INTERNATIONAL JOURNAL OF
INNOVATIVE RESEARCH AND KNOWLEDGE
ISSN-2213-1356 www.ijirk.com

INTEREST RATE AS A VARIABILITY OF CREDIT ACCESSIBILITY ON GROWTH OF SMALL AND MEDIUM ENTERPRISES (SME's) IN KENYA: A CASE OF KISUMU COUNTY

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1.1 Introduction

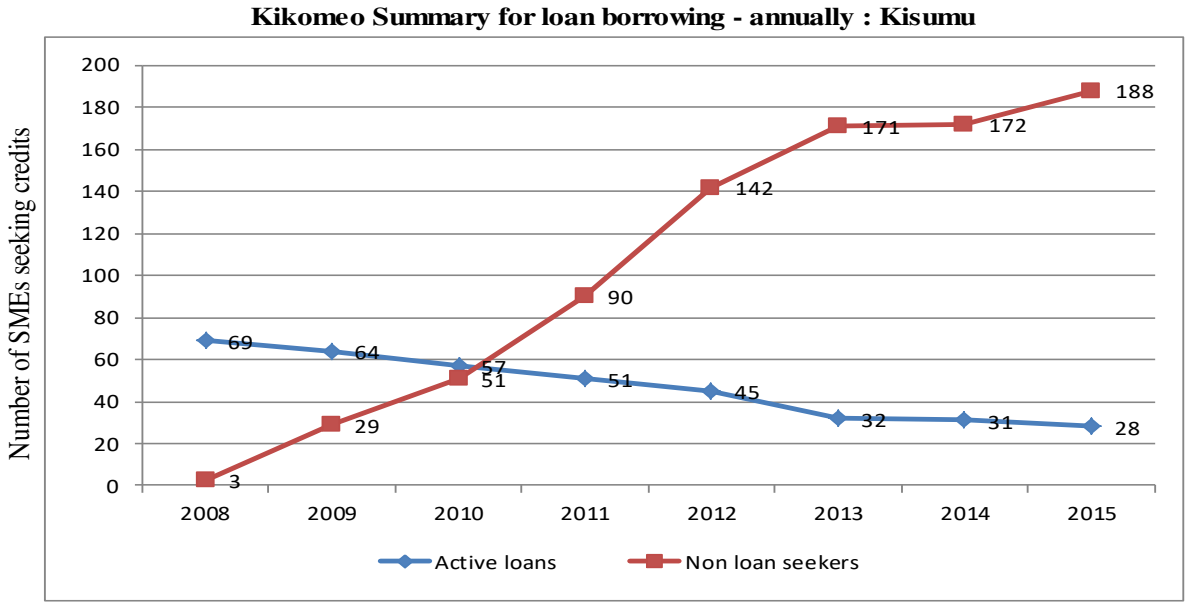
Globally, Small and Medium Enterprises (SMEs) play major role in economic growth through credit accessibility. Credit accessibility and socioeconomic growth has a strong correlation (Christen, Rosenberg and Jayadeva, 2004). Studies indicate that in both advanced economies and developing countries, SMEs contribute on average 60%, about three-quarters of total formal employment in the informal sector (Ayyagari et al, 2007). Therefore, SMEs have become important contributor to the Kenyan economy towards vision 2030. The sector contributes to the national objective of creating employment opportunities, training SMEs operators, generating income and

providing a source of livelihood for the majority of low-income households in the country (Republic of Kenya, 1989, 1992, 1994), accounting for 12 - 14% of GDP. With about 70% of such enterprises located in rural areas, the sector has a high potential for contributing to rural development. Credit accessibility will results in employment creation, human socio-development and growth to Small and Medium Enterprises (Helms 2006). Everyday around the world, an average of 20,000 SMEs socioeconomic lives grow and are saved from extreme poverty because of the credit accessibility they get from MFIs. Most SMEs with credit accessibility has strong growth and able to mitigate development challenges; (Sachs 2005). In Kenya, credit accessibility have to a larger extent helped in the growth of the socioeconomic rural community (Betty, 2006), currently through innovative approaches, many commercial banks and other microfinance institutions targets the SMEs vide group lending's, progressive lending, regular repayment schedules, and collateral substitutes with a view to growing SMEs ventures.

1.2 Study Problem

The problem of the study focuses on the following main question:

With the massive presence of over sixty six MFIs and over twenty commercial banks in Kisumu and a capped interest rate by Central Bank of Kenya from 24% to 14%, with many registered SMEs gradually declining in seeking credit, e.g.; only 12% of SMEs operating in Kisumu East sub-county had accessed to credit in the year 2015 (Figure 1.1) the poor performance of SMEs growth as indicated by the county's slow economic growth index of 2.8% (CGK 2015) and Kisumu's high poverty level of 47.8% when compared with neighboring counties. The question is; does interest rate play a variable of credit accessibility on growth of Small and Medium Enterprises in Kenya?

