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INFLUENCE OF BANKS' CREDIT TERMS ON FINANCIAL PERFORMANCE OF SMALL MEDIUM ENTERPRISE IN BUNGOMA COUNTY

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ABSTRACT

This study was motivated by the different challenges faced by SMEs in accessing credit facilities from lending institutions to sustain business growth and financial performance. The purpose of the study was to establish the extent to which lending institutions' credit terms have affected financial performance of SMEs in Bungoma County. The study was guided by the following objectives; to ascertain the effects of interest rates on the financial performance of SMEs in Bungoma, to determine the influence of collateral on the financial performance of SMEs in Bungoma lastly, to assess the effects of repayment period on financial performance of SMEs in Bungoma County. The study added to existing literature on financial performance of SMEs, credit terms in Bungoma County. It provided information and knowledge about the importance of credit worthiness to SMES which will help them improve their chances of getting credit. Information was relayed to lending institution about perceptions of their services by business enterprises which helped them improve service delivery. The study was based on a correlation survey design. Primary data was collected using self-administered questionnaires issued to respondents who were owners/managers or even business partners of the SMEs. A sample size of 150 respondents was selected from a population of 1500 SMEs using simple random sampling method. Reliability coefficient was used to measure the internal consistency items in a survey instrument to gauge its reliability. The higher the score, the more reliable the generated scale was. Data was analyzed using inferential statistics Correlation and regression analysis was carried out to establish the association among the variables. It was discovered that collateral, interest rate and repayment period have an impact on financial performance of small and medium enterprises in Bungoma County. It was hence recommended that further research to be done in the near future so as to also cover the other parts of the country and also establish the moderating effect of organizational factors on the relationship between lending policies and performance of SMEs. Future research is also encouraged to study other lending policies like the borrower's characteristics, risks involved in lending and the amount of money lent so as to establish out if they have any effect on the performance of SMEs.

Key Words: *Small Medium Enterprise, Financial Performance, Banks' Credit Terms, interest rate, collateral security, loan Repayment period*

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INTRODUCTION

Worldwide, Small Medium undertakings (SMEs) are the main impetuses of money related development and occupation appearance which have an exceptional importance in created nations as well as in creating and rising economies (CGAP/world bank organization, 2009). SMEs in many countries have obstructions to access to back, issues in misusing the innovation, deficient administrative aptitudes, low productiveness and administrative weights of their business environment. a couple SMEs face certain imperatives which can be less significant to tremendous organizations inside the world explicitly 28% of advance defaults, contingent upon business improvement administrations for building up their organizations, face key limitations in their entrance to fund and fare advertises, and are excessively stricken by administrative hindrances (Beck 2006). Credit terms are models applied by loaning organizations in deciding the capacity to reimburse advances. These terms help in evaluating credit value of borrowers and support against the danger of defaulting in the event of non-reimbursement. They incorporate guarantee, loan cost and reimbursement period (Agarwal, 2006). Access to credit alludes to availability of supply of affordable quality monetary services at an affordable price. Business financial performance is the capacity of the business to add to occupation and riches creation through business startup, endurance and development (Stevenson, 2005).

Improved access to credit enables organizations to develop and propel their budgetary exhibition (Claessens, 2006). Then again, procurement of such credit has demonstrated to be troublesome because of credit terms that are seen to be ominous. As indicated by Kasekende (2003), in Kenya, guarantee is up to a tune of 100% of the credit, the reimbursement time frame is as short as two years, and loan fees run from 20% to 30% every year. In spite of the fact that there have been a few new companies in the ongoing past, various have neglected to proceed. There was a decrease in enrolled business from10, 000 out of 2001 to 2,100 out of 2007 as confirmed by Kepsa report (2005).

Little and Medium measured Enterprises (SMEs) are assessed to comprise 80 percent of the organizations in Bungoma County. A little scale endeavor is an undertaking or a firm utilizing under 5 however with a limit of 50 representatives while a medium measured venture is viewed as a firm, which utilizes between 50-100 laborers (Kasekende and Opondo 2003). 80% of the SMEs in Bungoma are situated in urban regions and are to a great extent associated with exchange, agro-preparing, and small manufacturing.

SMEs overall performance can be measured by the use of objective, subjective, or operational measures (steel, and Andah, 2011). Richard, Devinney, Yip and Johnson (2008) advise the goal technique as a composite measure of SME overall performance. The goal technique measures overall performance using financial (objective) and non-financial measures (subjective) measures. Financial measures of overall performance may be called the results of a company's operations in financial terms (business directory 2011). Monetary measures of overall performance are derived from the accounts of a company or may be found within the company's profit and loss declaration or the balance sheet. Money related measures are otherwise called objective measures because of the reality they might be by and by estimated and tried (la Ferrara, 2003).

In spite of the significant job that SMEs are required to play in the economy of Kenya for the most part in Bungoma County, there are various imperatives which go about as boundaries to the development and development of a supportable little and miniaturized scale ventures division. The Ministry of Finance, Planning and Economic Development, Bungoma district government (2014), UNCTAD (2002) and Stevenson (2005) accentuate that the significant

limitations that the SMEs in Bungoma County part faces include: tasks as a casual area, the size of their activities is too little to even think about enabling delight in economies of scale, poor generation innovation, restricted access to business sectors, constrained administrative abilities, government organization and restricted access to banking offices. SMEs contribute approximately 75 percent of the all-out national yield and use around 1.5 million people, inferring their centrality in the monetary progression of Bungoma County. Their success is along these lines vital to Bungoma County. This accomplishment at any rate depends upon their ability to get credit. The researcher thus attempts to investigate the impact of banks' credit terms on budgetary execution of SMEs.

Statement of the Problem

Through the years, overall performance of SMEs has confronted demanding situations and majority of them no longer exist (Agarwal, 2006). This trend of performance might be due to SMEs failure to access credit from lending establishments because of negative credit terms (Agarwal, 2006). KIPRA policy paper (2010) noted that Bungoma County with its favorable business environment, the economic projection indicated, business to grow at a rate of 86 percent, because of inability of many businesses to access credit, this was not achieved. The economic survey of Bungoma County under the Ministry of Finance and Economic Planning indicated business was at a rate of 52 percent in (2014), a rate lower than the projected one. In developed and developing economies SMEs contribute on average 60% of formal employment (Oguta, 2014). However, the ability of SME to grow depends highly on their potential to invest in restructuring and innovation (Ayyagari et al., 2007). The rate of SMEs failure in developing countries as well as developed countries is alarming. 33% to 41% of new SMEs fail within the first five years of their business operation due to lack of finances (Thaimuta, 2014). Three out of five SMEs fail within their first three years of operation in Kenya (RoK, 2007). It is therefore widely recognized that 'credit terms gap' exists in the provision of modest amounts of finance to SMEs since all investments need capital. SMEs continue to face constraints caused by many common factors including commercial bank's credit policies. In line with this argument, credit terms have influence on performance of SMEs (Sabana, 2014). In contrary, (Ifeakachukwu et al., 2013) found out that credit terms to the SME sector had insignificant impact on their performance. Such contradictory and inconclusive evidence by different scholars have conflicting implications for practice and theory development, hence the need for further research. From the above identified gaps it was essential for this study to establish the effect of lending institutions' credit terms on financial performance of SMEs in Bungoma County.

