SECOND - HAND CLOTHES DEALERS AND TERMS OF LOANS ON MICROFINANCE INSTITUTIONS: A CASE STUDY OF SOTIK DIVISION, BURETI DISTRICT.

BY:

MUTAI ROSE CHEPKURUI
D53/7637/2002
ACCOUNTING AND FINANCE DEPARTMENT

A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION (FINANCE), KENYATTA UNIVERSITY.

OCTOBER 2004
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DECLARATION

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

Signature.................................................. Date. 29TH OCTOBER, 2004
MUTAI, ROSE CHEPKURUI.

This research project has been submitted for examination with our approval as University Supervisors.

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KENYATTA UNIVERSITY

This work has been submitted for examination with my approval as Chairman.

Signature.................................................. Date. 3-11-2004
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KENYATTA UNIVERSITY
DEDICATION

To loving Dad and Mum – James and Catherine Mutai who continuously bore the burden of my childhood and for their consistent sacrifice and love and taught me the value of hard work.

Dear sister and brothers – Chepkoech (cheche), Chalangat (Tiling), Richard, Denis, Cosmas, Kipngetich; sister in law – Ivy for all your support and understanding.

Dear Cousin Cheche.
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ACKNOWLEDGEMENTS

I wish to express my heartfelt gratitude to my supervisors, Mr. Maganjo and Mr. A. Thuo for working with me so closely at all stages of my work. I also wish to thank all the lecturers of the Accounting and Finance Department for all the support and advice they offered.

I am greatly indebted to my parents for their financial support, encouragement and prayers that have brought me this far. I would also like to thank my colleagues from the department for their contribution to the success of this project, class of 2002.

I acknowledge the support I received from my respondents and other insightful sources during my project work and special thanks go to Mr. Cheruiyot of K-Rep for their willingness to provide the information that I required.

To all my friends Jane Gichuru, Mary Adongo, Sophia Otoki, Peter, Cherono, Kimaiga, Sam Otieno (Chairman), Jackie, Chela, Giddy, Chepkorir, Cheptoo, Peter, Ray, Koech, Jane, Regina, Isaac and others thank you so much. I wish to express my sincere gratitude to Kim Sang who step-by-step helped me in typing, formatting, printing and binding this project. The list is too long to permit individual mention but that does not indicate any dilution of my gratitude to Mr. A. D. Bojana for editing the final work.

Finally, to those whose contribution to the project was invaluable, but are not mentioned, accept my thanks. GLORY AND HONOUR BE TO GOD!
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ABSTRACT

Kenya Rural Enterprise Programme (K-Rep) is one of the leading micro-finance institutions in Kenya, which lends money to small and micro-enterprises. It is therefore important to small and micro-enterprises. It is therefore important to study and understand terms of loans in micro-finance institutions to small and micro-enterprises particularly in this study second-hand clothes dealers.

This study used systematic sampling. Primary data were collected through personally administered questionnaires, which both structured and unstructured questions were used. Two questionnaires for borrowers and lenders were used. The data collected were analysed using descriptive statistics utilizing statistical package for social sciences (SPSS).

Findings indicated that terms of loans in micro-finance institutions were the major difficulties in accessing credit by the second-hand clothes dealers for their business. Also most of the borrowers have not received training in the area of business management nor do they seek consultancy services.

The study concludes and recommends that the micro-finance institutions should encourage participatory management consultancy approach on issues affecting the borrowers; they should explore ways and means of extending the grace period of say more than one year as it is currently.
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DEFINITION OF TERMS

Micro finances: The provision of financial services to low-income clients (the poor) including the self-employed.

Poor: Having very little money and therefore low standard of living.

Collateral: Valuable property promised to lender if one is unable to repay debt like land title deeds, policy documents, motor vehicle.

Credit: A system of buying goods or services and paying for them later.

Group Guarantee: Being in a group of certain number for example five or ten, so as one to be granted credit.

Financial Statements: These are summarized information of a firm’s financial affairs, organized systematically. They are not used by investors and financial analysis to examine the firm performance in order to make investment decisions. E.g. balance sheet and income statements.
Granted: (1) Agree to give or allowed (what is asked for)

Not Granted: (2) Not agree to give or allowed (what is asked for)

Managerial Skills: Competencies to carry out managerial duties.

