THE EFFECT OF SOCIAL ECONOMIC PROFILE ON ACCESS TO CREDIT AMONG SMES IN UTAWALA WARD, NAIROBI COUNTY

BY

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MASTER OF SCIENCE (DEVELOPMENT FINANCE)

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KCA UNIVERSITY

DECEMBER, 2023

DECLARATION

I declare that this study is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Student Name: Victor Simba **Registration number 21/02141**

Sign: ……..… **Date: 13-10-2023**

I do hereby confirm that I have examined the Master's dissertation of

Victor Simba

And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed

Signed: ……. Date: …….

Dr Peter Kariuki

DEDICATION

To my family, who are my best friends.

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ABSTRACT

Thriving SMEs are increasingly being regarded as key drivers toward job creation, economic growth and poverty eradication. If SMEs can have access to affordable credit, the overall entrepreneurial habits of citizens will improve, which will be a major boost in addressing poverty and income disparities. This study aimed at determining the effect of social economic profile on access to credit among SMEs in Utawala Ward, Nairobi County. The objectives were to: (1) Determine the effect of financial literacy on access to credit among SMEs; (2) Analyse the effect of social capital on access to credit among SMEs; and (3) Analyse the effect of income diversification on access to credit among SMEs in Utawala Ward. The study adopted the descriptive research design and stratified sampling technique to find a sample of 303 SMEs (representing a population of 1,279 SMEs). A pilot test was conducted using 30 SMEs from Mihang'o Ward, which neighbours Utawala. Data collected was analysed using a combination of descriptive and inferential statistics. First, the study found out that social economic profile had a significant effect on access to credit: $R=9.5\%$, $p<0.000$. Additionally, financial literacy had positive insignificant effect on access to credit by SMEs; $\beta=0.072$, $p=0.400$. Second, it emerged that social capital had positive insignificant effect on access to credit by SMEs; $\beta=0.049$, $p=0.559$. Third, the findings showed that income diversification had positive significant effect on access to credit by SMEs; $\beta=0.049$, $p<0.000$. The study recommends that SMEs need to diversify income as this would enhance credit access. Also, SMEs owners need to be trained on financial training to sharpen their financial skills. Lastly, government should organise trade fairs for SMEs to offer avenues for them to social network.

Keywords: Credit, social capital, income diversification, financial literacy.

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ACRONYMS AND ABBREVIATIONS

Acronym/Abbreviation	Meaning
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
OLS	Ordinary Least Squares
SMEs	Small and Medium Enterprises
VIF	Variance Inflation Factor
CBK	Central Bank of Kenya
OECD	Organisation for Economic Co-operation and Development

OPERATIONAL DEFINITION OF TERMS

Term	Definition
Access to credit	The ability to secure credit (Ullah, Majeed, & Arif, 2021).
Financial literacy	The ability of an individual to comprehend and employ assorted financial skills (Ssekakubom et al., 2022).
Income diversification	The creation or existence of several revenue streams (Boadi, 2018).
SMEs	Business/firms that are small in terms of revenue and balance sheet levels (Flaminiano & Francisco, 2021).
Social capital	The bonding networks among people in a society (Nwosu, et al., 2020).

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Many SMEs find it hard to access finance, and this limits their operations and growth. Finance is instrumental to all businesses, regardless of size, as it offers much needed working capital for routine expenditure and business growth (Eldeeb, et al., 2021; Zhang et al., 2022; Namara et al., 2020). However, SMEs face difficulties in accessing finance thus hampering their productive capacity. This could be because many SMEs often provide opaque information that makes it a hard task to evaluate their creditworthiness. Theoretically and practically, lenders grant credit and advances taking into consideration the capacity of the borrowers to repay both the principal amount and accruing interests (Beltrame, et al., 2022; Jian & Jiasha, 2021). Subtly, SMEs suffer hazardous credit screening leading to adverse selection as a result of information asymmetry.

Of late, SMEs have been increasingly regarded as key drivers toward job creation, economic growth and poverty eradication. Even in OECD countries, SMEs account for 60% to 70% of jobs, with a larger percentage in Japan and Italy (OECD, 2023). If SMEs can have access to affordable credit, the entrepreneurial habits of citizens will improve, which is a major boost in addressing poverty and income disparities (Belas et al., 2018). It will also lead to sustainable yields and growth. The growth of SMEs stimulates countrywide economic growth and employment opportunities. However, it is important to note that SMEs do not have enough financial stability. Most of them have cash to operate for only one or two months, thus may shut down in case of losses or financial difficulties (Ssekakubo, et al., 2022). Equitable access to affordable credit

will prevent many SMEs from failure and this is substantial in addressing social problems that SMEs solve at the community level.

Also, the sustainability of SMEs is more profound when they have several income streams. Income diversification protects a business from failure when one income generating activity fails yield returns as envisioned (Githaiga, 2019). All these socio-economic constructs are regarded impactful in many facets of business, albeit theoretically. According to the study by Flaminiano & Francisco (2021), whilst SMEs in the Philippines are instrumental toward poverty eradication in the country, their operations and growth is hampered by inadequate access to credit. According to the World Bank (2018), an estimated 38% of all borrowers and 69% of small-scale traders in the Philippines depend on informal sources of credit, but are not sufficient to meet the demand for affordable credit. Additionally, the SMEs are unable to be innovative and creative in their respective markets, thus putting a dent to their survival and prosperity. In the Czech Republic, SMEs account for over 90% of all enterprises, yet about 74% are vulnerable because they are unable to access to credit to scale up operations and exhibit sustainable performance and growth (Belas, et al., 2018). SMEs can innovatively undertake new investments, explore new markets and improve their efficiency if credit is available.

In China, over 90% of firms are SMEs creating over 60% of job opportunities, yet they access only about 25% of credit disbursed by state-owned banks while over 70% of loans are preserved for the larger state-owned corporations (Tsai, 2015). Lenders seldom offer credit to SMEs. As Agyekum, et al. (2022) find out in the South East region, supply of credit to SMEs is limited; SMEs receive credit rations as lenders associate them with high default risks. According to Hossain et al. (2018), over 68% of small-sized enterprises and over 44.7% of medium-sized enterprises in Bangladesh

face credit constraints making the firms unable to improve in respect to their role in job creation. Yet, they contribute to more than 53% of new jobs and about 25 % of Gross Domestic Product (GDP) in the country.

The SME sector in Africa is also a very vibrant one, but faces similar credit hurdles. For example, in Ghana, stability of SMEs is compromised by inadequate and unstable access to funding (Wubin, et al., 2022; Gakpo, et al., 2021). Most Sub-Saharan African countries have underdeveloped financial markets, and SMEs suffer the blunt of credit rations (Assogba, et al., 2017). They are often discriminated and labelled as unworthy credit customers, which undermines their financial stability. In South Africa, only 27% of SMEs can access credit from commercial banks (Balogun, et al., 2018). Without proper financial structures, SMEs are unable to meet the stringent credit terms set out by banks in the current global financial crises. These firms fail to clinch the badly need credit in the face of numerous social and economic factors (Asah, Louw, & Williams, 2020; Akinsola & Ikhide, 2019; Louw & Asah, 2021). This is the perspective that characterises the South African SMEs financing market, despite SMEs contributing to economic growth and human development significantly.

The same can be said about Nigeria. Nigerian SMEs are key drivers of economic growth and contribute to over 80% of jobs in the country (Adegboye & Iwerierbor, 2018). However, most of the SMEs stagnate due to inability to access important financial services such as affordable credit. As Oke & Sanni (2019) found out, only 4.5% and 1.6% of the overall finance products are issued to SMEs in Kwara and Niger respectively. Additionally, only 6.7% and 4.2% of SMEs access working capital finance from financial institutions (Oke & Sanni, 2019). This indicates huge disparities between the roles played by SMEs in a country's economy and their ability to secure sufficient credit.

It goes without say that Kenyan SMEs also play a vital role in the country's economy, including poverty eradication efforts. Whilst, it is indisputable that SMEs improve welfare of societies in Kenya, they face unprecedented challenges currently than any other times in the past (Kiringa, Ndede, & Wekesa, 2021; Munguti & Wamugo, 2020). Among the challenges that SMEs face is inadequate access to credit facilities from lenders. Kenyan lenders rank SMEs poorly in terms of credit worthiness and this significantly hampers their daily operations, financial stability, and capacity to scale up. According to Ndemi and Mungai (2018), lenders consider SMEs riskier business customers considering that SMEs are operated informally, making evaluation of their credit worthiness a major challenge. The information asymmetry in this sector is too much for lenders to ignore, which then limits SMEs access to the finance (Mwangi & Sichei, 2020; Mdoe, et al., 2018). Therefore, access to credit is one of the greatest obstacles towards growth and wellbeing of SMEs in Kenya.

1.1.1 Social-Economic Profile

The socio-economic profile comprises the specific attributes that relate to the position that a person holds in the society. Such a profile describes a person's social class, education, occupation and education attainment (Darin-Mattson, Fors, & Kareholt, 2017). In many ways, these socio-economic factors tend to influence a person's status in the society, which can in turn have spiral effects on other aspects of life, such as individual growth, employability, political stardom, and entrepreneurship opportunities (Fonke, 2021). Moreover, socio-economic factors somehow determine how one will be treated by other members of the society. Therefore, they are key underlying factors that establish inequalities in a society. According to Okundaye, Fan and Dwyer (2019), socio-economic determinants contribute to the establishment of social classes. At the same time, the socio-economic profile of a person has an

influence on the person's behaviour and activities he/she will engage in. It can determine a person's ability to lead a successful life. For instance, an individual who is highly education is likely to exhibit rational and logical decision making leading (Sharma & Poonam, 2020; Zebal & Anushe, 2020). The only problem is that a perfect and optimal socio-economic profile does not exist, only social stratifications (Guled & Kaplan, 2018).

The term socio-economic profile also applies to businesses. This means that businesses or companies are treated as persons. In view of this, socio-economic factors that determine the success of a firm, company, or business will include things like the business profile, entrepreneurial skills, business experience, and cultural orientations (Shabir, et al., 2021; Aggarwal & Singh, 2019). This study focused on the following three aspects of a business's socio-economic profile: Financial literacy, Income diversification and Social capital.

- *Financial literacy*

Financial literacy is the ability of an individual to comprehend and employ assorted financial skills (Ssekakubom et al., 2022). Financial literacy therefore revolves around financial decisions about budgeting, sourcing of funds and financial controls. Financial literacy results to establishment of financially sound plans for individuals and businesses (Nana, et al., 2020; Hussain, et al., 2018; Khadijah & Yusoff, 2019). Theoretically, financially literate people are expected to show better financial planning including paying off debts, access credits, budgetary control and sustainable growth.