Objectives of the Study

The purpose of the study was to establish the effect of banks' credit terms on financial performance of SMEs in Bungoma County. The specific objectives were:-

- To establish the effects of interest rate on financial performance of SMEs in Bungoma County.
- To determine the influence of the use of collateral on financial performance of SMEs in Bungoma County.
- To find out the effect of repayment period on financial performance of SMEs in Bungoma County.

The research hypotheses were;

- **HO_1** There is no significant relationship between interest rate and SMEs performance in Bungoma County.
- **HO_2**There is no significant relationship between collateral security and SMEs performance in Bungoma County.

- **HO_3**There is no significant relationship between loan Repayment period and SMEs performance in Bungoma County.

LITERATURE REVIEW

Theory of Credit Rationing

The credit rationing theory, propounded by Stiglitz and Weiss (1981), provides a framework for analyzing financial market inefficiencies. It asserts that, information asymmetry is the main cause of financial market malfunctioning in developing countries. Credit rationing is broadly defined as a situation in which there exists an excess demand for loans because quoted loan rates are below the market clearing level (Jaffee et al., 1990).

Loan amount rationing / proportioning emerges when the potential borrower is turned down regarding credit while advance size apportioning happens when the advance sum gotten by the borrower is littler than the one they requested (Okurut, 2004). As indicated by Parikshit et al., (1999), a noteworthy division of credit exchanges in immature nations still happens in the casual area, regardless of genuine government endeavors to channel credit legitimately through its own banks, or by managing commercial banks.

The presence of limited liability of borrowers gives an inclination for hazard among borrowers and a relating antipathy for hazard among loan specialists. This is on the grounds that restricted obligation with respect to borrowers suggests that moneylenders bear the entire drawback hazard. Then again, all profits over the advance reimbursement commitment accumulate to borrowers. Raising loan costs at that point influences the benefit of generally safe borrowers lopsidedly, making them drop out of the candidate pool. This prompts an antagonistic compositional impact; higher financing costs increment the normal danger of the candidate pool (Parikshit et. al., 1999). At high loan fees, the main candidates are borrowers who could conceivably produce exceptionally significant yields (yet apparently with little likelihood).

Favorable credit terms such as adequate loan amounts, affordable interest rates and flexible repayment schedules help SMEs keep enough finances to run their working capital activities, it helps them improve their performance because they will always have an opportunity cost of reinvesting their proceeds in order to generate more revenues which increases on their return on capital employed. In return, their (SME) net profit margin will raise something that lifts the capital size (Kuria et al., 2014).

The supply of bank credit to SMEs has unmistakable qualities contrasted with bigger organizations. To start with, loaning to SMEs is commonly less secure as they are regularly youthful organizations, they frequently have less guarantee accessible for security and they are more averse to have valuing power in their item showcases (Armstrong, 2013). When capital safeguarding is critical, banks might be progressively hesitant to acknowledge credit chance since SMEs are regularly more dark than bigger firms, have less requirement for formal detailing structures, less outside checking by value financial specialists, less fluid security or resources and are all the more firm-explicit, more area explicit and include deficient contracts. These challenges imply that the expense of insolvency, (for example, explicit and not effectively attractive resources) and misfortune on resource transfer might be more prominent for littler than bigger firm (Armstrong, 2013).

Two theories focus respectively on involuntary and voluntary default risks, and associated borrower incentives. In the first model, defaults arise involuntarily, owing to adverse income or wealth shocks that make borrowers unable to repay their loans. Banks that advance loans to economic agents are not only interested in the interest they receive on loans, but also the risks of such loans. Interest banks

charges on loans have the tendency to affect the risks of a pool of loans by either sorting potential borrowers (the adverse selection effect) or affecting the behavior of borrowers (the moral hazard problem). The end result of these two decisive problems are that banks have to resort to various screening means to identify potential borrowers who are more likely to pay back their loans; since the expected return on such loans depends crucially on the probability of repayment (Kofi et al., 2013). The problem of adverse selection and credit rationing can occur if banks require collateral for loans.

Low-risk borrowers (borrowers who face a lower rate of return if a project returns its highest outcome) expect a lower rate of return if the rate of inflation is high, they are on the average less wealthy than high-risk borrowers (after some time period) and even, are unable to provide more collateral for extra loans (as they may not have the necessary collateral). Thus, as the collateral requirements for loans by banks increase, the same adverse selection problem, as observed in the case for high interest rates, takes place. Altogether, low risk borrowers (which likely include SMEs) are eliminated from the stream of potential borrowers and banks may not be interested in granting loans to them (Stiglitz et al., 1981). The limitation of this theory is that it assumes that investors are all the same, all offering the same optimal menu of contracts. In reality investors are often heterogeneous and they specialize in particular forms of "financing. Entrepreneurs seek out various types of funding structure based on the offers investors make and based on their own preferences (Hellman, 1998).

Credit terms Channel Theory

According to the proponents of credit terms channel theory, Bernanke and Blinder (1988), monetary policy affects the supply of bank loans through an imperfect market for bank debt. A restrictive monetary policy leads to a drop in bank deposits. Only banks that have a larger share of liquid assets or that are bigger are able to shield their lending relationships from the monetary policy shock (Lúcio, 2007). Banks' asset decisions play an important role in monetary policy independently of the cost of capital. The theory predicts that a reduction in reserves induces banks to scale back lending activities. This disproportionately affects SMEs that cannot readily switch to other funds, those without access to credit markets.

Small manufacturers, for instance, may be more dependent on banks than other firms, and without alternative financing, they may be forced to limit desired investment (or current production) for a given market interest rate (Bernanke et al., 1988). The credit terms channel theory posits that during monetary contractions banks restrict some firms' loans, thus reducing their desired investment independently of interest rates. The theory assume that banks hold three assets – reserves, loans, and short term bonds – and issue one liability – bank deposits. Loans and bonds are imperfect substitutes, both as sources of finance to borrowers and as assets held in bank portfolios. In consequence the stock of bank credit depends on the spread between bank loan and bond market rates of interest (Jeffrey, 1999). According to Stein (1998), like Bernanke et al., (1988), the impact of bank balance sheets on loan supply amplifies the impact of monetary policy, but this model predicts that this amplification will be limited to constrained banks that are unable to substitute wholesale finance for a monetary policy induced reduction in bank deposits. For these constrained banks, a disturbance to bank deposits, e.g. an inflow of deposits financed by sale of other assets, will affect the supply of bank credit (Jeffrey, 1999).

