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Factors Influencing Access to Debt Finance by Micro and Small Enterprises: A Case of Chwele Township, Bungoma County

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ABSTRACT: This study sought to investigate the factors that influence access to debt finance by Micro and Small Enterprises (MSEs) in Chwele Town, Bungoma County. The categories of firms under study were all registered MSEs in operation at the time. The study examined the following objectives: to determine the effect of Collateral security on access to debt finance, to establish effect of financial information on access to debt finance and to determine the effect of managerial competence on access to debt finance. The study employed a descriptive research design. The target population was 256 MSEs from which a sample size of 120 MSEs was selected using Nassiuma (2000) formula. Data was collected using self-administered questionnaires. The raw data was analyzed using descriptive statistics and regression. The first study objective sought to establish the relationship between the Collateral security and access to debt finance by MSEs in Chwele Township. It was established that most of the respondents had not pledged Collateral security for finance while. Most of the indicated that the nature of the Collateral security offered was private property which included their land. The study further established that respondents who could not provide Collateral security had their finance requests declined. From the regression analysis it was established that Collateral security and access to debt finance are positively related. The second objective aimed at establishing the relationship between financial information maintained by the firm and access to debt finance by MSEs in Chwele Township. It was established that most of the MSEs owners did not maintained their financial records and that the records maintained were mostly business plan, income statements and balance sheet. On access to debt finance, the study found out that most firms which kept financial information had their applications for debt finance approved while those that never maintained financial information had of the application declined. Thus the denial rate for debt finance was high for the firms that did not keep financial information. The analysis of regression revealed that financial information and access to debt finance had a positive relationship. Thus, a firm that maintains financial information was likely to obtain debt finance compared to one that does not. The last objective sought to establish the link between managerial competence of firm's owner and access to debt finance by MSEs in Chwele Township. In the study, it was found that most firm owners had an education level up to KCSE while a few had bachelor's degree. In terms of experience, most respondents had operated their firms for a period less than 4 years while a view had and experience above 20 years. On access to debt finance, respondents who had been in operation for a period less than 4 years had their financial request declined while for those in operation for over 20 years was accepted. The study established that; Collateral security, financial information and managerial competence influenced a firm's access to debt finance.

KEYWORDS: Access to Debt Finance, Micro and Small Enterprises, Chwele Township, Bungoma County.

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1 INTRODUCTION

1.1 BACKGROUND

According to Lucey et al.,(2006) financing decisions are some of the most critical decisions for MSES owners since they have direct impact on capital structure and financial performance of the MSEs. He further indicated that Small and Medium Enterprises prefer internal funds over debt, while growth oriented firms use more debt to fund their growth and higher educated firm owners use less debt.

Previous studies on general small firm capital structure have presupposed small and medium sized enterprises to (predominantly) act in such a way as to maximize their financial wealth. A consequence of this presupposition is that, these studies have assumed that MSEs, in general, desire substantial growth and consequently have a desire for external finance (Beck et al., 2008).Academic research has documented that there are differences in financing patterns between MSEs and large firms and analyzed possible causes of these differences (Elaine et al, 2005; Kaplan and Turluccio, 2007; Howorth, 2001; Mac et al, 2010).

The importance of micro and small enterprise (MSE) sector to the Kenyan economy has been widely recognized. According to KIPPRA (2007), the MSE sector is crucial to the government's effort in reducing poverty as it employs nearly 6.8 million Kenyans and of the new jobs created, 89% were in the small sector firms. Obert and Olawale (2010) acknowledge that the sector has contributed immensely to the employment creation, poverty alleviation, savings and economic growth in both developed and developing countries. Olomi (2005) suggests that the sector was a training ground for entrepreneurship, managerial development and motivates individuals to find avenues for investment and expanding operations. Olufunso et al (2010) argues that the sector was expected to be an important vehicle in addressing the challenges of job creation, sustainable economic growth, and equitable distribution of income and overall stimulation of economic development. Ntsika posits that the MSE sector's contribution to the private sector employment and gross domestic product (GDP) indicates a very high labour absorption capacity and its significance to the reduction of unemployment. Kayanula and Quertey (2006) opines that MSEs employs 22 percent of the labour force in the developing countries are recognized world-wide to be the key source of dynamism, innovation and flexibility (OECD, 2006).

Kenya suffers from high unemployment rate with an official estimate of 75 percent of the economically active population unemployed (IFAD, 2009). One of the best ways of addressing an employment problem is to leverage the employment creation of MSEs and promote small scale business development. According to GOK,(1996) the sector offers unmatched potential as source of new jobs for the expanding labour force while the self-employed and small scale enterprises represent part of the business activity in major market towns. Kiira, (2013) noted that a strong developed productive industrial sector can only be attained where MSEs and large scale enterprises not only exists but also function in a symbolic relationship. Accordingly, the health of an economy as a whole has strong relationship with the health and value of micro and small enterprises, when the state in micro economy is less favorable, the opportunities for profitable employment expansion in MSEs are limited(Mead, 1998). The Kenya government is aware of the crucial role private sector plays in her economic development. This has made it to initiate finance schemes such as youth and women enterprises (YWE) and UWEZO fund with a view of finance MSEs as lack of access to finance is a major constraint to their growth in Kenya (Atieno, 2009).

Finance is required by MSE's to establish and expand business operations, develop new products , invest in new staff or production facilities and acquire latest equipment and technology; which is largely funded internally and inadequate for their development and profitability(ibid).

Finance is the lifeblood for any business enterprise including MSE's, lack of it therefore have led to the sector not providing enough support to the economic development process (Sacerdoti, 2005).Kiira(2013) established that MSEs required finance for speedy innovations so that they can improve their productivity and maintain competitiveness. Atieno (2009) argues that lack of access to finance is a major constraint facing MSE's and one of the reasons for its slow growth in Kenya. According to The International centre for economic growth (1999) only 1.5% MSEs had received loans from Commercial Banks in Kenya and 50% of rural individuals had never used any credit (Financial Survey, 2009). It therefore follows that Financial Institutions seem not to be providing enough credit to new economic activities and in particular the expansion of MSE's.

In spite of the potential the sector has, its growth has been constraint by challenges a raising from lack of financial services among other factors (Livingstone, 2001). Pretorius and Shaw (2004) posit that access to external finance was essential to solving shortage of the firm's cash flows.

Given the constraints on the supply side of debt finance, an option for MSEs would be to resort to external financing (Mac et al., 2010). Owners of MSEs, particularly from those which have high growth possibilities, might be willing to concede some control in a firm and attract venture capital funding. Nevertheless, formal venture capital by institutional investors has been so far a viable option only for a very small minority of MSEs, the ones with high growth and feasible exit possibilities for outside investors (European Commission, 2010). Moreover, the supply of venture capital is insufficient, and the costs of this form of finance for MSEs at the start-up stage are high. In the context of MSEs, Ramalho and Vidigal da Silva (2009) document that the proportion of zero-leverage firms in their sample of Portuguese MSEs is even higher than a proportion of zero-leverage large public firms (Strebulaev and Yang, 2006).

