

# Relationship between Interest Rate Cap and Access to Credit by Micro, Small and Medium Enterprises in Kisumu County, Kenya

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**Abstract**— The effectiveness of interest rate cap in controlling the supply of money to the micro, small and medium enterprises is acknowledged by scholars and practitioners. However, the mechanism by which such an intervention can improve access to credit by micro, small and medium enterprises is not fully understood. This study fills this research gap by investigating the relationship between interest rate cap and access to credit by micro, small and medium enterprises in Kisumu County, Kenya. The study adopted a descriptive survey research design. The target population consisted of all the 1,472 micro, small and medium enterprise groups registered at the department of Social Services in Kisumu County, Kenya. A confidence level of 95% was adopted to obtain a representative sample based on the formula by Yamane Taro. A closed ended survey instrument was administered to a stratified sample of finance managers of the sampled 380 micro, small and medium enterprises. A Cronbach's alpha of 0.801 confirmed the reliability of the instrument while its validity was assessed by expert opinion of finance professionals. Data diagnostic tests and descriptive analysis provided a basis for the inferential analysis, based on correlation and regression analysis. Results show that interest rate cap has a statistically significant influence on access to credit. These findings have significant implications for the theory, policy and practice of microfinance and central banking in Kenya and beyond.

**Index Terms**— interest rate cap, access to credit, MSMEs, entrepreneurs.

## I. INTRODUCTION

The focus of this thesis is on the relationship between interest rate cap and access to credit among micro, small and medium enterprises (MSMEs). This is an important research issue given the important role of MSMEs in the economy and the potential of access to credit to enhance this role. Thus a need exists for research to open the "black box" between interest rate cap and access to credit by micro, small and medium enterprises. The current study fills this empirical gap by examining the relationship between interest rate cap and access to credit by these enterprises.

Global studies point to the fact that interest rate caps are meant to increase access to finance by protecting the weaker sectors. They noted that the application of IR caps on micro-finance loans caused MFIs to ignore the poor and those from more remote regions and increased their average loan size to improve efficacy. They also found that supply of credit reduced in Japan due to IR caps with ratification of loan applications declining hence giving rise to unlawful lending,

while in Poland interest caps also reduced access to credit (Maimbo and Gallegos, 2014).

The study further pointed out that several studies in the US found that financial freedom measures such as removal of interest caps positively affected small businesses' access to credit to an extent that there was migration of clients to states with less stringent lending. They also reiterated that in Nicaragua the use of IR caps caused MFIs to reduce lending and quickened several financial institutions to abandon rural areas due to high marginal costs and additional fees used to cover their operations since these fees were not capped. They also noted that IR caps gravely affected the small firms in Colombia due to high operational costs of lenders.

Udo, Renaud and Knobloch (2010) in their report on interest rate caps in the European Union (EU) also reiterated that interest rate caps reduced credit access for borrowers with less income. They argued that since the lenders could not charge the levels of interest rates necessary to cover higher risks they therefore restricted credit accessibility accordingly. Moreover, they affirmed that interest rate caps discouraged commercial banks from venturing into the rural and micro-credit markets. The findings also noted that IR caps led to a reduction in consumer credit loaned. However, they reported that after introducing IR caps in Poland and Germany there was higher credit market growth while in Dutch the quantity of credit reduced after more stringent IR restrictions were introduced. They also recorded that IR caps were associated to lower consumer credit uptake in the different countries of the EU. They noted that the UK had the largest consumer market with no caps whereas Germany, which had laws that are more stringent, had the smallest consumer market.

Heng (2015) writing on the impact of new financial services law in Bolivia noted that experience from many countries showed that IR caps if set lower than the market rate could reduce credit access, lower transparency and product variety and hence affect financial inclusion. He further noted that to meet IR caps, financial institutions had to increase the loan quantities. They were faced with higher operational costs hence reduced their services to the rural and small borrowers. He also stated that many countries had experienced market contractions after the introduction of IR caps and noted that IR caps pushed borrowers to more expensive informal markets where they had no or little security.

Regionally, it has been documented that some of the challenges faced by Saudi SMEs in their bid to access finance include high costs due to interest rate caps, security requirements, long lead times before obtaining meager loans and stringent conditions for loan applications (Bandar, 2016).

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The studies in Saudi are consistent with the findings from studies in Ghana on challenges faced by SMEs when accessing funds from financial institutions in that SMEs are perceived as a risky sector hence they are granted loans at high interest rates (Avevor, 2016).

