



EFFECT OF ACCESS TO CREDIT ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA

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Abstract: Small and medium enterprises play a major role in the growth of the national economy through employment creation and poverty alleviation. However, most of them perform poorly and about half of them are closed within the first year of operation. Some of the reasons for closure include shortage of operating funds, declining income and losses incurred from the businesses. The objective of the study was to determine the effect of access to credit on the financial performance of small and medium enterprises in Kenya. The study adopted explanatory research design. The target population was heads of finance departments in the 100 top small and medium enterprises in Kenya. Yamane's formula was adopted in this study to determine the sample size. Stratified random sampling technique was used to select 80 small and medium enterprises from the target population. This study used primary data, which was collected by use of structured questionnaires from the heads of finance departments in the selected small and medium enterprises. A pilot test was conducted to assess the validity and reliability of the research instrument. Data was analyzed by use of both inferential and descriptive statistics with the help of statistical software known as Statistical Package for Social Sciences (version 22). Descriptive statistics composed of calculation of percentages, and frequencies, measures of central tendency (mean) measures of dispersion (standard deviation). The results were presented using tables and figures which included bar charts and pie charts. The relationship between the independent variable(s) and the dependent variable was determined through the use of correlation analysis and regression analysis. The study found that access to credit has a positive and significant effect on the financial performance of small and medium enterprises in Kenya. The study recommends that the financial institutions as well as the government of Kenya should work towards increase access of credit small and medium enterprises in Kenya. In addition, the government of Kenya should allocate more funds to the Youth Enterprise Development Fund and Women Enterprise Fund as a way of ensuring access of credit among the youth and women.

Key Words: Access to Credit, Financial Performance, Enterprise

Introduction

The small and medium enterprises sector in Kenya is progressively becoming a more important machine for gainful occupation and wealth formation which in turn steer economic growth. Medium enterprises are the current engine to economic development, income generation and are widely recognized (Almehdawe Khan & Lamsal, 2020). The government recognizes that large companies in the industrial sector may not be able to provide all the necessary pay opportunities, given the high capital-intensity requirement in the sector, the key financial performance indicators such as access to credit has been viewed as a critical elements to financing of small and medium sized enterprises (Deflorio, 2018).

In Europe's developed economies, SMEs employ as much as two thirds of the total personnel employed in the private sector and total revenues range to up to 55% in the EU (Breitenecker et al, 2017). In Portugal, almost all the industrial fabric is made up of SMEs. Despite their importance, studies have shown that more than 60% of these businesses close up business few months after they have started their operation (Drucker, 2014). Small businesses form the backbone of economic growth in Sub-Saharan Africa including Kenya, but the sector has faced a countless challenges that limit the growth of these businesses and hence becoming less effective in creating employment especially for the women and the youth (Gough, Chigunta & Langevang, 2016).

Financing a firm is a complex activity, as noted by Le (2012). The owners must first assess the firm's financial requirements such as short term or the long term needs. It is very vital to also assess the cost of obtaining these finances taking into consideration the returns and disadvantages of financing through debt or equity, taking into account the firm's special needs. Getting the right sources of financing of a firm from beginning is as important as choosing the right business. This decision will affect the firm's capital structure (Nirosha & Locke (2017). Growth of SMEs is compromised due to one major challenge, limited access to SMEs financing (Albuquerque et al, 2017). It's out of this background that theories on sources of finance are considered in this study. The Pecking Order Theory dictates hierarchical orders of financing decisions of firms (Mwarari & Ngugi, 2013) noted order of preference in order internal, debt and equity financing respectively. Small companies do select internal sources; however this will depend on firm's internal funding capacity to meet its needs at each stage (Agrebi, 2009).

According to Aabii (2014), banks have often been criticized for considering their super normal profits more than the plight of SMEs seeking financing. Banks usually argue that high cost credit is beyond their control as the base interest rates are set by central banks, however, in reality, the interest rates that banks offer to SMEs are far higher compared to the base rate offered central banks (Charbonneau & Menon, 2013). Access to finance has been identified as a prevailing constraint facing SMEs (Milovanovic & Wittine, 2014). A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Jabeen, 2014). Sansa (2019) also found that, there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their low growth and development. This stems from the fact that SME's have limited access to capital markets partly due to the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms (Mwende, Muturi & Njeru, 2019).

