THE MODERATING EFFECT OF INTEREST RATE CAPPING ON THE RELATIONSHIP BETWEEN DOMESTIC CREDIT LENDING AND GROWTH OF MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN UASIN GISHU COUNTY, KENYA

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THE MODERATING EFFECT OF INTEREST RATE CAPPING ON THE RELATIONSHIP BETWEEN DOMESTIC CREDIT LENDING AND GROWTH OF MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN UASIN GISHU COUNTY, KENYA

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ABSTRACT

The purpose of the study was to establish the moderating effect of interest rate capping on the relationship between domestic credit lending and growth of MSME firms in Uasin Gishu County in Kenya. The specific objectives of the study included; to determine the relationship between commercial bank credit lending and growth of the MSME firms in Uasin Gishu County in Kenya, find out the relationship between informal lenders credit lending on the Growth of the MSME firms in Uasin Gishu County in Kenya evaluate the moderating effect of interest rate capping on the relationship between domestic credit lending and Growth of MSME firms in Uasin Gishu County in Kenya. The study is anchored on loanable funds theory, abstinence theory and Agio theory. The study adopted an explanatory research design with a target population of 204 from management team, accounting and finance team as respondents drawn from 102 agro processing MSMEs. The study adopted census enquiry to arrive at the respondents' size of 204 respondents. Data was collected using closed ended questionnaires designed by 5 point likert scaling. Data was analyzed using descriptive and inferential statistics using SPSS version 24. The types of domestic credit lending under study jointly explained 60.3 percent variation in growth of MSMEs. This showed that considering the two independent variables commercial bank credit lending and informal lenders credit lending, there is a probability of 54.7 percent (R^2=0.547) variation in the growth of MSMEs. However, with the interest rate capping as a moderator, the variables jointly explained 60.7 percent (R^2= 0.607) variation in growth of MSMEs. Therefore the study concludes that interest rate capping significantly moderates the relationship between domestic credit lending and growth of MSMEs. All the domestic credit lending types are significantly related to growth of MSMEs. In this regard the government needs to enforce strict monetary and fiscal measures for regulating interest rate to make domestic credit affordable to borrowers. Besides that, MSMEs, should put strategies of building a credit history and lower domestic credit lending agents perceptions of risk associated with this type of lending to increase their access to credit and performance of the MSMEs.

***Key Words**: Interest Rate Capping, Domestic Credit Lending, Growth of MSMEs*

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INTRODUCTION

According to Koo (2014) programs on credit involving loans on preferential terms and conditions to priority sectors had been a major tool of development policy in both developed and developing countries in the 1960s and 1970s. During the 1980s, however, Chalmers (2012) says that there was a realization that most of these credit programs had resulted in distorted incentives among both lender sand borrowers which of course led to a reconsideration of their rationale and effectiveness. According to Cho and Hellmann (2013) the experience of most countries around the world showed that directed credit programs stimulated capital intensive projects, suffered from abuse and misuse of preferential funds for non-priority purposes, this according to the study increased the cost of funds to non-preferential borrowers, and it involved a decline in financial discipline that resulted in low repayment rates, and contributed to a swelling of budget deficits.

Access to finance, availability of credit, and cost of service are all pillars to financial development and Growth of organizations (Buyant & Tao, 2014). This has invoked a change in financial landscape that is taking place in developing countries in recent years where there is a rapid development of other financial institutions, such as non-banking institutions, informal financial institutions besides the commercial banks (Kidwell, Blackwell, Sias, & Whidbee, 2016).These institutions makes credit available to borrowers within the same territory thus domestic credit lending. Domestic credit lending is lending or credit that monetary authorities such as the central bank, commercial banks and other financial institutions makes available to borrowers within the same territory (Buyant & Tao, 2014).

The full impact of the recent capping of interest rates will take time to unravel (Riskbank, 2016). With loan interest capped at four per cent of the base rate, and deposits at 70 per cent of the same rate, the interest rate spread or margin is about 6.8 per cent. Data from the World Bank shows the average interest rate spread in lower middle-income countries is 6.8 per cent, decreasing to 6.6 per cent for middle income and 6.3 per cent for the upper middle-income countries, (CBK, 2015). With Kenya regarded as a lower middle-income economy, the maximum spread set by the capping of interest rates could therefore be regarded as reasonable in comparison (Norden, Roosenboom & Wang, 2013). Just like other developing countries in the world, Kenyan economy is being driven by MSMEs. A recent National Economic Survey report by the Central Bank of Kenya (CBK) indicate that MSMEs constitute 98 percent of all business in Kenya and thus creates 30 percent of the jobs annually as well as contribute 3 percent of the GDP (Ahuja, 2016).

According to the CBK economic survey 2014, 80 percent of the 800,000 jobs created in the year came from the informal sector which is dominated by the MSMEs. Kenya's MSMEs sector is dominated by the micro and small enterprises and is found in city estates and along major highways. Most prominent forms of MSMEs in Kenya is the "Jua Kali Sector", here artisans manufacture all types of merchandize shoes, wheelbarrow, metal boxes and assortment. The artisans produce a variety of high quality hard and soft wood furniture, fabricated doors and gates, priceless pieces of art created from scrap metals and carpets. Despite of their vibrant existence, these sectors still face the largest challenge of all being inadequate capital -finance remains the most critical challenge affecting the SMEs in the country. Few banks or Sacco's are eager to finance SMEs especially at the inceptions stage. Many MSMEs in Kenya do not survive up to their first birthday. It is said that a total of 2.2 million MSMEs were closed in the last five years, 2016 inclusive.