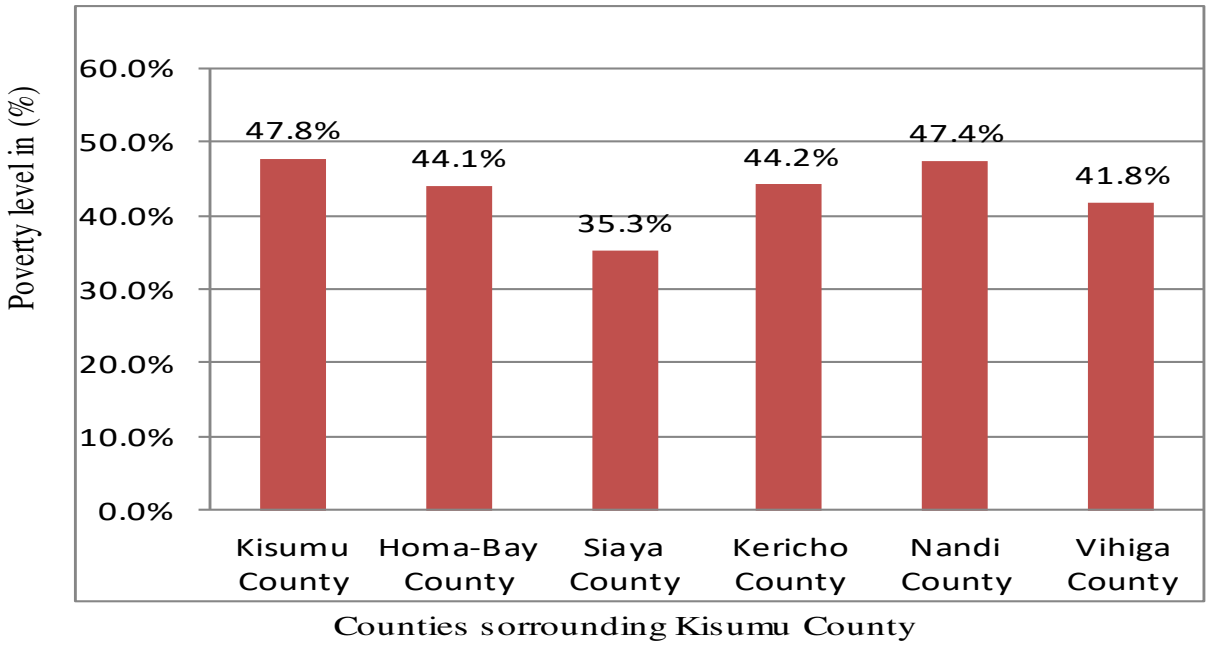


7 years running: SMEs seeking credits

Source: *Kikomeo Credit Accessibility report (2016)*

Figure 1.1: Kikomeo Summary for annually Loan borrowing record

DOCUMENT ANALYSIS: Poverty level in Kisumu with surrounding Counties



Source; Kenya Integrated Household Budget Survey (KIHBS-2011)

1.3 Objectives of the Study

To determine how interest rate as a variability of credit accessibility influence on growth of small and medium enterprises (SME'S) in Kenya.

1.4 Significance of the Study

The significance of this study may benefit a number of stakeholders; The Treasury and Ministry of Finance through Central Bank of Kenya as the regulators of Interest rate in money market, Ministry of Cooperatives and Industrialization in managing and promoting the growth of Small and Medium Enterprises (SME's), Ministry of Gender and Youth Affairs who oversee the economic empowerment and growth of Youths, women and economically vulnerable citizen. Commercial banks and Microfinance Institutions in Kenya shall have significant benefits since their margin of operations is dependent on the interest rate and high frequency of credit seekers. The information may also assist the Government in overseeing and advising Central Bank of Kenya on matters of credit management and accomodable interest rate to foster growth of SMEs whose majority owners and operators are unemployed youths. It may provide potential creditors with full information regarding MFIs and their services, future research students pursuing similar studies on credit accessibility. It may further create awareness among SMEs on the ability to manage credits and also help the Ministry of Cooperative who is responsible for the registration of MFIs in Kenya, by clearly creating awareness to the public for ease of credit accessibility and growth of SMEs. The findings shall therefore assist the current and future managers of SMEs in understanding the dynamics of interest rate, required for good governance and fair competition.

1.5 Study Hypotheses

The major study hypothesis for this research was:

H_o There is no significant relationship between the influence of interest rate and growth of Small and Medium Enterprises in Kisumu County.

H_2 There is significant relationship between the influence of interest rate and growth of Small and Medium Enterprises in Kisumu County.

1.6 Previous Studies

A study carried out by Winston (2014) in Guatemalan, San Antonio Aguas Calientes Central America on examining the interest rate as one of the impact of accessibility of seeking credits in Guatemalan Village focusing on interest rate charge on all credit, both qualitative and quantitative methodology approach and survey data was collected from SMEs and other loan borrowers. The survey data was analyzed and examined to determine if interest rates as per policy was of any benefit to accessibility of credits, survey results indicated that loan borrowers enjoyed the legal protection of their savings and the customer focus on terms of loan facilitations as was guided by the interest rates regulations. Results revealed that SMEs economic growth was inevitable. The study targeted active SMEs only; the current study targeted both active and dormant SMEs thereby filling in the existing gap in literature.

In Bangladesh, a study carried out by Salehuddin (2009) on accessibility of credit and its achievements and challenges through interest rate. Half of the country's population lives below poverty line with 80% in the rural areas and burden of poverty falling disproportionately on women, Yunus (1995). Accessibility of credits was implemented by legally authorized framework (Khandker (1998)). Most SMEs borrowing credits were informed of the protection and controlled interest rate charged on all loans borrowed. This policy of regulated interest rates enticed many SMEs to seek more credits. Study adopted exploratory design; qualitative survey design was used, while interviews and questionnaires were used as primary data instruments. Government policy papers, journals amongst other literatures were used for secondary data. Findings revealed that, through government policy in regulating interest rates charged, SMEs growth could be observed. While the study applied qualitative survey design, the current study applied mixed method approach, especially descriptive and inferential research design thereby filling the gap in literature.

