THE ROLE OF INFORMAL CREDIT SCHEMES IN MOBILISING FUNDS FOR MICRO-ENTERPRISES IN KENYA

BY

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A PROJECT REPORT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT FOR THE AWARD OF THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION (FINANCE) OF KENYATTA UNIVERSITY
DECLARATION

This research proposal is my original work and has not been presented for a degree in any other University or any other award.

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ABSTRACT

Micro and Small Enterprises (MSEs) play an important economic role in many countries. In Kenya, for example the MSE sector contributed over 50 percent of new jobs created in 2010, but despite their significance, the majority of entrepreneurs in this sector are considered uncreditworthy by most formal credit institutions and often struggle with accessing financial capital to start small businesses, with past statistics indicating that three out of five fail within the first few months. Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy by Kenya's Vision 2030. Informal credit schemes have been noted to play a major role in funds mobilisation for micro-enterprises. These schemes may not have provided the services to the expectations of the government and the micro-enterprises, but they have the potential as a means of successfully increasing outreach and multi-dimensional role in economic and social life. The main objective of the study to investigate the role of informal credit schemes in mobilising funds for micro-enterprises in Kenya. The specific objectives are to determine how demographic and socio-economic factors of the micro-enterprises influence their access to informal funds; assess the eligibility of micro-enterprises to access loans through credit guarantees and network arrangements; examine how the features adopted by informal schemes in savings mobilization affect credit access to micro-enterprises and draw policy implications for financial services to micro-enterprises in Kenya. A cross sectional survey design will be chosen for the study. A sample population of 73 respondents will be drawn from the target population of 729. The Cluster sampling technique will be used to pick respondents for indepth analysis. Primary data will be collected using structured questionnaires and interviews, while secondary data will be obtained through literature review. The quantitative data will be analysed using descriptive statistics such as frequencies, mean, mode and percentages, while qualitative data will be analysed by means of content analysis. The analyzed data will be presented by way of tables and graphs. This assessment is important for policy purposes not only because it can serve as a guide for the allocation of scarce resources to the numerous policy instruments competing for the same funds, but it also establishes the relative importance of the various micro-enterprises socio-economic factors that determines the accessibility of funds from informal credit schemes.
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<td>ANOVA</td>
<td>Analysis of variance</td>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CBOs</td>
<td>Community Based Organizations</td>
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<td>CBS</td>
<td>Central Bureau of Statistics</td>
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<td>EABS</td>
<td>East African Building Society</td>
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<td>FAO</td>
<td>Food and Agricultural Organization</td>
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<td>GDP</td>
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<td>ICDC</td>
<td>Industrial and Commercial Development</td>
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<td>K-REP</td>
<td>Kenya Rural Enterprise Programme</td>
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<td>LDC</td>
<td>Least Developed Countries</td>
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<td>Mutual Assistance Groups</td>
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<td>NBFIs</td>
<td>Non-bank financial institutions</td>
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<td>NGOs</td>
<td>Non Government Organisations</td>
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<td>POSB</td>
<td>Post Office Savings Bank</td>
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<tr>
<td>PRIDE</td>
<td>Promotion of Rural Initiatives and</td>
</tr>
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<td>ROSCA</td>
<td>Rotating Savings and Credit Associations</td>
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<td>SACCOS</td>
<td>Savings and Credit Cooperative Societies</td>
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<td>SMEs</td>
<td>Small and Medium sized Enterprises</td>
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DEFINITION OF OPERATIONAL TERMS

Access: Ability to borrow credit from a particular source

Credit: An arrangement for deferred payment of a loan or purchase

Collateral: A borrower's pledge of specific property to a lender, to secure repayment of a loan

Demographic: A statistic characterizing human populations (or segments of human populations broken down by age or sex or income etc.)

Financial System: A set of interconnected financial institutions, markets, instruments, services and transactions that allows the transfer of money between savers and borrowers.

Financing: A means of obtaining the resources to purchase an item, then paying back the loan in a set time period for a set monthly or weekly fee

Informal Credit Scheme: Informal group association designed to provide access to saving & financial services to individuals and small businesses.

Informal Credit: Informal credit includes various traditional non-institutional ways of accumulating and extending credit

Informal Finance: Financial transactions that take place beyond the functional scope of the banking and other formal financial sector regulations.

Informal Sector: The part of an economy that is not taxed, monitored by any form of government or included in any gross national product (GNP), unlike the formal economy.

Micro-Enterprise: A type of small business, often unregistered, having ten or fewer employees.

Micro-Finance: Finance schemes designed to provide access to saving & financial services to individuals and small businesses

Role: The actions and activities assigned to or required or expected of a person or group.
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1.1 Background of the Study
The Micro and Small Enterprises (MSEs) including Kericho District, are faced with serious constraint has been due to lack of access to finance and training. This has affected the survival and growth of these enterprises. Access to finance and training has been a major constraint in the development of MSEs in the country, resulting in enterprises relying on the government. In Kericho’s survey, one of the main constraints is lack of training. Among the constraints, mobilization for investments and expectations of returns on investment is the major constraint for this paper. In the same vein, other studies have also highlighted the same constraint.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Micro and Small Enterprises (MSEs) have increasingly become important to economies, including Kenya. This is in spite of continued constraints MSEs face in their activities. Financial constraint has been identified in many business surveys as an important factor determining the survival and growth of Micro and Small Enterprises in both developing and developed countries. Access to finance allows MSEs to undertake productive investments to expand their businesses and acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. Lack of financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment. The capacity for Micro and Small Enterprises (MSEs) to fulfil their potential in an economy depends on the availability of finance (Whincop, 2001). The development of Micro and Small Enterprises (MSEs) has been identified in Kenya's government policy in the Vision 2030 on industrial transformation and the Sessional Paper Number 2 of 2005 on the Development of MSEs for Employment and Wealth Creation as one of the strategies for the country's industrialisation, employment generation and poverty reduction (Government of Kenya, 2006).

Among the credit schemes, the informal groups have been noted to play a major role in funds mobilisation for micro-enterprises. These schemes may not have provided these services to the expectations of the government and the micro-enterprises, but they have the potential as a means of successfully increasing outreach and multi-dimensional role in economic and social life. In this paper, we use the generic name MSEs, following UNIDO (1997) and Daniel (2000), among other studies, to refer to small-scale enterprises.
1.1.1 Historical background of Informal Finance institutions

Informal finance consists of those, often unrecorded, activities that take place outside official financial institutions. Informal financial activities have wide-ranging operational scope and features: community or group-based, organised around individuals, mobilise savings only, others are involved in both savings and lending, while there are those that are involved only in lending (Heidhues, 2001).

There are two schools of thought in relation to the origin of informal finance Schemes: the financial repression and the structuralist schools. The financial repression school, which originated from the seminal work of McKinnon (1973), argues that informal financial agents start operations as a result of excessive regulation of the formal financial sector, represented by the use of policies of directed credit, interest-rate ceilings, and preferential credit allocation to government and its parastatals. Distortions result in the economy, with government debt crowding out official private sector investment. The effective cost of funds to the poor, rural dwellers, SMEs and other disadvantaged groups, becomes excessively high. All these accentuate the development of the informal financial sector. The structuralist school ascribes the existence of informal finance to other motives beyond the purely economic factors (Shaw, 1973). According to this school of thought, informal financial systems are subordinate to the official (formal), system. Market segmentation occurs, not because of regulation, but because informal financial institutions serve other social goals. They redistribute income among community members and provide a form of social security by meeting their fluctuating liquidity needs. They express solidarity among members based on kinship, ethnicity, or religion.

1.1.2 Importance of Financial credit

The importance of credit in the transformation of developing countries is beyond doubt. Accordingly, a number of policy interventions aimed at ensuring the easy access to credit of traders, farmers and small-scale industries have been attempted in developing countries (Heidhues, 2001). Credit enhances the establishment and expansion of existing businesses such as the marketing of products and general trade in goods and services. It also enables enterprises which are not risk-averse to overcome their liquidity constraints, undertake productive investments to boost income levels and create employment opportunities. In the process, it
contributes to poverty alleviation among income households. (Binswanger and Khandker, 2000). Advocates of credit as a poverty alleviation measure contend that limited availability of credit services has undermined micro-enterprise activities due to lack of capital for investment and has therefore prevented them from adopting improved business practices because of their inability to purchase the necessary operational inputs. (Varghese, 2005).