Measuring the quantity of capital offered to a firm, however, is empirically difficult. One obvious suggestion is to examine the fraction of the firm which is financed by external capital or the fraction of the firm that is financed by debt. Since this variable is endogenous – it is determined by both supply and

demand considerations – the empirical results can be misleading. Firms with little external borrowing may be very constrained (many good projects but they are unable to borrow) or very unconstrained (they have run out of good projects and thus do not need any external capital). Instead, we need a variable which measures the firm's demand for capital in excess of that supplied by financial lenders (banks). This is a measure of how capital constrained the firm is. To measure the short fall between the firm's demand for capital and the supply which is available from external sources, we propose a novel measure (Petersen et al., 1995).

In the traditional "credit terms channel", a financial tightening may effect on credit terms if the drop in deposits cannot be absolutely offset by issuing non-reservable liabilities (or liquidating a few property). for the reason that market for bank debt isn't always frictionless and non-reservable banks' liabilities are generally no longer insured. In this case, bank capital can affect banks' external scores, providing investors with a signal about their creditworthiness. The price of non-reservable funding (i.e. bonds or certificate of deposit (CDs) could consequently be higher for banks with low levels of capitalization if they have been perceived as riskier by the marketplace. Such banks are consequently more exposed to uneven information issues and feature much less ability to protect their credit relationships (Jayaratne et al., 2000). Bernanke et al., (1995), underline that the so-known as credit channel should not be thought about an unattached option in contrast to the customary transmission system, anyway on the other hand as a lot of variables that amplify ordinary intrigue value impacts. As demonstrated by Kashyap et al., (1995) for the credit terms channel to be operational, it is every now and again sufficient that a national bank has the choice to impact the stock of advances made by business banks. The nearness of a credit terms channel for cash related transmission relies upon the explanation that the stock of non-store wellsprings of sponsoring for banks isn't unendingly adaptable (Bernanke et al., 1988). Evidence against the nearness of a bank-crediting channel found that less liquid banks react more solidly to shifts in budgetary game plan than progressively liquid banks do, anyway bank size and capitalization are normally not noteworthy (Hernando et al., 2001). In this examination, credit terms channel speculation is used to take a gander at the effect of credit terms on the show of SMEs and cash related access.

Empirical Review

It is seen that monetary foundations have looked to expand their credit portfolio; SMEs have turned into an undeniably alluring client gathering. Proof made by Bawuah (2014) shows that there are sufficient and accessible budgetary open doors for private companies to access despite the fact that Leippoid, (2006) have discovered an opposite conclusion and affirm that loaning foundations are fairly mindful of loaning to SMEs bunches as a result of high default rates and its potential dangers related with the area, another fighting issue suspected to trouble independent ventures is high financing cost. Research on the credit channel of fiscal arrangement battles that higher loan costs lead to a decrease in the accessibility of inside and outside money comparative with credit needs of firms. This channel is esteemed to be most significant for private companies which are destined to be obliged in their entrance to fund.

This view is predictable with Gertler and Gilchrist (1994) discoveries which show that little US assembling firms are excessively influenced during times of rising financing costs. High financing cost forces independent ventures to lessen inventories, bring about high generation cost and experience sharp falls in deals which at last influence their overall revenues and development. Conversely, bigger firms can maintain obligation levels, increment inventories, and experience an impressively littler decrease in their turnover and development as opined by

Ehrmann (2000). The impact of higher loan cost on layaway can be found to be decided sheet of these private companies.

The accounting report impact is that higher financing costs debilitate firm monetary records somewhat by diminishing expected future benefits since little firms have long haul physical resources however primarily transient liabilities. This development dissimilarity suggests that net current incomes decay when financing costs increases, and furthermore that the present estimation of benefits decreases comparative with the present estimation of liabilities. The last makes the firm less financially sound, decreasing its capacity to raise outer money. Greenwood (2003) finds that firm venture is most delicate to loan fees when development bungle is high and that this connection is most articulated for monetarily obliged organizations.

Ingram (2011) states that loan costs are significant in light of the fact that they control the progression of cash in the economy. High loan costs control expansion yet in addition hinder the economy. Low loan fees animate the economy, yet could prompt swelling. At the point when financing costs are high, individuals would prefer not to take credits out from the bank since it is progressively hard to pay the advances back, and the quantity of acquisition of genuine resources goes down. The impacts of a lower financing cost on the economy are extremely valuable for the buyer. Low financing costs are not useful for moneylenders, who are seeing to a lesser degree an arrival on their advance than in times when loan costs are high. The issue of high loan costs is one that is for the most part connected with Sub-Saharan African monetary markets. This is viewed as mirroring the nonattendance of rivalry in the business sectors. The clearest pointer of the nonappearance of rivalry in sub-Saharan African money related markets is the proceeding with wide spread in loan costs. When all is said in done, somewhere in the range of 1990 and 2004, the contrast among loaning and store rates for some Sub-Saharan African nations was more than 12 rate indicates and showed up augment (Aryeetey, 2005). While the high rates stay, business loaning by banks has contracted for bank possessions of government protections.

The predominance of excessively high genuine loaning rates and the proceeding with increment in the loaning store rate edges is especially stressing. Loan fees have stayed high in many nations in spite of the changes proposed to make the business sectors increasingly productive. In this way, financing costs go about as a system to maintain a strategic distance from awful hazard borrowers (Aryeetey, 2005). Financing costs are controlled by the most extreme anticipated that arrival should banks as opposed to being built up by market interest powers. Notwithstanding, when banks embrace very hazard unwilling conduct they may choose to set the charged loan fee beneath that one expanding the normal return, since further increments in the financing cost could broaden their likelihood of failing.

Collateral according to William (2007) is any asset of value that can be pledged by the borrower(s) as security that the loan will be re-paid in full and with interest. Collateral requirements in the process of borrowing for a business can range up to and above 100 percent of the loan principal. This percentage depends again on the amount of risk that the lender calculates that is observed that financial institutions have sought to broaden their loan portfolio; SMEs have become an increasingly attractive customer group. Evidence made by Bawuah (2014) indicates that there are enough and available financial opportunities for small businesses to access even though Leippoid, (2006) have found a contrary opinion and assert that lending institutions are rather cautious with lending to SMEs groups because of high default rates and its possible risks associated with the sector, another contending issue suspected to be bothering small businesses is high interest rate. Research on the credit channel of monetary policy

contends that higher interest rates lead to a decline in the availability of internal and external finance relative to credit needs of firms. This channel is deemed to be most important for small businesses which are most likely to be constrained in their access to finance.

