influence market opportunities and ultimately result in prosperity or adversity on organized youth
groups’ economic ventures indifferent locations. If youths have negative perception regarding the environment of the business, they might decide not to start their own economic activities. On the other hand, studies by Mollentz (2012) affirm that market issues and demand for products are the most important factors that positively influence new enterprises growth. Thus, bad market conditions and no market opportunities can be a constraint to youth business venture intention (Page, 2012).

Accessibility to credit refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services (GOK, 2013). Those who involuntarily have no or only limited access to financial services are referred to as the unbanked or under banked, respectively (Beck and Honohan, 2010). According to World Bank (2011) access to credit is the absence of price and non-price barriers in the use of financial services. The limited access to credit has been attributed to factors such as lack of collateral, high risk profile of SMEs, an oligopolistic banking sector and bias by commercial banks against the SMEs (Waita, 2012). Banks in most African countries have made little effort to reach SMEs due to difficulties in administering loans particularly screening and monitoring small scale borrowers high cost of managing loans and high risk of default (Yahie, 2011).

Many young and upcoming entrepreneurs are generally undercapitalized, suggesting major operational difficulties in accessing credit and pursuing corporate goals. Sanya (2013) observe that 18.4% of the SMEs in Kenya cite access to credit as their second most severe constraint after market access. Further the 1999 National Baseline survey (International Centre for Economic Growth et al. 1999) indicates that 70% of the SMEs in Kenya require loans that do not exceed KSHs. 20 000 (US$ 285) while 96.3% do not require loans exceeding Kshs.100 000 (US$ 1428). Ondiege (2010) demonstrated that access to credit is associated with improved performance of SMEs in Kenya. Moreover, Mbogo (2013) show that manufacturing enterprises in Kenya that have limited access to credit also tend to be less productive and cannot always move to points of best practice. This indicates that since the young entrepreneurs sector does not have adequate access to credit, its potential role in transforming the country is unlikely to be realized. Research studies reveal that age, capital, size, information access, risk and financial records are key factors influencing credit access by firms. Others include; interest rates, borrower’s education level and past financial performance. These factors can be categorized into three namely; entrepreneur characteristics, firm characteristics and financial characteristics world (Hamadi, 2010).
1.2 Problem Statement

Globally, business growth is predicated upon many factors among these, is the ability of the business people to access credit facilities. Ninety percent of all small and micro enterprise collapse in their first year of startup, due to lack of financial resources (White and Kenyon, 2010). In developing countries, the failure rate of small enterprises is 70% to 80% out of every 100 companies due to lack of skills and access to finance among other reasons (Making Cents International, 2010). It is typical of SMEs in Africa to be lacking in business skills, track record and collateral to meet the existing lending criteria of risk averse banks World Bank (2013). The unequal access to finance by SMEs and large enterprises has undermined the role of SMEs in the economic development of most African countries like Kenya.

In Kenya there is a widespread concern that financial institutions are not providing enough support to new economic initiatives and in particular to the expansion of SME sector (Kiraguri, 2012). It is argued that faster economic growth will not be possible without deepening of the financial system and in particular, more financial support from the banking sector to the young entrepreneurs. Financial institutions remain highly liquid and reluctant to expand credit other than to most credit worthy borrowers which in most cases excludes the small enterprises. Accessing credit is considered to be an important factor in increasing the development of small businesses.

Empirical studies done in Kenya include that done by Kibas (1995) to determine the impact of accessibility of credit to SMEs development. He found that clients reported improvement in their sales, profits, assets, cash flows, management practices and family welfare. New jobs and linkages with other organizations had also been created. This therefore, demonstrates that access to credit influences performance of SMEs. Rukwaro, (2000) studied influence of credit rationing by MFIS on the operation of SMEs, Mokogi (2003) studied the economic implication of lending of micro-finance institutions on micro and small enterprises. Mutugi (2006) studied the responses of micro finance institutions in Kenya to the turbulent business environment. Muchiti (2009) studied risk management strategies adapted by commercial banks in lending SMEs.

Although many financial institutions have been vigorously marketing their credit facilities, few SME’s have been accessing them. From the studies above there is none that has
focused on the study topic. There is also limited research that has been done on the factors affecting credit accessibility among the youth. The existing studies (Kibas, 1995; Rukwaro, 2000; Mokogi, 2003) have focused on the impacts of credit accessibility and thus very few have addressed the factors that have hindered the accessibility of the credit facilities. This has created a knowledge gap that seeks to be addressed. In view of these there is a need for a study to establish the factors that affect the young entrepreneurs in acquiring the credit. This study seeks to fill the gap by carrying out a study on how interest rates, collateral, awareness and managerial influence affects credit accessibility among youth entrepreneurs in Kenya.

1.3 Purpose of the Study

The purpose of this study was to determine the factors affecting credit accessibility among youth entrepreneurs in Kenya.

1.4 Research Questions

1.4.1 How does Market Segmentation Theory influence interest rates during credit accessibility among young entrepreneurs in Kenya?
1.4.2 How does Market Segmentation Theory influence credit awareness during credit accessibility among young entrepreneurs in Kenya?
1.4.3 What is the relationship between Market Segmentation Theory and collaterals during credit accessibility among young entrepreneurs in Kenya?
1.4.4 How does the Market Segmentation Theory influence managerial competencies during credit accessibility among young entrepreneurs in Kenya?

1.5 Importance of the Study

This study is valuable to the following stakeholders:

1.5.1 Policy Makers

In the recent times the government of Kenya has started a number of loan schemes for various social groups. There is need to monitor these funds to find out factors that may form may form hindrances to their uptake. Therefore the study is of significance to the government of Kenya, for the purpose of increasing borrowing of the credit, among its beneficiaries to increase business growth and the consequent social standard improvement. The results of this study will also help in analyzing micro lending policies in Kenya as
stipulated by Central Bank. The regulatory body would synthesize the results and reevaluate the micro economic environment as governed by the micro lending policies in favor of the youth entrepreneurs in Kenya.

1.5.2 Academicians and Researchers

Knowledge is cumulative. Important information can be acquired about a research topic from similar work done, on the same area of research by future researchers. Therefore the study is much significance to the research institutions, students and other researchers who would get the findings useful in their investigation in the area of study. The findings will further be used as reference and stimulate further research in this area as well as act as a background for further researches.

1.5.3 Management of Financial Institutions

There has been increased activity from financial institutions on loan facilities targeted at small traders. Many banks for instance have started projects and put a lot of resources, their aim being to attract these traders. The result of the study will therefore be of so much significance to the management of institutions since they will know from the results of the study the constraints faced by the borrowers of credit and reduce them, to increase the lending.

1.5.4 Young Entrepreneurs

The study findings will also be of help to young and upcoming entrepreneurs on the factors that are hindering the accessibility of credit from financial lending institutions as well as other investors. The study will findings will shed light on the things that young entrepreneurs need to address in order to increase their chances of easily accessing these credit facilities.

1.6 Scope of the Study

The study will be conducted in Nairobi County with the study population will be drawn from the young entrepreneurs with accounts Family bank limited in Nairobi County’s central business district. The entrepreneurs with accounts at family bank have been selected since they will be easily accessible to the researcher. The research will be done in January to April 2015.
1.7 Definition of Terms

1.7.1 Entrepreneurship

Entrepreneurship is the application of enterprising qualities by youths, such as initiative, innovation, creativity, and risk-taking into the work environment, using the appropriate skills necessary for success in that environment and culture (Chigunta, 2001).

1.7.2 Credit

The borrowing capacity advanced by a financial institution to an individual, firm, or organization, in the form of cash loans. A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest (Samiha, 2002).

1.7.3 Interest Rates

It is the proportion of a loan that is charged as interest to the borrower expressed as an annual percentage of the loan outstanding. In the case of lending money, the lender could have invested the funds instead of lending them out. With lending a large asset, the lender may have been able to generate income from the asset should they have decided to use it themselves (Amyx, 2011).

1.7.4 Financial Literacy

The ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others (Bari, 2005)

1.7.5 Microcredit Loans

This is the extension of very small loans (microloans) to borrowers that helps entrepreneurs who typically lack collateral, steady employment and a verifiable credit history (Philip & Kate, 2002).
1.7.6 Managerial Competency

Managerial competence is the development of skills to focus on an individual approach based exclusively on some training and courses which bring some difficulties to companies in order to make individual competence become organizational competence (Sandberg & Alba, 2013)

1.8 Chapter Summary

This chapter has presented the study background information. The background has included an introduction of young entrepreneurs in Kenya. The chapter has outlined the research questions of the study, the purpose of the study, and has also provided the scope of the study. Significance of the study has also been discussed in this chapter. The successive chapter three presents the study methodology, chapter four presents study results and findings, and finally chapter five presents study summary, discussion, conclusions and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on factors affecting credit accessibility among entrepreneurs, levels of interest rates, credit awareness, collateral and managerial competencies on credit accessibility entrepreneurs. The chapter will end with a conclusion on the literature review and finally a summary of the chapter will be provided. According to Stiglitz and Weiss (1981), MST explains the evolution of growth in relation to income inequalities. The financial market imperfections play a central responsibility to the influence of the key decisions that concern the accumulation of capital by people in different occupations. For instance, in theories laying emphasis on capital accumulation, financial market imperfections determine the extent to which the young investors can borrow to invest in schooling or physical capital.

In theories emphasizing on entrepreneurship, financial market imperfections determine the extent to which talented but poor individuals can raise external funds to initiate projects. Thus, the evolution of financial development, growth, and intergenerational income dynamics are closely intertwined. Finance influences not only the competence of resource allocation throughout the economy but also the comparative economic opportunities of individuals from relatively rich or poor households. MST (Market segmentation theory) is integrated in credit accessibility in the sense that it dictates credit accessibility according to the segmentations in the market.

There are very large groups of society, especially in poor and developing parts of the world such as Kenya who do not have access to rudimentary financial services such as bank savings accounts, credit facilities, or insurances. Households in these sections of the society are typically poor and access credit in informal credit markets. Such informal credit markets include: local money-lenders, local shop-keepers, who provide trade credit, pawn-brokers, payday lenders, and Rotating Savings and Credit Associations (ROSCAS). A number of economists have examined these informal credit markets, and their potential linkages to more formal credit markets (Culbertson, 1957). It is well understood that the interest rates in such informal markets tend to be much higher than the borrowing rates that prevail in
formal credit markets. Furthermore, the interest rates tend to be influenced by the segmentation of the market according to MST.

Micro-loan markets represent one of the more recent developments, which enable poor households and the youth to access credit. MST aids in the segmentation of the markets into small categories where micro-loans are credited. These are markets where very small (hence micro) loans are extended to poor households. They depend much on the market segmentation. Often, such loans are given only to women, and in groups. Borrowers in these market segments have no meaningful physical collateral and are heavily credit constrained. Micro-loans are characterized by three essential features: loans are short-term in nature, relatively small amounts and consummated without physical collateral, but structured with social collateral; loans are extended typically to a group, whose size can range from five to twenty (in the Self-Help-Groups or SHG), where the group members are jointly liable for default by any member of the group; and loans carry frequent interest payments (weekly in many cases) and carry significant administrative expenses that are incurred in order to ensure timely delivery of loans to remote villages and for the collection of payments (Ferstman & Muller, 1993).

2.2 Influence on Interest Rates on Credit Accessibility

In relation to Market Segmentation Theory (MST) that posits that borrowers have strong credit preferences that they try to attain when they seek funding. As a result of these preferences, the financial markets, according to MST, are segmented into a number of smaller markets, with supply and demand forces unique to each segment determining the equilibrium yields for each segment. Thus according to MST, the major factors that determine the interest rate for a maturity segment are supply and demand conditions unique to the maturity segment (Jennings, 2012). In addition to that, the theory posits that market segments should fit three criteria: be measurable; be accessible; be substantial.

The MST theory creates an assumption that markets for different-maturity rate bonds are completely segmented. The interest rate for each bond with a different maturity is then determined by the supply of and demand for the bond with no effects from the expected returns on other bonds with other maturities. The longer bonds that have associated with them inflation and interest rate risks are completely different assets than the shorter bonds. Consequently, the bonds of different maturities are not substitutes at all, so the expected
returns from a bond of one maturity has no effect on the demand for a bond of another maturity. Because bonds of shorter holding periods have lower inflation and interest rate risks, segmented market theory predicts that yield on longer bonds will generally be higher. Therefore, the yield curve is usually upward sloping. However, since markets for different-maturity bonds are completely segmented, there is no reason why the short and long yields should move together (Stafford, 2010). However, the segmented market theory also cannot explain why the short-term yields should be more volatile than the longer-term yields.

Finance is at the core of the entrepreneurial development process. It is backed by solid empirical evidence, development practitioners are becoming increasingly convinced that efficient, well-functioning financial systems are crucial in channeling funds to the most productive uses and in allocating risks to those who can best bear them, thus boosting economic growth, improving opportunities and income distribution, and reducing poverty. Conversely, to the extent that access to finance and the available range of services are limited, the benefit of financial development is likely to elude many individuals and enterprises, leaving much of the population in absolute poverty. This access dimension of financial development is the focus of this report. Enhancing the access and building inclusive financial systems is a goal that is relevant to economies at all levels of development (David & Nijat, 2012). The challenge of better access means making financial services available to all, thereby spreading equality of opportunity and tapping the full potential in an economy. The challenge is greater than ensuring that as many people as possible have access to basic financial services. It is just as much about enhancing the quality and reach of credit, savings, payments, insurance, and other risk management products in order to facilitate sustained growth and productivity, especially for small and medium scale enterprises (Wilkie, 2012). Although Gunter (2014) says that the formal financial sector in a few countries has achieved essentially universal coverage of the population, at least for basic services, some financial exclusion persists even in many high-income countries and, because they find it difficult to participate fully in those sophisticated economies, financial exclusion can be an even more serious handicap for those affected. Well-functioning financial systems can boost growth and reduce poverty through issuing loans to young entrepreneurs.

Theoreticians have long reasoned that financial market frictions can be the critical mechanism for generating persistent income inequality or poverty traps. Without inclusive financial systems, poor individuals and small enterprises need to rely on their personal
wealth or internal resources to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities (Marianna & Veronika, 2014). Financial market imperfections, such as information asymmetries and transactions costs, are likely to be especially binding on the talented poor and the micro- and small enterprises that lack collateral, credit histories, and connections, thus limiting their opportunities and leading to persistent inequality and slower growth. However, this access dimension of financial development has often been overlooked, mostly because of serious gaps in the data about who has access to which financial services and about the barriers to broader access (Priem and Butler, 2001).

