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FACTORS AFFECTING ACCESSIBILITY TO FINANCE BY SMALL AND MICRO ENTERPRISES IN ONGATA RONGAI

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Abstract

The Small and Medium Enterprises (SME's) are important for raising the economic efficiency of a country. They are breeding grounds for entrepreneurship, innovations and inventions hence a reservoir for employment by creating sustainable jobs which in turn reduces the level of poverty. In Kenya, the SME's have not grown to any notable impact often citing lack of finance. The Kenyan financial system is marked by a dualistic structure. It is characterized by the existence side by side of formal and informal financial markets. The informal suppliers of credit make up in part for the provision of the financial services. This then raises the issue on factors influencing accessibility to finance by SMEs in Kenya. The study looked at the size of an SME, collateral requirements; formalities involved in getting started, and SME sector as the study variable.This study adopted a descriptive research design where the population of interest were the SMEs. The target populations for this study were the employees of SMEs in Ongata Rongai in Kajiado County. The population was made up of 800 employees working in 308 registered SMEs in Ongata Rongai, where a sample size of 80 employees was selected for participation in the study. The process of data analysis involved several stages namely; data clean up and explanation. Data clean-up involved editing, coding, and tabulation in order to detect any anomalies in the responses and assign specific numerical values to the responses for further analysis. Completed questionnaires were edited for completeness and consistency. The data was coded and checked for any errors and omissions. Frequency tables, percentages and means were used to present the findings. Responses in the questionnaires were tabulated coded and processed by use of a computer Statistical Package for Social Science (SPSS) version 21.0 programme to analyze the data. The study revealed that older firms with reliable financial information were likely to access credit facilities than newly started firms. The study found that failure to have collateral had a negative effect on the SMEs access to financing in Ongata Rongai. The study revealed that lenders require extensive information like proper documentation of registration and/or an operating license, tax-compliance and externally audited financial statements. This study established that factors surrounding particular SMEs were key considerations when approving debts to SMEs.

Keywords: Collateral, Credit scoring, Factoring, Hypothesis and Purview

Introduction

Micro and small enterprises (MSEs) play an important role in improving the livelihood of the rural and urban populace in developing countries. A wide variety of earlier studies support the MSE sector's potential for enhancing pro-poor growth by creating employment and contributing to household income (Vijverberg 1991; McPherson 1996; Daniels and Mead 1998; Mead and Liedholm 1998). This potential notwithstanding, lack of investment-financing devices from the credit markets is a serious obstacle to MSE investment in developing countries (Livingstone 2001; Bigsten et al. 2003; Fafchamps 2004). According to Bigsten et al. (2000), high returns to physical capital in the manufacturing sector in Africa, averaging 23%, are associated with a scarcity of capital. Moreover, at the macro level, a lack of credit also lowers private investment in Africa (Oshikoya, 1994). As a result, MSEs are more likely to be credit constrained, and thus their profitability and growth are likely to be low, as compared to large enterprises.

Indeed, lack of credit is considered to be the most important reason for the closure of many MSEs in Kenya (CBS, ICEG, and K-Rep 1999). Hence, problems in credit accessibility are likely to compound difficulties with poverty alleviation initiatives through employment generation by MSEs. However, most existing micro econometric studies on credit in manufacturing MSEs. (Exceptions of related studies include Mohieldin and Wright (2000) and Bigsten et al. (2003). The main purpose of this research is to bridge this gap in the literature by exploring the role of credit in enhancing MSE performance. Small and medium enterprises (SMEs) have historically faced significant difficulties in accessing funding for creditworthy projects due to a lack of credible information about them which can be used to establish their creditworthiness. They are typically much more opaque on information than large corporations because they often do not have certified audited financial statements to yield credible financial information on a regular basis. Also, these firms usually do not have publicly traded equity or debt, yielding no market prices or public ratings that might suggest their quality (Microfinance Risk Management L.L.C, 2008).

