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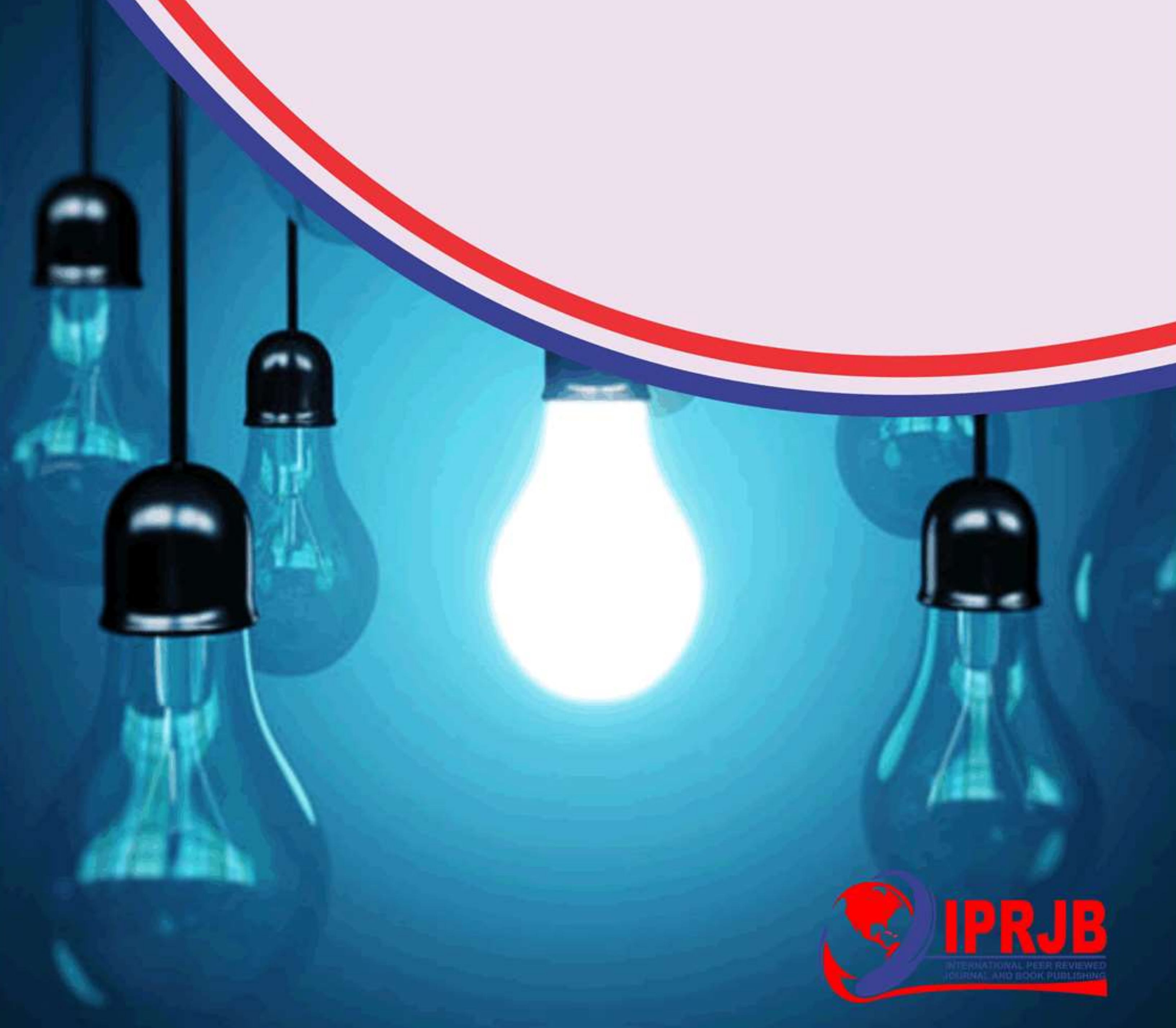

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EFFECT OF MORAL SUASION ON ACCESS TO CREDIT AMONG MICRO, SMALL AND MEDIUM ENTERPRISES IN KISUMU COUNTY

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Abstract

Purpose: The purpose of this study was to investigate the effect of monetary interventions on access to credit by micro, small and medium enterprises in Kisumu County, Kenya. The specific objective was to assess the effect of moral suasion on access to credit by micro, small and medium enterprises in Kisumu County. The theory supporting this study was the monetarism theory by Milton Friedman of 1967. It states that when money supply expands, it lowers interest rates and when money supply decreases, it raises interest rates making loans more expensive and slowing down economic growth.

