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Determinants of Small and Medium Enterprises' Financing by Registered Financial Institutions in Uasin Gishu County, Kenya

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Abstract

Purpose: *This research intended evaluate the Determinants of Small and Medium Enterprises' Financing by Registered Financial Institutions in Uasin Gishu County, Kenya. The study was guided the following objectives: To evaluate the determinants of SMEs' financing by the registered financial institutions in Uasin Gishu County, Kenya and to compare financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya.*

Methodology & Approach: *The study employed descriptive research to gather quantifiable information through use of open and close-ended questions and the target population of the study was 50 registered financial institutions where data was collected from the key informants of the financial institutions who were either Branch Managers, Relationship/ Credit managers or the credit officers. This was a census study where 47 financial institutions were interviewed with respondents being either Credit officers, Branch managers or Credit/Relationship Managers. Exploratory factor analysis was used to analyse data. This study adopted a descriptive survey research design and Factor analysis. SPSS was used to analyse descriptive statistics (percentages, and frequencies); and inferential statistics (factor analysis). Analysed data was presented using tables and figures. Using Principal Component Analysis, the key determinants of SMEs Financing by the registered financial institutions in Uasin Gishu County was extracted.*

Findings: *From the study findings, cost of credit is key determinant in SME financing. Cost of credit includes fees charged on loans and interest rates. High interest rates and loan costs hinders SMEs from borrowing loans since it affects their ability to repay the loans. SMEs' shy away from borrowing especially when interest rates are high. On the other hand, financial institutions are hesitant to offer financing to SMEs when the interest rates are low, capped, as they prefer lending to government, and consider SMEs risky borrowers. When interest rates are regulatory banks, the interest rate risk premium is low to cater for default of borrowers.*

Recommendations: *This study recommends that; Training and advisory services should be offered to SMEs by the government in collaboration with the financial institutions on the requirements for accessing the loan facilities since most SMEs' are not aware of the requirements hence they are not able to access financing. Banks should be flexible in financing SMEs by coming up with friendly policies that does not bar SMEs from getting loans and consider financing start-ups businesses so as to spur economic growth in the country and also come up with tailor-made loan products for SMEs.*

Keywords: Determinants, Financing, Small and Medium Enterprises, Financial Institutions

Introduction

There are various determinants of Small and Medium enterprises' financing by the registered financial institutions. This is an issue that needs addressed in terms of decision-making process by the registered financial institutions because the financial institutions are concerned with issue of risk and return trade off

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when advancing loans to customers. Financial institutions consider credit risk as the greatest risk to them. There are no single determinants that has been agreed by the various researchers since various studies done have come up with different determinants from each study. For instance, Thuku (2017) found that firm's characteristics, entrepreneur's characteristics and financial characteristics are key factors banks consider in Lending customers while Ndung'u (2016) found that number of loaning institutions, loan interest rates charged, collateral offered by SME and literacy levels are key considerations before loaning to customers. Lenders have credit policies in place that guide them in lending so that they mitigate the credit risk. Firms, which have no credit access, are prone to external shocks (Nkurunziza, 2005). Osano and Languitone (2016) argued that financial accessibility SMEs is an issue that has been of much attention to Scholars and policy makers across the globe for a long time. According to ACCA (2009), financing to SMEs is very critical to their development and survival in an economy. Key stakeholders have for a long time been disturbed by lack of financial accessibility by the SMEs.

The theories underpinning this study are the information asymmetry theory, the financial inclusion theory, and the financial intermediation theory. The concept of financial inclusion first introduced in 2005 by the Reserve Bank of India is the ease in which basic financial products and services can be accessed and made available to all members of the society. This theory is key to this study because there need to ensure that financial services are accessible to every citizen of a given country without discrimination. George Akerlof, Michael Spence, and Joseph Stieglitz introduced information asymmetry theory in 1970. According to Akerlof (1970), information asymmetry exists in a situation where the seller and the buyer have different information on the product or service. Financial institutions have more information about their products and services than their customers hence leading to market inefficiencies. This theory helps in ensuring that financial institutions have the same information as their customers. Gurley & Shaw (1960) came up with the theory of financial intermediation, which ensures that there is flow of resources from the economic units with excess funds to economic units with shortage of funds through financial institutions and at the same time ensuring that there is no information asymmetry and that transaction costs are reduced.

The financial institutions are key in intermediating people who need financing (borrowers) with lenders, Ndikubwimana (2016). In addition to providing financial services, they offer advisory services on business management and opportunities for training and administration management. Financial institutions have come up with different ways of advancing funds or loans to SMEs. However, they have challenges in coming up with the best determinants. SMEs are responsible for job creation, ensuring there is sustainable growth of the economy (Legas, 2015), and according to Brhane (2014) SMEs are the lifeblood of most countries' economies. The Governments of Kenya Third Medium-Term Plan for 2018–2022 for the achievement the Vision 2030 considers SME sector as a key support sector in the economy. However, despite SMEs being critical in acceleration of economic growth in a country, they have been blocked out from accessing loans due to various determinants, which the financial institutions evaluate. Financial accessibility by the SMEs is very critical as it helps them in boosting their capital base and as a result leading to growth and expansion of their businesses. According to Hallberg (1998), access to loans is an important ingredient to development of SMEs. If there is no financial accessibility by SMEs, then they cannot develop hence slowdown in creation of employment opportunities in the country leading to low economic growth. According to Bowen (2009, credit inaccessibility is a major bottleneck for the development and sustainability of Capital-intensive manufacturing entities.

Determinants of SMEs financing are the key factors that influence the financial institutions to grant credit facilities to the borrowers. They are the requirements or the conditions that the borrowers must fulfil before they access the loans from the banks. In order to mitigate risks and safe guard the interests of the banks, banks set forth various conditions in which the borrowers must fulfil before the can access credit. According to Chirchir (2017), formal credit access is lacking due to the high default risk among MSEs and due to inadequate credit facilities available. Due to increased loans, which are not performing, and the strict supervision by the regulator, banks have put in place stringent policies, which makes it difficult for the borrowers to access credit.

Some determinants that influence access to credit are the financial characteristics, firm characteristics and entrepreneur characteristics (Kungu, 2011; Thuku, 2017; Penaloza, 2015). The Client character, documentation, business cash flows and performance, collateral, interest rates, Business records, Business structure, Loan Purpose, Age of the Business, nature of business, household income, family net worth, External factors, demographic characteristics and other financial obligations also are determinants of financial accessibility by SMEs. Chirchir (2017) found that having collateral, variety of financial institutions, size of the business and being credit worth are key determinants of access to credit. According to Balogun, Agumba, and Ansary (2016), capital base of the firm, size of the firm, duration firm has been in operation and its past records are key in enabling access to finance. According to Erdogan (2019), most

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researchers have identified the size of the entity and the age of the SME being key in determining access to finance. Evidence gathered from most studies found that firms that are large and been in operation for long obtain bank loans without difficulties.

Small and Medium Enterprises financing is the funding or advancing credit to medium-sized businesses so that they can have sufficient capital base to enable them grow and develop. According to Kyaw (2008), SMEs require finance in all their development stages which includes start up, developing and when they become public entities. Access to loans means the ease of accessing a loan facility from bank and other financial institutions. Either financial accessibility refers to the ability of borrowers, which could be individuals, or firms to obtain funding from external sources of finance to enable them address the challenges of cash flow (Osoro &Muturi, 2013). According to Penchansky and Thomas (1981) access to credit is "entry into or use of the health care system, while to others it means the factors that influence entry or use." Major constraints to SME growth are the supply and access to credit. According to Assefa, Zerfu and Tekle (2014), financial accessibility is the greatest major constraint to business growth. The access to credit has attracted global attention for many decades since SMEs financing is key to growth and development (Osano & Languitone, 2016).

SMEs financing may come in different forms, equity financing through venture capital and business angels, Loans and bank overdrafts; lease finance or hire-purchase arrangements; or venture capital, asset financing, factoring and leasing, invoice discounting. Debt financing in form of trade credits and non-bank finances, bank finances, government assistance and Islamic finances for SMEs (Abdulsaleh & Worthington, 2013). Venture capital and schemes for development financing remain the main financing sources for SMEs. The current study is more concerned with SME financing by registered financial institutions, which include mainly Commercial banks, and Microfinance institutions. Financial inaccessibility slows down the SMEs' performance in Kenya and as a result affecting negatively on economic development. Banks currently thoroughly appraise the loans they give to their customers and ensure that all conditions and their credit policies set are strictly followed to manage the risks. There are various loan products that registered financial institutions in Kenya have designed for SMEs, which include Working Capital Loans, Asset Finance Loans, Farm Machinery and Equipment Loans, Housing Loans, Agricultural Loans, Trade Finance Loans, Unsecured Loans, Letter of credit Loans, Revolving credit loans and Lease Finance loans among others.

