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DETERMINANTS OF FINANCIAL ACCESS AND THEIR EFFECTS ON THE BUSINESS DEVELOPMENT IN RWANDA

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Abstract

The purpose of this study is to assessing the effects of access to finance's determinants on the business development in Rwanda. The specific objectives: to examine the effects of credit offering on development of small and medium enterprise; to determine the effects of interest rate on development of small and medium enterprise; to analyze the effects of business risk on development of small and medium enterprise and to suggest possible solution to the challenges associated with accessing to finance's on development of small and medium enterprise in Rwanda. This study was designed as descriptive study for small and medium enterprise using the survey method; a case study was to describe the analysis of access to finance's determinants on the business development in Rwanda, the researcher acquired knowledge regarding the subject under topic. It is a qualitative analysis that involves careful observation of a situation. All the respondents from the population of SMES in Kigali to respond to research questionnaires. The researcher used questionnaires to collect data. As far as this study is concerned, the population was comprised of employees of SMES in Kigali targeting 4,112 employees. To describe target population of a study as the point of focus from which a generalization was made regarding the research findings. Thus, a sample size of 98 people as respondents was considered as the representatives of the total population. The researcher used primary and secondary data to get all information needed in this study, the quantitative data was analyzed using descriptive and inferential statistics after running the data collected through the Statistical Package for Social Sciences (SPSS). From the findings the study concluded that high transaction costs increase the cost of borrowing and also restrict access to external finance for some borrower groups. The researcher also concluded that insurance fees have drastically reduced as a result of financial institutions partnering with insurance companies. Legal fees incurred by SMEs while borrowing funds has reduced in the recent past. The study concluded that the amount of interest rate charged is affected by expected inflation, default risk, liquidity premium and maturity premium. It also conferred that a less liquid security attracts high interest rate. Interests on loans vary depending on length of time to maturity an obligation bond takes. The study concluded that borrowers deemed to be not creditworthy are denied loans completely (credit rationed). Risky ventures are credit rationed by banks in most cases. From the findings the study further concluded that lending institutions consider the size of an enterprise while approving loan application. The study further concluded that lending institutions tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Assets of most SMEs face the risk of obsolescence therefore may not be offered as collateral. The emerging technology in government policy has negatively affected most SMEs operations. In the light of the foregoing findings, the study recommends that; SME lending often depends heavily on relationships between borrowers and lenders, and therefore there is need for the lending institutions to simplify loan application process to avoid unnecessary expenses. This will encourage more SMEs to apply for loans. Lending institutions should also ensure that loan repayment process is flexible for SMEs. The high interest rates are one of the greatest hindrances of financial accessibility by SMEs. Interest in access to finance has increased significantly in recent years Therefore the government through the ministry of finance should ensure that the set interest rates are adhered to. This will ensure that SMEs are not exploited and are able to access loans.

Keywords: ***Financial access and business development***

1. Introduction

Globally, Small and medium enterprises (SMEs) are considered as important and key sectors in most of the economies of the developed and developing countries alike. Their survival and growth even though depend on their ability to access finance. Recently, economic, social and scientific circles have showed a growing interest in SMEs as they represent a significant part of the production, industry and service sector in the economic activity of any State or country (Rezazadeh, 2017). Their importance or significance is attributed to the important role schemes play in providing employment opportunities in many different areas at different levels of employment. In expansion, SMEs are simple to be built up and they are overseen by their proprietors. They are moreover portrayed to be competent of adjusting to the conditions and financial emergencies, which is one of their victory components.

Normally, little and medium ventures contribute to financial advancement by expanding national yield, making employments and diminishing wage disparity and destitution (Tooth, 2015). All inclusive, (Du et el, 2015) state that governments, analysts and other partners over the world have created awesome inquire about intrigued in little and medium scale undertakings (SMEs) financing since of noteworthy part these little firms play in GDP development of different nations. National bureau of measurements of China (2017), too states that 99% of firms in china are made up of SMEs and contribute 60% of GDP. The story is comparative within the US as 67% of private division business is made by SMEs and contributes 99.7% of US boss firms, (Small business administration, 2016).