This view is consistent with Gertler and Gilchrist (1994) findings which show that small US manufacturing firms are disproportionately affected during periods of rising interest rates. High interest rate compels small businesses to reduce inventories, incur high production cost and experience sharp falls in sales which ultimately affect their profit margins and growth. In contrast, larger firms have the ability to uphold debt levels, increase inventories, and experience a considerably smaller decline in their turnover and growth as opined by Ehrman (2000). The effect of higher interest rate on credit can be seen in the balance sheet of these small businesses.

The loan repayment period or term of a loan is usually classified as either short-term or long-term. A short- term loan is one that is repayable within a period of one year. A long-term loan on the other hand, is any loan with payment terms extending beyond one year. Although the relationship between loan maturity and borrower risk has been addressed in some theoretical models (Ortiz-Molina & Penas, 2004), there is very little observed research that tests these theoretical models in the context of credit terms to small firms (Berger & Frame, 2005).

The reimbursement of loans by poor people and SMEs is perceived as one of the most inconvenient issues confronting money related organizations in Africa. Credit reimbursement period is influenced when of accommodation of use and dispensing, existing social structures or companion gatherings to guarantee brief installment and the unbending structure of advance reimbursement and routine gatherings and beauty period (Amonoo et al., 2003). Advance misapplication and its ramifications for credit reimbursement has been perceived as a wonder that can be depicted as an ethical peril. The elements that can prompt misapplication of advance incorporate; the deferral in the arrival of assets, the level of the sum allowed is viewed as low by the borrower and he/she may twist the credit, this is, use it for utilization purposes which imperil advance reimbursement (Armah, 2001). At the point when portions are high (because of insufficient credit developments or deficient item structure) the expense of cash is seen to be high (Rennie et al., 2008). Low portion sums speak to an a lot greater expense of cash, are seen as being more affordable. Godquin (2004) announced that both age and size of credits have a converse relationship to reimbursement performance.

Bragg (2010) asserted that the short time frame reduces the risk of non-repayment to the bank, which can be reasonably certain that the business's fortunes will not decline so far within such a short time period that it cannot repay the loan, while the bank will also be protected from long-term variations in the interest rate.

The IMF report (2007) characteristics that loaning is dominatingly present moment and low to SMES because of poor credit discipline, authoritative requirement issues, and shortage of ventures and absence of security. In spite of SMEs' impression of unreasonably high loan fees, the expense of money is found to contrast positively and for the most part the issue identifies with the sum (financial estimation) of the portion rather than the expense of credit. At the point when portions are high (because of lacking credit developments or deficient item structure) the expense of cash is seen to be high (Rennie et al., 2008). Low portion sums speak to an a lot greater expense of cash, are seen as being more affordable. Wellen et al., (2008) attest that when shorter term credits win, advance period will conceivably be shorter as the FIs may be anxious about the possibility that that they will have the option to pay

their very own advance since they are more uncertain that they will recover their extraordinary credits.

FIs expect borrowers to cause necessary stores before they too can get a credit; borrowers normally should keep up these stores during the life of the advance, the expenses of cash borrowers get on these stores are well beneath the rates borrowers pay on their advances. The impact of such store necessities is to lessen the net extra money borrowers acknowledge from their credits and, in this manner, to build the successful expense of the advance to them. Around 33% of the manageable FIs answering to microfinance data trade for 2006 required such reserve funds stores, and by and large these FIs are littler than the ones that don't utilize obligatory investment funds (Rosenberg et al., 2009). SME and SME-manager characteristics may affect repayment performance. The firm's profit significantly influenced loan repayment and default is random, influenced by erratic behavior, or systematically influenced by area characteristics that determine local productions conditions or branch-level efficiency (Nannyonga, 2000). Godquin (2004) suggests that the provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance. There are two possible reasons for default: strategic default or default due to a negative economic shock. Loan characteristics play an important role in determining repayment performance and defaults generally arises from poor program design or implementation (Roslan et al, 2009). According to Derban et al., (2005), the causes of non-repayment could be grouped into three main areas: the inherent characteristics of borrowers and their businesses, the characteristics of lending institution and suitability of the loan product and the systematic risk from the external factors such as the economic, political and business environment in which the borrower operates.

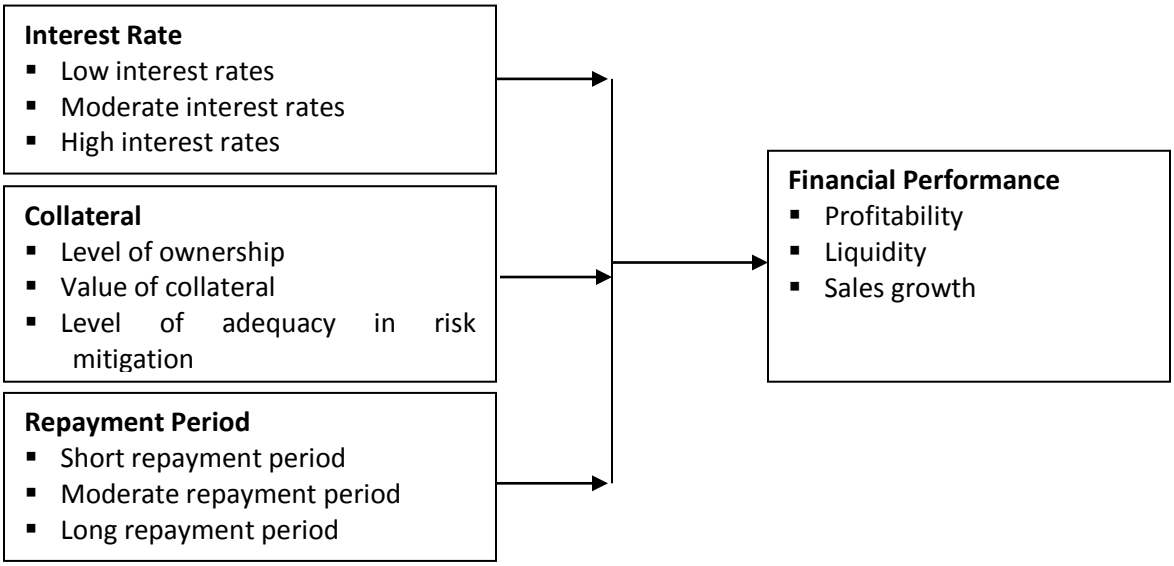

Figure 1: Conceptual Framework

METHODOLOGY

The study adopted a survey research design. The study population consisted of SMEs that have taken a loan in Bungoma County which are estimated to be 1500 from sectors of trade, service, manufacturing and processing as par Economics and planning department Bungoma County. The researcher used stratified sampling to divide the population into

strata according to the different business sectors of trade, service, Agro-processing and manufacturing. Simple random sampling was used to select respondents from each stratum. Owners/managers were interviewed. The sample size of 150 SMEs owners/managers was selected by use of Kothari 2004 sample size determination formulae. The researcher used structured self-administered questionnaires covering all the variables in the study for data collection procedure. Both descriptive and inferential analysis was carried out by the use of Statistical Package for Social Sciences (SPSS 24). Analyzed data was presented by use of tables and models.