Due to the opaqueness of the SME's, the information on the creditworthiness of SME's remains with the relationship lender. Attempts to switch lenders or add additional lenders result in prohibitive costs for the SME (Rajan 1992). The creditworthiness of a country should, by definition, reflect the medium to long term risk that the country will default on its outstanding sovereign debt. This risk depends on a number of economic variables, but also on political and social factors, such as, for example, the stability of the current political system. Lender's definitions vary but typically they define SMEs as businesses with six to fifty employees or with annual revenues less than fifty million Kenyan Shillings. Regardless of this quantitative definition, it is agreed by virtually all stakeholders that SMEs in Kenya are the 'missing middle'. Their size and credit demands have outgrown the capacity of microfinance institutions, which offer small, short term loans via group lending methodologies, while the opacity of the SME risk profile – combined with the lenders' lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers for business banking. There are 2.2 million micro, small and medium enterprises in Kenya of which 88% are non-registered businesses. Of this non-registered group, only 23% have bank accounts and only 10% have ever received credit from any formal source (Strategic Business Advisors (Africa) Ltd SME Banking Sector Report 2007).

To address this opacity problem and provide funding to small firms, financial institutions use a number of different lending technologies (Berger and Frame 2005). These include business credit scoring, financial statement lending, asset based lending, factoring, and leasing. In addition, financial institutions also attack the opacity problem using relationship lending based on "soft" qualitative information gathered through contact over time with the firm, its owners, managers, and other members of the local community. Borrowing from banks and micro-finance institutions (MFIs) has been relatively uncommon in Kenya because of stringent borrowing conditions. This means that MSEs have had to turn to informal sources of credit, such as borrowing from friends and relatives and from rotating savings and credit associations (ROSCAs), as research on Kenya has demonstrated (Johnson 2004). Whether and to what extent such informal credit sources are conducive to enhancing enterprise performance is the central issue to be addressed in this study.

The small and medium-sized enterprise (SME) sector has an important role to play in developing economies not only in economic development, but also in poverty alleviation and job creation. The sector faces a number of constraints especially in accessing finance, markets; training and technology. The sector faces both problems and opportunities that affect their performance. However, research carried earlier on small-scale enterprises reveal that the performance of a number of them is less than satisfactory. Research conducted in Nairobi by Nyambura (1992) established that finance was among the most highly ranked problems facing small enterprises in the manufacturing sector. In a study carried out in Machakos, Mbuvi (1983) established that family size which is a component of culture affected the business performance.

Effective policy intervention, however, requires understanding the main constraints facing these firms. One important determinant of a firm's productivity and growth is access to external credit. However, it has been well documented that most firms, especially small ones and those in developing countries with less developed financial systems, face substantial credit constraints (Hubbard, 1998; Banerjee and Duflo, 2008). This is not surprising given that the financial sector is beset by information imperfections and incentive problems, rendering intermediaries reluctant to lend to firms, especially to MSEs. Therefore, one area of policy intervention necessary to stimulate the growth of MSEs is in improving access to external finance.

Previous studies on SMEs in Kenya have focused on other factors of SMEs and financing such as Mutie (2006), who found that out of the 43 commercial banks in Kenya as at end of the year 2004, 62% of the banks used credit scoring in their credit risk assessments on SMEs. The study further found that 97% of the business loans will be assessed using credit scoring models. Awuor (2006) examined manufacturing based strategies for small and medium scale enterprises in the food processing industry in Nairobi, while Muthanga (2003) investigated the important factors in media use and strategy by small scale business enterprises. To the best of the researcher's knowledge, no study has been done focusing on the factors influencing accessibility to finance by small and micro enterprises in Ongata Rongai. Thus there exists a research gap on the factors influencing accessibility to finance by small and micro enterprises in Ongata Rongai. In this study, the researcher seeks to fill this research gap by carrying out a survey to find out the factors influencing accessibility to finance by small and micro enterprises by focusing on SMEs in Ongata Rongai. The general objective of the study was to find out the factors influencing accessibility to finance by small and micro enterprises by focusing on SMEs in Ongata Rongai.