According to the World Bank (2010), access to finance is a significant business environment and an issue for MSEs. Agnew (2003) argues that finance is the life blood of any firm and no matter how well managed , it cannot survive without enough funds for working capital fixed assets, investment and employment of skilled labour force. Beaver (2002) there is an enduring finance gap which results in MSEs being discriminated against in their efforts to raise debt finance. Musamali and Tarus (2013) noted that there is a disconnect between MSEs and lenders which results in the latter failing to secure the required debt finance for development. Bowen et al (2009) argues that given the importance of MSEs and their failure rate, it becomes necessary that a study be done to establish the factors that influence the MSEs growth and survival. This study therefore sought to establish the factors that influence accesses to debt finance by MSEs in Chwele Township, Bungoma County.

1.2 STATEMENT OF THE PROBLEM

The importance of MSEs in economic development has been recognized and documented in many studies and government policy documents. According to Fatoki and Asah (2011), MSE's contributes positively to economic growth, employment and poverty alleviation. Kiira (2013), financing viable MSEs projects have an implication on their sustainable growth and potential to create jobs and alleviate poverty.Due to fixed costs of external finance, smaller firms choose to refinance less frequently than larger firms because they are more affected by these fixed costs in relative terms. Hence, small firms choose to operate at a higher leverage level at a refinance moment to compensate for less frequent rebalancing. This argument explains why smaller firms, if they have some debt, are more levered than larger firms. In addition, as the time period between restructurings is longer for small firms, on average, they have lower leverage ratios (Hirth, 2011). According to the Kenya Bureaus of Statistics(2007), three out of five businesses fail within the first few months of operations due to non-availability of debt finance(Beck,2007). Bigsten et al (2000), argues that the sluggishness growth of MS's sector in Africa is associate with scarcity of capital. This lack of access to external finance due to lack of collateral security, lack of financial information and poor managerial competence inhibits the performance of MSEs thereby impacting adversely on their ability to achieve poverty alleviation, employment creation, income redistribution and economic growth (Machirori and Fatoki,2013). Statistics from Bungoma County Council Department of trade (2013) shows that MSEs have not fully accessed financial assistance from lenders. Thepercent is very low especially in Chwele township as compared to other areas in the entire County. It is against this background that this study sought to establish factors that influences access to debt finance by MSEs in Chwele township, Bungoma County and in turn their contributions to the economic development of the area..

1.3 OBJECTIVES OF THE STUDY

1.3.1 GENERAL OBJECTIVE

The main objective of the study was to assess the factors that influence access to debt finance by MSEs in Chwele Town, Bungoma County.

1.3.2 SPECIFIC OBJECTIVES

The study was guided by the following objectives

a) To determine the effect of Collateral security on access to debt finance by MSE's in Chwele township.

b) To verify the effect of financial information on access to debt finance by MSE's in Chwele Township.

c) To establish the effect of managerial competence on access to debt finance by MSE's in Chwele Township.

1.4 RESEARCH QUESTIONS

The study was guided by the following research questions;

a) What is the effect of Collateral security on access to debt finance by MSE's in Chwele Township?

b) What is the effect of financial information on access to debt finance by MSE's in Chwele Township?

c) What is the effect of managerial competence on access to debt finance by MSE's in Chwele Township?

1.5 JUSTIFICATION OF THE STUDY

One of the factors that influence the growth, survival and performance of MSEs is access to debt finance. Firms that have access to debt finance are expected to perform better than those without access (Machirori, 2012). The study therefore was to determine the extent to which financial access by firms could enhance their growth and survival so that they can continue to effectively contribute to the development challenges facing Kenya, like unemployment, poverty, reduced economic growth and widespread income inequality as documented in Vision 2030.

It is also hoped that the findings will yield empirical results that can be useful to the financial analysts, Consultants and Accountants who utilize these firms' financial statistics to evaluate their performance.

Government officers, law makers and other small business policy makers will also find the results useful in understanding the problems facing MSEs in raising finance and how to overcome them. Further, the study findings may provide a framework on which future research on capital structure and profitability of MSE's in Kenya can be based as most of the studies have been linked on large liability companies quoted in the stock exchange in the developed countries

Scholars and researcher's knowledge and information realized through this research undertaking will benefit other future scholars who wish to study the same area as it provides an insight of what has not been examined.

MSES capital structure is rapidly growing as a field of practice. Many business leaders believe that there is need to make effective financial decisions. The findings will inform appropriate policy making and implementation that could spur the growth of MSEs into medium-sized companies. In addition, the study provided information to the MSE' owners on the problems that generally face and how best they can be able to solve the challenges. Prospective entrepreneurs might find the conclusions on the challenges that face the MSES sector useful on how best they can surmount them upon entry into business. The research helped to elucidate on how well capital structure could explain the growth of MSEs within Chwele Township

In addition this study is useful to financial reforms that favour MSEs so that MSEs can contribute significantly to meeting millennium development goals and Kenyan's vision 2030.

1.6 SCOPE OF THE STUDY

The study covered Chwele Township in Bungoma County. Chwele Township encompasses the following areas; Kilimani, Musese, Makhonge, and Chebukaka. The accessible population of MSEs was 256. The researcher employed stratified random sampling in selecting respondents. The population was segregated into four sectors, namely; general traders, metal work and carpentry, agriculture and other different sectors such as mobile accessories, electronics and computer. The number of employees was used as the criterion to measure the size of an MSEs.

1.7 LIMITATION OF THE STUDY

The researcher encountered the following limitations .The respondents were reluctant in giving information thinking it was for commercial purposes but they were assured of confidentiality. It was not easy to get some respondents to respond to the questions but the researcher was patient and made several trips to collect from them. The data was captured from MSEs who do not maintain complete financial records as they relied on single entry system of book keeping. Considering the exponential growth of Chwele Township, the number of MSEs is growing on a daily basis hence accurately capturing these Enterprises was a challenge. The findings from this study may not be generalized beyond the MSEs participating in the study

2 LITERATURE REVIEW

2.1 INTRODUCTION

This Chapter deals with the review of Literature related to the study of the topic. The theoretical and conceptual framework on which the study was based was discussed, factors influencing access to debt finance were explored and lastly the research gap discussed.

2.2 THEORETICAL FRAMEWORK

The relevant theoretical framework on which the study was based is capital structure.

2.2.1 THEORY OF CAPITAL STRUCTURE

Scholars have defined capital structure in terms of equity-debt relationship**.** According to Pandey (1995), capital structure represents the proportionate relationship between debt and equity used by the firm in financing the projects. Gitman (2003) describes capital structure as a mix of debt and equity that a firm uses to finance its operations. Horne van and Wachowicz (2007) noted that capital structure is a mix of a firm's permanent, long term financing represented by debt, preferred stock and common equity.

2.2.1.1 PECKING ORDER THEORY

According to the Pecking Order Theory of business finance advanced by Myers and Majluf (1984), the presence of asymmetric information between outsiders and insiders of the firm is used to predict a negative relationship between indebtedness and profitability. In the Pecking Order Theory, the outsiders are presumed to have less information than managers and owners of the business and any issues of shares to raise funds for expansion or to finance a project will be valued by the potential investors on the value they think is the market value. If the stock is undervalued, according to the owners and managers, they may decline to issue the stock and forego the investment opportunities.