- *Social capital*

Social capital refers to the bonding networks among the people in a society (Nwosu, et al., 2020). These networks are essential as they offer the bridges that create a wholesome society. Moreover, they create a platform of sharing resources and information. For example, social relationships can be perfect mediums of sharing values and skills that in turn boost the welfare of the whole society. According to Pham and Talavera (2018), social capital influences the ability of economic units to access credit informally and formally from institutionalised lenders. The reason for this is that knowledge on availability of credit and loan information requirement are often shared across social relationships (Ullah, Majeed, & Arif, 2021; Hasan & Habib, 2019; Shi & Li, 2022). Social capital also promotes the application of credit due to shared information regardless of whether formal or informal credit. Social groups are important platforms that improve access to credit.

- *Income diversification*

Income diversification is the creation or existence of several revenue streams. It purposes to lower volatilities in earnings because risks are managed (Boadi, 2018). Therefore, income diversification is important to all businesses regardless of their size. A diversified portfolio serves to increase income spread into alternatives such that where one is poorly performing, the alternative can complete the earnings for the business. Moreover, income diversification stabilises firms in situations where losses are incurred in one business line (Duho, Duho, & Forson, 2021; Githaiga, 2019). Therefore, it is of great benefit that all firms, regardless of size, strive to diversify their sources of income.

1.1.2 Access to Credit

Access to credit refers to the level of ease in getting loans and advances from lending institutions. Tutu & Weill (2023) indicate that accees to credit improves socio-economic welfare of people. It improves the livelihood of people and businesses alike. As a matter of fact, the level of access to credit is a measure of success in the credit markets. According to Anyiro (2016) access to credit refers to how easy it is for an individual or business to qualify for loans from financial institutions. Thus, access to credit can be measured in terms of ease of access, amount of credit and repayment period. It may also refer to the level of efficiency in which firms access materials from their customers on credit. Therefore, a business can get supplies and pay at a later agreed date.

In this study, access to credit referred to the aspect of accessing loans from banks, microfinance banks and other institutional lenders. Therefore, access to credit was measured in the form of how easy it was for SMEs to access credit facilities/products from the lenders. Access to credit is not an easy fete particularly due to stringent credit terms in developing economies (Sarang, Rind, & Saeed, 2022). The financial markets in most developing are underdeveloped and this makes it difficult to deal with asymmetry of information that is inherent in lending business. Moreover, access to credit is a major issue in most developing countries due to limited number of lending entities as a result of low levels of financial inclusion. SMEs in developing nations face challenges in accessing credit due to a wide array of factors, for instance, competition by larger entities crowds out the SMEs from participation in financial markets making their credit access a major problem. Teemu et al. (2020) note that SMEs in developing countries are unable to access credit in an adequate manner, which limits their growth and operation capacities. Also, where firms are able to access credit, they are able to remain productive even when they do not have internal

sources of funds (Bussolo, Nicola, & Panizza, 2022). Thus, this is a problem worth exploring.

1.1.3 Social-Economic Determinants and Access to Credit

Access to credit is a function of several factors, among them socio-economic determinants that partly influence the ability of an entity to repay credit. Access to credit is indispensable from socio-economic variables because the latter have strong bearing on risk perception and risk ratings (Ullah, Majeed, & Arif, 2021). Therefore, understanding and documenting role of socio-economic factors in accessing credit is significant.

- *Financial literacy*

According to Abdullah and Chong (2014), financial literacy determines access to credit in two ways: Firstly, financially literate individuals are able to plan, make informed business decisions and are aware of funding options available in financial markets. This means that financially literate SMEs are more likely to access credit than financially illiterate ones. Secondly, financially literate SMEs possess apt knowledge on financial products and services enabling them to further their businesses (Hossain, Yoshino, & Taghizadeh, 2018). Therefore, the more financially literate an SME is, the more likely they will have higher access to credit and financial products in general.

- *Social capital*

According to Nwosu, et al., (2020) one of the most significant factor of access to loans among smallholder non-farming enterprises in Nigeria is social capital. Social capital builds a network that is used to disseminate information that can be useful in learning about credit sources and application criteria. Social capital too influences use

of credit by an individual. For example, a person whose circle of peers use credit to finance activities is likely to apply and access credit through peer guarantors (Mdoe, Kinyanjui, & McMillan, 2018). Thus, social capital too influences the choice of credit that an individual will take.

- *Income diversification*

Income diversification serves to lower risks and this can influence access to credit, albeit theoretically. The amount of revenue is one of the parameters used to assess credit worthiness of SMEs. The use of revenue in credit rating is more profound to small entrepreneurs because SMEs in emerging economies lack assets to charge as collateral (Eton, et al., 2017). Larger firms have more assets that they can use as collateral when seeking financing. In essence, a firm that has high-income level that is diversified has a good credit score. A small firm that has diversified operations is able to withstand negative externalities including challenges in credit repayments during times of distress. Gbandi & Amissah (2014) argue that enterprises with diversified income are stable and capable of navigating through financial distress in contrast to firms that rely on one line of business.

For the purposes of this study, age and gender are considered to have a controlling effect on the socio-economic profile of a person. The older the person, for instance, the more networks or skills one will have. Different genders also have different capabilities and networks.

1.1.4 SMEs in Kenya

SMEs in Kenya are considered the backbone of the economy of Kenya due to various reasons. Firstly, these entities comprise both registered and unregistered entities and account for up to 98% of all businesses in Kenya (Mulae, 2022; Gichuki, Njeru, &

Tirimba, 2014). Therefore, SMEs contribute a lot to employment creation, payment of taxes to government and are a major source of revenue to County governments. Secondly, SMEs are the key drivers of socio-economic transformation in Kenya considering that these entities are used a vehicle of wealth accumulation by their founders. Most SMEs are in commerce activities, manufacturing and processing of agricultural produce, hence the huge role of SMEs towards economic growth and development cannot be overlooked (KNBS, 2018). Thirdly, a majority of the SMEs in Kenya are locally owned, thus spurring local investments, skills development and utilisation of local resources in development. Fourthly, SMEs in Kenya absorb a lot of manpower and this is crucial towards reduction of unemployment in the country. SMEs spur innovation in the country when they compete with larger firms for similar markets and resources. Last but not least, SMEs are largest revenue payer to government (Capital Market Authority, 2020). Therefore, there is no understating the role that SMEs play in the Kenyan society.

1.1.5 Utawala Ward

Utawala Ward is in Embakasi East Sub-County, Nairobi County, Kenya. It is part of the larger Nairobi Metropolitan Area on far-east side of the City bordering Machakos County. The general profile of SMEs in this ward resembles any other urban in Kenya where smallholder entities are engaged in a variety of commerce. The most prominent types of SMEs herein include general hardware, general shops, transport, logistics, and consumer goods wholesale business. This study sought to understand the socio-economic determinants of SMEs in this ward because of two reasons. First, the findings inform the general situation in Kenyan urban centres in respect to access to credit. Second, Utawala Ward is in Nairobi City County where financial institutions are available and yet small entities find it difficult to access credit (Gichuki, Njeru, &

Tirimba, 2014; Githui, Muhavani, & Nshimirimana, 2021; Mwirigi, Gakure, & Otieno, 2019). A focus on Utawala ward not only offers insights to the ward but also presents the situation on other urban centres in Kenya. As such, the site of study has been selected to act as a representative of all entities in Kenya.

1.2 Statement of the Problem

Financial inclusion in the world of business should mean that SMEs can also access credit with ease in the same manner that bigger firms do. High access to credit would enable SMEs to undertake investments that would boost their business performance and growth in the markets (Twumasi, Jiang, Ding, & Wonder, 2022). Moreover, access to credit ensures that entities remain in business even during financial crises. SMEs in Kenya are instrumental toward poverty eradication, promotion of entrepreneurial culture and creation of job opportunities (Munguti & Wamugo, 2020; Gakpo, et al., 2021; Asah, Louw, & Williams, 2020). SMEs account for more than 80% of private establishments and create not less than 58% of job opportunities in Kenya (UHY, 2018). However, statistics show that over 400,000 SMEs seldom celebrate their second birthdays. Among those that survive, an estimated 35% face growth challenges, explaining why more than 70% of SMEs close down within five years of their incorporation. This translates to the loss of more than a million jobs within this time frame (KNBS, 2018; Maina, 2020; Ndemi & Mungai, 2018). Reports from KNBS (2018) show that over 90% of Kenyan SMEs collapse due to inability to access credit. In another report from the Capital Market Authority (2020), 60% of new SMEs fail due to stiff competition, market imperfections, poor infrastructure and inability to access credit.

Socio-economic attributes tend to affect access to credit in several theoretical paradigms, for instance, financial literacy opens up an individual to financial knowledge and skills that can be instrumental in access to credit (Hussain, Salia, & Karim, 2018). Financially literate entrepreneurs are likely to have an upper hand in accessing financial products and services than those with little or no financial literacy. In the case of social capital, SMEs owners with social networks are likely to get apt information on capital markets and this can boost their access to credit. Moreover, social capital creates social networks that are information sharing nodes leading to peer associations that improve credit worthiness through peer guarantorships and learning (Hasan & Habib, 2019). Lastly, as reiterated by Boadi (2018), income diversification serves to improve cash flows of SMEs building their financial capacity and credit ratings.

Many studies have sought to elucidate the role of socio-economic access on credit by economic units; however, few have endeavoured to characterise the phenomenon among SMEs. The study by Fonke (2021), for instance, sought to find out the role of socio-economic factors among households. Results indicated that education, distance from lending firms, frequency of contact with extension officers were significant determinants of access to credit among the farmers. However, the study did not relate role of social capital and income diversification on access to credit as envisioned in this study. Fatoki and Smit (2017) sought to substantiate the constraints to credit access by SMEs in (South) Africa. Results showed that managerial prowess, networking, business information and collateral possession played a role in access to credit by SMEs. Nevertheless, this study did not factor many socio-economic variables conceptualised by the current study. Mwangi & Sichei (2020) also examined individual attributes that influence access to credit. Results showed that age,

education, earnings, sharing information, household characteristics affect access to credit. However, this study delved in individual traits while the current study envisions to relate socio-economic factors with access to credit among SMEs in Nairobi County. To bridge this conceptual gap, this study focused on three socio-economic determinants that influence access to credit by SMEs at Utawala ward in Nairobi County.

1.3 Objectives of the Study

1.3.1 General Objective

The overall objective of this study was to determine the effect of social economic profile on access to credit among SMEs in Utawala ward, Nairobi County.

1.3.2 Specific Objectives

The following are individual objectives obtained from the main study objective framed above:

i. Determine the effect of financial literacy on access to credit among SMEs in Utawala Ward, Nairobi County.
ii. Analyse the effect of social capital on access to credit among SMEs in Utawala Ward, Nairobi County.
iii. Analyse the effect of income diversification on access to credit among SMEs in Utawala Ward, Nairobi County.
iv. Establish the controlling effect of gender and age on the relationship between social economic profile on access to credit among SMEs in Utawala ward, Nairobi County.