Methodology: The study adopted a descriptive research design. The target population was 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 questionnaire was administered to a stratified sample of 420 finance managers of the 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 showed that moral suasion has a statistically significant effect on access to credit by micro, small and medium enterprises.

Findings: The findings provide empirical evidence that moral suasion is significant for interventions targeting access to credit by MSMEs.

Unique contribution to Theory, Practice and Policy: This study contributes to the practice of MSMEs because it recommends that access to credit by MSMEs depends on the direct effects of moral suasion. This sector should therefore take advantage of the interventions available to them through moral suasion. The study contributes to policy by recommending that policy-makers ought to employ sector specific interventions through moral suasion by setting aside funds for this sector to be managed by the financial institutions. They could also provide credit guarantees to the MSME sector to cushion the banks from non-performing loans. Contribution to theory

Keywords: *Moral Suasion, Access to Credit, Micro, Small and Medium Enterprises, Entrepreneur*

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1.1 Introduction

Moral suasion is a direct non-market based policy instrument used by governments to persuade and direct commercial banks to lend to particular sectors that are productive. When the CB desires changes in the amount of credit to certain sectors, it prevails over the commercial banks to make decisions on achieving certain required results. By the use of moral suasion, the central banks control commercial banks using directives and persuasions. Via these directives and persuasions the commercial banks may oblige and lend even to the vulnerable sectors such as the SMEs. After the 2007 global crisis, for instance, many banks in the UK were not willing to lend to the SME sector in particular. The UK government went on moral suasion lobbying hence convincing several of its major banks to lend to the SME sector resulting into an economic growth and causing the UK to get off recession (Omoregie, 2013).

Moral suasion was found to be effective in Canada due to high concentration of ownership among chartered banks. It was noted that The National Industrial Development Bank of Canada was particularly established to support the SME sector and that more direct methods were also used by the government of Canada by giving special attention to small businesses and to borrowers in less developed areas of the country. Moreover, informal moral suasion was also used to engage commercial banks and other financial institutions to cooperate in pursuing the financial policy objective (Ryan- Collins, 2016).

It has been documented that United States used moral suasion in ensuring that their payment and settlement system contained the required controls and guidelines to reduce their risks. It is noted that in 1965 the US employed moral suasion to bring down overseas bank lending due to problems associated with balance of payments and to reduce savings and loans. Moral suasion was a main policy tool in the United States (Omoregie, 2013).

In the review of government interventions that promote access to credit for MSMEs in Nigeria it was recorded that the experience of direct lending where governments gave directives to banks to lend to specific sectors to enable them develop was met with mixed reactions. Evidence had it that these funds failed to reach the purposed groups and on the contrary led to market distortions. It is also noted that while directed lending could increase access to credit for the purposed groups, it may reduce access for other groups, which may in turn lead to a downward trend in the general access to financial services (Ketley, Lightfoot, Jakubec and Megan, 2012).

A study was conducted in Europe on “Moral suasion, the invisible hand of the government”, during the European debt crisis. The study used monthly propriety data on banks which was analyzed using a difference-in-difference methodology. The findings indicated that domestic banks were more likely to be swayed by their governments to act in their favor than foreign affiliates of banks headquartered in other countries (Ogena, Popov and Neltje, 2016).

Before 1986 moral suasion was used in Nigeria in the areas of credit allocations to the productive sectors. After 1986 however, moral suasion was deemphasized because the financial market operators did not have trust in the monetary and fiscal authorities in Nigeria (Omoregie, 2013).