The specific objectives of this study were:

i. To establish the effect of SME size on the SMEs access to financing in Ongata Rongai.
ii. To determine the effect of a SMEs collateral on the SMEs access to financing in Ongata Rongai.
iii. To find out the effect of a SMEs formality on the SMEs access to financing in Ongata Rongai.
iv. To ascertain the effect of a SMEs sector on the SMEs access to financing in Ongata Rongai.

Theoretical Review

The theoretical framework adopted for this study involves the capital constraint model. Also adopted in this work, is the Lifecycle approach, Pecking-order theory and the Agency framework hypotheses that attempts to explain small-firm financial structuring.

Capital Constraint Model

The capital constraint model describes the behaviour of banks restraint to give out loans to SMEs because of the limitation of available financial resources. According to Obamuyi (2007), banks are subjected to both market and regulator–imposed capital requirements. For prudential purposes, banks regulators generally require banks to maintain capital at not less than a stated fraction of the bank's total assets. For instance, banks are expected to meet the capital adequacy requirement of the Basel Accord of ten per cent". This situation is visible in Kenya, as banks are expected to maintain a minimum of 40 per cent liquidity ratio of total deposits.

The Lifecycle Approach

The lifecycle approach, as described by Weston and Brigham (1981), was conceived on the premise of rapid growth and lack of access to the capital market. Small firms were seen as starting out by using only the owners' resources. If these firms survived, the dangers of undercapitalization would soon appear, and they would then be likely to make use of other sources of funds, such as trade credit and short-term loans from banks. Rapid growth could lead to the problem of liquidity. According to Weston and Brigham (1981), the dynamic small firm would therefore have to choose between reducing its growth to keep pace with its internally generated funds, acquire a costly stock market quotation, or seek that most elusive form of finance – venture capital; thereby indicating a trend in SMEs that expanding small firms are likely to experience rising short-term debt and use little or no long-term debt.

The Pecking Order Theory

The pecking order theory as propagated by Myers (1984) states that firms finance their needs in a hierarchical order, first by using internally available funds, followed by debt and finally, external equity. This practice is more common in small firms and it indicates the negative relationship between profitability and external borrowing by small firms. According to the report by South African Reserve Bank (2004), this hypothesis implies that there tends to be a negative relationship between profitability and external borrowing by small firms. In other words, assuming a zero growth, firms with high profitability would generate higher levels of internal liquidity, reducing the need for borrowing. Older firms, it may then be hypothesized, would

make less use of external finance and, instead, would rely on retained funds. (South African Reserve Bank, 2004).

Agency Theory

This theory places emphasis on transaction costs and contracting analysis following the work of Coase (1937) Jensen and Meckling (1976) and later by, Stiglitz and Weiss (1981). The findings to these studies point to the challenges that surround ownership, contractual agreements, management interrelationship and credit rationing between SMEs and external providers of finance, thereby subjecting firms to the risk of asset substitution which in practice means a change in the firm's asset structure. For small and micro-enterprises this asset substitution may well take place between the enterprise and the owner's household. Regardless of all the theories explaining the financial needs of SMEs, it's clear that the financial needs of SMEs in both developing and developed countries are largely diverse; they differ from country to country.

Conceptual Framework

A conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas. Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply. A conceptual framework is a tool researchers use to guide their inquiry; it is a set of ideas used to structure the research, a sort of map that may include the research question, the literature review, methods and data analysis. Researchers use a conceptual framework to guide their data collection and analysis.