In Ghana, a study carried out by Kofi (2012) on determining the causes and impact of non-performing microcredit on the operations of MFIs as a result of high interest rate: credit portfolio constitute a significant proportion of the assets of the MFIs and SMEs growth is a direct index of MFIs asset base. Primary and Secondary data were used for the study. Regression analysis was used to estimate the relationships between variables under study, reliability of the instruments were enhanced by performing pre-testing research instruments. The study found out that, SMEs growth became non-performing from their borrowed credits due to fluctuating interest rate charged in the five-year period reviewed and this adversely affected their economic growth. The study used linear regression analysis; the current study applied Pearson correlation and thematic analysis, therefore filing the gap in the current literature.

In Kampala Uganda, a research study carried out by Bukenya and Kinatta (2011) on Internal controls and access to affordable credit for SMEs to improve their economic growth, access to credit for small and medium enterprises (SMEs) remains a recurrent problem. The study used questionnaires only as data collection instruments; random sampling was used and scientific package for social sciences (SPSS) as method of data analysis. Findings of the study indicated that affordable interest rate by small and medium enterprises (SMEs) determined the number of credit seekers and amount borrowed; this was significant predictor for the accessibility

to small and medium enterprises (SMEs) annually. It was thus recommended that; small and medium enterprises through internal training and sensitization on how to know the prevailing interest rate on borrowed loans would assist in managing loans and improve their economic empowerment, the study used questionnaires as the only primary instrument, the current study applied both structured questionnaires and interview schedules as primary data collection instruments and Government journals as secondary instrument therefore filling the existing gap in the literature.

In Nakuru County, a study carried out by Kipkosgei (2013) on an analysis of the factors affecting loan utilization among administration police officers in Nakuru County. Due to special arrangement of reduced interest rate, credit seeking increased significantly from 12,000 officers in the year 2000 to 32,000 in the year 2012, Out of these only 62% were able to payback unlike the expected 100% due to lowered interest rate. Findings were; lowering interest rate was not guarantee for efficiency in loan payback. The study was informed by theory of self-efficacy.

Target population was 1,474. Sample size of 314 and systematical sampling techniques was used. Primary and secondary data both in quantitative and qualitative nature was used. Self-administered structured questionnaire was used. Descriptive statistics was used in analyzing data. The study used Pearson correlation and multiple regression models, the current study used thematic analysis thereby filling the gap of existing literature.

In Kenya, a study carried out by Atieno (2001), on formal and informal institutions lending policies on interest rates and access to credit by small scale enterprises. This study assessed the role of institutional lending policies among formal and informal credit institutions in determining the accessibility of small-medium-enterprises (SMEs) to credit in Kenya. Qualitative survey approach was used in the study, questionnaires and interview schedules was used as primary data collection instruments, while weekly business journal, empirical research work were used as secondary data collection instruments. The results of the study show that the limited use of credit reflects lack of supply, resulting from the rationing behavior of both formal and informal lending institutions. The study concludes that given the established network of formal credit institutions, improving lending terms and conditions in favor of small-scale enterprises would provide an important avenue for facilitating their access to credit. The study used qualitative survey design; the current study used mixed method approach especially descriptive and inferential research design, therefore filling the gap in existing literature.

2. Theoretical Framework

This study was guided by theory of Group lending (Besley and Coate (1995), it explains the economic empowerment of oneself through group support, with a backup theorists like; Microfinance theory of change (Mohammed Yunus 1995), that explains concept of changing ones poor life to better vide seeking credits; management of investments and eventually prudent management of profit from business.

2.1 Theory of Group lending

Theory of Group lending as proposed by Besley and Coate (1995), backs Microfinance Theory of change by exploring regulations on marketing strategies of loans borrowed by individuals or group SMEs with members guaranteeing member colleagues of growth to every member of the group. Theory of group lending promotes individual SMEs growth through group of SMEs communal support through SMEs out rich platform thereby creating credit accessibility to the growth of SMEs.

Credit accessibility is believed to have natural tendency of growth. Rudd (2011) Microfinance theory of change intended to increase profitability of SMEs and promote types of technological innovations that would stimulate growth in their communities Yaron and McDonald (2002).

Morduch (2000) states; credit accessibility is the first step of growth for SMEs. Second; investing the credit money in a viable SMEs creates ownership responsibility, and Third; Managing the business to yield major return on the investment establishes the profit that gives interest to pay-back the loan, hence SMEs growth.