A study on monetary policy and bank lending in developing countries focused on loan applications, rates and real effects in was done in Uganda. It utilized secondary data which was analyzed and established that more liquid banks responded to monetary policy by cutting loans more aggressively than other banks. It was argued that the effect was stronger for banks that were subjected to moral suasion where they were pressured to support the government by holding government debt (Abuka, Alinda, Camelia and Peydro, 2019). The study on the effects of lowering central bank rate (CBR) on banks' prime rates in Kenyan commercial banks was done. The study was descriptive in nature. It established that despite concerted efforts by the central bank for commercial banks to lower their lending rates, there was little success achieved because the major determinants of lowering lending rates were non-performing loans, industry competition, policy barriers and lending channels. It was also revealed that the authority of the central bank to effectively regulate the channels was opposed by a majority's belief that banks would only operate with vigor without a strong and visible hand of the regulator (Ondieki and Jagongo, 2013).

The study on the effect of monetary policy on inflation in Kenya observed that the central bank banks put forth some control on financial institutions by moral suasion. In this study secondary data was analyzed using time series for 5 years, 2009-2013 (Koila, 2016).

There is however scanty literature, both locally and globally, on the use of moral suasion in particular as a tool of monetary intervention. Most of the studies done in Kenya and abroad dwelt majorly on the other monetary tools and there is little known on the effect of moral suasion as a tool. The use of moral suasion per se in Kenya is yet to be established as no literature was obtained touching on its use giving rise to a conceptual and contextual gap. Whether moral suasion as a monetary intervention enhances access to credit by MSMEs is an open question. This study begged the question: "Does moral suasion as a monetary tool has an effect on access to credit by the MSME sector in Kisumu County in Kenya?"

This study was supported by Milton Friedman's theory of 1967. The theory posits that that when money supply expands, it lowers interest rates making loans cheaper and when money supply decreases, it raises interest rates making loans more expensive and slows down economic growth (Whelan, 2020).

The global problems of MSMEs relate to their inability to access the 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) noted 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 investigated the effect of moral suasion on access to credit by MSMEs in Kisumu County.

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 (KCIDP, 2018/2022). 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 Kisumu County Integrated Development Plan (2018/2022) lack of access to credit remains a major impediment faced by MSMEs in the County. In 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 effect of moral suasion on MSMEs access to credit.

1.2 Statement of the Problem

The current study examines 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 monetary interventions aimed 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 current study hypothesizes that there is a relationship between moral suasion and access to credit.

The government, at national and county levels has set up funds to provide the MSME sector. These include the Fund for the Inclusion of Informal Sector (FIIS) to allow MSMEs to access credit facilities expand their businesses and increase their savings. The fund also aims to help informal enterprises transition to formal sector enterprises, through access to formal providers of financial services. FIIS is a revolving fund through which the government enters into credit facility agreements with selected banks for lending to micro-and small-enterprises through branches, authorized banking agents and other channels, particularly mobile banking. At County Government levels MSMEs have benefited from funds such as Youth Enterprise Fund, Women Enterprise Fund, Uwezo Fund and Kisumu Traders' Fund among others (KCIDP, 2018/2022).

The paradox is that despite monetary interventions in place, MSMEs 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 has aggravated the problem of accessibility to credit by the MSME sector. Olaka (2017) argues that interest caps have only served to divert lending to larger businesses.

Besides, from the theoretical and empirical literature reviews the knowledge gaps identified included the theoretical, conceptual, contextual and empirical gaps. Even though the central bank banks put forth some control on financial institutions by moral suasion (Koila, 2016), there was little success achieved because the authority of the central bank to effectively regulate the channels was opposed by a majority's belief that banks would only operate with vigor without a strong and visible hand of the regulator (Ondieki and Jagongo, 2013). This suggests a theoretical gap since the monetarism theory states that interest rates and inflation could be controlled through increase and decrease of money supply through moral suasion among other interventions.

