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**ABSTRACT**

*Little empirical literature on credit access by small business enterprises in Kenya motivated this study to investigate the influence business risk and collateral requirements on credit access by small business enterprises in Bungoma County, Kenya. The study adopted descriptive survey design and targeted 5000 small business enterprise in Bungoma County from where Fishers sampling formula was used to calculate a sample size of 119 respondents who were selected through simple random sampling. Primary data was collected by structured questionnaires. SPSS 24 was used for data analysis. From the values of unstandardized regression coefficients with standard errors in parenthesis, both independent variables were significant predictors of credit access by small business enterprises in Bungoma County, Kenya. (dependent variable). The study concluded that financial lending institutions were also profit making entities thus could not engage some risky business entities like small business enterprises with projected loses and insolvency risks. Secondly, collateral requirements were basic loan recovery measures by financial lending institutions to avoid loan delinquencies from non-performing small businesses. The study recommended that first, financial lending institutions should devise feasible financial literacy programs to perceived risky small business customers whose business risk could just be emanating from financially illiterate small business owners and or managers owners. Secondly, managers of small business enterprises should prudently source for financing facilities from financial lending institutions with convenient and lenient collateral requirements.*

**Key Words:** Business Risk, Collateral Requirements, Credit Access, Small Business Enterprises

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## INTRODUCTION

Small business enterprises are viewed as a key driver of economic and social development. They represent a large number of businesses in a country, generate much wealth and employment and are widely considered to be vital to a country's competitiveness. Small business enterprises are also hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Pelham, 2000). The small business enterprises tend to be large in number, accounting for about 90 percent of all enterprises in many African countries and over 80 percent of new jobs in a given country (Reinecke, 2002). In the Kenyan economy, most of small-scale enterprises are operated within the informal sector which covers all semi-organized and unregulated economic activities that are small scale in terms of employment. Its economic contribution is more than double that of medium and large enterprise sectors that stands at 7% of the country's GDP (CBS-GoK, 2003). The sector therefore is a major source of demand for credit, employment and income to many households in Kenya.

The Small business enterprises need finance to start up, expand, diversify and for working capital. Without finance, no one business enterprise can achieve its objectives. Finance is the backbone of business enterprise (Mckernan & Chen, 2005). Both in the developing and developed world small firms have been found to have less access to external finance and to be more constrained in their operation and growth (Galindo & Schiantarelli, 2003). Limited financial support is normally cited as a major hindrance to Small business enterprises sustainability and growth. One of the main factors linked to the problem of financial support is stringent credit terms that are associated with the provision of loans by financial institutions. The other prevailing legend is that cost of credit is among other major factors restraining the creation of start-up small business enterprises

and sustainability of ongoing small business enterprises

First a Research Project (2010) indicated that, in Vietnam, to promote small businesses access to finance in the context of economic recession, the Government implemented a flexible monetary policy, adjusting the exchange rate by market signals so as to encourage exports and maintain economic stability, reducing the required reserve ratio of credit institutions and the basic interest rate, and lowering interest rates to increase access to finance for enterprises, including SMEs. Vietnam represents an interesting case because it actually ranks 21th out of 183 countries in terms of getting credit in 2011 (World Bank, 2011). This is an impressive outcome of the banking system. Commercial banks, seeking to boost lending, have begun to see small businesses as a potential market and mapped out plans to tap those corporate customers.

It is argued that small business enterprises play a key role in employment creation, income generation for a number of Kenyans. However, due to their vulnerability, small business enterprises in Kenya suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. Access to financial resources is constrained by both internal and external factors. Internally, most Small business enterprises lack credit worthiness and management capacity, so they have trouble securing funds for their business activities due to credit access challenges such as collateral requirements and stringent credit terms. Therefore, they are rationed out in their access to credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts (CMA report, 2013).

### Statement of the Problem

In order to sustain capital inflow as well as attract major business investments, the Kenyan government has been implementing policies that attempt to empower youth with small business enterprises. Further analysis of Small business

start-ups and sustainability has brought skepticism as to whether access to credit, is among the major factor obstructing Small business enterprises demand for financing. Several studies (Kaufmann & Parlmeyer, 2006; Osano & Languitone, 2016) have mentioned the problem of financing as an impediment to small business start-up and growth. But interestingly, financial lending institutions' performance largely depends on the effectiveness of their credit management systems because the institutions generate most of their income from interest earned on extended loans, thus cannot just engage in risky lending to perceived riskier small businesses that could collapse any time (Balduino, 2007).