In 2015, the National Assembly of Kenya passed the Banking Amendment Bill that set interest rate caps. The bill set the maximum interest rate chargeable for a credit facility in Kenya not to exceed 4% the base rate (BR) of the Central Bank of Kenya (CBK) and the minimum interest rate granted on deposits to be at least 70% of the base rate put forth by the CBK (Apex, 2016).

Interest rate capping by the government of Kenya affected the sustainability of the MFIs by reducing profits while increasing costs. Aslam (2017) explains that IR caps affected both the customers and the micro finance institution (MFI) because it substantially reduced the level of outreach of MFIs and customers paid a higher price in the long run. Olaka (2017) noted that in Kenya, the capping of interest rates would make banks to prefer lending to the government and reduce lending to the private sector, and in particular, MSMEs and low income borrowers. Whether the cap on interest rates is effective and how it may lead to access to credit by MSMEs is an open question.

The global problems of MSMEs relate to their inability to access credit they require, to contribute to economic development, employment creation and poverty reduction (Etemesi, 2017; Ghulam and Mumbine, 2017). In the developed world the MSMEs contribute a large share of the GDP and employ over 50% of the total workforce. In Netherlands MSMEs compose of about 90% of the private sector, contribute to about 32% of the GDP and employ 55% of the labor force. The role of MSMEs can be enhanced if they are given better access to credit policies that promote their ability to expand and develop (Ghulam and Mumbine, 2017). The need for specific interventions is evident from the fact that MSMEs are often seen as high risk and less viable economically by lenders.

However, governments across the world are refocusing on MSMEs as endeavors to improve economic growth via large industries have failed. Many developed countries have heightened the credit guarantee schemes for their MSMEs. For instance, in 2014, France eased the lending rules for MSMEs such that the loan guarantee schemes covered up to 90% of the risks pertaining to loans, the UK guaranteed up to 75%, Japan 80% and South Korea 100% of the MSMEs. Other countries such as Belgium and Sweden lend directly to the MSMEs through their public institutions or state-owned banks (Etemesi, 2017).

The success stories of many industrially advanced nations that recognize the place of MSMEs in their economic development have persuaded the African Nations to acknowledge and support the emergence and sustenance of the MSMEs in their national development plans, albeit with slow success. For instance, in South Africa SMEs hardly operate beyond their fifth years due to lack of financial acumen among others (Ndede, 2015), while in Uganda collateral is up to 150% of loan advanced, repayment period is only up to 24 months and interest rates are between 23% to 30% per month (Etemesi, 2017).

Deressa (2014) noted that inaccessibility to credit by the MSME sector in Zambia was a major hindrance in doing

business which impacted on their growth extensively. This view find support in Ethiopia, where Alemu (2017) found that inaccessibility to finance interfered with the growth and efficacy of the MSMEs. Avevor (2016) report that financial institutions in Ghana considered MSMEs a risky industry hence offered them credit at high interest rates. These studies may however not fully explain the extent of access to credit following monetary interventions in Kenya.

Related literature however points to the sector's importance in employment creation and economic growth. The MSME sector in Kenya is still facing challenges relating to credit access such as lack of collateral, financial illiteracy, high interest rates and lack of information (Ndede, 2015). Arora (2010) notes that some dimensions of access to finance such as easy physical access, flexibility, reliability, ease to undertake transactions, cost dimension, and access by the less privileged and financially illiterate. The current study investigates some of these dimensions of the dependent variable MSMEs access to credit. To test the hypothesized relationship of interest rate cap, the current study focused on MSMEs operating in Kisumu County, Kenya.

Kisumu County is one of the devolved counties in Kenya and is divided into seven sub-counties of Kisumu East, Kisumu West, Kisumu Central, Seme, Nyando, Muhoroni and Nyakach. It has a population of 968,909 on a land area of 2085.9 sq. km. Kisumu city, as the administrative hub of the County was considered a suitable study location since it is a leading commercial, trading, fishing and industrial hub in Lake Victoria basin (CIDP Kisumu, 2019). It has a rich mix of MSMEs involved in trade, transport, service, agriculture, hotel, health, education and industry. Surprisingly, while it may be expected that involvement of MSMEs can alleviate poverty and reduce unemployment, the reverse appears to be the case.