1.4 Research Questions

The following are the research questions that drive this study, all of which have been obtained from the specific objectives listed above:

i. What is the effect of financial literacy on access to credit among SMEs in Utawala Ward, Nairobi County?
ii. What is the effect of social capital on access to credit among SMEs in Utawala Ward, Nairobi County?
iii. What is the effect of income diversification on access to credit among SMEs in Utawala Ward, Nairobi County?
iv. Is there a controlling effect of gender and age on the relationship between social economic profile on access to credit among SMEs in Utawala ward, Nairobi County?

1.5 Significance of the Study

The study is significant to at least three parties (Kenyan policymakers, the world of academia, and entrepreneurs themselves), and they are discussed in greater detail below:

1.5.1 Policymakers

The findings of the study are significant to policymakers such as the Central Bank of Kenya (CBK) of Kenya as the financial sector regulator; the institution will gain information that is useful on making policy that promote financial inclusion for Kenyan SMEs. The study collected key data and information that can be synthesised to provide policy framework that can not only enhance access to credit among SMEs but also improve growth of financial sector in Kenya.

1.5.2 Academia

The findings of this study contribute to research on access to credit in Kenya. Other scholars and researchers will gain empirical evidence to undertake further research on socio-economic factors and credit access in Kenya, not only among SMEs in other locations but also for other business entities.

1.5.3 SMEs Owners

The findings will benefit SMEs considering that they are at the centre of the study. From the study, SME owners will gain insight into the factors that determine their access or denial of credit by lenders. They can then structure their business in line with the findings and recommendations of this study.

1.6 Scope of the Study

This study determines the effect of social economic determinants on access to credit among SMEs in Utawala ward, Nairobi County. It does not consider other types of business or SMEs located in other regions. The study also focused on three concepts of socio-economic determinants namely, financial literacy, income diversification and social capital. Other concepts are not included in the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter of the thesis unearths previous research that has been conducted on this study, as well as, a review of the theories and concepts that underpin this study.

2.2 Theoretical Framework

Theories are general conjectures that describe existences. They are postulations formed from an explained set of ideas to substantiate why things are as they are. In research, theories are selected in relation to their relevance to variables and concepts. The three theories that underpin this study and shine a light on the variables include Social Resources Theory, Asymmetric Information Theory, and Modern Portfolio Theory of Investment.

2.2.1 The Social Resources Theory

The Social Resources Theory as proposed by Lin (1982) describes how social networks and social ties are valuable to individuals. The theory postulates that a person has innate resources but can also obtain other resources from the society. For instance, an individual can gain knowledge, information and skills by relating with other members of the society they live in. Social resources are, therefore, ties that give an individual more information and strengths that they can apply in various dimensions of life (Roschk & Gelbrich, 2017; Kerksieck, Bauer, & Brauchli, 2019). Social resources also improve a person's capacity to attain prestige, status, information, business connections and income. Thus, social resources are not for mere social interactions but instrumental avenues that help one build information/knowledge capacity (Saks & Gruman, 2018; Ahlborg, et al., 2019).

Social ties are more than a network between individuals; they can be considered a web through which individuals are able to establish contacts for information, jobs and business information.

The Social Resources Theory holds the following assumptions when it comes to social resources. The first assumption is that access to and utilization of social resources depends on the strength of position that an individual occupies in the society (Gasik, Marcin, & Jessica, 2017). This influences their likelihood to gain access to social resources that are basically in form of new knowledge, information and skills. The strength of a position is hereditary as it flows among individuals with high social status. The kind of information that a person will acquire using the strength of their position is instrumental toward their progress. The second assumption is that the strength of ties can be either strong or weak (Christina & Wang, 2019). Strong ties are formed by close associates such as friends or family members while weak ties are formed by strangers or acquaintances. Despite the term 'weak', weaker ties are seen to be more valuable; one can use such ties to gain access to and utilize resources from social networks that one is not used to (Song, 2015; Bakker & Demerouti, 2017). In other words, a person is likely to gain more from sources not close to them. Otherwise, individuals close to each other share homophily in respect to information ownership, knowledge, and preferences and this can curtail access to better resources (Struthers & Nziku, 2018; Fernandez & Greenberg, 2016). This explains why a job seeker or a credit facility seeker gets better connection from new acquaintances than from relatives (Song, 2015; Tsarenko, Leo, & Tse, 2018). Therefore, people are encouraged to interact more with individuals not close to them.

Taking all of the above into consideration, the Social Resources Theory is instrumental to this study that seeks to find out whether social economic profile of a

SMEs owners has a bearing on access to credit. The theory relates to the social capital variable in the following ways. It identifies that the position a person in a society can affect access to resources such as information (Amorim & Lucia, 2022). An individual accesses information and other resources from their social networks. For instance, an SME entrepreneur can access information on credit availability from peers. Also, according to Social Resources Theory, one can learn from a social network. Entrepreneurs can gain information about different industries, business opportunities and different innovative occupations. SMEs can use their social ties to learn about proper credit application processes and credit management, which can improve their chances of qualifying for available credit or financial products from lenders.

Nonetheless, this theory has advantages and its share of limitations. An advantage is that the Social Resources Theory explains how human relations results to social interactions, which can help one gain access to and use of certain resources (Boudrias, Montani, & Vandenberghe, 2021). The theory also elucidates how social interactions are key drivers in the acquisition of information be it in the economic, political, spiritual or any other sphere. More so, the Social Resources Theory dictates how information flows in a society, especially through information nodes established by strength of position or ties in the societal (Bakker & Demerouti, 2017). It also dictates that social networks creates value exchanges, which in turn enhance people's skills and knowledge.

A limitation of the Social Resources Theory, however, is that it applies to individuals who are in a social network (Penalver, et al., 2019). It does not explain how individuals not in any social network can gain information. It assumes that all individuals must relate with each other to learn, but this may not hold for individuals

that are on the far end of the interaction nodes. Another significant limitation is that whilst it is true that social networks offer learning opportunities to members, this may not take place if there are untenable structural differences among the members of a social network (Christina & Wang, 2019; Bettini et al., 2018). Rarely do conflicting parties learn from each other.

2.2.2 Asymmetric Information Theory

The Asymmetric Information Theory explains how information gaps between two or more transacting parties affect economic transactions (Akerlof, 1978; Spence, 1978; Stiglitz & Weiss, 1992). According to this theory's proponents, economic decision making is a function of information, which is not automatically available to all parties at the same time in equal measures. Therefore, there is an information asymmetry that exists between transacting parties where one will have better information compared to the other (Rong, 2022; Sarang, Rind, & Saeed, 2022; Blouch, Khan, & Shakeel, 2021). This gives rise to imperfect dealings and adverse selection. By definition, adverse selection characterizes a situation where two parties have different information regarding the same item in consideration (Asongu & Nicholas, 2021; Aben, Valk, Roehrich, & Selviaridis, 2021). For instance, a credit institution has less information about credit worthiness of a loan applicant and this creates a problem in establishment of credit terms. The decision makers at both ends may make incorrect choices that would be different if all adequate pieces of information were available to both parties at the same time.

The Asymmetric Information Theory presents certain solutions to counter the information asymmetry phenomenon, depending on the industry. In the credit markets, lenders ask for collateral as risk management in case the borrower defaults

their obligations. Information asymmetry likely distorts decision making leading to moral hazards (Yang, Chau, & Chen, 2021; Phillips, Roehrich, & Kapletia, 2021; Ambrose & Moussa, 2021). A moral hazard exists where information is lacking for both parties resulting to a situation where they may take incorrect decisions. In other words, moral hazards contribute to risky decisions because the other party is construed as the most probable victim of the risky decision. In the financial sector, borrowers are obliged to service their loans as per the contractual terms. However, borrowers may default knowing that their loans are insured and that the decision to default will not to affect their welfare.

The Asymmetric Information Theory conforms to this study because SMEs are often regarded as risky borrowers given that institutionalized lenders lack information about them. SMEs record keeping is haphazard and most do not maintain records at all. As such, lenders lack the necessary information they can use to evaluate and rate the credit worthiness of SMEs. More so, the Asymmetric Information Theory informs the access to credit variable. The theory shines a light on issues surrounding the financial markets, including why small scale traders and entrepreneurs cannot be able to access credit from banks and other institutionalized lenders. The theory also offers insight on adverse selection in the credit market. For example, adverse selection is present in many emerging economies where financial markets are substantially underdeveloped, particularly where small scale traders are charged higher interest rates by lenders in contrast to large corporate borrowers who enjoy preferential interest rates on credit. Conspicuously, the lack of credible creditworthiness information increases the default risk for credit advanced to this class of borrowers. This study sought to deduce role of socio-economic profile of SMEs and the impact this has on accessing credit.

An advantage of the Asymmetric Information Theory is that it is widely applicable and has practical use in economic decision making. According to Markus, Wolfgang and Katharina (2021), economic decisions are better made in cases where the right information is available. Lack of important information impairs decision making. Another advantage of this theory is in how it outlines that transacting parties often have different information about the same phenomenon or topic (Ade & Doddy, 2021; Lyandres & Chod, 2021). This is what happens on the ground because it is practically impossible for two parties to have congruent information regarding an item at the same time (Hemrit, 2022). A limitation of this theory is that it may not hold in cases where information is available in perfect match. Such scenarios are rare, but not impossible. Another limitation is about the assumption that economic decision making is often influenced by information; this assumption may not hold all the time (Sheth & Subramanian, 2020; Rejesus, Juan, Zheng, & Yorobe, 2018; Ivan, 2019). In times of urgency and acute needs, for instance, a buyer may not necessarily worry about the risks of making a purchase without adequate information. Another limitation of this theory is that it is purely economic in nature and my fail to hold in social decision making where adverse selection and moral hazards hypothesis exist (Moloi & Marwala, 2020; Hosseini, et al., 2018; Morri, Palmieri, & Sironi, 2021). Nonetheless, it is useful herein.

2.2.3 The Modern Portfolio Theory of Investment

The major assumption of the Modern Portfolio Theory of Investment is that the overall risk-return expression for a combination of assets or investments is favourable than that of an individual asset (Markowitz, 1952). According to the proponents of this theory, one can better manage risk and returns by diversifying investments in contrast to investing all resources in one line of business (Koumou, 2020; Dylan,

2021). The theory, therefore, views that portfolios are a better way of dealing with systematic risks. A portfolio is a group of assets or investments with different risks and returns, which risk-averse investors adopt to lower return volatilities (Delpini, Battiston, Caldarelli, & Riccaboni, 2019). This theory advocates for the establishment of diverse business portfolios, even for SMEs. According to Haws (2021), the Modern Portfolio Theory emphasizes the spreading of investments in diverse business lines and in different sectors to better manage risks. Diversification of assets can help achieve superior returns at the minimum risks. Considering that investment that are high risks are characterized with high returns, this theory indicates that there is a need to balance these investments with those that have low risks and low returns; this will help lower the risk of total losses if one sector fails. However, this optimal risk-return function is dependent on risks that individuals or entities are tolerant to.