According to previous empirical studies show that SMEs in developing countries are markedly supporter and attraction of economic prosperity (Harash, (2015), Harash, (2019), Njogo &Safiyu (2017) and Olatunyi, (2018). Yoshino& Taghizadeh-Hesary (2015), Yoshinos, Taghzadeh- hasary, Charoensvakom &Niiraula (2016) state that small &medium enterprise (SMEs) form a significant portion of the commercial landscape and the backbone of Asian economies. Also Kuwahara, Yoshino, Sagara&Taghizadeh- Hesary, (2015), (Yosino et al, 2016) indicate that the success of SMEs has huge implications for the growth and socioeconomic wellbeing of a country.

The need to finance the development and growth of SMEs in Sub-Saharan Africa economies has been of concern to many policy makers for two main reasons. First, for Sub-Saharan Africa to be able to compete effectively in the increasingly globalized environment, its micro and small enterprises should grow and transform into thresholds where they will be able to adapt efficient production techniques. Undoubtedly, the SME segment inside Sub-Saharan Africa has been alluded to as the 'Missing Middle' within the setting of monetary incorporation or get to monetary (counting managing an account) services. Small companies make up the endless larger part of businesses in most nations and utilize a noteworthy rate of the worldwide workforce. In spite of the fact that exact information is inaccessible, World Bank investigate over the world's economies has evaluated that SMEs reliably frame around 95 % of existing businesses and utilize around 60 to 70 percent of private-sector specialists, and create a expansive share of unused employments in Organization for financial participation and improvement (OECD) economies (OECD, 2019). They are moreover accepted to contribute approximately 50 % to world Net Esteem Included (GVA). MSMEs are on normal, the businesses that are producing development, making occupations, developing quicker and improving more. But most of all, they are a good deal less complicated (structurally) and more efficient and flexible than large firms.

Kenyan nation SMEs is imperative for financial development and improvement in both industrialized and creating nations since they play a key part in making unused occupations. Financing is fundamental to assist them set up and grow their operations, create modern items, and contribute in modern staff or generation offices. Numerous little businesses begin out as an thought from one or two individuals, who contribute their possess cash and likely turn to family and companions for budgetary offer assistance in return for a share within the trade. But in the event that they are effective, there come at times for all creating SMEs when they need new speculation to extend or enhance assist. That's where they frequently run into issues, since they discover it much harder than bigger businesses to get financing from banks, capital markets or other providers of credit (Mulandi, 2018).

According to Aldaba (2018) small and medium enterprises (SMEs) are seen as crucial for a country's economic growth, employment creation and innovation. Their need of get to to financing has frequently been cited as one of the major imperatives influencing their execution and competitiveness. Need of get to to financing infers that a considerable number of SMEs cannot get financing from banks and other sources in arrange to begin, enhance, develop and create their ventures. Taken a toll of credit can be classified as; net intrigued and net intrigued. Net intrigued is the entire sum that the indebted person propels to a bank and the net interest implies the portion of intrigued that's for the utilize of capital as it were. Kung'u (2011) expressed that the sectioned and deficient nature of monetary markets increments exchange costs related with money related administrations. Those organizations with near connections are seen to have more get to to credit. Relationship with a single bank may diminish hazard and subsequently the taken a toll of credit, i.e. intrigued rate may be decreased. This is often due to diminished frequency of ethical danger and made strides information of the firm which eventually diminishes unfavorable choice (Muguchu, 2018). Tall intrigued rate on credit may dishearten SMEs from borrowing hence lessening the openness of credit among them. It is demonstrated that banks exchange on client stores, they loan at intrigued rates tall sufficient to pay their overheads and take off equalizations to pay intrigued to clients whose stores are being loaned (Makena, 2017). The intrigued rate as a rule may be a rate of the borrowed sum decided by the sum of intrigued over length which may be a year.

