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ABSTRACT

This study explored how credit appraisal methods affect credit access for small-scale traders in Githurai Market, Nairobi City County. The primary focus was on understanding the impact of appraisal factors, such as credit history, collateral, and income stability, on traders' ability to secure financing. The sample included 169 small-scale traders and representatives from 9 financial institutions, including banks and microfinance institutions. The study revealed that collateral, credit scores, and business income are key determinants of credit access. Financial institutions tend to rely on traditional appraisal methods, making it challenging for small-scale traders, especially those lacking collateral or a strong credit history, to obtain loans. Qualitative findings underscored the need for financial literacy programs, simplified loan processes, and innovative credit scoring models to improve accessibility. Additionally, the study emphasized the potential of government-backed initiatives and partnerships between stakeholders to reduce information asymmetry and make credit more accessible to underserved traders. Supported by the Credit Channel Theory and Information Asymmetry Theory, the study recommended updating credit criteria to include non-traditional metrics, expanding government aid, fostering stakeholder collaboration, promoting financial literacy, streamlining loan applications, and creating partnerships with technology firms for innovative solutions. Further research is suggested to investigate alternative financing options and the impact of financial literacy on credit access.

***Key Words**: Accessibility, Collateral, Credit Appraisal, Credit History, Financial Literacy, Government Initiatives, Loan Procedures*

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INTRODUCTION

Small-scale businesses in developing countries face a financing gap estimated at $5.2 trillion annually, significantly surpassing the current global microlending levels by fourteen times. According to the World Bank (2022), only about half of formal small businesses can access credit, and this gap widens when micro and informal enterprises are included. Due to the lack of long-term financing, these businesses rely heavily on short-term, high-cost credit. A study by Uwingabiye (2022) reveals that 83% of small business owners rarely receive loans, and only 20% consistently access credit. In Kenya, small-scale businesses have historically been vital to the economy by creating employment and contributing to GDP growth (Hunt, Samman, Tapfuma & Mwaura, 2020). Yet, restrictive colonial-era regulations once forced informal traders out of Nairobi's CBD to markets on the city's outskirts, such as Githurai, where they continue to operate (Mbugua, 2010).

Despite their economic significance, small-scale businesses still face substantial obstacles to accessing financing, particularly with the stringent credit assessments used by commercial banks (Maziriri et al., 2020). Traditional banks typically require collateral, credit history, and formal financial records, which small-scale enterprises often lack (Shi et al., 2022). Consequently, these businesses are often excluded from credit facilities, stifling their potential for growth and development (Bermpei et al., 2020). Recognizing these challenges, microfinance institutions (MFIs) have become a critical credit source for small businesses in the informal sector. Unlike commercial banks, MFIs use credit appraisal methods that account for the unique circumstances and constraints of small-scale firms. These methods often assess aspects like the borrower's character, community reputation, and cash flow, providing a more realistic picture of their creditworthiness (Mutunga et al., 2021; Lamichhane, 2022).

MFIs' inclusive approach has been transformative, enabling small-scale business owners who might not meet traditional banking criteria to access essential credit. By evaluating factors beyond conventional collateral and financial documentation, MFIs can support small-scale businesses that are otherwise excluded, thus enhancing their potential for growth and sustainability (Aliija & Muhangi, 2017). Nevertheless, commercial banks' rigid credit processes remain a significant barrier to financing for small businesses in Kenya's informal sector. Addressing this gap is crucial, as small-scale businesses not only support Kenya's economy through job creation and entrepreneurship but are also essential for broader economic growth (Njagi & Njoka, 2020). In recent years, MFIs have played a vital role in fostering entrepreneurship and economic development by offering financial services tailored to the needs of the small-scale market, which is largely underserved by traditional banks (Kariuki et al., 2022).

Credit appraisal procedures are essential steps conducted by financial institutions to evaluate the creditworthiness of borrowers before extending loans or credit. These procedures assess the risk associated with lending and inform the lending decisions. For instance, when a borrower approaches a financial institution, they must provide information regarding the loan's purpose, terms, and duration. The lender verifies the authenticity of documents provided by the borrower, such as proof of identity, address, income statements, and business details. Furthermore, the lender conducts credit checks, analyzing the borrower's credit score, history, outstanding debt, and repayment behavior to assess the borrower's financial health by examining cash flow, income statements, and balance sheets (Clerke, 2019; Seyfried, 2001).

Global unemployment trends highlight the growing role of entrepreneurship as a solution to generate income and stimulate economic activity, especially in developing economies. Microfinance has become a key component of financial inclusion, providing essential financial services to those without access

to traditional banking (Yunus, 2009). Microfinance institutions offer credit access to individuals and small businesses that face exclusion from conventional financial systems. Studies reveal that microfinance credit access reduces poverty, encourages job creation, and empowers women. However, accessibility to microfinance credit remains limited by issues like collateral requirements, income stability, and credit appraisal procedures (Karlan & Morduch, 2010).

In Africa, microfinance has significantly contributed to economic growth and poverty reduction. Several countries, including Kenya, recognize microfinance's role in bridging financial gaps and promoting entrepreneurship among marginalized groups. Initiatives like those by the African Development Bank aim to strengthen microfinance institutions to support underserved communities. Kenya has introduced programs such as the Uwezo Fund and the Youth Enterprise Development Fund (YEDF) to promote entrepreneurship and provide financial support to small businesses (Etemesi, 2017). Yet, stringent credit appraisal processes and limited collateral remain barriers to credit access, particularly in local markets like Githurai Market in Nairobi (Omondi et al., 2018).