1.1.3 Role of Micro-Enterprises

The economic role of MSEs is fully recognized in the Economic Recovery Strategy (ERS) for Wealth and Employment Creation 2003-2007. It states that the large majority of Kenyans outside small-scale farming derive their livelihoods from micro and small enterprises. Since the mid-1990s, MSEs have created virtually all the new wage jobs in the economy. The Structural Adjustment policies adopted in the 1990s and the parallel decline in the economy contributed significantly to the growth of the size of the informal sector. The formal sector employment was particularly hit by the decline in economic performance of the 1990s. While the formal sector wage employment grew by 2.1% in 1998, this rate declined to 0.6% in 1999, to 0.4% in 2000, and recorded a negative growth rate of -1.1% in 2001 (Government of Kenya, 2006). As the formal sector has declined, the informal sector has become increasingly important in the Kenyan economy as a source of employment and incomes. The share of employment between the formal and the informal sectors has changed drastically since then, with the latter overtaking the former in employment absorption. During the last decade, the growth rate in the informal sector's employment has remained above that of the formal sector. This has seen the sector's share in total employment rise from 16% in 1980, to 63.6% in 1997 and to 70% in 2000. Currently, the informal sector's share in total employment stands at 75% (Government of Kenya, 2005). Between 2000 and 2001, employment in the informal sector rose by 11.4%. The 1999 National Survey of Small and Micro-enterprises (SMEs) found that about 26% of the total households in the country are engaged in some form of SME activity (CBS KREP and ICEG, 1999).
1.1.4 Factors affecting Credit access by MSEs

Micro and Small enterprises (MSEs) in Kenya are generally undercapitalized, suggesting major operational difficulties in accessing credit and pursuing corporate goals. Kimuyu and Omiti (2000) observe that 18.4% of the MSEs in Kenya cite access to credit as their second most severe constraint after market access. Oketch (2000) show that manufacturing enterprises in Kenya that have limited access to credit tend to be less productive and cannot always move to points of best practice. This indicates that since the MSE sector does not have adequate access to credit, its potential role in transforming the country by the year 2030 is unlikely to be realized. Bank credit is among the most useful sources of finance for business in Kenya (Government of Kenya, 2005). Bank credit refers to loans and overdrafts extended to enterprises by formal banking institutions. Only 1.5 percent of MSEs receive loans from commercial banks in Kenya (International Centre for Economic Growth et al, 1999). It is unclear, how the rest, who form the majority, meet their working and investment needs (Kimuyu and Omiti, 2000). Perhaps this is not surprising in light of the magnitude of barriers that they face in accessing credit. Lack of tangible security by MSEs, the limited capacity, outreach and linkages by financial intermediaries and a hostile legal and regulatory framework for financial services are the main constraints (Government of Kenya, 2005). There is currently little information as to how the few MSEs that access formal credit manage to do so in light of this very difficult environment.

1.1.5 Micro-enterprises in Kenya

Micro-enterprises comprise over 90% of the MSEs and most are located in the informal sector. MSEs in the informal sector can be either unlicensed or licensed to conduct an income generating activity but not registered as a business. (Government of Kenya, 2006). Informality does not imply illegality. Kenya’s informal enterprises are essentially “unincorporated enterprises”. There is what might be termed “a progression of legality” among the MSEs in their varying levels of adherence to licensing, registration and legal requirements of doing business. But even though licensed, microenterprises such as food kiosks, street traders, repair booth operators in urban areas are subject to period “official swoops” which remove them and relocate them away from their existing locations.
Over the last few years, two new policies of importance to the MSE sector have been drafted. In 2005, Sessional Paper No. 2 laid out the policy framework for support to MSEs. In it, the government recognizes MSEs as dynamic private sector players and not a residual sector. It expands the previous definition of the term MSEs (as denoting non-agricultural enterprises) to include farm based enterprises as well. Lack of tangible security by MSEs, the limited capacity, outreach and linkages by financial intermediaries and a hostile legal and regulatory framework for financial services are the main constraints of these businesses. (Kimuyu and Omiti, 2000).

1.2 Statement of the problem

Micro and Small entrepreneurs in Kenya often struggle with accessing formal financing, with statistics indicating that three out of five fail within the first few months of their start ups. Kimuyu and Omiti (2000) observe that 18.4% of the MSEs in Kenya cite access to credit as their second most severe constraint after market access. Green et al (2000) study on MSEs in Kenya indicated that the growth of MSEs is mainly impeded by lack of access to finance, since majority of them are considered uncreditworthy by most formal credit institutions (Atieno, 2001). Whereas a small number of NGOs finance an increasing number of microenterprise activities, the high interest rates are an impediment to loans access from Micro finance institutions (Mushimiyimana, 2008). Green et al (2000) demonstrates that access to credit is associated with improved performance of MSEs in Kenya. Moreover, Lundvall et al. (1998) show that manufacturing enterprises in Kenya that have limited access to credit also tend to be less productive and cannot always move towards implementation of best practices. Therefore, lack of access to financial services is seen as one of the main reasons for the slow growth of these firms. Improving the availability of credit facilities in the MSE sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy (Government of Kenya, 2005). While there have been a number of discussions on how to address credit constraints, there is little or no evidence that MSEs can now access funds from informal financing arrangements. Knowledge in this area, especially a quantitative analysis of the role of informal finance is lacking for financial markets in Kenya. Mullineux and Murinde (2002), state that research is needed on the various forms of finance used by MSEs and made available by lending institutions and investors in Kenya.
Informal arrangements, like informal credit & lending schemes, provide an important avenue through which micro-enterprises can overcome the financial constraints. These schemes may not have provided the services to the expectations of the government and the micro-enterprises, but they may have potential both as a means of successfully increasing outreach and multidimensional role in economic and social life. As noted by Atieno (2009), the capacity of the different types of financial institutions through which MSEs obtain financial services needs to be strengthened to enable them to improve their services. Whereas commercial banks in Kenya now have credit sections specific to MSEs, their stringent procedures is a deterrent in funds accessibility. There are also moderating factors such as credit policy, availability of loanable funds and government policy that influence the accessibility of funds to the small businesses in Kenya. Banks are mainly concerned with default problems and loan administration costs, however; linking their operations with those of informal lenders can help to ensure that they reach more potential borrowers.

1.3 Objectives of the study

The general objective of the study is to investigate the role of informal credit schemes in mobilising funds for micro-enterprises in Kenya; A case study of Kericho County.

The specific objectives of the study are:

a) To determine how socio-economic factors of the micro-enterprises influence their accessibility to informal funds.

b) To determine how Security and Credit guarantees enables funds accessibility from the informal credit schemes.

c) To determine how Networking enables funds accessibility from the informal credit schemes.

d) Examine how savings mobilization in informal schemes affect credit accessibility to micro-enterprises.

e) To draw policy implications for financial services to micro-enterprises in Kenya.
1.4 Research Questions
The study will seek information to address the following questions:-

a) How do socio-economic factors of the micro-enterprises influence access to informal funds?

b) What are the determinants of loan access for micro-enterprises through Security and Credit guarantees?

c) What are the determinants of loan access for micro-enterprises through Network arrangements?

d) How do the features adopted by informal schemes in savings mobilization affect credit access to micro-enterprises?

e) What are policy implications for financial services to micro-enterprises in Kenya?

1.5 Significance of the study
The study will provide useful information on the status of micro-enterprises in accessing credit from informal credit institutions:

- The information will be vital for policy makers in taking appropriate actions toward facilitating the establishment of comprehensive and sustainable financial institutions for the development of micro and small businesses.

- The study results will also benefit the Micro Finance Institutions, development partners and civil society organisations involved in the provision of credit facilities to small and micro-enterprise sector in modifying the lending procedures and conditions to better serve their specific credit and savings needs.

- Formal institutions could adopt some of the strengths of informal credit suppliers by simplifying procedures for small loans without leaving their formal framework.

- The outcome of the study will be useful to identify innovative options and institutional arrangements that would serve as an input for government and private policy makers in formulating credit policies for improved accessibility to credit.
1.6 The scope of the study
The study seeks to investigate the role of informal credit schemes in mobilising funds for micro-enterprises in Kericho town. The main focus of the study will be the retail enterprises. The study will concentrate on the five administrative areas of Kericho town, which has a large presence of retail enterprises dealing with processed goods, clothes and farm produce. The study will focus on the socio-economic characteristics of the retail enterprises that influence credit accessibility to informal credit, usage and preference of the informal credit by the retail traders.

1.7 Limitations of the study
The study will have two limitations. First, due to the limited time and financial resources available, the study only covers one urban area such that the results may not apply directly to all urban areas in the country which have different demographic characteristics and environments. However, this study will be used as a basis for further larger explorations on the viability of informal financing, as well as serve as a preliminary model to analyse any informal financing successful arrangements in the country. Secondly, due to the fact that most micro-enterprises do not keep records, the accuracy of most of the data collected is depended on individual’s ability to recall data & information. However, it is believed that the data obtained will provide a useful basis of information for making recommendations to improve access to credit by the majority of micro-enterprises and in the enhancement of the effectiveness and efficiency of the credit delivery and recovery mechanisms of various credit institutions and micro-credit programs.
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction
Given the international community’s commitment to the goal of halving world poverty by the year 2015, it is imperative to understand the ways in which finance contributes to economic growth and poverty reduction, and to design effective policies that can make that contribution a reality. Recent literature in development economics and finance has investigated the role of micro and small enterprise (MSE) development in contributing to poverty reduction and the general achievement of Millennium Development Goals (MDGs) DFID (2000) and Beck et al. (2005). For example it has been argued that a dynamic and growing MSE sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction; creation of employment; provision of the seedbed of industrialisation; savings mobilisation; and production of goods and services that meet the basic needs of the poor.

The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 80 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation. Lack of credit has been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000). This has been attributed to a number of factors. Conceptually, the nature of credit markets, which are segmented and incomplete, is one explanation. Market segmentation implies that the demand for, and supply of, financial services do not interact. Due to the risky and inter temporal nature of credit trade, information requirements and enforcement problems for lenders are high, resulting
in agency costs that affect the outcome of credit programmes targeted towards the MSEs. As a result, firms may prefer funds from external sources but fail to apply because of the high costs involved. While the overall financial market involvement of firms may be limited, smaller businesses have much less involvement than the larger ones (Bigsten et al., 2000). On the supply side, most formal financial institutions consider MSEs uncreditworthy due to their lack of growth potential and small size of activities.