According to Zeller (2003), a registered financial institution is an enterprise, which may be either a commercial entity or non-commercial entity, receives money from customers or investors, and lends the same for the benefit of both the customer or investor and the institutions. A registered financial institution is the one that has been registered and regulated in accordance with the regulations. The main reasons why the study is focusing at the registered financial institutions is because there are many financiers and some of them are not regulated like the shylocks. Financial institutions in Kenya play various roles in the country one of them being financial intermediation. Financial intermediation means receiving funds from units in the economy with excess funds and lending the funds to the units with the deficit funds. This means that they source for funds and lend the same funds to those who require finances. Financial institutions deal with financial and monetary transactions, which includes deposits, Loans, investments and Foreign Exchange.
Registered Financial institutions in Uasin Gishu County include commercial banks and Deposit taking Micro finance institutions, credit only Micro finance institutions and Sacco's. Registered Financial institutions have various regulators, which includes Central bank of Kenya (CBK) that regulates Commercial banks, Mortgage Finance firms and Deposit taking microfinance institutions, Sacco Societies Regulatory Authority (SASRA) that regulates the Sacco's in the country. The major focus of this study is on Commercial banks and Microfinance institutions that fund SMEs. Lenders play a very critical and less exclusive role in channelling credit (to individuals and enterprises (Gurley, et al, 2006).

The lenders are so concerned about the determinants of SMEs financing since they are regulated and their regulators have imposed stringent conditions on them before they give loans. Determinants helps in ensuring that financial institutions lend prudently to reduce the risks and curbing Fraud, reducing the portfolio at risk. Determinants also help in reducing the monitoring costs of Loans. According to Goodhart & Tsomocos (2019), the goal of financial regulation is to ensure stable and sound financial sector and credit access. The registered financiers are regulated and their regulators requires them to strictly adhere to their policies. Banks in Kenya are regulated by the central bank and they must strictly adhere to central banks prudential guidelines when giving loans to their customers.

Research Problem

Stable access to financing by the SMEs is critical determinant in their growth and survival. Credit accessibility accelerates the growth and the development of businesses since credit increase levels of incomes, creates more jobs in the economy and as a result eradicating poverty (Chirchir, 2017). Financial

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accessibility has been a major challenge because there are conditions that have been set by the financial institutions as a perquisite before they advance loans. Adera (1995) argued that financiers are unable to meet the credit needs of businesses especially SMEs due to loan terms and conditions and at the same time they consider most businesses creditworthy. SMEs financing mostly depend largely on short-term loans, which are very expensive for banks and other lenders thus increasing the risk of failure due to stringent rules and procedures for accessing credit (Teem, 2009). However, many researchers are yet to agree that difficulty in accessing financing arises factors that are in both supply- and demand-side (Kyaw, 2008).

The determinants of financial accessibility the financial institutions look at keep on changing because of various factors. Some financial institutions may have secured Loans while others have unsecured loans they offer to their customers. Loans that are secured have specific determinants different from unsecured loans due to risk aspect. According to Karanja (2012), the challenges faced by SMEs in Kenya is Capital Limitations, inadequate technical skills and the capacity to operate these firms. Capital and small firms' ratings is key in accessing credit. SMEs in Uasin Gishu County have been faced with financial challenges since getting loans from registered financial institutions is not easy and as a result harbouring their growth and expansion since credit is one of the ways of financing the activities of SMEs. This has been occasioned by them being unable to qualify for the loans due to the conditions imposed to the by the financial institutions. The banks are regulated by the central banks and they have credit policies, which must be strictly adhered to before funding their customers who among them includes the SMEs. Uasin Gishu County is one of the upcoming and fastest developing economic hubs in Kenya and at the same time a leading producer of agricultural products. As per the Kenya population and housing census of 2019, Eldoret town where Uasin Gishu County headquarters are located is the fifth most populated area in the country after Nairobi, Mombasa, Nakuru and Ruiru. Owners of SMEs in Uasin Gishu County are also involved in agricultural activities such as Maize farming, Wheat farming, Dairy farming, Horticulture and Poultry keeping among others, which makes which also, needs financial resources thus requiring a SMEs needs financing to diversify their operations which has not been easy to access from registered financial institutions.

Various studies have been conducted to find out the determinants of financial SMEs' Financing and different determinants have been provided. Thuku (2017) found that small firms access loans with difficulty as they fail to meet conditions set by loan providers. Pendula (2010) and Nanyondo, (2014) confirmed in her study that the financial characteristics of an entity have a great impact on access to finance. Ndegwa & Wario (2016) in their study argued that Management experience, education levels, business planning, political connection, training skills, interest rates, loan repayment modes, hidden costs, on capital form part of the determinants considered by financial institutions before providing credit facilities. Osano and Languitone (2016) on the other hand identified different group of factors influencing access to loans by firms such as financial sector structure, awareness of funding opportunities, loan security requirements, and provision of support services to small business. Rahman, Twyeafur Rahman, and Belas (2017) did a research results showed that the major determinant to access credit facility by Small firms and women owned and operated firms from banks is pledge of collaterals. Babu (2017) found that factors such as size and age of the SME, interest rate, collateral, financial record, gender and networking influenced access loans accessibility by borrowers. Although various studies have been done on the determinants of access to loans by SMEs there is a contextual gap since most of the studies have been done from the perspective of SMEs hence this study is different as it will look at data from the perspective of financial institutions who have more information on the determinants of accessing credit. The determinants of financial accessibility by SMEs vary from one study to the other thus there is no consensus among various researchers hence creating knowledge gap. There is also a methodological gap within the studies since they have used different approaches. Hence, the studies have not been able to address the problems of Uasin Gishu County, Kenya. Most studies done on SMEs in Kenya have been focussing on Agricultural sector for instance the study done by Thuku (2017). This study will also look at other determinants. The research questions thus will be: Foremost, What are the determinants of SMEs' financing by the registered financial institutions in Uasin Gishu County, Kenya?, Secondly, does banks and Microfinance institutions use the same Criteria in Financing SMEs in Uasin Gishu County, Kenya?

Research Objective

The objective of the study was to identify the determinants of Small and Medium Enterprises Financing by registered financial institutions in Uasin Gishu County, Kenya.

Literature Review

Theoretical Review

There are three Theories underpinning this research, which includes the financial inclusion theory, the information asymmetry theory and financial intermediation theory. Financial Inclusion theory was introduced by Reserve Bank of India in 2005. The financial inclusion had the main objectives of providing accounts which have nil opening and operating balances for depositing and receipts of payments, products for savings, investments and pension, affordable credit products and overdraft facilities, micro insurance products and micro pension products. According to Ozili (2020), financial inclusion means being able to access easily the financial services and ensuring that they are readily available to all residents of a given country. This means that financial products and services should be made available to all individuals in a society and businesses without any discrimination at all. This theory strives to ensure that all barriers and obstacles that hinders financial access to the members of the society are removed so that finance is inclusive. Financial inclusion can also mean provision of financial services at an affordable cost to the vast majority of disadvantaged and low-income earners (Dev, 2006). It is also the ability to access and utilise the banking services which are offered in a structured manner (Sahay et al, 2015). This theory is key to this study because the study seeks to evaluate the determinants of financial accessibility by SMEs and ensure that credit is inclusive for all SMEs. The recommendations of this study will ensure that all the barriers to financial accessibility are removed. This study will point out the key areas that needs more attention to ensure all SMEs in accessing loans with ease from the financial institutions. According to Ozili (2020), this theory has shortcomings it leads to the financialisation of poverty, as some of its gains do not take long; it ignores the fact that poverty distresses financial decision-making; it promotes digital money and use of transaction accounts. The theory of asymmetric information came up to explain market failures between 1970s and 1980s and it was advanced by three scholars who includes Michael Spence, George Akerlof and Joseph Stieglitz and were specialists in the field of economics. Information asymmetry is critical in finance field.

According to this theory, buyers possess different information about products and services from sellers hence there is information imbalance and frictions between the parties involved. The Sellers have more information that the buyers. In this case, the financial institutions have more information about their products and services than their customers do. Lenders lack Knowledge of borrower’s creditworthiness and unable to detect borrowers’ character after lending hence lenders are hesitant to lend an act that creates serious frictions in financing. This leads to moral hazards and adverse selection in credit. Akerlof (1970) did a research on "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." where he argued that Sellers of motor vehicles have more information than the buyers hence they can sell poor quality cars at a higher price. Michael Spence (1973) in his research, "Job Market Signalling" argued that new employees in any firm are uncertain investments since their productive capabilities cannot be known hence he compared the staff recruitment process to a lottery. This theory is key to this research since lenders of funds need reduce no information asymmetry exists between them and the borrowers about their products and services. This theory help reduces the problem of moral hazards by the lender and adverse selection by the borrower. With reduced information asymmetry, lenders can to ascertain the credit worthiness of borrowers easily and be able to provide funds to them without frictions thus since both will act from the point of the available information. Asymmetric information may lead to fraudulent consequences for instance adverse selection where an insurance company may incur extreme loss due to a risk that was not disclosed at the time of underwriting. It also leads to incomplete markets and as a result market failure.