FINDINGS AND DISCUSSIONS

Descriptive statistics of Collateral and Financial Performance of Small and Medium Enterprises

The first objective was to determine the influence of Collateral on financial performance of small and medium enterprises. The statements were anchored on a five point Likert-type scale. Respondents were required to state their level of agreement with seven statements, where 1= strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree. The findings were presented in Table 1.

Table 1: Descriptive statistics of Collateral and Financial Performance of Small and Medium Enterprises

Description	SD	D	U	A	SA	Total
This firm has sufficient collateral to get credit from Lenders.	4.7% (7)	21.9% (33)	28.1% (42)	25.0% (38)	20.3% (30)	100.0% (150)
The firm feels collateral required by Lending institutions is favorable.	0.0% (0)	0.0% (0)	4.7% (7)	39.1% (59)	56.3% (84)	100.0% (150)
To you support the idea that lenders consider most collateral to determine the amount of loan one can get.	0.0% (0)	0.0% (0)	1.6% (2)	26.6% (40)	71.9% (108)	100.0% (150)
Presence of collateralizable assets in this firm helps in business growth	0.0% (0)	0.0% (0)	0.0% (0)	23.4% (35)	76.6% (115)	100.0% (150)
What is your opinion that the collateral is a signal of high quality borrowers?	0.0% (0)	0.0% (0)	0.0% (0)	54.8% (82)	45.2% (68)	100.0% (150)
Thus low-risk borrowers willing to offer a better collateral	0.0% (0)	0.0% (0)	1.6% (2)	45.3% (68)	53.1% (80)	100.0% (150)

Respondents were asked to state their observation on whether their firm had sufficient collateral to get credit from Lenders. As tabulated in Table 1, the respondents observed as follows: 4.7% (7) strongly disagreed, 21.9% (33) disagreed, 28.1% (42) were undecided, 25.0% (38) agreed and 20.3% (30) strongly agreed. Therefore, majority 45.3% (68) of the respondents generally agreed that their firm had sufficient collateral to get credit from Lenders. However, 26.6% (40) generally disagreed. The study also sought to investigate whether their firm felt collateral required by Lending institutions was favorable. It was realized, as seen in Table 1, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 4.7% (7) were undecided, 39.1% (59) agreed and 56.3% (84) strongly agreed. As indicated by the high percentage 95.4% (143), majority of respondents agreed that the firm felt that collateral required by Lending institutions is favorable.

The third item under this theme was to establish whether they support the idea that lenders consider most collateral to determine the amount of loan one can get. It was established, as seen in Table 1, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 1.6% (2) were undecided, 26.6% (40) agreed and 71.9% (108) strongly agreed. As indicated by the high

percentage 98.5% (148), majority of respondents agreed that they support the idea that lenders consider most collateral to determine the amount of loan one can get. The fourth item under this theme was to establish whether the presence of collateralizable assets in their firm helps in business growth. It was found that, as seen in Table 1, 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 23.4% (35) agreed and 76.6% (115) strongly agreed. General, it was evident that 100.0% (150) of respondents agreed that the presence of collateralizable assets in their firm helps in business growth.

The study sought to establish whether collateral is a signal of high quality borrowers or not. As illustrated in Table 1 the employees' responses were as follows: 0.0 (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 54.8% (82) agreed and 45.2% (68) strongly agreed. Therefore, all respondents 100% (150) generally agreed that collateral is a signal of high quality borrowers. In establishing whether low-risk borrowers willing to offer better collateral, as seen in Table 1, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 1.6% (2) were undecided, 45.3% (68) agreed and 53.1% (80) strongly agreed. Majority of respondents agreed, as seen from the high percentage 98.4% (148), that low-risk borrower willing to offer better collateral. Findings from interviews revealed that most of the SMEs were comfortable with collateral as a surety for lending. One of the respondents stated:

"Our relationship with our lenders is personalized and we have a clear working framework. We have no issues with them demanding collateral especially for high value borrowings as they do (Interview, 2019)". This fact is confirmed by previous studies by Barry, (2015) who asserts that collateral is significant in any borrowing lending relationship and must be considered regardless of the overarching circumstances between the borrow and the lender.

Descriptive Statistics of Loan Interest Rate and Performance of Small and Medium Enterprises

To measure the effect of interest rate on SMEs, a set of ten statements were formulated. The respondents (SME owner/managers) were asked to indicate the extent of agreement with each of the financial management statements. The pertinent results are presented in Table 2.

Table 2: Descriptive Statistics of Loan Interest Rate and Performance of Small and Medium Enterprises

Description	SD	D	U	A	SA	Total
The interest rate charged on loan is too high for the SMEs owner/manager to borrow	0.0% (0)	1.6% (2)	0.0% (0)	18.8% (28)	79.7% (120)	100.0% (150)
High interest rate increases the SME's owner's financial risk	0.0% (0)	0.0% (0)	0.0% (0)	15.6% (23)	84.4% (127)	100.0% (150)
The interest rates on loans have been increasing over the years	0.0% (0)	0.0% (0)	0.0% (0)	12.5% (19)	87.5% (131)	100.0% (150)
The interest charged on the loan that SME owner get from the bank is always favorable	0.0% (0)	1.6% (2)	0.0% (0)	12.5% (19)	85.9% (129)	100.0% (150)
The interest rates charged by the banks can be revised over time	0.0% (0)	0.0% (0)	0.0% (0)	22.2% (33)	77.8% (117)	100.0% (150)
Bank interest rates are always fixed	0.0% (0)	0.0% (0)	0.0% (0)	20.3% (30)	79.7% (120)	100.0% (150)
The interest rate increases with the amount the SME owner/manager can	0.0% (0)	1.6% (2)	0.0% (0)	18.8% (28)	79.7% (120)	100.0% (150)

borrow						
Interest rate reduces the profits of SME owner/manager	0.0% (0)	1.6% (2)	0.0% (0)	18.8% (28)	79.7% (120)	100.0% (150)
The interest rate affects my borrowing decision	0.0% (0)	0.0% (0)	0.0% (0)	15.6% (23)	84.4% (127)	100.0% (150)

The study sought to investigate whether the interest rate charged on loan was too high for the SMEs owner/manager to borrow. It was realized, as seen in Table 2, that 0.0% (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 18.8% (28) agreed and 79.7% (120) strongly agreed. A higher percentage of 98.5% (148), showed that the interest rate charged on loan was too high for the SMEs owner/manager to borrow. However, 1.6% (2) disagreed. The second item under this theme was to establish whether high interest rate increases the SME's owner's financial risk. It was established, as seen in Table 2, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 15.6% (23) agreed and 84.4% (127) strongly agreed. As indicated all, 100.0% (150), of respondents agreed that high interest rate increases the SME's owner's financial risk.

