FACTORS AFFECTING CREDIT ACCESS FROM MICROFINANCIAL INSTITUTIONS AMONG SMALL SCALE YOUTH ENTERPRISE FARMING PROJECTS IN KIAMBU COUNTY KENYA

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FACTORS AFFECTING CREDIT ACCESS FROM MICROFINANCIAL INSTITUTIONS AMONG SMALL SCALE YOUTH ENTERPRISE FARMING PROJECTS IN KIAMBU COUNTY KENYA

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Abstract

Credit is an important instrument that can enable small-scale business operators overcome their liquidity constraints. The objectives of the study included to determine the effect of management skills on credit access among small scale youth enterprise projects, find out whether interest rates affect credit access among small scale youth enterprise; evaluate the effect of the number of lenders on credit access among small scale youth enterprise projects and to find out the effect of collateral on credit access among small scale youth enterprise projects in Kiambu County. This study adopted a cross sectional survey design of the factors affecting credit access among small scale youth enterprise projects in Kiambu County. The study population of the study consisted of all the small scale youth enterprise projects in Kiambu County and the ministry of youth and sports department in Kiambu County. Primary data was collected by the use of questionnaires. *Data was analyzed by the use of qualitative and quantitative techniques. The data was analyzed using SPSS to generate frequency distributions and percentages to assist the researcher in answering the research questions. From the study findings some of the factors that the respondents stated affected credit access were: interest rate charged by the banks, level of literacy, the number of lending institutions and the demand for collateral by banks. The coefficient for interest rates negatively relates to credit access among small scale youth enterprise farming projects in Kiambu County. A unit decrease in interest rate leads to an increase in credit access by 31%, other factors remaining constant. It is indicated from the study findings that the number of lenders positively relate to credit access among small scale youth enterprise farming projects in Kiambu County. The study findings show that the coefficient for collateral positively relates to credit access among small scale youth enterprise farming projects in Kiambu County. It can be concluded that management skills, interest rates, the number of lenders and collateral affect credit access from micro financial institutions among small scale youth enterprise farming projects. High interest rates charged by banks lead them to prefer personal savings and family sources of income. Since majority did not own assets they could not provide collateral for loans which is a requirement to access loan.*

Key words: *Credit Access, Microfinancial Institutions, Youth Enterprises*

Background

Small-scale investments are reputed to be behind most of the socio-economic transformation of many economies. They play a significant role in development especially in the third world countries and generate wide-spread economic benefits. Survey studies done in other countries such as Malawi, by McPherson and Michael (1991) and in Zimbabwe by McPherson and Michael (1998), underscore the importance of the small-scale enterprise sector in employment participation and income generation for the bulk of low-income workers. In Kenya, the significance of the sector can be seen in terms of its contribution to economic development. The CBS/ICEG/K-Rep (1999) revealed the existence of some 1.3 million small enterprises employing as many as 2.4 million Kenyans. CBS-GoK (2007) reported that total employments in Kenya including small-scale activities, stood at 8.7 million persons in 2006, up from 8.3 million recorded in 2005.

Youth represents 30 percent of Kenya's population, and their unemployment is twice the country's average. Almost one third of Kenyans are between 15 and 29 years, and the total reached almost 11 million people in 2006 (compared to 8.5 million in 1999). According to the KPIA this age cohort is now at a historic high (in absolute and relative terms). Youth in Kenya face serious challenges, including high rates of unemployment and underemployment. The overall unemployment rate for youth is double the adult average, at about 21 percent. Statistics on joblessness suggest that the magnitude of the unemployment problem is larger for youth with 38 percent of youth neither in school nor work aggregating the rates of reported unemployment and inactivity.

There is no single uniformly acceptable definition of a small enterprise project. This is so because a small firm in one industry and one in another industry might have different levels of capitalization, sales and employment from a small firm in another industry. Thus, definitions which are objective in nature (considers size such as number of employees, sales, profitability , net worth etc) at a sectoral level, mean that, in some sectors, all firms may be regarded as small while in other sectors there are no possibly firms which are small. Although the significance of rapidly growing small scale youth enterprise projects in creating employment especially in a third world country like Kenya is very obvious to many, the empirical and theoretical understanding of the growth of small enterprise projects remains sketchy. This is partly because of the fact that small enterprise projects make the transition from small to large changes in character (Storey, 1994).

Statement of the Problem

Credit is an important instrument that can enable small-scale business operators overcome their liquidity constraints. The Kenyan credit market consists of both formal and informal financial lending Institutions. Recovery of the Kenyan economy that has been registered since 2002 (CBS-GoK, 2007) has reflected broad-based expansion of credit markets. The growth of small scale youth enterprise projects is constrained by among others the lack of access to finance, poor management skills, lack of financial skills among others. Not only are there few micro-finance institutions in many countries, but those specifically targeted at youth are even fewer. A review of 902 organizations in 96 countries listed under the Microcredit Summit's Council of Practitioners revealed only 21 organizations with 'youth' in their title (Curtain, 2000).

In recent years, the promotion of entrepreneurship as a possible source of job creation, empowerment and economic dynamism in a rapidly globalizing world has attracted increasing policy and scholarly attention. However, despite this attention, there has been no systematic attempt to look at it from a youth angle. The tendency has been either to subsume the youth into the general adult population or to ignore their efforts to forge a livelihood through enterprise activity projects. This has resulted in the lack of an adequate understanding of the potential benefits of youth entrepreneurship as a means of improving youth livelihoods. While there are numerous institutions offering credit facilities to people the youth are having a problem accessing credit (Schnurr and Newing, 1997; Harper, 1996). While the previous studies have shed some light on factors affecting credit access among small scale youth enterprise projects, they have not clearly covered Kenya as a country and more specifically Kiambu County. This study, therefore, sought to investigate factors affecting credit access from among microfinancial institutions small scale youth enterprise farming projects in Kiambu County. Kiambu County was considered for this study because it had the majority of the youth who have set up small scale youth enterprise projects.

Overall Objective

The overall objective of this study was to investigate factors affecting credit access from microfinancial institutions among small scale youth enterprise farming projects in Kiambu County.

Specific Objective

The specific objectives of this study included:

i) To determine the effect of management skills on credit access among small scale youth enterprise farming projects in Kiambu County.
ii) To find out whether interest rates affect credit access among small scale youth enterprise farming projects in Kiambu County.
iii) To evaluate the effect of the number of lenders on credit access among small scale youth enterprise farming projects in Kiambu County.
iv) To find out the effect of collateral on credit access among small scale youth enterprise farming projects in Kiambu County.

Scope of the study

The study covered small scale youth enterprise projects in Kiambu County. The main reason why Kiambu County was considered for this study was that it has many small scale youth enterprise projects and the researcher got enough information which enabled her make conclusive recommendations and suggestions. There is no much knowledge on how the factors affect credit access among small scale youth enterprise farming projects in Kenya the main reason for this study.

LITERATURE REVIEW

The sub topics covered under this part include the conceptual framework and the theoretical framework. The chapter also covered the empirical framework and the critique of the review. This was in addition to the research gaps.

Theoretical Framework

Agency Cost Theory

Agency cost theory focuses on the costs which are created due to conflicts of interest between shareholders, managers and debt holders (Jensen, 1976). For small firms, agency conflicts between shareholders and lenders may be particularly severe (Ang, 1992). Small firms are likely to have more concentrated ownership and generally, the shareholders often run the firm which decreases the conflict of interest between shareholders and managers. Therefore, no or few agency problem will exist. As a result of that, the lower the agency problem, the less debt the small firms have in their capital structure A study on Ghanaian SMEs shows that that short-term debt constitutes a relatively high proportion of total debt of Ghanaian SMEs. Second, the positive relationships between the debt ratios and both age and size suggest that age and size of the firms are very important in influencing SMEs' access to debt finance. Newer and smaller firms are often discriminated against when applying for external debt finance (Joshua & Nicholas, 2009). These confirm to the life cycle theory. Thirdly, the significantly positive relationship between asset structure and long-term debt ratio denotes the fact that asset tangibility or collateral plays an important role in SMEs' access to long-term debt finance. SMEs with lower portions of fixed assets in their total assets are likely to encounter difficulty accessing long-term debt capital because of their inability to produce the required collateral. Thus, the ability to provide collateral still remains a determining factor for SMEs access to long-term credit in Ghana (Joshua & Nichols, 2009).