Gurley and Shaw (1960) to address the issue of asymmetric information and agency costs introduced financial intermediation theory. Financial intermediation is means by which funds are transferred from the units with the surplus funds in the economy to the units with the deficit's funds in the economy. Mathews and Thompson (2008), argued that financial intermediation is where by the economic units which excess funds channel their funds through banks for onward lending to economic units with deficit funds. According to this theory, the intermediaries exists for reducing the transaction costs and information asymmetries that exist between the borrowers and the Lenders. Financial intermediation occurs through banks, which ensures the efficient allocation of resources especially when lenders or investors of the funds are unable to deal directly with the borrowers. According to Leland and Pyle (1977), the financial intermediaries deals with disseminating the information. e. According to Diamond (1984) banks exists to eliminate duplication of audit costs on the part of all creditors and overcome asymmetric information problems by acting as "delegated monitors.'' DeGennaro (2005) argued that banks source for information lacking in the market from surplus units of economy and deficit units who would have transacted directly and use it to intermediate between the surplus and deficit unit. However, Stiglitz and Weiss (1981) argue that financial institutions are more concerned with moral hazards and adverse selection.

Financial inclusion theory is important to the study since it will help the lenders or the investors of funds to be able to ensure that the Loans are availed to the customers with less costs and that the borrowers have full information of the products offered hence reducing the information asymmetry. However, this theory of financial intermediation has been criticized because it does not recognize the lenders risk management role in financing (Allan & Santomero, 1997; Scholtens and Wensveen, 2000).

Empirical Literature review

Various studies have been done on the determinants of SMEs financing and the researchers have come with findings, which have been reviewed.

Thuku (2017) did a study in Nyeri, Kenya to explore the Factors affecting access to Credit by SMEs in Kenya with a focus on Agriculture Sector. The research used a descriptive research design and collected quantified data using open and closed ended questions. The population of study was 200 SMEs and 67 SMEs were selected as the sample size using stratified sampling. Data analysis was done using descriptive statistics and Statistical Package of Social Sciences (SPSS). On firm characteristics, the research found out that the firm size; firm location and firm age are a key determinant of access ‘to finance. On financial characteristics and access to credit, the research findings were that SMEs that have adequate booking keeping records and audited financial statements access finance easily than those that do not maintain records and lack of collateral affects access to credit. The findings on entrepreneur characteristics and access to credit revealed that women access loans more easily men. The study concluded that networking, political ties and level of education does not affect credit access.

Penaloza (2015) conducted a research at the level of the firm in Latin America to find out determinants of access to credit by SMEs. The research analysis was based on a discrete choice model compound from the internal and external characteristics of the firms. The research found out that within the firms in Latin America external sources of financing contributes to 30% of the working capital for the SMEs and therefore firms can undertake new projects, expansion of existing projects and undertake mergers and acquisitions. He also found out that important determinants of loans accessibility are internal factors, which include size firm size, firm formality and technological capacity factors, and they increase the competitiveness of the firm in the market. This study recommended that there be better information systems between borrowers and creditors to reduce transactions costs, creation of programs that help entrepreneurs realise financial objectives and capitalisation of SMEs at growth stages, which is lacking.

Gamage (2013) did a study, examined the determinants of access to bank finance in SMES in Sri Lanka, and used Empirical evidence, which was found from the Sri Lanka Enterprise Survey data set from World Bank for 2011. In analysing data, he used logistic regression. The study findings were that that firm location,

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having annual financial statements, which are audited, and entrepreneurs' perception of access to finance influenced credit access by the SMEs.

Chirchir (2017) conducted a research on the determinants of financial accessibility by Small and Medium Enterprises in Eldama Ravine Sub–County in Baringo County, Kenya. The research focused on the influence of cost of credit, interest rates offered, credit rationing and business risk on financial accessibility in Eldama Ravine Sub-County, Baringo County. The study used cross section survey research design. Study used stratified random sampling technique in selecting the sample from the population. The study found out that when the transaction costs are high the cost of borrowing also increases and hinders firms from accessing external finance and lending institutions consider the size of an enterprise while advancing credit to SMEs.

Osano and Languitone (2016) conducted a study on Factors that affect loans accessibility by SMEs in in Mozambique focusing mainly on Maputo Central business district and the key factors they examined are the structure of financial sector, awareness of funding opportunities, security required, and small business support services offered by government. The population of the study was 2075 staff from Banks BIM Bank, BCI Bank, and Standard Bank and 650 SMEs in Mozambique. They selected a sample of 242 SMEs and 324 staff from the population. Descriptive and inferential research design was used and structured questionnaires were used to collect Primary data. The study found out that that structure of the financial sector, awareness of funding opportunities, collateral requirements, and small business support were factors that influenced credit accessibility by Maputo SMEs.

Kamau (2011) did a research on factors influencing financial accessibility by SMEs in Westlands division, Kenya and the study focussed on three major factors, which include firms', financial and entrepreneurial characteristics. Primary data was collected using questionnaires and interviews whereas secondary data was obtained from journals, books and internet sources. This study used Descriptive research design with a population of 2870 SMEs and 287 SMEs were sampled from various sectors. The results of the findings indicated that the characteristics of firm, financial characteristics and characteristics of Entrepreneur played a key role in determining access to finance by SMEs.

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Babu (2017) did a research in Kiambu County Kenya and examined the determinants of access to Formal Finance by SMEs, which are owned by the Youth. Descriptive research design was employed in the study, which targeted 2750 registered SMEs in Kiambu County, Kenya. The selected sample size was 96 SME"s whereby six operate in the manufacturing sector, 29-service sector and 61 trading sectors. Data collected was analysed using Descriptive statistics through Statistical Package for Social Sciences (SPSS) software. The study found that manufacturing sector faces more challenges in accessing finance than SME"s in trading and service industry. In addition, from the study SMEs' age and Size, interest rate charged, collateral offered financial statements, Gender and networking affected access to Finance by SMEs.

A study by Ndung'u (2016) examined the Factors Affecting Credit access between Small and Medium Enterprises in Murang'a County, Kenya. This study targeted 1020 SMEs operating within Murang'a County and using stratified random sampling and then applying the simple random sampling 102 respondents were selected as the sample. Data collection was done through Questionnaires. Factor analysis and regression analysis was applied to collected data to establish the relationship between identified factors and credit access by SME. Graphs and tables were used to present the data. The results of the study showed that number of lending institutions, interest charged on loans, collateral security and literacy levels are the most important factors that determine loans accessibility to SMEs in Murang'a County.

Rahman, Twyeafur Rahman, and Belas (2017) in their study examine the determinants affecting SME and access of SME in the Czech Republic, Slovakia and Hungary. This study obtained data set from the BEEPS survey, which is conducted by the World Bank and the European Bank for Reconstruction and Development. From the research, the results indicate that Small firms and women owned and operated firms have challenges in accessing credit from the banks. On the other hand, SMEs that pledge collateral access credit easily from the banks also Medium firms that are innovative have a larger amount of credit from banks. The empirical results also suggest that the loan size increases as the interest rates increase in particular for SMEs overall and for micro-firms, although the interest rate is in a negative relationship with the loan size in Czech Republic.

Chowdhury and Alam (2017) in their study explored on Factors Affecting Access to Finance of Small and Medium Enterprises (SMEs) of Bangladesh. Data was collected from a sample size of 86 SMEs through direct interviews to the respondents with the using a self-guiding questionnaire. From the research, the results show that the size and age of the firms, education and skills of the owners, and unfavourable credit terms like high interest rates, lack of collateral security and corruption by bank officials among others are some of the biggest hurdles that SMEs in Bangladesh face while accessing credit from the banks. The study had limitation in that only one city was included in its sample population.

From the various studies reviewed, the determinants of financial accessibility by SMEs vary from one study to the other. Thus, there is no consensus on the determinants of financial accessibility by SMEs among the researchers. This study will also look at other determinants and be able to establish the issues impeding access to credit by SMEs in Uasin Gishu County. There is a contextual gap since most of the studies have been done from the perspective of SMEs hence this study is different as it will look at data from the perspective of financial institutions who have more information on the determinants of accessing credit. There is also a methodological gap within the studies since they have used different approaches. Hence, the studies have not been able to address the problems of Uasin Gishu County, Kenya. Most studies done on SMEs in Kenya have been focussing on Agricultural sector for instance the study done by Thuku (2017).

Methodology

Research design gives an outline of framework of research methods and techniques employed by a researcher in carrying out a given research. This study used descriptive Survey design because it is a survey carried out from different financial institutions. This study aimed at analyzing information on the determinants of financial accessibility by the SMEs in Uasin Gishu County, Kenya and the design employed enabled easier relation between the two variables without unnecessary variations (Kothari, 2004). Descriptive statistics describes the basic features of the data in a study. They provide simple summaries about the sample and the measures. With descriptive statistics one is simply, describing what is or what the data shows. Descriptive statistics mainly present both quantitative and qualitative descriptions in a manageable form. This study had the objectives, which were to evaluate the determinants SMEs' financing by registered financial institutions in Uasin Gishu County in Kenya and to compare financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya.

Target population is defined as a group of the elements that you want to study. This research had a target population of 50 registered financial institutions within Uasin Gishu County, Kenya, which comprised of 29 Commercial banks and 21 Microfinance institutions. The study targeted banks and Microfinance institutions because they have more information about the determinants of SMEs' financing. This was a census study where 47 financial institutions responded. There are various categories of registered financial institutions which includes Commercial banks, Deposit taking microfinance institutions and credit only MFIs where data was collected. The source of this information is Central of Kenya website and Association of Microfinance institutions (AMFI) Website. List of the financial institution provided in appendix III & IV.