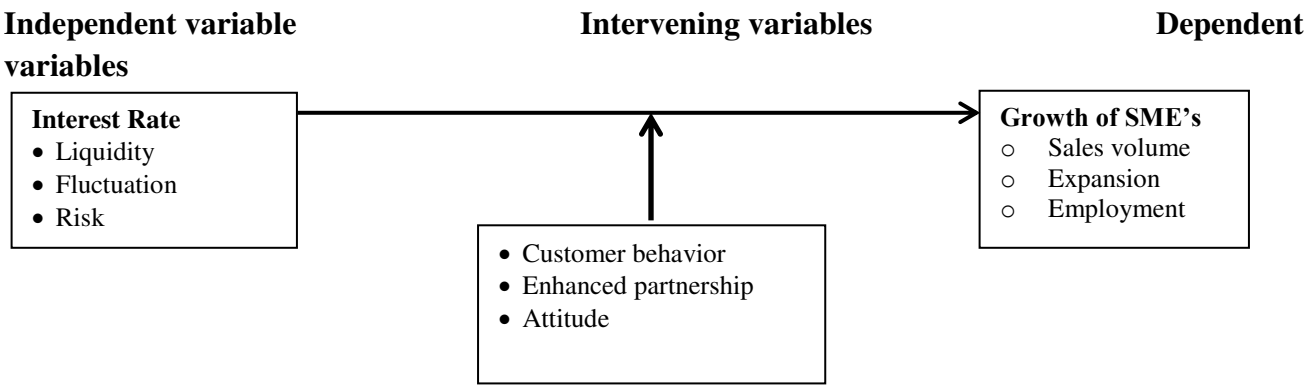
3. Methodology of the Study

3.1 Research Design

The study applied mixed method approach especially descriptive and inferential research design. According to Cooper and Schindler (2000), descriptive and inferential research focuses on why questions. In answering the `why' questions, the study was involved in developing causal explanations. Causal explanations argue that phenomenon Y (growth of SMEs) is affected by variable X (government policy) this design was chosen because it applies closely to the research objectives of the study hence practical in testing the research hypothesis. Descriptive and inferential research design also aimed to gain a better understanding about a problem and to seek new insights and to assess phenomena in a new light (Saunders et al 2008). This study utilized both approaches as the research hypothesis calls for real-life contextual understandings that a quantitative model alone cannot capture (Meissner 2010). Social norms, cultural influence, the borrowers' lives and experiences are some measures that give insight into the repayment problems but can only be captured through a quantitative approach.

3.2 Study Variables

The study focused at Interest rate as an influence of Credit Accessibility on Small and Medium Enterprises in Kenya: A case of Kisumu County, and therefore the study consisted of the following variables:



Source: *Self-Conceptualization (2016)*

Dependent variable: 'Growth of small and medium enterprises' included the improved and measurable growth and practice of growing Sales volume, Expansion of business ventures and creation of employment opportunities each of which was the end result indicators that directly indicated Interest rate through identified sub-variables like; market or business liquidity, fluctuation of market prices and market risks, variables playing a leading role in influencing the credit accessibility by small and medium enterprises.

Independent variables showed Interest rate; providing adherence to Microfinance Act 2006 (CAP 493D) and regulations as prescribed in the interest rate capped by Central Bank of Kenya, Internal and external governance guide, market security as supervised by Central Bank of Kenya (CBK) through commercial banks influences the credits accessibility by small and medium enterprises. All these were measured vide the improved investments, social and economic developments, improved profit margin made by enterprises, asset growth registered by the growing business and increased sales volume due to secured market from any external economic interferences.

Intervening variables could also be recognized through; environmental business friendly, easy to manage interest rate, easy integrated taxation system for filling tax, alongside enhanced public-private partnership in community development agendas has made the above independent variables be viably cognizant.

4.0 Statistical Tools Used

Statistical tools used in qualitative data was principles of thematic analysis as stated by Braun and Clarke (2006), it's a method of identifying and analyzing themes within a data set, while quantitative statistical tools were; Percentages, frequency counts, means and tables.

4.1 Descriptive Statistics Analysis

Level at which Interest rate influences growth of SMEs were gathered and presented in a Likert scale of 5 and summary of responses given in form of frequency counts and percentages of strongly agree, agree, undecided, disagree and strongly disagree in the Table. 4.1.1 below:

Table 4.1.1: Interest Rate

Level at which Interest Rate influences growth of SMEs	Strongly agree		Agree		Undecided		Disagree		Strongly disagree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Interest rate plays primary role in attracting more borrowers for credit accessibility by SMEs	49	28.3	58	33.5	39	22.6	18	10.4	9	5.2
Comparison of interest rates is very important before seeking credit	46	26.5	45	26.0	29	16.8	11	6.4	42	24.3
Liquidity of both SMEs and MFIs is determined by the prevailing interest rate, hence the lower the interest rate, the higher the liquidity	41	23.7	50	28.9	33	19.1	35	20.2	14	8.1
Penalty charged on credits defaulters duration loan repayments influenced SMEs decision for seeking credit	27	15.6	62	35.8	47	27.2	9	5.2	28	16.2
Fluctuations of prices and Interest rates influenced SMEs assurance to savings and credit accessibility	44	25.4	56	32.4	25	14.5	33	19.1	15	8.6
Disclosure of interest rate reduces the Risk for seeking credits	33	19.1	68	39.3	27	15.6	16	9.2	29	16.8
Competitive interest rates influences credit accessibility for many SMEs	59	34.1	78	45.1	15	8.7	12	6.9	9	5.2
Emerging of mobile micro-banking with low interest rate influence credit	71	41.1	59	34.1	16	9.2	27	15.6	0	0.0
Duration of loan re-payments influences SMEs decision in seeking credit	49	28.3	45	26.0	29	16.8	11	6.4	39	22.5

Source: *Survey Data (2016)*

Interest rate plays primary role in attracting more borrowers for credit accessibility by SMEs; strongly agree 28.3%, agree 33.5%, undecided 22.6%, disagree 10.4%, strongly agreed 5.2%, this data revealed that, majority of respondents 61.8% agreed with the information citing that, the low the interest rate, the higher the borrowers, while 15.6% disagreed, otherwise 22.6% were undecided on whether or not Interest rate plays primary role in attracting more borrowers for credit accessibility by SMEs.