Grameen Bank Theory

According to the Grameen bank theory institutions should consider a mechanism under which credit can be provided to the poorest of the poor on a group liability basis instead of any collateral. Based on this principle, over the last decade, the bank has been successfully operating with an unprecedented loan recovery rate. Grameen Bank is founded on the principle that loans are better than charity to interrupt poverty: they offer people the opportunity to take initiatives in business or agriculture, which provide earnings and enable them to pay off the debt. The bank is founded on the belief that people have endless potential, and unleashing their creativity and initiative helps them end poverty. Grameen has offered credit to classes of people formerly underserved: the poor, women, illiterate, and unemployed people. Access to credit is based on reasonable terms, such as the group lending system and weekly-installment payments, with reasonably long terms of loans, enabling the poor to build on their existing skills to earn better income in each cycle of loans (Polgreen et al., 2011).

Grameen's objective has been to promote financial independence among the poor. The theory states that micro-credit loans are based on the concept that the poor have skills that are under-utilized and, with incentive, they can earn more money. A group-based credit approach is applied to use peer-pressure within a group to ensure the borrowers follow through and conduct their financial affairs with discipline, ensuring repayment and allowing the borrowers to develop good credit standing. The bank also accepts deposits, provides other services, and runs several development-oriented businesses including fabric, telephone and energy companies. The bank's credit policy to support under-served populations has led to the overwhelming majority (96%) of its borrowers being women (Glenn,2006).

Pecking Order Theory

Pecking Order Theory states that capital structure is driven by firm's desire to finance new investments, first internally, then with low-risk debt, and finally if all fails, with equity. Therefore, the firms prefer internal financing to external financing (Myers and Majluf (1984). This theory is applicable for large firms as well as small firms. Since small firms are opaque and have important adverse selection problems that are explained by credit rationing; they bear high information costs (Psillaki, 1995). Since the quality of small firms financial statements vary, small firms usually have higher levels of asymmetric information. Even though investors may prefer audited financial statements, small firms may want to avoid these costs (Pettit and Singer (1985). Therefore, when issuing new capital, those costs are very high, but for internal funds, costs can be considered as none. For debt, the costs are in an intermediate position between equity and internal funds. As a result, firms prefer first internal financing (retained earnings), then debt, and they choose equity as a last resort (Pettit and Singer, 1985).

The Adverse Selection Theory

The adverse selection theory of credit markets originates with the paper by Stiglitz and Weiss (1981) in which they explained why the interest rate could not equate the supply and demand in the credit market. As discussed by Stiglitz and Weiss (1981), borrowers have inside information about the nature of the project they want financed and may reap substantial rewards from talking up their projects. Moreover, while the lender gains if the loan is repaid with interest, it is not a beneficiary of any upside gain in the firm`s performance; it is, however, a victim of any downside losses in the case of default. Lenders like banks, therefore, face difficulties in discriminating between good and bad credit risks and simply increasing the price of credit to all potential borrowers can lead to adverse selection; rather than driving potential non players out of the market, there may be systematic reasons why some of the highest risk firms are those willing to pay high interest rates (Pollard, 2003).

The other problem, moral hazard, can arise when lenders are unable to discern borrowers` actions that would affect the distribution of returns from an investment. This means after the lender has extended finance to a firm they are exposed to moral hazard, the risk that the firm will not perform in a manner sufficient to meet the contract. The third reason to cause credit rationing is the contract enforcement problems. Mushinski (1999) argued that credit market imperfections in developing countries derive not only from moral hazard and adverse selection problems but also from costly monitoring and contract enforcement. In contrast, countries characterized by well functioning legal systems, the problems are not as pronounced as in those where the mechanisms for enforcement of contracts, property verification and ownership are weak. Hence, the main reason for the contract enforcement problem is the poor development of property rights. Although this argument is not specifically drawn at SMEs, these problems are more associated with SMEs than large companies.

Information Theories of Credit

Information theories of credit shows that the amount of credit to firms and individuals would be larger if financial institutions could better predict the probability of repayment by their potential customers. Therefore, the more banks know about the credit history of prospective borrowers, the deeper credit markets would be. Public or private credit registries that collect and provide broad information to financial institutions on the repayment history of potential clients are crucial for deepening credit markets. The information that each party to a credit transaction brings to the exchange will have important implications for the nature of credit contracts; the ability of credit markets to match borrowers and lenders efficiently and the role played by the rate of interest in allocating credit among borrowers. The nature of credit markets can lead to distinct roles for different types of lenders and different types of borrowers (Walsh, 2003). When lenders know more about borrowers, their credit history, or other lenders to the firm, they are not as concerned about the "lemons" problem of financing non-viable projects, and therefore extend more credit (Stiglitz et al 1981).

Management Skills

Management skills and education are needed to run a business. Majority of the youth carrying out small scale youth enterprise projects in Kenya are not quite well informed in terms of management skills and education. According to King and McGrath (2002), those with more management skills, education and training are more likely to be successful in the sector. The literacy level is reflected in their ability to carry out managerial routines. The routine includes making decisions on financial investment and management. This affects the decision on the external funding of these enterprises. The low management skills levels among small scale youth enterprise project owners are evidenced by the declining levels of the primary and secondary school enrolment of students in Kenya. This makes an entrance to the 'the juakali sector ` and other small scale youth enterprises increasingly the last resort for the disadvantaged students with relatively low levels of education.

Saleemi (1997) explains that; complete, accurate and precise information is necessary for financial decisions including obtaining business loans. The literacy level is again observed in the ability to have the appropriate book keeping skills. The banks often demand cash flows and other financial records as a prerequisite for approving of credit. Due to low management skills levels most youth are unable to differentiate the loan products offered by the financial institutions. Also since most of these services are offered in banking jargons, most traders are discouraged from applying for the loans. Further inadequacy in financial management skills and strategic planning put the youth with small scale enterprises projects in a disadvantaged position in competing with large firms which are run by well educated professional managers.

Cragg & King (1998) revealed that, competencies of an SME are the major determinants of the SMEs access to loan finance and consequently of its performance. This is supported by Keith &

Malcolm (1997) who note that, no rational lending institution can consider extending any amount of loan finance to an enterprise that does not have business objectives. Pandey (1996) argues that, an enterprise without clear and focused objectives lacks direction of what to do, where to go and how to go there. It is, therefore, clear that an SME without competent managers and employees with clear objectives cannot perform well and grow. Sekyewa (2009) pointed out the educational level and managerial experience of the people constituting the management of the enterprise as another determinant of accessing loan finance, yet Zhang et al (2002) noted that this level and experience also determine the extent of the performance of the enterprise.

Herrington and Wood (2003) pointed out that the lack of education and training has reduced management capacity in SMEs and one of the reasons for their high failure rates. This suggests that the managerial competency will impact on access to trade credit by new SMEs which credit if not obtained in turn will impact on their performance. Donzell et al (2006) noted that, by linking human resources processes to desired competencies, organizations can shape the capabilities of its workforce and achieve better results. These competent employees will be in a position to identify when it is appropriate for the organization to acquire the credit that is necessary to meet the organizations activities. World bank (2004) pointed out that the educational level and managerial experience of the people constituting the management of an enterprise as one of the factors determining the access to loan finance yet Zhang *et al* (2002) noted that this level and experience also determine the extent to which the enterprise grows in its business.