On the other hand, if a firm issues shares to outsiders it will be believed to be overvalued, and the share price will fall. This will discourage firms from issuing shares. Myers uses this theory to argue that firms will prefer to use internally generated funds and if eternal funds are required, debt will be preferred to issuing shares. Firms will use debt only when they have exhausted the internal funds (Nivorozhkhin, 2000). Quan (2002) suggests that the Pecking Order Hypothesis in general, advocates the existence of an optimal capital structure (or an optimal capital structure range) of the firm, this optimal capital structure range being dependent on the firm's trade-off of the various factors influencing its decision of the source of finance. This is against the propositions of the non-optimal capital structure perception.

2.3 CONCEPTUAL FRAMEWORK

A conceptual framework is a brief explanation of the relationship between variables identified for the study in the light of the problem, objectives and the research questions. This study was guided by the following perceived conceptual framework.

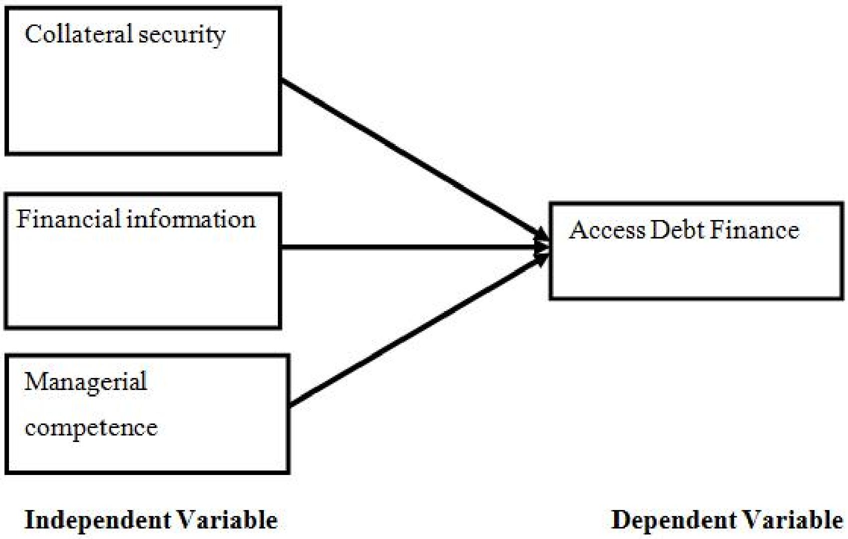

Figure 2 .1 Conceptual framework

In this study the independent variable was factors influencing access to debt finance while the dependent variable was access to debt finance.

2.4 REVIEW OF FACTORS INFLUENCING ACCESS TO DEBT FINANCE

Access to debt finance entails the firm's ability to get and use financial services that are affordable, usable and meets its needs (Claessen, 2006).According to Musamali and Tarus (2013), access to finance is measured in terms of access to certain institutions such as banks, micro-finance or services that these institutions provides. Financial access has four key dimensions- physical access, affordability, appropriateness to the user needs and terms that do not effectively exclude any category of potential user.(Ibid)Musamali and Tarus (2013) asserted that access to debt finance was more adverse to MSE's due to high fixed cost associated with loan appraisals, supervision and collection. This made lenders prefer lending larger amounts of credit to large enterprises than small amounts to many smaller enterprises.

There is some evidence to suggest that some SMEs in rural environments may face additional difficulties. This has been reported for Kenya by the OECD when collecting evidence for their review of rural policy (OECD, 2008). Recent unpublished research for Scottish Enterprise suggested that fast growth firms find it easier to raise finance in the Central Belt (Glancey and Greig, 2008). It is suggested that these difficulties can arise with high growth or manufacturing SMEs in rural areas (OECD, 2008), since bankers are not familiar with high growth proposals.

Although there are wealthy individuals in rural areas, the evidence in Scotland suggests that they prefer to invest in the main metropolitan areas, especially Edinburgh and Glasgow (Glancey and Greig, 2008)

The perception of a finance gap may reduce the willingness of SMEs to approach the banking network to secure appropriate financing. A report for the Small Business Service (SBS) (Allinson, 2005) commented: "if people do not present themselves to a financial institution in the first place, because of self-selection and possibly underpinned by belief in a myth, then it may appear that the institutions' rates of granting loans are quite high that they are meeting demand." This can lead to businesses seeking to 'bootstrap' rather than securing more appropriate financial packages. Typically these businesses become dependent on financial support from their own resources and family and friends.

2.4.1 COLLATERAL SECURITY AND FIRM'S ACCESS TO DEBT FINANCE

According to Coco (2000), Collateral security is the lenders second line of defense which can be used the firm to solve the problem of asymmetry in valuation of project's risks and the cost of supervising the borrowers behavior. Coleman(2000) pointed out that many MSEs are in service industry and lacked assets that could be used as a Collateral security .Thus, firms that invested heavily in tangible assets tended to have a higher financial leverage as they could borrow at lower interest rates given that the debt is fully secured with such assets (Barbosa and Moraes, 2004). Bongheas et al (2005), noted that Collateral security was an important factor for MSEs in order to access debt finance as it reduced the riskiness of the loan by giving lenders claims on tangible assets. According to Zeller (1994) ,there is a link between individual resources and access to bank credit. Thus, with more wealth inform of assets, land and livestock access to bank credit is increased (Bhuiya et al 2001).Berger and Udell (1995), established that firms that have a good a affiliation with creditors may require lower amount of Collateral security as they convey information necessary to reduce asymmetry information risky.Ebadi et al, (2011) argue that tangible assets reduce moral hazard risks as they convey a positive signal to creditors in case of default. Thus, Collateral security reduces bankruptcy cost which in turn increases credibility and access debt market.

Collateral security is used to address moral hazard and adverse selection problems (Bester, 1985; Boot, 2000). The more serious these informational problems are, the more likely it is that banks will use Collateral security to exclude low quality borrowers from bank credit. Where the quality of information is poor, banks will depend more on Collateral security to signal the quality of borrowers and to reduce the incentive to deviate loan funds into activities other than the project for which they are intended. It is also possible that banks may demand very high Collateral security requirements as a way of rationing credit.

A better understanding of how Collateral security substitutes affect access to bank finance is important in finding strategies that improves the ability of firm to secure bank loans. According to Balkenhol and Schütte (2001), if banks were better informed about the benefits of Collateral security substitutes, they would be more willing to offer loan contracts using these substitutes. Banks may be reluctant to extend credit to firms because of adverse selection and moral hazard problems. Collateral security substitutes provide unique information about borrowers, thus alleviating adverse selection. They also improve incentives for repayment (McKee, 2004), and thus reducing moral hazard.

2.4.2 FINANCIAL INFORMATION AND ACCESS TO DEBT FINANCE

Studies by Stigliz and Weiss (1981) revealed that information asymmetries and imperfect information made lenders provide insufficient credit to all sound or bankable propositions. Sarapaivanich and Kotey (2006), acknowledges that lack of adequate information led to information asymmetry and credit rationing .According to Kitindi et al (2007) creditors, banks and lenders used financial information provided by firms to analyze their performance and predict future performance. For technology based firms, entrepreneurs were reluctant to provide full information about the opportunities as their disclosure could make it easy for others to exploit (Shane and Cable, 2002). Kinyanjui (2006) pointed out that, it was difficult to obtain loans as MSEs had to show credit records and some did not fully understand the requirements of getting and paying for loans. Cochran, (1981) established that MSEs were relatively new and lacked a track record on profitability to prove their ability to repay loans.