The economic contribution of small enterprises in Rwanda is widely acknowledged. However, it seems little efforts are made to look at it from the youth perspective. The specific needs of the youth and particularly their entrepreneurial potential as well as their critical contribution to economic and social progress are underestimated (Irene, 2019) quoted in (Mutai, 2015). Small and micro enterprises (SMEs) have become important players in the Rwandan economy, but at the same time they continue to face constraints that limit their development. Lack of access to credit is one of the main constraints, and a number of factors have been identified to explain this problem. These include the segmented and incomplete nature of financial markets. SMEs has taken an advantage of the government in developing SMEs. In Rwanda, SMEs contribute greatly to the economic development for example in 2011 Rwanda was estimated to have 123,526 enterprises classified as SMEs and forming 90% of Rwanda's private sector (MINICOM 2015). SMEs employ approximately 1 million of people equivalent to 90% of total non-farm private sector workers. Therefore SMEs represent one of the most viable vehicles for sustainable development and grass root economic growth. The Business Development Funds (BDF's) aim is to promote SME development through the provision of financial services to enhance the lending mechanism of financial institutions. As part of the financial infrastructure to promote SMEs, it was established in 2011 as a wholly owned subsidiary of the Development Bank of Rwanda (BRD).

Government of Rwanda has established the small and medium Enterprise for creating different opportunities of job. When you look on the ground some small and medium Enterprise are performing well within business development purpose and others are making loss whereby Rwandans are still strugglering, accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augment income levels, increases employment and thereby reducing poverty, (Harelimana. 2017). Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activities.

As a result, they are incapable to distribute the same quality of monetary data as those huge firms and as such are not able to supply reviewed budgetary explanation, which is one of the basic necessities in getting to credit from the monetary institution. Usually reinforced by the explanation that secretly held firms don't distribute the same amount or quality of budgetary data that freely held firms are required to create. As a result, data on their money related condition, profit, and profit prospect may be deficient or wrong. Confronted with this sort of vulnerability, a bank may deny credit, some of the time to the firms that are credit commendable but incapable to report their comes about, (World Bank gather, 2015). Another issue needs to do with the inadequate capital base of most SMEs within the nation to meet the collateral requirement by the banks some time recently credit is given out. Within the circumstance where a few SMEs are able to supply collateral, they regularly conclusion up being lacking for the sum they required to set out on their ventures as SMEs assets- sponsored collateral are ordinarily evaluated at 'carcass value' to guarantee that the credit is reasonably secured within the case of default due to the vulnerability encompassing the survival and development of SMEs, (Wythe, 2019).

It is believed that access to credit enable poor SME to overcome their liquidity constraints and undertake some investments for better performance of small and medium enterprise. However luck of external and internal sources of finance, luck of consolidating capital, and lack of access to credit to start or expand small scale enterprises has often plagued this sector of the economy. Most SMEs tend to rely on the personal resources of their owners, and or loans from friends and relatives to fund the enterprises. Different financial institutions remain highly liquid and reluctant to expand credit other than to most credit worthy borrowers which in most cases excludes the SMEs (Muguchu, 2017). Most SMEs have come into many constraints that have seen some collapse, some selling off their assets, some being acquired by others, unemployment and retarded economic growth and performance of small and medium Enterprise. That is why this study was assessed the effects of access to finance's determinants on the business development in Rwanda.

The objectives of the paper are:

i. To examine the effects of credit offering on development of small and medium enterprise;
ii. To determine the effects of interest rate on development of small and medium enterprise;
iii. To analyze the effects of business risk on development of small and medium enterprise;

2. Review of Literature

Transaction Cost Theory

The Transaction Cost Theory was developed by Ferris in 2016. "This theory postulates that trade credit use brings down exchange costs. "The transaction motive rests on the simplification of payment induced by trade credit". "The purpose here is not financing but reducing transaction costs". "This theory holds that when transactions between sellers and buyers are frequent both parties may reduce transaction costs by agreeing to a periodical payment schedule". "This works so long as saving in transaction costs remains more than the cost of holding receivables". "Mian and Smith (2017) found that when supply of goods and credit are made from one point there is an overall reduction in costs and increase in efficiency as both the monitoring of supplies and the credit could be done from the same point. “Sellers in general, but more particularly those having large inventory can save on warehousing and related costs by effecting sales with attractive credit terms”. “This is possible when marginal cost of holding inventory is greater than the cost of holding receivables”. “Firms whose product suffers from high demand fluctuations may resort to trade credit, which is found to be the least cost solution, the others being adjustment of production schedule or effecting price reduction”.