There were scanty studies on moral suasion and credit access by MSMEs in Kenya if not in Kisumu County. The few that were available pointed to some characteristics of moral suasion but did not come out clear on the subject. Also, the two studies used secondary data while the current study used primary data. With this backdrop it can be stated that a theoretical, conceptual, contextual and empirical gaps existed (Ondieki & Jagongo, 2013; Koila, 2016). Evidently, without an empirical investigation we would have remained unaware of the mechanism by which moral suasion translated to access to credit by MSMEs. An empirical investigation of moral suasion shed light on the link between moral suasion and access to credit. This thesis answered this need by focusing on the research problem of establishing the effect of moral suasion on access to credit by

MSMEs. The study sought to answer the question: Does moral suasion have an effect on access to credit in Kenya?

1.3 Research Design and Methodology

This study adopted a descriptive research design which focused on the formulation of 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, Gathi, Wamukuru, Karanje, Muriithi and Maina, 2019). The study area was Kisumu County with a target population of 1472 MSMEs and a sample of 420 finance managers obtained at a 95% confidence level using Yamane's formula (KCIDP, 2018; Singh and Masuku, 2014). Purposive sampling was done to include two sub-counties followed by a stratified random sampling then a simple random sampling to obtain the individual businesses (Kimberlin and Winterstein, 2008; Saunders et. al., 2003). Primary data was collected using a five point likert scale questionnaire. Data was coded into an SPSS and analyzed using both descriptive and inferential statistics where frequencies, percentages and averages were obtained and presented in frequency distribution tables. Both simple and multiple linear regression analyses were done to test for the direct and the indirect relationships of the variables. 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 the correlation analysis established significant relationships between the variables. A simple linear regression analysis for the hypothesis was done. The regression analysis provided an equation which was used to estimate the magnitude of the dependent variable and the predictor variables. The simple linear regression model used to establish the direct relationship was: $y = \beta_0 + \beta_1 x_4 + \varepsilon$ (Fairchild and Mackinnon, 2009).

1.4 Results and Discussion

1.4.1 Response Rate

Questionnaires were administered to 420 respondents drawn from the population of 1472 respondents. The researcher and trained assistants delivered the questionnaires to the finance managers of the 420 registered groups. The response rate is presented in Table 1.

Table 1: Questionnaire return rate

Sample size	Number	Percent
Distributed Questionnaire	420	100
Returned questionnaire	381	90.7
Not returned questionnaire	39	9.3
Non usable questionnaire	10	2.4
Usable questionnaire	371	88.3

Source: Field data (2021)

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In Table 1, out of the three hundred and eighty one (420) total questionnaires administered, 381 were filled and returned representing 90.7% of the total questionnaires administered. This implies that 39 questionnaires were not returned and this represented 9.3% if the sample. However, of the 381 questionnaires returned, 10 questionnaires representing 2.4% were incomplete and could not be used for further analysis. Therefore, 371 questionnaires were legible for further analysis. This gave a response rate of 88.3%. The overall response rate of 97.4% is above the minimum recommended for analysis and reporting (Mugenda and Mugenda 2003). A return rate of 50% is adequate for analysis (Babbie, 2003).

1.4.2 Demographic Characteristics of Respondents

The researcher presumed that respondents' bio-data had some relationship with the role of financial innovations in the effect of monetary interventions on access to credit. The major background characteristics included: Age bracket, gender, level of education, length of stay in business, professional qualifications and the respondents' position in the organization.

1.4.2.1 Age of Respondents

The respondents were asked to indicate their age bracket. The distribution of the age brackets for the sampled MSMEs is presented in Table 2.

Table 2: Age of Respondents

Age (YRS)	Frequency	Percent
< 20	8	2.2
20-39	262	70.6
40-59	101	27.2
>60	0	0
Total	**371**	**100.0**

Source: Field Data (2021)

The data in Table 2 indicate that 70.6% of the respondents were between age 20 to 39. Respondents whose ages lay between ages 20 and 59 accounted for over 97.8% of the data. A possible explanation for this is that the owners of MSMEs in the study area are majorly youths and adults who are within the age of those who should be in active employment. They have thus resorted to business as a source of income. The policy implication is that the regulators need to implement selective monetary policies targeting this group.