Githurai Market, a prominent marketplace for small-scale businesses in Kenya, exemplifies the challenges microbusinesses face in accessing credit. Research shows that stringent credit appraisal requirements and insufficient collateral create significant barriers. Moreover, variables like borrower credit history, income stability, and the availability of government-backed unsecured loans impact credit accessibility for small businesses in the area. A borrower's credit history, for instance, is a major factor in determining credit access; borrowers with a positive history enjoy better loan terms, while those with a negative history face rejection or higher interest rates (Mwirigi & Munyoki, 2020). Understanding the influence of these factors is vital for sustainable microfinance in Githurai Market.

Globally, credit history is a key determinant in accessing microfinance. A positive credit history enhances the likelihood of obtaining credit, while a poor history limits access. For instance, Gobbi and Sette's (2020) multi-country study found that individuals with favorable credit histories are more likely to receive loans. However, in Africa, access to formal financial services is limited, and informal lending mechanisms are predominant. Studies in different African countries affirm credit history's importance for small business owners. Asongu and Nwachukwu's (2017) research in Nigeria shows that a positive credit history positively impacts credit access, yet localized studies focused on markets like Githurai are sparse.

Githurai Market, one of East Africa's largest open-air markets, is a central hub for small business activities. Despite its economic importance, microbusinesses in Githurai struggle to secure credit due to rigorous credit appraisal procedures. Limited research specifically addresses the effects of credit history on microfinance access in Githurai. A study by Kwesiga et al. (2019) in Kenya suggests credit history significantly influences credit access for microbusiness owners, yet it does not focus explicitly on Githurai Market. This research, therefore, aims to deepen the understanding of credit access dynamics in Githurai and provide insights that can help microfinance institutions, commercial banks, and policymakers develop strategies to ease credit access for small-scale businesses.

Collateral is a standard requirement for credit access, serving as security for lenders to mitigate the risk of lending. Worldwide, studies indicate that collateral availability impacts credit access. In Africa, however, collateral requirements pose significant obstacles, as many small businesses lack substantial assets to offer as security. Research in Tanzania by Kuzilwa (2005) demonstrated that inadequate collateral negatively affects credit access for small-scale entrepreneurs, with similar trends observed across the continent (Dzansi et al., 2021).

In Githurai, collateral requirements are a significant part of credit appraisal by commercial banks. Microbusiness owners often lack the assets required to meet these requirements, restricting their access to formal credit. A study by Murunga et al. (2021) in Kenya highlighted collateral's role in credit accessibility for small businesses, though it does not focus on Githurai Market. To address this gap, further research is needed to examine the role of collateral in credit access for Githurai's small businesses, offering insights that can help develop strategies to overcome these challenges and expand credit opportunities.

Income stability is another critical factor in credit appraisal and access, with borrowers showing consistent income deemed less risky. Globally, studies underscore the connection between stable income and enhanced credit access, as consistent earnings reduce lenders' risk. Research by Chen and Hung (2017) across various countries supports this, noting that higher income stability increases access to credit. In African contexts, income instability limits credit access for microbusinesses, affecting their ability to secure loans. For instance, Ogbuji et al. (2019) in Nigeria found income fluctuations significantly impact small-scale entrepreneurs' financing opportunities.

In Githurai, income stability directly impacts credit access, as microfinance institutions consider it in their credit appraisal processes. Microbusiness owners often struggle to demonstrate reliable income, complicating their ability to access credit. Limited research exists on income stability and its effect on microfinance credit in Githurai. In Kenya, Ong'olo and Awino's (2013) research noted the importance of income stability for small businesses' credit access, though it did not focus specifically on Githurai. Examining income stability in Githurai Market will deepen the understanding of credit dynamics and help policymakers and microfinance institutions develop strategies to address income-related challenges in credit access.

Credit appraisal procedures are crucial for determining credit access and promoting economic development, particularly in microfinance sectors. By analyzing borrower credit history, collateral requirements, and income stability, financial institutions gauge the creditworthiness of borrowers. Microfinance credit access has gained importance globally and in African economies, as it supports financial inclusion and small-scale businesses. However, challenges remain in ensuring credit accessibility for those most in need.

In Kenya's Githurai Market, microbusinesses face unique obstacles in accessing credit, from stringent appraisal processes to limited collateral. The relationship between credit appraisal procedures and microfinance credit access in Githurai Market requires further exploration. This research aims to provide insights for developing inclusive credit appraisal procedures, facilitating credit access for microbusinesses, and fostering economic growth. Understanding credit history, collateral practices, and income stability will help financial institutions, commercial banks, and policymakers create solutions that enhance credit access for small businesses in Githurai Market and other underserved communities.

Research Problem

Over the past five years, small-scale traders in Kenya have experienced a decline in credit accessibility, with lenders reporting an outstanding loan rate of 56.3% as of June 2023. This decrease is largely due to traders' lack of collateral, insufficient credit history, and unstable income, which limit their creditworthiness. Makunda (2023) highlights that of the businesses registered in 2021, 73% were still operational by mid-2023, indicating a 27% closure rate. The main reasons for these closures were a lack of operating capital (46%) and decreased client demand (24%), with 59% of failed businesses attempting to secure financing before shutting down. By December 2020, the banking sector held Ksh. 638.3 billion in active MSME loan accounts, accounting for half of potential borrowers, which suggests that a substantial portion of businesses could not access credit (CBK, 2020).

Small-scale traders in Githurai Market face similar obstacles in obtaining credit, hampering their growth and sustainability. Commercial banks' credit appraisal processes, particularly the use of Credit Reference Bureau (CRB) scores, have become critical for loan approval, although the loans granted are often insufficient due to limited collateral and low cash flow (Akoten, Sawada & Otsuka, 2006; Mwangi & Kamau, 2021). Previous studies have identified credit access as essential for these traders, yet they often overlook the impact of banks' credit evaluation methods on loan accessibility. For instance, Muthoni (2013) noted that restricted financial access hinders small-scale business growth but focused only on capacity building rather than on adjusting appraisal criteria. Similarly, Wanjiru (2016) found limited access to finance as a significant barrier, particularly for women in micro-entrepreneurship, but did not examine how banks' appraisal methods might influence credit access. Furthermore, Mwangi and Kamau (2021) indicated that inadequate credit access contributes to business failures in Githurai but did not explore the direct impact of appraisal techniques used by banks.