Bond and Meghir (1994) observed that credit terms also determined the extent to which SMEs access finance. They noted that when credit terms are favorable the SMEs manager's attitudes towards accessing that credit tend to be positive, and they are encouraged to borrow and therefore expansion of the capital base leading to increased business activity. In contrast, unfavorable credit terms not only discourage borrowing but also decrease the business growth of the borrowing enterprise because they become huge direct expenses which reduce revenue (ACCA, 2006). According to De Bodt and Statnik (2002), the size of the loan constitutes another important condition that determines the SMEs access to loan finance. At the beginning, most of the SMEs need small loans to boost their startup capital and as they operate they start to require loans of sizes that help them grow and expand form small and medium to large business enterprises. Lending institutions, however, set loan sizes that minimize risk and therefore yield profit more over without putting into account the sizes needed by SMEs (Dietsch &Petey, 2002). It is only the attitudes of the SMEs manager to meet the required loan sizes set by the financial institution that they can access the finance needed by them to operate their businesses and perform well. Empirical evidence from several prior research works through decades up to date provide strong support for the proposition that as businesses progress through their growth stages, the financial dimensions of their operations under the management team running them tend to become more challenging (Vozikis,1999).

Interest Rates

The rate of interest rate charged on the credit determines the cost of the credit. The cost of credit is the amount of money the borrower is obligated to pay above the principal sum of money lent. Saleemi (2007) defines interest as the return on capital. Cost of credit can be classified as; gross interest and net interest. Gross interest is the total amount that the debtor owes the creditor and the net interest means the part of interest that is for the use of capital only. The interest rate usually as a percentage of the borrowed amount, determines the amount of interest over duration, which may be a year. High interest rate, therefore, increases the cost of credit. High interest rate on credit may discourage small-scale youth enterprise related projects from borrowing reducing the accessibility of credit among them (Schmidt and Kropp, 1987).

Every business needs financing, even though at first glance it might appear that funding is unnecessary. It is important that financing be as efficient as possible (Stutely, 2003). Stutely, argues that the borrower should be able to put the cost of all financing on the same basis, comparing them and come up with the one that gives the lowest cost financing option. Banks have often been criticized for having high interest rates charged on loans. But sometimes, there are factors beyond their control. For example, the amount of interest payable on loans depends on interest rates charged, which is driven by the base lending rate of interest set by the Central Bank of Kenya. The amount of interest rate charged is sometimes, intertwined with the security of the loan, and the use for the loan, or the nature of the business. That is the more secure loans are charged low interest rates due to; their low risks involved (Management, July, 2008). This leads the small scale youth enterprise projects to the micro finance institutions, who lend unsustainable interests short term loans.

According to Daniels et al., (1995), the high interest rates, discourages the entrepreneurs in this sector from borrowing. It is because the interest payment come out of profit and can be reduced by the borrowing business if profit and trading conditions are unfavorable. A loan does not carry ownership right, if the youth is unable to meet the loan and the interest repayment then bank or lender may decide to foreclose on the business and appoint a receiver to take a day today running of the business. The receiver has to decide whether the business is able to continue trading under its guidance and generate enough cash to pay , the creditors or whether the business should be closed; the assets sold off and the cash generated used to pay the bank and the creditors. This may discourage small-scale youth enterprise project owners who may fear such situations to happen to their businesses.

Another contributing factor stated by Adams, (1992) to discouraging interest rates, is the structural weakness inherent in Kenyan banks. They do not have a stable source of funding; they can only lend on short term basis. Apart from becoming a problem to small scale youth enterprise project owners who seek funding over a number of years, the lending rate is high since the banks may lack stable financial source. All this contributes to the rate being a constraining factor in accessibility to credit among the small scale youth enterprise projects.

Experience from informal finance shows that the rural poor, especially women, often have greater access to informal credit facilities than to formal sources because of the interest rates charged on credit given (Hossain, 1988; Schrieder and Cuevas, 1992). The same case has also been reported by surveys of credit markets in Kenya (Raikes, 1989; Alila, 1991). The work by Stiglitz and Weiss (1981) marks the beginning of attempts at explanations of credit rationing in credit markets. In this explanation, interest rates charged by a credit institution are seen as having a dual role of sorting potential borrowers (leading to adverse selection), and affecting the actions of borrowers (leading to the incentive effect). Besley (1994), following this line of argument, analyses the rationale for interventions in rural credit markets in the presence of market failure. Since credit markets are characterized by imperfect information, and high costs of contract enforcement, an efficiency measure as exists in a perfectly competitive market will not be an accurate measure against which to define market failure. An increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan repayment. This will lead to the possibility of credit rationing (Bell, 1990).

Schmidt and Kropp (1987) further argue that the type of the financial institution and its policy and more especially their interest rate will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access. On the issue of interest rates, the bank also supports the view that high interest rate credit can help to keep away the influential non-target group from a targeted credit programme (Hossain, 1988). This further demonstrates the need to develop appropriate institutions for the delivery of loans to small-scale borrowers. Besley (1994) has classified major features of rural credit markets that can be used to explain the existence of formal and informal credit markets in Africa. Among these is the existence of collateral security and covariant risk. Studies on informal finance in Africa show that they will do well so long as the level of economic activity demands increasing financial services through interest rates charged for groups that cannot be reached by the formal financial institutions (Chipeta and Mkandawire, 1994; Soyibo, 1994).

Number of Lenders

The numbers of small scale youth enterprises are many, while the financial institutions with the services tailored to them are few (Lenaghan, 2001). The loan requirements of the small scale youth enterprise projects are different from those of the large businesses. This is due to the fragile nature of the business among other considerations, such as size, management structure, the capital base etc. Therefore, there is the need to have many lending institutions whose lending policies are established with such factors in considerations. The few institutions with such considerations are faced by the many small scale traders whose financial demands they may not cater for. This reduces accessibility for those who cannot get credit (Kitsin, 2004).

The microfinance revolution has brought about unprecedented competition in credit markets within many developing countries. This increased competition has resulted in a number of unforeseen difficulties. The importance of information in credit markets is well established in seminal papers such as Akerlof (1970) and Stiglitz and Weiss (1981). Credit information systems act as information brokers that increase the transparency of credit markets. Studies that do exist are limited to a number of case studies (Campion and Valenzuela 2001; Lenaghan 2001; Abreu 2001).

Using a pure adverse selection model, Jappelli and Pagano (1993) analyze the factors that lead to endogenous communication between lenders in the credit market. They find that information sharing is more likely to occur when the mobility of households is high; the pool of borrowers is heterogeneous; the credit market is large and the cost of information exchange is low. Fear of competition can make lenders hesitant to share their client information, yet a credit bureau is a natural monopoly with increasing returns to scale: when some lenders begin to share information, it creates an incentive for other lenders also to share information. Benefits of information sharing include an improved pool of borrowers, reduced default rates, and lower interest rates. There is an ambiguous effect on lending volumes: Credit bureaus will increase lending volumes only if high interest rates caused by adverse selection drive safe borrowers out of the market (Hoff and Stiglitz, 1998).

McIntosh and Wydick (2004b) show that the total effect of the credit bureau can be decomposed into two separate effects: a screening effect and an incentive effect. Moreover, the existence of a credit bureau may improve credit access for the poorest borrowers. Assuming that credit markets are competitive, information sharing lowers lender costs through lower default rates. Vercammen (1995) and Padilla and Pagano (2000) argue that limits to the information exchanged between lenders can lead to more optimal results. Jappelli and Pagano (2002) offer the first empirical investigation of the existence and impacts of credit bureaus in various economies around the world. They find that the presence of private credit bureaus or public credit registries is associated with broader credit markets and lower credit risk.

Collateral

According to the World Bank (2004) report, commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy(Adera, 1995). Hence despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 1986, Tang, 1995).