The third item under this theme was to establish whether the interest rates on loans have been increasing over the years. It was found that, as seen in Table 2, 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) was undecided, 12.5% (19) agreed and 87.5% (131) strongly agreed. Generally, it was evident that 100.0% (150) the interest rates on loans have been increasing over the years. The study sought to establish whether the interest charged on the loan that SME owner get from the bank is always favorable as illustrated in Table 2, the responses were as follows: 0.0 (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 12.5% (19) agreed and 85.9% (129) strongly agreed. Therefore, a majority of respondents 98.4% (148) generally agreed that the interest charged on the loan that SME owner get from the bank is always favorable.

In establishing whether the interest rates charged by the banks can be revised over time, as seen in Table 2, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 22.2% (33) agreed and 77.8% (117) strongly agreed. This finding indicate that all respondents agreed, as seen from the high percentage 100.0% (150), that the interest rates charged by the banks can be revised over time. In establishing whether the bank interest rates are always fixed, the study realized, as seen in Table 2, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 20.3% (30) agreed and 79.7% (120) strongly agreed. This finding indicate that all respondents agreed, as seen from the high percentage 100.0% (150), that the bank interest rates are always fixed.

In establishing whether the interest rate increases with the amount the SME owner/manager can borrow, the study realized, as seen in Table 2, that 0.0% (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 18.8% (28) agreed and 79.7% (120) strongly agreed. This finding indicate that most respondents agreed, as seen from the high percentage 98.5% (148), that the interest rate increases with the amount the SME owner/manager can borrow. The study sought to investigate whether Interest rate reduces the profits of SME owner/manager. It was realized, as seen in Table 2, that 0.0% (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 18.8% (28) agreed and 79.7% (120) strongly agreed. A higher percentage of 98.5% (148), shows that Interest rate reduces the profits of SME owner/manager. However, 1.6% (2) disagreed.

The last item under this theme was to establish whether interest rate affects borrowing decision. It was established, as seen in Table 2, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 15.6% (23) agreed and 84.4% (127) strongly agreed. As indicated all, 100.0% (150), of respondents agreed that interest rate affects my borrowing decision.

The interviewees' insisted that interest rates are a great determinant of their choice of a lender. In their own words, the respondents outlined the following: *"I always conduct market survey to ascertain the market rates on interest rates borrow. Interest rates will determine the level of burden on your loan (Interview, 2019)".*

Descriptive Statistics of Loan repayment period and performance of small and medium enterprises

To examine loan repayment period, the respondents were asked to indicate the extent of agreement with loan repayment period. Their responses are summarized in Table 3.

Table 3: Descriptive Statistics of Loan repayment period and performance of small and medium enterprises

Description	SD	D	U	A	SA	Total
The loan repayment period enables SME owner/manager to pay all pending loans in time	0.0% (0)	0.0% (0)	1.6% (2)	14.1% (21)	84.4% (127)	100.0% (150)
SMEs owner/manager prefer loans that have longer repayment period to short ones	0.0% (0)	3.1% (5)	1.6% (2)	18.8% (28)	76.5% (115)	100.0% (150)
Banks usually process and give the loan within the expected period	0.0% (0)	0.0% (0)	0.0% (0)	26.6% (40)	73.4% (110)	100.0% (150)
Shorter repayment period affects SME owner's profitability positively	0.0% (0)	0.0% (0)	0.0% (0)	14.1% (21)	85.9% (129)	100.0% (150)
SME's are given grace period before starting to repay the loans	0.0% (0)	0.0% (0)	0.0% (0)	20.3% (30)	79.7% (120)	100.0% (150)
Loan repayment period is an important factor to consider when applying for a loan by the SME owner/manager	0.0% (0)	0.0% (0)	0.0% (0)	29.7% (45)	70.3% (105)	100.0% (150)
The credit terms period to SMEs is always too short	0.0% (0)	0.0% (0)	0.0% (0)	25.0% (38)	75.0% (112)	100.0% (150)

The study was interested in assessing whether the loan repayment period enabled SME owner/manager to pay all pending loans in time. As shown in Table 3, the respondents' responded were as follows: 0.0 (0) strongly disagreed, 0.0 (0) disagreed, 1.6% (2) were undecided, 14.1% (21) agreed and 84.4% (127) strongly agreed. Therefore, a majority of respondents 98.4% (148) generally agreed that the loan repayment period enables SME owner/manager to pay all pending loans in time. The second item that was investigated under this theme was whether the SMEs owner/manager preferred loans that had longer repayment period to short ones. It was found that 0.0% (0) strongly disagreed, 3.1% (5) disagreed, 1.6% (2) was undecided, 18.8% (28) agreed and 76.5% (115) strongly agreed. A higher percentage of the employees, thus 95.3% (143), indicated that the SMEs owner/manager prefers loans that have longer repayment period to short ones. However, 3.1% (5) disagreed with this opinion with 1.6% (2) being undecided.

The third item in this theme was to examine whether banks usually process and give the loan within the expected period. It was established, as seen in Table 3, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 26.6% (40) agreed and 73.4% (110) strongly agreed. Generally, it was evident that 100.0% (150) of respondents agreed

that banks usually process and give the loan within the expected period. In establishing whether shorter repayment period affects SME owner's profitability positively, it was realized, as seen in Table 3, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 14.1% (21) agreed and 85.9% (129) strongly agreed. This finding indicated that shorter repayment period affects SME owner's profitability positively

The fifth item under this theme was to determine whether SME's are given grace period before starting to repay the loans. It was established, as seen in Table 3, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 20.3% (30) agreed and 79.7% (120) strongly agreed. Therefore, it's agreeable to conclude that SME's are given grace period before starting to repay the loans. The study sought to investigate whether the Loan repayment period is an important factor to consider when applying for a loan by the SME owner/manager. It was realized, as seen in Table 3, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 29.7% (45) agreed and 70.3% (105) strongly agreed. As indicated by this percentage 100.0% (150), all respondents agreed that loan repayment period is an important factor to consider when applying for a loan by the SME owner/manager.

The other item investigated under this theme was whether the credit terms period to SMEs is always too short. It was realized, as seen in Table 3, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 25.0%(38) agreed and 75.0% (112) strongly agreed. This finding indicated that 100.0% (150) of respondents agreed that the credit terms period to SMEs is always too short.

The interviews supported the findings. In their own words, the respondents outlined the following: *"I would prefer that lenders lengthen their loan repayment periods to allow us more time to look for their money. This short period of repayment is some of the causes of default in payment (Interview, 2019)".*

Enterprise Performance

To measure the enterprise performance, each respondent was asked to evaluate his/her SME performance with respect to the following dimensions: Enterprise profits, Employee numbers, SMEs Market Share/number of customers, Value added per employee, Assets accumulated, SME-supplier partnerships suppliers, efficiency, and customers' retention and delivery time. The results are presented in Table 4.