Thus, Stewart *et al.* (2010) point out that, whilst some studies allude to negative impacts of cost of credit, there is a general scarcity of rigorous impact studies on this topic. Duvendack *et al.*, (2011) and Stewart *et al.*, (2010), also argue that the limited available literature tends to focus on demand for credit (or credit elasticity), and the effects on over-indebtedness by small business enterprises. Thus, most small business enterprises which rely almost entirely on the local market for financing and sales, credit access threaten their very survival. Therefore little empirical literature on credit access by small business enterprises in Kenya motivated this study to investigate the influence of business risk and collateral requirements on credit access by small business enterprises in Bungoma County, Kenya.

### **Objective of the Study**

The general objective of this study was to investigate the influence of business risk and collateral requirements on credit access by small business enterprises in Bungoma County, Kenya.

The specific objectives were:-

- To determine the influence of business risk on credit access by small business enterprises in Bungoma County.

- To determine the influence of collateral requirement on credit access by small business enterprises in Bungoma County

### **Research Hypotheses**

**H01:** There is no significant relationship between business risk and credit access by small business enterprises in Bungoma County.

**H02:** There is no significant relationship between collateral requirements and credit access by small business enterprises in Bungoma County.

## **LITERATURE REVIEW**

### **Theoretical Review**

#### **Market Segmentation Theory**

This theory was introduced by Culbertson (1957). The theory postulates that investors normally have a strict preference for maturity and postulate that short term and long term security are independent of each other hence investments of different maturities are poor substitutes of each other. The theory implies that there is an existence of separate market segment. In each market segment supply and demand determines its own credit terms and costs. Under this hypothesis, the yield curves are not likely to be continuous over different maturities. Through connecting equilibrium points, yield curve is usually constructed (Auerbach, 1988).

Therefore financial lending institutions in Kenya are able to segment their customers for instance in terms of business profiles and history; which eventually informs the financial lending institutions in crafting financial lending terms and conditions. Therefore the market segmentation theory applies in this study in the sense that if financial lending institutions segment small business enterprises as having high business risks, then they may craft credit policies that really limit credit access by these small business enterprises because their business could be termed as risky to advance credit.

### **Expectations Theory**

Developed by Lutz (1940), the theory is built on the concept people have in future conditions. For instance, Investors normally hold short term securities when future financial lending rates are expected to decrease and prefer to hold long term securities when future investments are expected to be high. That is, investors who are expecting high term interest rate are likely to buy long term debt since they are able to make high interest (Auerbach, 1988). The expectation theory assumes that investors have perfect knowledge on various factors influencing their lending power and able to maximize profit among others. The theory concludes long term lending rates will constantly move in similar direction as short term lending rates moves. Therefore the expectations theory connects to this study in the sense that since financial lending institutions are assumed to have perfect knowledge on various factors influencing their financial lending power, they have to maximize their profits by crafting viable financial lending terms and conditions which could easily affect small business enterprises whose business could be perceived as riskier to guarantee loan repayments; a scenario that can raise loan delinquency ratio that is always avoided at all costs by financial lending institutions with little loan loss provisioning.

### **Credit Market Theory**

This was postulated by Stiglitz and Weiss (1981) who attempted at explaining the rationale behind credit rationing in credit markets. That is the financial lending rates charged by a credit institution are seen as having a dual role of sorting designed to induce the borrower to take actions which are of interest of the financial lending institution, as well as to attract low-risk borrowers. The theory thus assumes that borrowers of money know better the risks associated with their projects

In this connection the moral hazard phenomenon is part of the problem of imperfect information concerning borrower's actions. Thus, it is the

misapplication of borrowed funds that shifts the risk to the lender, especially, if the project does not succeed. Borrowers may be tempted to divert approved loans to other projects with high risk, thereby reducing loan repayment possibility. Lenders may refuse to take actions that will enhance loan repayment due to incentives and reinforcement problems (Amonoo et al., 2003). If the moral hazard phenomenon occurs, solution advocated by the model is credit rationing. Therefore this theory is relevant to this study since by application of the moral hazard phenomenon, financial lending institutions will not engage borrowers with risky business that attract high loan repayment risks.