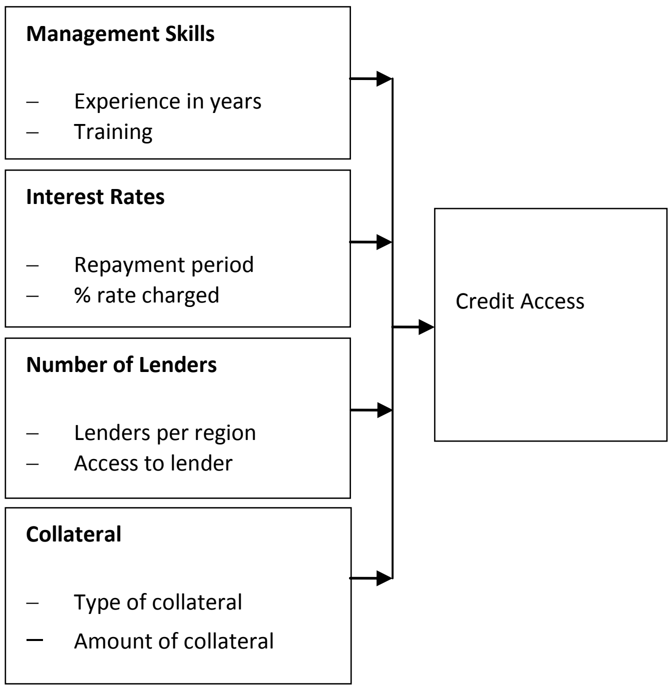
Most banking institutions and credit giving facilities demand collateral as one of the requirements for the access to credit facilities. This becomes a constraint small scale youth enterprises most of who may not have deeds to capital assets to present as security against the loans. This factor reduces accessibility of these loans. Furthermore, most lending institutions and credit providing facilities are more inclined to lending to the large scale businesses and projects who have higher success rate, and repayment rate (Canovas & Solano, 2006). The small scale youth enterprises businesses are relegated to the micro finance institutions(MFI's) and 'shylocks' whose lending requirements may further discourage them (Schmidt and Kropp,1987).

Formal banking institutions always demand collateral to act as a security on loans. This is often in the form of houses or deed to some immoveable assets. This precondition plays a major part in the accessibility of loans among the small scale youth enterprise projects since majority of them cannot attain these requirements (Woordeckers& Steijvers, 2006). In a survey conducted in Kenya in 2003 92% of the firms surveyed had applied for loans, and were rejected while others had decided not to apply since they 'knew' they would not be granted for lack of collateral (Senge, 2002). Beaver (2002) explains that the historical development and the associated culture, of the banking system underpins the problem of the emphasis on the provision of collateral as a primary condition in lending. Banks have always adopted a risk averse stance towards small firms, with an accompanying inability to focus on the income generating potential of the venture, when analyzing the likelihood of loan repayment. Therefore, although there has been considerable progress in the lending to the small scale youth enterprise projects, banks remain cautious because many of these businesses have neither, collateral nor asset registers (Soyibo,1994).

Libby (1979) employs four major sources of information to inform credit worthiness variables which are financial statement data, management evaluation, collateral and outside credit ratings. When banks dealing with firms, audit reports are reliable information to understand and evaluate firms' ability to repay their debt. Banks are reluctant to give a loan to small and opaque firms not having formal financial statements and audited accounts because there is asymmetric information and especially no establishment of credible credit bureaus in these countries (Sacerdoti, 2005). Allee (2007) asserts that firms with audited financial statements have a higher probability to get credit and lower cost of credit than those without audited financial statement even with collateral. On the other hand, Uchida (2008) finds that audited financial statement is insignificant in determinants of relationship closeness and scope of firm-main bank relationship whereby collateral will not be a necessity.

Conceptual Framework

Independent variables **Dependent variable**



Empirical Framework

Most literature states that differences in the financial institution structure and lending infrastructure affect the availability of funds to small scale youth enterprise projects (Berger & Udell, 2004). These differences may significantly affect the availability of funds to SMEs by affecting the feasibility with which financial institutions may employ the different lending technologies in which they have a comparative advantage to provide fund to different businesses.

Failures of SMEs to access debt financing result into an inadequate capital structure. Demirquc-Kunt et al., (2006) pointed out that the main source of external financing for SMEs is equity and debt. Shane (2008) pointed out that external equity from the stock exchange (capital markets) usually never exists for SMEs. Majed et al., (2010) and Sorooshian et al., (2010) pointed out that firm characteristics have an impact on access to debt financing, capital structure and performance of SMEs. Globally SME sector has been reporting difficulties in access to finance (Bebczuk, 2004; Slotty, 2009; Balling et al., 2009; Irwing & Scott, 2010; Yongqian et al., 2012). Access to external finance to SMEs has become more costly and troublesome while their accessibility has sharply declined.

Cassar (2004) pointed out that lenders may perceive incorporation as a good signal that portrays credibility and formality of operations. Abor (2008) point out that the form of business organization could affect the debt-equity decisions of SMEs. The shareholders of corporations and limited companies have limited liability against losses, whereas general partners and owners of sole proprietorships have unlimited liability. Coleman and Cohn (2000), however, find evidence suggesting a positive relationship between leverage and incorporation.

Bougheas et al. (2005) argued that collateral is an important factor for SMEs in order to access debt finance. Collateral reduces the riskiness of the loan by giving the financial institution a claim on a tangible asset without diminishing its claim on the outstanding debt. Coco (2000) point out that the collateral is the lender's second line of defense. Barbosa and Moraes (2004) argue that SMEs owners-managers that invest heavily intangible assets tend to have higher financial leverage since they can borrow at lower interest rates if their debt is secured with such assets. Chandler (2009) pointed that the longer existence of a firm; it signals that that a firm can survive during a tough economic conditions. Klapper (2010) stated that younger firms (less than 5 years) rely less on bank financing and more on informal financing. Ngoc et al. (2009) find out that it is often difficult and expensive for young SMEs to access bank financing due a large information asymmetry between the banks and firms. Bougheas et al., (2005) point out that young firms are more failure prone than older ones.

Managerial competencies as measured by education level, managerial experience, industry expertise and knowledge of the business positively impact on the performance of SMEs (Hisrich & Drnovsek, 2002). Martin and Staines (2008) found out that the lack of managerial experience, skillfulness and personal qualities are found as the main reasons why SMEs fail. Fatoki and Assah (2011) found out that owner-manager's management competency (education and experience) has an influence on access to debt financing from commercial banks. Herrington and Wood (2003) points out that the lack of education and training has reduced management capability in SMEs and account for one of the reasons for their high failure rates. In that perspective management education and experience do impact the firm's performance hence ability to access external debt financing by SMEs.

Berger and Udell (2002) pointed out that the most important attribute in defining SME sector access to finance is to review its information availability; the information comprise firm characteristics and owner-managers' characteristics. Berger and Udell (2002) stipulated that, unlike large firms, SMEs do not enter into contracts that are publicly visible or widely reported publicly; contracts with their labor force, even their suppliers and their customers are generally kept private. In addition, SMEs do not issue traded securities that are continuously priced in public markets.

Furthermore, most of SMEs do not have audited financial statements at all that can be shared with any provider of outside finance. As a result, SMEs often cannot credibly convey their quality.

Hall et al., (2000) suggests that the industry in which a firm operates does not directly determine its capital structure but may do so indirectly via the nature and composition of the firm's assets. The relationship between industry classification and financial leverage are based on the assumption that industry classification is a proxy for business risk (Barbosa & Moraes, 2004). The rationale for this may be that firms in the same industry face the same environmental and economic conditions and, therefore, tend to cluster with respect to variance of earnings and sales.

Kitindi et al., 2007) evidenced that creditors, banks and other lenders use financial information provided by firms to analyze their present performance and predict future performance. Financial information obtained from the financial statements acts as an indicator of borrower's future prospects and ability to repay back principal and stipulated interest attached. Lenders use available financial information to make an approval-rejection decisions; lack of adequate information leads to information asymmetry and credit rationing (Sarapaivanich & Kotey, 2006).

Critique of the Review

Most literature states that differences in the financial institution structure and lending infrastructure affect the availability of funds to small scale youth enterprise projects. While this is the case, it will be relevant to understand the extent to which structure and infrastructure influences access to credit. While literature states that failures of SMEs to access debt financing result into an inadequate capital structure this has not been proved through research thus need for the current study. Some studies have pointed out that firm characteristics have an impact on access to debt financing, capital structure and performance of SME but have failed to come up with the costs involved and why accessibility to credit has been declining.

Studies have also pointed out that lenders may perceive incorporation as a good signal that portrays credibility and formality of operations, however, no evidence and more relevantly in Kenya suggesting a positive relationship between leverage and incorporation. Bougheas et al. (2005) argued that collateral is an important factor for SMEs in order to access debt finance. Collateral reduces the riskiness of the loan by giving the financial institution a claim on a tangible asset without diminishing its claim on the outstanding debt. This withstanding no study has come up to show, in fact, collateral has an influence on access to credit in Kiambu County.