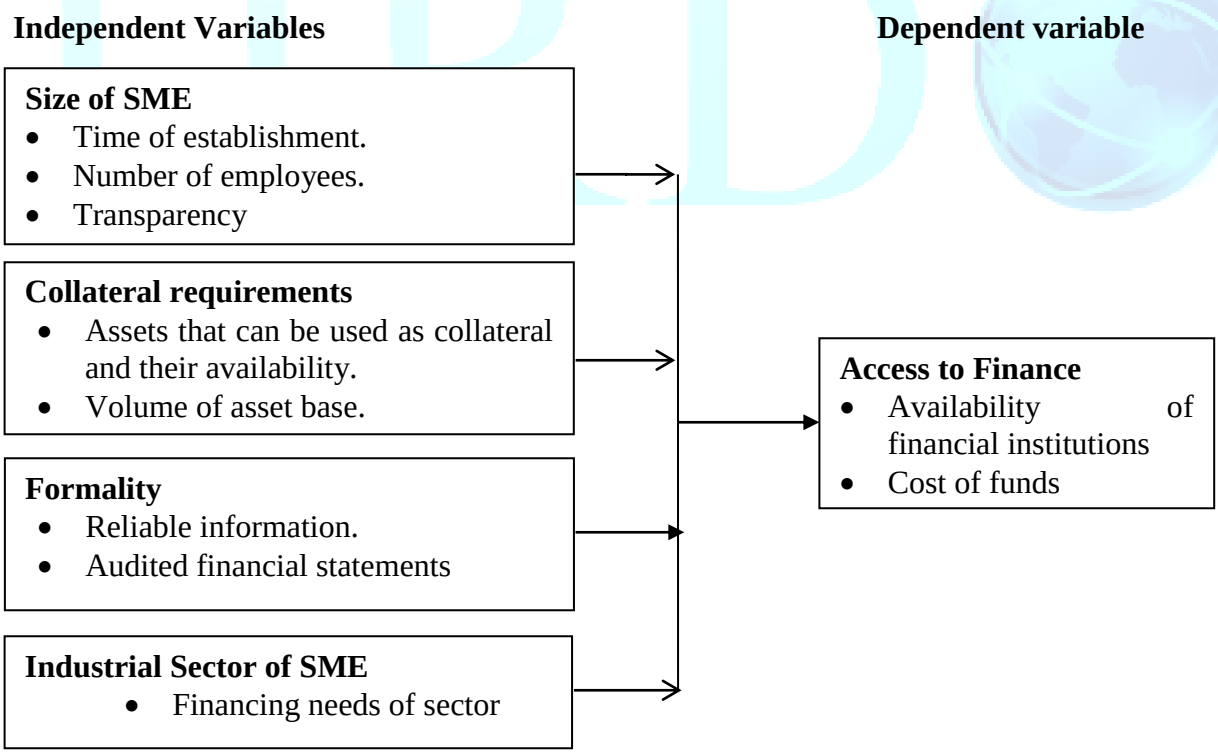

Figure 1: Conceptual Framework

Research Gap

The survey conducted by the Institute of Economic Affairs (2009) reveal that very few studies have been conducted on the factors influencing loan accessibility by small businesses. The study highlighted that loan accessibility is further influenced by the existence of limited financial institutions, stringent collateral requirements and high interest rates imposed by the banks. There is evidence from the review of both the theoretical and the analytical literature that research gaps exist where most researchers have conducted just very few indirect studies touching on loan accessibility by small scale traders. Past studies have concentrated on factors affecting accessibility of credit among the SME's, in the traditional financial transactions. However World Bank (2010) reveals that modern trends in the financial transactions have brought about different ways in these operations. An example is the mobile telephone money transactions by the unbanked traders. The study endeavoured to find out as to why SMEs are unable to not only access normal banking services but credit services offered by the financial institutions.

Research Methodology

This research adopted a descriptive research design where the population of interest were the SMEs. The target populations for this study were the staff working in 308 SMEs which are within Ongata Rongai area. Eighty respondents were selected representing a population of 800 possible respondents using stratified random sampling by taking 10% of the target population in each stratum. A structured questionnaire was used to collect primary data. The researcher pre-tested the questionnaires before launching the main study. Reliability is a measure of the extent to which a research instrument yields consistent results after repeated trials. Completed questionnaires were edited for completeness and consistency. The data was then coded and checked for any errors and omissions (Kothari, 2004). Frequency tables, percentages and means were used to present the findings. Responses in the questionnaires were tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS) version 17.0 programme.

Results and Discussion

Descriptive and inferential statistics have been used to discuss the findings of the study. The study targeted a sample size of 80 respondents from which 69 filled in and returned the questionnaires making a response rate of 86.25%. This response rate was satisfactory to make conclusions for the study. The response rate was representative. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was considered to be excellent.