Data collection is simply defined as the procedure of collecting, measuring and analyzing accurate data using standard techniques that are validated. This study used primary data, which was collected through Closed and open-ended Likert scale questionnaires, which were structured. This study research employed questionnaires because the questionnaires collect massive data within a short duration and the targeted respondents have the knowledge in filling the questionnaires. The questionnaires were classified into three sections. Section A covered the general details while section B and C covered the study areas of interest. The respondents be key informants of the financial institutions who include either Branch managers, credit/relationship managers or credit officers.

Data that was collected through the questionnaires were analyzed and evaluated for completeness and accuracy. Data analysis was carried out by factor analysis. Factor analysis is helped to reduce the variables into less number of variables. Exploratory Factor analysis was used to reduce a large number of determinants into fewer numbers of determinants by extracting maximum common variance from key variables and subjecting them into a common score. SPSS was used to analyse descriptive statistics (percentages, and frequencies); and inferential statistics (factor analysis). Analysed data was presented using tables and figures. Using Principal Component Analysis, the key determinants of SMEs Financing by the registered financial institutions in Uasin Gishu County were extracted. Mean and standard deviation of the variables was also computed to establish key determinants. Comparison of criteria used by banks and Microfinance institutions was done from the collected data. Data interpretation was done by use of mean, standard deviation, percentages and frequencies.

Data Analysis and Presentation of Results

The study employed a census population and targeted 50 respondents who were the key informants of the financial institutions. 47 respondents filled and returned the questionnaires out of the 50-targeted respondents thus giving a response rate of 94%. Kothari (2004) argued that response rate that is adequate for analysis should be 50% and therefore the response rate of 94% was more than adequate for analysis of the collected data. The results of response rate are presented in Table 1.

Table 1. Response rate

Questionnaires	Number	Percentage
Filled and Returned	**47**	**94%**
Without Responses	**3**	**6%**

The study analysed collected information pertaining the Category of financial institution, position of the respondent in the organisation, age of the organisation in years, whether the organisation offer loans to SMEs and Direct involvement of the respondent in appraisal of SME Loans and the results were presented as follows:

To establish the category of financial institution of the respondents, the results shows that 57.4% represents commercial banks, 34% represents Credit Only Microfinance institutions and 8.5% represents deposit taking microfinance institutions as shown in table 2 below. This shows that there are many commercial banks offering SME Loan than credit only and microfinance institutions taking deposits in Uasin Gishu County.

Table 2. Category of Financial Institution

Category	Frequency	Percent
Commercial Bank	27	57.4
Credit Only Microfinance	16	34.0
Deposit taking Microfinance	4	8.5

Position in the Organization

From the-study-it-shows that 21.6%of respondent were credit officers, 32% were branch managers while majority 46% were credit managers. This indicates that there were more credit managers who respondent to the survey as shown in Figure 1.

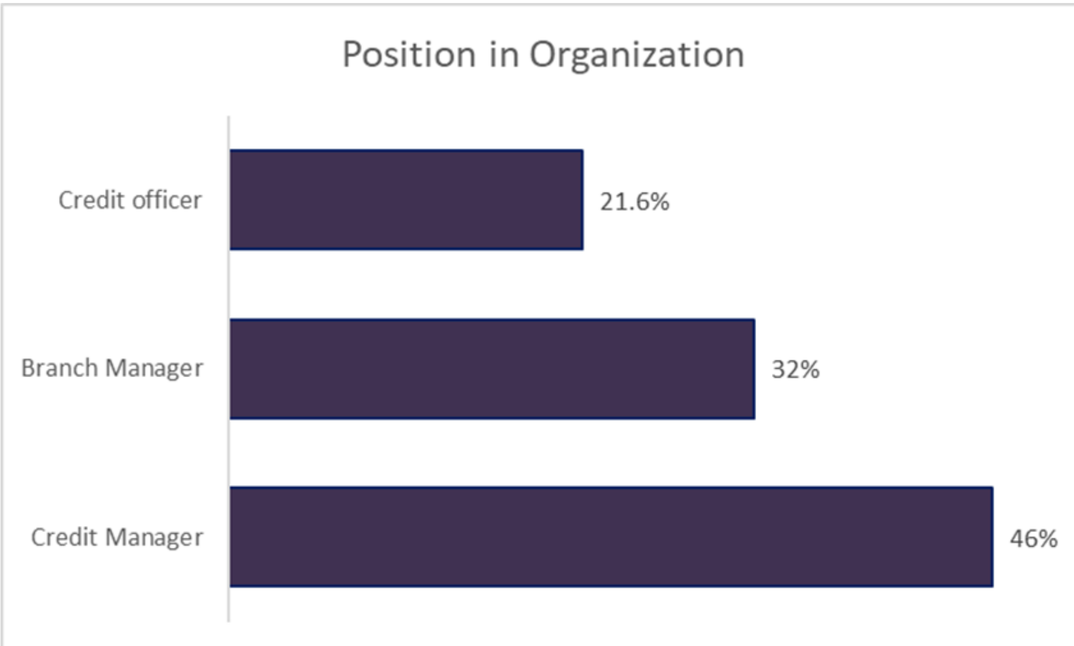

Figure 1. Position in the Organization

To establish age of the organisation, the results shows that 70.3% have been in operation for above 15 Years, 21.2% of the institutions have been in operation for between 11-15 Years and 8.5% of the financial institutions have been in operation for between 6-10 years while no organisation was in operation for below 5 years. This is shown in the table below three.

Table 3. Age of the organization in years

Age of organization (in Years)	Number	Percentage (%)
0-5	0	0
6-10	4	8.5
11-15	10	21.2
Above 15 Years	32	70.3

To investigate if the financial institutions of the respondents offer Loans to SMEs in Uasin Gishu County 97.9% said “Yes” whereas 2.1 % said “No” as shown in figure 4.

Table 4: Offer to SME Loans

Offer Loans to SMEs	Number	Percentage (%)
NO	1	2.1
YES	46	97.9

To establish if the respondents are directly involved in the appraisal of Loans to SMEs 97.9% said “Yes” whereas 2.1 % said “No” as shown in figure 5.

Table 5. Direct Involvement in SME Appraisal

Are you Directly Involved	Number	Percentage (%)
NO	1	2.1
YES	46	97.9

Determinants of SMEs financing by registered financial institutions in Uasin Gishu County, Kenya

The objective of this research was to evaluate the determinants of Small and Medium enterprises’ financing and to compare the financing criteria of banks and micro finance institutions. Data analysis was done through exploratory factor analysis. Exploratory factor analysis was performed to measure filtration and refine the factors into the best number of variables. Principal component analysis (PCA) was used to refine each study construct. For each construct, factor loadings above 0.5 were retained for each principal component extracted. Kaiser-Meyer-Olkin - KMO measures sample adequacy and lies between 0 and 1. Data with any KMO of above 0.5 is considered adequate for analysis. KMO test results are shown in table 7.

Nineteen items for internal factors were initially identified to measure all the constructs in factor analyzed using principal component analysis using varimax rotation method.

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Table 7: KMO and Bartlett's Test for Internal factors

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.579
Bartlett's Test of Sphericity	Approx. Chi-Square	253.697
	Df	171
	Sig.	.000

Results in Table 4.1 shows a KMO measure of sampling adequacy as 0.579, with Bartlett's Test of Sphericity and a significant Chi-Square (χ^2) of 253.697, df = 171, p = 0.000. The KMO of .579, with a significant Chi-square indicates that the data was adequate to carry out a factor analysis.

Communalities- Internal Factors

Communalities means the proportion of the variance in each item above that can be explained by the factors. It is also known as the sum of the squared factor loadings. Factors with low communality has little in common with other factors and are key target items for elimination.

Table 4.8: Communalities of the extracted Factors

	Initial	Extraction
IF1	1.000	.605
IF2	1.000	.784
IF3	1.000	.670
IF4	1.000	.857
IF5	1.000	.727
IF6	1.000	.703
IF7	1.000	.581
IF8	1.000	.710
F9	1.000	.682
IF10	1.000	.767
IF11	1.000	.761
IF12	1.000	.664
IF13	1.000	.771
IF14	1.000	.740
IF15	1.000	.837
IF16	1.000	.523
IF17	1.000	.670
IF18	1.000	.646
F19	1.00	.741

Extraction Method: Principal Component Analysis.
IF2, IF10, IF19, IF3, IF1, IF7 & IF16

Table eight Factor Loadings – Internal factors

Factor	Component 1
F2	0.784
F10	0.767
F19	0.741
F3	0.670
F1	0.605
F7	0.581
F16	0.523

The results show that the item ‘Asset tangibility’ had an average score of 0.784. The item ‘cost of credit” had an average score of 0.767. The item for “credit rating and client history of repayment” had an average score of 0.741. Risk and return affect SME financing had an average score of .670. The value for “entrepreneur affect SME financing” was 0.605. Loan repayment mode affect accessibility of credit in Uasin Gishu County had an average score of 0.523. The item ‘firm size/ Business affect access to credit” had an average score of 0.581. It is worth noting that highest and lowest iteration scores for most the items ranged between 0.5 to 0.7 across all iteration methods.