According to its recent County integrated development plan (2019/2020) lack of access to credit remains a major impediment faced by MSMEs in the County. It is not surprising to note that the intervention by the County Government of Kisumu is yet to translate into enhanced contribution by MSMEs to poverty reduction and economic growth (Indimuli, Mukami, Lambart and Mwangi, 2015). These initiatives include central and county governments' intervention schemes such as Youth and Women Enterprise Funds, Poverty Eradication Funds and the Kisumu County Traders' Fund. Despite these efforts recent studies suggest that financial shortage as a major challenge faced by the MSMEs in Kisumu (Orinda, 2014). The current study investigated the role of financial innovations in enhancing the effectiveness of monetary interventions in enhancing MSMEs access to credit.

### II. STATEMENT OF THE PROBLEM

The current study examined the problem of lack of access to credit faced by MSMEs. This problem curtails their ability to contribute to solving the problem of unemployment and poverty. To address this challenge Governments around the world have introduced interest rate caps aiming at increasing the supply of credit to MSMEs. In Kenya the challenge seems to persist as studies point to lack of access as a major impediment for MSMEs. This suggests the need for a wider

conceptualization of the problem of lack of access to credit by MSMEs.

The paradox is that despite the implementation of interest rate cap, MSMEs still seem to be having problems accessing credit. This problem has been attributed to increased costs of credit, repercussions of interest rate cap and also lack of collateral (Etemesi, 2019; Ndede, 2018). In particular, the interest rate cap which was set with the hope that credit would be more affordable had aggravated the problem of accessibility to credit by the MSME sector. Olaka (2017) suggested that interest caps had only served to divert lending to larger businesses. Evidently, without an empirical investigation we would remain unaware of the mechanism by which interest rate cap translates to access to credit by MSMEs. This thesis answers this need by focusing on the research problem of establishing the relationship between interest rate cap and access to credit by MSMEs. The study sought to answer the question of whether interest rate cap had a statistically significant influence on access to credit by micro, small and medium enterprises in Kenya.

### III. RESEARCH DESIGN AND METHODOLOGY

This study adopted a diagnostic research design as it was important to establish causal relationships between the independent and the dependent variable. Micheal (2000) states that diagnostic research studies describe cause-effect relationships in which diagnosis is made by which frequency of effect in the event of the occurrence of a cause is determined. Kothari (2004) avers that both descriptive as well as diagnostic studies share common requirements and as such may be grouped together.

Descriptive studies are those which are concerned with describing the characteristics of a particular individual, or group, whereas diagnostic research studies determine the frequency with which something occurs or its association with something else (Micheal,2000; Saunders, Lewis and Thornhill,2003). The design in such studies focus on formulation of the objectives, designing methods of data collection, selecting the sample, collecting the data, processing and analyzing the data and reporting the findings (Kothari, 2004; Micheal,2000).

This study was conducted in Kisumu County which is a leading commercial, trading, fishing, industrial and administrative County in Lake Victoria basin. This county was chosen as a study area owing to the potential of monetary interventions to improve access to credit by MSMEs which employ over 90% of the population in this region. Access to credit can enhance the role of MSMEs in poverty alleviation, redistribution of incomes, and address other social economic challenges facing the inhabitants of the Lake Victoria basin.

Kisumu County was chosen for the study being a county where high indices of poverty, income inequalities and social ills have stunted its growth and development and which in turn hinder access to opportunities. Economic interventions among others are therefore necessary so as to address the effects of the social and economic issues (KCIDP, 2013).

This study targeted the micro, small and medium enterprises within Kisumu County. The population of the MSMEs is large and scattered and could be termed as infinite. Therefore the registered MSMEs within Kisumu County, in particular Kisumu Central and Kisumu East sub counties, were purposively selected as the population. This gave a total population of 1,472 registered groups of SMEs as per the Department of Social Services Kisumu County, 2020. The units of analysis were the MSMEs whereas the groups were the units of study. The instrument was filled by their finance managers.

The appropriateness of using Yamane Taro’s formula for obtaining a sample size in similar studies is acknowledged (Singh and Masuku, 2014). According to Yamane Taro, the sample size is obtained at a confidence level of 95% using the formula:  $n = \frac{N}{1+N(e)^2}$ , where n is the sample size, N is the population size and e is the precision level

Therefore from a population of 1472,  $n = \frac{1472}{1+1472(0.05)^2} = 315$ .