2.1 Characteristics of Micro and Small Enterprises (MSEs)

In general, MSEs are an integral element of the informal sector in most developing countries. In the majority of cases, these enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies (Cook and Nixson, 2005). As noted by Cook and Nixson (2005), although a number of measures have been used to identify and describe MSEs, there is no consensus on any one measure and it is customary to use several metrics, including the value of fixed assets of the enterprise, enterprise turnover and the number of employees. Ryan (2005) has pointed out that the term may be used to cover a wide range of economic activities for an indicative number of employees.

2.2 The credit Markets for Small Businesses

2.2.1 The role of credit in a micro enterprise economy

Aliber, M, (2002), states that with insufficient funds, micro-enterprises cannot invest in new equipment and tools, and it becomes difficult to reach out to new markets and products. Aliber further contends that without financial assistance, small scale traders cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand. Cook (2005) show that rapid development reached in Europe and Asia was highly facilitated by the availability of credit to the majority. Countries like India, Indonesia, Burma and even China were reported to have recorded a good pace of development after managing to solve problems of
credit availability for the majority. The access to credit by small producers in many African countries is rather disappointing. Very few small farmers and micro-entrepreneurs have been integrated into formal financial markets and many do not use credit or if they do, they continue to borrow from informal market lenders. It is estimated that only 15 percent of farmers in Asia and Latin America and just five percent in Africa are financed through formal credit sources (Ghat, 1999).

In a survey carried out in rural India, it was observed that credit from the formal financial sources meets only a small portion of the total credit demand of the agricultural sector. He found out that credit from the formal financial sources accounted for only 9.9 percent of the total credit available to the agricultural sector. The remaining 90.1 percent is from the informal financial sources comprising mainly loans from relatives, neighbours, friends, rotational savings groups and one’s superior at work (“boss”) and other sources. (Cook, 2005)

2.2.2 The Credit markets in Africa

Credit markets in Africa have mainly been characterized by the inability to satisfy the existing demand for credit by small businesses. Whereas for the informal sector, the main reason for the inability is the small size of the resources it controls, for the formal sector it is not an inadequate lending base that is the reason (Aryeetey, 1996). Rather, the reasons are difficulties in loan administration like screening and monitoring, high transaction costs, and the risk of default. Credit markets are characterized by information asymmetry, agency problems and poor contract enforcement mechanisms ((Aryeetey and Udry, 1997). They are mainly fragmented because different segments serve clients with distinct characteristics. Because of this, lending units are unable to meet the needs of borrowers interested in certain types of credit. The result is a credit gap that captures those borrowers who cannot get what they want from the informal market, yet they cannot gain access to the formal sources. Enterprises that want to expand beyond the limits
of self-finance but lack access to bank credit demand external finance, which the informal sector is unable to satisfy.

African financial systems have witnessed some growth in the last few years, even though this has generally been slow in coming. After undergoing some liberal reform in the 1990s, the financial systems in most African countries were generally expected to perform much better, improving upon their efficiency and effectiveness in the delivery of financial services. By removing policies that were seen to hamper the competitiveness of banks, it was assumed that they would be free to pursue management practices that supported their rapid growth and transformation. A decade later, there were serious concerns about their ability to achieve the anticipated growth and expansion (La Ferrara, 2003). In the last few years, however financial markets in many African countries appear to be finally doing considerably better than in the early years of independence.

2.2.3 The Credit Access in Kenya

The Kenyan financial sector is composed of the banking sector, microfinance institutions (MFIs), Savings and Credit Cooperatives (SACCOs), money transfer services and the informal financial services sector. The regulator is the Central Bank of Kenya (CBK). There is a widespread consensus that there is still limited access to financial services for the majority of Kenyans, though in reality the situation has improved markedly in recent years. According to the FinAccess Survey 2009, 22.6% of the adult populations now have access to formal financial services through banks, compared with 18.9% in 2006. A further 17.9% are served by other formal institutions (MFIs and SACCOs) compared with only 7.5% in 2006. The proportion of adult Kenyans that depend primarily on informal financial service providers was estimated by the FinAccess survey to be 26.8% in 2009. In a study in Western Kenya, Atieno (2001) observed that out of the 334 sampled enterprises, more than three-quarters of the respondents (86%) stated that they got their initial capital for starting their enterprises from informal sources.
The FinAccess Survey, 2009 revealed that just over a quarter of Kenyans can be regarded as ‘formally financially included.’ Less than one in five (18.5%) of the Kenyan adult population are banked, that is using a regulated commercial bank, building society or the Post Bank. The Post Bank alone accounted for 5.6% of the usage. The Savings and Credit Co-operatives (SACCOs) provide services to 13.1%, while the currently unregulated micro-finance institutions’ (MFIs) reach 1.7% credit.

2.3 Informal finance

Informal finance might be defined as embracing all financial transactions taking place beyond a country’s regulations on banking and other financial sectors. This definition includes a wide range of financial activity whose operational scope differs across countries. Indeed, there is a wide variety of informal savings and lending in the region. The definition of informal finance includes such schemes as the operations of Savings and Credit Associations (SCA), known all over Africa; professional moneylenders; part-time moneylenders (estate owners, traders, grain millers, smallholder farmers, employers, relations and friends); mobile bankers, and cooperative societies. These exist in both urban and rural areas. While savings collectors fall under the first category of deposit mobilizers, moneylenders—including relations and friends—do not generally accept deposits and may be assigned to a second category. SCAs (credit unions and credit cooperatives) take in deposits and also lend in varied forms. Most informal units deal with specific groups of people, ensuring that only those satisfy distinct selection criteria are able to either deposit with them or borrow from them. (Aryeetey and Udry, 1997)

While the scale of informal finance in many developing countries has long been known to be extensive, data at the national level and particularly in Africa has been scarce. In the African context, it is informal group systems such as rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCAs) that have appeared to be prevalent by
A large part of financial transactions in Africa occur outside the formal financial system. Three types of informal units in Africa have been identified: Savings mobilization units with little or no lending; lending units that do not engage in any savings; and those units that combine deposit mobilization and lending (Varghese, 2005). Most informal financial agents tend to specialize in either lending or savings mobilization. And most organizations tend to be membership based. Informal financial units have been developed in response to the demand of a distinct clientele and each unit tends to serve a particular market niche (Aryeetey and Gockel, 1991). Many analysts estimate that the informal financial sector is larger than the formal financial sector in terms of outreach since they are accessible to most socio-economic groups. It is also estimated that there is a rapid and growing demand for informal savings and credit facilities in Africa given the large number of people moving into the informal real sector. High proportions of rural credit and savings are still managed informally. To varying degrees, informal financial services are characterised by easy access, flexibility in loan use, rapid processing, flexibility in interest rates and collateral requirements. However, informal agents are restricted in the size and duration of lending and in their area of operations (Aryeetey and Udry, 1997).
2.3.1 Characteristics of informal finance

Studies of informal borrowing and lending in African countries have resulted in a list of common characteristics or “stylised facts” that is often used to describe informal credit markets in Africa. Aliber, M (2002) specifies the six characteristics as:

i. Limited information: Lenders have, more often than not, limited information about the borrower and how he spends the money.

ii. Segmented markets: Relationships between borrowers and lenders are stable.

iii. Interlinkages between markets: One often observes that interlinkages exist and the outcome in one market affects the outcome in a different market.

iv. High and varying interest rates: Interest rates are higher than the lenders’ opportunity cost of lending and may vary within each village.

v. Credit rationing: Lenders are often not able to lend more at the going interest rate, but borrowers are willing to borrow more at the going interest rate.

vi. Exclusivity: It is common that lenders refuse to lend to individuals that have outstanding loans with other lenders.
2.4 The Empirical Literature

There have been a number of attempts to explain the limited access to credit by MSEs. These attempts have broadly taken two arguably complimentary, perspectives. The first highlights the prevalence of factors external to MSEs including the limited capacity, outreach and linkages by financial intermediaries as the main constraints to MSEs access to credit (Atieno, 2001). A hostile legal and regulatory framework for financial services underlies such constraints (Government of Kenya, 2005). The second perspective also acknowledges the problem of macro level constraints, but emphasizes the greater explanatory powers of the relatively weak MSEs capacities including lack of tangible security and limited human capital (Kimuyu and Omiti 2000). Arguably, both perspectives have enhanced our understanding of the factors that affect the likelihood of MSEs to access bank credit. However, focusing on either perspective has led to different conclusions on the probable determinants of access to formal bank credit by MSEs. This situation has not been useful in offering practical guidance and/or developing appropriate policies.

According to Hossain (1988), the Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established. On the other hand, Daniel (2000), stated that group lending approach effectively ration out some groups of farm households (The poorest of the poor). That is co-borrowers tend to self select themselves into a group of homogenous members that effectively discriminates against some others to reduce risk of carrying the burden of repayment incase of defaults of co-borrowers. In a study, based on the data from a sample survey of 699 randomly selected peasant farmers in Bolivia, Miller and Ladman (1983), applied discriminant analysis to identify a set of socio-economic, physical and psychological factors that influence credit use among small farmers with a view to
differentiate between borrowers, potential borrowers, and non-borrowers. The results of the study indicated that borrowers were characterized by higher resource base, farm size, higher level of education, large number of cattle, higher household incomes, higher level of market integration, greater use of improved technology, larger operating costs and investments, higher risk ability, etc. Potential borrowers were characterized by further distance from markets, low level of market integration, higher transaction costs, less number of cattle, etc. Further more, non-potential borrowers were characterized by lack of interest to expand production, lower level of education, limited use of improved technology, shortage of labour and proximity to market.