The Modern Portfolio Theory of Investment is of significance to this study because it offers information on income diversification. The theory assumes that risk is minimized by having diversified portfolio of investments. The theory further postulates that efficient portfolios have the best returns at minimum risks. Where returns are maximized, entities are able to earn sufficient profits that can be used to service credit. Essentially, a firm with stable returns has a high credit worthy enabling it to access credit in contrast to a firm with low and highly volatile returns. At the same time, having multiple assets, investments or business lines creates different earning periods which makes credit repayment easier.

The major merit of the Modern Portfolio Theory is that it is useful when it comes to asset allocation. Entrepreneurs and firms can examine assets and create portfolios that guarantee optimal expected returns (Johar, Tan, Maung, & Douglas, 2021; Robiyanto, Ernayani, & Ismail, 2019). The theory, nonetheless, has its share of limitation. Firstly,

it assumes that all investments are able to be quantified at the planning stage; the theory assumes that all investments are quantifiable in terms of risks and returns before resources are committed. This is not usually the case as variances in returns can occur after investing thus deconstructing the efficient portfolio established (Jones & Trevillion, 2022; Bakar & Sofian, 2018; Marcelo & Borenstein, 2018). Secondly, this theory delves on variances from expected returns. In practice, it is downside risk that interferes with expected risks (Luciano, Borestein, Marcelo, & Adiel, 2018). The utility of this theory would be more if risks were quantified in form of potential loss of value of assets in respect to prevailing market conditions.

2.3 Review of Literature

This section discusses what other researchers have established with regards to this topic. The section is delivered according to the study's objectives.

2.3.1 Financial Literacy and Access to Credit

Twumasi et al. (2022) examined how access to financial services mediated the impact of financial literacy on Ghanaian households' income. Self-administered questionnaires were sent to 572 households with the following finding - financial literacy helped reduce poverty among the households. It was found to have a sizable effect on financial loan accessibility as well. Still in Ghana, Hakim et.al. (2018) conducted a study into how financial literacy affected SMEs' access to financing. Standardized questionnaires were sent to 132 SMEs and the data analysed using descriptive statistics. The findings showed that the degree of credit access was positively and significantly impacted by financial literacy. Usama & Yusoff (2019) researched about the impact that financial literacy had on the success of firms in Nigeria's Bauchi Metropolis. Using secondary data and descriptive statistics, the two

found out that financial literacy affects how well businesses succeed. They also discovered that financial literacy had a favourable impact on how easily entrepreneurs could acquire financial capital.

Bongomin et.al., (2017) conducted a similar study in Uganda. They sought to determine how financial literacy affected the relationship between access to credit and the expansion of SMEs in the country. Structured questionnaires were sent to 169 SMEs where it was discovered that the expansion of SMEs was positively and significantly correlated with financial literacy and access to capital. Additionally, output of data analysis showed that there was a significant and advantageous moderating effect of financial literacy on the connection between SME growth and access to financing. Buchdadi, Sholeha and Ahmad (2020) used access to finance as the mediating variable with the goal of establishing the impact of financial literacy on the performance of SMEs. Standardized questionnaires were sent to 70 managers and the data analysed using descriptive statistics. In the end, the findings showed that financial literacy positively impacted small business development and access to capital.

Here in Kenya, Mwangi & Cheluget (2018) conducted a study to deduce how financial inclusion, financial literacy, and financial innovation affected how easily small businesses could receive loans. They sent questionnaires to 340 respondents and also collected desk reviews as secondary data. After analysing both primary and secondary data types using descriptive and inferential statistics models, they established that financial inclusion, financial innovation, and financial literacy significantly impacted how easily SMEs could receive loans. Lubanga (2016) examined the link between financial literacy and access to credit among the youths in Kimilili Sub-County. From the structured questionnaires sent to 384 respondents, it

emerged that financial literacy had an influence on the capacity to access credit. Youths that had knowledge and skills in financial planning could access credit more easily compared to those without. Moreover, it emerged that lack of collateral was a major impediment towards access to credit among youths. Owen (2020) delved into role of financial literacy and access to financial and savings in Kenya using cross-sectional data collected from secondary sources. The findings showed that education, household size, financial agents availability and financial literacy significantly impacted on access to financial credit and savings facilities.

2.3.2 Social Capital and Access to Credit

Bhatt and Altinay (2018) aimed at ascertaining how social capital affected Indian proprietors of social entrepreneurial ventures' ability to acquire loans. Data from the social entrepreneurs were collected through semi-structured interviews and observations and examined using descriptive statistics. The finding was that social capital significantly influenced how easily entrepreneurs could acquire loans. Nwosu et al., (2020) explored how social capital affected household nonfarm small businesses in Nigeria's access to finance. They utilised secondary data from the General Household Survey and established that the only social capital factors that significantly impacted credit access were membership in a cooperative or an unofficial group. Still in Nigeria, Anyiro (2016) studied the impact of social capital on rural farming households in their access to microcredit. Structured questionnaires were sent to 204 rural farming homes and the data analysed using binary probit regression model, descriptive statistics, and Likert scale analysis. In the end, Anyiro (2016) discovered that capital statistically and significantly affected the ability of a household to access microcredit.

Iyanda et al. (2016) studied the effect of social capital on the households in Ogun State, Nigeria that grow cassava. Data gathered from a sample of 120 cassava farming households using questionnaires were analysed using descriptive statistics and the regression approach. The decision-making index and other social capital components were made public. Age and payback period were correlated with credit availability, although membership and labour index did not. Heikkila, Kalmi and Ruuskanen (2016) did a study in Uganda that looked at how SME owners' access to finance related to their social capital related to each other. The survey conducted revealed that social capital and availability of institutional loans were positively correlated.

In Kenya, Kangogo, Lagat and Ithinji (2021) aimed at figuring out how social capital aspects affected household participation in borrowing and repaying microloans in Uasin Gishu County. Structured questionnaires were self-administered to a sample of 174 houses and the data analysed using Tobit regression, Heckman two-stage, and descriptive statistics models. The major finding was that social capital had a significant impact on agricultural households' ability to acquire finance.

2.3.3 Income Diversification and Access to Credit

Daud et al. (2018) conducted a study to determine how income diversification affected rural farming households' income in Oyo state, Nigeria. Questionnaires were used to gather information from a sample of 120 houses and the data analysed using descriptive statistics. The findings showed that income diversification significantly impacted farming households' access to credit. Fausat (2016) conducted another Nigerian study that looked at the factors that influenced the income diversification of rural farming households. Age, asset ownership, and educational attainment were found to have large effects on income diversity, but loan availability and marital

status were found to have minimal effects. Duho et al., (2021) examined how the income diversification strategy affected the credit and market risk of Ghana's microfinance institutions. Data from 271 microfinance organizations was examined using weighted least squares. Income diversification and improved loan quality and credit risk management were positively associated.

Schwarze & Zeller (2016) investigated how income diversification affected Indonesian rural households' access to credit. Questionnaires gathered data from farmers in the Lore Lindu National Park and analysed using descriptive statistics. It was discovered that income diversification significantly influenced how easy it was to obtain credit from microfinance firms. In the rural areas of Rajshahi District in Bangladesh, Sultana, Hossain and Islam (2016) conducted a research that looked at how income diversification affected how easily people could get financing. Questionnaires were self-administered to a sample of 138 houses and the data analysed using multiple regression and the Simpson index of diversity. Diversifying one's income was proven to significantly and favourably affect one's ability to obtain capital.

2.4 Conceptual Framework

This study hypothesized that the following three predictors influenced access to credit – (1) financial literacy, (2) social capital and (3) income diversification. Financial literary refers to an individual’s skills in terms of financial skills that encompasses record keeping, budgeting, credit management and overall business management. Social capital refers to interactions between an individual and the society leading to acquisition of resources, such as information and knowledge. Income diversification refers to establishment of one or several income streams.

Two control variables, age and gender, were included to get more insights on how socio-economic profiles affected access to credit among SMEs established or trading in Utawala Ward, Nairobi County, Kenya. Access to credit is the outcome variable as shown in *Figure 1* below.

Figure 1

Conceptual Framework

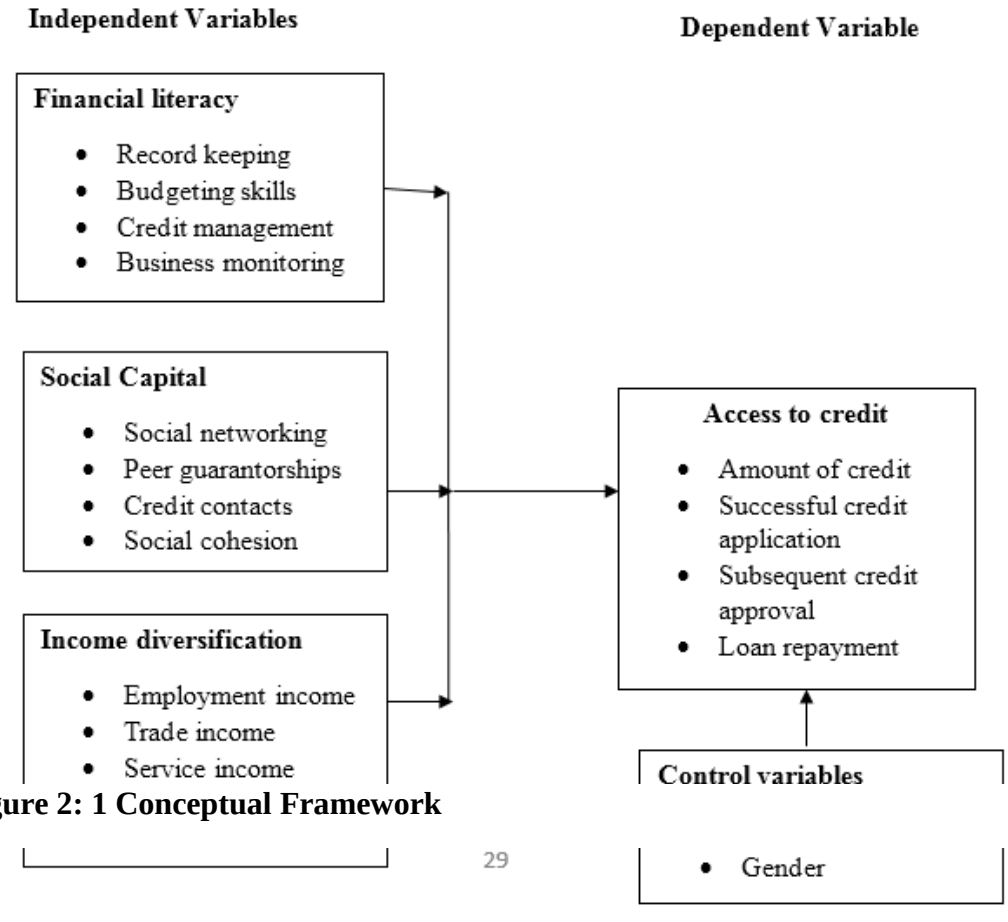

Figure 2: 1 Conceptual Framework

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Source: Author

2.5 Operationalization and Measurement of Study Variables

Table 2.1 briefly shows how variables were operationalized and measured. Pertaining to scale of measurement, the variables were measured in ordinal scale where constructs relating to indicators of variables helped examine the role of socio-economic profile on access to credit by SMEs in Utawala ward, Nairobi County, Kenya.