Hence the minimum required sample size is 315 SMEs. Based on the response rates in similar studies this figure was adjusted. Maina (2015) obtained a response rate of 83% in a similar study. Considering 17% as a typical non response rate the sample size is adjusted to be:

$$n = \frac{100}{83} \times 315 = 380. \text{ Where } n = \text{Sample size.}$$

In the current study, the sample size of 380 was considered adequate to cater for the typical non-response in similar studies. The sample frame consisted of all the 1472 MSME groups registered by the Department of Social Services within Kisumu County. The finance managers of 380 MSME groups were chosen as the key informants. They were deemed knowledgeable in the issues under investigation in this study. In particular, they were considered knowledgeable about the likely role of financial innovations on the relationship between monetary interventions and access to credit by MSMEs.

To obtain the sample of the Finance Managers of the MSMEs, stratified random sampling technique was employed since the population is heterogeneous (Singh and Masuku, 2014). The population was divided into homogeneous strata with respect to specific groups. The units were then sampled at random from each of these strata. The samples per strata were obtained proportionately. The resulting sample is shown in Table 1.

**Table 1: Sample size**

Population Strata	Population	Percentage	Sample
CBO Kisumu Central	51	3.5	13
Youth Groups Kisumu Central	160	10.9	41
WomenGroups Kisumu Central	181	12.3	47
Self-help Groups Kisumu Central	514	34.9	133
CBO Kisumu East	42	2.9	11
Youth Groups Kisumu East	68	4.6	18

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Women Groups Kisumu East	172	11.7	44
Self-help Groups Kisumu East	284	19.3	73
<b>Total</b>	<b>1472</b>	<b>100.0</b>	<b>380</b>

*Source (Department of Social Services Kisumu County, 2020)*

The current research was based on primary data collected by use of a survey instrument which was administered to 380 finance managers of the MSMEs registered by the Ministry of Social Services in Kisumu County.

Both descriptive and inferential statistics were employed for analysis. The descriptive statistics included averages, frequencies and percentages presented in tables. The data was represented in frequency distribution tables. The analysis was quantitative. The unit of analysis was the MSMEs within the registered groups who were actively involved in business. Data collected was coded and fed into the Statistical Package for Social Sciences (SPSS) for analysis. Correlation analysis and regression analysis were conducted to find relationships and correlations. F-test (ANOVA) was conducted to assess

the overall robustness and significance of the regression model. T-test on the other hand was conducted to determine the individual significance of the relationships. Hypothesis testing was carried out after correlation analyses and a simple linear regression analysis was conducted to test for the hypothesis.

### IV. RESULTS AND DISCUSSION

#### A. Response Rate and Frequency Distribution

Questionnaires were administered to 380 respondents drawn from the population of 1472 respondents. The researcher and trained assistants delivered the questionnaires to the finance managers of the 380 registered groups. The response rate is presented in Table 2.

**Table 2: Questionnaire return rate**

Sample size	Number	Percent
Distributed Questionnaire	380	100
Returned questionnaire	342	90
Not returned questionnaire	38	10
Non usable questionnaire	18	14.7
Usable questionnaire	324	85.3

*Source: Field data (2020)*

In Table 2, out of the three hundred and eighty (380) total questionnaires administered, 342 were filled and returned representing 90% of the total questionnaires administered. However, of the 342 questionnaires returned, 18 questionnaires representing 14.7% were incomplete and could not be used for further analysis. Therefore, 324 questionnaires were legible for further analysis. This gave a response rate of 85.3%. The overall response rate of 85.3% is above the minimum recommended for analysis and reporting (Mugenda, 2003). A return rate of 50% is adequate for analysis (Babbie, 2003).

#### B. Demographic Characteristics of Respondent

The researcher presumed that respondents' bio-data had some relationship with the role of financial innovations in the relationship between monetary interventions and access to credit. The major background characteristics included: MSME business sector, size of MSME, MSME source of credit, impediments to credit access, longest loan term, highest loan limit and highest cost of loan.

#### DISTRIBUTION OF ENTERPRISES BY ECONOMIC SUBSECTORS

Respondents were asked to indicate the sector to which they belonged. The distribution of subsector for the sampled MSMEs is presented in Table 3.

**Table 3: Distribution of enterprises by economic sector**

	Frequency	Percent
Agriculture	64	20
Transport and warehousing	55	17
Trade	48	15
Industry(processing/ manufacturing/ assembling)	45	14
Service and communication	42	13
Hotel/restaurant/guest house/lodge/bar	32	10
Health	29	9
Education	9	3
<b>Total</b>	<b>324</b>	<b>100</b>

*Source: Primary data (2020)*

The data in Table 3 indicate that a fifth (20 percent) of the respondents were from the agricultural sector. The agricultural sector, together with the transport and trade accounted for over half (51percent) of the respondents. A possible explanation of this phenomenon is that the study area is mainly agricultural, as industries are very few and concentrated in Kisumu County. The policy implication is that regulators need to implement selective monetary policies targeting agriculture, transport/warehousing and trade subsectors.