Financial literacy provides knowledge and understanding of financial concepts and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts and to improve the financial well-being of MSEs (Hogarth, 2002). The programme has been implemented since 2009 providing basic financial information with a view to enabling them address the financial challenges, provide a platform for enterprise performance, growth, and sustainability.

Financial literacy remains an interesting issue and has elicited much interest in the recent past with the rapid change in the finance landscape. Atkinson and Messy (2005) define financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being (Miller et al., 2009). Financial literacy helps in empowering and educating investors so that they are knowledgeable about finance in a way that is relevant to their business and enables them to use this knowledge to evaluate products and make informed decisions. It is widely expected that greater financial knowledge would help overcome recent difficulties in advanced credit markets. Financial literacy prepares investors for tough financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance.

Financial literacy facilitates the decision making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also provides greater control of one's financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes. Facing an educated lot, financial regulators are forced to improve the efficiency and quality of financial services. This is because financially literate investors create competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively. Investors on their part are able to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage, so as to make optimal decisions (Miller et al., 2009).

Greenspan (2002) argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions. Proper application of that knowledge helps investors to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility. Hilgert et al., (2003) asserts that financial knowledge appears to be directly correlated with self-beneficial financial behavior.

2.4.3 MANAGERIAL COMPETENCY AND ACCESS TO DEBT FINANCE

Education is one of the factors that impact positively on the growth of firms (Kings and McGrath, 2002). Entrepreneurs with large stock of human capital in terms of education and training are better placed to adapt their enterprises to changing business environment. According to Hisrich and Drnovsek(2002) managerial competence as measured by education, managerial experience and knowledge of business positively affects MSEs' performance. Martin and Staines (2008) established that lack of managerial experience, skills and personal qualities led to MSEs' failure in South Africa. According to Women entrepreneurs (2008), education for women is low thereby creating a barrier to accessing training other business development services. According to Abor (2008) women owned businesses are less likely to use debt due to discrimination and greater risk aversion. Women owned firms in the USA had a higher loan denial rates and lower application rates than their male counter parts, Mijid (2009).

Namusonge(1998) argued that entrepreneurial education and training played a key role in stimulating entrepreneurship and self-employment while Herrington and Wood (2003) pointed out that lack of education and training reduced management capability of MSEs.

According to Nguyen and Ramachandran(2006) , the small size of MSEs leads to severe information asymmetries with lenders as they do not have adequate and reliable financial statements. According to Cotheren (1997), information asymmetry negatively affected MSEs access to debt finance as banks did not have the necessary information on their future profitable investment opportunities thereby turning down the request for credit facilities (Olufunso et al, 2010).

Managerial competencies are a cluster of similar knowledge, skills and attributes that are essential to effective job performance (Karns, 1998). For this study, managerial competencies did cover employee training and development, leadership skills, knowledge and professional experience (Stoner et al., 1995). These competencies are the result of behavioural research to identify superior performance and are applied horizontally across the organization (Nyhan, 1995).

On the other hand Boyatzis (2000) describes managerial competencies as underlying characteristics of a person that he or she uses to solve problems that arise at a work place. Some of the underlying characteristics of the Executive Directors include the ability to speak and perform in public, express the desire to persuade others of their point of view, motivate others to action, make decisions and amend those decisions to fit in with the organizational vision or current realities (Hagberg Consulting Group 2005). Boyatzis (2000) as well as Munene (1998), have identified different types of competences, which they have referred to as operant competences and emotional competences respectively.

Managerial competencies are further reflected through Leadership Skills which are an occurrence when one group member modifies the motivation or competencies of others in a given group (Boam, 1992). In order for managers to be both effective and efficient in their managerial functions, they must possess exemplary leadership skills (Cangemi et al., 1998)

For leaders to allow employees to take risks, they must also trust them a great deal. Trust is an important element of good leadership. It is something that is very hard to earn and very easy to loose. Such skills are ways in which trust is built between employees and the leaders, (Bartlett, 2007).

Hence given the size of their firms, managers of MSEs are expected to be a window to the outside world. They need to be innovative, figurehead; that is having a greater degree of power and influence. The manager is the nerve centre and turbulent handler for they either make or break their organizations. In a survey carried out on the high mortality rate of MSEs that were failing in the USA; of the 1200 respondents, 41 percent said the major culprit was lack of reliable managerial competencies that in turn influenced business success (Penrose, E.T.; 1995).

Education and training of managers through educational policies and curricular content emphasize practical business skills such as; technical skills, engineering, accounting and finance, marketing and human resource management do contribute to providing potential entrepreneurs with the needed managerial skills, (Stoner et al, 1995).

Education and training policies and programmes are most supportive of MSEs when they lead to the development of skills and attitudes that are consistent with and relevant to the opportunities present in the environment. Innovation provides the firm with the capability to generate new products and services faster than the competitors. For example; several studies suggest that the increase in the level of education and business skills in the United States increased entrepreneurship and new firms, (Calderon & Nickel, 1998).

Managers with autonomy are motivated to act and make decisions independently (Frese et al, 2002). Autonomy leads to the desire to express ones individuality in the work place and also disliking superior orders. There are many tasks for which business managers don't receive explicit training in developing a business plan, book-keeping and marketing. Therefore they depend on learning from experience and must develop their knowledge base independently in order to succeed (Minniti & Bygrave, 2001). Despite the lack of financing being cited as a constraint in other publications, there are a variety of funding programmes and financing schemes through the use of guarantees that are available, in addition to other support programmes. Awareness and the uptake of these schemes, however, have been very low. A number of publications, most of which can be accessed on the provide information on the various Government SME support programmes available.

2.5 Research Gap

Empirical studied on MSEs in Kenya are limited to large towns. Bowen et al (2009) examined management challenges facing small and micro enterprises in Nairobi, Musamali and Tarus (2013) explored firm specific factors that influences financial access among small and medium enterprises in Eldoret town, while Namusonge (1998) investigated the determinants of growth oriented small and medium enterprises in Nairobi. However evidence in Chwele Township shows that firms encounter difficulties in accessing debt finance despite the availability of financial institutions. The study therefore sought to establish factors that hinder access to debt finance among the MSEs in Chwele Township.

2.6 Summary

Empirical studies in this research have focused on factors that determine access to debt finance by MSEs. It is evident that MSEs face difficulties in accessing credit finances from lenders and the latter seem not to be providing enough finances to new economic activities and the expansion of MSEs. Collateral security, financial information and managerial competence have been identified as factors that influence access to debt finance by MSEs.

3 Research Methodology

3.1 Introduction

This chapter examines the Introduction, Research Design, Target Population, Sample size and sample selection. Further described are the data collection procedures Research instruments, validity of the research instruments and data analysis techniques.