Statement of the Problem

There have been various initiatives meant to assist SMEs funding over the years. Tremendous efforts have been directed to enhance the availability of funds from the government, financial institutions and other donors to support SME's in the country. Despite all these many SMEs have been in dire need of credit to boost their capital, and when these funds become available the high cost charged inhibits financial performance by being a big cost that hinders growth of firms. Very long process to acquire credit, bureaucracy and poor delivery channels are some of the other reason given for the slow impact of the funding to SMEs (Obwori et al, 2012). The primary objective of these funds were to boost growth in SME's financial performance, little has been achieved (Kinuthia & Akinnusi, 2014). An overview of literature shows that many of these enterprises cannot still access finance due to various factors that vary from money being channeled or embezzled by the officials mandated to manage these funds and the high cost of these funds.

The 2016 National SME Survey reported that 46.3 per cent of the establishments (small and medium enterprises) in Kenya were closed within the first year of operation. About 29.6 per cent of the businesses closed due to shortage of operating funds, increased operating expenses, declining income and losses incurred from the businesses. In addition, 4.2 per cent of business start-ups got capital from families and/or friends, 5.6 per cent got financing from banks, and the rest used family/own funds as the main source of start-up capital. As such, start-ups as well as other small and medium enterprises experience challenges when accessing credit from financial institutions. As indicated in the survey, out of the total loans applied by licensed SMEs in the years between 2014 and 2016 (Ksh.707.3 billion) on 9 per cent was given by financial institutions (Kenya National Bureau of Statistics, 2016).

Small and medium enterprises play a major role in the growth of the national economy through employment creation and poverty alleviation. However, for them to perform and grow, SMEs need to access credit with favorable payment terms. The development of strategies and policies to improve the performance of SMEs necessitates an understanding of how access to credit influences the performance of SMEs in Kenya.

Several studies have been conducted on the effect of access to credit on the financial performance of small and medium enterprises in Kenya. For instance, Mwangi (2014) carried out a study that sought to establish the relationship of access to credit on financial growth of SME's in Nairobi County; Mayabi (2013) studied the effect of access to credit on growth of small and micro enterprises in Nairobi Central Business District; and Kinyua (2015) conducted a study effect of access to micro financing on financial performance of small and medium sized enterprises in Gikomba Market, Nairobi County. However, while Mwangi et al. (2014) study measured financial growth in terms of increase in revenue, Mayabi (2013) study used growth as the dependent variable and Kinyua (2015) study measured performance in terms of total revenue and increase in profit margin. This study focused on access to credit and it was conducted in Top 100 SMEs located in different parts of the country.

H₀₁: Access to credit has no statistically significant effect on financial performance of SMEs in Kenya.

Theoretical Framework

The study was anchored on the Adverse Selection Theory. The adverse selection theory of financial institutions originates from the work of Stieglitz and Weiss (1981). In his explanation, interests charged by a credit institution are assumed to have a dual role of sorting potential borrowers (leading to adverse selection) and affecting the actions of borrowers (leading to incentive effect). Interest rates thus assumed to affect the nature of the transaction and do not necessarily clear the market. Both effects are seen as a result of the imperfect information inherent in credit markets. Formal lenders insistence on collateral security rations a large number of borrowers out of the credit market, leaving only the few who can afford the required collateral. According to Halim, Jaafar and Akbar (2017) lenders would like to identify borrowers most likely to repay their loans since the banks' expected returns depend on the probability of repayment. Formal institutions fail to cater for the credit needs of small and medium enterprises who are perceived to be too risky and small enterprises often have greater access to informal credit facilities than to formal sources.

Adverse selection arises because in the absence of perfect information about the borrower, an increase in interest rates encourages borrowers with the most risky projects, and hence least likely to repay, to borrow, while those with the least risky projects cease to borrow. Interest rates will thus play the allocative role of equating demand and supply for loanable funds, and will also affect the average

quality of lenders' loan portfolios (Nakhaima, 2016). Lenders will fix the interest rates at a lower level and ration access to credit. Imperfect information is therefore important in explaining the existence of credit rationing for small and medium enterprises (Ombongi & Long, 2018).