The data in Table 3 also shows that the education subsector is the least represented. This may be attributable to the huge

capital requirements for establishing schools. These findings suggest the importance of the agriculture sector and the unimportance of the education sector for policies targeting improving access to credit in Kisumu County. The findings in Table 3 suggest that policies geared towards enhancing access to credit can have more impact if they target the agriculture, transport, warehousing, trade and less impact if they target the education sector.

SIZE OF FIRMS

The study used number of employees as a proxy for size of an enterprise. The size of participant firms is presented in Table 4.

**Table 4: Size of firms**

Number of employees	Frequency	Percent
0 – 10	285	88
11 – 50	36	11
51 – 100	3	1
<b>Total</b>	<b>324</b>	<b>100</b>

*Source: Field data (2020)*

The data in Table 4. indicate that the majority of enterprises (88%) were micro enterprises with less than 10 employees. While micro enterprises accounted for nearly 90% of firms surveyed, only 1% comprised of medium enterprises. Perhaps this implies that most of the surveyed firms may not be in a position to obtain asset backed financing being micro enterprises. Such firms may then benefit from new forms of credit heralded by financial innovations that have fewer restrictions on borrowing.

SOURCES OF CREDIT

The data on the source of credit was also collected to establish the role of financial innovations in enhancing access to credit. Table 5 presents the various sources of credit for micro, small and medium enterprises operating in Kisumu County.

**Table 5: Sources of credit**

Sources of credit	Frequency	Percent
Kisumu Traders' Fund	19	6
Uwezo fund	62	19
Women enterprise fund	45	14
Youth enterprise fund	52	16
Credit cards	26	8
Mobile money	45	14
Bank loan	75	23
<b>Total</b>	<b>324</b>	<b>100</b>

*Source: Survey data (2020)*

In terms of importance, Table 5 shows that bank credit provides 23 percent of the financial needs of micro, small and medium enterprises operating within Kisumu County. Funds set up for enterprise development by the government together provide over half of the needs of micro, small and medium enterprises operating within Kisumu County.

mobile money for 14% of their financial needs. Financial innovations thus account for a proportion equal to that of banks.

Credit cards issued by banks and non-bank financial institutions account for less than one tenth of the financial resources of micro, small and medium enterprises. Other than credit cards, micro, small and medium enterprises rely on

IMPEDIMENTS TO ACCESSING CREDIT

The study also considered the problems facing micro, small, and medium enterprises in accessing credit. Table 6 presents the major impediments to accessing credit by micro, small and medium enterprises in Kisumu County.

**Table 6: Impediments to accessing credit**

Impediment	Frequency	Percent
High cost of loans	104	32

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Lack of guarantors	75	23
Limited repayment ability	68	21
Lack of sufficient information	45	14
Lack of collateral	32	10
<b>Total</b>	<b>324</b>	<b>100</b>

**Source: field data (2020)**

From Table 6 it is evident that the lack of collateral is the least important factor impeding enterprises' access to credit. As evident in Table 6 high cost of loans is the most cited impediment to accessing credit. High cost of loans is the major impediment to accessing credit as almost a third of the respondents in the sector attested to that.

### LONGEST LOAN REPAYMENT PERIOD

The time allowed for an enterprise to repay credit granted was viewed as a proxy of the risk of loaning a client. Respondents were asked to indicate the longest loan repayment period allowed to the micro, small and medium enterprise. The data in Table 7 presents the findings.

**Table 7: Longest loan repayment period**

Period	Frequency	Percent
Up to 1 year	191	59
1 – 2 years	110	34
Over 2 years	23	7
<b>Total</b>	<b>324</b>	<b>100</b>

**Source: Field data (2020)**

The data in Table 7 shows that nearly 60% of enterprises access short term credit. Further, less than 10% of the credit advanced to these enterprises attracted a repayment period of over 2 years. The findings in Table 7 may be interpreted to mean that these enterprises engage in activities that are viewed to be risky by lenders hence are required to pay up their loans within a short period.

### HIGHEST LOAN SIZE

Respondents were asked to indicate the highest size of the most recent loans accessed. Table 8 presents the results.