### **Review of study variables**

#### **Business risk and credit access**

This assesses whether business failure risks affects access to finance by small business enterprises in Bungoma County, Kenya. For instance, Nalwelishe (2003) carried out a research on sources of finance available to small scale enterprises in Nairobi. The objectives of the study were to identify which types of credit are easily obtainable by SMEs and to evaluate the credit policies of small business enterprises. On access to credit, majority of entrepreneurs relied on limited own and family savings for start-up and additional capital. They hardly rely on external sources of finance. Therefore, these enterprises have poor access to credit. Concerning supply of credit; urban-located enterprises were noted to have achieved a higher success rate than the rural ones whose business is assumed to be riskier.

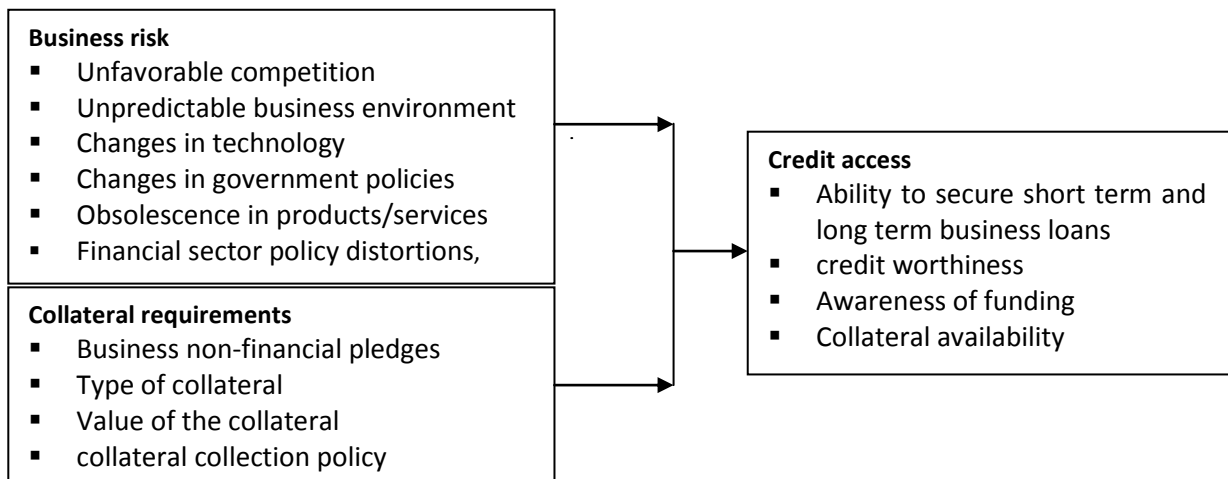
#### **Collateral requirements and credit access**

Collateral refers to assets pledged by a borrower to secure a loan (Leitner, 2006), so that the lender can seize these assets if the borrower does not make the agreed-upon payments on the loan, so the lender has some protection if the borrower defaults. Collateral security is therefore what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the

loan. The lender has the right, if you default on the loan, to obtain the collateral from you in lieu of payment (Baker, 2009). Given the vulnerability of the target market, it is common for borrowers to

be willing but unable to repay. After carefully determining that this is indeed the case it may be appropriate to give a limited number of loans based on collateral requirements.

### Conceptual framework



### Independent variables

### Dependent variable

**Figure 1: Conceptual Framework**

Source: Author (2019)

### Empirical Literature Review of Related Studies

#### Business Risk and Credit Access

First, financial risks occur when a firm makes use of debt. In such instances, the firm takes on additional responsibility of financing the debt which is paying interest payments on time (Gichuki et al., 2014). The inability of the firm to pay the interest payments or repay the principal will result in a default that might lead to bankruptcy. As the amount of debt used by the firm increases, the chances of it defaulting will also go up due to constraints on its cash flows as a result of the interest payments. SMEs rely more on external financing, thus the financial risk in the SME sector is most likely to be very high (Gichuki et al., 2014).