The adverse selection theory was designed to apply quite generally, rather than in a specific context of informal credit in developing countries. In the latter context, the theory has often been criticized for its underlying assumption that lenders are not aware of borrower characteristics. The close knit character of many traditional rural and close knit urban societies implies that lenders possess a great deal of information about relevant borrowers' characteristics, such as business ability, size and quality of assets, and risk attitudes (Popa & Ciobanu, 2015). Criticism for this theory stems from the fact that it ignores the fact that borrowers themselves who can seek ways to assure the lender that they are not "lemon" and hence have access to credit.

This study will therefore use adverse selection theory in assessing the influence of access to credit on the financial performance of small and medium enterprises. In Kenya most of the small and medium sized enterprises lack collaterals needed to secure loan so they prefer savings and credit co-operatives loans which are cheaper and not attached to collaterals.

Empirical Studies

Access to Credit

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, is not enough to enable SMEs undertake their business activities optimally. Insufficient access to long-term finance for SMEs has forced most SMEs in Kenya to rely on high cost short term finances. The various financial challenges that SMEs face include: high cost of credit, high bank charges and fees and lack of proper infrastructure (Hatten, 2012).

In more advanced developing countries, where there is reasonable progress in the financial institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital, leasing and so on. Even though SMEs are the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also be limited (Nyambura, 2013).

Most formal financial institutions consider SMEs as highly risky and commercially unviable, thus hindering them from accessing credit and worse case is in the rural areas where most SMEs are located (Kellen, 2013). The present legal and policy framework for financial services is less supportive of smaller borrowers and needs to be addressed. The banking act prohibits MFI's from taking deposits from customers for reinvestments; this act should be reviewed so that MFI's can build strength to finance SMEs. Despite the increasing number of MFI's, the rural SMEs are starved as MFI's are not in the rural areas because of limited resource base and lack of institutional capacity to provide wide range of financial services (Hatten, 2012).

Lack of access to credit or finance is almost universally indicated as a major constraint for SMEs. This further affects the choice of technology by limiting the number of alternatives that can be considered (Nyambura, 2013). In some cases, despite the available finances, the SMEs lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan (Nirosha & Locke, 2017). Credit constraints operate in variety of ways in

Kenya where undeveloped capital market forces SMEs to rely on self-financing or borrowing from friends or relatives.

Mwangi (2014) carried out a study that sought to establish the relationship of access to credit on financial growth of SME's in Nairobi County. To achieve the objective of this study, a descriptive survey design was used. The population of this study was SME's registered in Nairobi County. The researcher did a cluster sampling of 40 small and medium enterprises in Nairobi based on geographical locations. The study used secondary sources of data. Secondary data was sourced from the financial records of the SME's from year 2009 to 2013. Data collected was purely quantitative and it was analyzed using descriptive analysis and regression analysis. The study found that provision of credit to SMEs is still a fundamental problem faced by most owners and managers of SME's since most of them lack security or collateral to be able to access loan facilities. The findings of the study revealed that most owners of SME's that obtained credit were able to grow and expand their businesses significantly.

Mayabi (2013) studied the effect of access to credit on growth of small and micro enterprises in Nairobi Central Business District. The study takes on a descriptive approach with its focus on boutique business in the rapidly growing Nairobi Central Business District. The findings indicated that for businesses to grow there has to be a level of accessed credit as shown by the significant relationship of between access to credit and level of funds and financial management skills hence leading to a conclusion that an increase in access to credit leads to growth of SMEs funds and financial management skills while the same relationship exists between access to credit on level of stocks and impact on human resources.

Kinyua (2015) conducted a study effect of access to micro financing on financial performance of small and medium sized enterprises in Gikomba Market, Nairobi County. The study adopted descriptive research design. The study established that the entrepreneurs in the study area accessed different amounts of loan. The study also established that accessibility to microfinance affected the performance of SMEs to a great extent. On the influence of savings and deposits to financial performance of SMEs, the study established that savings allowed the entrepreneurs a chance to borrow from the banks and also measured their revenue generation capacity.