3.2 Research Design

Polit and Hungler (1999) described research design as a blue print or outline for conducting a study in such a way that maximum control was exercised over factors that could interfere with the validity of the research results. This study adopted an explanatory design because the research was a cause-effect relationship. This design was best for analyzing the MSEs capital structure patterns and its effects on the MSEs financial performance. Explanatory research focuses on why questions and causal relationships design. Answering the 'why' questions involves developing causal explanations. Causal explanations argue that phenomenon Y (MSEs access to debt finance) is affected by factor X (for example Collateral, security, financial information and managerial competence). Some causal explanations were simple while others were more complex. For example, we argue that there is a direct effect of Collateral, security on MSEs access to debt finance (De Vaus, 2001)

3.3 Target Population

Cooper and Schindler (2006); Kothari (2004); Mugenda & Mugenda (2003) defines population as the total collection of elements that is the main focus of a scientific query. The population of study comprised MSEs registered and in operations within Chwele town which is located in Chwele Town. According to Bungoma County Council- Trade and Licensing Department records, there were 256 MSEs registered. The study targeted 256 in the four sectors, namely; general traders, metal work and carpentry, agriculture and other different sectors such as mobile accessories, electronics and computer. This is because the targeted MSEs kept proper books of accounts as required by law and the four sectors dominated Chwele town.

3.4 SAMPLE SIZE

Sampling means selecting a given number of subjects from a defined population as representative of that population. Any statements made about the sample should also be true of the population (Orodho 2005).To sample theMSEs managers/owners the researcher used Nassiuma (2000) formula. Nassiuma, (2000) asserts that in most surveys, a coefficient of variation in the range of 21%≤ C≤ 30% and a standard error in the range 2%≤ e ≤ 5% is usually acceptable. The study therefore used a coefficient variation of 30% and a standard error of 2%.The higher limit for coefficient of variation and standard error was selected so as to ensure low variability in the sample and minimize error

Nassiuma (2000) gives the formula as follows:-

$n = Nc^2/c^2 + (N-1)^2$

Where:
n=Sample size,
N=Population,
c=coefficient variation,
e= standard error

Substituting these with the selected values we get:

n=256*0.3*0.3/0.03*0.03+(256-1)*0.02*0.02
n=120 MSEs

3.5 SAMPLING TECHNIQUE AND PROCEDURE

To select the individual MSEs owners, the researcher used simple random sampling method using lottery method where from 256 MSEs owners 120 were selected. This was done by writing all the names of the 256 MSEs obtained from the records of the selected MSEs folding them into same shape and picking 120 names while blind folded.

The study also used stratified random sampling to stratify the sample MSEs into four sectors, namely; general traders, metal work and carpentry, agriculture and other different sectors such as mobile accessories, electronics and computer where the sample size was allocated under stratified proportional allocation. The purpose of the method was to maximize survey precision, given a fixed sample size. With stratified proportional allocation, the best sample size for stratum h was:

$n_h=(N_h/N)n$

Where,

n_h - The sample size for stratum h,
n - Total sample size,
N_h -The population size for stratum h,
N - The total population

Hence, distributions were as follows;

Table 3.1 Sampling Technique and Procedure

Sectors	**Target**	**Sampling procedure** $n_h=(N_h/N)n$	**Sample size**
General Traders	108	(108/256)*120	50
Metal Work and Carpentry	78	(78/256)*120	37
Agriculture and other different sectors such as mobile accessories	34	(34/256)*120	16
Electronics and Computer	36	(36/256)*120	17
Total	**256**		**120**

INSTRUMENTS

The study utilized questionnaires and unstructured interview schedule for data collection. According to Orodho (2008) each item on the questionnaire should be developed to address a specific objective, research question or hypothesis of study. A fully structured questionnaire was chosen for this study as it ensures a standardized data collection procedure so that the data obtained are internally consistent and can be analyzed in a uniform and coherent manner (Boyce, 2002). The questionnaire comprised two sections, namely: Section A: which has biographical information such as gender, age, business operated and level of education and section B:-which has specific study objectives which includes, effect of Collateral securitysecurity on access to debt finance by MSE's, effect of financial information on access to debt finance by MSE's, and the effect of managerial competence on access to debt finance by MSE's in Chwele town.

3.6 DATA COLLECTION PROCEDURE

The researcher obtained research permit from the National Council for Science and Technology (NACSOTI) and clearance from department of Trade and Licensing Bungoma County. An introduction letter was presented to all manages/owners of the selected MSEs in Chwele. Administration of the questionnaires was done in the town. A cover letter which explained the purpose of the study was attached to the research instruments. This introduced the study to the respondents. This also assured the respondents that their responses were held confidential and used only for the intended study. The researcher visited the MSEs twice, when taking the questionnaires and on collection of the questionnaires

3.7 PILOT STUDY

Piloting is trying out of research instruments on the respondents who will not be used in the main study. Therefore it was necessary to pretest the instruments of the research on a small sample of respondents as preparatory exercise to find out if there was any weakness so that it could be corrected. In this study, a pilot study was done to enhance the questionnaire's validity. A pilot study was conducted on 20 MSEs in Sirisia Town. The result of the pilot test was used to identify areas where the questionnaire required adjustments like changing the order of questions and use of simple words to obtain more information on the study objectives .The questionnaire was then administered the second time to establish if the adjustments had been done correctly.

3.7.1 VALIDITY OF THE RESEARCH INSTRUMENTS

Validity of research instrument refers to the extent to which the instrument measures what it is supposed to measure (Amin, 2005). To ensure validity of the research instrument, the researcher used expert raters. The rated findings were used to calculate content validity index (CVI) using the formula

CVI = K/N

Where K = Total number of items in the questionnaire declared valid by both

Raters/judges.

N = Total number of items in the questionnaire

The computed CVI of the instrument computed 0.78 which was greater than the recommended 0.7 value therefore the questionnaires were termed valid (Amin, 2005: 288).

3.7.2 RELIABILITY OF THE INSTRUMENTS

Reliability refers to the consistency of data arising from the use of a particular research instrument. Mugenda (2003), states that reliability is the measure of the degree to which a research instrument yields consistent results after repeated trials over a period of time. This view is shared by Gay and Airasian (2000), who describe reliability as the degree to which a test consistently measures what it is measuring. Following the design type for this study, only internal reliability was measured using Cronbach's alpha.

Nunnally (1978, p. 245) recommends that instruments used in basic research have reliability of about .70 or better. He adds that increasing reliabilities much beyond .80 is a waste of time with instruments used for basic research. On the other hand, with instruments used in applied settings, a reliability of .80 may not be high enough. Where important decisions about the fate of individuals are made on the basis of test scores, reliability should be at least .90, preferably .95 or better. The instruments Cronbach was 0.87 therefore the instruments were deemed to be reliable.

3.8 DATA ANALYSIS AND PRESENTATION

The data collected were analyzed using descriptive statistics. Descriptive analysis involves collection, summarizing, and presentation of a set of data to make it easy for the researcher to conduct and users to understand (Kolb, 2008). The method therefore enabled the researcher to see pattern in the research data. In this study, frequency tables and percent were used to analyze the quantitative data. Statistical package for social sciences (SPSS) was the main tool of analysis. Logit regression was conducted to establish if the relationship between the study variables and access to debt financing by MSEs in Chwele Town.

In this study, the dependent variable was firm's access to debt finance while the independent variables (Collateral security, financial information and managerial competence) constituted factors that influence access to debt finance by MSEs.