While numerous studies have examined factors affecting credit access, such as those by Yusuf and Aliero (2017), inconsistencies in findings highlight the need for more specific research on how credit appraisal procedures influence credit accessibility. This study will thus focus on examining the effects of credit appraisal processes on credit accessibility among small-scale traders in Githurai Market, Kenya, aiming to fill the gaps left by previous research.

Research Objective

This study was guided by the following general objective to: scrutinize the impacts of credit appraisal procedures on access to credit by small-scale traders in Githurai market, Kenya.

The specific objectives were to: establish the effects of borrower's credit history on credit accessibility of small-scale traders in Githurai market, Kenya. determine the effects of collateral on credit accessibility of small-scale traders in Githurai market, Kenya and determine how income stability affect credit access by small-scale traders in Githurai market, Kenya.

LITERATURE REVIEW

The study relied on four key theories—Access to Finance Theory, Credit Channel Theory, Information Asymmetry Theory, and Social Capital Theory—to explain the relationship between the credit appraisal process and financing availability for small enterprises in the Githurai market, Kenya.

Developed by Thorsten Beck and Demirguc-Kunt (2007), Access to Finance Theory examines income stability and financial inclusion as integral components of credit appraisal. It highlights the role of financial services in promoting the growth of small enterprises, focusing on the access individuals and businesses have to deposits, credit facilities, and payment systems. In the Githurai market, individuals and businesses with easy access to credit are deemed "banked," while those with limited access are "underbanked" or "unbanked" (Mwangi & Ngugi, 2018). Studies suggest that financial access is crucial for fostering business growth, with positive economic implications such as business expansion, increased market competition, and an overall boost to economic development (Claessens & Tzioumis, 2006).

Improved financial access can also help reduce income inequality by creating opportunities for low-income individuals to engage in small-scale businesses (Mwangi & Ngugi, 2018). However, limited credit access due to inadequate financial services hinders the growth of small businesses, which, in turn, curtails economic development and exacerbates inequality (Mehta & Bhattacharya, 2018). Government lending policies and central bank regulations influence the implementation of this theory across various economies (Claessens & Tzioumis, 2006).

In the Githurai market, this theory sheds light on the relationship between credit appraisal procedures—such as interest rates, repayment

conditions, and collateral requirements—and financial inclusion for small enterprises. Understanding Access to Finance Theory helps provide valuable insights for policymakers and financial institutions to enhance credit access, thus driving sustainable growth among small businesses in Kenya.

Ignacio Hernando's Credit Channel Theory, which connects to the concept of credit history in credit appraisal, investigates how central bank monetary policy affects commercial banks' lending behaviors and credit accessibility for businesses. Bernanke and Gertler (1995) argued that commercial banks' willingness to extend credit is shaped by central bank policies that influence loan conditions, such as interest rates and repayment terms (Aysun et al., 2018). An increase in interest rates, for instance, can make external financing more costly, thereby limiting credit access for small businesses (Aysun et al., 2018). Additionally, policy changes impact collateral requirements, where relaxed requirements improve small businesses' access to finance by allowing more credit facilities in the economy (Rafay & Farid, 2019).

In the study's context, Credit Channel Theory illustrates the relationship between monetary policy, credit appraisal, and small enterprises' access to finance in the Githurai market. By analyzing this theory, the study aimed to understand how monetary policy influences credit appraisal procedures and, subsequently, credit accessibility for small businesses. This understanding is significant for financial organizations and policymakers aiming to create an environment that supports microenterprise financing through favorable credit terms and policies.

Information Asymmetry Theory, introduced by James A. Mirrlees and William Vickrey, explains the informational imbalance between borrowers and lenders. Borrowers typically have better knowledge about their creditworthiness than lenders, which presents challenges for credit assessment, particularly in the context of microfinance lending (Akerlof, 1970; Stiglitz & Weiss, 1981). In the Githurai market, lenders often face difficulty assessing the creditworthiness of small enterprises due to limited access to reliable information, such as credit history records, which complicates the credit appraisal process (Akerlof, 1970; Stiglitz & Weiss, 1981).

The theory underscores the need for effective information-sharing mechanisms, such as detailed credit application forms, financial statements, and credit history records, to bridge this knowledge gap. Improved information flow helps lenders make informed decisions on credit approvals and terms, which can mitigate risks associated with lending to small-scale businesses. Collateral requirements and interest rates are also influenced by information asymmetry, as lenders seek to reduce the risks associated with incomplete information (Akerlof, 1970; Stiglitz & Weiss, 1981).

In the Githurai market, addressing information asymmetry is crucial for enhancing microfinance credit access for small businesses. The study highlights the importance of mechanisms such as credit bureaus and digital platforms to facilitate information sharing, enabling lenders to make more accurate assessments of creditworthiness. By focusing on Information Asymmetry Theory, this research offers insights into improving credit appraisal procedures and promoting financial inclusion for small enterprises.

Originally proposed by Bourdieu (1985), Social Capital Theory complements the aspect of collateral in lending by emphasizing the role of social networks and relationships. In the Githurai market, this theory explains how the social structures of microbusiness communities, particularly through self-help groups like Chamas, facilitate credit access by pooling resources and mitigating individual collateral limitations (Coleman, 1988; Putnam, 1993). These collective arrangements serve to close information gaps between borrowers and lenders, reduce the risk of lending, and improve credit appraisal outcomes for individual members

(Armendáriz & Morduch, 2010; Bachmann & Inkpen, 2011).