Despite the emphasis financial access has received in theory, empirical evidence that links broader access to development outcomes has been very limited, providing at best tentative guidance for public policy initiatives in this area. Financial inclusion, or broad access to financial services, implies an absence of price and non-price barriers in the use of financial services; it is difficult to define and measure because access has many dimensions. According to Stiglitz and Weiss (1981) Services need to be available when and where desired, and products need to be tailored to specific needs. Services need to be affordable, taking into account the indirect costs incurred by the user, such as having to travel a long distance to a bank branch. Efforts to improve inclusion should also make business sense, translate into profits for the providers of these services, and therefore have a lasting effect (David & Nijat, 2012).

### 2.2.1 Credit Awareness on Credit Accessibility

Credit awareness among the Kenyan young entrepreneurs has been the main determinant of the rate at which they seek credit from the creditors. The desire to access the credit services from private and government sources is high among Kenyan youths. Most credit programs have been publicized a lot to the public to decide whether to seek them. However, though many are interested, they lack creativity required to start businesses that can raise the interest needed as they repay (Cassar, 2013). Hence, MST brings in segments in accordance to the financial and intellectual abilities among the young entrepreneurs in the market. Therefore, due to the segmentation most of them may not be awarded the credit. On the contrary, due to the awareness of the creditors to the Kenyan young entrepreneurs, many have benefited. Furthermore competition has led to the reduction of the interest rates to encourage more youths to seek the loans.
Most banks in Kenya have invested more on giving out loans to their customers to start businesses, raise school fees and many more purposes. This is because most people have decided to venture into different types of businesses around the nation. In addition to that, the banks and microfinance organizations that award the loans to the people have moved closer to the customers through opening branches and sub-branches in the urban and rural areas. As a result, the young entrepreneurs are able to talk to the creditors and seek advice from the concerned authorities who have more experience in business. The banks and microfinance organizations that give loans to young entrepreneurs get customers automatically due to the rate of unemployment facing the nation at the moment (Bartokova and Durcova, 2013). Many youths focus on starting businesses and employ themselves in areas such as real estates and car hire. The businesses can generate the money required to pay back the credited amount to the creditor.

The competition between the banks, microfinance organizations and other creditors is evident among the people at the ground who are willing to access the loans. Furthermore, the competition brings about the lowering of the interest rates that makes it easy for the loan repayment at the agreed period of time. Moreover, the young entrepreneurs have the time to consult among all available options and select the best in terms of efficiency and interest rates. They end up establishing a mutual relationship with the respective microfinances after faithfulness is shown in the loan repayment. The two parties benefit economically and build a long lasting relationship. That is the main target of many creditors in Kenya. However, some people invest poorly and face challenges during the refunding process (Bartokova and Durcova, 2013). That could result from poor choice of business investment or the wrong type of creditor who has high interest charges.

The awareness on credit accessibility has opened the eyes of many young entrepreneurs through public education on the use of money. As a result, they have time to investigate the type of business they are interested to invest in terms of the expenses, challenges and the expected profits. With that information, they enter into the business with ready solutions to the areas that have problems. Additionally, they are aware of the weaknesses and how to deal with them. As a result, they have an added advantage of knowledge on the competition and the areas to strengthen in order to attract more customers. For that reason, they face less problems in the loan repayment due to early preparation (Mirdala, 2009).
2.3 Influence of Interest Rates on Credit Accessibility

At the Kenyan market and economy, Market Segmentation Theory (MST) deals with the supply and demand in a certain maturity sector, which determines the interest rates for that sector. It can be used to explain just about every type of yield curve a young investor can came across in the market. An offshoot to this theory is that if a young investor wants to go out of his sector, he'll want to be compensated for taking on that additional risk. In most cases, investors set preferences that concern the length of maturities of their loans as they invest (Barr, 2004). MST recognizes that there are institutional restrictions on the asset side and hedging pressures on the liability side which allow for very little substitutability between bonds of different maturities. Some of these restrictions result from government regulation, company policy, Securities and Exchange Commission regulations, goals and objectives, and fiscal and operational considerations (Michael, 2011).

Interest rates are high as it is an instrument used to curb inflation rates in different countries (World Bank, 2011). Many country studies show that rural women farming entrepreneurs are more likely to face higher interest rates, be required to collateralize a higher share of the loan, and have shorter-term loans (IFC, 2011). For example, in MENA between 50 and 75 percent of the rural women farming entrepreneurs surf eyed reported that they have sought external financing for their farming businesses at some time during the previous 12 months. Most had not received any financing from a formal financial institution.

The issue of high interest rates being charged on borrowers of funds has brought a huge challenge to young entrepreneurs who can only borrow in small amounts. In most cases, this has brought either closure or stagnation of their business and those who have not started the business investments end up not starting one due of lack of lack of capital. MSEs suffer from loss of profitability and lack of investments, which promote growth, due to poor credit offered to them and non-access to bank loans (Giancarlo, 2012). This is due to high costs of borrowing from commercial banks and other financial institutions.

According to Giancarlo (2012), the credit markets are partially shaped by lenders' strategies for screening potential borrowers and for addressing opportunistic behavior encouraged by the inter-temporal nature of loan contracts. These problems are severe in the developing countries where information asymmetries are more pervasive especially among the resource base poor. Financial markets in such countries (Kenya) tend to be highly dualistic
and fragmented with weak linkages between the formal and informal components. The formal segment of the markets tends to be characterized by the market imperfections demonstrated by high concentration ratios with only a small number of financial institutions exerting considerable market power. Attempts to shield depositors against corporate excesses often lead to share capital requirements that work against the need to encourage competition (Brian, 2011). On the demand side, firms choose between external and internal financial sources in consideration of the need to maximize profits.

Credit markets are peculiar as their transactions involve heterogeneous goods since the qualities of credit contracts vary due to differences in the creditworthiness of borrowers. Rather than being concurrent, debit transactions are also inter-temporal since credit is exchanged for a promise to repay later. The lending activities also tend to be transactions intensive and the information available to contract parties not always symmetric. The parties often possess different information on risks and profitability of projects (James, 2011).

The Intermediaries tend to have only subjective assessments of projects for which funds are sought. High transactions costs come on the way of attempts by intermediaries to procure adequate information from borrowers. These and other conditions mean that changes in the price of credit affect the quality of the debt contract and the intermediary's expected returns. In developing countries, informal credit arrangements enjoy less transaction costs and loan losses because they are restricted to close networks' that derive from kinship, neighborhoods, professions, workplaces, economic activities and other mechanisms that encourage regular interactions. They therefore give solutions to the information and enforcement problems that formal arrangements often face (Claessens, 2013). However, the volume of credit available through these informal arrangements ends to be highly inadequate.

Inversely, the credit consumption can be inversely not related to the interest rates but the collateral requirements. Micro businesses tend to have a poor collateral base and therefore get excluded from the credit market. Even when their asset base is rich, property rights problems reduce the collateral value of such assets. According to Claessens, (2013), where entrepreneurs can successfully seek out credit from formal sources, they may not bother to borrow because of limited ability to comprehend debt management and costs of borrowings, fear related to potential hidden costs, previously disastrous experiences with
financial services, presence surrogates such as savings and credit associations, and cultural norms that discourage borrowing (Tazul, 2007). The mere presence of financial services even within very close proximity does not therefore guarantee the demand for and use of credit. The credit seeking decision is a three-stage process. Firstly, young to decide on whether they need credit or not (Abov & Quartey, 2010). Once they reach the final decision, the young entrepreneurs then decide on an appropriate source of approach. A decision has also to be made about the level or amount of credit to seek out from the creditor.

2.3.1 Interest Rate Maturity

Entrepreneurs, business firms and governments borrow funds for different periods of time. Generally, the maturity of the interest rate depends on the nature of the expenditures being financed (Lawrence & Summers, 2010). For example, some enterprises are usually financed with mortgages that run fifteen or thirty years, while items with shorter useful lives such as automobiles and home appliances are financed with much shorter-term loans. Business borrowings also cut across the time spectrum. Loans as short as several days to meet day-to-day cash needs or for as long as thirty years to finance new factories are common, governments borrow for periods as short as a few days to raise cash in anticipation of tax receipts as well as for much longer periods when financing development projects. IOUs with original maturities of one year or less are exchanged for funds in the money market.

For example, the U.S. government obtains a large part of its funds from the money market each week when it sells Treasury bills with three- and six-month maturities. Some borrowers, on the other hand, tap funds from the capital market where they issue IOUs with original maturities in excess of one year. Examples of capital market borrowings include the issuance of five-year Treasury notes and twenty-year corporate bonds. Interest rates in the money and capital markets are related and usually move in the same direction. In addition, rates on short-term financial instruments are often lower than those on longer term IOUs issued by the same borrower. While all lenders have an eye to the future, their understanding standing of the present is more complete and uncomplicated by longer-term uncertainties. Therefore, it is usually the case that the longer the maturity of an IOU, that is, the longer the time period for which funds are borrowed, the higher the interest rate demanded by lenders will tend to be.
According to a survey carried out by Organization for Economic Co-operation and Development (OECD, 2010), in all countries using the Bankers’ Lending Survey method, the tightening of credit conditions by banks was clearly evident for all the banks’ clients. The European Central Bank (ECB) data also confirmed the tightening. The ECB attributes the tightening to the banks’ ability (or inability) to access capital, the banks’ liquidity positions, and expectations regarding the recession and higher risk on collateral. Interest rate spreads have risen to unprecedented levels, thereby partially offsetting the effects of the easing of monetary policy. The main factors exacerbating the banks attitude towards lending to SMEs are: a) the poor SME economic prospects b) stagnation in inter-bank lending and increased cost of capital; and c) the desire to rebuild bank balance sheets. In all reporting countries, banks are under pressure and are trying to preserve or strengthen their capital base. As a result, they are seeking fully collateralized transactions. In consequence, by choosing to keep only the strongest clients, banks and other financial institutions are contributing to a polarization process. For example, Korea reported that lending to blue-chip SMEs has increased whereas lending to SMEs with poorer credit ratings has deteriorated (Sindhuja, 2011).

2.3.2 Risk and Uncertainty

Both borrowing and lending typically involve a degree of risk and uncertainty which are reflected in the level of interest rates as well as in the tempo of activity in financial markets. Not being repaid, receiving only partial payment or receiving payment whose purchasing power has diminished are some examples of the risk and uncertainty surrounding financial activities (Siwadi & Mhangami, 2011). Since a borrower repays the principal and interest in money, inflation over the course of the loan will make the amount the lender receives worth less in terms of the goods and services money can buy.

Lenders typically estimate an expected rate of inflation and try to protect themselves against money's loss in value by requiring a premium related to that expectation (Siwadi & Mhangami, 2011). This premium, of course, is in addition to what lenders normally require as compensation for making loans. The greater the inflationary expectations in the financial markets, the greater the premium borrowers would have to pay if they hope to obtain funding. Borrowers and lenders typically formulate their expectations of future inflation on the basis of their experience with past and present rates of inflation; other factors such as the outlook for energy prices or monetary policy may also play a role. rates,
while a slowing of inflation and an improvement in the inflationary outlook generally lead to a lower level of interest rates. Interest rates are also affected by the likelihood a borrower may fail to repay some or even all of a loan's principal and interest.

This possibility of default may be related to a change in the financial health or condition of the borrower brought about by normal as well as unexpected swings in the overall level of economic activity (Marini & Giancarlo, 2012). A recession, or slowdown in economic activity, for example, could depress the earnings of a business, impairing its ability to repay its borrowings. While lenders aren't able to accurately predict the chances any single borrower may default on a financial obligation because of an economic slowdown, they are able to assess the overall credit worthiness of borrowers. In fact, private credit rating agencies such as Moody's Investors Service, Dun & Bradstreet, and Standard and Poor's provide a wealth of information on the credit histories and current financial health of borrowers (Marini & Giancarlo, 2012).

Small firms identify lack of access to financial services as one of the key constraints to growth and investment. Micro Small and Medium Enterprises are usually more credit constrained than other segments of the economy because of high cost of credit, low level of access to information on credit and complicated borrowing procedures (Pepran, 2012). If lenders do charge high interest rate, this increases the risk they are exposed to by discouraging low risk, low return borrowers from seeking loans ultimately discouraging lenders from lending to young entrepreneurs altogether (Njoroge & Gathung, 2013). He also observes that no business can possibly exist without having access to credit. Many theories have raised the issue on the financing gap for SMEs, meaning that when given access to credit could use it profitably to grow their businesses.

Borrowers with a relatively unblemished repayment history and reasonably good prospects of future earnings from which borrowings will be repaid are given high credit ratings. Others with histories of repayment difficulties or who are borrowing for more speculative ventures are characterized as less creditworthy. While lenders are generally cautious in providing funds to those who are higher credit risks, some are willing to take the extra gamble if an interest premium is received in compensation.
2.4 Influence of Credit Awareness on Credit Accessibility

Awareness of credit institutions, either formal or informal, is an essential demand-access element of credit. Individuals cannot choose to ask for a loan in an institution that they do not know. It has been recognized that access to financial services must be studied from the supply and demand sides of the market (Pearlman & Sarah, 2010). With respect to the demand side of the market Claessens (2013) explains that entrepreneurs are voluntarily excluded of the credit market if they are not aware of the service, do not need the service, or assume rejection. Thus, she suggests that in order to have access to the credit market individuals should decide to be aware of the services. Even though awareness is the first step towards use, not much has been explored about the determinants of awareness of credit sources and their use.

In most cases, many banks in Kenya have invested more on giving out loans to their customers to start businesses, raise school fees and many more purposes. This is because most people have decided to venture into different types of businesses around the nation. In addition to that, the banks and microfinance organizations that award the loans to the people have moved closer to the customers through opening branches and sub-branches in the urban and rural areas. As a result, the young entrepreneurs are able to talk to the creditors and seek advice from the concerned authorities who have more experience in business. According to Bartokova and Durcova (2013), the banks and microfinance organizations that give loans to young entrepreneurs get customers automatically due to the rate of unemployment facing the nation at the moment. Many youths focus on starting businesses and employ themselves in areas such as real estates and car hire. The businesses can generate the money required to pay back the credited amount to the creditor.