Financial Performance of Small and Medium Enterprises

Financial performance in SMEs is a method of calculating the results of a firm's guidelines and operations in financial terms (Wood, 2010). It's a wide concept in many areas. In an enterprise management, Sansa (2019) defines a firm's financial performance as how well the organization is managed and the value the organization brings to customer and other shareholders. Financial performance recognizes the financial strengths and weakness of an organization by instituting connections between the items of financial position and statement of comprehensive income as noted by Jabeen (2014).

According to Khan (2015), a firm measures its financial performance using financial and non-financial methods. The financial measures include turnover and profit before tax while non-financial measures focus on issues pertaining to customer satisfaction and customer recommendation rates, delivery time, waiting time and employee turnover.

Ullah and Ameen (2018) stated that financial performance analysis helps in short term forecasting and growth and can be identified with the help of financial performance analysis. The analysis is a process of evaluating the relationship between the component parts of financial statements to obtain a better

understanding of the firm's position and performance. This analysis can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors illustrated by Cheong, Lee and Weissmann (2020), financial performance measures ratios such as assets utilization efficiency ratios, deposit mobilization, loan performance, liquidity ratio leverage /financial efficiency ratios, profitability ratios, solvency ratios and coverage ratios to evaluate the banks financial performance. Financial performance is an indicator of how profitable accompany is relative to its total cost assets. It is measured by return on asset. ROA gives an idea as to how efficient management is at using its assets to generate earnings. The return on asset is company's net income divided by its average total assets; ROA is displayed as a percentage.

Return on Assets (ROA): Deflorio (2018) suggest that the return on assets (ROA) is used as a vital measure of profitability. The ROA provides information about how much profits are generated, on average, by each unit of the assets of the firm (Cheong, Lee & Weissmann, 2020). Return on assets (ROA) is the ratio of net income after taxes divided by total assets and it shows how well management uses the firm's real investments wealth to produce profit. Return on assets indicates how profitable a firm is relative to its assets. assert that return on assets must be positive and the standard figure for return on assets is 10% - 12%. The higher the return on assets the better as the firm is earning more money on capital invested. ROA is considered an indicator of how efficiently a firm is being operated with the assets available to the firm.

Conceptual Framework

Bryman (2013) states that conceptual framework is a diagrammatic presentation of the relationship between dependent and independent variable. Figure 1 shows the hypothesized effect of the independent variables on the dependent variable. The independent variable was access to credit and the dependent variable was the financial performance of small and medium enterprises in Kenya.

Independent Variable

Dependent Variable

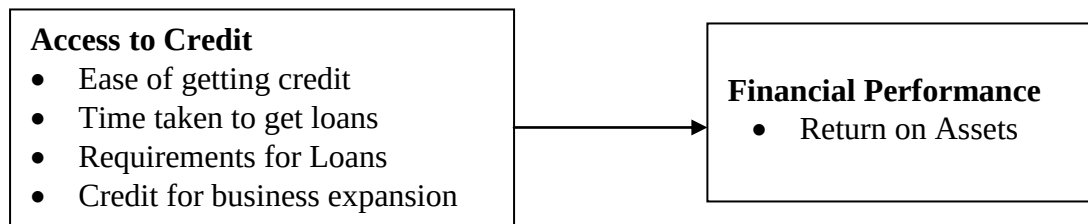


Figure 1: Relationship between Access Credit and Financial Performance

Research Methodology

The study adopted explanatory research design to show the effect of accesses to credit on the financial performance of SMEs in Kenya. The population was 100 top SMEs in Kenya. The study targets all 100 heads of finance departments of the SME's published by the Ministry of Industrialization, Trade and Enterprise Development in the year 2018. Therefore, the target population of the study was heads of finance departments in the 100 top SMEs in Kenya.

Yamane's formula was adopted in this study to determine the sample size (Yamane, 1973). The formula was adopted because it puts into consideration the population and confidence interval.

$$n = \frac{N}{1 + NE^2}$$

Where by: n = Sample Size; N = target population; E = margin of error (0.05)

$$n = \frac{100}{1 + (100 * 0.05^2)}$$

$$n = 80$$

Table 1: Sample Size

Category	Target Population	Sample Size
Supply and Logistics	36	29
Automobile	8	6
Construction	10	8
Health	4	3
Hospitality	4	3
ICT	12	10
Manufacturing	17	14
Financial	2	2
Others (agriculture, training, cleaning and security)	7	6
Total	100	80

The study used stratified random sampling technique to select 80 SMEs from the target population of 100. The strata included supply and logistics, automobile, construction, health, hospitality, ICT, manufacturing, financial and others (agriculture, training, cleaning and security). Stratified random sampling was considered appropriate since it gave every respondent in the target population an equal chance of being selected as a study respondent and thus it had no bias and eased generalization of the gathered findings.