MODEL SPECIFICATION

The study used logistic regression .Logistic regression gives each predictor (independent variable) a coefficient 'b' which measures its independent contribution to variations in the dependent variable, the dependent variable can only take on one of the two values: 0 or 1. What this model predicts from a knowledge of the relevant independent variables and coefficients is therefore not a numerical value of a dependent variable as in linear regression, but rather the probability (p) that it is 1 rather than 0 (belonging to one group rather than the other).The *logit* regression model was used because it allows properties of a linear regression model to be exploited it is shown:

$logit(p) = a + b_1x_1 + b_2\,x_2 + b_3x_3$

Which in our case was used to establish the relationship between the variables under study and access to debt finance is as shown below;

Access to debt finance = a +b_1 (Collateral security) +b_2 (financial information) +b_3 (managerial competence)

Where; b_1, b_2, and b_3 represented coefficient values estimated and were found to be positively related to access to debt finance. These coefficient values measured the rate of change of a dependent per change in independent variables.

a- The level of debt finance in the absence of independent variable under the study.

4 RESULTS AND DISCUSSION

4.1 INTRODUCTION

The chapter examines the study sample demographic characteristics in terms of gender, age, level of education, training and managerial experience of firm's owner. This is followed by basic information on finance of MSEs. For the purposes of this preliminary analysis descriptive statistics were frequently used to describe the general characteristics of the data collected. The chapter ends with the discussion of the research findings.

4.2 RESPONSE RETURN RATE

Data from Bungoma County Council (2013) shows that Chwele Town has 400 registered Micro and Small Enterprises but the study utilized 256 MSEs. The researcher distributed a total of 150 questionnaires and 120 were returned making response rate of 80%.According to Nachimias and Nachimais (1996) 80% to 90% return rate is enough for a descriptive survey study and therefore the return rate of 80% boosted the reliability of the study.

4.3 DEMOGRAPHIC CHARACTERISTICS

The study sought to determine the demographic characteristics of respondents based on gender, age, level of education industrial type, number of workers, and management courses undertaken.

4.3.1 GENDER

The gender of the respondents was sought since its findings would assist the study to categorize respondents based on gender

Table 4.1 Gender

Gender	Frequency	Percent
Male	74	62
Female	46	38
Total	**120**	**100**

As portrayed in table 4.1 above 62% of the respondents were male and 32% were female. The result shows that men were more involved in entrepreneurial activities than women in Chwele Town.

4.3.2 AGE OF THE FIRM OWNERS

The age of the respondents was sought since its findings would assist the study categorize respondents based on age.

Table 4.2 Age

Age(years)	Frequency	Percent
Below 20	12	10
21-30	33	27
31-40	46	38
41-50	15	13
51-60	08	07
Above 60	06	05
Total	**120**	**100**

As portrayed in table 4.2, above, 10% of the sampled respondents were aged below 20 years, 21-30 were 27%, 31-40 (38%), 41-50(13%), 51-60(07%) and above 60 years (05%) .The result shows that firm owners in the study were predominantly in the age bracket 31-40 years due to the fear that they may have failed to secure salaried employment and opted for entrepreneurship to earn a living. We also have few business owners in the category above 60 years as they are old and have bequeathed the running of the firms to young people.

4.3.3 LEVEL OF EDUCATION

The level of education respondents was sought since its findings would assist the study categorize respondents based on level of education.

Table 4.3 Level of education

Level of education	Frequency	Percent
Below KCPE	13	11
KCPE	46	38
KCSE	35	29
Diploma	19	16
Bachelors	07	06
TOTAL	**120**	**100**

As portrayed in the table above the number of respondents had an education level up to KCSE were 78% in Chwele Town. 16%, had a diploma and 06% had a bachelor’s degree. This agrees with Bowen, Morara and Mureithi (2009) assertion that

MSEs are dominated with people with relatively low education level. Moreover highly educated people may have other jobs rather than be involved in business.

4.3.4 INDUSTRIAL TYPE

The level of industrial type of respondents was sought since its findings would assist the study categorize respondents based on industrial type.

Table 4.4 Industrial type in Chwele town

Sectors	Frequency	Percent (%)
General Traders	50	60
Metal Work and Carpentry	37	44.4
Agriculture and other different sectors such as mobile accessories	16	19.2
Electronics and Computer	17	20.4
Total	**120**	**100**

As depicted in the table above, 60% of the MSEs in Chwele town are involved in general traders, 44.4% in metal work and carpentry, 19.2% in agriculture and other different sectors such as mobile accessories and 20.4% in electronics and computer. The result indicates that most MSEs are involved in metal work and carpentry due to perhaps easy legal requirements and small capital needs of the enterprises.

4.3.5 WORKERS EMPLOYED

The number of workers employed of respondents was sought since its findings would assist the study categorize respondents based on number of workers employed.

Table 4.5 Workers employed

No. of Workers	Frequency	Percent
1-10	80	67
11-20	21	18
21-30	10	08
31-40	05	04
41-50	04	03
Total	**120**	**100**

As evident in the table 4.5 above most MSEs in Chwele township employs between 1-10 workers 67%. This could be due to the limited business activities they are involved in a raising from inadequate finance.

4.3.6 MANAGEMENT COURSES UNDERTAKEN

The management a course undertaken by the respondents was sought since its findings would assist the study categorizes respondents based on management courses undertaken by the respondents.

Table 4.6 Management courses undertaken

Response Rate	Frequency	Percent
Yes	24	20
No	96	80
Total	**120**	**100**

From the table 4.6 above, majority of MSEs had not undertaken managerial courses (80%). This explains why most MSEs in the area face managerial difficulties in running their businesses there by hindering them from raising debt finance.

4.4 FACTORS INFLUENCING ACCESS TO DEBT FINANCE

4.4.1 COLLATERAL SECURITY PLEDGED

This objective sought to determine the number of respondents who pledged collateral security for debt financing.

Table 4.7 Respondents who pledged Collateral security

Response rate	Frequency	Percent
Yes	47	39
No	73	61
Total	**120**	**100**

The findings revealed that 47 (39%) of respondents had pledged by the Collateral security, while 73 (61%) had not pledged with the Collateral security and the findings.

The findings show that most of the MSEs owners had not pledged for Collateral security. These could be women who are not accessed to Collateral security such as land because most of the land is owned by their husbands and fathers

4.4.1.1 NATURE OF COLLATERAL SECURITY PLEDGED

The study sought to determine the nature of collateral security pledged for finance and the findings.

Table 4.8 Nature of Collateral security pledged

Nature	Frequency	Percent
Private property	37	78.7
Business property	10	21.3
Total	**47**	**100**

From table 4.8 above, out of the 47 respondents, 37 (78.7%) of respondents had pledged by the private property, while 10 (21.3%) had pledged by business property This therefore explains why most respondents could not raise finance due to lack of business property to act as Collateral security. This agreed with Zeller (1994) who opined that there is a link between firms resources and access to bank credit.

4.4.1.2 COLLATERAL SECURITY AND ACCESS TO DEBT FINANCE

Investigation to determine whether Collateral security pledged managed to secure access to debt finance and the findings.