The dealer might unwind credit terms when the request is loosening and fix them when request appears an rise. This theory of Emery (2017) found bolster within the experimental discoveries of Long, Malitz and Ravid (2016) who concluded that firms with tall variable request amplify more credit than firms getting a charge out of request steadiness. A few scholars recommend that by advertising exchange credit providers can concede assess installment or benefit from assess shields within the brief run (Mian & Smith, 2017). When buyers and dealers are in numerous charge brackets, taken a toll of financing is additionally distinctive, other things remaining steady. A firm in tall charge bracket has lower net intrigued fetched than a firm in moo charge bracket. Thus, the previous has an motivating force to offer exchange credit to spare on negligible assess (Brick & Fung, 2014).

The Capital Channel Model

The bank capital channel model was developed by Chami and Cosimamo in 2018. “It is a model in which banks maximize present value of future profits subject to a minimum capital- asset ratio”. “In anticipating that the capital constraint may bind the future, banks choose an optimal level of dividend payouts for each period to minimize this possibility”. “According to Obamuyi (2017), the bank capital channel views a change in interest rate as affecting lending through bank’s capital, particularly when banks’ lending is constrained by a capital adequacy requirement”. The “bank capital channel” works in the following way”. “After an increase in market interest rates, a lower fraction of loans can be renegotiated with respect to deposits (loans are mainly long-term, while deposits are typically short-term): banks therefore bear a cost due to the maturity transformation performed that reduce profits and then capital. If equity is sufficiently low (and it is too costly to issue new shares), banks reduce lending because prudential regulations establish that capital has to be at least a minimum percentage of loans (Bolton and Freixas, 2018; Van den Heuvel, 2017)”. **“**The bank capital channel model considers the lending behaviors of bank to SMES to be affected by a capital adequacy requirement”. “Thus, an increase in interest rates will raise the cost of banks’ external funding, but reduce banks’ profits and capital”. “The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding”. “However, banks could also become more willing to lend during certain periods because of an improvement in their underlying financial condition”. “This condition as purported by this model, is seen clearly in the relationship between banks and SMEs as the SMEs suffers through a lack of financial assistance as a result of this situation”.

Credit Rationing Theory

One of the most important theories that focused on financing gap analysis is the Credit Rationing Theory by Stiglitz and Weiss (2017). “In their formulation, Stiglitz and Weiss (2017) argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reason why SMEs have constrained access to finance”. “They argued that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information)”. “Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk”.

“Stiglitz and Weiss (2017) explained the choice among different financing sources under conditions of asymmetric information and credit rationing”. “Constrained access to finance derived from financial institutions’ credit rationing behavior might not be efficient because managers work under conditions of asymmetric information”. “This may result in less beneficial speculations getting financed whereas more beneficial speculations are being cleared out out and hence coming about in unfavorable choice and ethical danger risks”. “Therefore, deviated data can clarify topsy-turvy of credit among firms with indistinguishable characteristics, the banks not being mindful of the precise liquidation probability for the firms, know as it were that this likelihood is positive and so select to extend debts’ cost”. “Start-up little firms are more likely to be influenced by data asymmetry problems”. “There are a few categories of SMEs that will confront extra issues due to need of security, such as youthful business people or those from denied zones. In expansion, there may be asymmetries emerging from area as well as sector”. “For example, owners of MSEs in rural environments may face difficulties with access to bank finance”. “Small firms are more likely to be rationed because they are seen as particularly risky”. “Although they might be willing to pay more to compensate for the additional risk, the banks will refuse to raise the interest rate sufficiently to equate supply and demand”.

Prospect Theory

Prospect theory was developed by Kahneman and Tversky (2019). “In its unique shape, it is concerned with behavior of choice creators who confront a choice between two alternatives”. Choice making beneath hazard can be seen as a choice between prospects or bets. Choices subject to hazard are regarded to imply a choice between elective activities, which are related with specific probabilities or gambles”. “The hypothesis states that we have an nonsensical propensity to be less willing to bet with benefits than with misfortunes. “Prospect hypothesis is based on the thought that individuals assess picks up or misfortunes from a few unbiased or status quo point, an suspicion reliable with the adjustment level discoveries that happen not fair in recognition but in for all intents and purposes all experience”. “That is, we adjust to a steady level of essentially any mental measurement and discover it to be neutral". "Prospect hypothesis bargains with the way we outline choices, the diverse ways we name results, and how they influence our demeanor towards risk". "It helps explain how loss aversion, and an inability to ignore sunk costs, leads people to take actions that are not in their best interest". "The sting of losing money, for example, often leads investors to pull money out of the stock market unwisely when prices decline". "Prospect theory assumes that investors' utility functions depend on change in the value of their portfolios rather than the value of the portfolio".