Coco (2000) points out that the collateral is the lender's second line of defense. Barbosa and Moraes (2004) argue that SMEs owners-managers that invest heavily intangible assets tend to have higher financial leverage since they can borrow at lower interest rates if their debt is secured with such assets. Chandler (2009) pointed that the longer existence of a firm, signals that that a firm can survive during a tough economic conditions. Klapper (2010) stated that younger firms (less than 5 years) rely less on bank financing and more on informal financing. Ngoc et al. (2009) find out that it is often difficult and expensive for young SMEs to access bank financing due a large information asymmetry between the banks and firms. Bougheas et al., (2005) point out that young firms are more failure prone than older ones. Managerial competencies as measured by education level, managerial experience, industry expertise and knowledge of the business positively impact on the performance of SMEs. It was important to find out how owner-manager's management competency (education and experience) had an influence on access to debt financing from commercial banks.

Research Gaps

There is evidence from the review of both the theoretical and the analytical literature that research gaps exist. Past researchers concentrated on factors affecting accessibility of credit among the SME's, in the traditional financial transactions. However modern trends in the financial transactions have brought about different ways in these operations. An example is the mobile telephone money transactions by the unbanked traders. There was, therefore, the need to carry out a study to investigate factors affecting credit access among small scale youth enterprise projects in Kiambu County. In addition, the study sought to fill the knowledge gap on the effect of among other variables: management skills, interest rates, the number of lenders and collateral on credit access among small scale youth enterprise projects.

RESEARCH METHODOLOGY

Research Design

This study adopted a cross sectional survey design of the factors affecting credit access among small scale youth enterprise projects in Kiambu County. The main reason for the use of cross sectional survey design is the aim to provide as much information on the entire population under study in relation to credit access among small scale youth enterprise projects. This provided some data and perceptions of the population, and they supported inferences of cause and effect on the topic under study. It involved extensive study of the particular small scale enterprise projects under investigation. Survey designs are of particular value to researchers seeking help on investigating and analysis interrelationships of a number of factors involved, and in which it was difficult to understand the individual factor without considering their relationships with each other (Cooper & Schindler, 2000).

Population

The study population of the study consisted of all the small scale youth enterprise projects in Kiambu County with a population of 1500 small scale youth enterprise projects. The study also covered the ministry of youth and sports department in Kiambu County with a population of 200 staff. The whole population under consideration was 1700 people.

Sample and Sampling Techniques

The sample of respondents was determined using simple random sampling which rely on mere chance to determine who was selected in the sample and called for random selection in the inclusion of the cases into the sample. A total sample of 170 people out of the target population of 1700 people was picked randomly. This represents 10% of the total number of respondents' targeted. A sample size of 10% of the total population was a fair number and hopefully yielded fair results. This sample was recognized as being representative of the entire population (Mugenda & Mugenda, 2003).

Data Collection Method

The methods of data that the study used are both primary and secondary data. Primary data was collected by the use of questionnaires sent to people involved with small scale youth enterprise projects and staff at the ministry of youth and sports department in Kiambu County.

Pilot Study

The questionnaire that was used needed to be effective through the process of pilot testing. A small representative of the sample was used in the pilot testing. Five people from each of the targeted groups participated in the pilot test.

Data Analysis and Presentation

The data collected was analyzed using descriptive statistics and linear regression analysis and presented in tables and figures. This was achieved through the use of SPSS software package. The analysis sought to answer research objectives and explain the associations and dependencies between the variables of the study. The output was presented in form of tables and figures. Multivariate regression analysis resulted in a prediction equation that describes the relationship between the dependent variable and independent variables (Gujarati, 2000). The model is as explained below;

$Y= \beta_0 + \beta_{ij} X_{1j} + \beta_{ij} X_{2j} + \beta_{ij} X_{3j}+ \beta_{ij} X_{4j} + \beta_{ij} X_{5j} +\epsilon$ ....equation 1

Where

Y -dependent variable- Credit Access

β_0 -is the constant (y intercept)

X_{ij} is a set of - independent variables *i* for company *j* these variables include the Management Skills (X_1), Interest Rates (X_2), Number of Lenders (X_3) and Collateral (X_4).

B_{ij} -regression coefficient *i* for variable *j*
ϵ -the stochastic error term

In relation to the objectives of the study the researcher used SPSS to estimate the following multivariate regression analysis covering the factors affecting credit access among small scale youth enterprise farming projects in Kiambu County as shown below:

$CA = \beta_0 + \beta_1 MS + \beta_2 IR + \beta_3 NL + \beta_3 CO + \varepsilon$ ....equation 2

Where CA: Credit Access at time (t).

MS: is the Management Skills

IR: Interest Rates

NL: Number of Lenders

CO: Collateral

β0 is the intercept; and reflects the constant of the equation.

β1 is the sensitive coefficient of each independent variable (i=1,2,3,4,5).

ε is the error term.

The T-test was used to test the significance of the difference in pre and post credit access. These tests were conducted at 95% level of confidence (α=0.05).

FINDINGS AND DISCUSSIONS

Response Rate

The study was interested in finding out those who responded to the study questionnaires. The findings indicate that one hundred and thirty five out of one hundred and seventy responded to the questionnaire. This represents 79% response rate while there was a non response rate of 21%. Those who responded were from all the groups targeted by this study thus small scale youth enterprise projects and department of ministry of sport. This response rate is sufficient to enable the researcher draw conclusion and give recommendations.

Gender

It is clear from the study findings that most of those who responded were male representing 64% of the respondents. On the other hand the female respondents were represented by 36% of those who responded. This is best illustrated in the figure 4.1. It can be concluded that majority of those who responded were male in line with those who were sampled for the study.

Educational Qualification

Most of those that responded were holding of a bachelor's degree at 33%. This category of respondents was followed by those who had college education at 30%. The study findings indicated that 27% of those who responded were high school graduates while 10% of the respondents had a masters degree and above.

Experience in the Organization

Majority of the respondents 31% had been with the organization for a period of between 1-4 years, 29% of those who responded had been with the organization for a period of 5-9 years, 22% of the respondents had been with the organization for a period of less than one year while 10% of them had been with the organization for a period between 10-14 years. In addition to this 8% of the respondents had worked in the organization or the said project for a period exceeding 15 years.

MANAGEMENT SKILLS

Management Experience

The study sought to find the extent to which respondents agree/disagree on management experiences positively affect credit access among small scale youth enterprise farming projects. The study findings indicate that most of the respondents strongly agreed that management experiences positively affect credit access. It can be concluded that literacy level reflect in their ability to carry out managerial routines which is an important aspect in credit access. The study findings concur with the findings of Saleemi (1997) who explains that; complete, accurate and precise information resulting from management experience is necessary for financial decisions including obtaining business loans.

Education Levels

From the study findings majority of the respondents at 48% stated that they strongly agree that education levels have significant positive effects on access to credit while 29% of the respondents disagreed with this statement.

Business Planning

The study wanted to establish from the findings the extent to which respondents agree/disagree that business planning has a positive effect on access to credit. The findings show that 44% of the respondents strongly agree that business planning has a positive effect on access to credit while 6% of the respondents strongly agree. It is clear therefore that an enterprise without clear and focused objectives lacks direction of what to do, where to go and how to go there.

Effect of Political Connection on Credit Access

The study was interested in findings out from the respondents the extent to which respondents agree/disagree political connection negatively affects access to credit. From the study findings majority of the respondents at 44% argued that they strongly agree that political connection negatively affects access to credit whereas 4% strongly disagree. It is only the attitudes of the SMEs manager to meet the required loan sizes set by the financial institution that they can access the finance needed by them to operate their businesses and perform well. As argued by Vozikis, (1999) these findings share the thought that as businesses progress through their growth stages, the financial dimensions of their operations under the management team running them tend to become more challenging resulting from political environment.