Therefore, from the factors extracted it the results shows that internal factors that to a greater extend determine SMEs financing by the registered financial institutions in Uasin Gishu County are the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size.

Total Variance Explained- internal factors

This is the total variances of all the individual principal items being analyzed. This has been shown in the table 9.

Table 9. Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.128	22.935	22.935	4.128	22.935	22.935
2	1.979	10.994	33.928	1.979	10.994	33.928
3	1.578	8.765	42.694	1.578	8.765	42.694
4	1.503	8.351	51.045	1.503	8.351	51.045
5	1.270	7.054	58.099	1.270	7.054	58.099
6	1.190	6.610	64.708	1.190	6.610	64.708
7	1.119	6.215	70.924	1.119	6.215	70.924
8	.913	5.073	75.996			
9	.812	4.511	80.507			
10	.663	3.686	84.193			
11	.607	3.373	87.566			
12	.544	3.024	90.590			
13	.436	2.424	93.014			
14	.303	1.685	94.698			
15	.282	1.569	96.267			
16	.282	1.564	97.831			
17	.215	1.193	99.024			
18	.176	.976	99.79			
19	.168	.875	100			

Extraction Method: Principal Component Analysis.

From the table above the extracted factors or items account for 70.924% of all the individual items and therefore the extracted factors affected SME financing to a greater extend.

Scree Plot- Internal Factors

From the scree plot (Figure 2), first seven factors represent the most total data variability (given by the eigenvalues). Where the slope of the curve is clearly levelling off it indicates that all the factors were valid and should be generated for the analysis.

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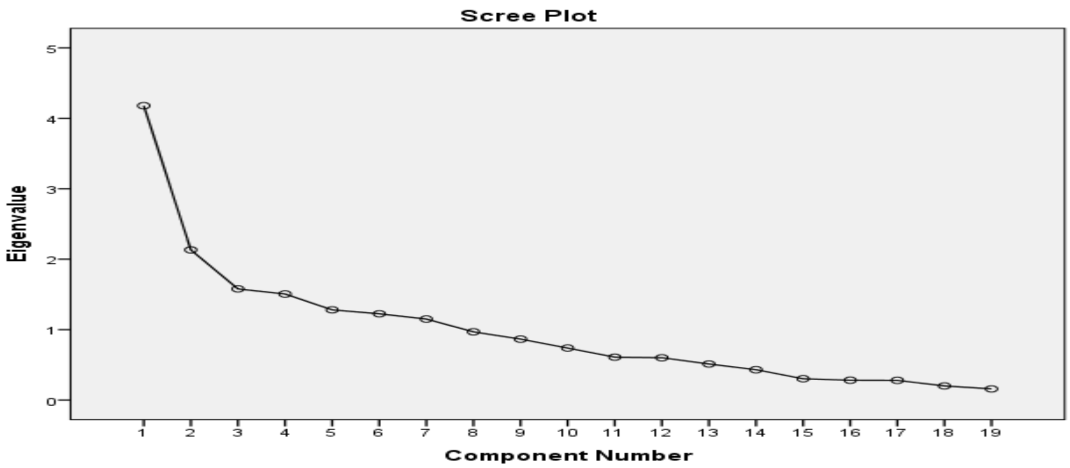

Figure 2. Scree plot- Internal factors

Component Matrix

The component matrix for internal factors in the table below illustrates the correlations that exists between the components and the items.

Table 10. Component Matrixa

	Component						
	1	2	3	4	5	6	7
IF17	.759	.134	-.187	-.212	.093	-.104	-.090
IF15	.627	.101	-.219	-.153	.255	.212	-.142
IF14	.608	-.134	-.460	.060	.195	.378	.011
IF6	.607	.099	.106	.168	.482	-.291	-.078
IF16	.606	.209	.146	-.106	-.257	.069	.093
IF7	.592	-.438	-.015	-.053	-.030	.025	-.183
IF10	.586	-.271	.275	.066	-.183	-.456	.168
IF11	.581	.327	.322	-.056	-.227	-.064	.392
IF12	.577	-.333	-.153	.382	-.201	-.079	-.071
IF8	.558	.096	-.115	-.342	-.312	.342	.212
IF18	.473	.449	-.131	.116	.262	-.284	-.201
F9	.014	.640	.337	-.009	.240	-.058	.312
IF2	.204	-.607	.103	.100	.065	.039	.551
IF4	.062	-.085	.590	-.027	.501	.495	.029
IF5	.201	-.391	.539	.396	.071	.059	-.279
IF3	-.037	.284	-.217	.718	-.083	-.070	.117
IF13	.095	.314	-.069	.649	-.157	.452	.091
IF1	.242	.259	.450	-.041	-.466	.146	-.518

Extraction Method: Principal Component Analysis.
a. 7 components extracted.

External Factors

Seven items for External factors were initially identified to measure all the constructs in factor analysed using principal component analysis using varimax rotation method. The KMO and Bartlett's Test for external factors is shown in the table 4.12 below:

Table 4.12. KMO and Bartlett's Test for External Factors

KMO Measure of Sampling Adequacy.		.690
Bartlett's Test of Sphericity	Approx. Chi-Square	69.063
	df	28
	Sig.	.000

Results in Table 10 shows a KMO measure of sampling adequacy as 0.690, with Bartlett's Test of Sphericity showing a significant Chi-Square (χ^2) of 69.063, df = 28, p = 0.000. The KMO of .690, with a significant Chi-square indicates that the data was adequate to carry out a factor analysis.

Communalities- External factors

This shows the sum of the squared loadings for the external variables. They are the variances that have been reproduced from the extracted items.

Table 4.13 Communalities

	Initial	Extraction
EF1	1.000	.750
EF2	1.000	.741
EF3	1.000	.704
EF4	1.000	.507
EF5	1.000	.618
EF6	1.000	.625
EF7	1.000	.466
EF8	1.000	.761

Extraction Method: Principal Component Analysis.

Extracted Factors

EF 5, EF 4 & EF 2.

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Table 11. Factor Loadings- External factors

	Component 1
EF5	.779
EF4	.684
EF2	.663

Table 12. Total Variance Explained- External factors

This is the total variances of all the individual principal items being analyzed. Total variance for extracted factors is shown in the table 12.

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.646	33.080	33.080	2.646	33.080	33.080
2	1.468	18.351	51.431	1.468	18.351	51.431
3	1.058	13.227	64.659	1.058	13.227	64.659
4	.837	10.464	75.123			
5	.582	7.277	82.400			
6	.560	6.999	89.399			
7	.490	6.120	95.518			
8	.359	4.482	100.000			

The cumulative variance for the three extracted factors 64.659% meaning they account for 64.659% of all the variances.

Scree Plot - External factors

The scree plot (Figure 3) shows that the three elements contribute for most of the total variability in data (given by the eigenvalues). Where the slope of the curve is clearly leveling off indicates that all the elements were valid and should be extracted for the analysis. The scree plot starts levelling at factor 3.

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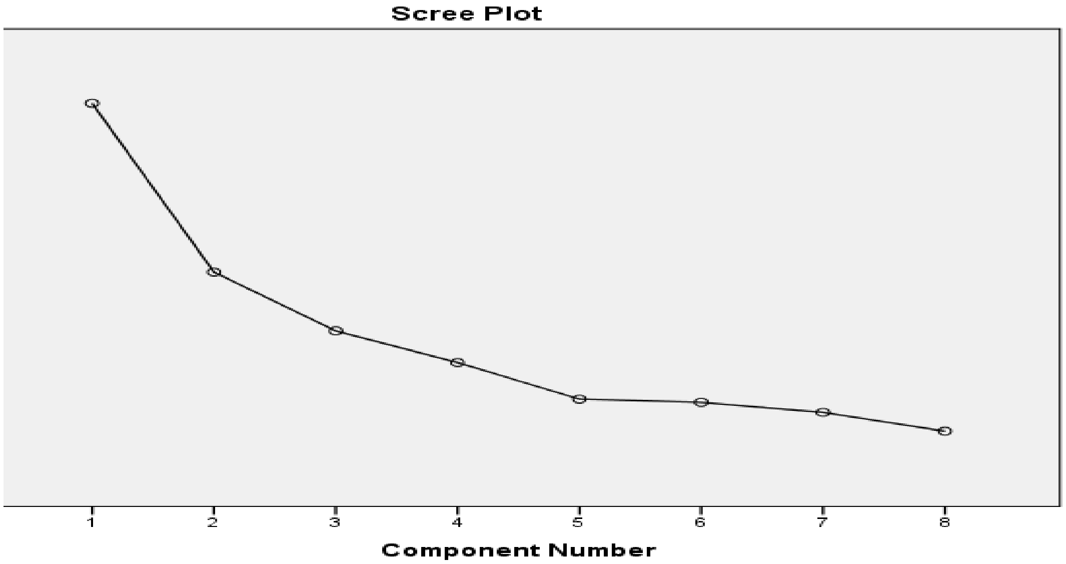
Figure 3. Scree plot – External factors



Component Matrix[a]

The component matrix for the external factors is shown in the table below. The component matrix for external factors in the table below illustrates the correlations that exists between the components and the items.