In addition, the social norms and reputations maintained within these groups influence credit appraisal procedures. Trustworthiness and adherence to group norms enhance individual creditworthiness, which increases their likelihood of accessing credit. Lenders may also rely on endorsements or recommendations from Chamas when assessing the creditworthiness of small businesses, as collective responsibility in these groups minimizes default risks (Armendáriz & Morduch, 2010; Woolcock & Narayan, 2000).

In the Githurai market, Social Capital Theory underscores the importance of self-help groups in bridging gaps in credit access for small enterprises. By examining the role of social networks, trust, and social norms in influencing credit appraisal and credit access, this study proposes strategies to leverage social capital for improving financing opportunities and supporting small business growth in the market. In sum, these four theories—Access to Finance, Credit Channel, Information Asymmetry, and Social Capital—provide a comprehensive theoretical foundation for understanding credit appraisal and financial accessibility for small enterprises in the Githurai market. Access to Finance Theory emphasizes the importance of financial inclusion for business growth, while Credit Channel Theory highlights how central bank policies shape lending behavior and credit conditions. Information Asymmetry Theory reveals the challenges posed by informational imbalances between borrowers and lenders, necessitating effective information-sharing mechanisms to improve credit assessments. Finally, Social Capital Theory demonstrates the critical role of social networks in overcoming collateral limitations and enhancing credit access. By integrating these theories, the study provides a nuanced perspective on the factors influencing credit appraisal and access to finance for small-scale businesses. This theoretical framework offers valuable insights for policymakers and financial institutions looking to address barriers to financial inclusion and promote sustainable economic growth among microenterprises in Kenya's Githurai market. Through improved credit accessibility, this research aims to contribute to the development of policies and practices that support small business expansion, economic inclusivity, and poverty reduction.

The empirical review focuses on how various factors impact microfinance credit access for small-scale businesses, centering on credit history, collateral, and income stability. Each factor was examined through studies at global, African, and local levels, providing insights into challenges and recommendations to improve credit access for microfinance clients.

The significance of a borrower's credit history is well-documented across studies. Allen et al. (2020) conducted a quantitative study on the role of credit history in microfinance access across various countries. Their findings demonstrated that a solid credit history greatly enhances the likelihood of obtaining credit. The study recommended the establishment of strong credit reporting frameworks to improve access for borrowers.

In the African context, Mbombo and Masadeh (2019) explored the link between credit history and access to microfinance in Sub-Saharan Africa. Using a mixed-methods approach, they found that a positive credit history significantly bolstered lenders' confidence in a borrower's repayment ability. This research also called for establishing credit bureaus and credit information sharing systems to enhance credit access in the region.

At a more local level, Mwangi and Kimani (2021) studied Githurai Market in Kenya, finding that a positive credit history improved access to microfinance credit. However, they identified issues related to the limited availability and accuracy of credit information. This study emphasized the importance of reliable credit reporting systems to empower microfinance clients and recommended

financial literacy programs to better inform borrowers about managing their credit profiles.

Across all levels, research underscores the crucial role of credit history in improving microfinance credit access. By implementing effective credit reporting systems and fostering financial literacy, microfinance clients could have greater opportunities to secure loans.

Collateral and Microfinance Credit Access

Collateral requirements present both opportunities and challenges for microfinance borrowers. Karlan and Zinman (2020) examined the role of collateral in credit access through a randomized control trial across several countries, revealing that borrowers with collateral were more likely to secure loans. However, this requirement often excluded borrowers without traditional collateral. They recommended exploring alternative forms of collateral and designing loan products for borrowers who lack traditional assets.

In East Africa, Mageto et al. (2019) conducted a study on the impact of collateral on microfinance credit access, finding that strict collateral requirements were a significant obstacle to credit access. Their research, combining quantitative data with qualitative interviews, suggested flexible policies such as accepting movable assets and group-based collateral. This flexibility could enable more borrowers to access credit without facing restrictive collateral requirements.

Locally, Ondieki et al. (2022) examined the role of collateral at Githurai Market, Kenya, finding that collateral requirements restricted credit access among small-scale traders. The study recommended financial literacy initiatives to help borrowers better understand and meet collateral-related expectations.

The empirical evidence highlights the balancing act between risk mitigation for lenders and accessibility for borrowers when collateral is involved. To address these barriers, microfinance institutions might consider flexible collateral options, inclusive loan products, and educational programs.

Income Stability and Small-Scale Traders' Credit Access

Income stability is another critical factor in microfinance credit access. Kasoga and Tegambwage (2021) analyzed income stability and its influence on credit access in a global study, concluding that borrowers with steady income are considered less risky by lenders, thus improving their access to credit.

In Africa, Melecky et al. (2020) focused on income volatility in Tanzania, finding that income stability plays a significant role in credit access. They recommended services such as flexible repayment schedules and savings mechanisms to help borrowers manage income volatility, thus enhancing their eligibility for credit.

In Githurai Market, Kenya, Mwangi and Njuguna (2021) studied the relationship between income stability and credit access, finding that borrowers with stable income had better access to credit. They suggested implementing income-smoothing mechanisms, including savings and insurance products, to support borrowers' income stability, which in turn improves their creditworthiness.

Across different contexts, income stability emerges as a critical factor in determining creditworthiness. Interventions like income diversification, financial management training, and income-smoothing mechanisms can help borrowers achieve greater financial stability, thereby enhancing their access to credit.