Reliability Analysis

Table 1: Reliability Coefficients

Scale	Cronbach's Alpha	Number of Items
Size of SME	0.798	4
Collateral requirements	0.718	4
Formality	0.728	4

Industrial Sector of SME	0.778	4

Reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. Cronbach's alpha was calculated by application of SPSS for reliability analysis. The value of the alpha coefficient ranges from 0-1 and may be used to describe the reliability of factors extracted from dichotomous and or multi-point formatted questionnaires or scales. A higher value shows a more reliable generated scale. Cooper & Schindler (2008) has indicated 0.7 to be an acceptable reliability coefficient. Table 1 shows that size of SME had the highest reliability (α=0.798) followed by Industrial Sector of SME (α=0.778), then formality (α = 0.728), and Collateral requirements (α=0.718). This illustrates that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7.

Size of SME

Table 2: Effect of Size of SMEs on Access to Financing

Statements	**Mean**	**Std deviation**
The size of a firm indicates its strength since this may be the result of cumulative past growth.	4.400	1.014
Lenders are more willing to lend to large firms as they are viewed to have potential future growth.	4.246	0.865
Large firms are more likely to have transparency in terms of their operations and performance.	4.385	0.954
Younger SMEs are likely to be credit constrained as compared to those that have been in operation for a longer period of time.	4.215	0.994
Small firms are faced with information opacity such as being unable to provide financial information.	4.138	0.861

From the findings, majority of the respondents agreed that the size of a firm indicates its strength since this may be the result of cumulative past growth, as shown by a mean of 4.400; large firms are more likely to have transparency in terms of their operation and performance, as shown by a mean of 4.385; lenders are more willing to lend to large firms as they are viewed to have potential future growth, as shown by a mean of 4.246; younger SMEs are likely to be credit constrained as compared to those that have been in operation for a longer period of time, as shown by a mean of 4.215; and that small firms are faced with information opacity such as being unable to provide financial information, as shown by a mean of 4.138. These findings were found to be consistent with the findings of Winker (1999) who argued that the size of a firm may give an indication of its strength since this may be the result of cumulative past growth, and it may also be an indicator of potential future growth of the firm. He concluded that large firms are more likely to have transparency in terms of their operation and performance, for instance in the form of having an audited financial statement.

Collateral Requirements

Table 3: Effect of Collateral Requirements of SMEs on Access to Financing

Statements	Mean	Std deviation
Firms that have resources as collateral are more likely to gain access to credit.	4.000	0.884
MSEs generally lack adequate collateral resources compared with the large firms hence limiting their access to credit.	4.138	0.857
In the earlier stages of SMEs, they have lower retained profits which hinder them to purchase fixed assets compared to the larger firms.	3.938	0.758
Audited financial statements are very useful in accessing credit from financial institutions.	4.031	0.778
Firms with more intangible assets need to borrow less, compared with firms with more tangible assets.	4.400	0.992

The findings revealed that majority of the respondents agreed that firms with more intangible assets need to borrow less, compared with firms with more tangible assets, as shown by a mean of 4.400, MSEs generally lack adequate collateral resources compared with the large firms hence limiting their access to credit, as shown by a mean of 4.138; audited financial statements are very useful in accessing credit from financial institutions, as shown by a mean of 4.031; firms that have resources as collateral are more likely to gain access to credit, as shown by a mean of 4.000; and that in the earlier stages of SMEs, they have lower retained profits which hinder them to purchase fixed assets compared to the larger firms, as shown by a mean of 3.938. These findings were found to concur with the findings of Bester (1987) who noted that firms that have resources as collateral (or resources likely to be treated as collateral) are more likely to gain access to credit and firms with more intangible assets need to borrow less, compared with firms with more tangible assets.