Table 4: Descriptive results of performance of SMEs

Performance Of SMEs	Mean	Standard Deviation
Enterprise profits has increased over the years	3.7891	0.0712
Employee numbers have increased over the years	4.233	0.4512
SMEs Market Share/number of customers has grown	4.0877	0.5623
Value added per employee in our company is well above the SMEs industry average	3.4512	0.7676
Assets accumulated by the enterprise has grown	4.1923	0.3291
I/We consider the relations with suppliers to be excellent because we maintain genuine partnerships with them	4.3713	0.6513
Work organization is efficient	4.0132	0.3511
The enterprise has locked in customers/retained customer	3.6513	0.1451
SME Delivery time is short	3.9871	0.7631
Productivity of respondents is much higher than industry average	3.7613	0.3422
Overall mean and standard deviation	**3.9538**	**0.4434**

From the results, Enterprise profits has increased over the years scored a mean of 3.7891 with standard deviation of 0.0712, employee numbers has increased over the years had the mean of 4.233 with standard deviation of 0.4512, SMEs Market Share/number of customers has grown had the mean of 4.0877 with standard deviation of 0.5623, value added per employee in our company is well above the SMEs industry average had the mean of 3.4512 with standard deviation of 0.7676, assets accumulated by the enterprise has grown had the mean of 4.1923 with standard deviation of 0.3291, I/We consider the relations with suppliers to be excellent because we maintain genuine partnerships with them had its mean as 4.3713 with standard deviation of 0.6513, work organization is efficient had the mean of 4.132 with standard deviation of 0.3511, the enterprise has locked in customers/retained customer had the mean of 3.6512 with standard deviation of 0.1451, SME Delivery time is short scored a mean of 3.9871 and standard deviation of 0.7631 while the question productivity of respondents is much higher than industry average had a mean of 3.7613 with standard deviation of 0.3422.

From the results, the overall mean was 3.9538, a value that was between 3 and 4 on the Likert scale. However, this value was closer to 4 than 3, thus generally implying that the respondents were in agreement with the statements concerning performance of SMEs. In addition, with an overall standard deviation of 0.4434 further confirmed that their response could be trusted since this value was between 0 and 1.

Inferential Statistics of Lending Institutions credit terms and financial performance of small and medium enterprises

Loan Interest Rate and Financial Performance of Small and Medium Enterprises

The means of loan interest rate and financial performance of small and medium enterprises were regressed. This aided in testing the first hypothesis of the study that posits, H_{01}: Loan interest rate has no significant effect on financial performance of small and medium enterprises. This was tested using significance of R square and Regression coefficient at 95.0% confidence level. Summary of the regression model was presented in Table 5.

Table 5: Regression Results for Loan Interest Rate and Financial Performance

Model Summary [c]

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	0.470[a]	0.221	0.219	0.78899	0.221	95.821	1	338	.000

a. a. Predictors: (Constant), Loan interest rate

b. c. Dependent Variable: Financial performance of small and medium enterprises

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	59.649	1	59.649	95.821	.000[b]
	Residual	210.407	338	0.623		
	Total	270.056	339			

a. Dependent Variable: Financial performance of small and medium enterprises

b. Predictors: (Constant), Loan interest rate

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Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	S.E.	Beta		
1	(Constant)	2.322	0.145		16.000	0.000
	Loan interest rate	0.384	0.039	0.470	9.789	0.000

a. Dependent Variable: Financial performance of small and medium enterprises

b. Predictors: (Constant), Loan interest rate

Table 5 revealed that the relationship of loan interest rate and financial performance of small and medium enterprises variables which was linear, positive and significant. The correlation coefficient (R) of 0.470 implied a relatively weak relationship of loan interest rate and financial performance of small and medium enterprises. The coefficient of determination, R-square of 0.221 implied that 22.1% of the variance in financial performance of small and medium enterprises was accounted for by loan interest rate with the significance value of p = 0.000 which is less than 0.05. The unstandardized regression coefficient (B) value of loan interest rate and financial performance of small and medium enterprises was 0.384, correlation coefficient (β) of 0.470 and with a t-test of 9.789 and significance level of p = 0.000. This indicated that a unit change in loan interest rate would result to change in financial performance of small and medium enterprises by 0.384 in the same direction. At 5% level of significance and 95% level of confidence, loan interest rate was significant in predicating the degree of financial performance of small and medium enterprises. The regression equation to estimate the degree of financial performance of small and medium enterprises is stated as:

Financial performance of small and medium enterprises= 2.322 + 0.384 loan interest rate +e

An F-significance value of p = 0.000 was established showing that there was a probability of 0.00% from the regression model to accept the null hypothesis. The hypothesis, H_{01}, stated that: Loan interest rate has no significant effect on financial performance of small and medium enterprises. Thus, the model was found significant and therefore the null hypothesis was rejected on the ground that loan interest rate had significant and relatively weak and positive linear correlation with financial performance of small and medium enterprises.

This study complements the findings of Muthoka (2012) who also found that SMEs benefit from loans from microfinance institutions, and they seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. Bett (2013) conducted a study, to find out the effects of lending interest rates on profitability of SMEs in Kenya. He found out that lending interest rate is correlated with profitability of SME performance in Kenya. This implies that they move together without impacting negatively the demand side of the loanable funds.

Collateral and Financial performance of small and medium enterprises

From Table 6 showed that the means of collateral and financial performance of small and medium enterprises were regressed. The purpose of this analysis was to find the causal relationship between Collateral and financial performance of small and medium enterprises. This aided in testing the first hypothesis of the study that posits, $H_0$2: Collateral has no significant effect on financial performance of small and medium enterprises. This was tested using significance of R square and Regression coefficient at 95.0% confidence level. Summary of the regression model was presented in Table 6.

Table 6: Regression results for Collateral and Financial Performance

Model Summary [c]								
Model	**R**	**R Square**	**Adj R Square**	**Std. Error of the Estimate**	**Change statistics**			
					R Square change	**F change**	**df1**	**Sig. F change**
1	0.510 [a]	0.260	0.258	0.76894	0.260	118.73	1	0.000

a. Predictors: (Constant), Collateral
c. Dependent Variable: Financial performance of small and medium enterprises

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	70.206	1	70.206	118.737	0.000[b]
	Residual	199.850	338	0.591		
	Total	270.056	339			

a. Dependent Variable: Financial performance of small and medium enterprises
b. Predictors: (Constant), Collateral

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**S.E.**	**Beta**		
1	(Constant)	1.914	0.167		11.445	0.000
	Collateral	0.541	0.050	0.510	10.89	0.000

a. Dependent Variable: Dependent Variable: Financial performance of small and medium enterprises
b. Predictors: (Constant), Collateral

There is evidence that the relationship between Collateral and financial performance of small and medium enterprises which was linear; the correlation coefficient (R) of 0.510 indicates moderately strong positive linear relationship. This implied that Collateral has a significant and moderate strong relationship with the financial performance of small and medium enterprises. The coefficient of determination, R-square of 0.260 implied that 26.0% of the variance in financial performance of small and medium enterprises is explained by collateral. The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting the effect of Collateral on financial performance of small and medium enterprises.