The awareness on credit accessibility has opened the eyes of many young entrepreneurs through public education on the use of money. As a result, they have time to investigate the type of business they are interested to invest in terms of the expenses, challenges and the expected profits. With that information, they enter into the business with ready solutions to the areas that have problems. Additionally, they are aware of the weaknesses and how to deal with them (Mirdala, 2009). As a result, they have an added advantage of knowledge on the competition and the areas to strengthen in order to attract more customers. For that reason, they face less problems in the loan repayment due to early preparation.
The competition between the banks, microfinance organizations and other creditors is evident among the people at the ground who are willing to access the loans. Furthermore, the competition brings about the lowering of the interest rates that makes it easy for the loan repayment at the agreed period of time. Moreover, the young entrepreneurs have the time to consult among all available options and select the best in terms of efficiency and interest rates (Bartokova & Durcova, 2013). They end up establishing a mutual relationship with the respective microfinances after faithfulness is shown in the loan repayment. The two parties benefit economically and build a long lasting relationship. That is the main target of many creditors in Kenya. However, some people invest poorly and face challenges during the refunding process. That could result from poor choice of business investment or the wrong type of creditor who has high interest charges.

2.4.1 Formal Financial Institutions

This section studies awareness and use of formal credit sources available for borrowers. Following the definition of formal lenders being institutions regulated by the government who operate inside the regulatory framework of the financial system, the formal sources addressed in our study are: banks, savings banks, and government credit programs; while, informal sources are: money lenders, pawnshops and family or friends (Peachey, Steven, & Alan, 2010).

Banks are formal financial institutions that are primarily engaged in accepting deposits from the public for active credit operations (Okten, & Okonkwo, 2011). Banks can be either commercial or development banks. Commercial banks are privately owned while development banks are publicly managed and target their credit to specific activities. Savings bank and cooperatives are both regulated financial institutions and they are considered to be Peoples Financial Sector institutions by the National Banking and Securities commission (CNBV). For this reason savings banks and cooperatives are typically located in low income municipalities. They mainly offer savings and credit services but can also other services such as payments from government social programs, recipient of remittances, payment of electricity or water bills, and insurances. The deference between savings banks and cooperatives is that while cooperatives are nonprofit institutions that provide services only to their members, savings banks offer services to the general public (Tang, Guan, & Jin, 2010).
The payment of these credits stays in the business cycle and is used for work that benefits the other entrepreneurs or to promote savings banks. Most financial institutions, however, have been found to prefer equity type of financing over debt. On the other hand, most entrepreneurs have been found to be aware of only one form of credit: equity. This has hampered most rural farmers with regular income from accessing credit as they lack awareness of the alternative form of credit (Brian and cant, 2010). The awareness of credit services is relatively important for credit accessibility in a certain community. Provision and strengthening of awareness about various credit services influenced the farmers in their credit access (Singh, 2012).

This can be attributed to the fact that the farmers can not readily obtain credit if they are not aware of the available credit services in the community. The results revealed that there were two farmer-respondents who are not aware because they do not want to attend-or they are not interested in attending-meetings, so they are just contented borrowing from informal sources. This result is similar to that from a study in India in which lack of awareness (the proportion of households without literate members) significantly influenced the dependency of rural households on informal credit and the extent of tied-up credit (Satyasai & Viswanathan, 2010).

According to the Mexican Economic Census data, pawnshops are a growing business in Mexico, even when they have monthly interest rates that go from 10 to 23%. The number of pawnshops went from 1,589 to 5,948 from 2004 to 2009. Moreover, in 2010 according to Federal Consumer Protection (PROFECO) that is in charge of the regulation of pawnshops, 90% of pawnshops are private or commercial and have an average annual cost of 257% of the borrowed amount; the other 10% of the pawnshops are institutions of private assistance and have an average annual cost of 120%. The average loan in pawnshops varies between the 25% and 45% of the value of the pledge pawned. PROFECO also reports that 80% of the pawnshops users are housewives and the other 20% are in their majority merchants, students, unemployed and retired people (Beck, 2007).

2.4.2 Informal Financial Institutions

Another strand of literature that is relevant for credit awareness among young entrepreneurs is the one related to the role of the informal financial system in demand for credit. It has been explained that the existence of scale economies and network externalities
makes individuals living in small communities or individuals with the need for small credit transactions un profitable for formal financial service providers (Peachey and Roe, 2010). Because of the limited access to formal financial services, it has been argued that the informal sector faces the residual demand from the formal sector (Eswaran & Kotwal, 2010). In this sense, it has been said that the poor rarely have access to voluntary deposit or credit services offered by formal institutions so they are obliged to save or ask for a credit in an informal source, which often has higher costs, risks, illiquid and indivisibility (Beck & Torre, 2007). On the other hand, it has been explained that formal and informal credit sources interact horizontally especially when low-cost credit is available through informal sources (Guirkinger, 2011).

In particular, enterprises consider friends and family loans to be a way of risk sharing that is beneficial for a group of people, especially in developing countries like Kenya and among individuals that are exposed to shocks in their income. Furthermore, credit between friends and family are considered to be effective because of peer monitoring (Besley, 2011). Pearlman (2010) indicated family and friends are the main source of funds when dealing with an enterprise. The author explains that this is mainly because flexibility may be very important to poor borrowers who face high levels of risk and limited means of managing it (Ronge, Ndirangu, & Nyangito, 2012). Large shocks such as robbery, bribes, extrusion and natural disasters limit the ability to meet rigid repayment schedules usually adopted by formal credit sources. For these reasons, in this paper we use data on awareness and use of formal and informal services which allows us to characterize the determinants of access of credit among young entrepreneurs.

2.4.3 Information and Information Needs

Policy makers need to consider how best to provide advice on access to finance to SMEs, including not only the range of alternative financing options, but also improving awareness of the appropriate funding solution for the specific firm taking into account its capital structures and medium to longer term financing needs (Temecko & Dondo, 2010). Aligned to this there is also a need to ensure that multiple applications to multiple lenders, an appropriate feature of a competitive lending landscape, is not overly burdensome on SMEs requiring multiple different application forms and different supporting information.
Allied to this issue of awareness a significant number of international reports (Audet & St-Jean, 2013) and a recent UK report on business supports (Department for Business, Innovation & Skills, 2011) refer to the widespread and substantial underuse of supports by SMEs, even where there is a demonstrable need for support. The UK report concludes that only 40% of SMEs made use of formal business support assistance in the three year period of the study and it estimated a latent demand across over a further quarter of the SME population. This latent demand included non-users of assistance who did not recognize their need for assistance despite experiencing problems, those that did recognize their problems but did not avail and those that availed to an extent but required further and more extensive assistance. Due to the importance of improving the capability and performance of SMEs (Besley, 2012).

Availability of information and policies framework should aim to encourage and promote the development of local technologies (Brown, 2011). Emphasis should be on the promotion of the local tool industry to reduce reliance on imports. SMEs are said to face a “liability of smallness.” Because of their size and resource limitations, they are unable to develop new technologies or to make vital changes in existing ones. Still, there is evidence that SMEs have the potential to initiate minor technological innovations to suit their circumstances (Besley, 2012). However, for SMEs to fully develop and use this potential, they need specific policy measures to ensure that technology services and infrastructure are provided (Wanjohi, 2009). Policy initiatives in revitalizing the SME sub-sector should not be only government engineered, but all the stakeholders in development arena should take frontline.

### 2.5 Influence of Collateral on Credit Accessibility

ZimTrade (2011) indicates that access to financial credit by entrepreneurs has been an issue repeatedly raised by numerous studies as a major constraint to economic growth of SMEs. A common explanation for the alleged lack of access to credit by small enterprise owners is their inability to pledge acceptable collateral. In their view the current system of land ownership and transfer regulations clearly retards and to some extend limits access to formal credit. First, due to lack of clear title to much usable land in Kenya, there is a limited amount of real property that can be put up as collateral. Second, where title or lease is clear and alienable, transfer regulation needlessly delay the finalization of mortgages and consequently access to borrowed capital. Bendig, Giesbert and Stainer (2010) supported
the view of Cuevas (1993) that from the view point of private sector, problems related to finance dominate all other constraint to expansion.

Bendig (2010) claimed that the available of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in case of default. Thus collateral was required of nearly 75 percent of sample of rural women farmers that need loans under a study, which they conducted on the demand supply of finance small enterprises. The study also indicated that 65 percent of the total sample of entrepreneurs had at various times applied for bank loans for their farming businesses. Nevertheless a large proportion of the firm had their application rejected by banks. For farmers that put in loans applications there was almost 2:1 probability that the application would be rejected. On the other hand, the rural women farmers received loans for much less than they requested for. Among farmers that had their applications rejected, lack of adequate collateral (usually in the form of landed property) was the main reason given by banks. Aryeetey (2010) suggest that banks can offer alternative to property as collateral such as guarantors, sales contract and liens on equipment financed.

2.5.1 Size of the Enterprise

Firms’ sizes affect accessibility to credit from the financial institutions. In China, Honhyan (2009) found that the investment portfolios of larger firms were more diversified, which lessen the probability of failure and makes banks more confident to issue loans based on their expertise and large assets structures. Cassar (2004) further argued that it may be relatively more puzzling for smaller firms to deal with the existing problem of information asymmetry than larger firms. Both arguments suggest that SMEs are generally offered less debt finance as compared to large firms due to their asset size and level of expertise. Cassar (2004) found a positive correlation between the size and banks’ willingness to provide credits. Aryeetey et al (1994) in Ghana observed that large firms were more favored by banks than small and medium-scale firms in terms of loan processing.

Out of the total loan applications from micro-enterprises, 88% were rejected by the banks. In case of small enterprises the rejection rate was lower at 10%. This shows that compared to micro-enterprises, small and medium enterprises are more favoured by banks. This could be due to relatively larger assets base and expertise of small and medium enterprises in the
Collateral impact on credit availability depending on the size of the enterprise, and, in a macroeconomic perspective, on the supply of credit to the companies, in special for SMEs, is a topic attracting a constant and increasing concern in recent years. From the theoretical point of view, we find two alternative interpretations that lead, empirically, to different predictions. On the one hand, is the adverse selection problem faced by a bank in financing activity, and therefore, the security offered by debtors can help alleviate this problem (Stiglitz and 2011). Thus, low-risk borrowers are willing to offer a better guarantee, considering their lower risk as a signal for their capabilities fulfill its obligations under the credit agreement and, therefore, are less probability to lose the guarantee. The guarantee is interpreted as a signal that allows the bank to reduce or eliminate the adverse selection problem caused by the existence of informational asymmetries between the bank and borrower, when the loan was approved, (Jiménez and Saurina 2012).

On the other hand, is the opinion, that even there is an ex ante symmetry between debtor and creditor (for example, the bank knows the quality of the debtor and correctly predicts the role of loan), guarantees are designed to mitigate the moral hazard problem once the loan was granted. In this respect, the security engaged helps to align the interests of both, creditors and debtors, thereby avoiding a situation where the borrower makes less effort to ensure the success of the project for which funding was granted. Security becomes a means to discipline the borrowers’ behavior given the existence of a credible threat (Aghion & Bolton 2012). Starting from this view, we can expect to find a direct relationship between loan quality and/or the borrower, and the size of collateral, i.e. the assumption that the guarantee is a signal of high quality borrowers.

However, this hypothesis is not agreed by the bankers, who tend to establish a direct relation between the level of credit risk and the volume of collateral. For other scholars, (Manove et al., 2011), the size and quality of collateral is linked to the banks behavior on the market. This dichotomy speaks about lazy banks vs. diligent banks. "Lazy banks "are defined as those banks that prefer to substitute a careful and efficient screening of projects with a high concern for the size and quality of proposed collaterals.
In such framework, safer borrowers offer more guarantees compared with risky borrowers, primarily to give a signal about themselves when they are evaluated by a bank, and secondly, to avoid the implications of carefully credit analyzing and screening, as for risky borrowers. Banks, in turn, will adapt to this process and, gradually, will reduce their analysis and monitoring activities for borrowers with substantial collateral. Therefore, risky but innovative projects tend not to be financed, thereby reducing the social welfare. Although interesting, and certainly based on some market behaviors, a model of "lazy bank vs. diligent bank" does not seem to be confirmed by statistical data; the results suggest a rather different kind of diligent behavior of these banks (Argentiero 2013). In addition, research has shown that the presence of collateral is not able to reduce credit risk (default risk) ex post, these results are consistent with the theory that understands the collateral as a credible commitment against informational asymmetries, and not as convenient coverage against credit risk ex-post.

2.5.2 Length of Loaning Period

In addition, there are significant differences in banks’ policy on the role of collateral required in long-term loans (compared with the short term), because this collateral is a part of a risk, but also it may increase coverage as the borrower made systematic repayments. Finally, we haven’t ignore the influence of the regulatory environment, the possibility of applying the law on forced execution of collateral, that may influence the type and size of committed collateral, as the other non-price covenants asked in credit agreements.

According to the “reputational effects” many SMEs borrowers are discouraged due to poor previous experiences or other reasons. For example, some borrowers may be discouraged from applying for external finance due to a first refusal, the ethnicity minority, sex (female), requirements and bureaucracies (Deakins, 2010). Some firm owners do not even apply for loans because they think they will be rejected. A report in Scotland stated that 38% of SMEs reported to be poor in accessing finance and only 25% reported confidence (BIS, 2012). The problem of gender issues is mainly related to female applicants. Female owners are more restricted to loans than men (Abor & Biekpe, 2011). A study conducted in the United States demonstrated that women are unlikely to repay debts (Mijid, 2010). This increases the “discouraged borrower effect”. Evidence also has been found in Australia and UK where women are discouraged to apply for loans as they think their applications would be rejected (Freel, 2010).
Lack of access to credit is indicated as a key problem for SMEs worldwide. In some cases, even where credit is available, the entrepreneur may have difficulties because the lending period may require collateral for the loan. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. For Kenyan SME’s, the formal banking system is too expensive and inconvenient. Whereas banks consider SMEs with no transaction history are too risky because their ability to repay loans is not yet known. These Unbanked SMEs may also not have collateral to access formal credit. Another issue is that these unbanked SMEs might not have the skills to run the business professionally. They may not have proper bookkeeping procedures, inventory systems, business plans or income statements making it hard for a bank to evaluate them (Frempong, 2007).

2.5.3 Entrepreneurial Characteristics

On the other hand, the entrepreneurial characteristics of SMEs are more concerned with factors indirectly related to the business, such as managerial competency (business expertise, ownership structure, level of education) and gender of the owners. BIS (2012) states that entrepreneurs’ skills and abilities greatly influence the quality of their proposals. Low levels of managerial competence can lead SMEs to publish only the proposal strengths and hide what they estimate to be of any default in the loan process.