The data in Table 2 also depicts that the respondents below 20yrs were least represented. This may be attributable to the fact the population at this age are mostly actively in school. The findings in Table 2 suggest that policies geared towards enhancing access to credit can have more impact if they target the MSMEs above 20yrs of age. There were no respondents of age above 60.

1.4.2.2 Gender of Respondents

The respondents were asked to indicate the brackets in which their ages belonged. The age distribution is presented Table 3

Table 6: Gender of Respondents

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Gender	Frequency	Percent
Male	196	52.8
Female	175	47.2
Total	**371**	**100.0**

Source: Field Data (2021)

The data in Table 3 indicate that a majority of the enterprises (52.8%) are either run or owned by males. The females run or own 47.2% of the MSMEs. Perhaps this implies that more males than females are able to access asset-based credit to enable them start and maintain their businesses. This may therefore require policy makers to establish policies that may encourage more females to venture more in business by being able to access credit. Females may also benefit from new forms of credit heralded by financial innovations that have fewer restrictions on borrowing.

1.4.2.3 Level of Education of Respondents

Data on the level of education of the respondents was collected and presented in Table 4.

Table 4: Level of Education of Respondents

Level	Frequency	Percent
Secondary	89	24.0
Diploma	145	39.1
Bachelor	111	29.9
Post graduate	8	2.1
Others	18	4.9
Total	**371**	**100.0**

Source: Field Data (2021)

From Table 4 it is evident that a majority of the respondents have attained higher education and possess both diplomas and degrees (69%). This is an indication that many college graduates resort to doing businesses perhaps because of lack of jobs. Policy makers may therefore consider empowering college graduates through mentorship and provision of startup capital to enable them establish secure sources of income and employment.

Table 4 on the other hand establishes that very few postgraduates (2.1%) from the sample size used pursued MSM enterprises. This is probably due to the fact that they are preferred by employers in job opportunities. However, 24% of the secondary school graduates engaged in business. This may be due to the fact that they may not be in a position to pursue further studies but choose to seek for a source of income. Policy makers and implementers should target this group by empowering them to ensure stability.

1.4.2.4 Length of Stay in Business

Respondents were asked to state the period of time that they have been in business in terms of years. The data in Table 5 presents the findings.

Table 5: Length of Stay in Business

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Length (yrs)	Frequency	Percent
<1	45	12.1
1-5	203	54.7
5-9	77	20.8
>9	46	12.4
Total	**371**	**100.0**

Source: Field Data (2021)

The data in Table 5 shows that 54.7% of the enterprises have been in business for a period of 1 to 5 yrs. The data also shows that over 75% of the businesses have been into operation for between 1 and 9 yrs. The enterprises that have operated for less than 1yr and more than 9yrs account for 12.4% respectively. The findings in Table 5 can be interpreted that most of the businesses have not operated for long and may not be stable financially. Policy makers should therefore formulate and implement policies that would enhance credit access for this category of entrepreneurs.

1.4.2.5 Positions of Respondents in the Organization

Data on the positions occupied by the respondents in their organizations was collected. The results are presented in Table 6.

Table 6: Positions of Respondents in the Organization

	Frequency	Percent
Top level manager	186	50.1
Middle level manager/ supervisor	95	25.6
General staff	90	24.3
Total	**371**	**100.0**

Source: Field Data (2021)

Results in Table 6 indicate that a majority (50.1%) of the respondents, were top level managers, 25.6% supervisors and 24.3% were general staff. Most of them are owners of their businesses.

1.4.3 Descriptive Statistics

1.4.3.1 Moral suasion and access to credit

The objective was to assess the effect of moral suasion on 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 6.