The unstandardized regression coefficient (B) value of Collateral was 0.541, correlation coefficient (β) of 0.510 and with a t-test of 10.89 and significance level of p = 0.000, which further confirmed existence of a significant and moderate strong positive linear correlation between Collateral and financial performance of small and medium enterprises. At 5% level of significance and 95% level of confidence, Collateral is significant in predicating the degree of financial performance of small and medium enterprises. The regression equation to estimate the relationship between Collateral and financial performance of small and medium enterprises is stated as:

Financial performance of small and medium enterprises= 1.914 + 0.541 Collateral +e

An F-significance value of p = 0.000 indicated that there was a probability of 0.00% from the regression model to accept the null hypothesis. The first research hypothesis posited $H_0$2: Collateral has no significant effect on financial performance of small and medium enterprises, Kenya. Thus, the model was significant and therefore the null hypothesis was rejected on the ground that Collateral had a

significant and moderate strong positive linear correlation with financial performance of small and medium enterprises.

The findings are in agreement with Japhet and Memba (2015) who found out that there is significant influence of collaterals used by small and medium microenterprises on loan performance of commercial banks in Bungoma County. Usually assets are pledged and incase of default the lender is able to seize the properties and auctioned to repay the loans which client default. In most cases clients who use inventories highly default because no serious personal attachments given to such securities unlike motor vehicles, land and buildings.

Loan repayment period and financial performance of small and medium enterprises

Results from the Table 7, illustrated that the means of loan repayment period and financial performance of small and medium enterprises were regressed. The purpose of this analysis was to find the relationship of loan repayment period on financial performance of small and medium enterprise. This aided in testing the third hypothesis of the study that posits, H_{03}: Loan repayment period have no significant effect on financial performance of small and medium enterprises. This was tested using significance of R square, regression coefficient (B) and correlation coefficient (β) at 95.0% confidence level. The results are presented in Table 7.

Table 7: Regression Results for Loan repayment period and financial performance

Model Summary [c]

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	0.383 [a]	0.146	0.144	0.82580	0.146	58.005	1	338	0.000

a. a. Predictors: (Constant), Loan repayment period
b. c. Dependent Variable: Financial performance of small and medium enterprises

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	39.556	1	39.556	58.005	0.000[b]
	Residual	230.500	338	0.682		
	Total	270.056	339			

a. Dependent Variable: Financial performance of small and medium enterprises
b. predictors: (Constant), Loan repayment period

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	S.E.	Beta		
1	(Constant)	2.666	0.140		18.989	0.000
	Loan repayment period	0.285	0.037	0.383	7.616	0.000

a. Dependent Variable: Financial performance of small and medium enterprises
b. . Predictors: (Constant), Loan repayment period

Table 7 revealed that the relationship of loan repayment period on financial performance of small and medium enterprises in the public universities variables is linear, positive, relatively weak, and significant; the correlation coefficient (R) of 0.383. The coefficient of determination, R square of 0.146 implied that 14.6% of the variance in the service quality is accounted for by foreign ownership. The significance value of p = 0.000<0.05, signified that the model is statistically significant in predicting how loan

repayment period affects Financial performance of small and medium enterprise.

The unstandardized regression coefficient (B) value of loan repayment period on financial performance of small and medium enterprises is 0.285, correlation coefficient (β) of 0.383 and with a t-test of 7.616 and significance level of p = 0.000, which further confirmed existence of a significant and relatively weak positive linear correlation of loan repayment period and financial performance of small and medium enterprises. This indicated that a unit change in loan repayment period would result to change in financial performance of small and medium enterprises by 0.285 in the same direction. At 5% level of significance and 95% level of confidence, loan repayment period and financial performance of small and medium enterprises was significant in predicating the degree of financial performance of small and medium enterprises which in this case is attributed to 14.6% of foreign ownership. The regression equation to estimate the degree of financial performance of small and medium enterprises is stated as:

Financial performance of small and medium enterprises= 2.666 + 0.285 loan repayment period +e

An F-significance value of p = 0.000 was established showing that there is a probability of 0.00% from the regression model to accept the null hypothesis, $H0_3$: loan repayment period has no significant effect on financial performance of small and medium enterprises. Hence, the model is significant and the study rejected the third null hypothesis of the study as there is significant relationship between loan repayment period and financial performance of small and medium enterprise. Muhammad, Bambale, Ibrahim and Sulaiman (2019) studied the loan repayment and financial performance of smallholder oil palm producers and processors in Abia State of Nigeria. The study find out loan repayment period is positively significant with performance. However, Wafula (2015) revealed that the frequency of loan repayment, loan amount and business sector has insignificant relationship with the variations of performance of SMEs. Frequency of loan repayment was found to have no significant effect on the cash flows empirically.

CONCLUSIONS

The following conclusion was made from the research findings; There is evidence that the relationship between collateral and financial performance of small and medium enterprises which was linear and moderately strong positive relationship. This implied that Collateral has a significant and moderate strong relationship with the financial performance of small and medium enterprises. The study also established that the relationship between loan interest rate and financial performance of small and medium enterprises variables which was linear, positive and significant. Lastly, the findings reveal that the influence of loan repayment period on financial performance of small and medium enterprises is linear, positive, relatively weak, and significant;

RECOMMENDATIONS

With due regard to the ever increasing desire to have credit empowerment for SMEs in Kenya , the management of lending institutions should ensure that they carry out a research on consumer needs so as to establish ideal interest rates to be charged. This will go a long way in helping them to know the needs of the consumers so as to be competitive in credit lending because most SMEs prefer being charged low interest rates hence will go for the lowest interest provider on credit facilities. The study recommended that small and medium enterprises should develop appropriate mechanisms to ensure that they repay their loans within the specified time period. This is because poor loan repayment can affect the future access to finances from financial institutions. Lastly, the study recommended that SMEs should have diverse collaterals which can be used to generate income to service credit from financial institutions.

Suggestions for Further Research

The study was carried out in Bungoma County. Further study is encouraged to cover the other parts of the country in order to establish out if the results are still the same. Future research is encouraged to establish the moderating effect of organizational factors on the relationship between lending policies and the performance of SMEs. Lastly, future research is encouraged to study other lending policies like the characteristics of the borrower, risk involved in lending and the amount of money lent to establish out if they have any effect on the performance of SMEs.

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