This alteration of information aggregates the adverse perceptions of bankers about the SMEs informality. Another fact is that generally the SMEs owners are the main decision makers in the business. This increases the probability of failure as their judgments are the important keys of success or failure of the business. Consequently, banks tend to favour more incorporation units where the power of decision-making is shared between shareholders or owners of the firms (Cassar, 2013). As opposed to family and single ownership businesses, incorporation are more organized and possess accurate financial data (books of account) along with good loan proposals. Also, Smith and Smith (2010) argued that the lowest literacy level in Africa with 41% in Cote d’Ivoire (IMF, 2012) reflects the lack of education and training, which accounts for the failure of SMEs. This reinforces the position of bankers by allocating their loans according to the managerial capacity of firms in order to avoid any adverse selection.
Similarly, the location of the enterprises also plays an important role in their creditworthiness level. Berger and Udell (2011) found that the geographical proximity of SMEs to their respective banks affect positively the banks’ decision-making. It enables the loan officers to obtain better environmental information about the borrowing enterprises. Generally, banks are established in high class urban areas which makes difficult to assess businesses located in poor urban or rural areas. Gilbert (2013) points out that urban firms have better chance in accessing credits from banks than those who are in rural areas or poor urban areas. Additionally, a study conducted in South Africa also revealed that businesses in poor urban and rural areas are exposed to a high crime rate which increases the risks, uncertainties in repayment of debt or bankruptcy (Olawale and Asah, 2011). Subsequently banks are unenthusiastic to provide finance to business in those locations.

2.6 Managerial Competencies and Credit Accessibility

One of the obstacles to the success of an enterprise is lack of willingness to take risk. Fear of failure and embarrassment prevent people with ideas not to explore them and venture into a competitive stage. Many young entrepreneurs fear risks arising from their immediate social environment (Nieman & Neuwenhuizen, 2010). Moreover, social and cultural factors can have an influence on youth innovation activities. Rita and Fernald (2012) documented that participation of youths varies with gender in developing countries and that young men are more likely to be self-employed than young women. These findings appear to suggest the existence of socio-cultural constraints which tend to affect the participation rate of young women. According to Olawale and Lynety (2011) as cited from Thurnik and De Wit (2010) observed that the endowed level of talent of a small business founder is the investment in industry-specific and entrepreneurship-specific human capital which contributes significantly to the performance of new small firm (Herrington & Wood, 2013).

2.6.1 Depth of Experience

The depth of experience is measured by the number of years of business management experience in the current firm and by the total years of management experience. According to Boyatzis (1982), managerial competencies characterize a person who manages a company or a team of workers. These contribute to successful fulfillment of a task. Therefore managerial competencies are understood here as observable characteristics such as knowledge, skills or behavior patterns that contribute to the successful fulfillment of.
managerial tasks (Markman, 2011; van Beirendonck, 2012). One proposition considers two major groups: general and specific competencies (Armstrong, 2007; Wright and McMahan, 2011). General competencies refer to broader personality characteristics, skills, patterns of behavior and values that are essential for every managerial position, and important also in many other professions.

A meta-analysis published by Ng and colleagues (2005) suggests that the depth of experience and value to the firm are essential for predicting career success and should be included into the theoretical models explaining this success. However, the role of competencies in SME activity and business success are yet to be investigated. The latest literature reviews suggest that further research is needed to uncover and fully explain these relationships (Mitchelmore and Rowley, 2010). Various studies claim that certain managerial competencies are essential factors in the success and growth of the firm (Rowley, 2010). According to the resource-based theory, the resources or competencies of a firm which make it different from others are important for its market success (Hussain, 2006). Human capital – e.g. competencies – is treated as a key factor explaining why some firms outperform others. Consequently, entrepreneurial competencies shall be considered as an important predictor of business success (Rowley, 2010).

2.6.2 Breadth of Experience

This is measured by owners’ self-ratings of their abilities and experience on each of the activities that are typically undertaken by SME owners. These include: supplier client relationships; small business management; pricing; personal career management; operations management; small business regulation; project management; delegating; personal time management; professional networks; business plans; promotion and advertising; new product development; on-line communication; financial reporting; software skills; industry standards; using market research; accessing files of knowledge; sources of capital; financial analysis; accessing industry information; adopting new technology; and, electronic commerce.

According to studies by Olawale and Lynety (2011), they observed that breadth of the experience is one of the initiatives that can be designed to enhance skills and knowledge among the youths. Entrepreneurial skills include creativity, innovation, risk-taking and ability to interpret successful entrepreneurial role models and identification of
opportunities. Entrepreneurial education thus provides basics of such practical business practices. The Olawale and Lynety (2010) continue to assert that low levels of financial literacy can influence the degree to which organized youth group Entrepreneurs access formal sources of finance. These studies noted that entrepreneurship education should be made accessible to all tertiary learners in order to be equipped for business practices. In addition, expert financial training greatly increases the chances of entrepreneurs securing appropriate and affordable finance. Further, these studies recommended that entrepreneurial finance skills and competencies should be cultivated into youths all the way from institutions of learning (Olawale and Lynety, 2011).

In this connection Hatch and Dyer (2004) documented that Youth Entrepreneurship Facility in Kenya, Tanzania and Uganda has as a cross-cutting component for all its activities to support youth employment policy makers and promoters to make evidence based decisions for better resource allocation and programme design. Emerging innovative practices include committing to conducting one evaluation and initiating and sharing results of two impact assessments per year. In 2010-11, it accomplished this intended result. The extent to which these practices had been implemented among entrepreneurs’ youth groups in Kenya were investigated.

2.6.3 Market Information

Limited access to markets market information remains a severe constraint to management and growth of SMEs (KIPPPRA, 2011). Limited access to market information makes SMEs less aware of opportunities in the market. Overall aggregate demand for the sector’s products is low and markets are saturated due to overproduction and dumping of cheap imports. Markets do not function well due to insufficient information, high transaction costs and stiff competition for similar products. High transaction costs are due to market inefficiencies and information asymmetry. SMEs face difficulties accessing markets due to limited market information, poor marketing capacity and poor market research leading to a discrepancy between the supply and demand (KIPPPRA, 2011).

On the other hand, Information on market access has been identified as an enabler of young entrepreneurs in accessing new markets, (GOK, 2010) presenting enormous opportunities for SMEs to improve market access. ICT is an indispensable tool in the highly globalised, knowledge economy. Market access constraints facing SMEs include; poor quality products, lack of knowledge to explore niche markets, limited resources to promote their
products and poor market research. ICT can improve market access by facilitating communication with customers, competitive positioning, enable information acquisition and production of quality products, generation of market information, reduction in logistic costs, facilitating access to global markets, facilitating market research, networking, market transactions and market identification.

The ability of SMEs to survive in an increasingly competitive global environment is largely dependent upon their capacity to leverage information as a resource and to benefit from the value of information (Kaushalesh & Peedoly, 2006). SMEs need ready access to comprehensive relevant information since they operate in severe time and capacity constraints. They require information on business trends and markets; business environment, legal and regulatory aspects, business management, customer needs, business expansion and diversification; technology; business opportunities; linkages and business partnerships. (Schleberger, 2013)

Limited access to opportune, current, relevant and adequate information is a notable constraint to SMEs in Kenya. The enterprises struggle to gain access to important information needed for improved productivity, customer satisfaction, improved cycle time and opportunities at the market place. (ITG, 2002 in Hanna, 2010) Market signals on business opportunities and customer trends are not communicated effectively to SMEs, who perform better in information rich environments (KIPPRA, 2006). Major challenges in relation to market information relate to acquisition and capacity to interpret and effectively use the acquired information. Without access to timely, simplified, reliable and relevant information on market opportunities, production technology, the sector is unable to survive and grow in a highly globalised and competitive market environment (GOK, 2005). Even though acquisition of information is costly in developing countries, there is evidence to suggest that SMEs are willing to pay significant sums for relevant information where available (KIPPRA, 2006). Difficulties associated with information acquisition have negative implications; lack of information may reduce the extent of mutually beneficial exchanges and lead to uncertainty concerning economic decisions in the enterprises, Information asymmetries leads to high transaction costs, uncertainty and therefore market failure (Matambalya & Wolf, 2012).
2.7 Chapter Summary

The purpose of this literature review was to assess the factors affecting credit accessibility among youth entrepreneurs in Kenya. The chapter discussed the effects of interest rates on credit accessibility; effects of credit awareness on credit accessibility; influence of collateral on credit accessibility; and influence of managerial competencies among entrepreneurs on credit accessibility. Perspectives of different scholars and researchers are presented so as to establish what has already been done that is relevant for the study. Chapter three provides research methodology which outlines the methods that will be used to collect that data, research design and how data will be analyzed.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives the methodology that was used in the study. It includes subsections in this order: Research Design, Population and Sampling Design, Data Collection Methods, Research Procedures, Data Analysis Methods and then finally, the chapter summary is given.

3.2 Research Design

The study adopted a descriptive survey research design. A descriptive survey research design was appropriate for this study because it has the ability to incorporate structured and semi-structured data collection methods. Equally, as stated by Saunders, Lewis and Thornhill (2009), it forms a basis for sound theory and also contributes to formulation of relevant policy for intervention. This study investigates the extent to which interest rates, credit awareness, collateral, and managerial influence affects credit accessibility by young entrepreneurs in Kenya.

3.3 Population and Sampling Design

3.3.1 Population

Target population in statistics is the specific population about which information is desired. According to Thorpe (2008), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The target population comprise of all the young entrepreneurs with accounts in Family bank branches in Nairobi County’s central business district. Therefore, this study targeted a population was 437. This is distributed as shown in the Table 3.1
### Table 3.1: Population Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel outlets</td>
<td>217</td>
</tr>
<tr>
<td>Grocery dealers</td>
<td>127</td>
</tr>
<tr>
<td>Florists</td>
<td>93</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>437</strong></td>
</tr>
</tbody>
</table>

### 3.3.2. Sampling Design

Sampling ensures that some elements of a population are selected as representative of the whole population.

#### 3.3.2.1 Sampling Frame

According to Saunders, Lewis and Thornhill, (2009) a sampling frame is a list of elements from which the sample is actually drawn and closely related to the population. In this study, the sampling frame consists of the different strata of the entrepreneurs in the population of the study. This was used so as to ensure that the sampling frame is current, complete and relevant for the attainment of the study objective. The Sample frame was obtained from KRA list of registered entrepreneurs.

#### 3.3.2.2 Sampling Technique

The study adopted stratified sampling technique. The study population was grouped into four strata’s based on the segments of classification as per the business type. From each stratum, the study utilized a simple random sampling to select the sample size from the population. Mugenda and Mugenda (2003) stipulate that a sample of at least thirty elements is adequate for generalization of the findings to the whole population. The sampling technique used was stratified random sampling. According to Lewis and Thornhill (2009) Stratified random sampling method is preferred in this study since it lead to the selection of a representative sample from each stratum.
3.3.2.3 Sample Size

According to Thorpe, Smith and Jackson (2008), a sample refers to a subset of those entities that decisions relate to. They poised that, the sample must be carefully selected to be representative of the population and the researcher also needs to ensure that the subdivisions entails in the analysis are accurately catered for. A sample size of 251 respondents was selected from the total population. The sample size was as shown in table 3.2 below.

Table 3.2: Sample Size Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Sample Proportion</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel outlets</td>
<td>217</td>
<td>20%</td>
<td>43</td>
</tr>
<tr>
<td>Grocery dealers</td>
<td>127</td>
<td>20%</td>
<td>25</td>
</tr>
<tr>
<td>Florists</td>
<td>93</td>
<td>20%</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1256</strong></td>
<td></td>
<td><strong>251</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

This study utilized primary data collected using questionnaires. The questionnaires included both open and closed ended in line with the objectives of the study. A five point Likert scale used for closed ended questions. The questionnaires contained two sections. The first section sought to establish the respondent demographic data while the second section seeks to establish the respondents’ opinions on the four objectives of the study which were: levels of interest rates, credit awareness, collateral and managerial competencies on credit accessibility among young entrepreneurs. The study also utilized a Likert scale of one (1) to five (5); one being the least score and five being the most score.

3.5 Research Procedures

The researcher developed a questionnaire that is in line with the objectives of the study. The researcher then obtained permission from the legitimate institutional bodies running businesses in the area. A pilot test was conducted covering four types of enterprises to enable the researcher determine the respondents’ burden in filling the questionnaire and the appropriateness of the questionnaires in collecting the required data. The questionnaires
was reviewed and revised accordingly to take care of the issues noted during the pilot survey.

The questionnaires was distributed to the sample respondents by the researcher using a drop and pick later method to reduce disruptions on the respondents’ routines. Personal administration was chosen upon so as to ensure high response rate. Respondent anonymity was ensured by giving questionnaires unique numbers which only the researcher understands their meaning. Only the researcher understands the codes on the questionnaires hence ensuring respondent confidentiality. A clear explanation was given to respondents as to how they are to benefit from the research. All these are aimed at ensuring a high response rate.

3.6 Data Analysis Methods

Miller (1991) notes that in order to analyze collected data, a researcher needs to have the following information about the statistical data analysis tools namely: descriptive, inferential and test statistics. Before processing the responses, data preparation was done on the completed questionnaires by editing, coding, entering and cleaning the data. Data collected was analyzed using descriptive statistics. The descriptive statistical tools help in describing the data and determining the respondents’ degree of agreement with the various statements under each objective. To ensure that the data collected from the field make meaning, the researcher analyzed the data using mean and standard deviation, frequencies and percentages. The data analysis tool is Statistical package for Social Sciences (SPSS) and Microsoft Excel to generate quantitative reports. The analyzed data was presented in the form of tables and figures.

For purposes of predicting the dependent variable (Credit Accessibility) from the independent variables (factors), a multiple regression was used. The multiple regression helped the researcher to describe, forecast (predict) and adjust new observations and processes. Thus a multiple regression was used for interpreting the results of the effect of independent variables on the dependent variable.
The research will adopt the below model

\[ Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \epsilon \]

Where:

- \( Y \) is the accessibility
- \( \beta_0 \) is intercept or constant (predicted value for \( Y \))
- \( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are regression coefficients for variables \( x_1, x_2, x_3 \) and \( x_4 \) indicating how much we expect \( Y \) to change as a result of change in one variable of \( x \).