Table 6: Moral suasion and access to credit

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	N	Minimum	Maximum	Mean	Std. Deviation
Persuasions by the government on reduction of interest rates for MSMEs by banks are influenced by moral suasion	371	1	5	3.704	1.155
Government directive on creation of funds for inclusion of the informal sector is as a result of moral suasion	371	1	5	3.499	1.213
The creation of savings facilities for MSMEs by commercial banks is as an influence of moral suasion	371	1	5	3.251	1.208
The creation of loans facilities for MSMEs by commercial banks is as a result of moral suasion	371	1	5	3.299	1.309
The provision of loan guarantee scheme to MSMEs is a facilitation of moral suasion	371	1	5	3.329	1.250
The interest rates to MSMEs by MFIs is as a result of moral suasion	371	1	5	3.456	1.280
GRAND MEAN SCORE				**3.423**	

Source: Primary Data (2021)

As evidenced in table 6, persuasions by the government on reduction of interest rates for MSMEs by banks are largely influenced by moral suasion (Mean = 3.704, SD = 1.155). The results also suggest that government directive on creation of funds for inclusion of the informal sector is moderately as a result of moral suasion (Mean = 3.499, SD = 1.213). It is also evident that the creation of savings facilities for MSMEs by commercial banks is moderately as a result of moral suasion (Mean = 3.251, SD = 1.208). Moreover, the respondents did agree that the creation of loan facilities for MSMEs by commercial banks is moderately as a result of moral suasion (Mean = 3.299, SD = 1.309). Results reveal that the provision of loan guarantee schemes to MSMEs is moderately a facilitation of moral suasion (Mean = 3.329, SD = 2.250). The respondents also agreed to a moderate extent that interest rates to MSMEs by MFIs is as a result of moral suasion (Mean =3.456, SD = 1.280). The grand mean of 3.423 indicate that moral suasion would moderately influence access to credit. The findings corroborate with results of a study by Omoregie (2013) that moral suasion resulted in banks' lending to SMES in the UK following the 2007 global economic crisis. The results in Table 6 provide support to the assertion by Koila (2016) that the central bank of Kenya controls financial institutions through moral suasion.

1.4.3.2 Access to Credit

The study also analyzed the descriptive statistics for access to credit using, mean and standard deviation. Table 7 highlights the findings on access to credit.

Table 7: Access to Credit

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	N	Minimum	Maximum	Mean	Std. Deviation
Many MSMEs are accessing loan facilities due to improved access to credit	371	1	5	3.968	1.122
The amount of loan to MSMEs has increased due to enhanced access to credit	371	1	5	3.811	1.128
The cost of credit borrowed by MSMEs is favorable as a result of enhanced access to credit	371	1	5	3.571	1.166
The repayment period of loans to MSMEs is reasonable due to improved access to credit	371	1	5	3.499	1.306
GRANDMEAN SCORE				**3.712**	

Source: Field Data (2021).

Basing on the findings in Table 7 above, the respondents agreed to a large extent that many MSMEs are accessing loan facilities due to improved access to credit (Mean = 3.968, SD = 1.122). Also, the findings allude to the fact that the amount of loan to MSMEs has largely increased due to enhanced access to credit (Mean = 3.811, SD = 1.128). Further, the results indicate that the cost of credit borrowed by MSMEs is largely favorable as a result of enhanced access to credit (Mean = 3.571, SD = 1.166). In addition, the respondents moderately agreed that the repayment period of loans to MSMEs is reasonable due to improved access to credit (Mean = 3.499, SD = 1.306). Overall, the items on access to credit summed up to a mean of 3.712 implying that the aforementioned factors on average would improve access to credit largely.

1.4.4 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. The first test of correlation was formulated by Karl Pearson in 1896. Pearson's Product Moment Correlation Coefficient (r) is a scale to measure the strength of linear association between variables.
The coefficient of correlation R ranged between -1 and +1, i.e., $-1 \leq R \leq +1$. Correlation coefficient explored the type (positive, negative or none) and, degree of association (magnitude of closeness) between two variables. The current study sought to establish the effect of monetary intervention measures that may be adopted by monetary authorities on access to credit. Correlation analysis provided useful information on the degree of association between the primary independent dependent variables. The correlations among the variables are shown in Table 8.

Table 8: Correlations Matrix

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		Moral suasion	Access to credit
Moral suasion	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	371	
Access to credit	Pearson Correlation	.371**	1
	Sig. (2-tailed)	.002	
	N	371	371

Source Data:* Field Data *(2021).