Conceptual Review

This section puts into perspective review of past empirical studies on determinants of financial determinants by small and medium enterprises in Rwanda.

Credit Offering

Gichuki et al., (2016) in their study on challenges confronting MSEs in getting to credit offices in Kangemi Harambee Advertise in Kenya, found out that get to credit offices by miniaturized scale and little undertakings is profoundly constrained by tall reimbursement taken a toll of credit given. The think about hence prescribed that the administration of credit giving teaches ought to consider bringing down their intrigued rates as a way of empowering MSEs to borrow from them. Gitari, (2017) in her ponder on components influencing ladies entrepreneurs' monetary execution in Kenya: a case of Ngara Advertise found out that need of data on who is advertising what and the fetched of getting such administrations constrain them which tall stock costing are a few of the major disadvantages for victory in ladies enterprise. The tall taken a toll of running the business people could be a huge risk to the ladies improvement due to need of satisfactory capital and on the other hand need of data on how to access funds to boost the trade too could be a major danger.

Interest rates

Bowen et al., (2019) in "their study on Management of Business Challenges Among Small and Micro Enterprises in Nairobi Kenya found out that SMEs face the following challenges; competition among themselves and from large firms, lack of access to credit, cheap imports, insecurity, high interest rates and debt collection". "Amonoo et al., (2017) on their study, The Impact of Interest Rates on Demand for Credit and Loan Repayment by the Poor and SMEs in Ghana, found that demand for credit among firms in Ghana is also influenced by interest rate charged as well as the owners' equity and firm's annual profit". "There is a negative relationship between interest rate (defined as the lending rate at which SMEs borrow from lending institutions) and SMEs' demand for credit and loan repayment at both bank and non-bank financial institutions".

Business Risk

"Waari (2015) in the study factors influencing access to finance by SMEs in Meru County established that 47.6% of the SME's have high credit risk exposure due to them operating more than two loans". "This raises their credit risk profile which the lenders may not be aware of". "The research is consistent with the literature review that established that SME's have poor credit risk mitigation measures". "Makena (2016) in the study Challenges faced by SMEs in access to finance in Kiambu town, clearly demonstrated that SME are usually more credit constrained than other segments of the economy because of financial sector policy distortions, lack of collateral, information asymmetries, lack of sufficient collateral as well as high risks inherent in lending to SMEs".

Research Gaps

Transaction cost theory can be employed to address the issue of high transaction cost of lending to SMES. Studies have established that when transactions between sellers and buyers are frequent both parties may reduce transaction costs by agreeing to a periodical payment schedule. Sellers in general, but more particularly those having large inventory can save on warehousing and related costs by effecting sales with attractive credit terms, Wangai and Omboi (2016). This is possible when marginal cost of holding inventory is greater than the cost of holding receivables. Unlike other lending products that can be reduced to simple transactions, SME lending often still depends heavily on relationships between borrowers and lenders. The bank capital channel model can be employed to address the issue of high interest rates on bank loans. High interest rates on credit may discourage SMEs from borrowing reducing the accessibility of credit among them. After an increase in market interest rates, a lower fraction of loans can be renegotiated with respect to deposits.

The government has established structures for building through BDF a foundation for financial access for SMEs. And it has created a well done, long-term reform strategy that informs all of the country's short-term development goals. The government has worked to meet the financial access and their effects on the business development especially in SMEs by streamlining regulatory processes involved in starting every step in SMEs. Beyond undertaking legal and administrative reforms, the government has invested in training for professionals including experts to ensure proper collaboration of the reforms. Recognizing the benefits of a diverse knowledge base, Rwanda need also imported technical expertise from other countries, to replicate good practices and build capacity. And the government has involved in SMEs for reform process and maintained an open line of communication to keep citizens, civil society and other (BDF Report 2018).