Physical distance of farm households from formal lending institutions is one of the factors that influence access to formal credit. According to Hussien (2007), farm households are discouraged to borrow from credit sector if it is located farther. This is because both temporal and monetary costs of transaction, especially transportation cost, increase with lender-borrower distance which raises the effective cost of borrowing at otherwise relatively lower interest rate in the sector. A study in Egypt by Mohieldin and Write (2000), employing a probit model analysis of the formal credit sector shows the impact of the explanatory variables on the outcome of whether a person has a loan. Both the requirements of the individual (demand side) and of the lending institution (supply side) determined whether a loan is extant. The results of the study indicated that educational level, ownership of land, total assets, and sizes of the household were significant factors. Assefa (1989), empirically tested a set of socio-economic and other important factors influencing agricultural credit use among small farmers aimed at differentiating borrowers from non-borrowers. Using discriminant analysis, Assefa found that large farm size, high investment, adoption of improved technology were significant variables in distinguishing borrowers from non-borrowers.
Cook and Nixson (2005), in their study also found out that the use of extension package, in effect, requires adequate labor supply, thus a positive effect of household labor on the choice of formal credit for the farm input. The choice of the formal sector increases with the number of productive members of the farm households. It was also indicated that the low level of education of the farm households may have contributed for limited use of formal sector credit by farm households. Men tend to borrow more from the formal and semiformal sources than women do. That is being a female reduces the likelihood of borrowing from the formal and semiformal credit sectors where it increases the probability of borrowing from the informal credit sources.
2.5 The Conceptual Framework

Based on the literature review the following conceptual framework depicts the most important variables expected to influence micro-enterprises access to informal credit in the study area (the dependent variable). Four sets of independent variables will be assessed in this study. These are the demographic & socio-economic status of the proprietor, credit guarantees, networking and schemes. Savings mobilization features and characteristics. Each of these four main categories contains more detailed indicators of informal credit access (Figure 2.1).

The first measure, socio-economic status include; age, education level attained, experience of the entrepreneur and ownership type of the business. Education may proxy for unobserved managerial ability, which translates into greater efficiency and ability to attract a loan. Entrepreneur’s experience is measured by considering the number of years of business experience. Past research found a positive relationship between higher educational qualifications, experience and business growth (Oksoy & Ozsoy, 2006). Observations from Johnsen and McMahon (2005) also indicated that the female gender at individual, household, and wider community and national context are affected by financial, economic, cultural, political and legal obstacles.

The second measure, security and credit guarantee includes the tangibility of the entrepreneur inform of assets. Previous researchers suggest that financing will depend upon whether the lending can be secured by collateral or not. Johnsen and McMahon (2005) stated that other factors held constant, firms with more intangible assets need to borrow less, compared with firms with more tangible assets, because of collateral factor. Loan security is one of the important aspects of credit to SMEs. Lending to small-scale enterprises is generally security based, without any regard for potential future cash flows. Loan guarantee schemes are increasingly being implemented as a means of encouraging financial institutions to increase their lending to the
risky sectors and those without the traditional formal security. Therefore, a good reference on integrity and ability is vital for access to credit for a micro-enterprise.

The third measure, the entrepreneur’s networking, includes the nature and extent of one’s involvement in various informal networks and formal civic organizations. Its focus is on an individual’s external social ties and how the social capital, as a resource within this network, is used for the individual’s private benefit to gain access to credit. Coulthard and Loos (2007) describe networking in a small firm context as an activity in which entrepreneurially oriented SME owners build and manage personal relationships with particular individuals in their surroundings. The measure will be whether the owner/manager of is a member of a trade, group or social associations and prior relationship with the lender(s). Belonging to a professional body helps in gaining a competitive advantage in a business. This could also help in networking and obtaining of business information.

Savings mobilisation is the fourth measure. ROSCAs and ASCAs are community based and often informal credit groups for lending and savings arrangements. They informally pool together savings and in turn lend to their members. Savings mobilization services provided by these informal schemes aims at alleviating the deficiency of savings facilities in most areas of the country. At the MSE level, the lack of appropriate institutional savings facilities forces the individuals to rely upon in-kind savings, such as the savings in the form of assets, animals, stock or raw materials. These groups play a significant role to foster savings mobilization for the micro entrepreneurs, through the combination of security of funds, ready access or liquidity, and convenience. It is therefore likely that loans secured would be a product of a client’s historical savings behavior, consistency, and discipline in making savings deposits (Aczel, 2000). The measurement will be the level of level of satisfaction with attributes of the schemes savings mobilization, frequency of deposits and the usage of savings pattern for credit worthiness assessment.
The relationship between the variables is diagrammatically presented as shown below.

Constraints

**Socio-economic Status**
- Education
- Age
- Experience

**Security and Credit Guarantees**
- Tangible assets as Collateral
- Good reference on integrity/ability

**Networking**
- Prior relationship with the lender
- Membership of association or Lending Group

**Savings Mobilization**
- Frequency of deposits
- Usage of savings pattern for credit worthiness Assessment

Independent Variables

**Access to Funds**

for Micro-Enterprises

Dependent Variable

**Moderating Factors**
- Credit Policy
- Availability of Loan able Funds
- Government Policy

Figure 2.1

Source: Researcher
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction
This chapter outlines the methods that were used in carrying out the study. These are the
description terms of the study design, study area, population, sample size determination and
sampling techniques, data collection instruments, procedures and data analysis.

3.1 Study Design
This study employed a cross-sectional survey research design. The design enabled the researcher
explains that this research strategy allows collection of data through questionnaires administered
to a sample and that the data collected by this design can be used to suggest possible reasons for
particular relationships between variables and produce models for these relationships.

3.2 Study Location
The research study was carried out in Kericho County. With a high altitude and virtually
adequate rainfall, it is the country's leading tea growing zone with a high concentration of tea
factories. The infrastructural development, institutional services such as banking, professional
services and skilled labor available are adequate to serve light industries. A thriving informal
sector of jua kali artisans, women groups, youth groups and self-help groups provide excellent
opportunities for backward and forward business linkages. The town has a fairly well developed
social economic infrastructure. Kericho town was chosen because it is an urban centre and
according to McCormick and Abuodha (2000), the urban enterprises are not only more profitable
than their rural counterparts but also begin with a larger capital.
3.3 Study Population
The population of this study was the micro enterprises operating within Kericho County. By December, 2011 there were 729 micro-enterprises registered by the Kericho Municipal Council.

3.4 Sample Design
The sampling design for the research was Cluster sampling. Cluster sampling is used when "natural" groupings are evident in a statistical population. This design is appropriate for this study because the population of interest is widely dispersed in various clusters or regions. The research study’s micro-enterprises are spread out in five administrative divisions of the town, namely, Chelimo, Central, Kimugu, Kapsuser and Kapcheptoror . (Govt. Of Kenya, 2006).

3.5 Sample Size
From the target population of 729 microenterprises, a sample size of 73 respondents was drawn from this population, using the cluster sampling technique. The determination of the sample size was based on the data and ratio as provided below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Division</th>
<th>Target Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Chelimo</td>
<td>80</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>Central</td>
<td>222</td>
<td>22</td>
</tr>
<tr>
<td>3</td>
<td>Kimugu</td>
<td>128</td>
<td>13</td>
</tr>
<tr>
<td>4</td>
<td>Kapsuser</td>
<td>167</td>
<td>17</td>
</tr>
<tr>
<td>5</td>
<td>Kapcheptoror</td>
<td>132</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>729</td>
<td>73</td>
</tr>
</tbody>
</table>

Table 3.1
Source: Researcher
According to Mugenda and Mugenda (2003) a sample that is at least 10% of the entire population is considered representative.

3.6 Data Collection Procedure and Instrument

The primary data was collected by use of a questionnaire containing both open and closed ended questions and interview schedules to be administered to the respondents. The secondary data will be derived from the review of existing literature. The administration of the interviews and questionnaires will be supervised by trained research assistants, who will provide introductory instructions and monitor the extent to which they are completed.

Instrument validation was used to test the appropriateness of the data collection instruments, identify any issues that could affect their administration and correcting areas where ambiguities and other weaknesses are identified in the questionnaire. Pre-testing the research instrument was done through a pilot study covering few respondents.

3.7 Data Analysis

The questionnaires were edited to ensure completeness and consistency. A codebook was developed before the data is entered into the computer using the SPSS package. The study had both quantitative and qualitative data. The quantitative data was analyzed using descriptive statistics such as frequencies, mean, mode and percentages and inferential statistics such as regression correlation and Analysis of Variance (ANOVA), was used to systematically and meaningfully display data for purposes of reporting the characteristics of the enterprises. Qualitative data will be analysed by means of content analysis.