This study used primary data, which was collected by use of structured questionnaires from the heads of finance departments in the selected SMEs. Questionnaires are commonly used for cases where the respondents willingly cooperated and were within reach. A pilot study was embraced to pretest data collection instruments for validity and reliability. A pilot study was done using 8 heads of departments in SMEs based in industrial area region of Nairobi County. This study improved content validity by consulting individuals such as the supervisors who are experts in the current area of study. Additionally, face validity of the research was improved by use of the pretest and making clear all the ambiguous and unclear questions. Reliability was measured using Cronbach's alpha, which is the most frequently used method for measuring internal consistency. Therefore, in this study a Cronbach's alpha of 0.7 was considered acceptable.

Data was analyzed by use of both inferential and descriptive statistics with the help of statistical software known as Statistical Package for Social Sciences (SPSS version 22). Descriptive statistics comprised of calculation of percentages, and frequencies, measures of central tendency (mean) measures of dispersion (standard deviation). The results were presented using tables and figures which included bar charts and pie charts. The relationship between the independent variable(s) and the dependent variable was determined through the use of correlation analysis and regression analysis.

The simple linear regression model for access to credit was specified as;

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Whereby; Y = Financial performance; β_0 = Constant; β_1 = Coefficients of determination; X_1 = Access to credit; and ε = Error term

Results and Discussions

The sample size of the study was 80 heads of finance departments in top SMEs in Kenya. Out of 80 questionnaires that were distributed, 65 were duly filled and returned giving a response rate of 81.25%. According to Nulty (2011), a response rate of 75 per cent is adequate for analysis, for making conclusions and making inferences about a population. In addition, Fincham (2013) indicates that a response rate of 60% and above is acceptable for analysis. This implies that the response rate of 81.25% was adequate for analysis, drawing conclusions and reporting.

Descriptive Statistics

Descriptive statistic was used to present how the participants responded to questions relating to selected financial factors and financial performance of SMEs. A five point Likert scale was used in rating how access to credit, starting capital, interest on loans and repayments plans influence the financial performance of SMEs. Where by 1, strongly disagree, 2 Disagree, 3 Moderate Agree, 4, Agree and 5 strongly agree.

Access to Credit

The respondents were requested to indicate their level of agreement on the various statements on the access to credit in their organizations. As indicated in Table 2, the respondents agreed with a mean of 4.384 and a standard deviation of 0.629 that financial institutions take a lot of time to approve loans applied by SME. The respondents also agreed with a mean of 4.353 and a standard deviation of 0.570 that loan application takes less time when firms have audited financial documents. Also, the respondents agreed with a mean of 4.232 and a standard deviation of 0.723 that their organizations have severally applied for business expansion loans and all applications have been approved. Further, they agreed with a mean of 4.231 and a standard deviation of 0.765 that credit for business expansion is easily approved by financial institutions.

With a mean of 4.122 and a standard deviation of 0.580 the respondents agreed with the statement indicating that not all SME are granted credit for business expansion. The respondents agreed with a mean of 4.076 and a standard deviation of 1.004 that most SMEs lack audited financial statements hence find it hard to access credit facilities. As shown by a mean of 3.984 and a standard deviation of 0.717 the respondents agreed that financial institutions demand a lot of collaterals to approve loans applied by SME. The respondents also agreed with a mean of 3.892 and a standard deviation of 0.589 that audited financial statements are required for loan application by the SMEs.

However, the respondents disagreed with the statement indicating that they always access credit facilities without much restrictions as shown by a mean of 2.415 and a standard deviation of 1.445. They also disagreed with the statement indicating that SMEs find it easy to access to credit facilities from financial institutions as shown by a mean of 2.323 and a standard deviation of 1.174. The respondents disagreed with the statement indicating that the time taken between loan application and loan approval is very short as shown by a mean of 2.261 and a standard deviation 1.337.