- \( X_1 \) represents interest rates
- \( X_2 \) represents credit awareness
- \( X_3 \) represents collaterals
- \( X_4 \) represents managerial competences

**3.7. Chapter Summary**

This chapter has presented the research methodology and design. A detailed analysis of the population and the sampling technique has also been discussed. The study sample size, data collection methods, research procedures, and data analysis methods have been provided in this chapter. The next chapter focuses on the analysis of the study results and findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents data collected from the field, its analysis, and finally the interpretation of the findings on the factors affecting credit accessibility among youth entrepreneurs in Kenya. The findings are based on the research question regarding credit accessibility among young entrepreneurs in Kenya which include interest rates, credit awareness, collaterals and managerial competencies. The data is presented in form of tables and figures. Reliability of the questionnaire was evaluated through Cronbach’s Alpha which measures the internal consistency. The Alpha measures internal consistency by establishing if certain items measure the same construct. Nunnally (1978) established the Alpha value threshold at 0.6 which the study benchmarked against. Cronbach Alpha was established for every objective in order to determine if each scale (objective) would produce consistent results should the research be done later on. Table 4.1 shows that all the scales were significant, having an Alpha above the prescribed threshold of 0.6.

Table 4.1: Reliability Analysis for the variables

<table>
<thead>
<tr>
<th>Scale</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates</td>
<td>0.761</td>
</tr>
<tr>
<td>Credit awareness</td>
<td>0.789</td>
</tr>
<tr>
<td>Collaterals</td>
<td>0.876</td>
</tr>
<tr>
<td>Managerial competencies</td>
<td>0.743</td>
</tr>
<tr>
<td><strong>Average (All Scales)</strong></td>
<td><strong>0.792</strong></td>
</tr>
</tbody>
</table>

The study targeted 251 young entrepreneurs in Kenya. Out of the 251 questionnaires distributed, 220 were filled questionnaires and returned giving the study a response rate of 88% as shown in Figure 4.1. The high response rate was made possible by the use of research assistants who administered the questionnaires and made subsequent calls and visits to remind the respondents to fill in the questionnaires.
4.2 Demographic Information

The study in this section sought to establish on the respondents’ demographic information including start-up capital, employees in their enterprises, highest educational level, application of loans from banking institutions and accessibility of bank loans. This general information is presented below.

4.2.1 Start-up capital

The study findings in Figure 4.2 indicates 41.04% of the respondents indicated that their capital startup was below Kes 10,000, 28.69% indicated Kes 50,00, 12.75% indicated between Kes 51,000 and 100,000, 9.16% indicated it was between Kes 101,000 and 150,000 while 8.37% indicated that it was above Kes 150,000. From these findings, we can deduce that for most entrepreneurs their capital startup was below Kes 10,000.
4.2.2 Number of Employees Employed

The researcher sought to find out the number of employees the respondents had employed in their enterprises. According to the Figure 4.3, the study findings indicate that 45.82% indicated that they had employed less than 10 employees, 21.51% indicated none, 9.16% indicated 20 to 30 employees, 8.76% indicated 11 to 20 employees, 6.77% indicated 40 to 50 employees, 4.78% indicated 30 to 40 employees while 3.19% indicated above 50 employees. From these findings, we can infer that most entrepreneurs had employed less than 10 employees in their enterprises.
Figure 4. 3: Number of employees employed

4.2.3 Highest Education Level

The researcher sought to find out the highest education level of the respondents. According to Figure 4.4, the study findings indicate 51.39% of the respondents indicated their highest level of education was a college/ diploma certificate, 26.68% indicated undergraduate, 13.55% indicated master’s degree while 8.37 indicated PhD degree. From these findings, we can infer that most entrepreneurs had college/diploma certificate as their highest level of education. As a result they were in a better position to understand the questions asked and the matters regarding credit accessibility.

Figure 4. 4: Highest educational level
4.2.4 Bank Loan Application

The researcher further sought to find out from the respondents whether they had applied for a bank loan. From the findings in Figure 4.5, 84.46% of the respondents indicated that they had applied for a bank loan while 15.54% indicated that they had not applied. From these findings, we can deduce that most of the entrepreneurs had applied for a bank loan.

![Bank loan application pie chart]

Figure 4.5: Bank loan application

4.2.5 Accessibility of Bank Loans

The researcher sought to find out whether bank loans were accessible to most respondents. According to the Figure 4.6, 61.35% of the respondents indicated that bank loans are slightly accessible, 20.32% indicated they are inaccessible, 13.35% indicated they are moderately accessible, 3.58% indicated they are accessible while 1.20% indicated the loans are very accessible. From these results, we can deduce that bank loans are slightly accessible.
4.3 Influence of Interest Rates on Credit Accessibility

Interest rates are high as it is an instrument used to curb inflation rates in different countries (World Bank, 2011). Many country studies show that rural women farming entrepreneurs are more likely to face higher interest rates, be required to collateralize a higher share of the loan, and have shorter-term loans (IFC, 2011). Therefore, the study sought to establish the influence of interest rates on credit accessibility.

4.3.1 Influence of Interest Rate on Loan Take Up

The researcher requested the respondents to indicate whether the interest rate charged by the bank influence their decision of whether to take up a loan. According to the findings in Figure 4.7, 84.46% of the respondents indicated that interest rate charged by the bank influences their decision of whether to take up a loan while 15.54% indicated that it did not. From these findings, we can infer that interest rate charged by the bank influences the decision of most entrepreneurs on whether to take up a loan.
4.3.2 Extent of Interest Rates Effect Loan Accessibility

The researcher also set out to find out the extent to which interest rates affect loan accessibility. According to the findings show in Figure 4.8, 34.26% of the respondents indicated that the extent to which interest rates affect loan accessibility is very great, 29.08% indicated to a great extent, 13.55% indicated to a low extent, 13.15% indicated to a very low extent while 9.96% indicated to a moderate extent. These findings lead us to deduce that interest rates affect loan accessibility to a very great extent.

Figure 4. 7: Influence of interest rate on loan take up

Figure 4. 8: Extent of Interest rates effect loan accessibility
4.3.3 Loan Application: Individual or Group

The researcher also sought to find out whether the respondents who had applied for a bank loan did so as an individual or as a group. According to the study findings in Figure 4.9, 88.45% of the respondents indicated that they had applied for a bank loan did so as an individual while 11.55% indicated they had applied for a bank loan did so as an as a group. From these results, we can infer that entrepreneurs who had applied for a bank loan did so as an individual.

![Pie Chart](chart.png)

**Figure 4. 9: Loan Application: Individual or Group**

4.3.4 Statements on the Influence of Interest Rates on Credit Accessibility

The researcher sought to find out the respondents level of agree/disagree with the statements on a scale of 1-5. From the findings in Table 4.2, the respondents agreed with a mean of 3.846 and a standard deviation of 0.4324 that the risk involved in defaulting payments influence the decision of loan application. Furthermore, the respondents agreed with a mean of 3.842 and a standard deviation of 0.2435 that interest rates charged on long term loans is higher than interest charged on short term loans. Additionally, the respondents agreed with a mean of 3.196 and a standard deviation of 0.1424 that the interest rate charged by the bank varies according to the amount borrowed. Also, the respondents agreed with a mean of 3.172 and a standard deviation of 0.2342 that in order to access a loan from the bank, one must have a certain amount of deposit with the bank. Additionally,
the respondents agreed with a mean of 3.122 and a standard deviation of 0.4325 that majority of the young entrepreneurs are not able to raise the loan application fees charged. Further, the respondents agreed with a mean of 2.324 and a standard deviation of 0.2421 that the bank offers bulk loans to start up entrepreneurs. Further, the respondents agreed with a mean of 2.316 and a standard deviation of 0.3241 that the grace period for defaulters offered by the bank is favorable. Lastly, the respondents agreed with a mean of 2.198 and a standard deviation of 0.2451 that foreign banks lend more than local banks.

Table 4.2: Statements on the influence of interest rates on credit accessibility

<table>
<thead>
<tr>
<th>Statements on the influence of interest rates on credit</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>In order to access a loan from the bank, one must have a certain amount of deposit with the bank</td>
<td>3.172</td>
<td>0.2342</td>
</tr>
<tr>
<td>The bank offers bulk loans to start up entrepreneurs</td>
<td>2.324</td>
<td>0.2421</td>
</tr>
<tr>
<td>The interest rate charged by the bank varies according to the amount borrowed</td>
<td>3.196</td>
<td>0.1424</td>
</tr>
<tr>
<td>Foreign banks lend more than local banks</td>
<td>2.198</td>
<td>0.2451</td>
</tr>
<tr>
<td>Majority of the young entrepreneurs are not able to raise the loan application fees charged</td>
<td>3.122</td>
<td>0.4325</td>
</tr>
<tr>
<td>Interest rates charged on long term loans is higher than interest charged on short term loans</td>
<td>3.842</td>
<td>0.2435</td>
</tr>
<tr>
<td>The risk involved in defaulting payments influence the decision of loan application</td>
<td>3.846</td>
<td>0.4324</td>
</tr>
<tr>
<td>The grace period for defaulters offered by the bank is favorable</td>
<td>2.316</td>
<td>0.3241</td>
</tr>
</tbody>
</table>
4.4 Influence of Credit Awareness on Credit Accessibility

Awareness of credit institutions, either formal or informal, is an essential demand-access element of credit. Individuals cannot choose to ask for a loan in an institution that they do not know.

4.4.1 Awareness on Loan Facilities Offered by Bank

The researcher sought to find out the extent of awareness of the different loan facilities being offered by the respondents’ banks. According to the study findings in Figure 4.10, 51% of the respondents indicated that the extent of awareness of the different loan facilities being offered by their banks was low, 22.31% indicated the extent was very low, 12.75% indicated the extent was moderate, 8.76% indicated the extent was great while 5.18% indicated the extent was very great. From these findings, we can deduce that the extent of awareness of the different loan facilities being offered by banks is low.

![Figure 4.10: Awareness on loan facilities offered by bank](image)

Figure 4.10: Awareness on loan facilities offered by bank
4.4.2 Familiarity with the Loan Facilities

The researcher further sought the opinion of the respondents on whether they thought young entrepreneurs are deliberately not familiar with the loan facilities. From the findings in Figure 4.11, 44.22% of the respondents indicate that young entrepreneurs are genuinely not aware of the service, 38.65% of the respondents indicated that young entrepreneurs assume their request will be rejected 13.55% of the respondents indicated that young entrepreneurs consider loans to be expensive while 3.59% of the respondents indicated that young entrepreneurs do not need the service. From these findings, we can deduce that young entrepreneurs are not familiar with the loan facilities because they are genuinely not aware of the service.

![Familiarity with the loan facilities](image)

**Figure 4.11: Familiarity with the loan facilities**

4.4.3 Lending Institutions

The researcher requested the respondents to indicate the lending institutions they were aware of. According to the study findings in Figure 4.12, 26.29% of the respondents they were aware of banks, 22.71% indicated Saccos, 17.93% indicated deposit taking microfinance, 14.34% indicated chamas, 9.16% indicated government credit programs,
5.18% indicated shylocks while 4.38% indicated community money lenders. Therefore, we can deduce that most entrepreneurs were aware of banks.

![Figure 4. 12: Lending Institutions](image)

**4.4.5 Accessibility to Loan Facilities from the Following Financial Institutions**

The researcher also sought to establish the level of accessibility of the respondents with the following financial institutions to loan facilities. The findings in Table 4.3, respondents indicated with a mean of 3.671 and a standard deviation of 0.1223 that Sacco’s are accessible with regard to loan facilities. Further, the respondents indicated with a mean of 3.214 and a standard deviation of 0.3423 that banks are accessible with regard to loan facilities. Also, the respondents indicated with a mean of 3.142 and a standard deviation of 0.2123 that shylocks are accessible with regard to loan facilities. Further, the respondents indicated with a mean of 3.134 and a standard deviation of 0.4213 that government credit programs are accessible with regard to loan facilities. Additionally, the respondents
indicated with a mean of 2.314 and a standard deviation of 0.1241 that deposit taking microfinance are accessible with regard to loan facilities. In addition, the respondents indicated with a mean of 2.143 and a standard deviation of 0.4241 that family and friends are accessible with regard to loan facilities. Also, the respondents indicated with a mean of 2.124 and a standard deviation of 0.1513 that chamas are accessible with regard to loan facilities. Lastly, the respondents indicated with a mean of 1.241 and a standard deviation of 0.3214 that community money lenders are accessible with regard to loan facilities.

**Table 4.3: Accessibility to loan facilities from the following financial institutions**

<table>
<thead>
<tr>
<th>Financial institutions</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>3.214</td>
<td>0.3423</td>
</tr>
<tr>
<td>Government credit programs</td>
<td>3.134</td>
<td>0.4213</td>
</tr>
<tr>
<td>Saccos</td>
<td>3.671</td>
<td>0.1223</td>
</tr>
<tr>
<td>Deposit taking microfinance</td>
<td>2.314</td>
<td>0.1241</td>
</tr>
<tr>
<td>Community money lenders</td>
<td>1.241</td>
<td>0.3214</td>
</tr>
<tr>
<td>Shylocks</td>
<td>3.142</td>
<td>0.2123</td>
</tr>
<tr>
<td>Chamas</td>
<td>2.124</td>
<td>0.1513</td>
</tr>
<tr>
<td>Family and friends</td>
<td>2.143</td>
<td>0.4241</td>
</tr>
</tbody>
</table>

**4.5.6 Influence of Credit Awareness on Loan Accessibility among Young Entrepreneurs**

The researcher further sought to establish to what extent the respondents would agree with the following statements on the influence of credit awareness on loan accessibility among young entrepreneurs in Kenya. According to the study findings in Table 4.4, the respondents agreed with a mean of 3.245 and a standard deviation of 1.341 that majority of the banks and cooperatives are located within accessible areas. Further, the respondents agreed with a mean of 4.321 and a standard deviation of 0.131 that the banks offer savings and loan services. Further, the respondents agreed with a mean of 2.132 and a standard
deviation of 1.331 that the government offers accessible loan facilities through the bank. Also, the respondents agreed with a mean of 4.134 and a standard deviation of 0.214 that majority of the low income earners lack awareness of any other form of credit other than loans. Additionally, the respondents agreed with a mean of 3.231 and a standard deviation of 0.221 that shylocks are of higher risks compared to the formal lenders like banks. Further, the respondents agreed with a mean of 4.314 and a standard deviation of 1.413 that informal financial institutions are more expensive compared to the formal institutions. Lastly, the respondents agreed with a mean of 3.241 with a mean of 0.7123 that there is need for more campaigns to educate youth entrepreneurs on access to loan facilities and credit options.