Effect of Training Skills on Management of Credit on Credit Accesss

The study sought to find out from the respondents the extent to which respondents agree/disagree that training skills on management of credit affects credit accesss. It is clear from the study findings that most of the respondents strongly agree that training skills on management of credit affects credit accesss as opposed to around 6% who stated that they strongly disagree with this statement.

Low training skills on management of credit affects credit access since levels among small scale youth enterprise project owners are evidenced by the declining levels of the primary and secondary school enrolment of students in Kenya.

INTEREST RATES

Effect of Interest Rates on Credit Access

The study sought to establish from the respondents their response on whether they were in agreement/disagreement that high interest rates negatively affect access to credit. Most of the respondents at 48% strongly agree that high interest rates negatively affect access to credit as opposed to 5% who strongly disagree. Accordingly discouraging interest rates is the structural weakness inherent in Kenyan banks. They do not have a stable source of funding; they can only lend on short term basis.

This finding therefore concurs with Schmidt and Kropp (1987) who argued that the type of the financial institution and its policy and more especially their interest rate will often determine the access problem.

Loan Repayment Modes

The study was interested in finding out from the respondents on whether they agree/disagree that loan repayment modes affect access to credit positively. Most of the respondents representing 49% were of the opinion that they strongly agree that loan repayment modes affect access to credit positively. Loan repayment modes over time have been one of the challenges people face when seeking credit from institutions.

This finding is in agreement with the argument of Schrieder and Cuevas, (1992) who stated that experience from informal finance shows that the rural poor, especially women, often have greater access to informal credit facilities than to formal sources because of the interest rates charged and modes of repayment that the organizations put on any credit given.

Credit Duration

The study was interested in findings out from the respondents the extent to which respondents agree/disagree that credit duration affects credit access to some extent. Most respondents at 50% strongly agree that credit duration affects credit access to some extent.

This study is in agreement with Daniels et al., (1995), who argued that credit duration as well as the high interest rates discourages the entrepreneurs in most sectors from borrowing.

Interest Return on Capital

The study sought to find out out from the respondents the extent to which respondents agree/disagree that interest as the return on capital affects credit access negatively. Majority of the respondents at 54% strongly agree that interest as the return on capital affects credit access negatively. The amount of interest rate charged is sometimes, intertwined with the security of the loan, and the use for the loan, or the nature of the business.

As Stutely (2003), argued the borrower should be able to put the cost of all financing and capital on the same basis, comparing them and come up with the one that gives the lowest cost financing option.

Hidden Cost of Credit

The study was interested in finding out from the respondents the extent to which they agree/disagree that hidden cost of credit affects credit access negatively. Majority of the respondents at 44% strongly agree that hidden cost of credit affects credit access negatively.

The study sought from the respondents the effects of interest rates on credit access among small scale youth enterprise farming projects. The respondents stated that with high hidden cost, the youth are not able to borrow for fear of non-repayment and this negatively affects the intake of credit by the youth.

NUMBER OF LENDERS

Number of Credit Facilities

The study wanted to establish from the respondents the extent to which they agree/disagree that access to a large number of credit facilities negatively affects credit access. Majority of the respondents representing 45% were of the opinion that they strongly agree that access to a large number of credit facilities negatively affects credit access. From the findings it is not true that access to a large number of credit facilities negatively affects credit access. This finding did not concur with the findings of McIntosh and Wydick, (2004) who argued that greater competition between lenders has increased problems of borrower over-indebtedness, reduced loan repayment incentives, and growing arrears for microfinance institutions (MFIs) in competitive environments.

Size of Enterprise

The study sought to establish from the respondents the extent to which they agree/disagree that the size of enterprise seeking credit affects credit access positively. Majority of the respondents representing 50.5% strongly agree that the size of enterprise seeking credit affects credit access positively. It can be concluded that the bigger the size of the enterprise seeking credit the easier it is to access credit.

This finding is in agreement with Lenaghan, (2001) who found out that the numbers of small scale youth enterprises are many, while the financial institutions with the services tailored to them are few. The loan requirements of the small scale youth enterprise projects are different from those of the large businesses.

Number of Lenders

The study was interested from the respondents the extent to which they agree/disagree that the fewer lenders means credit to access is limited. Majority of the respondents representing 43.7% were of the opinion that they strongly agree that fewer lenders means credit to access is limited. The numbers of small scale youth enterprises are many, while the financial institutions with the services tailored to them are few.

The study finding concurs with the findings of Kitsin (2004) who established that few institutions with considerations of lending policies factors are faced by the many small scale traders whose financial demands they may not cater for. This reduces accessibility for those who cannot get credit.

Size of Lenders

The study sought to establish from the respondents the extent to which they agree/disagree that the size of lenders affects access to credit. Majority of the respondents representing 48.1% were of the opinion that they strongly agree that size of lenders affects access to credit. As argued by Lenaghan, (2001) this study agrees with his findings in that the loan requirements of the small scale youth enterprise projects are different from those of the large businesses. This is due to the fragile nature of the business among other considerations, such as size, management structure, the capital base etc.

Amount Set for SMEs by Lenders

The study wanted to establish from the respondents the extent to which they agree/disagree that the amount set for SMEs by lenders affects access to credit. Majority of the respondents representing 49.6% were of the opinion that they agree that the amount set as for SMEs by lenders affects access to credit. Credit bureaus will increase lending volumes only if high interest rates caused by adverse selection drive safe borrowers out of the market.

The current study agrees with Jappelli and Pagano (1993) who found out that information sharing is on the amount set aside for SMEs more likely to occur when the mobility of households is high; the pool of borrowers is heterogeneous; the credit market is large and the cost of information exchange is low thus affecting access to credit.

COLLATERAL

Recovery Rate

The study wanted to find out from the respondents the extent to which they agree/disagree that higher success recovery rate postively affects credit access. Majority of the respondents representing 49.6% were of the opinion that higher success recovery rate positively affects credit access.

This findings therefore agree with the findings of Beaver (2002) who argues that the historical development and the associated culture, of the banking system underpins the problem of the emphasis on the provision of collateral as a primary condition in lending. Banks have always adopted a risk averse stance towards small firms, with an accompanying inability to focus on the income generating potential of the venture, when analyzing the likelihood of loan repayment. He concluded that higher success recovery rate positively affects credit access.

Repayment Rate Versus Collateral Provided

The study sought to establish from the respondents the extent to which they agree/disagree that repayment rate versus collateral provided affects credit access. Most of the respondents representing 46.7% strongly agree that repayment rate versus collateral provided affects credit access.

This study disagrees with Soyibo (1994) who concluded that although there has been considerable progress in the lending to the small scale youth enterprise projects, banks remain cautious because many of these businesses have neither, collateral nor asset registers and thus they do not consider repayment rate in giving credit.

Security

The study sought to establish from the respondents the extent to which they agree/disagree that lack of security by small scale youth negatively affects credit access. Majority of the respondents representing 43.7% strongly agree that lack of security by small scale youth negatively affects credit access.

These findings therefore agree with Canovas & Solano, (2006) who found that most banking institutions and credit giving facilities demand collateral as one of the requirements for the access to credit facilities. This becomes a constraint small scale youth enterprises most of who may not have deeds to capital assets to present as security against the loans. This factor reduces accessibility of these loans.

Value of Proposed Collateral

The study wanted to find out from the respondents the extent to which they agree/disagree that the value of proposed collateral negatively affects credit access. The findings indicate that majority of the respondents representing 43.7% strongly agree that lack of security by small scale youth negatively affects credit access.

The findings agree with the findings of Woordeckers & Steijvers, (2006) who stated that formal banking institutions always demand collateral to act as a security on loans which in normal circumstances is the value is too high. They concluded that the small scale youth enterprises businesses are relegated to the micro finance institutions(MFI's) and 'shylocks' whose lending requirements may further discourage them.

CREDIT ACCESS

Customized Microfinance Product Offering

The study wanted to find out from the respondents the extent to which they agree/disagree that youth required a customized microfinance product offering for youth in business as a possible solution to credit access. The findings indicate that majority of the respondents representing 46.7% strongly agree that youth required a customized microfinance product offering for youth in business as a possible solution to credit access. The findings agree with the findings of Schmidt and Kropp (1987) who pointed out that in most cases the access problem facing the youth especially among formal financial institutions is one created by the institutions mainly through their lending policies which lack customized product solutions.