Table 2: Access to Credit

	N	Min	Max	Mean	Std. Deviation
SME find it easy to access to credit facilities from financial institutions	65	1.00	5.00	2.323	1.174
We always access credit facilities without much restrictions	65	1.00	5.00	2.415	1.445
Most SMEs lack audited financial statements hence find it hard to access credit facilities	65	1.00	5.00	4.076	1.004
The time taken between loan application and loan approval is very short	65	1.00	5.00	2.261	1.337
Financial institutions take a lot of time to approve loans applied by SME	65	3.00	5.00	4.384	.629
loan application takes less time when firms have audited financial documents	65	3.00	5.00	4.353	.570
Financial institutions demand a lot of collaterals to approve loans applied by SME	65	3.00	5.00	3.984	.717
Audited financial statements are required for loan application by the SME	65	3.00	5.00	3.892	.589
Credit for business expansion is easily approved by financial institutions	65	3.00	5.00	4.231	.765
Not all SME are granted credit for business expansion	65	3.00	5.00	4.122	.580
We have severally applied for business expansion loans and all applications have been approved	65	3.00	5.00	4.232	.723
Aggregate	65			3.661	0.867

Financial Performance

The financial performance of small and medium enterprises was measured in terms of profitability and total assets in the small and medium enterprises. The respondents were requested to indicate the total assets in the SMEs. From the results, 44.62% of the respondents indicated that the total assets in their SMEs were between Ksh. 601 million and Ksh. 900 million, 26.15% indicated between Ksh. 301 million and Ksh. 600 million, 13.85% indicated between Ksh. 901 million and KSh. 1.2 billion, 9.23% indicated below Ksh. 300 million, and 6.15% indicated above Ksh. 1.2 billion. This shows that most the SMEs had total assets between Ksh. 601 million and Ksh. 900 million.

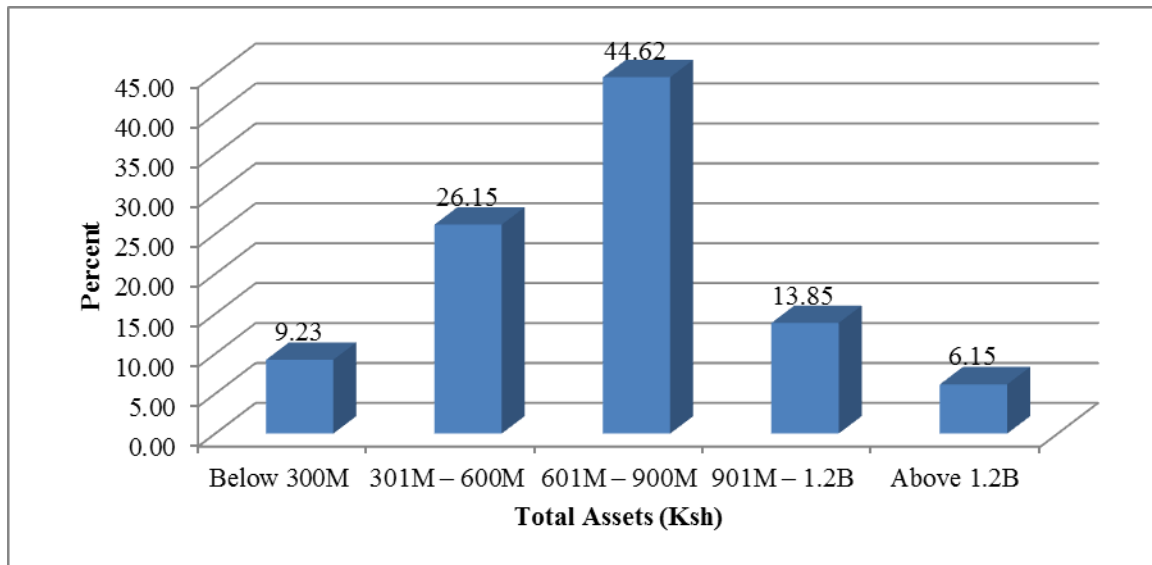


Figure 3: Total Assets in SMEs

The respondents were also requested to indicate the profitability of their SMEs. From the findings, 32.21% of the respondents indicated that the profitability of their businesses was between Ksh. 201 million and Ksh. 300 million, 26.15% indicated between Ksh. 101 million and Ksh. 200 million, 18.46% indicated between Ksh. 301 million and Ksh. 400 million, 12.31% indicated below Ksh. 100 million and 10.77% indicated above Ksh. 400 million. This shows that the profitability of the 100 top SMEs in Kenya ranges between Ksh. 201 million and Ksh. 300 million.