Interview schedule revealed that, majority of SMEs growth stagnated due to high interest rate levied on loans offered by MFIs. One of the SMEs operators in Kisumu West sub-county stated:

> *$Operator_{2west}$: "I'm persuaded to believe that, loans offered by MFIs, are not meant for our SMEs because the interest rate they charge looks little on the face value yet too high to manage within payback period,……. that's why most us find it hard to improve our businesses in any competitive market"*

Kenya integrated household budget survey (KIHBS-2011) published their report on factors that contributed to high poverty level in Kisumu when compared with five other surrounding counties, the year 2011 report indicated that, Kisumu county was leading with poverty level at 47.8% (Appendix G), one of the leading factors was the high interest rates charged on loans, this was observed to stop many SMEs from seeking credits.

Most Credit Managers relied on the interest rate as a source of funding MFIs development and expansion, and by majority of SMEs not committed to seeking credits from MFIs offers, both the development of MFIs and SMEs asset growth and expansion stagnated.

The findings is in agreement with a study carried out by Winston (2014) in Guatemalan, San Antonio Aguas Calientes, on high interest rate charge on credits stalking asset growth and expansion of both credit giver and borrowers.

Comparison of interest rates is very important before seeking credit from MFIs; strongly agree 26.5%, agree 26%, undecided 16.8%, disagree 6.4%, strongly disagree 24.3%, the data revealed that, average respondents of 52.5% agreed that comparing interest rates from many credit giver was important so as to get credit from the MFIs with low rates and better terms, 30.7% of the respondents disagreed, most of whom argued that all MFIs rates were governed and controlled by commercial banks interest, meanwhile 16.8% were undecided on whether or not it was important to compare interest rates before seeking credit.

Interview schedule also revealed that, many SMEs operators had developed negative perception towards MFIs interest rate and opted for mobile microcredit and table banking as the major source of financing that don't need comparison or verification of interest rates, one SMEs operator from Nyakach Sub-county had this to say:

> *$Operator_{2nkc}$: "I honestly don't have time of comparing which MFIs have the lowest interest rate, I simply go to Mshwari and in less than three minutes; I have my loan without hustling."*

Similarly, one credit manager from Kisumu north sub-county commented:

> *CM_{2north} "Many of our customers (SMEs) are no longer patient with our reduced rates; their loan interest is long gone to their own mobile, table banking."*

According to Central Bank of Kenya (CBK-2014) report on interest rate charged by micro-loan lenders, the rates rangers from 14% up to 17.79% from various commercial banks, unfortunately mobile credit services was never disclosure (Appendix E).

This statistics therefore revealed that, many SMEs operators overlooked at this important factor leading to credit accessibility.

The above findings was in agreement with a study carried out by Salehuddin (2009) on mitigating factors for easy accessibility of credit at the lowest cost and its achievements and challenges. This was confirmed to be mobile credit offers.

Liquidity of both SMEs and MFIs were determined by the prevailing interest rate; strongly agree 23.7%, agreed 28.9%, undecided 19.1%, disagree 20.2%, strongly disagree 8.1%. Majority of respondents 52.6% most of whom were MFIs credit managers agreed that, the prevailing interest rates was a determinant to liquidity of both SMEs and MFIs. When the prevailing interest rate is low, many SMEs are attracted and seek for more loans and vice versa. Minority of respondents 28.3% disagreed that, liquidity was determined by the prevailing interest rate in the market, while 19.1% most of whom were rural based MFIs that operated without legal authority and registration as required, they were undecided on whether or not prevailing interest rate was a determinant to market liquidity.

Interview schedule also revealed that, majority of SMEs operators only cared for affordable loans and not on determining factors, that is; confirming the ability of MFIs long term sustainability to grow and mentor the growth of SMEs like asset growth, supporting SMEs investments, and ability to increase SMEs sales volume. This is why most SMEs waiver between credit providers; one credit manager from Ahero sub-county said:

> *CM_{2ahr}: "Most of our clients (SMEs) don't care to know the prospects of MFIs providing credits; they only need short-lasting provision of loans and care least about sustainability of credits."*

Kenya National Bureau of Statistics (KNBS-2015) annual growth report for gross domestic product (GDP) analysis for seven years indicated that, the GDP annual growth rate has been on the decline since year 2013 (7.0%) down to year 2015 (4.0%), and among the reasons for the decline was the high liquidity of the credit providers.

MFIs strong liquidity has positive influence on the growth of SMEs by meeting all the financial obligation and consequently improved profitability and asset growth.

This finding seems to be in agreement with a study carried by Khandker (1998) on the legally authorized framework that promotes credits accessibility.

Penalty charged on credits defaulters during loan repayments influenced SMEs decision for seeking credit; strongly agree 15.6%, agree 35.8%, undecided 27.2%, disagree 5.2%, strongly disagree 16.2%, this findings indicated that, majority of respondents 51.4% agreed that penalty charged on credit defaulters influences future SMEs decision to seek more credits, this comes due to fear of losing assets through auctioneers, minority of respondents 21.4% disagreed with the statement, meanwhile 27.2% were undecided.