**Table 8: Highest loan size**

Loan size (Kshs)	Frequency	Percent
Up to 50,000	169	52.0
50,000 to 100,000	104	32.3
100,000 to 200,000	29	9.0
Over 200,000	22	6.8
<b>Total</b>	<b>324</b>	<b>100</b>

**Source: field data (2020)**

The data in Table 8 shows that over half of the credits accessed by enterprises are an amount of less than 100,000. Further, the data shows that more than 90 percent of loans were of less than ksh200000. This may be interpreted to mean that the majority of micro, small and medium enterprises accessed small loan amounts.

## C. DESCRIPTIVE STATISTICS

### Interest Rate Cap And Access To Credit

The objective was to assess the relationship between interest rate cap and access to credit by micro, small and medium enterprises. Respondents were asked to indicate their level of agreement with statements on a five point Likert scale, where 1= Not at all (NA); 2= To a small extent (SE); 3=To a moderate extent (ME); 4=To a large extent (LE) and 5 = To a very large extent (VLE). The mean and standard deviation for the opinion of respondents to each statement are presented in Table 9.

**Table 9: Interest rate cap and access to credit**

	N	Minimum	Maximum	Mean	Std. Deviation
Interest rate cap has decreased the number of MSMEs accessing credit	324	1	5	2.59	.966
Interest rate cap has decreased the amount of loan accessed by MSMEs	324	1	5	2.61	1.029
Interest rate cap has decreased the cost of loan obtained by MSMEs	324	1	5	2.73	1.173
Interest rate cap has decreased the duration of loan term to MSMEs	324	1	5	3.74	1.281
<b>GRAND MEAN SCORE</b>				<b>2.92</b>	

**Source: Field Data (2020)**

The findings presented in table 9 established that most respondents did agree to a moderate extent that interest rate cap has decreased the number of MSMEs accessing credit (Mean = 2.59, SD = .966). Further, respondents also agreed to a moderate extent that interest rate cap has decreased the amount of loan accessed by MSMEs (Mean = 2.61, SD = 1.029). Similarly most respondents agreed to a moderate extent that interest rate cap has decreased the cost of loan obtained by MSMEs (Mean = 2.73, SD = 1.173). A majority of respondents also were in agreement that interest rate cap

has decreased to a large extent the duration of loan term to MSMEs (Mean = 3.74, SD = 1.281). The results in Table 4.8 reveal a grand mean score of 2.92. The mean of 2.92 indicates that respondents agree with the statements that interest rate caps decreases access to credit by micro, small and medium enterprises moderately.

**Access to Credit**

The study also analyzed the descriptive statistics for access to credit using, mean and standard deviation. Table 10 highlights the findings on access to credit.

**Table 10: Access to Credit**

	N	Minimum	Maximum	Mean	Std. Deviation
Lack of collateral hinders access to credit by MSMEs	324	1	5	4.14	.767
Lack of guarantors hinders access to credit by MSMEs	324	1	5	4.10	.711
Additional charges on loans hinder access to credit by MSMEs	324	1	5	3.87	.713
Short repayment period hinders access to credit by MSMEs	324	1	5	3.70	.793
Lack of sufficient information hinders access to credit by MSMEs	324	1	5	3.41	.892
Lack of savings accounts by MSMEs hinders access to credit by MSMEs	324	1	5	3.13	.870
Lack of books of accounts by MSMEs hinders access to credit by MSMEs	324	1	5	2.80	.831
Not belonging to a group hinders access to credit by MSMEs	324	1	5	1.78	.734
<b>GRANDMEAN SCORE</b>				<b>3.37</b>	

**Source: Field Data (2020).**

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Basing on the findings, lack of collateral hinders access to credit by MSMEs to a large extent (Mean = 4.14, SD = 0.767). Also, lack of guarantors hinders access to credit by MSMEs largely (Mean = 4.10, SD = 0.711). Further, additional charges on loans hinder access to credit by MSMEs to a large extent (Mean = 3.87, SD = 0.713). In addition, short repayment period largely hinders access to credit by MSMEs (Mean = 3.70, SD = 0.793). Lack of sufficient information hinders access to credit by MSMEs moderately (Mean = 3.41, SD = 0.892) and lack of savings accounts by MSMEs also moderately hinders access to credit by MSMEs (Mean = 3.13, SD = 0.870). Lack of books of accounts by MSMEs hinders access to credit by MSMEs moderately (Mean = 2.80, SD = 0.831), however, not belonging to a group hinders access to credit by MSMEs to a small extent (Mean = 1.78, SD = 0.734). Overall, the items on access to credit summed up to a mean of 3.37 implying that

the aforementioned factors on average would hinder access to credit moderately.