All these efforts are showing results in Rwanda's regulatory performance and Rwanda's dedication to SMEs reforms for development, in triggering positive reforms, has contributed substantially to its overarching goal of promoting the good practices in SMEs for enhancing business development with prosperity. This study aims to fill that gap. This chapter provides information from previous literatures regarding criteria of financial access in enhancing business development. This includes review of perspective of competitiveness towards a service offered.

3. Materials and Methods

The descriptive research design was used in this study as a way to facilitate a researcher to have a mixture of both qualitative and quantitative approaches. This is considered as a way to investigate how it was utilized to depict characteristics of a wonder to be examined Kumar (2011). The analyst was portrayed the circumstance or preparing detail. Thus, this study was used descriptive research design.

The total target masses was considered and expected to give out the information related to the objectives of the explore think approximately was based on participations of differing individuals in SMEs in Kigali who was composed of 4,112 employees in different departments and 98 respondents as sample size. As all population was sample size; therefore, be made of number the staff and employees of SMEs in Kigali respondents who was involved in interaction with researcher. Data collected was analyzed using descriptive statistics because the data obtained in this study was quantitative. According to (Quang and Hong, 2009), quantitative data are observations measured on a numerical scale. Results collect also entered into the statistical analysis. This analysis indicated variations of the response in the sample, response to the various questions and variations among different groups. Presentation of the results and findings were in terms of tables and graphs. Qualitative analysis techniques were used. The Qualitative analysis techniques were complemented with some statistics that was mainly obtained from the secondary data that was obtained through documentary analysis from the case study organization.

4. Results

4.1 The effects of credit offering on development of small and medium enterprise

Table 1: Shows the effects of credit offering on development of small and medium enterprise

Statements	N. of respondents	Percentages
It is of help to increase capital as investment for small and medium enterprise	23	23.4%
Changing market conditions and increasing financial performance of the enterprise	27	27.5%
It is giving chance to entrepreneurs to be secured and expanding markets	30	30.6%
It is giving opportunities to all especially to satisfy a market with products and services	18	18.3
Total	**98**	**100%**

Source: Researcher, (2022)

From the findings above shows that 23 of respondents with 23.4% said that credit offering help to increase capital as investment for small and medium enterprise, 27 of respondents with 27.5% said that credit offering change market conditions and increasing financial performance of the enterprise, 30 of respondents with 30.6% said that credit offering gives a chance to entrepreneurs to be secured and expanding markets, 18 of respondents with 18.3% said that credit offering gives opportunities to all especially to satisfy a market with products and services. This implies that all respondents know the influence of credit offering on performance of small and medium enterprise.

4.2 Perceptions of the respondents on credit offering on performance of small and medium enterprise

	N		Mean	Std. Deviation
	Valid	Missing		
It is of help to increase capital as investment for small and medium enterprise	98	0	4.24	.936
Changing market conditions and increasing financial performance of the enterprise	98	0	3.92	.679
It is giving chance to entrepreneurs to be secured and expanding markets	98	0	3.73	.917
It is giving opportunities to all especially to satisfy a market with products and services	98	0	3.22	.834

Source: Researcher, (2022)

The results in table 2 shows the respondents perception about credit offering on performance of small and medium enterprise where all are agree that it is of help to increase capital as investment for small and medium enterprise with 4.24 mean and .936 standard deviation is interpreted as strong and homogenous, changing market conditions and increasing financial performance of the enterprise with 3.92 mean and .679 standard deviation is interpreted as strong and homogenous, it is giving chance to entrepreneurs to be secured and expanding markets with 3.73 and .917 standard deviation is interpreted as strong and homogenous while it is giving opportunities to all especially to satisfy a market with products and services with 3.22 and .834 standard deviation is interpreted as strong and homogenous. This implies that beneficiaries appreciate credit offering for performance of small and medium enterprise.