3.8 Data Presentation

The results of the Study has been presented using text, tables, and charts to show proportions and relationships.
3.9 Expected output

At the end of the study, the researcher hopes to establish the role of informal credit schemes in mobilizing funds for micro-enterprises in Kenya. This analysis will be important for policy purposes not only because it will serve as a guide for the allocation of scarce resources to the numerous policy instruments competing for the same funds, but it establish the relative importance of the various socio-economic factors that determine whether or not micro-enterprises benefits from access to formal and informal credit.
CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the research findings which have been discussed under sub-sections in line with the study objectives and the available literature on the role of informal credit schemes in mobilising funds for micro-enterprises in Kericho County, Kenya.

4.1 Response Rate

Our respondents for this study were drawn from the administrative divisions of the Kericho County. In total, we were able to get useful responses from 65 respondents interviewed through structured questionnaire, out of a total number of 73 targeted, yielding an 89% response rate. These micro-entrepreneurs were engaged indifferent economic activities in manufacturing, agricultural and non-agricultural areas.

4.2 The Socio-economic Characteristics of the Respondents

4.2.1 The Age and Education level of the respondents

In terms of age, many of our respondents are in their prime age. The survey indicates that 16 percent of them fall within the 18-25 years age bracket, 49 percent within the 26 - 35 years, 25 percent within the 36-50 years and 10 percent over the age of 50 years. The average age bracket of the respondents is 26-35 years; which indicate that most micro-entrepreneurs are young, active, energetic and in their productive age.

With respect to educational attainment, 14 respondents representing 21% had no formal education, 29 respondents (45%) had primary education, 19 respondents (29%) had secondary education and the 3 respondents (5%) had Tertiary education. Therefore, about 79% of our respondents are literate. This is perhaps an indication that formal activities in the urban areas are
not increasing proportionately with increase in the rate of literate population, so people drift to the informal sector for means of survival.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>18 - 25 Years</td>
<td>16</td>
</tr>
<tr>
<td>26- 35 Years</td>
<td>25</td>
</tr>
<tr>
<td>36 - 50 Years</td>
<td>49</td>
</tr>
<tr>
<td>Over 50 Years</td>
<td>10</td>
</tr>
<tr>
<td>Education</td>
<td></td>
</tr>
<tr>
<td>No School</td>
<td>21</td>
</tr>
<tr>
<td>Primary</td>
<td>45</td>
</tr>
<tr>
<td>Secondary</td>
<td>29</td>
</tr>
<tr>
<td>Tertiary</td>
<td>5</td>
</tr>
</tbody>
</table>

Table: 4.1
Source: Researcher’s Field Survey

4.2.2 Relationships between Age, Education and Gender and Access to informal Credit

It was important to establish the relationship between access to credit and the socio-economic characteristics of the study participants: whether there are any differences between access to credit and individuals’ sex, education levels and age. Respondents who got informal credit loans or not were cross tabulated, against their sex, age and education. Study findings revealed that majority 53.8 per cent were women borrowers compared to men 41.5 per cent. In addition, majority of the respondents who got the informal credits loan were middle age individuals, between the ages of 36 – 50 years, representing a percentage of 49.23%, and less than 15 % were between the ages of 18-35 years.
With respect to education, respondents with primary and secondary education who accessed informal credit loans were 43% and 29.2% respectively. This demonstrates that there also exists a positive association between, age, sex and education and the access to the informal credit loan.

<table>
<thead>
<tr>
<th>Socio-economic Characteristics</th>
<th>Access to informal Credit loans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Sex</strong></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>27 (41.5%)</td>
</tr>
<tr>
<td>Female</td>
<td>35 (53.8%)</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
</tr>
<tr>
<td>18 - 25 Years</td>
<td>7 (10.8%)</td>
</tr>
<tr>
<td>26 - 35 Years</td>
<td>16 (2.5%)</td>
</tr>
<tr>
<td>36 - 50 Years</td>
<td>32 (49.23%)</td>
</tr>
<tr>
<td>Over 50 Years</td>
<td>7 (10.8%)</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
</tr>
<tr>
<td>No School</td>
<td>12 (18.5%)</td>
</tr>
<tr>
<td>Primary</td>
<td>28 (43%)</td>
</tr>
<tr>
<td>Secondary</td>
<td>19 (29.2%)</td>
</tr>
<tr>
<td>Tertiary</td>
<td>3 (4.6%)</td>
</tr>
</tbody>
</table>

Table: 4.2
Source: Researcher’s Field Survey

Education and age may proxy for unobserved managerial ability, which translates into greater efficiency and ability to attract a loan. Observations also indicates that the female gender have a greater access to the informal credits. This could be an easier channel of getting finance for women, than from the formal sector due to economic, cultural, political and legal obstacles. In general socio-demographic characteristics such as sex, age, and education levels affect the people’s behavior to either get an informal credit loan or not.
4.2.3 The Enterprise Activities of the respondents

The dominant economic activity among our respondents is trading, where 45% are engaged, 28% are Agro-processing, 17% in catering, 3% in Tailoring / Fashion Designing, 4% in Farming while the remaining 3% belong to the ‘Others’ category. It is not uncommon, however for these micro-enterprises to combine several economic activities like Trading and Agro-processing.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading</td>
<td>45</td>
</tr>
<tr>
<td>Agro – Processing</td>
<td>28</td>
</tr>
<tr>
<td>Catering</td>
<td>4</td>
</tr>
<tr>
<td>Tailoring / Fashion Designing</td>
<td>3</td>
</tr>
<tr>
<td>Farming</td>
<td>17</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 4.3
Source: Researcher’s Field Survey

4.2.4 Sources of finance

The table below presents the informal sources of credits and forms of loan distribution of respondents. Out of the 65 micro-enterprises, more than three-quarters of the respondents (54 or 83%) stated that they got their operating capital from informal sources. The results indicate that informal credit schemes, (such as the Rotating Savings and Credit Associations, Accumulating Savings and Credit Associations, Investment clubs and Welfare groups) are the most common source of finance used for the operating capital, with a percentage of 35.38% or 23 respondents, followed by relatives and friends sources (32.31%), Suppliers and Micro-Finance institutions both at 10.77 % usage, 6.15 % of the respondents received credit from the banks and less than 5% of the enterprises got credit from moneylenders.
This shows the inability of the financial markets to meet the existing credit demand and reinforces the argument that micro-enterprises do not have access to the financial resources of the formal financial sector. Surveys of finance in Africa suggest that enterprises would use moneylenders only as a last resort or in emergency situations (Nissanke and Aryeetey, 1995). Therefore it is apparent that although informal credit provides easy access to small-scale borrowers, the lending terms in certain segments make them unattractive and inaccessible to some borrowers.

4.2.5 Reasons for Accessing informal credit

The main question here was to establish the reasons why micro-enterprises get loan facilities from the informal credit schemes. The survey data revealed multiple reasons for borrowing micro-loans. The figure below shows a comparison of reasons mentioned by respondents for accessing the informal credit.
From the figure above, the findings show that majority 33.3 per cent of the respondents mentioned the simple application procedures as the main reason for accessing informal credit schemes, 29.63 % of the respondents were attracted by the ease of re-scheduling the repayments of the loans, while less 18.52% stated that there was less restriction on loan use. Proximity of lenders (14.41%) and fast processing of the loans (3.70%), were the other reasons for accessing credit from the informal finance schemes. Given the number of participants in various informal credits and savings associations, it is justifiable to argue that informal credit have become popular forms of financial systems used by the micro-enterprises in the area.
4.3 Collateral Security and Credit guarantees in accessing credit

The Second objective is presented in light of the security and credit guarantees that enable funds accessibility from the informal credit schemes. The key question here was to establish the types of collateral security required by informal credit institutions before giving away loans to clients and members. The findings revealed that 82.5 per cent of the respondents mentioned that; collateral security is indispensable with borrowing the credit. Only 17.5 per cent of the respondents indicated that collateral security is not vital in the informal credit access.

However, the 17.5 per cent who claimed that getting a loan from an informal credit scheme does not require collateral security; in the researcher's opinion, limit their understanding of collateral to only physical assets like land titles, negating the other social collateral security like group membership. This is because even simple informal borrowing and lending between and among friends, relative or neighbors require some sort of witnesses, agreement and guarantors (Oksoy et al, 2006). On the other hand, the study also recognized the types of collateral security borrowers presented to the credit schemes before being given loan facilities. Survey data showed that there are several forms
of collateral security which people present to the schemes and these range from simple group membership security to more complex physical assets and materials.

The figure above illustrates the types of collateral security that borrowers present to the respective informal credit schemes before being granted credit facilities. It shows that majority or 37 per cent of the respondents are required to have initial savings with the schemes before being granted credit, followed by group security or "social support security" with 25 per cent response. Other types of collateral security mentioned by respondents included but not limited to household items like television sets, livestock, chairs, and sofa set seats, land titles especially for individual loans, business premises and stock. In addition to the local council recommendation letters (referees), appointment letters and pay slips of employees and photos or picture of the borrowers' home/house and other household members were reported to be also forms of collateral security. The social collateral normally is required in case of group and salary loans respectively. The above observations clearly prove that many micro-enterprises lack physical assets like land and therefore social support and group membership is the one such collateral they have in order to get loan facilities from credit schemes. Indeed the flexibility of the informal financial services tailored to the financial needs of the low income earners; with innovations like social solidarity as collateral has attracted these micro-enterprises to borrower money (Cook et al 2005).