The findings in Table 8 show that the relationship between moral suasion and access to credit was weak but positive and statistically significant correlation (r=.371**, p<.01), (Gathi, et. al.,2019) The results in Table 8 implies that moral suasion plays a positive role in access to credit by MSMEs in Kisumu County. The data in Table 8 shows that the variables considered in the study were correlated hence it was possible to carry out regression analysis.

1.4.5 Regression Analysis

This study was based on the premise that there is a relationship between monetary interventions and access to credit but this relationship is moderated by financial innovations. To test the hypotheses, linear regressions were carried out. First access to credit was regressed against each of the four types of monetary interventions. Next, credit access was then regressed on each interaction of each monetary intervention and financial innovation as a necessary step in testing for the moderating role of financial innovations in the relationship between monetary innovations and access to credit. The results of the tests, performed at the 95% confidence level, are presented in sections 1.4.5.1

1.4.5.1 Moral suasion and access to credit

The relationship between moral suasion and access to credit was investigated using the hypothesis:
$H0_4$: Moral suasion has no statistically significant effect on access to credit by micro, small and medium enterprises
Table 9a, 9b and 9c present findings on the influence of moral suasion on access to credit.

Table: 9a: Model Summary of Regression of Access to Credit on Moral Suasion

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.371[a]	.137	.135	.77228

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a. Predictors: (Constant), MS

Source: Field Data (2021).

The results in Table 9a imply that moral suasion explained a small proportion 13.7% of the variation in access to credit, (R^2=.137).

Table 9b: ANOVA for Regression of Access to Credit on Moral Suasion

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	35.022	1	35.022	58.721	.000[b]
	Residual	220.075	369	.596		
	Total	255.097	370			

a. Dependent Variable: access to credit

b. Predictors: (Constant), moral suasion

Source: Field Data (2021).

Table 9b reveal that the relationship between moral suasion and access to credit by MSMEs is statistically significant (F=58.721, ρ<0.05).Thus, the model was fit to predict access to credit using moral suasion.

9c: Coefficient Table of Regression of Access to Credit on Moral Suasion

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.498	.163		15.290	.000
	moral suasion	.355	.046	.371	7.663	.000

a. Dependent Variable: access to credit

Source: Field Data (2021).

The results indicate a statistically significant linear dependence of access to credit on moral suasion, (β=.371 and p<.05). It was established that a unit change in moral suasion would lead to a change of access to credit by .371. Thus we reject the null hypothesis and conclude that moral suasion has a statistical significant influence on access to credit by MSMEs operating in Kisumu County. The regression equation of the relationship in Table 9c can be stated as:

$Y= \beta_0+ \beta_4 X_4+\varepsilon$; $Y=2.498+.355X_4$

1.4.6 Summary of Research Objectives, Hypotheses and Findings

The summary of research objectives, hypotheses and conclusions is presented in Table 10 below.

Table 10: Summary of Research Objectives, Hypotheses and Findings

Objective	Hypothesis	R^2	Sig	Findings

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4. Assess the influence of moral suasion on access to credit by micro, small and medium enterprises	H_{04}:Moral suasion has no statistically significant effect on access to credit by micro, small and medium enterprises	.137	.000	H_{04} is not supported

Source: Field Data (2021)

Table 10 provides a summary of the direct effect of moral suasion on access to credit by MSMEs. From the results of hypothesis test in Table 10 it can be concluded that there is a statistically significant relationship between moral suasion and access to credit.

1.5 Summary of Findings

The overall objective was to assess the effect of moral suasion on access to credit by micro, small and medium enterprises in Kisumu County, Kenya. This chapter provides a summary of findings the hypothesis.

1.5.1 The Effect of Moral Suasion on Access to Credit.

H_{04} stated that; moral suasion has no statistically significant effect on access to credit by micro, small and medium enterprises. The simple regression analysis revealed that moral suasion has a positive statistical significant effect on credit access. There are limited studies on how moral suasion influences credit accessibility. The findings are in line with what happened in the UK when the government convinced banks to lend to SMEs to facilitate their recovery from the 2007 global recession (Omoregie, 2013). The study outcome offers empirical evidence on the effect of moral suasion on credit access.