4.3 The effects of interest rate on development of small and medium enterprise

Table 3. Shows the effects of interest rate on development of small and medium enterprise

Statements	N. of respondents	Percentages
It helps small and medium enterprise to save when interest rate is not high	23	23.4%
Low interest rate help small and medium enterprise to increase its market share	24	24.4%
Small and medium enterprise have more access to financing because loans are less expensive	20	20.4%
Small and medium enterprise consider interest rate as better resources to fund new business ventures, equipment, or improvements	16	16.3%
High levels interest rates greatly affected loan borrowing in SMEs and its performance	15	15.3%
Total	**98**	**100%**

Source: Researcher, (2022)

From the findings above shows that 23 of respondents with 23.4% said that when interest rate is not high help performance of small and medium enterprise, 24 of respondents with 24.4% said that low interest rate help small and medium enterprise to increase its market share, 20 of respondents with 20.4% said that small and medium enterprise have more access to financing because loans are less expensive, 16 of respondents with 16.3% said that small and medium enterprise consider interest rate as better resources to fund new business ventures, equipment, or improvements while 15 of respondents with 15.3% said that high levels interest rates greatly affected loan borrowing in SMEs and its performance. This implies there is impact for cost of interest rate for performance of small and medium enterprise. The study put into perspective the opinions of respondents regarding the influence of interest rate on performance of small and medium enterprise

4.4 Descriptive Statistics for influence of interest rate on performance of small and medium enterprise

Statements	N		Mean	Std. Deviation
	Valid	Missing		
It helps small and medium enterprise to save when interest rate is not high	98	0	4.00	.923
Low interest rate help small and medium enterprise to increase its market share	98	0	3.98	1.285
Small and medium enterprise have more access to financing because loans are less expensive	98	0	4.12	.767
Small and medium enterprise consider interest rate as better resources to fund new business ventures, equipment, or improvements	98	0	3.21	.665

High levels interest rates greatly affected loan borrowing in SMEs and its performance	98	0	4.02	.817

Source: Researcher, (2022)

The findings from the field, the respondents also agreed that it helps small and medium enterprise to save when interest rate is not high with mean of 4.00 and Std deviation of 0.923. Low interest rate helps small and medium enterprise to increase its market share with mean of 3.98 and Std deviation of 1.285, the respondents agreed that small and medium enterprise have more access to financing because loans are less expensive mean of 4.12 and Std deviation of 0.767, small and medium enterprise consider interest rate as better resources to fund new business ventures, equipment, or improvements with mean of 3.21 and Std deviation of 0.665 while High levels interest rates greatly affected loan borrowing in SMEs and its performance with mean of 4.02 and Std deviation of 0.817.

4.5 Shows the effects of business risk on development of small and medium enterprise

Statements	N. of respondents	Percentages
Business risk is risk management plan which impacts to the identification and analysis of potential risks small and medium enterprise for better performance	28	28.5%
Business risk is the design and implementation of processes within and between the entities and small & medium enterprise activities	24	24.4%
Business risk associated with unanticipated differences in resource requirements in foreign markets of small & medium enterprise	25	25.5%
Business risk in small & medium enterprise helps identify areas of underutilized capacity, perhaps offering the option to capitalize a good performance	21	21.4%
Total	**98**	**100%**

Source: Researcher, (2022)

The findings show that 28 of respondents with 28.5% said that business risk is risk management plan which impacts to the identification and analysis of potential risks small and medium enterprise for better performance, 24 of respondents with 24.4% said that business risk is the design and implementation of processes within and between the entities and small & medium enterprise activities, 25 of respondents with 25.5% said that business risk associated with unanticipated differences in resource requirements in foreign markets of small & medium enterprise while 21 of respondents with 21 of respondents with 21.4% said that business risk in small & medium enterprise helps identify areas of underutilized capacity, perhaps offering the option to capitalize a good performance. This implies that there is influence of business risk business development particular for small and medium enterprise.