Table 1

Operationalization and Measurement of Study Variables

Variable	Variable Type	Definition of Variable	Indicators	Measurement of Variable
Financial literacy	Independent	Possession of financial skills	Financial planning skills Budgeting Credit management	5-Point Likert's scale
Social capital	Independent	Networks established by individuals in a society	Social Interactions Social networking Social cohesion	5-Point Likert's scale
Income diversification	Independent	Having various income streams	Investments diversification Trade income Non-trade income	5-Point Likert's scale
Gender	Control	This is either a person being male or female	Sex of an individual	2-point nominal scales Where 1=male and 2=female
Age	Control	The number of years a person has lived	Number of years	Age the SME owner in years
Access to credit	Dependent	This is successful credit access from banks	Loan amount Successful loan application	Using a 5 - point Likert scale

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Chapter three gives details about the methods used to gather data to answer the research questions. These include the research design, target population, sample size and sampling procedure. A discussion of instrumentation and data collection procedures, as well as, data analysis and presentation techniques is offered.

3.2 Research Design

This study adopted the descriptive research design. It is a design that works well in studies that require the association of variables (Burke & Schoonenboom, 2017). In view of this, descriptive research steps will help unearth data that will link socio-economic attributes and access to credit by SMEs in Utawala ward. According to Burke & Schoonenboom (2017), the descriptive design facilitates the gathering of data and making of systematic deductions from occurrences. The present study used this design to collect and systematically process data that establish the kind of relationship that existed between the variables. However, the descriptive design does not control or alter the variables (Kaur, Stoltzfus, & Yellapu, 2018). This means that it does not involve experiments or quasi-experiments, but observable and measurable constructs and variables.

This study was also cross-sectional in nature. The cross-sectional design is where researchers collect data from many and different people at one point in time. Also, the researchers observe variables without manipulating them (Kaur et al., 2018). In view of this, the present study collected data from different respondents at a single time using a survey technique that will be discussed later.

3.3 Target Population

The target population refers to all units that are studied to obtain data that will answer the research question(s). The population of this study comprised the SMEs in Utawala Ward, Nairobi County.

3.4 Sample Frame

The sample frame depicts a list of units from which a sample is taken from. In the case of this study, the sample frame comprised 1,279 SMEs licensed to carry out business in 2023 by the Licensing Directory of Nairobi City County Government.

Table 2
Sample Frame

	Frequency
Registered SMEs in Utawala Ward	1,279

Source: Nairobi City Government (2023)

3.5 Sample Size

The sample of this study comprised 305 SMEs, a number arrived at from the sample formula originally deduced by Yamane (1967) for sample size determination given definite population.

$$n = \frac{N}{1+N(e)^2}$$

n is the sample size to be determined, *e* is the level of precision dependent on significance level (that is 5 % for data analysis done at 95 %).

$$n = \frac{1,279}{1+1,279(0.05)^2} = 305$$

3.6 Sampling Procedure

The sample of 305 SMEs was picked using stratified sampling techniques. Stratified sampling offers an equal chance of all members of a sample frame to be selected in the sample (Rahman, et al., 2022). The sample was distributed among different types of business. This sample size distribution is shown in Table 3.2 below.

Table 3

Sample Size

Folio	Nature of SMEs	Population	Sample
1	General consumer goods (general shops)	824	196
2	Motor vehicle spares outlets	78	19
3	Clothing stores	215	51
4	Hardware outlets	76	18
5	Barbershops and Salons	27	6
6	Furniture makers	24	6
7	Pharmacy	35	8
	Total	**1,279**	**305**

Source: Author Computation (2022)

3.7 Instrumentation

Primary data from the SMEs was collected using a structured questionnaire, a survey technique vital in the easier collection of standardized and uniform data from large samples. It is not only easier but also takes less time to administer a structured questionnaire compared to other methods such as interviews. Questionnaires makes data coding easier. In this study, the first part of the questionnaire collected demographic information relating to gender, age, occupation, education and business experience for the participating owners of SMEs in Utawala Ward. The other four sections collected data on financial literacy, social capital, income diversification, and access to credit in 5-point Likert scale type of statements.

3.8 Data Collection

The questionnaires were sent to respondents via online and physical delivery options. Personal delivery involved the "drop and pick later" approach while the online option utilised the Internet and phoning of SME owners, who were the respondents. Data collection took a period of two weeks upon authorization by KCA University. A research permit was obtained from the National Commission for Science Technology and Innovation.

3.8.1 Pilot Testing

Before the official collection of data, a pilot study involving 30 respondents, which is 10 % of the sample size, was undertaken in a Mihang'o Ward, a neighbouring Ward. Tseng & Sim (2021) recommend that a pilot test of 10 to 20 % of sample size is sufficient for surveys. A pilot test entails a reconnaissance to examine feasibility of a research in several folds. Firstly, such a test aids in time planning and gathering of resources required to collect data in the main study. Secondly, it gives insight about the duration it will take to collect data in the main study. Lastly, a pilot test is instrumental in examining the reliability and validity of the instrument used to collect data.

3.8.2 Reliability

Reliability is the level of trust an instrument has in respect to producing constant measures. In other words, a reliable tool should consistently gather the same data when repeated in similar circumstances (Marcel, 2016). This is important in research because it means any other researcher can repeat the study and arrive at similar findings. The present study focused on internal reliability, also known as internal

consistency, which tests the matching of constructs when it comes to representing the variables. The study adopted Cronbach's alpha to examine internal consistency; it examines the relatedness of items or constructs to proxy variables. A high Cronbach's alpha translates to high reliability. In other words, a high Cronbach's indicates a high inter-item correlation which improves reliability of the constructs in representing variables (Brigitte, 2017; Gidron, 2020). The present study used a Cronbach's alpha of more than 0.7 as the benchmark for homogeneity between the items.

3.8.3 Validity

Validity measures the extent to which a tool measures what it should measure in respect to items. It establishes whether or not constructs have practical associations with what they purport to measure (Brigitte, 2017). Validity is instrumental in research as it examines constructs' fair representation of variables (Knekta, Runyon, & Eddy, 2019; Tavakol & Wetzel, 2020). The present study focused on content validity, which seeks to establish whether constructs as operationalized do measure variables. One way of improving content validity is by recruiting experts to examine the tool used to collect data (Claudia, Alexandre, & Guirardello, 2017). This study asked an expert in credit markets and SMEs industry to examine the questionnaire. Also, factor analysis was conducted to explore item reduction to improve construct validity of data. The constructs were explored using principal component analysis in order to extract factors from a large number of variables giving the data more validity in analysis.

3.9 Data Analysis and Presentation

This study exploited two techniques to analyse data - descriptive statistics and inferential statistics. In descriptive statistics, the observations derived from data

coding are analysed to establish measures of central tendencies like means and measures of dispersion like standard deviations (Darren & Paul, 2018). Factor analysis in this study utilised Principal Component Analysis (PCA) to extract factors that can be used to represent variables. PCA enables a reduction of items into factors that contain information or data characteristics as it is for the whole of items. Considering that the data was cross-sectional and chances of high correlation are imminent, the study adopted Direct Oblimin rotation method in extraction of factors. Thereafter, the KMO and Bartlett's test was used to examine sample adequacy. The rule of the thumb is that where the Kaiser-Meyer-Olkin Measure of Sampling Adequacy of 0.500 and Bartlett's Test of Sphericity has p-value of less than 0.05, the sample is deemed adequate and factors can be extracted. Moreover, the pattern matrix was inferred by Cronbach's alpha results.

With regards to inferential statistics, a multiple regression analysis was done from the observations that were derived from data matrix after factor analysis. This study sought to related socio-economic attributes (financial literacy, social capital and income diversification) on access to credit. The regression model was set as:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Whereas Y = Access to credit, $\beta_{0=}$Y-intercept, $\beta_{1,}$ β_2, and β_3 = Coefficients of variables, X_1= financial literacy, X_2= social capital, X_3= income diversification and ε = error.

3.9.1 Multicollinearity

A situation where predictors correlate with each other is referred to as multicollinearity. It creates interdependence of input variables that impairs model efficacy (Lavery, Acharya, Sivo, & Xu, 2019). It also distorts the significance of

independent variables and occasions an over fitted regression equation and amplifies standard errors. In this study, multicollinearity was examined by use of variance inflation factor (VIF). By definition, VIF is the degree to which explanatory variables shows linear function with another or other explanatory variables (Senaviratna & Cooray, 2019; Kim, 2019). A VIF of less than 10 is acceptable, as this shows low increase in variance of estimated coefficients and also number of remedies are available in dealing with multicollinearity including data transformation and increasing sample sizes.

3.9.2 Normality of Residuals

Normality of residuals is another assumption of regression that is applicable to cross-sectional data. It evaluates normal distribution of underlying residuals (Schmidt & Finan, 2018; Feng, Li, & Sadeghpuour, 2020). In this study, Shapiro-Wilk test was used to examine normality. The null hypothesis for S-K test is; Ho: residuals are normally distributed. The rejection criterion is; reject null hypothesis if test p-value is less than 5 % and it is concluded that underlying residuals violates normality assumption (Wiedermann & Hagmann, 2016). Similarly, violation of normality of residuals can be rectified through data transformations.

3.9.3 Heteroskedasticity

Heteroskedasticity exists where non-constant variance exists in the residuals. As a result, the efficiency of model predicted is reduced due to prevalence of biased standard errors (Halunga, Orme, & Takashi, 2017). In this study, the Breusch-Pagan test was used to test residuals for presence or absence of heteroskedasticity. The Breusch-Pagan statistic whose p-value is less than 0.05 leading to conclusion that residuals are not homoscedastic. Where heteroskedasticity is present, data

transformation is done, which includes first differencing or taking logarithms of observation. In addition, use of robust standard errors regression is used to provide unbiased coefficients.