**Table 4. 4: Influence of credit awareness on loan accessibility among young entrepreneurs**

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority of the banks and cooperatives are located within accessible areas</td>
<td>3.245</td>
<td>1.341</td>
</tr>
<tr>
<td>The banks offer savings and loan services</td>
<td>4.321</td>
<td>0.131</td>
</tr>
<tr>
<td>The government offers accessible loan facilities through the bank</td>
<td>2.132</td>
<td>1.331</td>
</tr>
<tr>
<td>Majority of the low income earners lack awareness of any other form of credit other than loans</td>
<td>4.134</td>
<td>0.214</td>
</tr>
<tr>
<td>Shylocks are of higher risks compared to the formal lenders like banks</td>
<td>3.231</td>
<td>0.221</td>
</tr>
<tr>
<td>Informal financial institutions are more expensive compared to the formal institutions</td>
<td>4.314</td>
<td>1.413</td>
</tr>
<tr>
<td>There is need for more campaigns to educate youth entrepreneurs on access to loan facilities and credit options</td>
<td>3.241</td>
<td>0.7123</td>
</tr>
</tbody>
</table>
4.5 Influence of Collateral on Credit Accessibility

ZimTrade (2011) indicates that access to financial credit by entrepreneurs has been an issue repeatedly raised by numerous studies as a major constraint to economic growth of SMEs. A common explanation for the alleged lack of access to credit by small enterprise owners is their inability to pledge acceptable collateral. The study therefore sought to establish the influence of collateral on credit accessibility.

4.5.1 Statements on the Influence of Collateral on Loan Accessibility among Young Entrepreneurs

The researcher sought to find out the level of agreement on the following statements on the influence of collateral on loan accessibility among young entrepreneurs. The findings in Table 4.5 indicates that the respondents agreed with a mean of 4.231 and a standard deviation of 1.231 that SMEs are generally offered less loan facilities as compared to large corporates due to their asset size. Further, the respondents agreed with a mean of 3.231 and a standard deviation of 0.213 that security offered by lenders is used as a vetting requirement for young entrepreneurs. Also, the respondents agreed with a mean of 3.221 and a standard deviation of 0.231 that majority of the young entrepreneurs lack security as a requirement for the accessibility of loan facilities.

The respondents also agreed with a mean of 3.241 and a standard deviation of 0.231 that most young entrepreneurs receive less than the amount they have applied due to the value of their security. Further, the respondents agreed with a mean of 3.131 and a standard deviation of 0.334 that majority of the young entrepreneurs lack security as a requirement for the accessibility of loan facilities. Lastly, the respondents agreed with a mean of 2.131 and a standard deviation of 1.223 that SMEs are generally offered less loan facilities as compared to large corporates due to their level of expertise.
Table 4.5: Statements on the influence of collateral on loan accessibility among young entrepreneurs

<table>
<thead>
<tr>
<th>Statements on the influence of collateral on loan accessibility among young entrepreneurs</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority of the young entrepreneurs lack security as a requirement for the accessibility of loan facilities</td>
<td>3.131</td>
<td>0.334</td>
</tr>
<tr>
<td>Most young entrepreneurs receive less than the amount they have applied due to the value of their security</td>
<td>3.241</td>
<td>0.231</td>
</tr>
<tr>
<td>SMEs are generally offered less loan facilities as compared to large corporates due to their asset size</td>
<td>4.231</td>
<td>1.231</td>
</tr>
<tr>
<td>SMEs are generally offered less loan facilities as compared to large corporates due to their level of expertise</td>
<td>2.131</td>
<td>1.223</td>
</tr>
<tr>
<td>Security offered by lenders is used as a vetting requirement for young entrepreneurs</td>
<td>3.231</td>
<td>0.213</td>
</tr>
<tr>
<td>Majority of the young entrepreneurs lack security as a requirement for the accessibility of loan facilities</td>
<td>3.221</td>
<td>0.231</td>
</tr>
</tbody>
</table>

4.5.2 Extent to which collateral charged influences accessibility of the loan

The researcher further sought to establish the extent to which collateral charged influences the respondents’ accessibility to the loan. According to the findings in figure 4.13, 34.26% of the respondents indicated that the extent to which collateral charged influences the respondents’ accessibility to the loan is very great, 29.08% indicated the extent was great, 13.55% indicated the extent was very low, 13.15% indicated the extent was low while 9.96% indicated the extent was moderate. From these results we can infer that the extent to which collateral charged influences the respondents’ accessibility to the loan is very great.
4.6 Managerial Competencies among Entrepreneurs and Credit Accessibility

One of the obstacles to the success of an enterprise is lack of willingness to take risk. Fear of failure and embarrassment prevent people with ideas not to explore them and venture into a competitive stage (Nieman & Neuwenhuizen, 2010).

4.6.1 Years in Business

The researcher also requested the respondents to indicate the number of years they had been in business. According to the study findings, 82.87% of the respondents indicated that they had been in business for less than 5 years, 9.16% indicated 6 to 10 years, and 4.78% indicated 11 to 15 years while 3.19% indicated above 15 years. From these findings, we can deduce that most entrepreneurs had been in business for less than 5 years.
The researcher further set out to establish the approximate monthly client base. According to the study findings, 44.22% of the respondents indicated that their approximate monthly client base was less than Kes 500, 40.64% indicated theirs was between Kes 501 and 1500 while 15.14% of the respondents indicated theirs was above Kes 1500. From these findings, we can deduce that for most entrepreneurs, their approximate monthly client base was less than Kes 500.
4.6.3 Managerial Training and Access to Loan

The researcher further investigated the extent to which lack of business managerial training and experience affect their access to loans. The results are shown below.

4.6.4 Extent to Which Lack of Business Managerial Training and Experience Affects Access to Loan

According to the study findings in Table 4.6, the respondents indicated with a mean of 3.975 and a standard deviation of 0.223 that they apply business managerial skills in management of financial resources. Further, the respondents indicated with a mean of 3.942 and a standard deviation of 1.231 that they apply business managerial skills in adoption of technology in business operations. Also, the respondents indicated with a mean of 3.673 and a standard deviation of 0.221 that they apply business managerial skills in formal business skills and ethics. In addition, the respondents indicated with a mean of 3.442 and a standard deviation of 0.224 that they apply business managerial skills in
controlling activities. Also, the respondents indicated with a mean of 3.421 and a standard deviation of 0.332 that they apply business managerial skills in coordination. Additionally, the respondents indicated with a mean of 3.221 and a standard deviation of 2.343 that they apply business managerial skills in business Planning. Also, the respondents indicated with a mean of 3.143 and a standard deviation of 0.241 that they apply business managerial skills in directing. In addition, the respondents indicated with a mean of 3.124 and a standard deviation of 0.221 that they apply business managerial skills in book keeping. Also, the respondents indicated with a mean of 2.352 and a standard deviation of 1.134 that they apply business managerial skills in business management structure. Further, the respondents indicated with a mean of 2.324 and a standard deviation of 1.231 that they apply business managerial skills in staffing. Lastly, the respondents indicated with a mean of 1.224 and a standard deviation of 1.222 that they apply business managerial skills in management of business inputs.

Table 4.6: Business managerial skills application

<table>
<thead>
<tr>
<th>Business managerial skills application</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal business skills and ethics</td>
<td>3.673</td>
<td>0.221</td>
</tr>
<tr>
<td>Management of financial resources</td>
<td>3.975</td>
<td>0.223</td>
</tr>
<tr>
<td>Business management structure</td>
<td>2.352</td>
<td>1.134</td>
</tr>
<tr>
<td>Management of business inputs</td>
<td>1.224</td>
<td>1.222</td>
</tr>
<tr>
<td>Business Planning</td>
<td>3.221</td>
<td>2.343</td>
</tr>
<tr>
<td>Staffing</td>
<td>2.324</td>
<td>1.231</td>
</tr>
<tr>
<td>Directing</td>
<td>3.143</td>
<td>0.241</td>
</tr>
<tr>
<td>Controlling activities</td>
<td>3.442</td>
<td>0.224</td>
</tr>
<tr>
<td>Coordination</td>
<td>3.421</td>
<td>0.332</td>
</tr>
<tr>
<td>Adoption of technology in business operations</td>
<td>3.942</td>
<td>1.231</td>
</tr>
<tr>
<td>Book keeping</td>
<td>3.124</td>
<td>0.221</td>
</tr>
</tbody>
</table>

4.6.6 Relationships with Client Base

The researcher also set out to establish how the respondents rated the relationships with their client base. According to the study findings in Table 4.7, respondents rated with a
mean of 3.731 and a standard deviation of 0.432 their relationship with social media client base. They also rated with a mean of 3.434 and a standard deviation of 0.245 their relationship with business management skills client base. Further, the respondents rated with a mean of 3.212 and a standard deviation of 0.223 their relationship with new product development client base. Also, the respondents rated with a mean of 3.141 and a standard deviation of 0.135 their relationship with promotion and advertising client base.

Additionally, the respondents rated with a mean of 3.124 and a standard deviation of 0.234 their relationship with financial reporting client base. In addition, the respondents rated with a mean of 3.123 and a standard deviation of 0.282 their relationship with sales and marketing skills client base. Also, the respondents rated with a mean of 2.882 and a standard deviation of 0.731 their relationship with operations management client base. Further, the respondents rated with a mean of 2.541 and a standard deviation of 1.223 their relationship with human resource client base. They also rated with a mean of 2.331 and a standard deviation of 0.913 their relationship with professional networks client base. Lastly, the respondents rated with a mean of 2.131 and a standard deviation of 0.231 their relationship with portfolio management client base.

**Table 4.7: Relationships with client base**

<table>
<thead>
<tr>
<th>Client base</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio management</td>
<td>2.131</td>
<td>0.231</td>
</tr>
<tr>
<td>Business management skills</td>
<td>3.124</td>
<td>0.245</td>
</tr>
<tr>
<td>Sales and marketing skills</td>
<td>3.123</td>
<td>0.282</td>
</tr>
<tr>
<td>Human resource</td>
<td>2.541</td>
<td>1.223</td>
</tr>
<tr>
<td>operations management</td>
<td>2.882</td>
<td>0.731</td>
</tr>
<tr>
<td>Professional networks</td>
<td>2.331</td>
<td>0.913</td>
</tr>
<tr>
<td>Promotion and advertising</td>
<td>3.141</td>
<td>0.135</td>
</tr>
<tr>
<td>New product development</td>
<td>3.212</td>
<td>0.223</td>
</tr>
<tr>
<td>Social media</td>
<td>3.731</td>
<td>0.432</td>
</tr>
<tr>
<td>Financial reporting</td>
<td>3.124</td>
<td>0.234</td>
</tr>
</tbody>
</table>
4.7 Correlation Analysis

The data presented before on interest rates, credit awareness, collaterals and managerial competencies were computed into single variables per factor by obtaining the averages of each factor. Pearson’s correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed.

Table 4.8: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Credit accessibility</th>
<th>Interest rates</th>
<th>Credit awareness</th>
<th>Collaterals</th>
<th>Managerial competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit accessibility</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rates</td>
<td>Pearson Correlation</td>
<td>.638</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.029</td>
<td>.029</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit awareness</td>
<td>Pearson Correlation</td>
<td>.641</td>
<td>.523</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.017</td>
<td>.016</td>
<td>.016</td>
<td></td>
</tr>
<tr>
<td>Collaterals</td>
<td>Pearson Correlation</td>
<td>.622</td>
<td>.743</td>
<td>.597</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.031</td>
<td>.012</td>
<td>.028</td>
<td></td>
</tr>
<tr>
<td>Managerial competencies</td>
<td>Pearson Correlation</td>
<td>.529</td>
<td>.533</td>
<td>.720</td>
<td>.531</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.047</td>
<td>.009</td>
<td>.002</td>
<td>.014</td>
</tr>
</tbody>
</table>
According to the study findings, correlation analysis was conducted to determine the level of relationship between interest rates, credit awareness, collaterals and managerial competencies and young entrepreneurs’ accessibility to credit. According to the Table 4.8, there is a strong positive relationship between credit accessibility and interest rates, \( r (0.638); p <0.05 \), credit awareness and credit accessibility, \( r (0.641); p <0.05 \), collaterals and credit accessibility, \( r (0.622); p <0.05 \), Managerial competencies and credit accessibility, \( r (0.529); p <0.05 \).

### 4.8 Regression Analysis between Interest Rates, Credit Awareness, Collateral, Managerial Competencies and Credit Accessibility

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 17.0) to code, enter and compute the measurements of the multiple regressions.

**Table 4. 9: Multiple regression between Interest rates, Credit Awareness, Collaterals and Managerial Competencies**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.874</td>
<td>0.765</td>
<td>0.751</td>
<td>0.1729</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Interest rates, Credit awareness, Collaterals and Managerial competencies

Source: Author (2015)

R-Square (coefficient of determination) is a commonly used statistic to evaluate model’s goodness of fit. R-square is 1 minus the ratio of residual variability. The adjusted \( R^2 \) also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. According to the study findings, combined variables had a strong relationship with credit accessibility, \( R (0.874); p <0.05 \). Adjusted R squared indicates of 0.751 indicates that variability in credit accessibility by young entrepreneurs is attributed to variability in interest rates, credit awareness, collaterals and managerial.
Table 4.10: ANOVA results

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>2.759</td>
<td>4</td>
<td>0.690</td>
<td>3.016</td>
<td>0.019</td>
</tr>
<tr>
<td>Residual</td>
<td>49.164</td>
<td>215</td>
<td>0.229</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>51.923</td>
<td>219</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: Interest rates, Credit awareness, Collaterals and Managerial competencies
b. Dependent Variable: Credit accessibility

The probability value of 0.019 indicates that the regression relationship was highly significant in predicting how Interest rates, Credit awareness, Collaterals and Managerial competencies influenced credit accessibility. The F calculated at 5% level of significance was 3.016 since F calculated is greater than the F critical (value = 2.46), this shows that the overall model was significant.

Table 4.11: Regression coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>4.835</td>
<td>0.521</td>
</tr>
<tr>
<td>Interest rates</td>
<td>0.792</td>
<td>0.231</td>
</tr>
<tr>
<td>Credit awareness</td>
<td>0.628</td>
<td>0.159</td>
</tr>
<tr>
<td>Collaterals</td>
<td>0.581</td>
<td>0.193</td>
</tr>
<tr>
<td>Managerial competencies</td>
<td>0.361</td>
<td>0.203</td>
</tr>
</tbody>
</table>

a. Dependent Variable: credit accessibility

According to Table 4.11, when all variables were combined, the relationship between interest rates and credit accessibility, r (0.792); p <0.05, the relationship between credit
awareness and credit accessibility, r (0.628); p <0.05, the relationship between collateral and credit accessibility, r (0.581); p <0.05, the relationship between mana and credit accessibility, r (0.361); p <0.05. All the variables were statistically significant.