Interview schedule revealed that, penalty levied on non-performing loans contributed to many SMEs shying from seeking MFIs credits due to economic risks involved, majority of informants opted to seek for mobile loaning or merry-go-around which didn't require much conditions and didn't expose SMEs to verse risks.

One Kisumu West county SME operators:

> *$Operator_{2west}$: "Many operators have been forced to close up their ventures due to inability to pay back principal loan, which later attract huge penalty toppling the overdue loan."*

> *CM_{1west}: "Many SMEs starts well, but in less than a year or two, they phase off, we don't know the clear reason to that."*

According to Kisumu county development profile for 2014, the lending rates of commercial banks was rated high for SMEs seeking credits (KCDP-2014). The bank with the lowest rate had 14%, this was high if compared to mobile loans rate that was at 7%.

This finding was found to be in agreement with a study carried out by Kofi (2012) on penalty charged on non-performing loans as one of the determining influences of SMEs not seeking more loans or credits.

Penalty charged was proxied by MFIs assets liquidity, fluctuation and risk, which had a significant and negative effect on profitability of SMEs, weak cash flows, loan or credit repayment period and the pace of asset growth in SMEs.

Fluctuations of prices and Interest rates influenced SMEs assurance to savings and credit accessibility; strongly agree 25.4%, agree 32.4%, undecided 14.5%, disagree 19.1%, strongly disagreed 8.6%, the statistics showed majority 57.8% agree that fluctuations of prices and interest rates do influence credit accessibility, while minority 27.7% disagreed with the statement citing that there is no relation between fluctuating market prices and savings, meanwhile 14.5% were undecided due to lack of knowledge about fluctuation of market prices.

Interview Schedule revealed that many informers most of whom are SMEs operating in the rural and financing their ventures from rural MFIs whose credit managers lacked formal education and knowledge about price fluctuation as a factor influencing interest rate in any market. SMEs view fluctuation as operational challenge and not a cause for inability to seek credits, this was due to rural perception that SMEs in urban are expose to price fluctuation and unlike rural SMEs.

One of the credit managers from Ahero sub-county; *CM_{2ahr}: "Our clients (SMEs) aren't seeking credit because of prices fluctuations that affects interest rate"*

Kenya integrated household budget survey (KIHBS-2011) in their annual report for the year 2011 indicated that, fluctuations of prices and unstable interest rates were major influences in rising poverty level in Kisumu county (47.8%) citing that; *"the economic pillars of Kisumu county (SMEs) are incapacitated to save enough and access credit."*

This study seem to be in agreement with Bukenya and Kinatta (2011) on internal controls and access to affordable credit for SMEs as the major factor in improving their economic growth and not the market fluctuations.

Researcher similarly observed that, majority of MFIs focus on rural SMEs for a less competition, while SMEs operators' faces price fluctuation derailing economic growth, all SMEs should save more and buy shares to become shareholders of MFIs to provide the necessary price control as a way of reducing fluctuation risk".

Disclosure of interest rate reduces the risk for seeking credits; strongly agree 19.1%, agree 39.3%, undecided 15.6%, disagree 9.2%, strongly disagree 16.8%. This data revealed that, 58.4% of respondents agreed that, disclosure of interest rate, that is, knowing full information and charges connected to credits offered before receiving them from MFIs reduced the credit risk, 26% of the respondents disagreed, while 15.6% were undecided.

Interview schedule similarly revealed that most of MFIs credit managers' concealed information related to penalty and charges on credit faults. This mode of information deficiency has influenced greatly the credit inaccessibility, hence majority of SMEs operating from hearsay and rumors fear the risk of seeking credits.

One SMEs operator from Muhoroni sub-county said:

> *$Operator_{2mhn}$: "We really, have hard times in credit accessibility due to nondisclosure of clear rate of interest, and charges in case of any default."*

This research finding seems to be in agreement with Kipkosgei (2013) on an analysis of the factors affecting loan utilization among administration police officers in Nakuru County. Due to special arrangement of reduced interest rate at the own set, credit seeking increased significantly from 12,000 officers in the year 2000 to 32,000 in the year 2012.

Results revealed that, many of the borrowers (SMEs) were reluctant to seek credit, whenever they felt that information about disclosure of interest rate was insufficient from MFIs. Most of SMEs operating participants said that; price fluctuation in the market, has always been the determining factor for SMEs economic growth.

One of the participants said that; *"we need to encourage all entrepreneurs to seek credit and become shareholders of MFIs to provide the necessary price control as a way of reducing fluctuation risk".*

Competitive interest rates amongst MFIs do influence mode of credit accessibility by SMEs; strongly agree 34.1%, agree 45.1%, undecided 8.7%, disagree 6.9%, strongly disagree 5.2%. This means, majority of respondents 79.2% agreed that competitive interest rates influences credit accessibility, 12.1% of respondents disagreed with the statement, meanwhile 8.7% of respondents were undecided on whether or not competitive interest rate were of any influence on credit accessibility.

Interview schedule also revealed that, majority of informers most of whom operated from urban settings agreed that, competitive interest rate do influence credit accessibility in a positive way and to the advantages of SMEs. Many credit givers in urban setting are cautious about interest rate they levy on the loans they offer to their clients, and because registered MFIs in Kisumu County are many alongside MFIs without legal registration, Sacco's, merry-go-round, table banking, and mobile loans; competition of interest rates is inevitable amongst their market of giving out credit to limited clients.