	Component		
	1	2	3
EF5	.779	-.089	-.065
EF4	.684	.195	.042
EF2	.663	-.221	-.502
EF6	.577	-.238	.485
EF8	.369	.691	-.385
EF1	.606	-.611	-.098
EF7	.322	.602	-.015
EF3	.439	.323	.638

Extraction Method: Principal Component Analysis.

Three components extracted.

The results show that The item ‘number of lending institutions affect SMEs’ Financing’ had an average score of 0.779. The item ‘provision of Small business support services affects accessibility of credit” had an average score of 0.684. The item for “location of business affect accessibility of credit” had an average score of 0.663. It is worth noting that highest and lowest iteration scores for most the items ranged between 0.5 to 0.7 across all iteration methods.

Therefore, from the results, the number of lending institutions, Provision of Small business support services and location of the business are key determinants of SMEs financing by the registered financial institutions.

Discussion

The results show that out of nineteen internal elements and seven external elements analyzed to evaluate the determinants of SMEs’ financing in Uasin Gishu County and to compare the financing criteria for banks and microfinance institutions. Only seven elements being internal factors and three elements being external factors were extracted. The seven internal factors extracted include the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size. The external factors from the results that are key determinants of Small and Medium enterprises financing in Uasin Gishu county are the number of lending institutions, provision of Small business support services and location of the business enterprise.

The results show that asset tangibility is a key determinant of SMEs’ financing since banks require tangible collateral before financing to SMEs to mitigate the risk of default. Most financial institutions currently do not offer unsecured loans hence without tangible collateral SMEs have difficult in accessing financings. Financial institutions consider SME management experience or entrepreneur experience in financing SMEs. Entrepreneurs who have experience in running business have an upper hand in accessing credit as compared to start-up businesses. Most financial institutions finance SMEs that have been in operation for More than 3 years to mitigate risk of default in case of business failure. Management experience is key in ensuring the stability of the business.

The results revealed that business risk and return is a key determinant of SME financing by registered financial institutions. SMEs should ensure that their risk are well mitigated so that they can access financing from the financial institutions. Financial institutions look at cash flows of the businesses before financing hence SMEs should ensure that they have bank statements and have business proper records, which SMEs use to assess the business cash flows. From the study results, credit rating and client repayment financial institutions in granting credit to the SMEs consider history. Financial institutions look at credit rating reports from the credit reference bureaus to ascertain credit scores and previous history of loan repayments. Financial institutions also ask for loan account statements of the previous loans to ascertain loan repayment history.

From the results, loan repayment modes influence SMEs financing since loan repayment modes are key in determining ability to repay. SMEs' can be able borrow loans when the repayment terms are friendly to them and this reduces the risk of default since SMEs will be able to afford monthly instalments especially when loans are given for a longer duration. Size of the firm also is a key determinant of SMEs financing by the registered financial institutions. Small firms have difficulties in accessing credit as compared to large firms and established firms. Financial institutions consider small firms risky since they can collapse easily as compared to large and established firms. Established firms are also well managed.

From the study findings, cost of credit is key determinant in SME financing. Cost of credit includes fees charged on loans and interest rates. High interest rates and loan costs hinders SMEs from borrowing loans since it affects their ability to repay the loans. SMEs' shy away from borrowing especially when interest rates are high. On the other hand, financial institutions are hesitant to offer financing to SMEs when the interest rates are low, capped, as they prefer lending to government, and consider SMEs risky borrowers. When interest rates are regulatory banks, the interest rate risk premium is low to cater for default of borrowers.

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Table 13: Correlation Matrix for 27 items.

	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	EF1	EF2	EF3	EF4	EF5	EF6	EF7	EF8
IF1	1.00																										
IF2	-0.23	1.00																									
IF3	-0.09	-0.14	1.00																								
IF4	0.09	0.11	-0.18	1.00																							
IF5	0.20	0.21	-0.03	0.27	1.00																						
IF6	0.02	0.00	0.11	0.19	0.16	1.00																					
IF7	0.11	0.17	0.00	0.06	0.23	0.27	1.00																				
IF8	0.20	0.05	-0.09	-0.04	-0.13	0.10	0.29	1.00																			
IF9	0.07	-0.14	0.15	0.14	-0.05	0.12	-0.25	0.00	1.00																		
IF10	0.08	0.30	-0.03	-0.04	0.31	0.36	0.44	0.16	-0.04	1.00																	
IF11	0.25	0.10	-0.01	0.14	-0.04	0.34	0.17	0.47	0.26	0.40	1.00																
IF12	0.15	0.32	0.10	-0.15	0.22	0.32	0.37	0.21	-0.27	0.37	0.24	1.00															
IF13	0.10	-0.08	0.37	0.03	0.09	-0.07	-0.17	-0.01	0.08	-0.08	0.17	0.15	1.00														
IF14	-0.11	0.16	0.02	-0.06	0.06	0.27	0.33	0.36	-0.14	0.14	0.10	0.35	0.15	1.00													
IF15	0.09	0.01	-0.05	0.13	-0.04	0.32	0.35	0.30	0.11	0.19	0.14	0.30	0.03	0.54	1.00												
IF16	0.26	0.04	0.00	0.00	0.10	0.24	0.24	0.40	0.13	0.38	0.40	0.14	0.09	0.32	0.37	1.00											
IF17	0.09	0.00	-0.19	-0.08	0.01	0.43	0.41	0.42	0.04	0.38	0.38	0.28	0.07	0.47	0.51	0.35	1.00										
IF18	0.15	-0.12	0.08	-0.12	-0.03	0.47	0.00	0.09	0.17	0.09	0.29	0.19	0.10	0.21	0.27	0.22	0.47	1.00									
IF19	0.10	0.03	0.14	-0.12	-0.11	0.17	-0.05	0.06	0.22	0.08	0.25	0.00	0.13	0.04	0.26	0.26	0.15	0.18	1.00								
EF1	0.00	-0.25	-0.17	0.02	0.03	0.08	0.30	-0.09	0.02	0.15	-0.04	0.08	-0.08	0.31	0.16	0.20	0.32	0.08	-0.05	1.00							
EF2	-0.06	-0.13	-0.15	0.01	0.08	0.18	0.26	-0.03	0.14	0.32	-0.02	0.09	0.01	0.30	0.26	0.22	0.36	0.16	-0.15	0.50	1.00						
EF3	0.01	-0.26	0.10	-0.06	0.03	0.10	0.18	-0.05	0.11	0.02	-0.03	-0.15	-0.13	0.07	-0.01	0.17	-0.14	0.02	0.07	0.04	0.06	1.00					
EF4	-0.02	-0.15	-0.11	0.16	0.17	0.40	0.07	-0.07	0.08	0.29	0.13	-0.12	-0.05	0.11	0.07	0.02	0.30	0.27	0.31	0.22	0.33	0.34	1.00				
EF5	-0.09	-0.11	-0.21	-0.13	0.01	-0.03	0.25	0.07	-0.04	0.05	-0.17	-0.03	-0.10	0.42	0.24	0.15	0.44	0.21	0.13	0.42	0.44	0.22	0.43	1.00			
EF6	-0.03	0.08	-0.05	-0.05	0.36	0.11	0.25	0.08	-0.17	0.27	0.10	0.29	-0.02	0.42	-0.07	0.21	0.19	-0.06	-0.03	0.40	0.18	0.26	0.24	0.37	1.00		
EF7	-0.02	-0.12	-0.09	-0.01	0.06	0.24	0.27	0.29	-0.13	0.28	0.18	0.14	-0.03	0.22	0.32	0.20	0.28	0.35	0.34	0.01	0.05	0.17	0.19	0.19	0.11	1.00	
EF8	0.21	-0.13	0.05	-0.05	0.12	0.21	0.24	0.14	0.20	0.05	0.02	-0.01	0.07	0.06	0.20	0.09	0.29	0.23	0.21	-0.12	0.23	0.14	0.30	0.22	-0.02	0.33	1.00

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Analysis using Mean and Standard Deviation

Analysis of key determinants of SMEs financing in Uasin Gishu County was done using means and standard deviation. The study looked at the descriptive analysis on the extent to which the following elements affect SME's Financing. The results are shown in the Table 4.18 below. The first question was evaluating the extent to which entrepreneur's experience determine SME financing. Other factors are also indicated in the Table 4.18.