### D. CORRELATION ANALYSIS

Correlation provided a basis for further analysis using regression models. Correlation analysis was used to establish and explore the associative relationship between the study variables. Correlation coefficient is the measure to quantify such degree of relationship of the variables. Correlation coefficient explores the type (positive, negative or none) and, degree of association (magnitude of closeness) between two variables. The current study sought to establish the relationship between monetary intervention measures that may be adopted by monetary authorities and access to credit. Correlation analysis provided useful information on the degree of association between the primary independent and dependent variables. The correlations among the variables are shown in Table 11

**Table 11: Correlations Matrix**

		Interest rate cap	Access to credit
Interest rate cap	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	324	
Access to credit	Pearson Correlation	.601**	1
	Sig. (2-tailed)	.000	
	N	324	324

*Source Data: field Data (2020).*

The findings in Table 11 show that the relationship between interest rate caps and access to credit was strong, positive and statistically significant ( $r=.601^{**}$ ,  $p<.01$ ), (Gathi, et al.,2019) The results in Table 11 implies that interest rate caps play a positive role in access to credit by MSMEs in Kisumu county. The data in Table 11 shows that the variables considered in the study were correlated hence it was possible to carry out regression analysis.

### E. REGRESSION ANALYSIS

This study was based on the premise that there is a relationship between interest rate cap and access to credit. To test the hypotheses, linear regression were carried out. Access to credit was regressed against interest rate cap. The results of the tests, performed at the 95% confidence level, are presented in section 1. 4.10.1

### Interest rate cap and access to credit

The objective of the study was to assess the relationship between interest rate cap and access to credit by micro, small and medium enterprises. Simple linear regression was performed to assess the ability of interest rate cap to predict access to credit by MSMEs. To assess the influence of interest rate cap on access to credit, the following hypothesis was tested.

***H0<sub>1</sub>: Interest rate cap has no statistically significant influence on access to credit by micro, small and medium enterprises***

Access to credit was regressed on interest rate cap in order to determine the relationship. The relevant results are presented in Table 12a, 12b and 12c.

**Table 12a: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.601 <sup>a</sup>	.361	.359	.61667

a. Predictors: (Constant), Interest rate cap

*Source: Field Data (2020)*



The results in Table 12a show that Interest rate cap explained a significant proportion of variation in access to credit by 36.1 % ( $R^2=.361$ ).

**Table 12b: ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	59.541	1	59.541	156.570	.000 <sup>b</sup>
	Residual	105.339	323	.325		
	Total	164.880	324			

- a. Dependent Variable: Access to Credit
- b. Predictors: (Constant), Interest Rate Cap

**Source: Field Data (2020)**

The ANOVA model showed that the model fitness for Interest rate cap was statistically significant ( $F = 156.570$ ,

**Table 12c: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
Constant	1.341	.214		6.262	.000
Interest rate cap	.683	.055	.601	12.513	.000

- a. Dependent Variable: Access to Credit

**Source: Field Data (2020)**

The results indicate a linear dependence of Access to credit by MSMEs on Interest rate cap, ( $\beta=.683$ ,  $p<0.05$ ) implying that a unit change in interest rate cap would lead to a change in access to credit by 0.601. Thus we reject the null hypothesis and accept the alternative one that there is a statistically significant influence of Interest rate cap on access to credit by MSMEs.

Previous studies support the findings of positive relationship between interest rate caps and access to credit. For instance Juan, *et. al.*, (2018) study on the effects of interest rate cap on

$p<.000$ ). Thus, the model was fit to predict access to credit using interest rate cap.

financial inclusion established that the policy encouraged and facilitated financial access by entrepreneurs. Also, the results in Table 12 support findings by Awino (2013) that interest rate caps do not particularly affect demand for credit since high interest rates were minor concerns for SMEs. The hypothesis that interest rate cap had a statistically significantly influence on access to credit by MSMEs is supported by the current study. The regression equation of the results is:  $Y=\beta_0+\beta_1X_1+\epsilon$ ;  $Y= 1.341 +0.683X_1+ \epsilon$ .

Table 13 below gives a summary of the research objective, hypothesis and conclusion.