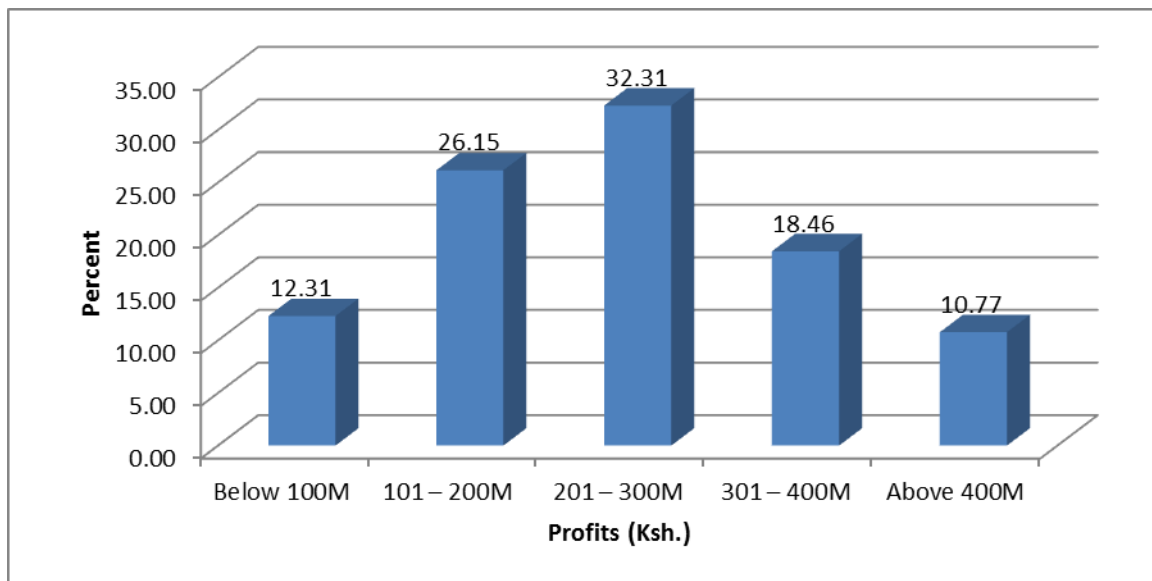


Figure 4: Profitability of SMEs

Inferential Statistics

The study used inferential statistics such as correlation analysis and simple regression to determine the association between the independent variables and the dependent variable.

Correlation Analysis

The study used Pearson product moment correlation to quantify the degree in which the independent variables (access to credit, start-up capital, interest on loans and loan repayments plans) and the dependent variable (financial performance). The results were as presented in Table 3.

Table 3: Correlation Coefficients

		Financial Performance	Access to Credit
Financial Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	65	
Access to Credit	Pearson Correlation	.890**	
	Sig. (2-tailed)	.000	
	N	65	65

From the correlation analysis results in Table 3, access to credit and financial performance of small and medium enterprises in Kenya had a strong, positive significant correlation as shown by a correlation coefficient of ($r = 0.890$, $p < 0.05$). These findings agree with Mwangi (2014) findings that access to credit influences the financial growth of SMEs.

Hypothesis Testing

The objective of the study was to determine the effect of access to credit on the financial performance of SMEs in Kenya. The study used simple linear regression to test the hypothesis which stated that access to credit has no statistically significant effect on financial performance of SMEs in Kenya.

Table 4: Model Summary for Access to Credit and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.436 ^a	.190	.186	.36280

a. Predictors: (Constant), Access to Credit

As indicated in the model summary in Table 4, the adjusted R^2 for the model was 0.186, which suggested that access to credit predicted 18.6% of all variations in the financial performance in SMEs in Kenya while 81.4% of all variations in the financial performance of SMEs in Kenya were instigated by other factors other than access to credit.