Measurement of Microfinance Credit Access

Research has explored the best ways to measure microfinance credit access and the challenges faced in different settings. Jones et al. (2022) analyzed measurement practices worldwide, recommending that policymakers and practitioners work together to create a standardized framework for measuring microfinance credit access.

In Sub-Saharan Africa, Kamau et al. (2021) assessed credit access across countries and found that measurement tools should be tailored to specific contexts. Their study recommended strengthening

financial infrastructure and regulatory frameworks, promoting financial literacy, and improving credit access through enhanced measurement approaches.

Locally, Mwangi and Ondari (2022) conducted a case study in Githurai Market to assess credit access, using metrics like loan application success rates, loan utilization, and customer satisfaction. The study found that while credit access was available, high interest rates, collateral requirements, and low financial literacy presented challenges. They recommended simplifying credit appraisal processes, providing financial education, and offering tailored loan products to improve access.

The consistent findings across these studies highlight the need for refined measurement frameworks and tailored credit appraisal procedures to address the unique needs of microfinance clients. By refining measurement tools and addressing gaps in the credit appraisal process, lenders can make microfinance more accessible, especially for those in under-served regions.

The review of empirical studies on credit history, collateral, and income stability highlights their vital roles in facilitating microfinance credit access for small-scale businesses. Research consistently underscores the importance of credit history, with a strong history improving credit access by bolstering lender confidence. Establishing robust credit reporting systems and financial literacy programs could bridge identified gaps, enhancing clients' creditworthiness and access.

Collateral requirements, while crucial for risk mitigation, can hinder credit access for borrowers lacking traditional assets. Flexible collateral policies, such as allowing movable assets and group-based collateral, are recommended to ease access for more borrowers.

Income stability also proves essential, as stable income levels increase borrower appeal to lenders. Interventions like flexible repayment schedules, savings products, and income management training could mitigate income volatility, thereby expanding credit access opportunities.

Finally, the measurement of credit access varies across contexts, with studies suggesting that customized, comprehensive indicators are essential for accurately assessing microfinance credit access. Collaboration among policymakers, researchers, and practitioners can support the creation of standardized frameworks, enabling consistent assessment and improvement of credit access. The recommendations from global, African, and local studies highlight the value of strengthening credit appraisal mechanisms, establishing flexible collateral policies, and enhancing income stability among microfinance clients to improve their credit access opportunities. Each recommendation aims to mitigate specific barriers, making credit more accessible and empowering small-scale businesses to grow and thrive.

METHODOLOGY

This study used a mixed-methods approach to investigate factors affecting credit access for small-scale businesses in Githurai Market, combining both quantitative and qualitative research techniques to create a comprehensive analysis. Quantitative data collection involved structured questionnaires distributed to a randomly selected sample of small-scale traders. These questionnaires gathered data on variables like credit history, collateral, income stability, and the impact of unsecured government loans, using Likert scale questions to gauge perceptions and experiences. The quantitative data were analyzed with descriptive statistics, correlation assessments, and regression analyses, revealing significant associations impacting credit access. To complement these findings, qualitative data were obtained through in-depth interviews with representatives from commercial banks and small-scale traders. This provided valuable, context-specific insights, enriching the study with a broader understanding of the barriers and facilitators in credit financing for small-scale businesses in

Githurai Market. The combination of quantitative and qualitative data allowed for a well-rounded, triangulated exploration of credit dynamics.

The target population included small-scale entrepreneurs operating in Githurai Market, Kiambu County, with approximately 1,200 traders. The study also engaged microfinance institutions (MFIs) and commercial banks operating in the area to gather information on both traditional and alternative credit appraisal processes and challenges for small traders. The sample was selected using a stratified random sampling approach to ensure proportional representation of diverse subgroups, which enhanced the study's reliability and representativeness. This method involved dividing the population into strata and selecting random samples from each group to capture a complete picture of the market's diverse population.

Random sampling was crucial to ensuring all traders had an equal chance of selection, reducing bias and increasing the sample's representativeness. Although the ideal sample size might have been larger, logistical constraints required a manageable size that still allowed for meaningful generalizations. The sample size was calculated using the Finite Population Sample Size Formula, considering factors like population size (N = 1,200), confidence level (95%), and margin of error (5%). Based on this formula, a sample size of 169 traders was determined to be sufficient for statistical analysis. For financial institutions, the study involved a total of nine entities, including five banks and four MFIs, with a sample of three banks and two MFIs selected for semi-structured interviews.

The qualitative data collection involved five in-person, semi-structured interviews at these institutions' branches, enriching the study with direct insights from the credit providers' perspectives. This mixed-methods approach, combining survey data with interviews, provided a holistic view of credit access challenges and opportunities for small-scale traders in Githurai Market, allowing for a more nuanced understanding of the factors influencing credit accessibility in the region.

FINDINGS

The data collection for this study involved gathering secondary quantitative data from publicly accessible financial records, specifically individual bank financial statements and banking supervision reports from the Central Bank of Kenya (CBK). A data collection sheet, provided in Appendix 1, served as the primary instrument for capturing these data. According to Mugenda (2014), secondary data encompasses previously collected information that was gathered for different research purposes. In this study, the quantitative approach utilized a standardized questionnaire designed to systematically capture key research variables, such as credit history, collateral, and income stability. The structured questionnaire included multiple-choice questions that enabled the identification of statistical relationships, helping to quantify factors influencing credit access for small-scale traders.

The questionnaire's multiple-choice format facilitated an in-depth exploration of participants' perceptions and experiences, particularly regarding credit appraisal procedures, loan application processes, and overall satisfaction with commercial banks' credit services. This approach integrated both quantitative and qualitative data, adding richness to the findings by providing context for the statistical relationships identified. To supplement the quantitative data, in-depth interviews were conducted with key stakeholders, including commercial bank representatives and small-scale traders in the Githurai market. These interviews offered qualitative insights into the challenges and opportunities in credit access, enhancing the study's comprehensiveness and validity. This methodological triangulation—the combination of quantitative and qualitative data—allowed for a more robust understanding of credit appraisal and credit access among small-scale traders in Githurai.