Van Aardt and Fatoki (2012) found that the difficulties faced by small businesses in accessing credit facilities are attributed to their perceived higher risk profile. Lending institutions regard SMEs as riskier enterprises for a number of reasons which include severe competition environment, price fluctuation, emerging technology in

government policy, obsolescence, inadequate accounting systems, more unpredictable operating environment in the developing and emerging markets, assets not properly registered, delayed payments for the products and services rendered, less equipped in terms of both human and financial resources to withstand economic resources.

Green (2003) also asserted that commercial banks tend to impute a high risk to small business enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. In addition, organization and administrative deficiencies, lower quality management and a lack of appropriate accounting systems may compromise the accessibility and reliability of information from small firms on their repayment capacity.

### Collateral Requirements and Credit Access

Collateral refers to assets pledged by a borrower to secure a loan (Leitner, 2006), so that the lender can seize these assets if the borrower does not make the agreed-upon payments on the loan, so the lender has some protection if the borrower defaults. Collateral security is therefore what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the loan. The lender has the right, if you default on the loan, to obtain the collateral from you in lieu of payment (Baker, 2009). Given the vulnerability of the target market, it is common for borrowers to be willing but unable to repay. After carefully determining that this is indeed the case it may be appropriate to give a limited number of loans based on collateral requirements.

To begin, Nizar and Javed (2007) did a study on the use of collateral in the Islamic microfinancing sector. The Islamic system of banking and finance, in its essence, is believed to contribute to the emergence of a just and growing healthy economy by giving small enterprises the opportunity to obtain finance on participatory basis in which a collateral would not be necessary. Muslim economists argue that since the Islamic system is a system based on participatory financing then Islamic banking would not depend on tangible collateral as much as Interest based/Western banking. Western/Interest based banking system generally provides credit to those clients who are able to offer sufficient tangible collateral that gives them legal entitlement to tangible assets in the event of default. However, in the long run this banking policy further widens the already large income gap between the upper and lower classes of the society. Furthermore, the existence of collateral requirements makes banks indifferent to the efficiency or success of the business being financed by the loan, as many inefficient micro-businesses may secure credit by the virtue of collateral. Conversely, many efficient micro-businesses/ micro-entrepreneurs may not find

access to credit because they are not able to provide sufficient collateral (Nizar & Javed, 2007). Therefore, once collateral requirements are removed, it becomes crucial for MFIs to screen projects on the basis of their feasibility; if a project is unsuccessful then it will not be able to make repayments to the bank hence the bank is bound to screen projects vigilantly. There has been a debate among the Muslim economists on whether collateral is required for Islamic financing activities; Muslim economists have given theoretical justifications that as the profit and loss sharing arrangements, like the equity financing, implies risk sharing, it also by-passes the collateral requirements because in their views, this would improve the efficacy of the credit market (Nizar & Javed, 2007).

### METHODOLOGY

This study adopted a descriptive survey design to obtain information concerning the study variables. Descriptive survey design is appropriate since it involves an in-depth analysis of study variables (Kothari, 2007). The study targeted 5000 registered small business enterprises in Bungoma County having 3-30 employees. Bungoma County had about 5000 registered small business enterprises, mostly concentrated in the region's urban Centre and heterogeneous in nature (Bungoma County; Industrialization, Trade and Enterprise Development Office, 2018). The study used structured questionnaires to collect primary data. Primary data obtained from the research instruments was analyzed using Statistical Package for Social Science (SPSS) version 24. The multiple regression model equation is;  $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon$ ; where; Y is the dependent variable (credit access),  $\alpha$  is the constant,  $\beta_1, \dots, \beta_2$  are beta coefficients,  $X_1, \dots$  collateral requirements  $X_2, \dots$  business risk) and  $\epsilon$  is the error term.

## FINDINGS

### Descriptive statistics; Business risk and credit access

This analyzed responses on whether business risks influence access to loans by small business enterprises. The results are shown in table 1 with frequencies and percentages in brackets.