Table 14: Internal Factors affecting SME's financing

1 = Not at all; 2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very high extent

	1	2	3	4	5	Mean	Std Dev
	%	%	%	%	%		
To what extent does entrepreneur's experience determine SME financing?	0.0	2.1	17.0	38.3	42.6	4.21	.806
To what extent does asset tangibility/ having tangible collateral affect SME financing?	0.0	0.0	27.7	21.3	51.1	4.23	.865
To what extend do the Risk and return of SME business affect access to finance	0.0	4.3	17.0	36.2	42.6	4.17	.868
To what extent does having, audited financial statements affect accessibility of credit?	10.6	8.5	38.3	29.8	12.8	3.26	1.132
To what extent do education background/literacy levels/ skills of entrepreneur affect SME financing?	14.9	29.8	25.5	19.1	10.6	2.81	1.227
To what extent does Ownership type of business affect SME financing?	8.5	21.3	14.9	19.1	36.2	3.53	1.396
To what extent does firm size affect determine financing?	4.3	12.8	21.3	34.0	27.7	3.68	1.144
To what extent does age of the firm affect accessibility of credit?	2.1	8.5	25.5	42.6	21.3	3.72	.971
To what extent does gender affect accessibility of credit?	0.0	78.7	14.9	4.3	2.1	1.36	.870

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To what extent does cost of credit affect accessibility of credit in this county?	6.4	27.7	44.7	12.8	8.5	2.89	1.005
To what extent does structure of financial sector/industry determine SME financing?	4.3	6.4	42.6	36.2	10.6	3.43	.927
To what extent does awareness of funding opportunities affect accessibility of credit?	0.0	6.4	25.5	46.8	21.3	3.83	.842
To what extent does SMEs licensing affect accessibility of credit?	2.1	2.1	14.9	36.2	44.7	4.19	.924
To what extent does business planning affect accessibility of credit?	0.0	10.6	29.8	40.4	19.1	3.68	.911
To what extent does SME Management experience affect accessibility of credit?	2.1	12.8	19.1	42.6	23.4	3.72	1.036
To what extent do Loan repayment modes affect accessibility of credit?	2.1	12.8	38.3	17.0	29.8	3.60	1.116
To what extent does business structure affect accessibility of credit?	2.1	12.8	42.6	29.8	12.8	3.38	.945
To what extent does loan purpose affect accessibility of credit?	2.1	4.3	8.5	34.0	51.1	4.28	.949
To what extend does credit rating and client history of repayment affect credit accessibility	0.0	2.1	6.4	19.1	72.3	4.62	.709

The results indicate that 0% of the respondent agreed that to no extend does entrepreneur experience affect SME financing, 2.1% of the respondents agreed that entrepreneur experience affect SME financing to a low extend, 17.0% of the respondents agreed entrepreneur experience affect SME financing to a moderate extend, 38.3% of the respondents said that entrepreneur experience affect SME financing to a high extend while 42.6% of the respondents agreed that entrepreneur experience affect SME financing entrepreneur experience affect SME financing to a very high extend thus the mean on the level of extend to which

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entrepreneur experience affect SME financing was 4.21 and a standard deviation of 0.806. The results of the level of extend to which the other determinants affect SME financing are shown in the table 14.
The study results indicated that entrepreneurs experience with a mean of 4.21, Asset tangibility with a mean of 4.23, credit rating with a mean of 4.68, loan purpose with a mean of 4.28, Risk and return with a mean of 4.17 and SME licensing with a mean of 4.19 are the most important factors that determine SMEs financing in Uasin Gishu County, Kenya.

The results indicate that 10.6 % of the respondent agreed that to no extend networking does affect accessibility of credit,10.6% of the respondents agreed networking affect accessibility of credit to a low extend, 36.2 % of the respondents agreed networking affect accessibility of credit to a moderate extend, 31.9 % of the respondents said that networking affect accessibility of credit to a high extend while 10.6% of the respondents agreed that networking affect accessibility of credit to a very high extend thus the mean on the level of extend to networking affect accessibility of credit was 4.21 and a standard deviation of 0.806. The results of the level of extent to which the other external factors affect SME financing are shown in the table 4.19.

Table 4.15. External factors Affecting SMEs' Financing - Key: 1 =Not at all; 2 = Low extent; 3= Moderate extent; 4 = High extent; and 5 = Very High Extent

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	1	2	3	4	5	Mean	Std. Dev
	%	%	%	%	%		
To what extent does networking affect accessibility of credit?	10.6	10.6	36.2	31.9	10.6	3.21	1.122
To what extent does location of business affect accessibility of credit?	0.0	17.0	17.0	31.9	34.0	3.83	1.090
To what extent do political ties affect accessibility of credit?	21.3	17.0	14.9	21.3	25.5	3.13	1.513
To what extent do Small business support services affect accessibility of credit?	0.0	10.6	14.9	25.5	48.9	4.13	1.035
To what extent does number of lending institutions affect accessibility of credit?	8.5	12.8	21.3	29.8	27.7	3.55	1.265
To what extent does corruption by bank officials affect accessibility of credit?	31.9	25.5	10.6	8.5	23.4	2.66	1.578
To what extent do economic / climatic factors affect accessibility of credit?	6.4	12.8	31.9	42.6	6.4	3.30	.998
To what extent does Legal environment affect accessibility of credit?	4.3	12.8	36.2	27.7	19.1	3.45	1.080

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Comparison of financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya

The comparison for financing criteria of banks and microfinance institutions have been analyzed using the means and standard deviation. The reference purposes, the constructs in table 4.6 will be used.

Comparison of financing criteria for internal factors

Table 16. Analysis for Banks – Internal factors

		Low extent	Moderate extent	High extent	Very high extent	Mean	Std. Deviation
F1	0.0	3.7	18.5	25.9	51.9	4.26	.903
F2	0.0	0.0	33.3	25.9	40.7	4.07	.874
F3	0.0	3.7	11.1	40.7	44.4	4.26	.813
F4	11.1	11.1	33.3	29.6	14.8	3.26	1.196
F5	22.2	29.6	22.2	18.5	7.4	2.59	1.248
F6	14.8	18.5	18.5	22.2	25.9	3.26	1.430
F7	7.4	18.5	22.2	29.6	22.2	3.41	1.248
F8	0.0	7.4	29.6	40.7	22.2	3.78	.892
F9	74.1	14.8	0.0	7.4	3.7	1.52	1.087
F10	11.1	40.7	29.6	14.8	3.7	2.59	1.010
F11	7.4	3.7	33.3	44.4	11.1	3.48	1.014
F12	11.1	0.0	40.7	33.3	14.8	3.52	.893
F13	3.7	0.0	14.8	37.0	44.4	4.22	.847
F14	18.5	0.0	33.3	37.0	11.1	3.41	.931
F15	3.7	11.1	18.5	55.6	11.1	3.59	.971
F16	14.8	0.0	40.7	18.5	25.9	3.56	1.050
F17	3.7	18.5	40.7	37.0	0.0	3.11	.847
F18	3.7	7.4	7.4	33.3	48.1	4.15	1.099
F19	0.0	0.0	3.7	18.5	77.8	4.74	.526

Table 17 Analysis for Microfinance- Internal factors

	Not at all	Low extent	Moderate extent	High extent	Very high extent	Mean	Std. Deviation
F1	0.0	0.0	15.0	55.0	30.0	4.15	.671
F2	0.0	0.0	20.0	15.0	65.0	4.45	.826
F3	0.0	5.0	25.0	30.0	40.0	4.05	.945
F4	10.0	5.0	45.0	30.0	10.0	3.25	1.070
F5	5.0	30.0	30.0	20.0	15.0	3.10	1.165

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F6	0.0	25.0	10.0	15.0	50.0	3.90	1.294
F7	0.0	5.0	20.0	40.0	35.0	4.05	.887
F8	5.0	10.0	20.0	45.0	20.0	3.65	1.089
F9	85.0	15.0	0.0	0.0	0.0	1.15	.366
F10	0.0	10.0	65.0	10.0	15.0	3.30	.865
F11	0.0	10.0	55.0	25.0	10.0	3.35	.813
F12	0.0	0.0	5.0	65.0	30.0	4.25	.550
F13	5.0	0.0	15.0	35.0	45.0	4.15	1.040
F14	0.0	0.0	25.0	45.0	30.0	4.05	.759
F15	0.0	15.0	20.0	25.0	40.0	3.90	1.119
F16	5.0	10.0	35.0	15.0	35.0	3.65	1.226
F17	0.0	5.0	45.0	20.0	30.0	3.75	.967
F18	0.0	0.0	10.0	35.0	55.0	4.45	.686
F19	0.0	5.0	10.0	20.0	65.0	4.45	.887

From the results, banks consider entrepreneurs' experience with a mean of 4.26, asset tangibility with a mean of 4.07, risk and return with a mean of 4.26, loan purpose with a mean of 4.15, credit rating and history with a mean of 4.74 and SME license g with a mean of 4.22 as key internal determinants of SMEs. Microfinance institutions also consider entrepreneurs' experience with a mean of 4.15, asset tangibility with a mean of 4.45, risk and return with a mean of 4.05, loan purpose with a mean of 4.45, credit rating and history with a mean of 4.45 and SME license g with a mean of 4.45 as key internal determinants of SMEs. This means that banks and microfinance institutions use the same criteria when financing to SMEs.