Table 4.9 Collateral security and access to debt finance

Response rate	Application Approval	Percent	Application Rejected	Percent	Total
Yes	43	87.8	04	5.6	47
No	06	12.2	67	94.4	73
Total	**49**	**100**	**71**	**100**	**120**

The findings revealed that 43 (87.8%) of respondents had pledged and managed to secure debt finance, while only 4 (12.2%) who had not pledged with the Collateral security managed to secure debt finance. This could be due to the lender depending on other factors such as firms' reputations other than Collateral security. This agrees with Bhuiya et al (2001) who argued that with more wealth inform of assets land and livestock, access to bank credit is increased. A Collateral security reduces the riskiness of the loan by giving the lender claims on tangible assets (Bongheas et al, 2005).

4.4.2 FINANCIAL INFORMATION AND ACCESS TO DEBT FINANCE

4.4.2.1 RESPONSE ON MAINTENANCE OF FINANCIAL INFORMATION

The study sought to determine whether respondents maintained their financial information and the findings.

Table 4.10 Respondents who maintained financial information

Response rate	Frequency	Percent
Yes	43	35.8
No	77	64.2
Total	**120**	**100**

The findings revealed that 43 (35.8%) of respondents had maintained financial information, while only 77 (64.2%) who cited that they didn't maintain their financial information. Those who did not maintain financial information cited challenges such as lack of resources to employ experts who could assist in preparing and maintaining the financial information leading to information asymmetry and credit rationing (Sarapaivanich and Kotey 2006)

4.4.2.2 TYPES OF FINANCIAL INFORMATION MAINTAINED

The study also sought to find out types of financial information maintained by the respondents.

Table 4.11 Types of financial information maintained

Type of Financial Information	Frequency	Percent
Business Plan	**22**	18.6
Income Statement	**81**	67.4
Balance Sheet	17	14
Total	**120**	**100**

The findings revealed that 29 (67.4%) of respondents had maintained income statements, 06 (14%) cited balance sheets, while only 8 (18.6%) indicated business plans and. The result shows that most respondents prepared income statements to evaluate the performance of their enterprises.

4.4.2.3 FINANCIAL INFORMATION AND ACCESS TO DEBT FINANCE

The study also sought to investigate whether financial information maintained by the firm helped it to secure access to debt finance.

Table 4.12 Financial information and access to debt finance

Response Rate	Application Approval	Percent	Application Rejected	Percent	Total
YES	37	72.5	06	8.7	43
NO	14	27.5	63	91.3	77
Total	**51**	**100**	**69**	**100**	**120**

The findings revealed that 37(72.5%) of the respondents who kept financial information had their applications approved, while 14 (27.5%) of respondents who never kept financial information had their applications approved. The findings are shown in table 4.13**.** This agreed with the studies by Sarapaivanich and Kotey (2006) who argued that lack of adequate information by MSEs led to information asymmetry and credit rationing.

4.4.3 MANAGERIAL COMPETENCE AND ACCESS TO DEBT FINANCE

4.4.3.1 TYPE OF MANAGERIAL COURSES UNDERTAKEN

The study also sought to find out types of managerial courses undertaken by the respondents. The findings are shown in table 4.13

The table 4.13 Type of managerial courses undertaken

Course	Frequency	Percent
Business Management	**20**	17
Entrepreneurship	**15**	**13**
Human Resources	**55**	46
Accounting	**10**	08
Marketing	**20**	17
Total	**120**	**100**

The findings revealed that 11(46%) of respondents had undertaken human resource management course, 4(17) took business management course, same as those who took marketing courses, 3(13%) undertook entrepreneurship, while 2(08%) undertook accounting courses. As portrayed in the table 4. 13 above, the bulk of the respondents had taken human resources as a popular managerial course. This result shows that most of the respondents had not taken entrepreneurship as relevant managerial course to the successful running of their firms.

4.4.3.2 REASONS FOR NOT UNDERTAKING MANAGERIAL COURSES

The study also sought to find out reasons for not undertaking managerial courses by the respondents.

Table 4.14 Reasons for not undertaking managerial courses

Reasons	Frequency	Percent
High Cost of Training	59	49
Non- availability of course (s)	26	22
Lack of training Institutions	23	19
Don’t need a Management Course	12	10
Total	**120**	**100**

The findings revealed that 47(49%) of respondents revealed a high cost of training, 21 (22) cited non availability of courses, 18 (19%) indicated lack of training institutions, while 10 (10%) cited that they don’t need a management course. From the table above most of the respondents indicated that they could not undertake managerial courses due to high costs of training, that management courses were not available, while a few indicated that training institutions were not available, others never saw the need for taking a management courses. This means that most MSEs owners lack management skills as brought about by Martins and Staines (2008) who established that lack of managerial experience and skills led to MSEs failure in south Africa.

4.4.3.3 MANAGERIAL COMPETENCE AND ACCESS TO DEBT FINANCE

The study sought to determine whether managerial experience by the firm helped it to access debt finance measured by the number of years one had been in operation.

Table 4.15 Managerial competence and access to debt finance

No. of years	Application Approval	Percent	Application Rejected	Percent	Total
Below 4	11	25.6	50	64.9	61
5-10	8	18.6	18	23.3	26
11-15	9	20.0	06	7.8	15
16-20	7	16.2	03	05	10
Above 20	8	18.6	0	-	08
Total	**43**	**100**	**77**	**100**	**120**

The findings revealed that financial request rejection was higher when the owner's number of years in business was below 4 years as indicated by 50 (64.9%). The findings are shown in table 4.14.As portrayed in table 4.14 the percent of financial request rejection is higher when the owner's number of years in business is below 4 years while those who have been in operation for more than 20 years get access to loans easily. This agrees with Martin and Staines (2008) who argued that lack of managerial experience, skills and personal qualities led to MSEs failure.

4.5 LOGISTIC REGRESSION

In this study, logistic regression was used to analyze the relationship between accesses to debt finance and factors influencing access to debt finance. The research in this study, sought to establish the extent to which each variable influenced a firm's access to debt finance.

Table 4.16 Variables in the Equation

Variables	B	S.E.	Wald	df	p-value.	EXP(B)
Collateral security	0.214	0.310	0.475	1	0.490	1.238
financial information	1.906	.383	24.785	1	0.000	6.726
managerial competence	-0.663	0.346	3.667	1	0.055	0.515
Constant	-2.733	.768	12.653	1	0.000	0.065

The Variables in the table contains the coefficients for the fitting regression line and other relative information about the coefficients. The equation of the line from the output is

$$logit(y) = a + b_1x_1 + b_2 x_2 + b_3x_3$$

$$=-2.733+0.214x_1 +1.906x_2-0.663x_3$$

The Variables in the Equation as shown in Table 4.16 has the wald statistic and associated probabilities which provide an index of the significance of each predictor in the equation. The Wald statistic has a chi-square distribution. We take the significance values and if less than 0.05 reject the view that the variable does not make a significant contribution to a change in the dependent variable (access to debt finance).In our case, we note that collateral security does not contribute significantly to the prediction ($p = 0.49$) as well as managerial competence ($p = 0.055$) which is in contrary to Hisrich and Drnovsek (2002), who argued that Managerial experience measured in terms of education and managerial experience positively affects performance of the firm. However it was noted that financial information significantly affect dependent variable which in our case is access to debt finance ($p=0.000$).