**Table 1: Descriptive statistics; Business Risk**

Statement	Frequency and percentages (%)					mean	Std.dev
	5	4	3	2	1		
1 Unfavorable business conditions affect small businesses' access to credit	8(7.8)	51(49.5)	10(9.7)	27(26.2)	7(6.8)	3.45	0.935
2 Unpredictable business operation environment affects small businesses' access to credit	12(11.7)	50(48.5)	11(10.7)	20(19.4)	10(9.7)	3.43	0.821
3 Changes in government policies and finance sector policy distortions affects small businesses' access to credit	9(8.7)	47(45.6)	15(14.6)	21(20.4)	11(10.7)	3.41	0.985
4 Obsolescence in business products/services influence small businesses' access to credit	10(9.7)	49(47.6)	13(12.6)	19(18.4)	12(11.7)	3.47	0.810
5 Generally, business risk issues influence small businesses' access to credit	13(12.6)	52(50.5)	10(9.7)	18(17.5)	10(9.7)	3.59	0.898
Valid listwise	103						
Grand mean =	3.47						

From table 1, most respondents agreed (49.5%) and strongly agreed (7.8%) that unfavorable business conditions affect small businesses' access to credit. That is if small businesses were experiencing harsh business environment that does not guarantee any return on investment, then they cannot secure loan from financial lending institutions who want they money paid back within the stipulated and signed credit terms.

Secondly, most respondents agreed (48.5%) and strongly agreed (11.7%) that unpredictable business operation environment affects small businesses' access to credit; thus if small businesses owners cannot predict their financial performance for the next even 3 months, then they definitely could have the courage to secure a loan that they not sure of raising monthly repayments.

Thirdly, most respondents agreed (45.6%) and strongly agreed (8.7%) that changes in government

policies and finance sector policy distortions affect small businesses' access to credit. This means that small businesses without financial backups planned to weather emerging financial distortions from government policies or business regulatory frameworks cannot have financial power to pay back secured loans. Similarly, most respondents agreed (47.6%) and strongly agreed (9.7%) that obsolescence in business products/services influence small businesses' access to credit. That is, if whatever the small business is engaged in can become obsolete before clearing the outstanding loan arrears, then it will not be prudent for such small business owners to secure loans because their business is riskier.

In summary, most respondents agreed (50.5%) and strongly agreed (12.6%) that generally, business risk issues influence small businesses' access to credit. This is supported by Gichuki et al., 2014) who



asserted that inability of a business firm to pay the interest payments or repay the principal will result in a default that might lead to bankruptcy. As the amount of debt used by the firm increases, the chances of it defaulting will also go up due to constraints on its cash flows as a result of the interest payments. SMEs rely more on external financing, thus the financial risk in the SME sector is most likely to be very high (Gichuki et al., 2014).

**Descriptive statistics; Collateral requirements and credit access**

This analyzed responses on whether collateral requirements influence access to loans by small business enterprises. The results were shown in table 2 with frequencies and percentages in brackets.

From table 2, there were mixed responses on the statement that the small business non-financial

**Table 2: Descriptive statistics; Collateral requirements**

Statement	Frequency and percentages (%)					mean	Std.dev
	5	4	3	2	1		
1 The small business non-financial pledges influence access to credit	10(9.7)	41(39.8)	15(14.6)	21(20.4)	16(15.5)	3.38	0.973
2 The type of collateral influences access to credit	17(16.5)	40(38.9)	23(22.3)	14(13.6)	9(8.7)	3.41	0.875
3 The value of collateral security influence access to credit	19(18.4)	53(51.4)	11(10.7)	12(11.7)	8(7.8)	3.61	0.848
4 Collateral collection policy influence access to credit	20(19.4)	52(50.5)	10(9.7)	12(11.7)	9(8.7)	3.68	0.883
5 Generally, collateral requirements influence access to credit	18(17.5)	51(49.5)	8(7.8)	19(18.4)	7(6.8)	3.57	0.879
Valid listwise	103						
Grand mean =	3.53						

In summary, most respondents agreed (49.5%) and strongly agreed (17.5%) that generally, collateral requirements influence access to credit. This is supported by Leitner, (2006), who assert that collateral security has been adopted by many financial lending institutions, so that the lender can seize assets if the borrower does not make the agreed-upon payments on the loan; that is, the lender has some protection if the borrower defaults. Collateral security is therefore what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the

pledges influence access to credit. This is because 39.8% agreed; 14.6% were uncertain; while 20.4% disagreed. This implied that though some small business enterprise could access loans using non-financial pledges possibly due to trust some small business enterprise could not. Secondly, 38.9% agreed, 22.3% were uncertain while 13.65% disagreed that the type of collateral influences access to credit. This means those who were uncertain had never accessing loans using collateral while those who disagreed could be those who failed to secure loans due to stringent collateral requirements. However most respondents agreed (51.4%) and strongly agreed (18.4%) that value of collateral security influence access to credit; and similarly, most respondents agreed (50.5%) and strongly agreed (19.4%) that collateral collection policy influence access to credit.

loan. The lender has the right, if you default on the loan, to obtain the collateral from you in lieu of payment (Baker, 2009). Given the vulnerability of the target market, it is common for borrowers to be willing but unable to repay. After carefully determining that this is indeed the case it may be appropriate to give a limited number of loans based on collateral requirements.