However, despite all these challenges, we believe that the future of Kenya's MSMEs is bright and we can see light at the end of the tunnel. We see many MSMEs dying but we hold our hopes high because as they die new ones are created. What remains is for us to ensure that those that are established survive longer and grow to even bigger enterprises. Interest

rates capping has led to lack of transparency in banks, increased risk to financial stability and lesser competition. In this study we will seek to use the data before and after the capping. This data will be from CBK and CBS. Evidence from KBS indicates that negative effects of the interest rate capping manifest itself in different ways. Among the effects the independence of CBK as provide under the C BK act. Another factor is increased funds for lending but little available for MSME. The banks also experienced low bank accounts which were aggravated by big banks avoiding lending MSME. The worst effects are when the government became the lead borrowers. This is coupled with little paperwork and less incidence of risk borrower. Almost all credit moves to the government because of security and high interest paid. The demand for credit outstripped the supply, the private sector continued to suffer because of the unwillingness of the lenders to advance credit. Many banks also introduced extra levies in a bid to recover as perceived losses due to interest rates capping. Accordingly, small also realized less profit hence threatening their stability. The non-lending to MSME by commercial banks reduced their growth due to lack of credit for expansionary purposes.

Meaning of interest rate capping; According to the Business Dictionary, it is a provision in adjustable rate mortgages that limits how much an interest rate can increase. There are periodic interest rate caps, which limits increase during adjustment period. Most loans have lifetime caps. This is a limit that dictates how many percentage points the interest rates can grow over the loans life. As we study the moderating effects of interest rate capping on relationship between domestic credit and Growth of MSME, there is a need to look at some of the interest rate theories. However the greater understanding of the effects and influence of interest rates capping on the relationship between domestic credit and Growth of MSME in emerging and industrialized economies traced to some of the past theories which this study will try to analyze. Several studies have been carried in the industry, but none has clearly brought out the moderating effect of interest rate capping on the relationship between domestic credit and the Growth of MSMEs in Uasin Gishu County of Kenya. In other words, previous researchers have not pointed out clearly whether the interest rate capping adds any significance either negative or positive on this very important economic sector. This study therefore seek to establish whether there is a moderating effect of interest rate capping on the relationship between domestic credit and the Growth of MSMEs in Uasin Gishu County of Kenya or not.

Cognizant of the fact as per Calice, Chando and Sekioua (2012), most of the MSMEs in Kenya are concentrated in three main sectors- Wholesale and Retail (60 percent); Manufacturing (11.6 percent); and Accommodation and Food Services sector (9 percent). The rest of the sectors of the economy; account for approximately 19.5 percent of MSMEs.

Statement of the Problem

When commercial banks credit lending, non-banking credit lending, informal lenders credit lending are moderated by the interest rate capping improves the growth of MSME firms in Uasin Gishu County. However, there is poor growth of MSME attributed to financial constraints whose origins in most cases are the credit availability (Kanchana, Divya &Beegom, 2013). Further Interest rate capping has crowded out Micro, Small and Medium Enterprises (MSMEs) from the credit market by the commercial banks is estimated to have lowered growth in 2017 by 0.4 percentage points (Oginde, 2019). This is attributable to the fact that the most of these MSMEs cannot gain a proper and timely access to the domestic credit facilities to boost their capital base and work towards expansion and better growth.

Finally, the narrative pushed by banks that interest rate cap is responsible for the credit crunch facing Small and Medium Enterprises (SMEs) has been effectively debunked (Osakwe, Verter, Bečvářová, & Chovancová, 2015).The MSMEs despite

the panacea options to bettering their growth following these interventions have not been seen to be moving positively towards such actions to bettering their profitability. A number of studies have been conducted on this thematic area relating to interest rate capping, domestic credit and also SMEs growth. However, our empirical estimates showed an insignificant relationship between domestic credit provided by the financial sector and SMEs growth (Osakwe, Verter, Bečvářová, & Chovancová, 2015).Yet again literature previous studies record none to have been carried out in Uasin Gishu County. It was against this background that the researcher set out to establish the moderating effect of interest rate capping on the relationship between domestic credit and growth of agro-processing MSME firms in Uasin Gishu County in Kenya.

Objectives of the Study

The main objective of this study was to establish the moderating effect of interest rate capping on the relationship between domestic credit and growth of MSME firms in Uasin Gishu County in Kenya. The specific objectives of the study were:

- To determine the relationship between commercial bank credits lending on the growth of the MSME firms in Uasin Gishu County in Kenya.
- To find out the relationship between informal lenders credit lending on the growth of the MSME firms in Uasin Gishu County in Kenya.
- To evaluate the moderating effect of interest rate capping on the relationship between domestic credit lending and growth of MSME firms in Uasin Gishu County in Kenya

LITERATURE REVIEW

Effect of commercial banks credit lending on Growth of MSMEs

Levin, Loayza and Beck (2011) carried out a study on the effect of commercial banks Loanable funds on profit strategies of listed companies in Seychelles. They used the multiple regression technique to analyze the data for a period of five consecutive years from 2006 to 2010. The study revealed that there is a positive relationship between commercial banks Loanable funds and Profitability. It asserts that Loanable funds by commercial banks should be treated as an indicator of Growth to manufacturing institutions since it significantly affects it. They also state that the success of a business requires more fundamental focus on the kinds of investments and their availability to the borrowers.

Imoughele and Ismaila, (2014)studied the impact of commercial bank credit on Nigeria's Small and Medium Scale enterprises (SMEs) between 1986 and 2012. The results revealed that SMEs and selected macroeconomic variables have a long run relationship with SMEs output. The study also reveals that savings time deposit and exchange rate has a significant impact on SMEs output in Nigeria. Furthermore, commercial bank credit to SMEs, total government expenditure and bank density has direct but insignificant impact on the country SMEs output. This may be connected with stringent policy in accessing credit facility and the crowd out effect of government expenditure in the economy. The study also shows that interest rate has adverse effect on SMEs output.

O'Regan (2012) carried out a study on the relationship between accessibility of credit by borrowers and their Profitability in Europe. He used the Ordinary Least Square (OLS) method to analyze the data for the years 2007 to 2011 of 148 listed companies. The study revealed that the availability of the facility to the borrowers directly affects profitability. Yet again, this study wasn't conducted in Kenyan environment and thus leaves gaps to be filled especially on the MSMEs sector. Dada, (2014) carried out a study on effect of commercial banks' credit on SMEs development in Nigeria. The study revealed that commercial banks credit to SMEs and the saving and time deposit of commercial banks exert a positive and significant influence on SMEs development proxy by wholesale and retail trade output as a component of GDP, while exchange rate and interest rate exhibit adversative effect on SMEs development. The study concluded that adequate savings should be mobilized from the public by

emphasizing more on saving and that government should encourage banks to lend to SMEs by providing guarantee, interest rate subsidies and other incentives.