4.6 Descriptive Statistics for business risk on business development particular small and medium enterprise

	N		Mean	Std. Deviation
	Valid	Missing		
Business risk is risk management plan which impacts to the identification and analysis of potential risks small and medium enterprise for better performance	98	0	3.54	.898
Business risk is the design and implementation of processes within and between the entities and small & medium enterprise activities	98	0	4.21	.798

Business risk associated with unanticipated differences in resource requirements in foreign markets of small & medium enterprise	98	0	3.95	.978
Business risk in small & medium enterprise helps identify areas of underutilized capacity, perhaps offering the option to capitalize a good performance	98	0	3.77	.825

Source: Researcher, (2022)

From the results above shows that business risk is risk management plan which impacts to the identification and analysis of potential risks small and medium enterprise for better performance with mean of 3.54 and Std deviation of 0.898, the study also revealed that the respondents concurred that business risk is the design and implementation of processes within and between the entities and small & medium enterprise activities with mean of 4.21 and Std deviation of 0.798, the respondents also agreed that the Business risk associated with unanticipated differences in resource requirements in foreign markets of small & medium enterprise with mean of 3.95 and Std deviation of 0.978 while business risk in small & medium enterprise helps identify areas of underutilized capacity, perhaps offering the option to capitalize a good performance with mean of 3.77 and Std deviation of 0.825.

4.7 Regression analysis

Table 5: Model summary of credit offering and business development

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.941[a]	.879	.805	.143

a. Predictors: (Constant), Credit offering

According to results in Table 5, credit offering is determined by 87.9% on business development particular for small and medium enterprise. This is as given by the R square value of 0.879. The adjusted R square value is 0.805 which shows that the study result is 80.5%, this show the reliability of the study.

Table 6: ANOVA Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.930	3	5.483	214.145	.000[a]
	Residual	2.202	95	.026		
	Total	24.132	98			

a. predictors: (Constant), Credit offering

b. Dependent Variable: Business development

ANOVA results further show that credit offering explain the business development particular for small and medium. The table above 6 shows the sig value (0.000) less than the level significance (0.05). The F-statistics (F=214.145) is far greater than the P-value (0.000) hence a further confirmation that credit offering significantly on business development particular for small and medium. Further, Tables 6 indicates that the residual value (2.202) is less than the regression value (21.930) which means that credit offering contributes to the business development particular for small and medium.

Table 7: Coefficient of credit offering

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.671	.145		4.618	.000
Credit offering	.648	.085	.505	5.264	.000

a. Dependent Variable: Business development

Using linear regression analysis from SPSS data bases, shows that credit offering is significant with (sig=0.000 and 0.01). This means credit offering influences to the business development particular for small and medium.

$Y=0.671+0.648x1+\varepsilon$

This therefore reveals that, given a unit increase in credit offering would positively change by 0.648 times.

5. Discussion

From the findings the study concluded that high transaction costs increase the cost of borrowing and also restrict access to external finance for some borrower groups. The researcher also concluded that insurance fees have drastically reduced as a result of financial institutions partnering with insurance companies. Legal fees incurred by SMEs while borrowing funds has reduced in the recent past. The study concluded that the amount of interest rate charged is affected by expected inflation, default risk, liquidity premium and maturity premium. It also conferred that a less liquid security attracts high interest rate. Interests on loans vary depending on length of time to maturity an obligation bond takes.

The study concluded that borrowers deemed to be not creditworthy are denied loans completely (credit rationed). Risky ventures are credit rationed by banks in most cases. From the findings the study further concluded that lending institutions consider the size of an enterprise while approving loan application. The study further concluded that lending institutions tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Assets of most SMEs face the risk of obsolescence therefore may not be offered as collateral. The emerging technology in government policy has negatively affected most SMEs operations.

6. Recommendations

In the light of the foregoing findings, the study recommends that;

SME lending often depends heavily on relationships between borrowers and lenders, and therefore there is need for the lending institutions to simplify loan application process to avoid unnecessary expenses. This will encourage more SMEs to apply for loans. Lending institutions should also ensure that loan repayment process is flexible for SMEs.

The high interest rates are one of the greatest hindrances of financial accessibility by SMEs. Interest in access to finance has increased significantly in recent years Therefore the government through the ministry of finance should ensure that the set interest rates are adhered to. This will ensure that SMEs are not exploited and are able to access loans.

The study also recommended that SMEs should form groups so as to enable them access loans easily, Majority of financial institutions would prefer group lending compared to individual. This will have a positive impact on the performance of SMEs.

SME are usually more credit constrained than other segments of the economy because of financial sector policy distortions, lack of collateral, information asymmetries, and lack of sufficient collateral as well as high risks inherent in lending to SMEs. Therefore financial institutions should design loan packages for SMEs. They should also train SMEs on proper financial management.

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