Table 5: ANOVA for Access to Credit and Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.379	1	5.379	14.797	.000b
	Residual	22.902	63	0.364		
	Total	28.281	64			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Access to Credit

As shown by the results of the ANOVA in Table 5, the F-statistic for the model was $14.797 > 4.001$ F-critical and the $p\text{-value} = 0.000 < 0.05$. The study thus established that the model is a good fit for the

data and hence was used to predict the effect of access to credit on the financial performance of SMEs in Kenya.

Table 6: Regression Coefficients for Access to Credit and Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.260	.246		9.206	.000
	Access to Credit	.402	.063	.436	6.393	.000

a. Dependent Variable: Financial Performance

The regression coefficients results shown in Table 6 showed un-standardized beta coefficients of; $\beta=2.260$; $P\text{-value}=0.000<0.05$ constant and $\beta= 0.402$; $P\text{-value}=0.000<0.05$ access to credit, Therefore the simple regression model for starting capital was summarized as follows;

$$Y = 2.260 + 0.402X_1$$

From the model, holding access to credit constant at zero, financial performance of SMEs in Kenya would be equal to 2.260 while holding all other factors constant, a unit increase in access to credit would lead to a 0.402 increase in the financial performance of SMEs in Kenya. Since $P\text{-value}=0.000<0.05$ for access to credit indicate a statistical significant influence of access to credit on the financial performance of SMEs in Kenya, the null hypothesis (H_{01}) which states that, access to credit has no statistically significant effect on financial performance of SMEs in Kenya was rejected and the alternative hypothesis which states that, access to credit has a statistically significant effect on financial performance of SMEs in Kenya was accepted. These findings agree with Obura and Matovu (2011) findings that access to credit has a significant effect on financial performance of SMEs. These findings agree with Mwangi (2014) findings that access to credit influences the financial growth of SMEs.

Summary of Findings

The objective of the study was to determine the effect of access to credit on the financial performance of SMEs in Kenya. The null hypothesis tested was access to credit has no statistically significant effect on financial performance of SMEs in Kenya. Based on the results, access to credit has a positive and significant effect on the financial performance of SMEs in Kenya.

In addition, the study established that financial institutions take a lot of time to approve loans applied by SMEs, less time when firms have audited financial documents. In addition, financial institutions demand a lot of collaterals to approve loans applied by SMEs. The study also found that credit for business expansion is easily approved by financial institutions. However, not all SME are granted credit for business expansion. The study revealed that most of the SMEs face challenges related to access credit facilities due to restrictions and requirements. In addition, the study revealed that the time taken between loan application and loan approval was long, through this depends on financial institutions.

Conclusion and Recommendations

The study concludes that access to credit has a positive and significant effect on the financial performance of SMEs in Kenya. Access to credit among small and medium enterprises involves ease

of getting credit, time taken to get loans, requirements for loans and credit for business expansion. In addition, the study established that financial institutions take a lot of time to approve loans applied by SMEs, less time when firms have audited financial documents. In addition, financial institutions demand a lot of collaterals to approve loans applied by SMEs. The study also revealed that the time taken between loan application and loan approval was long, through this depends on financial institutions.

The study recommends that the financial institutions as well as the government of Kenya should work towards increase access of credit to SMEs in Kenya. Financial institutions can do this by reducing requirements for accessing credit and reducing the duration of time it takes to process loans for SMEs. In addition, the government of Kenya should allocate more funds to the Youth Enterprise Development Fund and Women Enterprise Fund as a way of ensuring access of credit among the youth and women.

Suggestions for Further Studies

The study focused on the top 100 SMEs in Kenya and most of them had a net income ranging from Ksh. 100 million and Ksh. 25 million. Due to their high income, the accessibility of credit among these SMEs may be different from SMEs with as low as Ksh. 5 million income. The study therefore suggests further studies on other firms SMEs not in the top 100 SMEs. The study found that the selected financial factors could explain 80.3% of the financial performance of SMEs in Kenya. The study therefore recommends further studies on other factors influencing the financial performance of SMEs in Kenya. Also, financial performance was measured in terms of return on assets. Therefore, further studies should be conducted on factors influencing the financial performance of SMEs to measure performance in terms of return on investment, return on equity, profit margin among other measures.

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