Panayiotis (2016) examined the relationship between commercial banks' credit rates and Profitability in New York. They used the ordinary least square method to analyze the data on a sample of 45 quoted firms for the period 1970 to 1975. The study revealed that there is a negative relationship between commercial banks' credit rates and Profitability. They found that lower commercial banks' credit rates lead to greater profits, because of market power and lower cost resulting to economies of scale effects. This study was carried out in the USA and thus doesn't fully replicate the African scenario. It also wasn't carried out in the MSMEs sector thereby creating a knowledge gap. Afolabi (2013) evaluated the effect of SMEs financing on economic growth in Nigeria between 1980 and 2010 the study employed Ordinary Least Square (OLS) method to estimate the multiple regression models. The estimated model results revealed that SMEs output proxy by wholesale and retail trade output as a component of gross domestic product and commercial banks' credit to SMEs exert positive and significant impact on economic development proxy real gross domestic product while lending rate is found to exert negative effects on economic growth

Effect of Informal credit lending on Growth of MSMEs

Informal finance refers to financial transactions that occur outside official financial institutions and that are not regulated by governmental authorities (Elmas, Yener & Flavio, 2014). There are various sources of informal credit, e.g., family/friends, moneylenders, rotating savings and credit organizations (ROSCAs), loan sharks, indigenous savings and credit clubs, informal credit unions, and savings collectors. Informal financial transactions can be legal, such as borrowing from family members, or can be forbidden by the law in many countries, such as money lender activities (Pagura & Kirsten, 2006).Accordingly, informal financial networks play an important role in alleviating problems of firms regarding credit constraints. Informal credit use has potential effects on a firm's Growth and growth, especially for start-up firms. Wakuloba (2013) studied the causes of loan default in Uasin Gishu District Trade Development Joint Loan Board (UGTDJLB) scheme. According to the findings, the scheme had high and rising default rates over the period. The main causes of default were poor business Growth, diversion of funds and domestic problems. The recommendations were that the board be strengthened through capacity building in computer applications to speed up loan processing and ensure timely disbursements. This Growth was pegged on formal loans and not informal loans. The study also focused on the board and not generally MSMEs on the Uasin Gishu county of Kenya. There is a need therefore to look at the effect of informal credits on the Growth of MSME firms in Uasin Gishu of Kenya.

Gitobu, Gichunge and Mutegi(2017) studied the effect of table banking on growth of women owned small and medium enterprises in Meru County,Kenya. The study findings concluded that, holding all the other factors constant, the growth of SME,s is as a result of table banking strategy of raising capital, The growth drivers (saving mobilization and access to credit) measured by significance level established that saving mobilization (SMOB), access to credit (ATC) entrepreneurship development (EDEV), and pooled investment (PINVE)contribute to 59.9% of the variation of the SME,s growth in the groups using Table Banking strategy in Meru county. This study only focused on women owned businesses where as the current study focuses on both men and women owned business. Thompson, Jones-Evans and Kwong (2010) reported that SMEs rely primarily on personal savings of owners, and sometimes business profits, if any, for their financial needs. They have little or no access to formal external credit. Traditional financial institutions regard SMEs as high risk and high default rate businesses. As a result, the financial needs of

SMEs are not considered in the lending policy formulation of banks and most of them are denied access to financial assistance from traditional financial institutions. The study investigated the sources relied by SMEs for their operations but did not link to performance or growth necessitating the current study.

Kariuki and Ngugi (2014) studied the effect of table banking on the performance of micro and small enterprises in Nairobi County. The study revealed that Table Banking has increased ease of access of credit for micro and small enterprises who would normally not qualify for credit from formal financial institutions. It also revealed that Table Banking groups are lacking in capacity building, technology transfer and market linkages of the members. However, it was evident that social capital was a key component of Table Banking with mentorship, accountability and loan guarantee being the major benefits brought out by the respondents. Challenges of being in such groups were also not lacking, the major ones being non-serious members and loan defaulting. Nevertheless, 95% of the entrepreneurs involved in this study confidently said that their businesses had grown in terms of profitability, customer base, product diversification and asset base. In fact, the study revealed that most businesses in Table Banking Groups are between 0 and 2 years and by the time they hit their 3rdyear, they are slowly outgrowing the groups; at this stage, they need bigger loans and more sophisticated technologies and trainings in order to grow further.

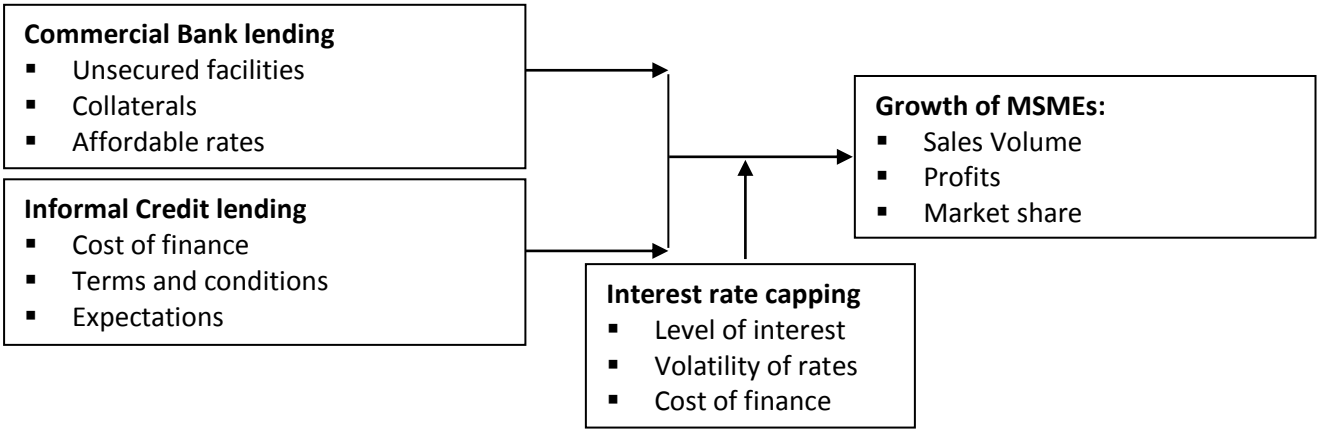
Domestic credit lending, interest rate capping and Growth of MSMEs