4.9 Chapter Summary

This chapter presents the findings of this study. The chapter covers general information, credit accessibility among young entrepreneurs in Kenya and the regression analysis. This help to establish statistically the extent that interest rates, credit awareness, collaterals and managerial competencies influence credit accessibility among young entrepreneurs in Kenya. The next chapter presents the conclusion and recommendation of the study.
CHAPTER FIVE

5.0 Discussion, Conclusions, and Recommendations

5.1 Introduction

This chapter entails the final part of the research that comprises of major conclusions made after a successful investigation. The part comprises of summary, discussions, challenges, conclusions and recommendations for the whole research. The chapter summarizes the research questions, methodology and a summary of the results.

5.2 Summary

The purpose of this study was to determine factors affecting credit accessibility among youth entrepreneurs in Kenya. The research questions were: To the extent to which market segmentation theory influences interest rates during credit accessibility among young entrepreneurs in Kenya? To what extent market segmentation influence credit awareness during credit accessibility among the young entrepreneurs in Kenya? What is the relationship between Market Segmentation Theory and collaterals during credit accessibility among young entrepreneurs in Kenya? How does the Market Segmentation Theory influence managerial competencies during credit accessibility among young entrepreneurs in Kenya?

The study adopted descriptive research design. The population of the study consisted of 437 young entrepreneurs in Nairobi. Stratified was used to determine the sample size of 251 entrepreneurs from the total population. Data was collected using structured questionnaires based on the research questions. Descriptive statistics used to analyze data included frequencies and percentages distribution tables, and mean. For inferential statistics, correlation, linear regression and multiple regression were used to analyze data.

The findings on the extent to which market segmentation theory influences interest rates during credit accessibility among young entrepreneurs in Kenya revealed that there exists a positive relationship between interest rates and young entrepreneurs credit accessibility.

The findings on the extent to which market segmentation influences credit awareness during credit accessibility among the young entrepreneurs indicated the existence of a
significant positive relationship between credit awareness and young entrepreneur’s credit accessibility.

The findings on relationship between Market Segmentation Theory and collaterals during credit accessibility among young entrepreneurs revealed the existence of a positive relationship between collateral and young entrepreneurs credit accessibility.

Finally, the findings on how the Market Segmentation Theory influences managerial competencies during credit accessibility among young entrepreneurs revealed the existence of a positive relationship between managerial influence and young entrepreneur’s credit accessibility.

5.3 Discussions

5.3.1 Extent to which interest rates Influences Credit Accessibility

The findings on the extent to which market segmentation theory influences interest rates during credit accessibility among young entrepreneurs in Kenya revealed the existence of a positive relationship between interest rates and young entrepreneurs credit accessibility. The study findings confirms Giancarlo (2012), findings which indicated that interest rates have a strong positive relationship with credit accessibility. The credit markets are partially shaped by lenders' strategies for screening potential borrowers and for addressing opportunistic behavior encouraged by the inter-temporal nature of loan contracts. These problems are severe in the developing countries where information asymmetries are more pervasive especially among the resource base poor. Financial markets in such countries (Kenya) tend to be highly dualistic and fragmented with weak linkages between the formal and informal components. The formal segment of the markets tends to be characterized by the market imperfections demonstrated by high concentration ratios with only a small number of financial institutions exerting considerable market power. Attempts to shield depositors against corporate excesses often lead to share capital requirements that work against the need to encourage competition (Brian, 2011). On the demand side, firms choose between external and internal financial sources in consideration of the need to maximize profits.

Credit markets are peculiar as their transactions involve heterogeneous goods since the qualities of credit contracts vary due to differences in the creditworthiness of borrowers. Rather than being concurrent, debit transactions are also inter-temporal since credit is
exchanged for a promise to repay later. The lending activities also tend to be transactions intensive and the information available to contract parties not always symmetric. The parties often possess different information on risks and profitability of projects (James, 2011).

The Intermediaries tend to have only subjective assessments of projects for which funds are sought. High transactions costs come on the way of attempts by intermediaries to procure adequate information from borrowers. These and other conditions mean that changes in the price of credit affect the quality of the debt contract and the intermediary's expected returns. In developing countries, informal credit arrangements enjoy less transaction costs and loan losses because they are restricted to close networks that derive from kinship, neighborhoods, professions, workplaces, economic activities and other mechanisms that encourage regular interactions. They therefore give solutions to the information and enforcement problems that formal arrangements often face (Claessens, 2013). However, the volume of credit available through these informal arrangements ends to be highly inadequate.

Inversely, the credit consumption can be inversely not related to the interest rates but the collateral requirements. Micro businesses tend to have a poor collateral base and therefore get excluded from the credit market. Even when their asset base is rich, property rights problems reduce the collateral value of such assets. According to Claessens, (2013), where entrepreneurs can successfully seek out credit from formal sources, they may not bother to borrow because of limited ability to comprehend debt management and costs of borrowings, fear related to potential hidden costs, previously disastrous experiences with financial services, presence surrogates such as savings and credit associations, and cultural norms that discourage borrowing (Tazul, 2007). The mere presence of financial services even within very close proximity does not therefore guarantee the demand for and use of credit. The credit seeking decision is a three-stage process. Firstly, young to decide on whether they need credit or not (Abov & Quartey, 2010). Once they reach the final decision, the young entrepreneurs then decide on an appropriate source of approach. A decision has also to be made about the level or amount of credit to seek out from the creditor.
5.3.2 The Extent to which Credit Awareness Influences Credit Accessibility

The findings on the extent to which market segmentation influences credit awareness during credit accessibility among the young entrepreneurs indicated the existence of a significant positive relationship between credit awareness and young entrepreneur’s credit accessibility. The study confirms studies by Bartokova and Durcova (2013), that indicated that there exists a strong positive relationship between credit awareness and credit accessibility by young entrepreneurs. The awareness on credit accessibility has opened the eyes of many young entrepreneurs through public education on the use of money. As a result, they have time to investigate the type of business they are interested to invest in terms of the expenses, challenges and the expected profits. With that information, they enter into the business with ready solutions to the areas that have problems. Additionally, they are aware of the weaknesses and how to deal with them (Mirdala, 2009). As a result, they have an added advantage of knowledge on the competition and the areas to strengthen in order to attract more customers. For that reason, they face less problems in the loan repayment due to early preparation.

The competition between the banks, microfinance organizations and other creditors is evident among the people at the ground who are willing to access the loans. Furthermore, the competition brings about the lowering of the interest rates that makes it easy for the loan repayment at the agreed period of time. Moreover, the young entrepreneurs have the time to consult among all available options and select the best in terms of efficiency and interest rates (Bartokova & Durcova, 2013). They end up establishing a mutual relationship with the respective microfinances after faithfulness is shown in the loan repayment. The two parties benefit economically and build a long lasting relationship. That is the main target of many creditors in Kenya. However, some people invest poorly and face challenges during the refunding process. That could result from poor choice of business investment or the wrong type of creditor who has high interest charges.

This section studies awareness and use of formal credit sources available for borrowers. Following the definition of formal lenders being institutions regulated by the government who operate inside the regulatory framework of the financial system, the formal sources addressed in our study are: banks, savings banks, and government credit programs; while, informal sources are: money lenders, pawnshops and family or friends (Peachey, Steven, & Alan, 2010).
Banks are formal financial institutions that are primarily engaged in accepting deposits from the public for active credit operations (Okten, & Okonkwo, 2011). Banks can be either commercial or development banks. Commercial banks are privately owned while development banks are publicly managed and target their credit to specific activities. Savings bank and cooperatives are both regulated financial institutions and they are considered to be Peoples Financial Sector institutions by the National Banking and Securities commission (CNBV). For this reason savings banks and cooperatives are typically located in low income municipalities. They mainly offer savings and credit services but can also offer other services such as payments from government social programs, recipient of remittances, payment of electricity or water bills, and insurances. The deference between savings banks and cooperatives is that while cooperatives are nonprofit institutions that provide services only to their members, savings banks offer services to the general public (Tang, Guan, & Jin, 2010).

5.3.3. The Extent to which Collaterals Influences Credit Accessibility

The findings on relationship between Market Segmentation Theory and collaterals during credit accessibility among young entrepreneurs revealed the existence of a positive relationship between collateral and young entrepreneurs credit accessibility. According to ZimTrade (2011), access to financial credit by entrepreneurs has been an issue repeatedly raised by numerous studies as a major constraint to economic growth of SMEs. A common explanation for the alleged lack of access to credit by small enterprise owners is their inability to pledge acceptable collateral. In their view the current system of land ownership and transfer regulations clearly retards and to some extend limits access to formal credit. First, due to lack of clear title to much usable land in Kenya, there is a limited amount of real property that can be put up as collateral. Second, where title or lease is clear and alienable, transfer regulation needlessly delay the finalization of mortgages and consequently access to borrowed capital. Bendig, Giesbert and Stainer (2010) supported the view of Cuevas (1993) that from the view point of private sector, problems related to finance dominate all other constraint to expansion.

Bendig (2010) claimed that the available of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in case of default. Thus collateral was required of nearly 75 percent of sample of rural women farmers that need loans under a study, which they
conducted on the demand supply of finance small enterprises. The study also indicated that 65 percent of the total sample of entrepreneurs had at various times applied for bank loans for their farming businesses. Nevertheless a large proportion of the firm had their application rejected by banks. For farmers that put in loans applications there was almost 2:1 probability that the application would be rejected. On the other hand, the rural women farmers received loans for much less than they requested for. Among farmers that had their applications rejected, lack of adequate collateral (usually in the form of landed property) was the main reason given by banks. Aryeetey (2010) suggest that banks can offer alternative to property as collateral such as guarantors, sales contract and liens on equipment financed.

Collateral impact on credit availability depending on the size of the enterprise, and, in a macroeconomic perspective, on the supply of credit to the companies, in special for SMEs, is a topic attracting a constant and increasing concern in recent years. From the theoretical point of view, we find two alternative interpretations that lead, empirically, to different predictions. On the one hand, is the adverse selection problem faced by a bank in financing activity, and therefore, the security offered by debtors can help alleviate this problem (Stiglitz and 2011). Thus, low-risk borrowers are willing to offer a better guarantee, considering their lower risk as a signal for their capabilities fulfill its obligations under the credit agreement and, therefore, are less probability to lose the guarantee. The guarantee is interpreted as a signal that allows the bank to reduce or eliminate the adverse selection problem caused by the existence of informational asymmetries between the bank and borrower, when the loan was approved, (Jiménez and Saurina 2012).

However, this hypothesis is not agreed by the bankers, who tend to establish a direct relation between the level of credit risk and the volume of collateral. For other scholars, (Manove et al., 2011), the size and quality of collateral is linked to the banks behavior on the market. This dichotomy speaks about lazy banks vs. diligent banks. "Lazy banks "are defined as those banks that prefer to substitute a careful and efficient screening of projects with a high concern for the size and quality of proposed collaterals.

5.3.4 Extent to which Managerial Competencies Influences Credit Accessibility

The findings on how the Market Segmentation Theory influences managerial competencies during credit accessibility among young entrepreneurs revealed the existence of a positive
relationship between managerial influence and young entrepreneur’s credit accessibility. This confirms study findings by Jiménez and Saurina (2012), indicated that there exists a strong positive correlation between managerial competencies and credit accessibility. According to Olawale and Lynety (2011) as cited from Thurnik and De Wit (2010) observed that the endowed level of talent of a small business founder is the investment in industry-specific and entrepreneurship-specific human capital which contributes significantly to the performance of new small firm (Herrington & Wood, 2013).

The depth of experience is measured by the number of years of business management experience in the current firm and by the total years of management experience. According to Boyatzis (1982), managerial competencies characterize a person who manages a company or a team of workers. These contribute to successful fulfillment of a task. Therefore managerial competencies are understood here as observable characteristics such as knowledge, skills or behavior patterns that contribute to the successful fulfillment of managerial tasks (Markman, 2011; van Beirendonck, 2012). One proposition considers two major groups: general and specific competencies (Armstrong, 2007; Wright and McMahan, 2011). General competencies refer to broader personality characteristics, skills, patterns of behavior and values that are essential for every managerial position, and important also in many other professions.

According to studies by Olawale and Lynety (2011), they observed that breadth of the experience is one of the initiatives that can be designed to enhance skills and knowledge among the youths. Entrepreneurial skills include creativity, innovation, risk-taking and ability to interpret successful entrepreneurial role models and identification of opportunities. Entrepreneurial education thus provides basics of such practical business practices. The Olawale and Lynety (2010) continue to assert that low levels of financial literacy can influence the degree to which organized youth group Entrepreneurs access formal sources of finance. These studies noted that entrepreneurship education should be made accessible to all tertiary learners in order to be equipped for business practices. In addition, expert financial training greatly increases the chances of entrepreneurs securing appropriate and affordable finance. Further, these studies recommended that entrepreneurial finance skills and competencies should be cultivated into youths all the way from institutions of learning (Olawale and Lynety, 2011).
The ability of SMEs to survive in an increasingly competitive global environment is largely dependent upon their capacity to leverage information as a resource and to benefit from the value of information (Kaushalesh & Peedoly, 2006). SMEs need ready access to comprehensive relevant information since they operate in severe time and capacity constraints. They require information on business trends and markets; business environment, legal and regulatory aspects, business management, customer needs, business expansion and diversification; technology; business opportunities; linkages and business partnerships. (Schleberger, 2013)

Limited access to opportune, current, relevant and adequate information is a notable constraint to SMEs in Kenya. The enterprises struggle to gain access to important information needed for improved productivity, customer satisfaction, improved cycle time and opportunities at the market place. (ITG, 2002 in Hanna, 2010) Market signals on business opportunities and customer trends are not communicated effectively to SMEs, who perform better in information rich environments (KIPPRA, 2006). Major challenges in relation to market information relate to acquisition and capacity to interpret and effectively use the acquired information. Without access to timely, simplified, reliable and relevant information on market opportunities, production technology, the sector is unable to survive and grow in a highly globalized and competitive market environment (GOK, 2005).