The Exponential (B) column in Table 4.16 presents the extent to which increasing the corresponding measure by one unit influences the odds ratio. Exponential (B) is interpreted in terms of the change in odds. If the value exceeds 1 then the odds of an outcome occurring increase; if the figure is less than 1, any increase in the predictor leads to a drop in the odds of the outcome occurring. For example, the Exponential (B) value associated with Collateral security is 1.238.Hence when Collateral security is raised by one unit (rating) the odds ratio is 1 times as large and therefore MSEs are 1 more times likely to access loans due to Collateral security.

4.6 DISCUSSION

The study to establish whether Collateral security pledged by firms managed to enhance access to debt finance revealed that respondents who pledged Collateral security managed to secure debt finance by (87.8%) and only 12.2 % of those who never pledged Collateral security secured credit finance. This agrees with Bhuiya etal (2001) who argued that with more wealth inform of assets land and livestock, access to bank credit is increased. Furthermore Collateral security reduces the riskiness of the loan by giving the lender claims on tangible assets (Bongheas et al, 2005). According to Coco (2000), Collateral security is the lenders second line of defense which can be used the firm to solve the problem of asymmetry in valuation of project's risks and the cost of supervising the borrowers behavior. Thus, firms that invested heavily in tangible assets tended to have a higher financial leverage as they could borrow at lower interest rates given that the debt is fully secured with such assets (Barbosa and Moraes, 2004). According to Zeller (1994) there is a link between individual resources and access to bank credit.

Concerning financial information and access to debt finance, the findings revealed that72.5% of the respondents who kept financial information had their applications approved while 91.3% of those who did not maintain financial information had their applications declined. This agreed with the studies by Sarapaivanich and Kotey (2006) who argued that lack of adequate information by MSEs led to information asymmetry and credit rationing. Information asymmetries and imperfect information made lenders provide insufficient credit to all sound or bankable propositions (Stigliz and Weiss (1981).However regression analysis contradicts these findings where it was noted that its p-value was less than 0.05 hence there was a significant prediction. In addition, Kitindi et al (2007) acknowledges that creditors, banks and lenders used financial information provided by firms to analyze their performance and predict future performance.

Concerning managerial competence and access to debt finance, the findings showed that the bulk of financial request rejections were higher when the firm owner's had been in business for a period less than 4 years as indicated by 64.9% of the respondents and nil when one had been in business for a period over 20 years. In addition the regression analysis showed that managerial competence significantly predicted change in access of debt financing among the MSEs. This agrees with Martin and Staines (2008) who argued that lack of managerial experience, skills and personal qualities led to MSEs failure. Moreover, education is one of the factors that impact positively on the growth of firms (Kings and McGrath, 2002). Thus entrepreneurs with large stock of human capital in terms of education and training are better placed to adapt their enterprises to changing business environment. Managerial competence as measured by education, managerial experience and knowledge of business positively affects MSEs' performance (Hisrich and Drnovsek, 2002).

5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTIONS

This chapter brings out the summary of the study findings based on research objectives, the conclusion, recommendations and areas for further research.

5.2 SUMMARY

The first study objective sought to establish the relationship between the Collateral security and access to debt finance by MSEs in Chwele Town. It was established that most of the respondents had not pledged Collateral security for finance while. Most of the indicated that the nature of the Collateral security offered was private property which included their land. The study further established that respondents who could not provide Collateral security had their finance requests declined. From the regression analysis it was established that Collateral security and access to debt finance are positively related.

The second objective aimed at establishing the relationship between financial information maintained by the firm and access to debt finance by MSEs in Chwele Township.It was established that most of the MSEs owners did not maintained their business records and that the records maintained were mostly business plan, income statements and balance sheet. On access to debt finance, the study found out that most firms which kept financial information had their applications for debt finance approved while those that never maintained financial information had of the application declined. Thus the denial rate for debt finance was high for the firms that did not keep financial information. The analysis of regression revealed that financial information and access to debt finance had a positive relationship. Thus, a firm that maintains financial information was likely to obtain debt finance compared to one that does not.

The last objective sought to establish the link between managerial competence of firm's owner and access to debt finance by MSEs in Chwele Township. In the study, it was found that most firm owners had an education level up to KCSE while a few had bachelor's degree. In terms of experience, most respondents had operated their firms for a period less than 4 years while a view had and experience above 20 years. On access to debt finance, respondents who had been in operation for a period less than 4 years had their financial request declined while for those in operation for over 20 years was accepted. Regression analysis on managerial competence with access to debt finance established a positive relationship.

5.3 CONCLUSIONS

The study found out that Collateral security is one of the factors that influence access to debt finance. A firm that pledges collateral security for debt finance is more likely to be successful in its financial requests than one that does not. It was evidently that Collateral security requirement is a key factor for MSEs to succeed in accessing debt finance from financial Institutions.

The study also established that there is a positive relationship between financial information maintained by a firm and access to debt finance. The Information a firm provides to the financier portrays the latter's ability to meet the financial obligations in terms of Interest and principle repayments as and when they fall due. In the study, firms that did not maintain financial Information faced a higher rate of debt finance applications decline.

Concerning managerial competence and access to debt finance the result of regression analysis has shown that there is a positive relationship between managerial competence and access to debt finance. Measured in terms of educational level and work experience, highly educated business owners with more work experience were more favored for debt finance by lenders and used more debt finance in their enterprises.

5.4 RECOMMENDATIONS

The purpose of this research was to explore factors that influence access to debt finance by MSEs in Chwele Township Bungoma County, and come up with recommendations. Chwele Township has 256 registered MSEs in operation distributed in the extraction, manufacturing and service Industries. The MSE sector contributes immensely to job creation, poverty alleviation, savings and economic growth of the area. There is therefore need to support the growth of MSEs in the area which in turn can support the government's efforts in the realization of the country's Vision 2030.

The researcher recommends the following measures that may revitalize and spur the growth of the sector through debt finance.

MSEs should mobilize savings which is necessary to acquire and own assets which they can pledge as Collateral security for debt finance. Collateral security is used by lenders to reduce the riskiness of the loan and in solving the problems of asymmetry in evaluating projects and monitoring borrower's behavior.MSE owners/managers should also improve themselves by attending training courses in financial Management and Accounting. This will enable them to be able to prepare detailed financial statements which may be required by commercial banks when seeking debt finance.

Commercial banks should engage in publicity campaigns to make MSE owners aware of the products and terms of credit especially in rural towns like Chwele as some of them may be in need of finance but lack information on credit facilities provided by lending institutions.

The government should also intensify efforts to assist MSEs firms by offering more education and training through Kenya Institute of Business Training and Kenya Industrial Estates to improve on their Managerial Competence and providing affordable finance for those in need of finance.

The government institutions that provide finance to MSEs should undertake to monitor the use of such finance to promote efficiency and effectiveness in the use of the finance provided.

The government should also appeal to the commercial banks to reduce Interest rates on lending as they not only affect the cost of the loans but also performance of MSEs. Entrepreneurial centres, colleges and vocational Institutions should be set up in the area for MSEs to offer short courses and consultancies for practical training as a way of enhancing managerial competencies.

5.5 AREAS FOR FURTHER RESEARCH

The findings in this study are in no way exhaustive. The following are the areas suggested for further research.

a) The influence of networking by the firm's owner on access to debt finance by micro and small enterprises in Chwele Township Bungoma County.

b) The impact of firm's size on access to debt finance by MSEs in Chwele Township Bungoma County.

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