Domestic lenders compensate for operating costs through interest revenue; this makes operation costs a significant factor in determining net interest income. Higher level of operations also results in high credit and interest rate risk (Hiremath & Kumari, 2014). According to Angbazo, (1997), type of operations and size of the lending institution affect NIM. The large lenders are more prone to credit risk compared to interest rate risk. It has also been revealed that there is a negative relationship between NIM and non-performing assets, when non-performing assets increase, NIM is reduced this is done to reduce on defaults and encourage borrowing (Angbazo, 1997). Bank risk aversion also affects NIM, the more risk averse the bank is the higher the NIM (Hiremath & Kumari, 2014). Off balance sheet activities also affects NIM, banks that focus on receiving non-interest income have a smaller NIM. Product diversification has been seen to reduce NIM through cross elasticity's among bank products (Hiremathet al., 2014). These studies though relevant do not touch directly on the effects of interest rate capping. Thus, a relational study on interest rate capping needs to be done and especially in the MSMEs sector in Uasin Gishu to bridge the gap of knowledge.

The study according to Koech (2018) sought to investigate the influence of interest rate capping in Small and Medium Enterprises. She adopted a descriptive design targeted a population of 4560 SMEs in Nairobi county. The study revealed that interest rate capping statistically, strongly and significantly correlate to growth of the SMEs as they had a positive relationship with the dependent variable. Therefore, from the quantitative results it was deduced that the study which sought to establish the influence of interest rate capping on growth of SMEs was achieved because it established that it influenced growth of SMEs. The role of credit is basically to bridge the gap between business owner's financial assets and the required financial assets of the business/enterprise. There is need to remove that imbalance between the two hence creating the demand for credit. From the perspective of borrowers, lower rates can increase the potential demand for loans and financial inclusion, while excessive rates can push borrowers into over-indebtedness. The bank credit and bank deposits are very closely related with each other that they represent, roughly speaking, two sides of the same coin, and the balance sheets of banks. The lending activity is made possible only if the banks can

mobilize enough funds from their customers. The banks face reprising risk if either the average yield on its assets or that on its liabilities is more sensitive to changes in market interest rates. Such a difference in sensitivity could reflect a number of possible mismatches in the characteristics of assets and liabilities. The interest rates ceiling is a key economic aspects that impact the economic growth in the SMEs. The need to regulate the interest charged on credit or any other financial instrument should be founded on the necessity to control economic patterns that has great influence to the SMEs. Controlling and setting of interest rates has huge fiscal implication to the economic development hence the need for rational decision making process within the banking industry to enhance growth of SMES. This was a detailed study on the capping of interest rates and Growth but it however did not look at its moderating effect on domestic credit. The study also by passed the micro institutions which therefore would not qualify it for generalization in the MSME sector in Uasin Gishu Kenya.

Recently, the discussion has centred on the contribution of this policy to the decline in private sector credit since its introduction in 2016 through amendment to the Banking Act (ICPAK., 2019). The Institute supported the interest cap law based on reasons that it protects consumers from high interest rates, increases access to finance and makes loans affordable for economic growth. However the capping of interest rates has infringed on the independence of the central bank and complicated the conduct of monetary policy. It is found that under the interest rate capping environment, monetary policy produces perverse outcomes. There is evidence of reduced financial intermediation by commercial banks, as exemplified by the significant increase in the average loan size arising from declining loans accounts, mainly driven by the large banks, thus shunning the smaller borrowers. Tanks have shifted lending to Government and the large corporates. Whereas demand for credit immediately increased following the capping of lending rates, credit to the private sector has continued to decline (Oginde, 2019). While the structure of revenue of the banks has started to shift away from interest income, some banks have exploited the existing approval limits to increase fees on loans in a bid to offset loss in interest income. Although the banking sector remains resilient, small banks have experienced significant decline in profitability in recent months, which may complicate their viability. Rationing out Micro, Small and Medium Enterprises (MSMEs) from the credit market by the commercial banks is estimated to have lowered growth in 2017 by 0.4 percentage points.



Source (Researcher, 2019)

Figure 1: Conceptual Framework

METHODOLOGY

This study employed explanatory research design. The target population of the study consisted of all agro- manufacturing MSMEs in Uasin Gishu County government. The study gained access to 206 respondents. A sample size of 136 was drawn from a total population of 206 respondents to represent the whole population. From the target population of 204, Taro Yamane (1967), sample size formula modified by Kent and Myers (2008) as cited in Etuk and Akpabio (2014) was used to select a sample size of 135 respondents as shown below: A 5 point Likert scale questionnaire was used to collect primary data. The Statistical Package for Social Sciences (SPSS) Version 24 software was used to analyze the data collected. Descriptive and inferential statistics was analyzed. The following regression model was adopted by this study for simple regression.

$y=\beta 0+\beta_1 X_1+\varepsilon$ .....Equation 1

The following regression model was adopted for multiple regression by this study.

$Y= \beta 0+ \beta_1 X_1 + \beta_2 X_2+ \beta_3 X_3 + \varepsilon$.....Equation 2.

Where:

Where:

$\boldsymbol{Y}$ RepresentsGrowth

$\boldsymbol{\beta_0}$ Represents constant term or intercept;

$\boldsymbol{\beta_1 \ldots\ldots \beta_6}$ represents the coefficients of the variables in the model;

$\boldsymbol{x_1}$ RepresentsCommercial banks' lending

$\boldsymbol{x_2}$ RepresentsNon-banking finance Institutions

$\boldsymbol{x_3}$RepresentsInformal lenders

M represents Moderator (Interest Rate Capping)

E represents error term in the model.