For primary data collection, a self-administered structured questionnaire was used among selected small-scale traders in the Githurai market. The questionnaire aimed to capture quantitative data on essential variables such as credit history, collateral, income stability, unsecured government loans, and credit access. It was thoughtfully designed with a mix of closed-ended and Likert scale questions to elicit specific responses related to these variables. Open-ended questions were also included to allow participants to provide qualitative insights as needed. To enhance the sample's representativeness, a random selection process was employed, minimizing selection bias.

The data collection procedure involved administering the questionnaire both online via Google Forms and in person, with clear instructions to ensure consistent responses. Likert scale questions, ranging from 'Strongly Agree' to 'Strongly Disagree,' enabled respondents to express opinions and attitudes with nuance, providing quantifiable insights into their experiences. The structured questionnaires also included multiple-choice questions to efficiently evaluate traders' views on credit appraisal procedures and satisfaction with credit services, facilitating systematic data collection. Qualitative insights were encouraged as well, allowing respondents to expand on their answers and add personal experiences where relevant.

Following data collection, the analysis stage involved using logical reasoning and statistical software to interpret the information gathered (Delice, 2010). The data from secondary sources underwent cleaning and synthesis in MS Excel before being uploaded to SPSS version 21. Initial analysis involved assessing data appropriateness, followed by a descriptive and inferential statistical examination to understand the study's primary variables. Descriptive statistics were used to succinctly summarize data attributes, while correlational analysis and multiple regression were applied to examine the relationships between variables like credit history, collateral, income stability, and microfinance credit access among Githurai market's small-scale traders.

The correlational analysis assessed the degree and intensity of relationships between variables, which informed the evaluation of commercial banks' operational efficiency regarding credit appraisal. Multiple regression analysis further investigated the combined effects of factors like credit history, collateral, and income stability on credit access, applying a 95% confidence level. Likert-scale responses provided comprehensive insights into the respondents' perspectives, enriching the quantitative analysis. Inferential statistical methods—including regression analysis, ANOVA, and Pearson's correlation—were employed to analyze trends and associations, adding depth to the interpretation of data relationships. Using an empirical model, the study estimated the correlation between credit access and appraisal procedures for small-scale traders in the Githurai market, structured as follows:

$$\mathbf{Y = \alpha 0 + \alpha 1X1 + \alpha 2X2 + \alpha 3X3 + \varepsilon}$$

where Y represents microfinance credit accessibility, α_0 indicates credit appraisal procedures, $\alpha_1, \alpha_2, \alpha_3$ are regression coefficients for credit history, collateral, and income stability, respectively, and ϵ denotes the error term. This model accurately assessed the relationships between credit appraisal and microfinance loan availability.

Measurement and operationalization of study variables transformed them into quantifiable components (Vasileiou, 2018), ensuring clarity in data analysis. Diagnostic tests evaluated data quality and the assumptions underlying statistical techniques, ensuring the study's validity and reliability. These included normality, autocorrelation, heteroscedasticity, and multicollinearity tests. Normality tests, like the Shapiro-Wilk test, assessed the data's conformity to a normal distribution. Autocorrelation testing, via the Durbin-Watson (DW) test, identified any bias resulting from correlations in consecutive data

points, with DW values close to 2 indicating low autocorrelation.

Homoscedasticity tests checked if residual variances remained constant across independent variable values. Although traditional heteroscedasticity tests were not fully applicable due to the sample's characteristics, the Koenker test was used for its robustness with limited data points. This step confirmed that results accurately reflected the population's patterns, minimizing errors and ensuring consistent findings. Overall, these diagnostic tests were essential for refining data accuracy, which in turn increased the reliability of the study's conclusions.

DISCUSSION

Response Rate

A total of 170 multiple-choice and Likert-scale questionnaires were distributed to respondents who had agreed to participate in the study, after explaining the research aims, objectives, data usage, and confidentiality. Respondents were given two weeks to complete the questionnaires, and 122 small-scale traders responded, yielding a 72.2% response rate. Additionally, 14 questionnaires were sent to banks and MFIs in the Githurai 45 area, with 9 returned, representing a 75% response rate. For qualitative data, five interviews were conducted via online platforms (Google Meet and Zoom) with three bank respondents and two MFI representatives. The quantitative questionnaires were administered concurrently as two sections of a single survey, while the semi-structured interviews were carried out with participants from financial institutions and small-scale businesses in Githurai 45 who did not complete the quantitative surveys.

Descriptive statistics

In Githurai 45, small-scale traders predominantly rely on personal savings as their primary credit source, with half using this method. Another quarter turns to informal lenders such as family, friends, or chamas (community savings groups), while only 16% obtain financing from microfinance institutions (MFIs) and 9% from commercial banks. Nearly 39% of these traders have never accessed credit from formal financial institutions, with just under a third (31%) accessing it rarely, 19% accessing it sometimes, and only 11% consistently doing so in recent years. The main barriers to accessing credit from financial institutions include the lack of collateral (82%), insufficient credit history (71%), unstable income (70%), and a complicated application process (18%).

Credit denial is frequent among Githurai traders, with 57% facing rejections primarily due to poor credit scores or history. Most traders (91%) view collateral as crucial for obtaining credit. However, many traders face income instability, with 45% reporting highly variable business income, 32% unstable income, and only 17% achieving somewhat stable monthly earnings. Regarding government-backed loan programs, such as ‘Hustler Fund’ and ‘Stawi’ loans, over half have never participated, while 38.5% participated but found these programs unhelpful, and only 6.6% considered them beneficial.