Further, interviews with respondents also bear that collateral security vary from scheme to scheme upon the type of the loan requested by the clients or members. Collateral security promotes responsibility in loan utilization and ensures that the credit lending scheme limit defaulting at the same time borrowers affordably get the loan facilities. Although the types of collateral security mentioned by respondents may appear to be cheap for the enterprises to afford, this is not the case since many of them cannot easily afford such collateral. Nonetheless, the types of collateral security required by informal schemes are cheap compared to what commercial banks and others require from borrowers.
4.4 Loan access for Micro-enterprises through Networking Arrangements

The third objective is presented on how networking enables funds accessibility from the informal credit schemes. The associations provide different types of benefits to their members.

4.4.1 Respondents who belong to the business, financial or savings group

When asked if they belong to any business, financial or savings group society, 89 percent of the respondents answered in the affirmative; 41 percent of the respondents belong to ROSCAs (‘merry Go Rounds’), 19 percent belong to Savings and Credit Associations (‘Chama’), 20 percent belong to Welfare groups, 6 percent belong to the Community Based Organizations and 3 percent belong to others category.

<table>
<thead>
<tr>
<th>Group</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROSCA (Merry Go rounds)</td>
<td>41.00</td>
</tr>
<tr>
<td>Savings &amp; Credit Association (Chama)</td>
<td>19.00</td>
</tr>
<tr>
<td>Welfare Groups</td>
<td>20.00</td>
</tr>
<tr>
<td>Community Based Organisations</td>
<td>6.00</td>
</tr>
<tr>
<td>Others</td>
<td>3.00</td>
</tr>
<tr>
<td>Does not belong to any group</td>
<td>11.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Table: 4.4
Source: Researcher’s Field Survey

4.4.2 Reasons for belonging to informal groups

The key reasons for belonging to informal groups extend beyond the key financial features of getting access to funds from ROSCAs and ASCAS to the fact that they enable people to obtain funds in emergencies and also provide social contact and
networks. Savings by participants have largely attracted membership increase in all informal credit and savings associations. This suggests a positive relationship between the rate of savings and the levels of income received from these informal credit and savings associations.

<table>
<thead>
<tr>
<th>Reasons for belonging to group</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lumpsum Savings</td>
<td>52.00</td>
</tr>
<tr>
<td>Cope with unexpected emergencies</td>
<td>21.00</td>
</tr>
<tr>
<td>Socialise and meet friends</td>
<td>14.00</td>
</tr>
<tr>
<td>Keep money safe</td>
<td>13.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Table: 4.5
Source: Researcher’s Field Survey

As per the table above, the most important reason for belonging to an Informal Credit Scheme was to have a lump-sum to use in scheduled turns (52.0%). The second most important reason reported was to cope with unexpected emergencies, as 21% respondents' reported this reason. In contrast to La Ferrara (2003), this suggests there is an important insurance element in informal credit schemes. Miller (1983) underlines the flexibility involved in schemes when people can swap turns if they have a particular need either by agreement with the group as a whole or with other individuals, or the schemes may have a welfare fund attached to it to provide additional support in times of need, or members may simply make additional contributions to assist someone in need. The third reason (14%) was to socialise and meet friends, demonstrating the strong importance of the social dimension of these mechanisms. The social and cultural reasons for joining groups are surprisingly important but have not been acknowledged by most writers except anthropologists. The fourth reason for belonging to informal schemes is to keep money safe, where 13% of the respondents reported this reason.
4.4.3 Distribution of amount applied and approved from the informal Schemes

The amount of money loaned to members ranged from a minimum Ksh.4,500 to a maximum Ksh.25,000. The money not loaned to members was deposited back into the bank accounts together with new contributions from the members. The members subscriptions varied from one informal credit and savings association to another depending on monthly contributions.

<table>
<thead>
<tr>
<th>Size of loan (N)</th>
<th>Amount applied for</th>
<th>Amount approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kshs</td>
<td>Kshs</td>
<td>Kshs</td>
</tr>
<tr>
<td>≤ 20000</td>
<td>25,000</td>
<td>20,500</td>
</tr>
<tr>
<td>15,000 -19,999</td>
<td>18,600</td>
<td>16,700</td>
</tr>
<tr>
<td>10,000 – 14,999</td>
<td>12,000</td>
<td>11,500</td>
</tr>
<tr>
<td>5,000 - 9999</td>
<td>6700</td>
<td>6500</td>
</tr>
<tr>
<td>0 - 4999</td>
<td>4500</td>
<td>4000</td>
</tr>
</tbody>
</table>

Table: 4.6
Source: Researcher’s Field Survey

An increase in the number of the participants in informal credit may have been a result of a lack of a steady flow in them micro-enterprises incomes (La Ferrare, 2003). The participation in various forms of informal credit and associations describes not only the role and relevance of these associations, but also their commitment to assist the development of developing areas in resources accumulation for self-employment. The micro-enterprises were also asked a series of questions including time spent to process the loan, its size, duration/maturity, repayment performance from the informal schemes. They reported a median loan size of Ksh. 20,500, which took a median processing time of one week, and involved a median maturity period of six months. It is interesting to note that, contrary to the common argument that informal schemes serve only the short-end of
the market, 15 per cent of the loans have maturity periods above one year and that there are informal loans with a maturity period of up to two years.

4.4.4 Credit applications, based on network membership

When credit application is examined from the perspective of network membership in associations or informal groupings, we noticed that most of the entrepreneurs who had applied for credit were association members while the non-members made no effort to seek credit.

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Had applied for loan before</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belongs to association(s)</td>
<td>55.3</td>
</tr>
<tr>
<td>Does not belong to any association</td>
<td>4.3</td>
</tr>
<tr>
<td>Belongs to informal grouping(s)</td>
<td>40.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Table: 4.7
Source: Researcher’s Field Survey

Informal groups provides not just funding but also other services, like in kind-insurance for members, training, and assistance in welfare matters which might have affect their business, like cases of deaths. These services indirectly benefit the business by enabling entrepreneurs to refrain from having to divert resources from the business.

An important determinant of the role of social ties that emerges from the study is the existence and durability of credit systems characterized by the closeness of the borrowers to the source of funds (and, in a related fashion, the endogeneity of the lending methodology). When the credit provider is closely related to the borrower (and, presumably, the arrangement between them is of their own design), the role of interpersonal ties is a central element in ensuring repayment.

When, on the other hand, there is no a priori relationship between the borrower(s) and the lender (and, as if often the case, the lending arrangements are extraneously proposed
by the lender to the borrower), social factors are less likely to be central elements in explaining credit discipline, and their mobilization requires significantly more effort. This gradation helps explain why ROSCAs, which are based on indigenous structures and are internally funded, rely on social pressure among the lenders/borrowers to guarantee financial discipline to a much larger extent than group-based lending programs.
4.5 Informal schemes savings mobilization

The fourth objective is presented on how savings mobilization in informal schemes affects credit accessibility to micro-enterprises.

4.5.1 Savings Characteristics of the Micro-enterprises

In the table below, most businesses had a weekly income of Ksh 4,000 and a monthly income of Ksh 20,500. The average weekly and monthly incomes, however, were Ksh 4,505 and Ksh 20,500, respectively. The disparity between the mean and the mode in both cases indicates the high variation in income within the sample.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Average</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross weekly income (Kshs)</td>
<td>4,505</td>
<td>4,000</td>
</tr>
<tr>
<td>Gross monthly income (Kshs)</td>
<td>22,400</td>
<td>20,500</td>
</tr>
<tr>
<td>Proportion of respondents who save part of their income</td>
<td>74%</td>
<td>13%</td>
</tr>
<tr>
<td>Proportion of monthly income saved</td>
<td>29%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Table: 4.8
Source: Researcher’s Field Survey

A total of 74% respondents saved part of their income for the future, using different savings modes. An average of 29% of the monthly income was saved, while the most common share of income saved was found to be 10%. Easy access to savings was the most common reason for using saving at home. Security of savings was the most common reason for saving in banks, while for those who saved with ROSCAs; the most common reason was access to loans. The different savings modes therefore appear to serve different savings needs for their clients.

4.5.2 Utilization pattern of credit

The table below shows the different purposes for which credit from informal sources was utilized by the micro-enterprises in the study area.
Utilization | Percentage
---|---
To start other business | 28.23
To expand existing business | 30.75
Use as working capital | 27.5
Building projects | 5
Household consumption | 8.5
Total | 100

Table: 4.9
Source: Researcher’s Field Survey

The table clearly displays that a large proportion of informal credit was utilized in the micro-enterprises operations, where 30.75% of the funds was used for financing the expansion of the business. Similarly, 28.23% of informal credit was used for starting another business, followed by 27.5% for the business working capital. Other purposes for which informal credit was utilized, was for building projects and household consumption for which 5% and 8.5% of the credit was utilized respectively. It is evident that a large portion of loan taken was used for the development of micro-enterprise business activities. Thus, informal financial sector is very relevant in the move towards eradication of poverty.
4.5.3 Satisfaction level with attributes of Savings

The table below shows the distribution of level of satisfaction with attributes of savings mobilization.