Significance level was measured at 95% confidence level

β_1, β_2, β_3 represents Regression coefficients of predictor variables

FINDINGS AND DISCUSSION

Commercial Banks Credit Lending

The study established the level of agreement to various aspects of commercial bank lending as per objective one. According to the findings presented in Table 1, 99.7% of the respondents agreed and strongly agreed that their firm accesses unsecured facilities from the banks easily (M=4.48 SD=0.679), 10.3% were undecided. 74.2% of the respondents both agreed and strongly agreed that their business needed collaterals to acquire credit facilities from the commercial bank lenders (M=4.18 SD=.890) while 3.1% and 22.7% were in disagreement and undecided respectively. Besides, a majority of the respondents both agreed and strongly agreed (68.1%) that their firm gets affordable and convenient rates of interest from the commercial bank lenders (M=3.99 SD=0.911), 7.2% disagreed while 24.7% were undecided. 70.1% of the respondents were in agreement that their firm had sufficient cash flows to meet their loan obligations from the commercial bank lenders as and when they fell due (M=4.12 SD=0.869), 1.0% disagreed while 28.9% undecided. Lastly 68.1% respondents agreed and strongly agreed that their business enjoyed affordable loans (M=3.85 SD=.741), 2.1% disagreed while 29.9% were undecided.

Table 1: Commercial Banks Credit Lending

Responses	SD %	D%	UD%	A%	SA%	MEAN	SD
Our firm accesses unsecured facilities from the banks easily.	0	.0	10.3	30.9	58.8	4.48	.679
Our business needs collaterals to acquire credit facilities from the commercial bank lenders.	0	3.1	22.7	27.8	46.4	4.18	.890
Our firm gets affordable and convenient rates of interest from the commercial bank lenders.	0	7.2	24.7	25.8	42.3	4.30	.984
Our firm has sufficient cash flows to meet our loan obligations from the commercial bank lenders as and when they fall due.	0	1.0	28.9	26.8	43.3	4.12	.869
Our business enjoys affordable loans	0	2.1	29.9	49.5	18.6	3.85	.741

Informal Credit Lending

The study established the level of agreement to various statements on informal credit lending as per objective three. According to the findings presented in Table 2, 68 % of the respondents agreed and strongly agreed that their business sometimes relied on informal credit lenders to boost their capital(M=3.81 SD=1.261), 6.2% were undecided while 25.8 % were in disagreement. 42.6 % of the respondents both agreed and strongly agreed that their firm incurred significant part of the cost of finance on the informal credit lenders (M=3.66 SD=1.162) while 21.6% and 25.8% were in disagreement and undecided respectively. Besides, a majority of the respondents both agreed and strongly agreed (72.1%) that their business had difficulties in meeting the terms and conditions of the informal credit lenders (M=4.10 SD=1.150), 16.5% disagreed while 11.3% were undecided. 58.7% of the respondents were in agreement that their firm only went for informal credit lenders facilities when there were no more options. (M=3.88 SD=1.218), 16.5% disagreed while 24.7% undecided. Lastly 58.7% respondents agreed and strongly agreed that their business had made it possible to meet the expectations of the various informal lenders timely (M=3.84 SD=1.196), 19.6% disagreed while 21.6% were undecided.

Table 2: Informal Credit Lending

Responses	SD %	D%	UD%	A%	SA%	MEAN	SD
Our business sometimes relies on informal credit lenders to boost our capital	2.1	23.7	6.2	26.8	41.2	3.81	1.261
Our firm incurs significant part of the cost of finance on the informal credit lenders	0.0	21.6	25.8	17.5	35.1	3.66	1.172
Our business has difficulties in meeting the terms and conditions of the informal credit lenders	0.0	16.5	11.3	17.5	54.6	4.10	1.150
Our firm only goes for informal credit lenders facilities when there are no more options	2.1	14.4	24.7	11.3	47.4	3.88	1.128
Our business has made it possible to meet the expectations of the various informal lenders timely	0	19.6	21.6	14.4	44.3	3.84	1.196

Interest Rate Capping

The study established the level of agreement to various statements on interest rate capping as the moderator. According to the findings presented in Table 3, 67% of the respondents agreed and strongly agreed that their business organization had been affected by the capping of interest rate which had reduced the loanable funds from domestic credit(M=3.75 SD=1.071), 13.4% were undecided while 19.6 % were in disagreement. 63.9% of the respondents both agreed and strongly agreed that the capping of interest rate had increased the needs for collaterals which directly affected their access to domestic credit (M=3.63 SD=.982) while 15.5% and 20.6% were in disagreement and undecided respectively. Besides, a majority of the respondents both agreed and strongly agreed (59.8%) that their business had adjusted to the new cost of finance as a result of interest rate capping on the domestic credit facilities (M=3.63 SD=1.083), 21.6% disagreed while 18.6% were undecided. 56.7% of the respondents were in agreement their firm had realized a competitive advantage as a result of proper utilization of the interest capped rates of the domestic credit (M=3.57 SD=1.215), 25.8% disagreed while 17.5% undecided. Lastly 84.6% respondents agreed and strongly agreed that their firms had weighed for better options when it comes to the selection of which domestic credit to go for as a result of general interest rate capping (M=4.11 SD=.888), 6.2% disagreed while 9.3% were undecided.