Examples:- control, planning, directing. Example of skills includes Analytical, conceptional and technical skills
CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND

There are numerous organizations, private and public, national and international pursuing programmes to assist small and micro-enterprises in Kenya. Their goals, typically, are to increase income levels and welfare and to generate much-needed employment by providing credit, training, and technical assistance.

Dondo (1989), observes that the role of Kenya’s informal sector enterprises in providing employment and earning opportunities has captured the attention of policy-makers, international donor agencies, local non-governmental organizations (NGOs), and researchers. The government’s interest has been heightened by concern over Kenya’s rapidly increasing labour force, and by the realization that the large-scale industrialization strategies of early decades have failed to reduce poverty and underemployment. More recently, informal sector enterprises have been reviewed as a key element in strategies to enhance the private sector’s role in meeting national growth and equity objectives.

Oketch and Kioko (1990), observe that the Kenyan government has set up specialized institutions and programmes to provide such services like Kenya-based financial institutions, non-governmental organizations (NGOs) and business associations, as well as foreign development programmes.
Some of these organizations exclusively focus on enterprise assistance, others conduct a variety of development activities. The organizations vary considerably in size, visibility, effectiveness, and efficiency.

Oketch and Kioko (1990), added that before micro finance institutions and other formal lending institutions, there were other systems of informal lending such as financial arrangements among relatives, neighbours and friends. Therefore, there were no interest charges therefore non-commercial. The exact magnitude of these transactions is not known quantitatively, but the limited evidence available suggests that it is substantial. Various studies show that credit from friends and relatives constitute an important source of start-up capital for many micro-enterprises in urban areas and for smallholder farmers in rural areas. In some cases, 40% of all informal loans were from friends. The point to note is that such arrangements are deeply rooted in Kenyan culture, which has strong social linkage. Within the local community, these mutual self-help schemes are essentially social obligations e.g. “Oret” among the Kalenjin community.

Mullei and Bokea (1999), observe that the government proposed several measures aimed at improving the performance of the informal sector according to the report of the International Labour Organization (ILO) employment mission of 1972. RoK (1992) giving a profile of micro-finance credit programmes for SMEs in Kenya found out that since independence, Kenya has recorded considerable growth of financial institutions some of which have been designed specifically for lending to the informal Sector.
Seventeen types of financial institutions were operating in the finance sector by 1999, out of which four were active in financing MSE activities. These included formal sources (e.g. banks), Savings and Credit Co-operative associations (SACCOs), NGOs, and informal associations like Rotational Savings and Credit Associations (ROSCAs) or merry-go-rounds.

According to RoK (1999b), there were about 550 organizations in Kenya that had credit programmes for SMEs, 130 of which were NGOs. Sixty-nine percent of the SMEs’ credit came from informal savings and credit associations ROSCAs, friends, and relatives. In 1999, 10.4 percent of MSEs had accessed credit. Of this credit, 3.45 percent was from formal sources as compared to four percent in 1993 and 5.9 percent in 1994. Oketch (1995) noted that the amount of credit supplied to MSEs in 1995 was, as noted by Kshs 847 million.

Dondo (1991), found that numerous microenterprise credit organizations existed at that time. They were private, public, national and international that pursued programmes to assist SMEs in Kenya. To that date, there were 43 organizations (NGOs, church based organizations, international agencies, private or public organizations) that had SME programmes offering credit, training and technical assistance. The number of NGOs that were involved in provision of credit to MSEs increased from 46 in 1995 to 130 in 1999.
According to Oketch and Kioko (1995), the market for micro-financial services systems that are capable of delivering services to the rural areas and the poor in urban areas is large and growing potential demand for small services include the large number of people left out of traditional banking services by distances from up-country commercial bank branch closures and the rising threshold for balances required to open and keep bank accounts has increased the exclusion of poor people from bank services. Moreover, there is an increasing number of retiring and retrenches people who were already accustomed to banking services.