5.4 Conclusions

5.4.1 Extent to which interest rates Influences Credit Accessibility

With many banks and microfinance increasing, it has become easy for people of different income rates to seek loan assistance. The creditor invest businesses in Kenya are faced with stiff competition and can credit people even low amounts of money depending on their income levels. That has opened doors for many people to seek the services. However, the main challenge is that the people do not have business management skills that can lead to success. The businesses may be stagnated and fail to repay the money. The variation on the interest rates among various market segmentations dictate the creditor accessed by the entrepreneurs.
The Extent to which Credit Awareness Influences Credit Accessibility

Finally, with the success of the Kenyan community economically, the nation will improve in terms of its economic power on the planet. The main reason why the credit accessibility procedures have been simplified is to reach more people with different ideas to develop economically. Since the competition is high among the creditors, it has become easier for people to access loans from banks and other institutions. Through MST, the market has been segmented into small segments and also small credit forms with low amounts of interests to satisfy the customers depending on their income levels. Many people have requested for the loans due to the awareness programs done by the government and private institutions.

5.4.3. Relationship between Market Segmentation Theory and collaterals

Furthermore, many youths fail to access the loans due to failure to stand their pledges. They have poor choices on the areas that need investment. As a result, they end up failing to attain the pledges. The loans are accessible in almost every part of the republic. Therefore, youths should be trained on how to develop realistic business plans that can raise the pledged amount within the specified time.

5.4.4 Market Segmentation Theory influence on managerial competencies

Credit accessibility for young and upcoming entrepreneurs in Kenya has recorded a commendable progress. Despite of some few challenges, many youths have sought the loans from the government and other financial institutions. In most cases, youths have organized themselves in to groups in order to be credited the loans by the financial institutions. In addition to that, the accessibility of the credit services in most parts of the nation has led to the development of the business and improvement of the economy’s status. However, most youths have failed to access the credit services due to lack of managerial skills that can enable them succeed in business. Most young entrepreneurs who access the loans fail to succeed in the business due to lack of business management and administration skills. Therefore, it is wise for the young investors to study managerial professions that can help them succeed with their businesses in case they get the loans. In order for the credit accessibility to benefit the Kenyan community, people require the necessary skills and
competencies that can help manage the businesses. Through creativeness and innovation, the young entrepreneurs can benefit from the scheme and develop economically.

5.5 Recommendations

The study recommends few steps to be taken in order to increase the entrepreneurial development in Kenya in relation to credit accessibility.

5.5.1 Extent to which Interest rates Influences Credit Accessibility

Most young entrepreneurs enter into business without proper investigation and consultation. In addition to that, they do not conduct an investigation on the varying charges imposed by different creditors. As a result, they end up taking loans and realize that the business cannot raise the money needed while another creditor could have given cheaper rates that are real and achievable. It is challenge to the youths to start by investigating the area of investment, the challenges, weaknesses, strengths and come up with a good business plan. Otherwise, they will have difficulties in paying back the loans. They should also compare different credit organizations and choose the best one among them.

5.5.2 Extent to which Credit Awareness Influences Credit Accessibility

The creditors should take more time to spread awareness of their programs and the basic requirements and competencies required. Most people do not take enough time to study the schemes of payment and may face challenges on repayment. Furthermore, clear details on the credit should be issued with the simplest language because others may seek loans due to peer pressure.

5.5.3 The Extent to which Collaterals Influences Credit Accessibility

Most of youth entrepreneurs have the inability to pledge collateral on the credit. Additionally, the investment opportunity is not capable of raising the required amount of funds in order to be able to pay the pledge. Thus, most business owners who rely on the credit services may have a bad reputation. However, the youths need entrepreneurial skills to be able to make pledges that can be reached at the predicted time span. Additionally, the
youth need guidance to choose a business opportunity that can be able to adhere to the pledged amount and time span.

5.5.4 Extent to which Managerial Competencies Influences Credit Accessibility

The young entrepreneurs need managerial training to make sure their investments are stable. Many young entrepreneurs who have access to the credit services fail in the main area of managing their businesses and go loses. It is very important for them to understand the basic accounting methods and be creative enough to enter in new markets as the business grows. Failure to possess the managerial skills, they may have hard moments to refund the money to the creditors. In addition to that, young entrepreneurs who lack the managerial skills face challenges in accessing any loans or credit services to expand their businesses. Youths need to invest into entrepreneurial studies in order to gain an advantage on accessing the loans as well as having an assurance of a successful business life.

The creditors should weigh carefully the areas of investment that the person is seeking to start. That will give them an assurance of getting the pay back. As a result, the creditors can use the method to avoid giving out loans to individuals who face difficulties in paying back. They should also have recommendations on the young entrepreneurs who seek the loans on ways that could make their businesses perform better. Through public education, people will gain basic skills on business. Furthermore, most young people seek loans to start businesses due to unemployment yet they lack skills on business management. The banks, creditors and microfinances should offer training on business management that can help the young people succeed and pay back in time.

5.5.5 Recommendations for Future Research

The study findings should be utilized by researchers and academicians who would wish to advance, test or confirm hypothesis regarding factors influencing credit accessibility among young entrepreneurs.
REFERENCES


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APPENDICES

Appendix I: Questionnaire Cover Letter

RE: Survey Questionnaire

Dear Respondent,

I am a postgraduate student studying for a Master of Organizational Development (EMOD) degree at the United States International University. The objective of my study is TO ASSESS FACTORS AFFECTING CREDIT ACCESSIBILITY AMONG YOUNG ENTREPRENEURS IN KENYA.

You are part of the selected sample of respondents whose views I seek on the above-mentioned matter. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in this research. All the information you provide will be treated with strict confidentiality and used for the purpose of completing this study only. Please answer the questions as accurately as possible. Tick the appropriate answer for each question and answer all questions please.

I guarantee that all information will be handled with the Strict Confidentiality.

Thank you for your cooperation

Vivian Muratha
Appendix II: Research Questionnaire

FACTORS AFFECTING CREDIT ACCESSIBILITY AMONG YOUNG ENTREPRENEURS IN KENYA

Please take a few minutes to complete this questionnaire. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in this research. Kindly answer all questions.

PART A: Demographic Information

*(Please tick one box for each of the questions 1-7)*

1) How much in Kenya shillings was your start-up capital?

<table>
<thead>
<tr>
<th>Option</th>
<th>[ ]</th>
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</thead>
<tbody>
<tr>
<td>Below 10,000</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>51,000-100,000</td>
<td>[ ]</td>
<td>101,000-150,000</td>
</tr>
<tr>
<td>Above 150,000</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

2) How many employees work in your enterprise?

<table>
<thead>
<tr>
<th>Option</th>
<th>[ ]</th>
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<tbody>
<tr>
<td>None</td>
<td></td>
<td>11-20</td>
</tr>
<tr>
<td>Less than 10</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>20-30</td>
<td></td>
<td>30-40</td>
</tr>
<tr>
<td>40-50</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Above 50 employees</td>
<td>[ ]</td>
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</table>

3) What is the highest educational level that you have attained?

<table>
<thead>
<tr>
<th>Option</th>
<th>[ ]</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>College/Diploma</td>
<td>[ ]</td>
<td>Undergraduate</td>
</tr>
<tr>
<td>PhD</td>
<td></td>
<td>Masters</td>
</tr>
<tr>
<td>Masters</td>
<td></td>
<td>[ ]</td>
</tr>
</tbody>
</table>

4) Have you ever applied for a loan from a banking institution?

<table>
<thead>
<tr>
<th>Option</th>
<th>[ ]</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>[ ]</td>
<td>No</td>
</tr>
</tbody>
</table>

5) In your opinion, how accessible is the loan from a banking institution?

<table>
<thead>
<tr>
<th>Option</th>
<th>[ ]</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very accessible</td>
<td></td>
<td>Accessible</td>
</tr>
<tr>
<td>Moderately accessible</td>
<td>[ ]</td>
<td>Slightly accessible</td>
</tr>
</tbody>
</table>
PART B: INFLUENCE OF INTEREST RATES ON CREDIT ACCESSIBILITY

6) Does the interest rate charged by the bank influence your decision of whether to take up a loan?
   To a very great extent [5]
   To a great extent [4]
   To a moderate extent [3]
   To a low extent [2]
   To a very low extent [1]

7) In your own opinion to what extent does the Interest rate affect loan accessibility?
   To a very great extent [5]
   To a great extent [4]
   To a moderate extent [3]
   To a low extent [2]
   To a very low extent [1]

8) Did you apply for the loan as an individual or as a group?
   Individual [ ]
   Group [ ]

9) The table below has statements on the influence of interest rates on credit accessibility.
   Rate the extent to which you will agree/disagree on the statement on a scale of 1-5 where 1=strongly agree, 2= agree, 3=moderately agree, 4= disagree, 5= strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>In order to access a loan from the bank, one must have a certain amount of deposit with the bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank offers bulk loans to start up entrepreneurs</td>
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</tr>
</tbody>
</table>
The interest rate charged by the bank varies according to the amount borrowed

Foreign banks lend more than local banks

 Majority of the young entrepreneurs are not able to raise the loan application fees charged

Interest rates charged on long term loans is higher than interest charged on short term loans

The risk involved in defaulting payments influence the decision of loan application

The grace period for defaulters offered by the bank is favorable

PART C: INFLUENCE OF CREDIT AWARENESS ON CREDIT ACCESSIBILITY

10) To what extent are you aware of the different loan facilities being offered by your bank

To a very great extent [5]
To a great extent [4]
To a moderate extent [3]
To a low extent [2]
To a very low extent [1]

11) How did you learn about the loan facilities being offered by the bank?

The banks personnel (Marketers, customer care e.t.c) [ ]
Banks website [ ]
Social websites [ ]
Referrals from friends and families [ ]
Advertisement on media

Others (Specify)........................................................................................

12) In what other ways can the bank increase the awareness of the loan packages it has tailored for the young entrepreneurs?

________________________________________________________________

13) In your opinion do you think that young entrepreneurs are deliberately not familiar with the loan facilities by the financial institutions because:

They are genuinely not aware of the service [4]
Do not need the service [3]
Assume their request will be rejected [2]
Loans are considered to be expensive [1]

14) Which of these money lending institutions are you aware of (you can tick more than one)

Banks [ ] Government credit programs [ ]
Saccos [ ] Deposit taking microfinance [ ]
Community money lenders [ ] Shylocks [ ]
Chamas [ ]

15) Kindly rate accessibility to loan facilities from the following financial institutions?

Use a scale of 1-5 where 5=Very accessible, 4 = Accessible, 3= Moderately accessible, 2 = Slightly accessible and 1 = Inaccessible

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td></td>
<td></td>
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<tr>
<td>Government credit programs</td>
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<tr>
<td>Saccos</td>
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<tr>
<td>Deposit taking microfinance</td>
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</tbody>
</table>

85
Community money lenders

Shylocks

Chamas

Family and friends

16) Below are statements on the influence of credit awareness on loan accessibility among young entrepreneurs in Kenya. To what extent do you agree with the statements?

Use a scale of 1-5 Where 1=strongly agree, 2= agree, 3=moderately agree, 4= disagree, 5= strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Majority of the banks and cooperatives are located within accessible areas</td>
<td></td>
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<tr>
<td>The banks offer savings and loan services</td>
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<td></td>
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<tr>
<td>The government offers accessible loan facilities through the bank</td>
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<tr>
<td>Majority of the low income earners lack awareness of any other form of credit other than loans</td>
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<tr>
<td>Shylocks are of higher risks compared to the formal lenders like banks</td>
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<tr>
<td>Informal financial institutions are more expensive compared to the formal institutions</td>
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<tr>
<td>There is need for more campaigns to educate youth entrepreneurs on access to loan facilities and credit options</td>
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</tbody>
</table>
PART D: INFLUENCE OF COLLATERAL ON CREDIT ACCESSIBILITY

17) Below are statements on the influence of collateral on loan accessibility among young entrepreneurs. To what extent do you agree with the statements?

Use a scale of 1-5 Where 1=strongly agree, 2= agree, 3=moderately agree, 4= disagree, 5= strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority of the young entrepreneurs lack security as a requirement for the accessibility of loan facilities</td>
<td></td>
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</tr>
<tr>
<td>Most young entrepreneurs receive less than the amount they have applied due to the value of their security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs are generally offered less loan facilities as compared to large corporates due to their asset size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs are generally offered less loan facilities as compared to large corporates due to their level of expertise</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security offered by lenders is used as a vetting requirement for young entrepreneurs</td>
<td></td>
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</tr>
</tbody>
</table>

18) To what extent does the collateral charged influence your accessibility of the loan

To a very great extent       [   ]
To a great extent             [   ]
To a moderate extent          [   ]
To a low extent                [   ]
To a very low extent           [   ]
PART E: INFLUENCE OF BUSINESS MANAGERIAL COMPETENCIES AMONG ENTREPRENEURS ON CREDIT ACCESSIBILITY

19) How long have you been in business?

- Less than 5 years [ ]
- 6-10 years [ ]
- 11-15 years [ ]
- Over 15 years [ ]

20) What is your approximate monthly client base?

- Less than 500 [ ]
- 501-1500 [ ]
- Above 1500 [ ]

21) To what extent does lack of business managerial training and experience affect your access to loan?

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Little extent [ ]
- No extent [ ]

22) To what extent do you apply business managerial skills in the following areas of your business?

Use a scale of 1-5 where 1= Very great extent, 2= great extent, 3= moderate extent, 4= little extent and 5= not at all

<table>
<thead>
<tr>
<th>Formal business skills and ethics</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management of financial resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Business management structure</td>
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Management of business inputs

| Business Planning |
| Staffing |
| Directing |
| Controlling activities |
| Coordination |
| Adoption of technology in business operations |
| Book keeping |

23) On a scale of 1-4 rate the following relationships with your client base on scale of 1-4 where 1 = excellent, 2= good, 3= average, 4= poor

<table>
<thead>
<tr>
<th>Portfolio management</th>
<th>1</th>
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<th>3</th>
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<tr>
<td>Business management skills</td>
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<tr>
<td>Sales and marketing skills</td>
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<td>Human resource</td>
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<td>operations management</td>
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<td>Professional networks</td>
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<td>Promotion and advertising</td>
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<td>New product development</td>
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<td>Social media</td>
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<td>Financial reporting</td>
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THANK YOU
### Appendix III: Budget

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<tr>
<th>ITEM</th>
<th>TOTAL COST (KSHS)</th>
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<tr>
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<tr>
<td>Typing services</td>
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<td>Binding</td>
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<td>Data analysis</td>
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<td>Lunch</td>
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<td>Supervision</td>
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<td><strong>Total</strong></td>
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### Appendix IV: Schedule of Work

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