Table 3: Interest Rate Capping

Responses	SD %	D%	UD%	A%	SA%	MEAN	SD
Our business organization has been affected by the capping of interest rate which has reduced the Loanable funds from domestic credit	0.0	19.6	13.4	39.2	27.8	3.75	1.071
The capping of interest rate has increased the needs for collaterals which has directly affected our access to domestic credit	2.1	13.4	20.6	47.4	16.5	3.63	.982
Our business has adjusted to the new cost of finance as a result of interest rate capping on the domestic credit facilities	2.1	16.5	21.6	36.1	23.7	3.63	1.083
Our firm has realized a competitive advantage as a result of proper utilization of the interest capped rates of the domestic credit	3.1	22.7	17.5	27.8	28.9	3.57	1.215
Our firm has weighed for better options when it comes to the selection of which domestic credit to go for as a result of general interest rate capping	2.1	4.1	9.3	49.5	35.1	4.11	.888

Growth of MSMEs

The study established the level of agreement to various statements on growth as the dependent variable. According to the findings presented in table 4, 80.4% of the respondents agreed and strongly agreed that there had been an increase in organizational sales volume (M=4.04 SD=.877), 14.4% were undecided while 5.2 % were in disagreement. 59.8% of the respondents both agreed and strongly agreed that the profits of the business had increased (M=3.55 SD=.968) while 16.5% and 23.7% were in disagreement and undecided respectively. Besides, a majority of the respondents both agreed and strongly agreed (72.2%) that the stock turnover of the business had improved (M=4.03 SD=.984), 6.2% disagreed while 21.6% were undecided. 68.1% of the respondents were in agreement that the business had realized an improved market share (M=3.92 SD=.975), 5.2 % disagreed while 26.8% undecided. Lastly 65% respondents agreed and strongly agreed that there was improved market penetration (M=3.99 SD=.884), 2.1% disagreed while 33.0% were undecided.

Table 4: Growth of MSMEs

Responses	SD %	D%	UD%	A%	SA%	MEAN	SD
There has been an increase in organizational sales volume	2.1	3.1	14.4	49.5	30.9	4.04	.877
The profits of the business has increased	2.1	14.4	23.7	46.4	13.4	3.55	.968
The stock turnover of the business has improved	2.1	4.1	21.6	33.0	39.2	4.03	.984
The business has realized an improved market share	3.1	2.1	26.8	36.1	32.0	3.92	.975
There is improved market penetration	0	2.1	33.0	28.9	36.1	3.99	.884

Regression Analysis

The relationship between commercial bank credit lending on the growth of the MSME firms in Uasin Gishu County in Kenya

The R value indicated a correlation between the predicted values and observed values of y. In this case there was some degree of correlation (R=.717) between commercial bank credit lending with and growth of MSMEs. The results showed commercial bank lending had an explanatory power on growth of MSMEs as it accounted for 51.4% with the coefficient of determination R^2 = .514 and Adjusted R = .509 at significant level of 0.05. The R square value is an important indicator of the

predictive accuracy of the equation. The results shown indicated that an increase in commercial bank credit lending tends to cause a variation on growth of MSMEs by 51.4% and the remaining 48.6 % could be explained by other factors other than commercial bank credit lending.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F change	Sig F Change	Durbin-Watson
1	.717[a]	.514	.509	.404	100.427	.000	1.534

a. Predictors: (Constant), Commercial Bank Credit Lending
b. Dependent Variable: Growth

Table 5 revealed an F-value of 100.427 and a p-value of 0.00 significant at 5 percent level of confidence, indicating that the regression model was significant. Hence, the contribution of the independent variable (Commercial Bank Credit Lending) was significant in predicting growth of MSMEs.

Table 6: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.427	1	16.427	100.427	.000[b]
	Residual	15.539	95	.164		
	Total	31.965	96			

a Dependent Variable: Growth
b Predictors: (Constant), Commercial Bank

The hypothesis $H0_1$: There is no statistically significant relationship between commercial banks credit lending and the growth of the MSME firms in Uasin Gishu County in Kenya was tested by t test. The t- test and beta coefficient showed a statistically significant positive linear relationship between commercial banks credit lending and the growth of the MSME firms in Uasin Gishu County in Kenya (β = 0.717, t = 10.021, F-value of 100.427, P-value 0.000) as shown in the table. Hence, $H0_1$ was rejected and the alternative hypothesis accepted as there is a significant linear relationship between commercial banks credit lending and growth of the MSME. The simple regression model therefore presented as:

$y= \beta_1 X_1 + \varepsilon$……Equation 1

Growth= .717 Commercial banks credit lending+ ε

Table 7: Regression Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	1.062	.285		3.724	.000		
	Com Banks	.681	.068	.717	10.021	.000	1.000	1.000

a. Dependent Variable: Growth of MSMEs

The relationship between Informal credit lending on the growth of the MSME firms in Uasin Gishu County in Kenya

The R value indicated a correlation between the predicted values and observed values of y. In this case there is some degree of correlation(R=.643) between informal credit lending and growth of MSMEs. The results showed informal credit lending had an explanatory power on growth of MSMEs as it accounted for 41.3% with the coefficient of determination R^2 = .413 and Adjusted R = .407 at significant level of 0.05. The R square value is an

important indicator of the predictive accuracy of the equation. The results shown indicated that an increase in informal credit lending tends to cause a variation on growth of MSMEs by 41.3% and the remaining 58.7% can be explained by other factors other than informal credit lending.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F change	Sig F Change	Durbin-Watson
1	.643[a]	.413	.407	.444	66.900	.000	1.500

b. a. Predictors: (Constant), Informal Credit Lending

c. Dependent Variable: Growth

Table 8 revealed an F-value of 66.900 and a p-value of 0.00 significant at 5 percent level of confidence, indicating that the regression model was significant. Hence, the contribution of the independent variable (Informal Bank Credit Lending) was significant in predicting growth of MSMEs

Table 9: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.209	1	13.209	66.900	.000[b]
	Residual	18.757	95	.197		
	Total	31.965	96			

a Dependent Variable: Growth

b Predictors: (Constant), Informal Bank

The hypothesis $H0_2$: There is no statistically significant relationship between informal credit lending and the growth of the MSME firms in Uasin Gishu County in Kenya was tested by t-test. The t-test and beta coefficient showed a statistically significant positive linear relationship between informal credit lending and the growth of the MSME firms in Uasin Gishu County in Kenya ($\beta = 0.643$, t = 8.179, F-value of 69.900, P-value 0.000) as shown in table. Hence, $H0_3$ was rejected and the alternative hypothesis accepted as there is a significant linear relationship between informal credit lending and growth of the MSME. The simple regression model therefore presented as:

$y= \beta_3 X_3+\varepsilon$……Equation 2

Growth= .643 Informal credit lending+ ε

Table 10: Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	1.938	.243		7.976	.000		
	Informal	.506	.062	.643	8.179	.000	1.000	1.000

a. Dependent Variable: Growth of MSMEs

Moderating effect of interest rate capping on the relationship between domestic credit lending and growth of MSME firms in Uasin Gishu County in Kenya

The R value indicated a correlation between the predicted values and observed values of y. In this case there was some degree of correlation (R=.547 and R=.607) and between domestic credit lending and growth of MSMEs without a moderator (interest rate capping) or with a moderator respectively. Table 11 illustrated the model summary of multiple regressions showing that all the two predictors (Commercial Bank Credit lending and informal credit lending) jointly explained 54.7 percent

variation on growth of MSMEs. This showed that considering the two independent study variables, there is a probability of 54.7 percent (R^2=0.547) in predicting growth of MSMEs without the effect of the moderating variable. However, with the moderator, the variables jointly explained 64.8 percent (R^2= 0.607) variation in growth of MSMEs. This implied that MSME should take cognizance of interest rate capping when going for domestic credit lending to achieve variation in growth.

Table 11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F change	Sig F Change	Durbin-Watson
1	.740[a]	.547	.538	.392	56.844	.000	
2	.779[b]	.607	.594	.367	14.138	.000	1.575

a. Predictors: (Constant), CBL, ICL,

b. Predictors: CBL, ICL, Interest rate capping

c. Dependent Variable: Growth of MSMEs

Table 11 revealed an F-value of 56.844 and a p-value of 0.00 significant at 5 percent level of confidence, indicating that the overall regression model was significant. Hence, the joint contribution of the independent variables was significant in predicting growth of MSMEs. On the other hand, when interest rate capping is introduced to moderate the relationship between domestic credit lending and growth of MSMEs, an F-value of 47.905 and a p- value of 0.00 significant at 5 percent level of confidence was obtained, indicating that the overall regression model was significant. Hence, the joint contribution of the independent variables was also significant in predicting growth of MSMEs with interest rate capping as a moderator. In this regard, we rejected the null hypothesis stating that there is no significant moderating effect of interest rate capping on the relationship between domestic credit lending and growth of MSMEs. Instead, the alternative hypothesis will hold true stating that there is a significant moderating effect of interest rate capping in the effect of domestic credit lending and growth of MSMEs.

Table 12: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1(Without Moderator)	Regression	17.498	2	8.749	56.844	.000[b]
	Residual	14.468	94	.154		
	Total	31.965	96			
2(Moderator)	Regression	19.407	3	6.469	47.905	.000[c]
	Residual	12.558	93	.135		
	Total	31.965	96			

a. Dependent Variable: Growth of MSMEs

b. Predictors: (Constant), CBL, ICL

c. Predictors: (Constant), CBL, ICL, Interest rate capping

Multiple Regression coefficients for Growth of MSMEs

Results of the multiple regression coefficients showed the estimates of beta values and give an individual contribution of each predictor to the model. The magnitude of the beta coefficients associated with the independent variables was compared to determine the strongest independent variable in predicting the dependent variable. The beta value tells us about the relationship between growths of MSMEs with each predictor. The positive beta values indicated the positive relationship between the predictors and the outcome. Results showed that the beta value for commercial bank

credit lending as .527 and informal credit lending .264 were all positive. The model can then be specified as: -

$Y = .527X_1 + .264X_2 + \varepsilon$, without the moderating variable

Where:

X_1= Commercial bank credit lending

X_2= Informal credit lending

ε, = Error term

T-test was then used to identify whether the predictors were making a significant contribution to the model. The t-values test the hypothesis that the coefficient is different from 0. To reject this one needs a t-value greater than 1.96 for 95 percent level of confidence. T-values also showed the significance of a variable in the model. When the t-test associated with B value is significant, it implies the predictor is making a significant contribution to the model. The results showed that commercial bank credit lending (T = 5.279, P<.05) and informal credit lending (T = 2.638, P <.05also made significant contributions to the model. These findings indicated that all the domestic credit lending types jointly significantly affect growth of MSMEs without a moderator.

Table 13: Regression Coefficients of Growth of MSMEs without a Moderator.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.010	.277		3.369	.000		
	CBL	.501	.095	.527	5.279	.000	.483	2.072
	ICL	.208	.079	.264	2.638	.010	.483	2.072

Dependent Variable: Growth of MSMEs

The Table showed results when career development as the moderator are introduced, the beta value for commercial bank credit lending as .594 and informal credit lending .227 were all positive. The positive beta values indicate the direction of relationship between predictors and outcome. From the results the model can then be specified as:-

$Y = .594X_1*Z + .227X_2*Z + \varepsilon$, with the moderating variable.

The t-test associated with beta values was significant which implies that the predictor is making a significant contribution to the model. The results showed that commercial bank credit lending (T = 6.234, P<.05) and informal credit lending (T = 2.411, P <.05 also made significant contributions to the model.

Table 14: Regression Coefficients of Growth of MSMEs with a Moderator

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constant)	1.766	.329		5.374	.000		
	CBL	.564	.090	.594	6.234	.000	.466	2.146
2	ICL	.179	.074	.227	2.411	.018	.477	2.095
	IRC	-.242	.064	-.249	-3.760	.000	.964	1.037

Dependent Variable: Growth of MSMEs

Discussion of results

The study focused on the moderating effect of interest rate capping on the relationship between domestic credit and growth of MSME firms in Uasin Gishu County in Kenya. The study also focused on domestic credit lending such as commercial banks credit lending and informal lending. The study found that all the domestic credit lending forms have a significant relationship with

growth of MSME firms in Uasin Gishu County in Kenya as discussed.