**Inferential statistics**

This involved correlation analysis, linear regression and multiple regression analyses, but model

assumptions of multiple regression analysis were checked and met.

**Table: 3 Multiple Regression Analysis**

		Collateral Requirements	Business Risk	Credit Access
Collateral Requirements	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	103		
Business Risk	Pearson Correlation	.641**	1	
	Sig. (2-tailed)	.000		
	N	103	103	
Credit Access	Pearson Correlation	.811**	.813**	1
	Sig. (2-tailed)	.000	.000	
	N	103	103	103

Lastly, multicollinearity was checked using correlations between all pairs of independent variables (credit access and business risks). Most researchers posit that if correlation coefficient, (r) is close to 1 or -1, then there is multicollinearity but if correlation coefficient (r) is not above 0.9, then there was no multicollinearity. In this study, the highest correlation coefficient between all pairs of independent variables (collateral requirements and business risks) was 0.813, which is below the threshold of 0.9, thus multicollinearity assumption was checked and met.

**Linear regression analysis**

This tested the linear influence of collateral requirement on credit access by small business enterprises in Bungoma County; and the results were shown in table.

The model summary in table 4 showed that R<sup>2</sup> = 0.657, implying that 65.7% variation in credit access by small business enterprises in Bungoma County was explained by collateral requirements while other factors not in the study model accounts for

34.3% variation in credit access by small business enterprises in Bungoma County. Further, coefficient analysis indicated that collateral requirements significantly influence credit access by small business enterprises in Bungoma County ( $\beta = -0.834(0.060)$ ; at  $p < .01$ ). These results implied that a single increase in stringent collateral requirements will results to 0.834 unit reduction in credit access by small business enterprises in Bungoma County. The linear regression equation was;  
 $y = 0.947 - 0.834X_1$   
 where;  
 y is credit access by small business enterprises in Bungoma County  
 $X_1$  is collateral requirements

**Table 4: Direct influence of collateral requirements on credit access**

Model Summary					
Model	R	R Square	Adjusted R	Std. Error of	Change Statistics

		Square	the Estimate	R Square	F Change	df1	df2	Sig. F Change	
1	.811 <sup>a</sup>	.657	.654	.70554	.657	193.781	1	101	.000

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	96.461	1	96.461	193.781	.000 <sup>a</sup>
	Residual	50.276	101	.498		
	Total	146.736	102			

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	.947	.032		2.010	.047
	Collateral Requirements	-.834	.060	-.811	-13.921	.000

a. Dependent Variable: Credit Access

**Direct influence of business risk on credit access** Bungoma County; and the results were shown in table 5. This tested the linear influence of business risk on credit access by small business enterprises in

**Table 5: Direct influence of Business risk on credit access**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.813 <sup>a</sup>	.662	.658	.70122	.662	197.421	1	101	.000

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	97.074	1	97.074	197.421	.000 <sup>a</sup>
	Residual	49.663	101	.492		
	Total	146.736	102			

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	.445	.205		2.172	.032
	Business Risk	-.862	.061	-.813	-14.051	.000

a. Dependent Variable: Credit Access

**Table 6 : Multiple regression analysis**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F Change	df1	df2	
1	.877 <sup>a</sup>	.769	.760	.58765	.769	81.728	4	98	.000