Comparison of financing criteria for External factors

Table 18 Analysis for Banks – External factors

	Not at all	Low extent	Moderate extent	High extent	Very high extent	Mean	Std. Deviation
EF1	14.8	14.8	44.4	22.2	3.7	2.85	1.064
EF2	7.4	18.5	40.7	14.8	18.5	3.19	1.178
EF3	22.2	11.1	11.1	22.2	33.3	3.29	1.593
EF4	3.7	18.5	37.0	37.0	3.7	3.19	.921
EF5	11.1	18.5	22.2	25.9	22.2	3.30	1.325
EF6	0.0	40.7	33.3	14.8	11.1	2.07	1.269
EF7	0.0	7.4	14.8	29.6	48.1	4.19	.962

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EF8	0.0	14.8	14.8	37.0	33.3	3.89	1.050

Table 19. Analysis for Microfinance Institutions- External factors

	Not at all	Low extent	Moderate extent	High extent	Very high extent	Mean	Std. Deviation
EF1	5.0	5.0	25.0	45.0	20.0	3.70	1.031
EF2	0.0	5.0	30.0	45.0	20.0	3.80	.834
EF3	20.0	25.0	20.0	20.0	15.0	2.85	1.387
EF4	10.0	5.0	25.0	50.0	10.0	3.45	1.099
EF5	5.0	5.0	20.0	35.0	35.0	3.90	1.119
EF6	20.0	15.0	5.0	20.0	40.0	3.45	1.638
EF7	0.0	15.0	15.0	20.0	50.0	4.05	1.146
EF8	0.0	20.0	20.0	25.0	35.0	3.75	1.164

From the results, the banks consider economic and climatic conditions with a mean of 4.19, legal factors with a mean of 3.89 and location of business with a mean of 3.0 as key external determinants of SMEs financing while Microfinance institutions consider economic and climatic conditions with a mean of 4.05, number of lending institutions with a mean of 3.90 and location of business with a mean of 3.90 as key external determinants of SMEs financing. This means there no much difference between what banks considers and what microfinance institutions considers hence they both use the same financing criteria when considering economic factors since they affect both the same way.

From the respondents, the loan products available to SMEs' are Asset finance loans, agribusiness Loans, Business loans , working capital loans, insurance premium financing, LPO financing, Bank overdraft loans, Mortgage Loans and Housing Loans. From the respondents, the other factors banks consider before lending to SMEs are Client capacity and ability to repay, Cash flows and business liquidity, Succession planning, Savings and account utilization. The respondents were asked whether the SMEs have challenges in accessing financing and from the results, 83% of the respondents said SMEs have challenges in accessing financing while 17% of the respondents have challenges in accessing financing. This shows that SMEs access to financing is an issue that needs to be addressed. The respondents stated the following as the reasons for the challenges in accessing financing: Lack of collateral to secure loans, increased default rate by the SMEs, lack of business records and proper books of account, lack of information on the requirements for accessing financing and on available loan products, high interest rates and stringent requirements by the

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financial institutions. The respondents said that advise and financial literacy training on access requirements, flexibility by the banks in financing SMEs, considering startup businesses, come up with tailor-made loan products for SMEs and SMEs' have proper books of accounts can enhance SMEs' financing.

Summary, Conclusions and Recommendations

The objectives of the study were to establish the Determinants of SMEs' financing by the registered financial institutions in Uasin Gishu County, Kenya and to compare financing criteria of banks and Microfinance institutions in Uasin Gishu County, Kenya. This study adopted a descriptive survey research design and Factor analysis. The target population constituted of registered financial institution in Uasin Gishu County Kenya. 47 financial institutions were interviewed with most of respondents being either Credit officers, Branch Managers or Credit/ Relationship Managers. SPSS was used to analyse descriptive statistics (percentages, and frequencies); and inferential statistics (Exploratory factor analysis). Analysed data was presented using tables and figures. The study revealed the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size were the internal factors that were key determinants of SME financing by the registered financial institutions. The external factors from the results that are key determinants of Small and Medium enterprises financing in Uasin Gishu County are the number of lending institutions, provision of Small business support services and location of the business enterprise.

Findings reveal that asset tangibility or having tangible collateral is a key determinant of Small and medium enterprises financing by the registered financial institutions in Uasin Gishu county. This supports studies by Osano and Languitone (2016), Twyeafur Rahman, and Belas (2017), Ndung'u (2016), Chirchir (2017) and Babu (2017). For SMEs to access financing from the financial institutions they need to have tangible collateral to secure the loan. From the study SME management experience or entrepreneur experience in business is key determinants of SMEs financing by the registered financial institutions. This supports study by Ndegwa & Wario (2016) who also found out that SME management experience is factor that influences access to financing. The findings of the study found that risk and return of the business is a key determinant of SMEs' financing by the registered financial institution. The financial institutions assess the riskiness of the business before giving loans and hence they shy away from financing high risky sectors. SMEs that have put risk mitigation measures in their business access financing with ease.

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From the study findings client history of previous loans repayment and credit rating by the credit reference bureaus is a key determinant of SME Financing. Financial institutions look at credit reference bureau reports for the clients to check how the clients repaid the previous loans and some financial institutions request for loan statements of the previous loans. SMEs should ensure that they repay their loans well so that they can continue accessing financing. The study findings reveal that loan repayment modes influence SMEs access to credit, which agrees with the study by Ndegwa & Wario (2016). Most institutions offer Loans for a short duration hence the SMEs cannot be able access loans since the Loan repayment instalments are high as compared to client's cash flows hence hinders clients from accessing financing or qualifying to get Loans of lower limits compared to business financial needs. The Loan repayment modes should be flexible to the clients.

The result of the study also shows that Firm size influences access to financing by the registered financial institutions. This has supported studies by Chirchir (2017), Balogun, Agumba, and Ansary (2016), Nanyondo, (2014), Kungu, (2011), Thuku (2017) Penaloza (2015) Rahman and Belas (2017) who also found that the size of the firm influences access to credit. According to Erdogan (2019), most researchers have identified the size of the entity and the age of the SME as the key determinants of access to Finance. This study found out that cost of credit influences financing to SMEs which is supported by study done by Chirchir (2017) who argued that the cost of credit and interest rate charged affect SMEs access to credit greatly. Financial institutions should ensure that financing to SME is offered affordable cost.

The findings of the study show that the number of lending institutions available affects SME financing by registered financial institution, which supports a study by Ndung'u (2016). When there is a high number of lending institutions available, there is a high competition and SMEs can access financing easily since there are also many financing options available to them as compared to a situation where there are fewer lending institutions. From the study findings provision of Small business support services by the government and other stake holders is a key determinant of SMEs' financing by the registered financial institutions which agrees with the study by Osano and Languitone (2016).The findings of this study show that location of the business enterprise influences financing to SMEs and this supports other studies done by Thuku (2017) and Gamage (2013). Businesses should be located in strategic and secure places so that they can access financing. From the qualitative results cash flows, ability to repay, succession planning and savings or account utilisation were found be key determinants of SMEs' financing by the registered financial institutions. This is in agreement with study by Babu (2017), Osano and Languitone (2016).5.5. Comparison of Criteria used by banks and Microfinance institutions in providing Financing to SMEs From the study findings it can be concluded that Banks and Microfinance institutions have some determinants in common while they others determinants are not considered by both since banks operate under strict regulatory environment.

Conclusion

One of the objectives of the study was to evaluate the determinants of Small and medium enterprises financing by the registered financial institutions and from the findings it can be concluded that there are determinants of SMEs' Financing by the registered financial institutions.The internal factors extracted that are the key determinants of Small and medium enterprises financing by registered financial institutions in Uasin Gishu county include the asset tangibility, cost of credit, credit rating and client history of loan repayment, risk and return of the business, entrepreneur experience in business, loan repayment modes and firm size.s. The external factors from the results that are key determinants of Small and Medium enterprises financing in Uasin Gishu county are the number of lending institutions, provision of Small business support services and location of the business enterprise. Another important factor is the business location, which is mostly attributed to financial literature and information accessibility by the firms. With the list of 27 items, only 10 items were left viable and they include interest rate, financial literature, and risk exposure among others. The other objective was to compare the criteria of financing by the banks and microfinance institutions. The study found out that the banks and microfinance institutions use the same criteria in financing. This is because both banks and microfinance institutions operate under the same environment and credit risk cuts across.

Recommendations

From the above findings, this study recommends that;

Training and advisory services should be offered to SMEs by the government in collaboration with the financial institutions on the requirements for accessing the loan facilities since most SMEs' are not aware of the requirements hence they are not able to access financing. Banks should be flexible in financing SMEs by coming up with friendly policies that does not bar SMEs from getting loans and consider financing startup businesses so as to spur economic growth in the country and also come up with tailor-made loan products for SMEs .SMEs' have proper books of accounts and ensure that they bank their cash generated from sales which banks look at when financing them so that they can access financing easily.From the findings, most SMEs lack collateral to access loans hence a key impediment. Government should come up with a credit guarantee scheme that will help SMEs access loans from the financial institutions. In addition, due to lack of tangible collaterals by SMEs the study also recommended that SMEs government should come up with fund to support SMEs' and fund should not be channelled through financial institutions, which subject SMEs to stringent requirements.

Limitations of the Study

The study used a census population of 50 respondents where one respondent from each financial institution was interviewed. Using a large population would have been appropriate. In collecting, the primary data this study employed closed ended and open-ended questionnaire. Use of both qualitative and quantitative methods of data collection would have been appropriate in this study. In addition, the study respondents were the key informants of the financial institutions there targeting both SMEs and financial institutions, as the population of the study would have been appropriate also. The study suggests that a further study should be done on the determinants of micro enterprises financing by the financial institutions since micro businesses form the majority of businesses in Kenya and they contribute immensely to the growth of the economies. A replication of this study should be with the context of a different county to confirm the similarity of the results.

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