Social and Cultural Attitude Towards Youth Entrepreneurship

The study sought to find out from the respondents the extent to which they agree/disagree that social and cultural attitude towards youth entrepreneurship influences credit acccess. The findings indicated that majority of the respondents representing 52.6% strongly agree that social and cultural attitude towards youth entrepreneurship influences credit acccess.

The findings disagree with the findings of Baydas and Aguilera-Alfred, (1994) who were of the opinion that what is displayed in the form of prescribed minimum loan amounts, complicate application procedures and give restrictions on credit for specific purposes among the youth other social and cultural attitudes.

Business, Technical Skills and Operational Space

The study was interested in finding out from the respondents the extent to which they agree/disagree that lack of business and technical skills, unavailability of operational space negatively influences access to credit among the youth. Majority of the respondents representing 46.0% strongly agree that lack of business and technical skills, unavailability of operational space negatively influences access to credit among the youth.

These findings therefore agree with Bell (1990) who demonstrated that the lack of business and technical skills, incomplete information or imperfect contract enforcement generates the possibility of loan default and eventually problems of credit rationing. The result is loan supply and implicit credit demand functions, both of which are simultaneous determinants of credit demand.

Youth Improvement on their Business Skills and Knowledge

The study wanted to find out from the respondents the extent to which they agree/disagree that youths can improve their participation in credit market by improving their business skills and knowledge plus maintaining proper accounting and book-keeping systems. Majority of the respondents representing 51.2% strongly agree that youths can improve their participation in credit market by improving their business skills and knowledge plus maintaining proper accounting and book-keeping systems. These findings therefore agree with Pani, (1966), who in his findings, reveals that the probability of applying for credit significantly increases with the number of years of schooling, improving their business skills and knowledge, increase in age and income that is the poor significantly rely on short-term credits.

Regression Analysis

Multivariate regression analysis resulted in a prediction equation that describes the relationship between the dependent variable and independent variables. The model is as explained below;

$$CA = \beta_0 + \beta_1 MS + \beta_2 IR + \beta_3 NL + \beta_3 CO + \varepsilon$$

Where

Where CA: Credit Access at time (t).

MS: is the Management Skills

IR: Interest Rates

NL: Number of Lenders

CO: Collateral

β0 is the intercept; and reflects the constant of the equation.

β1 is the sensitive coefficient of each independent variable (i=1,2,3,4,5).

ε is the error term.

The T-test was used to test the significance of the difference in pre and post development. These tests was conducted at 95% level of confidence (α=0.05). The researcher conducted a multivariate regression analysis to establish factors affecting credit access among small scale youth enterprise farming projects in Kiambu County using SPSS software. By the use SPSS software the following question was estimated:

$$CA = \beta_0 + \beta_1 MS + \beta_2 IR + \beta_3 NL + \beta_3 CO + \varepsilon$$

The fitted regression model of the variables is presented below:

$$CA= 5.42312_{(0.0143)} +.02314_{(0.0231)} MS - .3120_{(0.0124)} IR +.29041_{(0.0432)} NL + .404081_{(0.0191)} CO$$

From the study results it is clear that the standard errors (SE) of the coefficients of the independent variables were lesss than less 0.05 meaning that all the factors independent variables tested in this study significantly influence the dependent variable which in this case was the credit access at 5% significance level.

Table 4.8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.863[a]	.744	.739	.232

In the model provided above, R square tells how much of the variance in the dependent variable (credit access) is explained in the model with other variables of management skills, interest rates, the number of lenders and collateral. In this case the value is 0.744 expressed as a percentage, which means that the model explains 74.4% of the variance in perceived influence of the factors looked at vis-a-vis the dependent variable of credit access among small scale youth enterprise farming projects in Kiambu County.

Regression Summary Table

Variable	Coefficient	Std. Error	Prob.
Constant	5.42312	0.0231	0.746
MS	.02314	0.0231	0.104
IR	.3120	0.0124	0.375
NL	.29041	0.0432	0.019
CO	.404081	0.0191	0.340

ANOVA was utilized to test the statistical significance of the result. This is as illustrated in the table 4.30. This tests the null hypothesis that Regression (R) in the population equals 0. The model presented here reaches statistical significance of 0 i.e, [Sig = .000, this means p<.0005

Table 4.10 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	46.764	24	16.422	46.7642	.000[b]
	Residual	4.321	72	.187		
	Total	51.085	96			

The study findings indicate that the coefficient for management skills positively relate to credit access among small scale youth enterprise farming projects in Kiambu County. The findings indicate that a unit increase in the percentage of management skills leads to an increase in dependent variable credit access by around 23%, other factors being constant. The study findings indicate that the coefficient for interest rates negatively relate to credit access among small scale youth enterprise farming projects in Kiambu County. A unit decrease in interest rate leads to an increase in credit access by 31%, other factors remaining constant.

It is indicated from the study findings that the number of lenders positively relate to credit access among small scale youth enterprise farming projects in Kiambu County. The researcher found out that a unit increase in the that the number of lenders leads to an increase in credit access by 29% other factors being constant. The study findings show that the coefficient for collateral positively relate to credit access among small scale youth enterprise farming projects in Kiambu County. The findings indicate that a unit increase in the collateral leads to increase in the credit access by 40% other factors being constant.

SUMMARY, CONCLUSIONS

Summary

Management Skills

Majority of respondents indicated that they thought management skills affects credit access among small scale youth enterprise farming projects. The explanation given by the respondents was that small scale youth enterprise farming projects owners are often managers of their enterprises and usually have no formal qualifications in management and leadership. According to the findings SME owners do not foresee growth beyond a certain level. The findings also indicate that small scale youth enterprise projects experience unplanned growth attributable to planning failures on the part of managers. They are caught unaware and therefore feel overwhelmed in managing a larger enterprise.

The study sought to find the extent to which respondents agree/disagree on management experiences positively affect credit access among small scale youth enterprise farming projects. It can be concluded that literacy level reflect in their ability to carry out managerial routines which is an important aspect in credit access. From the study findings majority of the respondents stated that they strongly agree that education levels have significant positive effects on access to credit. The literacy level is observed in the ability to have the appropriate book keeping skills.

The findings show that most of the respondents strongly agree that business planning has a positive effect on access to credit. It is clear therefore that an enterprise without clear and focused objectives lacks direction of what to do, where to go and how to go there. Most of the respondents strongly agree that training skills on management of credit affects credit accesss. It can be concluded that collaboration skills among those to be provided loans do affect access to credit incase the members lack collaboration among themselves. The study findings indicate that management skills are being used as an innovative form of collateral for loans and unlike the traditional financial parameters used by lenders, management skills are a key determinant for business success and are used to gauage the amount of money that an enterprise can receive.

Interest Rates

The study findings shows that majority of the respondents agree that interest rates affect credit access among small scale youth enterprise projects. The interest rate charged, on loans ranks high. It also affects the rate of repayment of the loans leading to high rate of default on loans. With poor business performance worsened by the global economic depression, most businesses are not only unable to repay their current loans but are discouraged from accessing more credit.

Most of the respondents strongly agree that high interest rates negatively affect access to credit. Accordingly discouraging interest rates is the structural weakness inherent in Kenyan banks

Most respondents strongly agree that credit duration affects credit access to some extent. Majority of the respondents strongly agree that interest as the return on capital affects credit access negatively. The amount of interest rate charged is sometimes, intertwined with the security of the loan, and the use for the loan, or the nature of the business. Majority of the respondents strongly agree that hidden cost of credit affects credit access negatively. The respondents stated that with high interest rates the youth are not able to borrow for fear of non-repayment and this negatively affects the intake of credit by the youth.

As shown in the studies above lenders need to consider adopting the adverse selection theory of credit markets which originates with the paper by Stiglitz and Weiss (1981) in which they explained why the interest rate could not equate the supply and demand in the credit market but when setting interest rates they should be reasonable enough to consider other factors for example special groups such as the youth and the disabled.