Formality

Table 4: Statements Relating to Effect of Formality of SMEs on Access to Financing

Statements	Mean	Std deviation
Informal firms are less likely to have all the documents required by lenders.	3.862	0.759
Lenders require proper documentation of registration and/or an operating license, tax-compliance and externally audited financial statements.	4.077	0.808
Informal firms are less likely to invest in fixed assets that are usually	3.938	0.716

considered by formal financial institutions as appropriate collateral.		
Financial contracts are highly sensitive to the availability and enforcement of contracts.	4.062	0.791
By operating informally and avoiding tax, a firm may be able to conserve resources that can be used for investment.	3.969	0.746

The findings established that majority of the respondents agreed that lenders require proper documentation of registration and/or an operating license, tax-compliance and externally audited financial statements, as shown by a mean of 4.077; financial contracts are highly sensitive to the availability and enforcement of contracts, as shown by a mean of 4.062; by operating informally and avoiding tax, a firm may be able to conserve resources that can be used for investment, as shown by a mean of 3.969; informal firms are less likely to invest in fixed assets that are usually considered by formal financial institutions as appropriate collateral, as shown by a mean of 3.938; and that informal firms are less likely to have all the documents required by lenders, as shown by a mean of 3.862. These findings were found to be consistent with those of Calomiris and Hubbard (1990) that another important firm attribute that determines access to credit is its formality. They noted that while screening borrowers, lenders require extensive information such as proper documentation of registration and/or an operating license, tax-compliance and externally audited financial statements. Informal firms are less likely to have all of these documents and therefore, such firms are likely to be denied access to credit

Sector of SME

Table 5: Effect of Sector of SMEs on Access to Financing

Statements	**Mean**	**Std deviation**
Trade and supplier credits can play an important role in easing access to credit.	4.077	0.830
MSEs that are members of a formal business association are more likely to benefit from trade and supplier credits.	4.031	0.778

Both metal-mechanic and wood-furniture sectors have lower credit access than the food processing sector.	3.815	0.695
Lending banks usually have favouritism towards industry sectors that are growing.	4.138	0.861
Firms in certain sectors will require more credit to invest in equipment, machinery, buildings, labour and raw materials than firms in other sectors.	3.954	0.807

The findings established that majority of the respondents agreed that lending banks usually have favouritism towards industry sectors that are growing, as shown by a mean of 4.138; trade and supplier credits can play an important role in easing access to credit, as shown by a mean of 4.077; MSEs that are members of a formal business association are more likely to benefit from trade and supplier credits, as shown by a mean of 4.031; firms in certain sectors will require more credit to invest in equipment, machinery, buildings, labour and raw materials than firms in other industry sectors, as shown by a mean of 3.954; and that both metal-mechanic and wood-furniture sectors have lower credit access than the food processing sector, as shown by a mean of 3.815. The findings concur with Fafchamps (1997) who purported that trade and supplier credits can play an important role in easing access to credit. He also added that MSEs that are members of a formal business association, which usually have large firms as their members, are more likely to benefit from trade and supplier credits and hence are less likely to be credit constrained than those that are not members of such associations.

Accessibility to Finance

Table 6: Statements Relating to Accessibility to Finance

Statements	**Mean**	**Std deviation**
Lack of investment-financing devices from the credit markets is a serious obstacle to MSE investment in developing countries.	4.138	0.861
Lack of credit lowers private investment.	4.062	0.791
MSEs are more credit constrained which negatively affects their profitability and growth as compared to large enterprises.	3.969	0.746
Informality is a priority, an important determinant of a firm's access to external finance.	4.077	0.808
Borrowing from banks and micro-finance institutions (MFIs) has been relatively uncommon in Kenya because of stringent borrowing conditions.	4.031	0.778

The findings established that majority of the respondents agreed that lack of investment-financing devices from the credit markets is a serious obstacle to MSE investment in developing countries, as shown by a mean of 4.138; informality is a priority, an important determinant of a firm's access to external finance, as shown by a mean of 4.077; lack of credit lowers private investment, as shown by a mean of 4.062; borrowing from banks and micro-finance institutions

(MFIs) has been relatively uncommon in Kenya because of stringent borrowing conditions, as shown by a mean of 4.031; and that MSEs are more credit constrained which negatively affects their profitability and growth as compared to large enterprises, as shown by a mean of 3.969. These findings concur with the findings of Oshikoya (1994) who noted that at the macro level, a lack of credit lowers private investment in Africa and as a result, MSEs are more likely to be credit constrained, and thus their profitability and growth are likely to be low, as compared to large enterprises.