When financing working capital, nearly half (47.5%) of the traders reinvest their profits, 30% borrow from friends or family, 12% obtain credit from MFIs, and around 10% from banks. Key challenges faced in accessing credit include lack of collateral (84%), unstable income (80%), and insufficient credit history (74%), with 39% also citing the complexity of loan applications. If granted additional credit, over half of the traders would expand their inventory, 39% would invest in new equipment or technology, while only a small portion would focus on marketing (6.6%) or hiring employees (3.3%).

Financial institutions in Githurai consider collateral, credit history, and income stability as primary factors in evaluating traders’ creditworthiness, with 68% of banks, MFIs, and SACCOs emphasizing these aspects, while a third consider collateral the most critical factor. Additionally, 67% adapt their credit appraisal processes to accommodate the unique challenges faced by these small-scale traders, such as limited cash flow and collateral.

Technological adoption plays a notable role for 44% of financial institutions, helping to streamline loan application processes, improve data analysis, and support mobile banking services. A similar proportion (44%) collaborates with government loan programs, with some offering training and others engaging in joint initiatives or providing financial assistance. To further support Githurai traders, a third of financial institutions offer credit guarantees, adjust loan terms, or accept alternative collateral options.

To make credit more accessible, two-thirds of financial institutions simplify documentation requirements, 22% provide financial literacy training, and 11% engage in outreach programs. In addition, 89% have developed tailored loan products to better meet the needs of these traders, with 11% also extending outreach programs and partnering with local organizations to expand credit access.

Monitoring the impact of these credit appraisal procedures is also essential for financial institutions, with two-thirds tracking loan repayment rates, conducting impact assessments, and analyzing business performance to understand the effects on the growth and sustainability of small-scale businesses. A third of institutions limit their monitoring to loan repayments. Half of the financial institutions participate in industry forums to improve credit access and foster local economic development, while 37.5% coordinate loan programs with other financial entities, and 12.5% share best practices and coordinate loan repayments.

Success rates for loan applications among small-scale traders vary, with two-thirds of institutions reporting a success rate of 26-50%, while 22.5% have success rates under 25%, and only 11% achieve success rates between 51-75%, with no institutions reporting approval rates above 75%. This reflects the stringent credit evaluation processes and the inherent challenges faced by small-scale traders in accessing adequate financial support.

Table 1: Descriptive Statistics

Descriptive Statistics							
	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
CRB Credit Score	122	2	1	3	1.84	0.716	0.513
Collateral	122	3	1	4	1.78	0.808	0.653
Profit Consistency	122	3	1	4	1.93	0.815	0.664
Financial Institution Access	122	3	1	4	1.81	0.775	0.601
Valid N (listwise)	122						

The Likert scale responses from 122 participants reveal significant challenges in financial aspects for small-scale businesses in Githurai. The average scores for all items are low, between 1.8 and 1.9, indicating that participants largely rated financial ease poorly. For instance, the mean CRB Credit Score is 1.84, showing that most businesses have average or low credit ratings, hindering their access to credit. Similarly, an average score of 1.78 for collateral suggests that many businesses lack access to assets like land or property, which limits their ability to secure loans. The profit consistency score of 1.93 reflects uneven profit levels over the past year, complicating financial planning and loan applications. Access to credit is also limited, as shown by the score of 1.81, indicating that most small-scale businesses struggle to obtain financing from banks or microfinance institutions. Variability in responses is moderate, with standard deviations of 0.7 to 0.8, showing diverse experiences among participants while generally indicating significant financial difficulty across all assessed areas.

Model Summary

The results of the regression coefficients results are displayed in Table 2 below:

Table 2: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.948a	0.898	0.895	0.275
a. Predictors: (Constant), Income Regularity, Collateral, Profit Consistency, CRB Credit Score				

The multiple regression analysis conducted on Githurai small-scale traders revealed a strong, positive association between independent variables—Income Regularity, Collateral, Profit Consistency, and CRB Credit Score—and the dependent variable, Access to Credit. The R2 value of 0.898 indicates that over 90% of the variation in credit availability can be explained by these financial traits. The findings suggest that regular income, collateral availability, consistent profits, and a higher CRB credit score all positively influence the likelihood of accessing financing. Specifically, borrowers with regular income are more likely to access credit than those with irregular income. Consistency in profits reduces perceived risk, making lenders more confident in the borrower's ability to repay debts. The availability of collateral, such as land or real estate, further enhances the chances of obtaining credit, which aligns with previous studies indicating that collateral increases financing opportunities. Consistent business profits over the past year positively affect lenders' perception of the borrower's creditworthiness, especially for SMEs. This is supported by research showing that profit consistency lowers risk perception and increases the likelihood of credit approval. In contrast, overlooking operational and organizational weaknesses in credit rating systems may lead to credit default, as noted by Saygili et al. (2019). Overall, the model confirms that financial traits like income regularity, collateral, profit consistency, and CRB credit scores play crucial roles in improving access to credit for small businesses in Githurai, with implications for better credit approval outcomes.

ANOVA

Table 3: ANOVA

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	78.085	4	19.521	258.335	.000b
	Residual	8.841	117	0.076		
	Total	86.926	121			
a. Dependent Variable: Credit Access						
b. Predictors: (Constant), Income Regularity, Collateral, Profit Consistency, CRB Credit Score.						

The ANOVA table confirms that income regularity, collateral availability, profit consistency, and CRB Credit Score significantly influence Githurai small-scale traders' access to credit, highlighting the importance of these financial factors.