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	112.894	4	28.223	81.728	.000 <sup>a</sup>
	Residual	33.843	98	.345		
	Total	146.736	102			

a. Predictors: (Constant), Business Risk, Collateral Requirements

b. Dependent Variable: Credit Access

Further, from the values of unstandardized regression coefficients with standard errors in parenthesis in table 4.9, all the independent variables (collateral requirements;  $\beta = -0.367$  (0.093) at  $p < 0.01$  and business risk;  $\beta = -0.807$  (0.169) at  $p < 0.05$ ; were significant predictors of credit access by small business enterprises in Bungoma County (dependent variable). Therefore, the multiple regression equation for overall significant multiple influence of the independent variables (collateral requirements and business risk)

on credit access by small business enterprises in Bungoma County (dependent variable) is;

$$y = 0.460 - 0.367X_1 - 0.807X_2$$

Where;

y = credit access by small business enterprises in Bungoma County

$X_1$  = collateral requirements

$X_2$  = business risk

**Table 7: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.460	.097		4.731	.000
	Collateral Requirements	-.367	.093	-.351	-3.926	.000
	Business Risk	-.807	.169	-.761	-4.763	.000

a. Dependent Variable: Credit Access

### Hypothesis testing

Study hypothesis one (H01) stated that there is no significant relationship between business risk and credit access by small business enterprises in Bungoma County. The results indicate that there is a negative but significant influence of business risk on credit access by small business enterprises in Bungoma County ( $\beta = -0.807$  (0.169); *significant at  $p < .01$* ). **Hypothesis one is therefore rejected.** The results indicate that a single increase in operating perceived riskier business will result to 0.807 unit decline in credit access by small business enterprises in Bungoma County, The results are supported by Van Aardt and Fatoki (2012) who found that the difficulties faced by small businesses in accessing credit facilities are attributed to their perceived higher risk profile. Lending institutions regard SMEs as riskier enterprises for a number of reasons which include severe competition environment, price fluctuation, emerging technology in government policy, obsolescence, inadequate accounting systems, more unpredictable operating environment in the developing and emerging markets, assets not properly registered, delayed payments for the products and services rendered, less equipped in terms of both human and financial resources to withstand economic resources.

Further, Green (2003) also asserted that commercial banks tend to impute a high risk to small business enterprises and are therefore reluctant to extend credit to them. Due to their

small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. That is, these firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. In addition, organization and administrative deficiencies, lower quality management and a lack of appropriate accounting systems may compromise the accessibility and reliability of information from small firms on their repayment capacity (Green, 2003).

Study hypothesis two (H02) stated that there is no significant relationship between collateral requirements and credit access by small business enterprises in Bungoma County. The results indicate that there is a negative but significant influence of collateral requirements on credit access by small business enterprises in Bungoma County ( $\beta = -0.367$  (0.093); *significant at  $p < .01$* ). **Hypothesis two is therefore rejected.** The results indicate that a single increase in stringent collateral requirements will result to 0.367 unit reduction in credit access by small business enterprises in Bungoma County, The results were supported by Central Bank of Sudan (2007) further asserts that the international and local experience has demonstrated that the best type of guarantee is a viable project, a good client and close follow-up. Hence any recommendations advocating the adoption of lenient collaterals as a form of extending outreach must be supported by the implementation of best practice in terms of

loan analysis, loan product design, risk and delinquency management procedures, actions before and after loan disbursement, and close monitoring. To adopt such practices, banks interested in delivery of microfinance services should restructure their branches in an efficient manner and adopt mechanisms, which make them nearer to the targeted clients. Intensive training to the sales force will be crucial for ensuring proper assessment of projects' viability and client's credibility, in addition to close monitoring and follow-up. These rules of Central Bank of Sudan (2007) of adopting best practices in delivery of microfinance services are consistent with microfinance prudential rules in Kenya where application of collateral security by lending firms should not jeopardize clients' rights or small businesses' access to credit.

## CONCLUSIONS

First the study concludes that financial lending institutions are also profit making entities thus cannot engage some risky business entities like small business enterprises with projected losses and insolvency risks.

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Secondly, collateral requirements are basic loan recovery measures by financial lending institutions to avoid loan delinquencies from non-performing small businesses

## RECOMMENDATIONS

First, financial lending institutions should devise feasible financial literacy programs to perceived risky small business customers whose business risk could just be emanating from financially illiterate small business owners and or managers owners.

Secondly, managers of small business enterprises should prudently source for financing facilities from financial lending institutions with convenient and lenient collateral requirements.

## Areas for further research

First, another study can be done but focusing on identifying major business risk avenues of small business enterprises.

Secondly, a similar study can be done on medium and macro business enterprises so as to compare results.

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