**Table 13: Summary of Research objective, hypothesis and conclusion**

Objective	Hypothesis	R	R <sup>2</sup>	Sig (p)	Conclusion
1. Assess the relationship between interest rate cap and access to credit.	H <sub>01</sub> :Interest rate cap has no statistically significant influence on access to credit	.601	.361	.000	H <sub>01</sub> is not supported

**Source: Primary data (2020)**

Table 13 provides a summary of the direct effect of interest rate cap on access to credit by MSMEs. From the results of hypothesis test in Table 13 it can be concluded that there is a statistically significant relationship between interest rate cap and access to credit. It was hypothesized that there is no statistically significant relationship between interest rate cap and access to credit.

**V. SUMMARY OF FINDINGS**

The overall objective was to assess the relationship between interest rate cap and access to credit by micro, small and medium enterprises in Kisumu County, Kenya. Descriptive

and inferential statistics were used to present the results of data analysis. Key findings are summarized in 1.5.1 – 1.5.4

**A. THE INFLUENCE OF INTEREST RATE CAP ON ACCESS TO CREDIT**

The first objective was to assess the relationship between interest rate cap and access to credit by micro, small and medium enterprises. Descriptive results indicate that respondents agreed that interest rate caps reduce access to credit by MSMEs moderately.

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## B. ACCESS TO CREDIT BY MSMEs IN KISUMU COUNTY

The results of the descriptive analysis show that the impediments to access to credit by MSMEs: lack of collateral, lack of guarantors, additional charges, short repayment periods, lack of sufficient information, lack of savings accounts, lack of books of accounts and not belonging to a group, had hindered MSMEs from accessing credit to a moderate extent.

## C. CORRELATION ANALYSIS

The study sought to use correlation analysis to test the relationship between and access to credit by MSMEs. As an initial step, the existence or relationships among the variables was established using correlation analysis. Correlation analysis was used to measure the strength of linear association among the study variables. The results showed that the relationship between interest rate caps and access to credit was strong, positive and statistically significant.

## D. REGRESSION ANALYSIS

Access to credit was regressed on interest rate cap, to test the null hypothesis that interest rate cap has no statistically significant influence on access to credit. The null hypothesis was rejected and the alternative accepted which states that interest rate cap has a statistically significant influence on credit access.

## VI. CONCLUSION AND RECOMMENDATION FOR POLICY IMPLICATION

The study set out to investigate the influence of interest rate cap on access to credit by micro, small and medium enterprises in Kisumu County. One major conclusion arises from the findings. It can be concluded that interest rate caps have a statistically significant effect on access to credit by micro, small and medium enterprises. The current study makes a substantial contribution to the theory and practice of small business finance. A major contribution to knowledge is in explaining the mechanism by which interest rate caps influence access to credit in small firms. Such firms are often unable to access bank credit owing to lack of security and the high cost of credit. Findings from the current study improve to our knowledge on how interest rate caps influence access to credit by micro, small and medium enterprises. From the findings, some conclusions can be made. First, MSMEs can still have access to credit if the central bank uses interest rate caps. These findings have far reaching and practical applications and implications for management of MSMEs, Central banks, bank and non-bank financial institutions. Further, they add substantially to the theory of small business finance, in an emerging economy context.

In line with the study objective and corresponding findings of this study, a recommendation can be made for the theory, policy and practice of small business finance. The empirical nature of the study has made it possible to extend empirical evidence on the direct influence of interest rate cap on access to credit by micro, small and medium enterprises.

The findings have several practical applications in the management of finances in the small business sector. First, interest rate cap is a prudent option for central banks in their bid to influence demand and supply of money in the small business sector. Central bank monetary policy managers can enhance financial inclusion of micro, small and medium businesses by focusing on controlling interest rates and cash available for making credit. Such interventions should focus on controlling interest rates, through placing of a minimum rate on deposits and a maximum rate on loans targeting the sector and persuading lenders to make preferential loans targeting the sector.

The aim of interest rate cap ought to be an improvement in their direct effect on financial inclusion of micro, small and medium enterprises. Thus from the study findings, policy makers ought to aim at enhancing access by deploying sector specific interventions in favor of blanket interventions. In addition to policy implications, findings suggest that access to finance in the micro, small and medium sector can be improved through sector specific monetary interventions. In particular, any policies targeting the sector ought to leverage on the significance of interest rates and ability of banks to create credit from the cash they hold. Further, by developing monetary policies that are specific to the micro, small, and medium enterprise sector, their contribution to solving of unemployment problems can be enhanced.

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