3.9.4 Linearity

Linearity exists where variables have linear relationship with each other. Regression linearity examines the existence of linear links between input variables and response variable. The rule of thumb is that linearity assumption is upheld where the p-value for deviation from linearity is more than 0.05 (Hayes & Montoya, 2017). In this study, linearity was tested using deviation from linearity.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1. Introduction

This chapter gives detail about the findings from the questionnaires sent and data analysed. In terms of structure, the chapter commences with response rate and general information about respondents, followed by descriptive statistics, then factor analysis and regression analysis. In the end, a discussion of results is presented. Data analysis was done by use of SPSS version 25.

4.2. Response Rate and General Information about Respondents

The sample size for the study comprised 305 SMEs drawn from various sectors including general shops selling consumer goods, motor vehicle spares outlets, clothing stores, hardware, barbershops and salons, furniture makers, and pharmacies. A total of 297 respondents returned the questionnaires, translating to a 97.4 % response rate. The excellent response rate is attributed to the use of both physical and online methods in the administration of the questionnaires and active involvement of the researcher in field work. A response of over 70 % is treated as excellent. Output from analysis of general information is presented on Table 4.1

The frequency statistics on Table 4.1 show that 37% of the SMEs traded in products while those that engaged in both service and products were 36.4 %. The least were enterprises dealing with service only that were 26.6 % of the SMEs that participated in the survey. Inference shows that most entities had dealt with goods than service though a good number had diversified their trades. 35% of the SMEs had existed for a period of 6-10 years while 29.6 % had existed for between 11 and 15 years. Those that had traded for less than 5 years were 21.9 % and 13.5 % had survived for more

than 15 years. Therefore, many of the SMEs had thrived for a considerable number of years.

TABLE 4

General Information on Respondents

Parameter	Percentage (%)
Nature of Business	
Service based	26.6
Product Based	37.0
Service and product based	36.4
Total	**100.0**
Period the Enterprises had been operation	
Below 5 years	21.9
Between 6-10 years	35.0
Between 11-15 years	29.6
Above 15 years	13.5
Total	**100.0**
Gender	
Female	42.8
Male	51.2
Intersex	6.1
Total	**100.0**

Source: Survey Finding (2023)

In terms of gender distribution, a majority of the SMEs were owned and or managed by women - representing 51.2 % of all participants while 42.8 % were male. 6.1 % of respondents indicated intersex gender, meaning they did not subscribe to the traditional male-female stratification.

Lastly, the mean age for the SMEs owners was 45 years, the medium was 45 years and the mode was 25 years. The oldest SME owner was 81 years old while the

youngest was 19 years. This finding stresses the importance of the SME sector in Kenya as a source of job and wealth creation for most citizens regardless of age.

4.3. Reliability

In testing this, the study adopted Cronbach's alpha that examines relatedness of items or constructs to proxy variables. Table 4.2 presents the output for reliability.

TABLE 5

Reliability Statistics

Name of Variable	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
Financial Literacy	.902	.903	9
Social Capital	.902	.902	11
Income diversification	.875	.877	10
Access to credit	.856	.856	7

Source: Data analysis (2023)

As already mentioned, a high Cronbach's alpha means high reliability (Brigitte, 2017; Gidron, 2020). The reliability in the present study was high considering that all Cronbach's alphas for all variables were more than 0.700. A Cronbach's alpha of more than 0.7 evidence homogeneity between the items.

4.4. Factor Analysis

The Principal Component Analysis (PCA) was used to extract factors that represented the variables. Before PCA, the KMO and Bartlett's test was used to examine sample adequacy. The results are shown on Table 4.3

TABLE 6

KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.936
Bartlett's Test of Sphericity	Approx. Chi-Square	5949.224
	Df	666

	Sig.	.000

Drawing from statistics on Table 4.3, the KMO test for sampling adequacy was 0.936 whose p-value was 0.000, giving rise to a marvellous KMO. Therefore, the data set was fit for factor analysis considering that the high KMO parameter showed statistically significant strength of partial correlation for factors explaining each other and revealed that the sample was adequate for factor analysis. Where the Kaiser-Meyer-Olkin Measure of Sampling Adequacy of 0.500 and Bartlett's Test of Sphericity has p-value of less than 0.05, the sample is deemed adequate and factors can be extracted.

4.5. Pattern Matrix

Table 4.4 shows the pattern matrix obtained by running principal component analysis using Direct Oblimin.

TABLE 7

Pattern Matrix-Direct Oblimin

	Pattern Matrix[a]					
	Component					
	1	2	3	4	5	6
FL3	.792					
FL4	.758					
FL1	.711					
FL8	.696					
FL2	.692					
FL7	.661					
FL6	.642					
FL9	.539					-.306
SC1	.539					
FL5	.538					
AC6		.823				
AC4		.791				
AC5		.777				

AC3		.758				
AC2		.722				
AC1		.562	-.314			
AC7		.548				
ID10			-.753			
ID3			-.746			
ID1			-.474	-.358		
ID8			-.432		-.305	
SC11				-.756		
SC10				-.665		
SC9				-.652		
SC8				-.642		
ID9				-.551		
ID4				-.458	-.375	
SC6				-.423		
ID7				-.353		
ID2					-.741	
ID5	.305		-.305		-.480	
ID6			-.317		-.460	-.309
SC4						-.584
SC5						-.580
SC7				-.365		-.490
SC2	.338					-.425
SC3	.335					-.345

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.
a. Rotation converged in 14 iterations.

Source: Data analysis (2023).

From the Table, all the items showed correlations that could be grouped into 6 components. A closer look reveals that variable financial literacy could be grouped into six items namely FL3, 4, 1,8,2,7 and 6 as they had factor loading of more than 0.600. The second factor, representing the dependent variable that loaded fairly well was access to credit which had items 6,4,5,3, and 2 which had factor loading of more than 0.700. Income diversification factor loaded with four items which were item 10, 3,1 and 8 whose factor loading were more than 0.400. Social capital network had four

items that loaded well. The items were SC 11,10,9 and 8. These information is summarized on Table 4.5

TABLE 8

Factor Loading

Pattern Matrix[a]

	Component					
	1	2	3	4	5	6
FL3 I understand the value of budgeting skills in a business	.792					
FL4 I ensure that I budget for all activities in my business	.758					
FL1 I understand the importance of record keeping in a business	.711					
FL8 I understand the importance of financial reporting in a business	.696					
FL2 I ensure that I keep records for all transactions in my business	.692					
FL7 I understand the importance of investing skills in a business	.661					
FL6 I routinely monitor the progress of my business	.642					
AC6 I have successfully applied for subsequent credit after the first one		.823				
AC4 My business has a favourable credit history		.791				
AC5 We get credit in the amounts we apply for		.777				
AC3 We get credit regularly as and when we require		.758				

AC2 My business qualifies for working capital credit from financial institutions	.722			
ID10 There is minimal losses in diversification		-.753		
ID3 I understand the importance of having non-cyclical revenues in a business		-.746		
ID1 I understand the importance of diversifying investments		-.474	-.358	
ID8 I am able to spread investment risks by diversification		-.432		-.305
SC11 I access valuable information from my social networks			-.756	
SC10 I learn a lot of business skills from social networks			-.665	
SC9 I market my business through social networks			-.652	
SC8 I seek business knowledge from my social networks			-.642	
Extraction Method: Principal Component Analysis.				
Rotation Method: Oblimin with Kaiser Normalization.				
a. Rotation converged in 14 iterations.				

Source: Data analysis (2023)

4.6. Descriptive Statistics

Using the factor loadings, descriptive statistics were computed and the outputs presented below. Financial literacy was proxied by 7 factors whose means and standard deviations are showed on Table 4.6

4.6.1 Financial Literacy

TABLE 9

Descriptive Statistics-Financial Literacy

	N	Mean	Std. Deviation
I understand the importance of record keeping in a business	297	3.63	1.065
I ensure that I keep records for all transactions in my business	297	3.87	1.019
I understand the value of budgeting skills in a business	297	3.94	.973
I ensure that I budget for all activities in my business	297	3.92	1.012
I routinely monitor the progress of my business	297	3.91	.996
I understand the importance of investing skills in a business	297	3.95	.983
I understand the importance of financial reporting in a business	297	3.90	1.033

From Table 4.6, it emerged that most of the SMEs owners in Utawala ward were indifferent on whether record keeping was important to businesses as suggested by mean of 3.63 and standard deviation of 1.065. This suggests that the SMEs owners did not have sufficient financial literacy particularly in record keeping of businesses. Equally, it was not clear to SMEs owners whether they kept all documents and records for the business as per the mean of 3.87 with standard deviation of 1.019. This suggests that most SME owners did not critically consider the issue of record keeping as essential. The findings showed that SMEs did not strongly value budgeting nor undertook budgeting activities as per the mean of 3.94 and 3.92 respectively. These results portray that budgeting skills were not valued by most SME owners.

It also emerged that monitoring progress, attaining investing skills and valuing financial reporting received moderate importance as per the mean of 3.91, 3.95 and 3.90 respectively. Therefore, most SMEs owners in Utawala Ward did not possess

financial literacy and also did not highly regard the same as valuable expect for a few. This infers that most SME owners did not improve themselves by attaining financial training that would enhance their financial literacy. Financial literacy exists where an individual is able to plan, monitor, control and budget finances so as to attain financial objectives. Without robust financial literacy skills, an entrepreneur may not be able to execute subtle plans that can improve their access to credit. Again, financial literacy is the art of planning finance, which include working capital management, scheduling payments and debt collections which all can contribute a businesses' credit worthiness.

4.6.2 Social Capital

Table 10 has results for factors that qualified to represent social capital.

TABLE 10

Social Capital

	N	Mean	Std. Deviation
I seek business knowledge from my social networks	297	3.92	.985
I market my business through social networks	297	3.88	.960
I learn a lot of business skills from social networks	297	3.80	1.034
I access valuable information from my social networks	297	3.88	.951
Valid N (listwise)	297		

Source: Data Findings (2023)

Findings showed that most SME owners in Utawala participated in social networking although not at a high magnitude. Specifically, the study revealed that SMEs obtained some business knowledge from their social networks as per the mean of 3.92 whose standard deviation was 0.985. Also, many SME owners marketed their business

through social networks as shown by the mean of 3.88 whose standard deviation was 0.960. These findings indicated that SMEs owners obtained some business skills from social networks as inferred by the mean of 3.80 and standard deviation of 1.034. They accessed valuable information from social networks as per the mean of 3.88 whose standard deviation was 0.951. Therefore, social networks provided considerable business information and social skills for SMEs. However, this was not as effective considering that most of the construct showed mean of 3. Social networks are a source of a wide range of information ranging from business information, new markets information to social information. Moreover, it is possible for SMEs owners to attain information on credit in the markets through social networks. In conclusion, social networks are instrumental in building skills for SMEs.