1.6 Conclusion and Recommendations

1.6.1 Conclusion

The study set out to investigate the effect of monetary interventions on access to credit among MSMEs, with a focus on moral suasion. Two major conclusions arise from the findings. First, it can be concluded that moral suasion has a statistically significant effect on access to credit by micro, small and medium enterprises. Secondly, it may be concluded that micro, small and medium enterprises' access to credit depends on the direct effect of moral suasion.

The current study makes a substantial contribution to the theory and practice of small business finance. First the major contribution to knowledge is in explaining the mechanism by which moral suasion influences 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. Government persuasions and directives to banks and other financial institutions enable small firms to access a wider range of financial assets at lower interest rates conveniently from bank and non-bank institutions. In particular, it clarifies the mechanism through which moral suasion influences access to credit. From the findings, we can conclude that MSMEs can have better access to credit if the central bank uses moral suasion on the commercial banks. This finding has a far reaching and practical application and implication for the management of MSMEs, Central banks, bank and non-bank financial institutions. Further, it supports Friedman's monetarism theory which posits that an expansion of money supply lowers interest rates while a contraction of money supply increases interest rates. As long as the government through moral suasion does not rapidly increase or decrease the supply of money then interest rates and inflation rates can be controlled and access to credit enhanced.

1.6.2 Recommendations

In line with the study objective and corresponding findings of this study, a number of recommendations 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 prior research on moral suasion into the realm of small business finance. In particular, it provides empirical evidence on the direct influence of moral suasion on access to credit by micro, small and medium enterprises.

1.6.2.1 Recommendations for Policy, Practice and Theory

The findings have several practical applications in the management of finances in the small business sector. First, moral suasion 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. The current study can make several recommendations from the investigation of the effect of moral suasion on access to credit. From the findings that persuasion of financiers can increase lending to micro, small and medium enterprises, a number of recommendations can be made to a central monetary authority. To begin with, policies geared towards improving financial access of micro, small and medium enterprise should embrace moral suasion. Such interventions should focus on persuading lenders to make preferential loans targeting the sector in spite of the interests charged to other sectors.

Further, the central bank can enhance better financial inclusion policies that can target higher interest rates for deposits in micro finance sector and a lower rate for micro, small and medium firm loan facilities. The focus of regulations should be on improving the effect of moral suasion on access to credit. The aim of this monetary intervention 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. 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.

Monetarism theory is recommended to the Central Banks as a tool to be employed in controlling the supply of money, to enable the quantity of money to grow gradually hence aid in controlling interest rates and inflation.

1.6.2.2 Recommendations for Further Studies

The empirical nature of the study has led to a number of practical applications and implications for monetary policy authorities and banks whose products target finance managers in micro, small and medium enterprises. However, further research may provide answers to some of the questions that are not answered in this study. In particular, the use of qualitative analysis can shed more light on the nature of interventions that would enhance access to credit by MSMEs. The use of PLS-SEM with the application of SmartPLS3 can lead to more specific recommendations to management and regulators.

In addition to recommendations on improvement on the methodology for investigating the problem of financial inclusion in small business finance, unanswered questions require further research. For instance, the use of mediation analysis can lead to research that improves our understanding of the effect of interventions and moderators targeting access to credit in the microfinance sector. Thus by refining the conceptual and analytic models used in the study it is possible to improve research targeting sectorial access to credit by micro, small and medium enterprises in Kisumu County, Kenya and beyond.

The current chapter summarized the study findings and provided an analysis of which findings agreed upon or disagreed with previous studies. The conclusions were based on empirical evidence to introduce a broader perspective in this stream of research on effectiveness of monetary interventions in enhancing financial inclusion of unbanked small businesses in emerging economies, such as Kenya and beyond. Practical applications and implications of findings in the real world were explored in the current chapter. The study further suggested recommendations that were derived from the managerial, policy and theoretical implications of the research findings.

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