<table>
<thead>
<tr>
<th>Attribute of savings mobilization</th>
<th>Most Satisfactory %</th>
<th>Very Satisfactory %</th>
<th>Satisfactory %</th>
<th>Moderately Satisfactory %</th>
<th>Less Satisfactory %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings services</td>
<td>23</td>
<td>56</td>
<td>10</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>Frequency of savings deposits</td>
<td>20</td>
<td>26</td>
<td>39</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Use of savings pattern for credit worthiness assessment</td>
<td>6</td>
<td>11</td>
<td>74</td>
<td>6</td>
<td>3</td>
</tr>
</tbody>
</table>

Table: 4.10
Source: Researcher’s Field Survey

It indicates that 23% of the respondents reported that they were most satisfied with the savings services offered by Informal Credit groups, 56% were very satisfied, 10% were satisfied and 11% were moderately satisfied with the savings services. None of the respondents reported less satisfaction with the savings services. Therefore, the general view is that majority of the respondents were very satisfied with the savings services provided by informal finance groups. Hence, it can be assumed that savings mobilization services provided by informal credit schemes aims at alleviating the deficiency of savings facilities.

The majority of the respondents were also satisfied with the frequency of savings deposits and the use of savings patterns of clients in assessing their credit worthiness for grant of subsequent loans. It is therefore likely that the subsequent loans secured would be a product of a client’s historical savings behavior and in a way encourages entrepreneurs to be disciplined and remain consistent in making.
5.0 Introduction

This chapter presents discussions, summary of findings, conclusion and recommendations for the study.

5.1 Discussion of Results

The study results have demonstrated the importance of the informal financial service sector. It confirms their overall importance in providing financial services for many who cannot otherwise access financial services in the formal sectors and the significant volume of savings being intermediated. Through the informal financial sector, many micro-enterprises who would otherwise be excluded have access to financial services. Informal groups also serve poorer clients compared to semi-formal and formal service providers as well as many small scale enterprises that banks, Micro-Finance Institutions and SACCOs may not be interested in serving.

Given these results, the question for financial sector development policy is how to regard the role of informal sector groups. There are essentially two options. First, leave the informal groups alone and focus on the development of the mainstream financial sector, which is the predominant current stance. Second, engage directly with informal groups in a bid to improve their operations in ways that will deliver higher quality services to some of the poorest people who currently lack access. Given their importance in overall access and the evidence of how much savings they mobilize; it is appropriate to consider how their services might be improved, especially in the light that many of these groups are not well organized.
The analysis has also demonstrated key barriers in the form of socio-demographic factors. Young people are more excluded from the formal and semi-formal services, but informal finance schemes also do not provide enough services for the young to fill the gap, findings indicate that youngest age groups are also more excluded from the informal groups. The reasons why it might be more difficult for the young to join groups are their higher level of mobility and weaker social networks. Nevertheless, because 18-35 year olds constitute a very significant proportion of the Kenyan’s population; policy should consider how to facilitate access to younger people in these groups. The level of education did not significantly affect the likelihood of belonging to an informal finance groups suggesting that people at all levels of education are similarly likely to use these services. However for Accumulating and Savings Associations and investment clubs, the higher the respondent’s education, the more likely he/she is a member of these groups. This implies that with higher level of education people are more likely to start using services that offer more features and increased flexibility.

When compared with formal finance, there are many features in informal finance which make it attractive to the micro-enterprises. Among these are proximity to borrower’s; flexibility of operations and credit terms to meet specific needs and to correspond to the capacity of the client concerned; minimal red-tape involved in transactions and easy to understood rules and regulations. The challenge of micro-enterprises financing is how to achieve an inter-linkage between the formal and informal sectors, so that the strengths of the two sectors could be combined to ensure an improved flow of credit to businesses. As already noted, while the strength of the informal sector lies in its flexibility, rapidity and low transaction costs in meeting the credit needs of the poor, the formal sector has the capacity to lend considerably more resources than the informal sector could do. An important issue for the formal institutions therefore, is how to devise methods to provide better and increased financial services to the micro-entrepreneurs by learning from the experiences of the informal finance.
The study results show that micro-enterprises have different forms of linkages both among themselves, and with informal financial schemes. Such linkages include associations that help to mobilize and allocate financial resources among its members, and informal groupings. Despite the linkages, the studies show that some linkages provide advantages to the enterprises which are reflected in their performance. Evidence from the study (Okech et al, 2002) may help to support the observation here that firms belonging to associations achieve better performance than those without. This is because associations help members access certain services which can help to improve their performance, such information, finance and support on social issues that may affect their business performance.

The study results indicate that loan security and guarantees are one of the important aspects of credit to SMEs. Most lending to small-scale enterprises is security based, without any regard for potential cash flow. However, organizations lending to microenterprises have devised alternative forms of collateral. These include: group credit guarantees, where organizations lend to individuals using groups as guarantors, and personal guarantors, where individuals are given loans based on a guarantor’s pledge.

At the micro-enterprises level, the lack of appropriate formal institutional savings facilities forces the individual to rely upon in-kind savings, upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or investments clubs. These alternative informal savings facilities guarantee the combination of security of funds, ready access or liquidity, and convenience, which are basic requirements or necessity of a depositor. In support to the finding of this study, Aczel (2000) found that informal group services provides supporting micro entrepreneurial endeavor as they assure future financial needs for investments. Savings mobilization approach in encouraging clients to postpone consumption in favor of savings is to provide the much needed financial resources for micro enterprise growth. Such savings accumulate into a lump sum in the future and act as retained earnings.
5.2 Summary of Findings

The results of the study show that informal credits perform a very significant role in the provision of credits in the area under study. It is evident from the study that significant proportions of micro-entrepreneurs patronize informal credit schemes. This is very essential if government is committed to solving the problem of high level of unemployment, wide-spread poverty and income inequality in the Kenyan Policy. There is no gainsaying the fact that informal finance schemes are very relevant in government move towards poverty eradication and economic emancipation among women, if the country’s Vision 2030 is to be realized.

The results obtained from the study reveal that income level was the major factor determining informal savings amongst micro-enterprises. Based on the results obtained, it is recommended that micro-enterprises should be encouraged and enlighten on the need of savings. Also savings mobilization organizations should adopt demand oriented approach in designing savings programs by considering the socio-economic characteristics of the entrepreneurs. The more credit one can receive, the more resources one can command and the more decision-making power one is able to exert over individual conditions. These credit loans are viewed as means to gain command over resources; however, their potential use remains with the participants themselves. With its effective use many enterprises in the study area have managed to convert their talents skills in generating incomes by creating self-employment and have not to be constrained again by the limitations of income.

5.2.1 Deposit Mobilization

In the increasingly competitive environment, the mobilization of deposits at reduced cost is essential. A closer relationship with savings collectors and savings and credit associations, as well as non-governmental organizations (NGOs), is likely to enhance the capacity of formal institutions to attract the micro-enterprises to their services. The informal units have the prospect of becoming effective mechanisms to mobilize deposits from the household and micro-business sector. They agents can bulk up small savings at relatively low cost.
5.2.2 Credit Allocation

The main advantage of informal credit schemes is that they have much better information about small borrowers than formal institutions. Informal schemes are often able to build a personal relationship with their borrowers that can ensure an extremely low loan default rate. So long as informal agents are made to operate within the particular groups that they are well informed about and to which they have access, they are likely to extend the outreach of formal lenders at a low marginal cost.
5.3 Conclusions

A number of conclusions can be drawn from the results of this study. One major conclusion is that informal credit sources provide easier access to their credit facilities for microenterprises. The main reasons explaining this scenario are the lending terms and conditions reflected in collateral, application procedure and repayment period. However, given that different segments serve specific credit markets, their ability to meet the credit needs of certain enterprises, especially those requiring large amounts of credit as they grow, is limited.

It is also concluded that although the types of collateral security mentioned by respondents may appear to be cheap for the low income earners to afford, this is not the case since many of them cannot easily afford such collateral. Nonetheless, the types of collateral security required by informal schemes are cheap compared to what commercial banks require from borrowers. Many commercial banks require clients to have big business capital, long credit history, land titles, automobile cards for vehicle ownership and other such collateral which the poor lack. The informal schemes have availed credit facilities among other financial services to a big number of micro-enterprises. From the Grameen Bank model of Bangladesh, modern micro-credit institutions have targeted poor people by requiring social collateral which at least most poor people can easily afford, as opposed to commercial banks that demand unaffordable collateral like land. This means that the competitive micro-credit business has seen MFI tailor the financial services to the needs and socio-economic position of low income earners in developing countries.

An important conclusion for improving access to credit that emerges from this study is that given the wide and established branch network of commercial banks, improving their lending terms and conditions in favour of small-scale enterprises would significantly facilitate the accessibility of small-scale enterprises to credit. This is because although informal finance provides easier access to credit, the results of the study show that informal credit is confined to specific activities and at lower levels of income, thus limiting its use. This tends to confirm the argument that the nature of credit markets in
Africa is such that the lending units are unable to meet the needs of borrowers interested in certain types of credit. The result is that a credit gap is created that captures those borrowers who cannot get what they want from the informal market, yet they cannot gain access to the formal sources because of restrictive lending practices. Most disadvantaged people consider informal credit as economic and financial institutions whose purposes are to help them meet their financial obligations, generate improved well-being, and create opportunities to further their development.
5.4 Policy Recommendations

Several policy recommendations can be also be drawn from the results of this study. Thus the following are recommended:

The Government regulatory and supervisory systems could be of considerable importance in providing incentives to banks. If banks perceive that risks are considerably reduced by dealing with credible semi-formal and informal agents, they would be encouraged to use them. Restrictions on what assets banks may hold should be modified to encourage them to invest in informal and semi-formal financial institutions. The Government should take a proactive approach and embrace a legal, regulatory and prudential framework that fosters, and when possible, accelerates financial market development. This framework would support the setting up of mechanisms, institutions and instruments that promote and facilitate this development as the economy grows and market functions expand. The formal financial institutions will be encouraged to diversify their loan portfolios so as to be able to cater for the different financial needs of SMEs. The regulation should steer away from restrictive laws and focus on removing the obstacles to financial market development.