4.6.3 Income Diversification

Table 4.8 has descriptive statistics for factors that loaded well for income diversification.

TABLE 11

Income Diversification

Income Diversification	N	Mean	Std. Deviation
I understand the importance of diversifying investments	297	3.61	1.069
I understand the importance of having non-cyclical revenues in a business	297	3.59	1.156
I am able to spread investment risks by diversification	297	3.61	1.037
There is minimal losses in diversification	297	3.59	1.106
Valid N (listwise)	297		

Source: Data analysis Output (2023)

As per the data presented on Table 4.8, neutral results were obtained on income diversification. It emerged that not all understood the importance of diversification as per the mean of 3.61 whose standard deviation was 1.069. Whilst it is construed that diversifying investments spreads risk, some SMEs owners may not have sufficient resources and or knowledge to diversify. Also, SME owners did not understand the importance of having non-cyclical revenues as per the means of 3.59 with a standard deviation of 1.156. Moreover, the results showed that most of the SMEs were not able to spread investments through diversification as per the mean of 3.61 whose standard deviation was 1.037. The results also showed that diversification did not necessarily lead to minimal losses for the SMEs as per the mean of 3.59 whose standard deviation was 1.106. What these results indicate is that SME owners did not understand role of income diversification. This is echoed by the findings that product based enterprises formed majority of the respondents.

4.6.4 Access to Credit

The dependent variable for this study was access to credit. This was measured in various items where the best loading factors are shown on Table 4.9

TABLE 12

Access to Credit

	N	Mean	Std. Deviation
My business qualifies for working capital credit from financial institutions	297	3.27	1.061
We get credit regularly as and when we require	297	3.19	1.123
My business has a favourable credit history	297	3.16	1.090
We get credit in the amounts we apply for	297	3.09	1.138
I have successfully applied for subsequent credit after the first one	297	3.13	1.175
Valid N (listwise)	297		

Source: Data Findings (2023)

The findings of data analysis showed that access to credit was not good for a majority of the SMEs. SME owners were indifferent on whether they could access working capital credit from financial institutions as per the mean of 3.27 whose standard deviation was 1.061. The SMEs did not access credit as often as they wished as per the mean of 3.19 whose standard deviation was 1.123. Therefore, SMEs faced challenges in accessing credit. Also, the SMEs did not access credit amounts similar to what they applied for as per the mean score of 3.09 whose standard deviation was 1.138. Lastly, not many SMEs successfully applied for subsequent credit as per the mean of 3.13 whose standard deviation was 1.175. This outcome reveals that access to credit was in jeopardy for most of the SMEs that participated in the study. Therefore, access to credit in Nairobi County is limited for SMEs. Access to credit exist where the credit policies including interest terms, repayment period, collateral and repayment are within the reach of the borrower in consideration. Thus, access to credit is characterised by affordability and ease of acquiring the credit facilities from institutions and other non-institutionalised lenders.

4.7. Regression Analysis

Regression analysis was undertaken to establish the role of each predictor on access to credit. The study adopted cross-sectional data and thus the Ordinary Least Squares (OLS) regression model. Regression data set was obtained by getting the means of the factors that loaded for each variable. Before getting the model estimates, diagnostic tests were undertaken and are explained later in greater detail.

4.8. Diagnostic Tests

There were several diagnostic tests undertaken and they are discussed below.

4.5.1 Multicollinearity

A situation where predictors correlate with each other is referred to as multicollinearity (Senaviratna & Cooray, 2019; Kim, 2019). The study employed variance inflation factor in testing for multicollinearity. The output table 4.10 shows results for variance inflation factors.

TABLE 13

Multicollinearity Test

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Financial_Literacy	.558	1.793
	Income_Diversification	.719	1.391
	Social_capital	.528	1.895
a. Dependent Variable: Access_Capital			

Source: Data analysis finding (2023)

Table 4.10 presents that VIF for financial literacy, income diversification and social capital were 1.793, 1.391 and 1.895 respectively. Therefore, VIF of less than 10 is acceptable, as this shows low increase in variance of estimated coefficients and also number of remedies are available in dealing with multicollinearity including data transformation and increasing sample sizes.

4.5.2 Normality of Residuals

Normality of residuals is another assumption of regression that is applicable to cross-sectional data that this present study examined. In this study, Shapiro-Wilk test was used to examine normality. The results are presented on Table 4.11

TABLE 14

Normality of Residuals

Variable	Shapiro Wilk Statistic	Sig.
Financial literacy	0.979	0.158
Social capital	0.964	0.251
Income diversification	0.961	0.324
Access to credit	0.952	0.247

Source: Data analysis (2023)

Table 4.11 shows that the Shapiro-Wilk statistics that had p-values more than 0.05. The null hypothesis for S-W test is; Ho: residuals are normally distributed. The rejection criteria is - reject null hypothesis if S-W statistic test p-value is less than 5 %. This, underlying residuals violates normality assumption where p-value for S-W statistic is less than 0.05. The output show that all S-W statistics had p-values that were more than 0.05 and therefore the residuals were normality distributed. In light of this observation the model predictive power is high considering that residuals exhibited normal distribution.

4.5.3 Heteroskedasticity

Heteroskedasticity exists where there is non-constant variance in the residuals. In this study, the Breusch-Pagan test was used to test residuals for presence or absence of heteroskedasticity. The output is presented on Table 4.12

TABLE 15
Heteroskedasticity

Modified Breusch-Pagan Test for Heteroskedasticity[a,b,c]		
Chi-Square	Df	Sig.
15.980	1	.257

a. Dependent variable: Access_Capital
b. Tests the null hypothesis that the variance of the errors does not depend on the values of the independent variables.
c. Predicted values from design: Intercept + Financial_Literacy + Income_Diversification + Social_capital

Source; Data analysis (2023)

The Breusch-Pagan statistic whose p-value is less than 0.05 means that residuals are not homoscedastic. Therefore, in the current study, the residuals were homoscedastic.

4.5.4 Linearity

Linearity exist where variables have linear relationship with each other. The output for deviation from linearity is shown on Table 4.13

TABLE 16

Linearity

Variable	F-Statistic	Deviation from Linearity
Financial literacy	1.458	0.232
Social capital	1.259	0.451
Income diversification	1.169	0.152

Source: Data analysis Output (2023)

Regression linearity examines the existence of linear links between input variables and response variable. In this study, linearity was tested using deviation from linearity. The rule of thumb is that linearity assumption is upheld where the p-value for deviation from linearity is more than 0.05 (Hayes & Montoya, 2017). Thus, linearity assumption was upheld as inferred by the results on Table 4.13

4.9. Estimated Regression Model

The model estimates that were computed included coefficient of determination, ANOVA and regression model estimates. The control variables, gender and age, did not have significant effect on access to credit and were therefore excluded from the model.

4.9.1. Model Summary

TABLE 17

Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.309[a]	.095	.086	.83950

a. Predictors: (Constant), Social_capital, Income_Diversification, Financial_Literacy

Source: Data analysis (2023)

Table 4.14 shows the R and R^2, which are key statistics in the model summary. The R was 0.309, showing moderate correlation between variables. The R^2 was 0.095, which meant that 9.5 % of variations in access to credit by SMEs is due to changes in social capital, income diversification and financial literacy. It also meant that other factors, other than socio-economic profile of an SME borrowers account for 90.5 % of variations in changes of access to credit.

4.9.2. Model Significance

Table 4.15 shows the ANOVA test, which examined statistical significance of the model linking access to credit with financial literacy, social capital and income diversification.

TABLE 18

Analysis of Variance

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	21.752	3	7.251	10.288	.000[b]
	Residual	206.496	293	.705		
	Total	228.247	296			

a. Dependent Variable: Access_Capital

b. Predictors: (Constant), Social_capital, Income_Diversification, Financial_Literacy

Source: Data analysis (2023)

The model was found to be statistically significant; F=10.288, p<0.000. Thus there is statistically significant influence of socio-economic profile of an SME in access credit.

4.9.3. Model Coefficients

Table 19 has model coefficients.

TABLE 19

Model Coefficients

Model		Coefficients[a]				
		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.752	.285		6.159	.000
	Financial_Literacy	.072	.085	.063	.843	.400
	Income_Diversification	.264	.070	.246	3.757	.000
	Social_capital	.049	.084	.045	.584	.559
a. Dependent Variable: Access_Capital						

Source; Data analysis (2023)

The regression equation was established as:

$$Y= 1.752 + 0.072X_1 + 0.264X_2 + 0.049X_3 + \varepsilon$$

Whereas 1.752 is access to credit in absence of socio-economic profile factors that were examined, 0.072 is increase in access to credit in response to a unit increase in financial literacy of an SME owner, 0.264 is increase in access to credit in response to a unit increase in income diversification by an SME and 0.049 is increase in access to credit in response to a unit increase in social capital of an SME.

Overall, the results showed that all predictors - financial literacy, social capital and income diversification - have positive effect on access to credit by SMEs in Utawala ward. Of the three variables, income diversification had a positive significant effect on access to credit; β_0 =0.264, p<0.000. This means that income diversification is a

significant determinant of access to credit by SMEs. Although financial literacy had positive effect, β_0 =0.072, p>0.400. This means that financial literacy is not a major determinant of access to credit by SMEs. Lastly, study's finding showed that social capital had positive insignificant effect on access to credit by SMEs, β_0 =0.049, p>0.559. This means that social capital does not better access to credit in a significant way.

4.10. Discussion of Findings

The study's findings showed that financial literacy had a positive insignificant effect on access to credit among SMEs in Utawala ward in Nairobi. This indicates that financial literacy improves access to credit for the small enterprises. However, this is not in a significant manner. Financial literacy entails the possession of financial skills that enable an individual to plan finances well. It covers knowledge on how to budget funds and scarce resources to attain business objectives. Where a business owner is able to plan finances well, he/she can manage cash flows in a prudent manner. This way, the business owners are able to allocate funds between the different needs including credit repayments. For instance, credit repayment calls for robust working capital management.

The study's findings are in line with those of Twumasi et al., (2022) who evaluated financial literacy and loan accessibility and found that financial literacy was an enbaler in access to loans. Hence, financial literacy is a critical driver towards enhancing access to credit. Usama & Yusoff (2019) noted that in Nigeria, financial literacy affected ease of access to loans. Financial literacy encompasses a wide scope of financial skills including knowledge on credit, credit application and credit management. Individuals or business owners with robust financial skills can plan their

finances including keeping records, budgets and control spending in a way that they are easily evaluated by lenders.