Number of Lenders

It is clear from that most of the respondents were of the opinion that number of lenders affect credit access among small scale youth enterprise projects. It is true that the microfinance revolution has brought about unprecedented competition in credit markets within many developing countries which has resulted in a number of unforeseen difficulties.

The explanation given is that the number of lending institutions and their network of branches is a challenge to the accessibility of loans among small scale youth enterprise projects. It is true that a wide branch network enables a financial institution to have lower cost of funds but that is not the case on the the ground. Banks take loans from other financial institutions in order to lend to the customers where their deposit base is insufficient to cover the amount lent. But a wide branch network bring with it, significant operating expenses in the forms staff costs and structures. The few available lending institutions are unable to channel the credit services widely due to the costs involved.

Majority of the respondents were of the opinion that they strongly agree that access to a large number of credit facilities negatively affects credit access. From the findings it is not true that access to a large number of credit facilities negatively affects credit access. Most of the respondents representing strongly agree that the size of enterprise seeking credit affects credit access positively. It can be concluded that the bigger the size of the enterprise seeking credit the easier it is to access credit.

Majority of the respondents were of the opinion that they strongly agree that fewer lenders means credit to access is limited. The numbers of small scale youth enterprises are many, while the financial institutions with the services tailored to them are few. Most of the respondents were of the opinion that they strongly agree that size of lenders affects access to credit. Majority of the respondents representing were of the opinion that they strongly agree that the amount set as for SMEs by lenders affects access to credit. Credit bureaus will increase lending volumes only if high interest rates caused by adverse selection drive safe borrowers out of the market.

According to the respondents the motivation for the continued expansion of microcredit, or at least for the continued flow of subsidies to both nonprofit and for-profit lenders, is the presumption that expanding credit access is a relatively efficient way to fight poverty and promote growth. Expanding credit access through the number of lenders available may well have null or even negative effects on borrowers. Formal options can crowd-out relatively efficient informal mechanisms. The rise in interest rates question assumes that the cost of borrowing also increases. It becomes more expensive to borrow money, creating an increase in interest rates. This affects a business owner in a myriad of ways.

Collateral

The evidence from the study findings indicate that majority of the respondents thought that collateral affects credit access among small scale youth enterprise projects. The explanation given is that a lack of collateral is one of the key elements, of the business in accessing credit. Due to this as well as a verifiable credit history, most are therefore unable to access credit. The firm knows the expected risk and return of the project for which they want bank finance while the bank only knows the average expected return and risk of an average project in the economy. The lender is not willing to increase the interest rate to bring demand and supply for bank debt together: the lenders expected return would decrease due to informational asymmetries. Since collateral is expected to have a mitigating effect on informational asymmetries, collateral may solve the credit rationing problem.

Majority of the respondents were of the opinion that they strongly agree that lending to the large scale businesses with collateral affects credit access to small scale youth enterprise. Most of the respondents were of the opinion that higher success recovery rate positively affects credit access. Most of the respondents strongly agree that repayment rate versus collateral provided affects credit access. Majority of the respondents strongly agree that lack of security by small scale youth negatively affects credit access.

Majority of the respondents strongly agree that lack of security by small scale youth negatively affects credit access. The effect of collateral is identified by varying the amount of collateral that can be pledged across treatments. Collateral may cover 50% of the loan amount or it may cover 100% of the loan amount, a commonly observed case. If collateral is small, 50% of the loan amount, a low interest is optimal since it incentivizes the borrower to exert effort. For a given interest rate, an increase in collateral is expected to increase the effort provided by borrowers. Importantly, since collateral increases by the same amount at low and high interest rates, the same increase in effort is expected, both if borrowers are risk neutral or risk averse. An increase in collateral is also expected to increase credit supply.

As shown from the study findings banking institutions should consider adopting concepts of Grameen bank theory in that the institutions should consider a mechanism under which credit can be provided to the poorest of the poor on a group liability basis instead of any collateral.

Credit Access

The study findings show that respondents stated that most youth were unable to differentiate the loan products offered by the financial institutions, high interest rates charged by lenders, a lack of collateral among the youth as well as poor management and financial skills negatively impacted on their credit access. The respondents was asked their opinion as to whether they thought credit access was a challenge among small scale youth enterprise farming projects. The study response indicated that most of the respondents were of the opinion that credit access a was a challenge.

The explanation provided was that one of the most difficult problems in the new ventures and especially, the small businesses obtaining financing. For the entrepreneur available financing needs to be considered from the perspective of debts versus equity and using external versus external funds. Most banking institutions demand collateral as one of the requirements for the access to credit facilities. This becomes a constraint to youth enterprises most of who may not have deeds to capital assets to present as security against the loans. This factor reduces accessibility of these loans. Furthermore, most lending institutions are more inclined to lending to the large scale businesses who have higher success rate, and repayment rate. The small scale businesses are relegated to the micro finance institutions and shylocks whose lending requirements may further discourage them.

Majority of the respondents strongly agree that youth required a customized microfinance product offering for youth in business as a possible solution to credit access. Most of the respondents strongly agree that social and cultural attitude towards youth entrepreneurship influences credit acccess. Majority of the respondents strongly agree that lack of business and technical skills, unavailability of operational space negatively influences access to credit among the youth.

Most of the respondents strongly agree that youths can improve their participation in credit market by improving their business skills and knowledge plus maintaining proper accounting and book-keeping systems. Majority of the respondents strongly agree that though the market is much more stable youth entrepreneurs have to deal with other matters such as a culture of senseless profiteering and poor service standards in relation to credit access.

Conclusion

From the finding, it can be concluded that management skills, interest rates, the number of lenders and collateral affect credit access from micro financial institutions among small scale youth enterprise farming projects. High interest rates charged by banks lead them to prefer personal savings and family sources of income. Since majority did not own assets they could not provide collateral for loans which is requirement to access loan.

The study concludes that business growth is predicated upon many factors among these, is the ability of the business people to access credit facilities. Ninety percent of all small and micro enterprise collapse in their first year of start up, due to lack of financial resources. Although many financial institutions have been vigorously marketing their credit facilities, few small scale youth enterprise farming projects have been accessing them.

In conclusion it is clear just as discussed in the findings of King and McGrath (2002), who found out that those with more management skills, education and training are more likely to be successful in the sector and the findings of Daniels et al., (1995), who argued that high interest rates, discourages the entrepreneurs in this sector from borrowing.

However this study disagree with the of McIntosh and Wydick, (2004) who argued that greater competition between lenders has increased problems of borrower over-indebtedness, reduced loan repayment incentives, and growing arrears for microfinance institutions (MFIs) in competitive environments. As stated by the World Bank (2004) report, this study concludes that commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions arising from a lack of collateral.

Recommendations

As a result of the findings above the researcher recommends that there is need by the government to licence more financial institutions. This can be done through relaxing the requirements for starting of lending institutions. There should be incentive to encourage growth of MFI's which cater for the small scale youth enterprise farming projects. This can be encouraged by a reduction of taxes levied on services.

On the other hand the government needs to encourage micro financial institutions to low the interest rate they charge youth enterprises. The government should put in place mechanisms that can provide the institutions with tax holidays and rebates to encourage the banks to lower the interest rates on loans targeted at small scale youth enterprise farming projects.

The study recommends that both the national and county should come up with a policy that recognizes the importance of small business and farming projects. Equally, responsible government departments should come together and encourage the formation of business groups in a bid to guarantee each other and work together as groups other than individuals.

Proposed Areas for Further Study

From the finding, it was established that management skills, interest rates, the number of lenders and collateral affect credit access from micro financial institutions among small scale youth enterprise farming projects. For example high interest rates charged by banks lead them to prefer personal savings and family sources of income. Since majority did not own assets they could not provide collateral for loans which is requirement to access loan. On the basis of this findings this study proposes further studies to be carried out on: to determine the effect of education on credit access among small scale youth enterprise farming projects, to find out whether age affects credit access among small scale youth enterprise farming projects and the effect of social and cultural orientation on credit access among small scale youth enterprise farming projects.

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