One SMEs operator from Ahero sub-county said that:

> *"$Operator_{2ahr}$:…..though when I started my primary financing is from our Sacco in the early months of year 2008, some MFIs in town engaged in simultaneously lowering their interest rate as they try to win many SMEs whose operations were affected by post-election violence,….I also took some loan because of low rate."*

Researcher established only sixty six (66) registered microfinance institutions (MFIs) operating in Kisumu county according to Kisumu County Enterprise Development (KCED-2015) annual report they compete with unregistered and illegally instituted MFIs. The unregistered MFIs are not regulated by Central Bank of Kenya's rates; therefore they create unfair competitive interest rates.

The finding seems to agree with the study carried out by Rukaira (2015) on Challenges Affecting Transformation of MFIs in credit accessibility as one of the leading factors in credit accessibility with competitive interest rate among MFIs.

New emerging trends of microcredit services like mobile micro-banking, savings and loaning's have influenced MFIs' credit accessibility; strongly agree 41.1%, agree 34.1%; undecided 9.2%, disagree 15.6%, meanwhile 0.0% of the respondents strongly disagree. This statistics revealed that majority of respondents 75.2% agreed that, the

emerging trend of mobile credits have influenced MFIs credit accessibility negatively. 15.6% of respondents disagreed with the statement, while 9.2% were undecided.

Interview schedule revealed that, the hard conditions put by banks during credit seeking process provided mobile industry with an opportunity to shift into credit business with manageable rates and since then, banks had to reduce the rates and increase the savings interest in order to retain old customers from high turn-over and attract new customers.

Credit manager of MFIs from Nyakach sub-county said:

> *CM_{2nkc}: "New trend of mobile micro-credit and loaning's have paralyzed our credit accessibility by SMEs who are our prominent clients"*

This findings is in agreement with the study carried out by Thuranira (2009) whose findings on factors affecting accessibility of credit facilities among the growth small and micro-enterprises was among other factors the emerging trend of mobile micro-credit services.

The emerging of mobile banking was universally and overwhelmingly embraced by SMEs due to its low interest rates, reliability, convenience and time-saving through mobile services. This changing trend from MFIs manual and tedious process to mobile banking has shifted more of SMEs economic contribution to Mobile industry over MFIs. This thematic analysis is also in agreement with the quantitative analysis. Credit accessibility measured by growth of SMEs and further proxied by interest rate directly affects the credit accessibility.

Duration of loan re-payments influences SMEs decision in seeking credit; strongly agree 28.3%, agree 26.0%, undecided 16.8%, disagree 6.4%, strongly disagree 22.5%. This statistics indicated that majority of respondents 54.3% agreed to the fact that duration taken for loan or credit repayments determines the credit accessibility. Minority respondents 28.9% didn't agree with the statement, while 16.8% of respondents were undecided.

Interview schedule confirmed that, many of the informants agreed that spreading out loans' repayment period attracted many borrowers with its easy outlook rate spread for many months, otherwise majority of SMEs borrowers later found their operations stagnating in growth because, they literally spent much money in paying back the loans.

One SMEs owner operating in Kisumu Town East sub-county said:

> *$Operator_{2east}$: , "I took a loan from one of these MFIs in December 2015, since then, all my savings and part of business capital is exhausted in repaying the loan, my venture is a total dependent on one loan after the other, I cannot grow."*

The findings concur with the study by Bukenya and Kinatta (2011) who found out that, access to affordable credit for SMEs to improve their economic growth directly relied on affordable Interest Rate within any competitive market.

From the above findings, it can be concluded that the growth of SMEs depends on the availability of affordable loans which are determined by the prevailing interest rate, it's further revealed that, prevailing interest rate was determined by; market liquidity, price fluctuations, risks involved in both secured and unsecured loans, and duration of loan payment amongst others, majority of informants attached their SMEs profitability and Asset growth to fair interest rate. It can therefore be deduced from informants and respondents that, Interest rate plays a very important role in influencing growth of SMEs.

DOCUMENT ANALYSIS: Kikomeo Summary for Loan borrowing record annually

Years	Registered Members per year	Cumulative Members annually	Non Loan seekers	SMEs with active Loans from MFIs	SMEs seeking loan (%)
2008	72	72	3	69	31.94
2009	21	93	29	64	29.63
2010	15	108	52	57	26.39
2011	33	141	90	51	23.61
2012	46	187	142	45	20.83
2013	16	203	171	32	14.81
2014	00	203	172	31	14.35
2015	13	216	188	28	12.96
Total	**216**	**Mean % of credit seeking 174.52/8 years**			**21.82**

Source: *Kikomeo credit seeking report, annually*

Above document analysis revealed 8 years since inception between years 2008 to 2015, registered members had risen to 216 while SMEs operators who actively applied for loans in the final year were 28 only. This was as a result of emerging easy and self-regulated mobile loans with easy payback plan at affordable rate.

Above findings revealed that, SMEs growth was perceived on a twin approach depending on the operators' and MFIs locations and mode of operations, that is; town SME operators were exposed to more formal credit accessible opportunities than rural operators. That is; many number of MFIs within the same town attracting business competition that prompts a competitive rates, reaching out to SMEs within the same town and offering business supports like; inducting operators on the benefits of savings and seeking credits, and training on how to manage loans amongst many other call-to-treat business approach to get more clients. Findings were in agreement with the study by Mimouni (2012) on self-financing for socioeconomic empowerments that were observed to be the drive behind SMEs growth.