From this study, it also emerged that social capital had positive insignificant effect on access to credit among SMEs in Utawala. As already mentioned, social capital refers to social networks and often leads to exchange of information. Entrepreneurs can gain valuable information about business from such social networks. The finding of this study resonates with those of Heikkila, Kalmi and Ruuskanen (2016) who also found out that social capital and availability of institutional loans were positively correlated. Social capital is not only about socialising but also networking, where people deliberately or inadvertently acquire information from each other. An individual's social network is a major source of information. Kangogo et al. (2021) had conducted a study on how social capital affected household participation in borrowing and repaying microloans in Kenya's Uasin Gishu County. They found out that social capital had a significant impact on agricultural households' ability to acquire finance.

Another finding of this study was that income diversification had a positive and significant effect on access to credit by SMEs in Utawala. Income diversification was the most influencing factor among the three socio-economic determinants examined. It meant that income diversification was a major driver determining SMEs access to credit. The major benefit of income diversification among SMEs is that it reduces volatilities in earnings given that risks and returns are spread across different revenue streams. At the same time, income diversification ensures that businesses become stable over time. This finding corresponds with those of Daud et al., (2018) who sought to determine how income diversification affected rural farming households' income in Oyo state, Nigeria and reported that income diversification significantly impacted farming households' access to credit. Sultana, Hossain and Islam (2016)

who studied how income diversification affected how easily people could get financing, found out that diversifying one's income favourably boosted their chances of obtaining capital.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the findings, draws conclusions and makes recommendations and suggestions for further studies.

5.2 Summary of Findings

The study sought to determine the effect of social economic profile on access to credit among SMEs in Utawala ward, Nairobi County. The goal was to assess the effect of financial literacy, social capital and income diversification on access to credit among the SMEs. The sample comprised 305 SMEs, with a response rate of 97 % achieved.

The first finding was that financial literacy had a positive effect on access to credit among SMEs in Utawala Ward, Nairobi County. However, the relationship between financial literacy and access to credit was statistically insignificant. The suggestion here is that financial literacy improves access to credit but not a major driver. Financial literacy is a concept that defines how well an individual can plan their resources. It also refers to ownership of financial knowledge and financial skills. Therefore, an individual or business owner with financial literacy is aware of sources of credit and application for the credit. Consequently, financial literacy improves access to credit among SME owners.

The second finding was that social capital had a positive effect on access to credit among SMEs in Utawala. However, the relationship between social capital and access to credit was statistically insignificant. The implication is that social capital improved access to credit by SMEs though not in a significant manner. Social capital refers to wealth of information that is achieved through social networks. Social networking

enables individuals to access a wide array of information including on availability of credit in the financial markets.

The third finding was that income diversification had a positive effect on access to credit among SMEs in Utawala ward. The relationship between income diversification and access to credit was statistically significant. The implication was that income diversification boosts access to credit by SMEs in a major way. Income diversification ensures that returns and risks are well spread and that a business does not solely rely on one line of business for survival. This makes credit repayments easier than it would be where only one line of business is ventured in. Moreover, income diversification promotes stability of firms during periods of turbulence in one sector which then makes businesses able to meet their financial obligations more easily in contrasted to how it would be if one line of business was ventured in.

5.3 Conclusion

To begin with, the study sought to determine the effect of financial literacy on access to credit among SMEs in Utawala Ward, Nairobi County. The conclusion here was that financial literacy has positive effect on access to credit. The study also concluded that financial literacy and access to credit among SMEs relate in a statistically insignificant manner, which meant that this impact was not major. Secondly, the study sought to analyse the effect of social capital on access to credit among SMEs in Utawala. The conclusion here was that social capital has a positive effect on access to credit among SMEs. The relationship between social capital and access to credit among SMEs was statistically insignificant though, which meant that social capital improves access to credit but not in a major way. The last objective was an analysis of the effect of income diversification on access to credit among SMEs in Utawala. The

conclusion was that income diversification has a positive effect on access to credit among SMEs. This relationship between income diversification and access to credit by SMEs was statistically significant, indicating that income diversification was a major determinant of access to credit by SMEs.

5.4 Limitations of the Study

A possible limitation of this study may have emanated from sampling. Sampling bias can occur when the members of the population are picked incorrectly because of them having a higher or lower chances of being selected. If this happens, the sample taken may fail to fairly represent the population. This study sought to reduce this kind of bias by using stratified sampling techniques. Another limitation is that the covered only three socio-economic traits while there are more factors that could potentially influence access to credit.

5.5 Recommendations

The study makes the following recommendations:

First, SMEs in Nairobi need to diversify their income streams to improve their financial performance, which can improve their access to credit. This study showed that income diversification is a major driver of access to credit by SMEs in Nairobi County. Moreover, income diversification improves stability of firms. SMEs can achieve income diversification by stocking different products and or offering services and products at the same outlet, for instance, barbershops and salons can have MPesa retail services to supplement their income.

Second, SME owners in Nairobi need to undergo training in financial literacy to gain financial planning skills. Most of the participants in the study were unaware of financial literacy and therefore did not benefit from it. The County Government of

Nairobi can organize training programs through its Ministry of Trade and Investments to equip small scale traders with robust financial knowledge, which would in turn boost SMEs owners' financial skills.

Third, SME owners need to participate more in networking events as they are a potential source of information that can catapult their businesses to greater heights. The entrepreneurs need to attend symposiums, exhibitions and trade fairs to learn on financial markets to boost their access to credit. The Kenyan Government should also plan local trade fairs for SMEs to interact and share information on strengths and challenges of the sector. This can also be a good source for information for apt policy guidelines that can improve access to credit by SMEs in Kenya.

5.6 Areas for Further Studies

The general aim of this study was to determine the effect of social economic profile on access to credit among SMEs in Utawala ward, Nairobi County. Results showed that financial literacy, social capital and income diversification had positive effect on access to credit. A recommendation for future research is a similar study conducted in a different county and country using the same concepts. As well, there is room for the incorporation of more variables such as age, gender, religion and education to get more insights on role of social economic profile on access to credit among SMEs in Kenya.

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APPENDICES

Appendix A: Introduction Letter

Victor Simba,
C/O KCA University
Ruaraka
Off Thika Superhighway, Nairobi, Kenya

27th November 2022

Dear Respondent,

It is my hope that this letter finds you well. I have written this letter for three purposes, that is, to introduce myself to you, request you to participate in a study and to convey the terms of engagement in this study. Firstly, I am a postgraduate student at KCA University undertaking a study on effect of social economic profile on access to credit among SMEs in Utawala ward, Nairobi County.

Attached to this letter is a questionnaire which I kindly request you to fill in respect to the mentioned themes. It will take a few minutes of your time, which I do not take for granted. All information and data to be collected will be for the study and will not be deviated for any other use. I wish to inform you that your participation is on free will and voluntary and that there will be no monetary compensation. However, the results will be offered to you on request.

Thank you so much, in advance.

Yours sincerely

Victor Simba

Acceptance by respondent:

I have read the contents of this letter and the attached questionnaire and agree to participate in the study on voluntary basis.

Signature…….…….

Date…….

Appendix B: Questionnaire

Introduction

The aim of this questionnaire is to gather data on effect of social economic profile on access to credit among SMEs in Utawala ward, Nairobi County. Kindly answer all questions by putting a tick (√) as appropriate.

Part A: Basic Information

1. Nature of business?
   - Service based [ ]
   - Product based [ ]
   - Service and product based [ ]
2. How many years has the business been in operation?
   - Less than 5 years [ ]
   - 6-10 Years [ ]
   - 11-15 years [ ]
   - More than 15 years [ ]

3. What is your age in years?

   ……. Years.

4. What is your gender?

   - Female [ ]
   - Male [ ]
   - Intersex [ ]

Section B: Financial Literacy

5. This section has statements are on financial literacy. Rate them, in the scale of 1 to 5 in which 1=Strongly Disagree; 2= Disagree; 3= Indifferent; 4= Agree; 5= Strongly Agree to state your response.

	1	2	3	4	5
i) I understand the importance of record keeping in a business					
ii) I ensure that I keep records for all transactions in my business					
iii) I understand the value of budgeting skills in a business					

iv) I ensure that I budget for all activities in my business					
v) I understand that credit management is important for my business					
vi) I routinely monitor the progress of my business					
vii) I understand the importance of investing skills in a business					
viii) I understand the importance of financial reporting in a business					
ix) I ensure I perform debt management in my business					

Section C: Social Capital

6. This section has statements that relate social capital. Rate them, in the scale of 1 to 5 in which 1=Strongly Disagree; 2= Disagree; 3= Indifferent; 4= Agree; 5= Strongly Agree to state your response.

	1	2	3	4	5
i) I understand that social networking is important in business					
ii) I engage in social networking events					
iii) I get business knowledge from social networking					
iv) I understand the importance of peer guarantorships in business					
v) I understand the importance of credit contacts in a business					
vi) I ensure I have social cohesion with peers					
vii) I value information from social networks					
viii) I seek business knowledge from my social networks					
ix) I market my business through social networks					

x) I learn a lot of business skills from social networks					
xi) I access valuable information from my social networks					

Section D: Income Diversification

7. This section has statements that relate income diversification. Rate them, in the scale of 1 to 5 in which 1=Strongly Disagree; 2= Disagree; 3= Indifferent; 4= Agree; 5= Strongly Agree to state your response.

Statement on income diversification	1	2	3	4	5
i) I understand the importance of diversifying investments					
ii) I ensure that I have invested in different markets					
iii) I understand the importance of having non-cyclical revenues in a business					
iv) I understand the importance of having several branches or outlets for my business					
v) I ensure my portfolio of assets is fairy distributed					
vi) I ensure I stock different products or offer several services in my business					
vii) I understand the value of having different outlets in different geographical locations					
viii) I am able to spread investment risks by diversification					
ix) There are new opportunities in diversification					
x) There is minimal losses in diversification					

Section E: Access to Credit

8. This section has statements that relate access to credit. Rate them, in the scale of 1 to 5 in which 1=Strongly Disagree; 2= Disagree; 3= Indifferent; 4= Agree; 5= Strongly Agree to state your response.

Access to credit		1	2	3	4	5
i)My business qualifies for a sufficient amount of start-up credit from non-financial institutions						
ii) My business qualifies for working capital credit from financial institutions						
iii) We get credit regularly as and when we require						
iv) My business has a favourable credit history						
v) We get credit in the amounts we apply for						
vi) I have successfully applied for subsequent credit after the first one						
vii) Loan repayment terms do not scare me						

~The End~

Appendix C: Budget

Description of Activity or Task	**Budgeted Amount (in Kenya shillings)**
Computer costs: printing, photocopies and flash disk	20,000
Travel costs	25,000
Communication costs: airtime and data purchase	15, 000
Miscellaneous	10,000
Total amount to be spent in the study	**50,000**

Appendix D: Work Plan

Activity or Task description/ month	**October-November 22**	**December 2022**	**January and February 2023**	**March 2023**
Proposal writing				
Presenting proposal				
Field work				
Data analysis				
Report writing				