The first objective of the study was to determine the relationship between commercial bank credit lending and the growth of the MSME firms in Uasin Gishu County in Kenya. Levin, Loayza and Beck (2011) loanable funds by commercial banks should be treated as an indicator of Growth to manufacturing institutions since it significantly affects their growth. Commercial bank credit lending avails loaning facility to the borrowers which directly affects MSME profitability which is an indicator for growth. This is corroborated by the findings of this study that commercial bank lending had an explanatory power on growth of MSMEs with 51.4% with the coefficient of determination R^2 = .514 and Adjusted R = .509 at significant level of 0.05.this findings were supported by the Imoughele and Ismaila, (2013); Hagigiet al. (2010) who posits that an increase in levels of credit lending mostly lead to more borrowings and hence higher Growth of the firms. In this regard the commercial bank lending increases access to loans by MSMEs thus an increase in their growth. This implied that banks should promote borrowing by the MSMEs by making their loans accessible and affordable to spur the growth of MSMEs. This is premised on the loanable funds theory which states that, that the demand is usually downward sloping because at the higher rate of interest means higher the (opportunity) cost to firms to finance investment and the vice versa.

The second objective of the study was to assess the relationship between informal credits lending on the growth of the MSME firms in Uasin Gishu County in Kenya. The informal financial networks play an important role in alleviating problems of firms regarding credit constraints. The use of informal credit has potential effect on a firm's growth, especially for start-up firms. This is because traditional financial institutions regard MSMEs as high risk and high default rate businesses thus limiting asses to credit by them (Thompson, Jones-Evans & Kwong , 2010). Thus through informal credit the MSMEs are able to get capital for their start ups to spur their growth. This argument is further advanced by the findings of this study that shows there a statistically significant positive linear relationship between informal credit lending and the growth of the MSME firms in Uasin Gishu County in Kenya (β = 0.643, t = 8.179, P-value 0.000). This is in line with the findings of Thompson, Jones-Evans and Kwong (2010),Gitobu, Gichunge and Mutegi(2017), Kariuki and Ngugi (2014) who found that informal credit lending has increased access to credit for micro and MSMEs which would not qualify for credit from formal financial institutions hence significantly affecting their growth. These findings are supported by the Agio theory since MSMEs prefer informal credit because traditional financial institutions regard SMEs as high risk and high default rate businesses. As a result, the financial needs of SMEs are not considered in the lending policy formulation of banks and most of them are denied access to financial assistance from traditional financial institutions.

The third objective of the study was to analyze the moderating effect of interest rate capping on the relationship between domestic credit lending and growth of MSME firms in Uasin Gishu County in Kenya. MSME performance is determined by the firm's inherent characteristics and firm strategy, as well as the external (macroeconomic) environment in which it operates (Olubunmi, Dineen & Helena, 2017). Micro, small and medium enterprises (MSMEs) in developing countries have an unmet financing need thus seeking recourse of domestic credit lending (WorldBankGroup., 2019). The results show that commercial bank credit lending (t = 5.279, P<.05) and informal credit lending (t = 2.638, P <.05 also made significant contributions to the model jointly explaining 54.7 percent variation on growth of MSMEs. These findings indicate that all the domestic credit lending types jointly significantly affect growth of MSMEs without a moderator. These findings are supported by Jõeveer, Pissarides., (2006) Gichuki, Mulu-Mutuku and Kinuthia (2014) ,Barth, Lin, and

Yost, 2011, Ayyagari, Juarros, Martinez Peria and Singh, (2016) who also found credit lending on the growth of MSMEs. This implies that MSMEs should strive to overcome the impediments of domestic credit lending in order to enhance their growth. Thus MSMEs, should put strategies of building a credit history and lower banks' perceptions of risk associated with this type of lending to increase their access to credit and performance of the MSMEs. However the interest rate capping affect the way banks allocate credit. Interest rate cap reduces access to funds by the low income earner (Howard & Nathan, 2013). However interest rate capping does not significantly influence how the banks issued their loans (Kiseu, 2017). The price of credit should be determined by forces of demand and supply according to critics of interest rate cap. According to the findings of this study interest rate capping significantly moderates the relationship between domestic credit lending by 60.7 percent (R^2= 0.607) variation in growth of MSMEs. This is supported by Mehnaz and Bilal (2018); Nizaeva and Coskun (2019) identified a significant decline in aggregate lending, an increase in nonperforming loans, and a change in composition of lending away from small and medium enterprises and toward safer corporate clients.

CONCLUSIONS AND RECOMMENDATIONS

The study found that all the domestic credit lending forms have a significant relationship with growth of MSME firms in Uasin Gishu County in Kenya. There is a significant and positive relationship between bank lending and growth of MSMEs. This implied that banks should promote borrowing by the MSMEs by making their loans accessible and affordable to spur the growth of MSMEs. This was premised on the loanable funds theory which states that, the demand is usually downward sloping because at the higher rate of interest means higher the cost (opportunity) to firms to finance investment and the vice versa. The use of informal credit has a relationship with growth of MSMEs, especially for start-up firms. This could be explained by the fact that traditional financial institutions regard MSMEs as high risk and high default rate businesses thus limiting their asses to credit. Thus through informal credit the MSMEs are able to get capital for their start ups to spur their growth. This argument was further advanced by the findings of this study that. These findings were supported by the Agio theory since MSMEs prefer informal credit because traditional financial institutions regard SMEs as high risk and high default rate businesses. As a result, the financial needs of SMEs are not considered in the lending policy formulation of banks and most of them are denied access to financial assistance from traditional financial institutions .This implies that MSMEs should strive to overcome the impediments of domestic credit lending in order to enhance their growth.

Interest rate capping significantly influence the relationship between domestic credit lending and growth of MSMEs. Thus MSMEs, should put strategies of building a credit history and lower banks' perceptions of risk associated with this type of lending to increase their access to credit and performance of the MSMEs. The interest rate capping affect the way banks allocate credit. Interest rate cap reduces access to funds by the low income earner. MSMEs, should put strategies of building a credit history and lower banks' perceptions of risk associated with this type of lending to increase their access to credit and performance of the MSMEs. The results showed that commercial bank credit lending; non-bank credit lending and informal credit lending made significant contributions to variation on growth of MSMEs. All the domestic credit lending types jointly significantly affect growth of MSMEs without a moderator. Interest rate capping significantly moderates the relationship between domestic credit lending and variation in growth of MSMEs. These findings were supported by Agio theory, loanable funds theory, and abstinence theory.

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