Regression Analysis

Table 7: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919	0.844	0.796	.223

Adjusted R squared is a coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.796 an indication that there was variation of 79.6 percent on access to finance by SMEs due to changes of size of SME, collateral requirements, formality and sector of the SME at 95 percent confidence interval. This shows that 79.6 percent changes in access to finance by SMEs could be accounted to size of SME, collateral requirements, formality and sector of the SME. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above it is notable that there exists strong positive relationship between the study variables as shown by 0.919.

Table 8: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.788	4	.947	4.446	.001[b]
	Residual	13.632	64	.213		
	Total	17.42	68			

Critical value =1.997

From the ANOVA statistics, the study established that the regression model had a significance level of .001% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (4.446>1.997) an indication that size of SME, collateral requirements, formality and sector of the SME all affected access to finance by SMEs. The significance value was less than 0.05 indicating that the model was significant.

Table 9: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Ranking
		B	Std. Error	Beta			
1	(Constant)	1.643	1.043		1.575	.643	
	Size of SME	.481	.108	.258	4.454	.002	1
	Collateral requirements	-.421	.102	-.310	-4.127	.012	3
	Formality	-.497	.121	-.327	-4.107	.021	4
	Sector of the SME	.416	.102	.320	4.078	.003	2

From the data in the above table the established regression equation was

$$\mathbf{Y = 1.643 + 0.481X_1 - 0.421X_2 - 0.497\ X_3 + 0.416\ X_4}$$

From the above regression equation it was revealed that holding size of SMEs, collateral requirements, formality and sector of the SMEs to a constant zero, the access to finance by SMEs would be at 1.643, a unit increase in size of SMEs would lead to an increase in access to finance by SMEs a factors of 0.481, a unit increase in collateral requirements would lead to decrease in access to finance by SMEs by factors of 0.421, a unit increase in formality would lead to decrease in access to finance by SMEs by a factor of 0.497 and a unit increase in sector of the SMEs would lead to an increased in access to finance by SMEs by a factors of 0.416. All the variables were significant as their significant value was less than ($p<0.05$).

Conclusion

The longer the firm stays in operation, the more persistent to unpleasant economic circumstances, the firms with less than 5 years in operation are less likely to rely on debt financing from lenders, and thus the study concludes that older firms with reliable financial information were likely to access credit facilities than newly started firms. The study concludes that collateral are a crucial aspect for SMEs to succeed in accessibility of external financing from lenders, collateral acted as the lender's protection incase of default by a borrower, collateral acted as insurance to the lender, thus the study concludes that failure to have collateral had a negative effect on the SMEs access to financing in Ongata Rongai.

The study revealed that lenders require extensive information like proper documentation of registration and/or an operating license, tax-compliance and externally audited financial statements, thus the study concludes that further informal firms are less likely to have all the required legal documents. Therefore, such firms are likely to be denied access to credit. This study established that lenders are interested with the firm's business information. That lenders use firm's business information to assess current and future performance of the firm, thus the study concludes that factors surrounding particular SMEs were key considerations when approving credit facilities to SMEs.

Recommendations

The study established that collateral is an important determinant of credit access. This implies that SMEs without collateral found it find it difficult to obtain debt finance from commercial banks. It is therefore necessary for owners of SMEs to have either business or personal assets that can be used as collateral when applying for credit facilities from financial institutions. Commercial banks can create awareness of their funding requirements especially the importance of collateral through advertisements and communication with trade associations. The government should establish a bank to deal with debt financing for SMEs sector. SMEs have to start saving and investing more on tangible assets to be pledged as collateral to acquire external finance. Lack of business information and managerial competencies are also important reasons why finances are not available from lending institutions. Therefore, to improve access to

debtinance, there is the need for personal development by owners of the SMEs especially in the area of business and financial management skills through training.

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