Secondly, informal credit sources provide easier access to their credit facilities for micro-enterprises than formal institutions. The main reasons explaining this scenario are the lending terms and conditions reflected in collateral, application procedure and repayment period. However, given that different segments serve specific credit markets, their ability to meet the credit needs of certain enterprises, especially those requiring large amounts of credit as they grow is limited. There are possible ways for policy to be used to enhance the development of linkages between the various segments, including the informal sector, the formal lenders as banks, Micro Finance Institutions, development partners and civil societies. That is, the use of the fiscal system and the regulatory and supervisory systems to provide incentives for formal institutions who desire to offer wholesale credit through informal schemes. Tax relief on profits granted to banks that allocates credit through
informal and semi-formal agents could be recovered by imposing higher taxes on banks that do not channel credit through the informal sector.

Thirdly, with the wide and established branch network of commercial banks, improving their lending terms and conditions in favour of small-scale enterprises would significantly facilitate the accessibility of micro-enterprises to credit. This is because although informal finance provides easier access to credit, the results of the study show that informal credit is confined to specific activities and at lower levels of income, thus limiting its use. This tends to confirm the argument that the nature of credit markets in Africa is such that the lending units are unable to meet the needs of borrowers interested in certain types of credit. The result is that a credit gap is created that captures those borrowers who cannot get what they want from the informal market, yet they cannot gain access to the formal sources because of restrictive lending practices.

Finally, with the relatively abundant financial resources of the formal institutions compared with informal credit sources, there is need for a policy measure to increase business protection mechanisms. This can be achieved through the establishment of credit insurance schemes to protect the financial institutions against default risks, which result in credit rationing. Since formal institutions are mainly concerned with default problems and loan administration costs, linking their operations with those of informal lenders can also help to ensure that they reach more potential borrowers. This is because informal lenders have their own insurance mechanisms, which guarantee loan repayment, yet they lack adequate financial resources to enable them to expand their coverage. SMEs also must be profitable in order to grow and be able to attract more external finance. It is therefore necessary to provide a policy environment that affords the necessary incentives for enterprise growth, while protecting the investors from losing their funds.
For credit lending institutions to further penetrate and reach out even to the poorest of the poor in both rural and urban areas. There is need to appreciate the socio-economic conditions, knowledge, attitudes, perceptions and cultural beliefs and practices of credit borrowers and a critical consideration of the above issues raised will enable lending institutions to tailor their financial services to the needs of the clients and low income earners in Kenya.
6.0 REFERENCES


Appendix A: Questionnaire

THE ROLE OF INFORMAL CREDIT SCHEMES IN MOBILISING FUNDS FOR MICRO-ENTERPRISES IN KENYA: A CASE STUDY OF KERICHO

Please answer the following questions either by ticking (✓) or by providing appropriate answer. The information to be provided here will be handled in strict confidence.

A: Entrepreneur

1) Please indicate your gender. Male [ ] Female [ ]

2) Age (Owner/business operator)
18-25 years [ ] 26-35 years [ ] 36-50 years [ ] Over 50 years [ ]

3) Level of education
   No Formal Education [ ] College/Polytechnic Level [ ]
   Primary Level [ ]
   Secondary Level [ ] Others (Specify)........

4) Type of enterprise activity:
   Trading [ ]
   Agro-Processing [ ]
   Catering [ ]
   Tailoring / Fashion Designing [ ]
   Farming [ ]
   Others ................................
5) What is the age of the enterprise?
   Less than 1 Year [ ] 1-2 years [ ] 3-6 years [ ] Over 6 years [ ]

6) Do you have any other occupation? Yes [ ] No [ ]

If Yes, which other one:
   Farming [ ] Manufacturing [ ]
   Trading [ ] Employed [ ]
   Other (Specify) ..............

7) Please state the number of workers involved in your business
   None [ ] 1-5 workers [ ] 6-15 workers [ ] Over 15 Workers [ ]

8) What are your main sources of finance?
   Relatives / Friends [ ]
   Suppliers [ ]
   Money Lenders [ ]
   Informal Credit Schemes [ ]
   Micro-Finance Institut. [ ]
   Banks [ ]

B: Security and Credit Guarantees

9) Do you apply for loans? Yes [ ] No [ ]

10) If not why?
    [ ] Lack of information
    [ ] No Need for Credit
11) What is the security for your loans?
Initial Savings [ ] Group Savings [ ] Business [ ] Property title [ ]
Other (Specify) ..................

12) Do you have Collateral assets? Yes [ ] No [ ]
If yes, what form of collateral assets do you have?
Land [ ] House [ ]
Vehicle [ ] Furniture & Fittings [ ]
Others ..................... Livestock [ ]

13) Do you receive loans based on guarantees or commitments?
Yes [ ] No [ ]
If yes, what form of guarantees / Commitments?
[ ] Third party personal guarantee
[ ] Group guarantee
[ ] Business revenue guarantee
[ ] Other(s) ....................

14) Do you keep business records? Yes [ ] No [ ]

15) Are your loan assessment based on business performance? Yes [ ] No [ ]

C: Networking
16) Who/what is the person or institution you like MOST to borrow money from?

17) What exactly makes you prefer to borrow from this person/institution?

Proximity of lender/offices/officers [ ]  Fast processing of loan [ ]
Simple application procedures [ ]
No restrictions on loan use [ ]
Repayment easily rescheduled [ ]

18) Do you belong to any business, financial or savings group? Yes [ ] No [ ]
If Yes, which one?

Welfare Group [ ]  ROSCAs (Merry Go Round) [ ]
Savings & Credit Association (Chama [ ]  Community Based Organizations (CBO)[ ]
Does not belong to any group [ ]

Others (Specify) .................................

19) Why did you form/join the group?

Lumpsum Savings [ ]  Cope with unexpected emergencies [ ]
Socialise and meet friends [ ]  Keep money safe [ ]
[ ]  Other (specify)..............................

20) Do you apply for funds or loans from the group? Yes [ ]  No [ ]
If Yes, Did you get the funds or Loan? Yes [ ]  No [ ]

58
21) What are the details of your most recent loans?

<table>
<thead>
<tr>
<th>Size of loan</th>
<th>Amount applied for</th>
<th>Amount approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kshs</td>
<td>Kshs</td>
<td>Kshs</td>
</tr>
</tbody>
</table>

D: Savings Mobilization

22)(a) With what groups or institutions have you ever saved money till now?

........................................

23)(a) If you save, please rate their services of your groups or institutions.

<table>
<thead>
<tr>
<th>Attribute of savings mobilization</th>
<th>Most Satisfactory</th>
<th>Very Satisfactory</th>
<th>Satisfactory</th>
<th>Moderately Satisfactory</th>
<th>Less Satisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings services</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Frequency of savings deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of savings pattern for credit worthiness assessment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

59
24) Please provide the details of your income and savings below.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Kshs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate gross weekly income (Kshs)</td>
<td></td>
</tr>
<tr>
<td>Approximate gross monthly income (Kshs)</td>
<td></td>
</tr>
<tr>
<td>Proportion of monthly income saved</td>
<td></td>
</tr>
</tbody>
</table>

25) For informal credit loans received, please indicate the approximate amount you utilized for different use:

<table>
<thead>
<tr>
<th>Utilization of the Credit funds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To start other business</td>
<td></td>
</tr>
<tr>
<td>To expand existing business</td>
<td></td>
</tr>
<tr>
<td>Use as working capital</td>
<td></td>
</tr>
<tr>
<td>Building projects</td>
<td></td>
</tr>
<tr>
<td>Household consumption</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

Thank you!
### Appendix B: Research Activity Schedule

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTIVITY</td>
<td>Draft Proposal writing and presentation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Proposal Defence and refinement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Development of pilot tools and pre-testing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recruitment and training of Research Assistants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Data collection</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Data entry and analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compilation of Project</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Presentation and correction of draft Report</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Final submission of Report</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Appendix C: Research Budget

<table>
<thead>
<tr>
<th>NO</th>
<th>ITEM</th>
<th>KSH.</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>Transport</td>
<td>8,000</td>
</tr>
<tr>
<td>ii</td>
<td>Research Assistants allowances</td>
<td>20,000</td>
</tr>
<tr>
<td>iv</td>
<td>Stationary</td>
<td>8,500</td>
</tr>
<tr>
<td>iii</td>
<td>Data entry and analysis</td>
<td>10,000</td>
</tr>
<tr>
<td>iv</td>
<td>Photocopying</td>
<td>1,200</td>
</tr>
<tr>
<td>v</td>
<td>Report writing and binding</td>
<td>7,000</td>
</tr>
<tr>
<td>vii</td>
<td>Miscellaneous</td>
<td>4,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>58,700</strong></td>
</tr>
</tbody>
</table>
Figure 1: The relatively uniformly lands at the bottom right of the image are large tea plantations, while most of the remainder of the non-town land shown in the figure is farmed by smallholder farmers (top and top left).
Map of Kericho

Figure 2: Aerial image of Central Business District of Kericho,