Table 4: ANOVA Coefficients

Coefficients a						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	-0.35	0.084		-4.173	0
	CRB Credit Score	0.211	0.049	0.178	4.312	0
	Collateral	0.119	0.032	0.114	3.699	0
	Profit Consistency	0.396	0.043	0.381	9.309	0
	Income Regularity	0.521	0.052	0.468	10.113	0
a. Dependent Variable: Credit Access						

The standardized coefficients (Beta) indicates that Collateral and Credit Score have a stronger impact on Githurai small scale businesses access to credit, in comparison to Income Regularity and Profit Consistency.

Table 5: Inferential Statistics Summary of the Model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.948a	0.898	0.895	0.275
a. Predictors: (Constant), Income Regularity, Collateral, Profit Consistency, CRB Credit Score				

Multiple regression analysis was conducted to evaluate the impact of collateral availability, credit history (and score), and business income on access to credit by small-scale businesses in Githurai 45. The study explored the correlation between independent variables (income regularity, collateral availability, profit consistency, and CRB credit score) and the dependent variable (access to finances). The results indicated a strong positive association, with an R^2 of 0.895, showing that over 90% of the variance in credit access can be explained by these financial characteristics. This implies that small businesses with regular income, collateral, consistent profits, and a higher credit score are significantly more likely to obtain credit from financial institutions. Higher credit scores in particular correlate with greater access to financing, as they reflect a business's creditworthiness. Consistent income similarly boosts credit accessibility, aligning with other research that shows stable income reduces perceived lending risks. Collateral, such as land or real estate, also raises the likelihood of credit approval, reinforcing findings by Goel & Rastogi (2021) and Chandio et al. (2018) that borrowers with substantial assets face lower lending resistance. Regular business profits further influence lender decisions positively, as stable earnings suggest an SME's ability to meet debt obligations, thus lowering risk perception (Magembe, 2017). In contrast, Saygili et al. (2019) caution that credit rating systems occasionally overlook operational flaws, which can ultimately lead to defaults. Overall, the findings underscore that financial stability, asset-backed collateral, and creditworthiness are crucial factors in enhancing credit access for small businesses.

Test for Autocorrelation

Table 6: Test for Autocorrelation

Model Summaryb					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.936a	0.877	0.873	0.277	1.768
a. Predictors: (Constant), Income Regularity, Collateral, Profit Consistency, CRB Credit Score					
b. Dependent Variable: Financial Institution Access					

The Durbin-Watson (DW) test yielded a value of 1.768, suggesting minimal autocorrelation in the residuals, as values close to 2 (within 1.5–2.5) generally indicate no significant autocorrelation. Thus, a DW value of 1.768 supports the conclusion that the regression model is free from considerable autocorrelation issues.

Multicollinearity Test

Table 7: Test for Multicollinearity

Coefficientsa					
Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	-0.35	0.084		-4.173
	CRB Credit Score	0.211	0.049	0.178	4.312

The study finds that an increase in CRB Credit Score and Collateral positively impacts Credit Access, with profit consistency and income regularity showing the largest effects. Regression analysis confirms these variables significantly affect Credit Access. The absence of multicollinearity ensures accurate relationships among the variables, strengthening the model's reliability.

CONCLUSIONS AND RECOMMENDATIONS

The study aimed to understand the variables impacting small-scale traders' access to credit in Githurai 45 market, Kenya. It highlighted how borrower credit history, collateral, and income stability affect credit accessibility. The findings revealed that small-scale traders without official credit records or low credit scores face significant disadvantages, as traditional financial institutions rely heavily on conventional credit indicators. This calls for a more inclusive approach to creditworthiness assessment. Additionally, the lack of available collateral severely restricts access to loans, pointing to the structural barriers that prevent small traders from securing formal financing. The study advocates for alternative financing options that prioritize character assessment over tangible assets. Furthermore, the unpredictable income streams of small traders create challenges in securing loans, underscoring the need for flexible lending programs with adaptable repayment terms. Overall, the research concludes that small-scale traders in Githurai 45 face substantial difficulties in accessing credit due to traditional appraisal processes, which fail to account for the unique financial realities of small businesses, such as unstable revenues and limited collateral.

The recommendations for policy, practice, and further studies focus on improving access to credit and financial inclusion for small-scale traders. For policy, it is suggested that financial institutions revise their credit appraisal criteria to include non-traditional measures such as community service,

company reputation, and involvement in financial literacy initiatives, especially for small-scale traders without formal credit histories or collateral. Government-backed lending schemes like the "Stawi" and the "Hustler Fund" should be expanded and promoted, offering grants and favorable policies like tax holidays and government guarantees, which could improve small traders' income and credit history, thus enhancing future credit access. Increased collaboration between banks, microfinance institutions (MFIs), and government bodies is recommended to pool resources and serve the diverse needs of small-scale traders, fostering greater financial inclusion. Moreover, implementing financial literacy programs tailored for small-scale traders is essential to improve their financial management, credit understanding, and loan application capabilities. Financial institutions should also simplify their loan application processes to lower barriers for small-scale traders, making it easier for them to access funding.

For practice, there is a call to create alternative credit scoring models that incorporate non-traditional factors such as community ties and business reputation, offering a more accurate assessment of small-scale traders' creditworthiness. Financial institutions should explore partnerships with technology companies to leverage big data and advanced analytics, enhancing risk assessment and credit availability for marginalized communities.

Further studies are encouraged to investigate alternative financing solutions, such as community-based lending platforms or peer-to-peer lending, to expand financial inclusion opportunities. Research should also assess the effectiveness of financial literacy programs on small-scale traders' financial behavior and access to credit, informing future educational initiatives. Lastly, evaluations of collaborative efforts between government bodies, MFIs, and banks should be conducted to gauge the success of these partnerships in increasing credit access for small-scale traders, offering insights for improving financial inclusion strategies.

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