4.2 Testing Hypotheses

Based on the objectives of this study, the hypotheses of the study were tested at 5% level of significance, and a multiple linear regression model was used to investigate these hypotheses; as follows:

4.2.2 H_o: There is no significant relationship between the influences of Interest Rate and growth of SMEs in Kisumu County.

Interest rate was proxied by market liquidity, fluctuation and risk, which had a significant and negative effect on profitability of SMEs, weak cash flows, loan or credit repayment period and the pace of asset growth in SMEs. The finding of this study, based on the second objective is that Liquidity under Interest rate has a significant and negative effect on SMEs growth through cash-flow, the regression coefficient is equals 0.1565035 when the dependent variable is measured by GSME, it can also be observed that, z-statistic is significant, and therefore reject the null hypothesis and conclude a significantly positive relationship with growth on SMEs. This implies that, the more competitive the interest rate amongst the MFIs, the higher the credit accessibility by SMEs with deposit accounts in those MFIs. This will also attribute to high cash flow in the market resulting to profitability.

Fluctuation of prices in the market also has significance relationship with the duration for credit or loan facilitation; the more the market prices deflate, the higher the interest rate and vice-verse. Interest rate determines the market risk at any level.

This findings concurs with the early findings of Samuel (2013) who observed a positive significant correlations between return on business assets and finance institution growth in Ghana, never-the-less, Mohammad and Mashid (2014) observed a negative correlation between return on asset and finance institutional growth in India, due to divergence in models for estimations and difference in regions where study was undertaken.

In this study, liquidity risk has a positive correlation with operations of MFIs and growth of SMEs as indicated in the Table 4.3 the coefficient of credit accessibility equals 0.2044961, when the dependent variable is measured by growth of SMEs.

4.3 Correlation Matrix

The correlations between the explanatory variables and the independent variables is depicted as shown in Table 4.3.1.

Table 4.3.1 Correlations Matrix of Dependent and Independent Variable (IR_2)

		Government policy	Interest rate	Marketing strategies	Management approach
Interest Rate (IR_2)	Pearson Correlation Sig. (2-tailed) N	.088 .258 253	1 253	.160 .039 253	.140 .072 253

Source: *Research data (2017)*

Note: Correlation is significant at the 0.05 level (2-tailed).

Table 4.3.1 depicts the correlations between the explanatory variables and the dependent variable. It is observed that at 95% is the level of confidence, since 1% change in Interest rate leads to 0.088% change in Government policy, 0.160% change in Marketing strategies, and 0.140% change in Management approach.

The interest rate (IR_2) is significantly correlated to marketing strategies (MS_3) when coefficient r = 0.39, and to management approach (MA_4) when coefficient r = 0.072.

The above statistics is positively and significantly correlated to influence the credit accessibility on growth of small and medium enterprises (SMEs).

5.0 Summary of Major Findings

The overall objective of this study was to explore Influence of credit accessibility on growth of small and medium enterprises in Kenya, given the pivotal role played by MFIs in supporting the growth of SMEs and that Credit accessibility has been a challenge to SMEs for their growth, the study set out to examine the influence of credit accessibility on growth of SMEs. The study used a sample of 20 credit managers from MFIs, and 240 SME operators for a 20 year period between 1995 and 2015; the specific study was conducted in six administrative Sub-counties namely; Kisumu East, Kisumu West, Kisumu North, Muhoroni, Nyakach and Nyando sub-counties within County Government of Kisumu.

To achieve this objective a Pearson correlation matrix as was obtained to determine the level at which interest rate influences growth of SMEs on credit accessibility. Interest rate had a significant and negative effect on SMEs

growth through cash-flow, the regression coefficient was equals 0.1565035 when the dependent variable was measured by GSME it could also be observed that, z-statistic was significant, and therefore rejected the null hypothesis and concluded a significantly positive relationship with growth on SMEs. The coefficient of credit accessibility equals 0.2044961, when the dependent variable was measured by growth of SMEs. Majority of respondents suggested that, Interest rate plays primary role in attracting or discouraging more borrowers, liquidity of both SMEs and MFIs was averagely agreed upon as determined by the prevailing interest rate, that is; the lower the interest rate, the higher the market liquidity, hence deflation of market prices.

The above findings concurs with the study by Bukenya and Kinatta (2011) who found out that, access to affordable credit for SMEs to improve their economic growth directly relied on affordable and competitive Interest Rate.

5.1 Recommendations

Based on conclusions of the study, it recommends the following:

MFIs should operate within the prescribed interest rate by CBK and credit granting process with well-defined loaning criteria as per the microfinance policy enshrined in Kenya's constitution. Clear understanding of both SMEs and MFIs, the purpose and nature of the loan, and its source of repayment. Overall credit limits should be established at the level of borrowers and new credit approvals, amendment, renewal and re-financing of existing credits should be based on clearly-established process in the policy. MFIs should identify the main factors or real issues that affect the ability of SMEs to repay or fail to repay the credit granted. The regulator-CBK should supplement their regular assessment of an institution's immediate act on loan borrowers' defaulters by monitoring a combination of internal financial reports and market information.

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