They are servicing the number of people who new financial services but can no longer access them. The potential market for micro finance services is even larger for institutions that are able to develop and offer service products, such as money transfer, cheques clearing in addition to credit and credit card-related savings.

1.2 STATEMENT OF THE PROBLEM

The small and micro-enterprises often lack adequate capital to operate or expand businesses and this brings about the problem in this study “How to promote the growth of second-hand clothes dealers?

Tiwari and Fahad (1995), in their study found that most poor people manage to mobilize resources to develop their enterprises and their dealings slowly over time. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional finance
intuitions seldom tend to doom market to serve the needs of low-income families and headed households. They are very often denied access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore, the fundamental problem is not much of unaffordable terms of loan as the lack of access to credit itself.

Dondo (1989), also noted that most of the financial requirements of the informal sector are met from personal savings. The entrepreneurs do not have access to collateral. Kenya’s conservative commercial banking sector insists on secured lending and seldom grants loans on the basis of anticipative cash flows. In addition, the small-scale enterprises often lack accounting and management skills and are, therefore, unable to present convincing investment proposals to banks. The banks also view lending to this sector as unattractive because of the high costs of information-gathering and administration and the perceived higher risk of default (even though it has been argued that default rates in the informal sector are no worse that those for large-scale formal enterprises)

1.3 THE PURPOSE OF THE STUDY.

The purpose of this study was to investigate the factors that affect accessibility to micro-finance institutions loans by small and micro-enterprises especially to those operating the second-hand clothes businesses in the rural areas.
1.4 OBJECTIVES OF THE STUDY.

The basic objective of this study was to identify terms of loan by micro-finance institutions and micro-enterprise, more specifically, the objectives of the study were:

i. To find out ways of getting loans without the use of collateral.

ii. To identify methods that can be used to help second-hand clothes dealers to keep records.

iii. To identify business-training avenues for second-hand clothes dealers.

1.5 RESEARCH QUESTIONS

i. Do second-hand clothes dealers use group guarantee system as a substitute for collateral?

ii. Can consultancy services be used to help the second-hand clothes dealers keep to records?

iii. What are the business training avenues for second-hand clothes dealers?

1.6 JUSTIFICATION OF THE STUDY

Studies concerning accessibility of credit by small and micro-enterprises have been carried out in larger business centres (Nairobi, Mombasa and Kisumu) all of which are cities and in particular their slum areas like Kibera. Furthermore, most small and micro-enterprises still did not receive credit when the studies were carried out.
Having been involved in the provision of funds for a long time and the performance of small and micro-enterprises in Kenya, micro-finance institutions are therefore ideal for this study.

Dondo (1992), that micro-financial institutions with credit programmes for small and micro-enterprises that benefit from foreign aid agencies. They receive grants from donors to meet operational costs. Their financial operations are however not regulated despite being formal institutions. They normally target their services to people with low or very low incomes.

Lastly, no other study has been carried out in Sotik Division, Bureti District on the terms of loans on micro-finance institutions to small and micro-enterprises in particular second-hand clothes dealers.

1.7 SIGNIFICANCE OF THE STUDY

This study will help the government in setting a supportive policy environment that stimulates the development of financial support while protecting poor people’s savings. It will also form a basis for further researchers especially in the area of micro-finance. The findings of this study will enable micro-finance institutions to formulate relevant programmes that will facilitate wide accessibility of credit to small and micro-enterprises. Lastly, the small-scale businesses will benefit from awareness of micro-finance institutions where they can get funds and expand their businesses.
1.8 SCOPE OF THE STUDY

This study considered the second-hand clothes dealers that have received credits from K-Rep in Sotik Division, Bureti District. The reason is for convenience purposes in that most of the major market days not found in other parts of the district at different locations in the division which makes sourcing of information a lot easier through proper sampling. Also, due to high demand for second-hand clothes because of affordability among most of the residents in the division led to upsurge of second-hand clothes vendors but who could not progress because of the prohibitive collateral from most money lending institutions and thus establishment of micro-finance institutions.
2.1 GENERAL LITERATURE

Nowak (1998), in his study found that micro enterprises act as a link between the past and the future, between agriculture and industry, between mode of production and consumption and between the city and the countrywide which he achieved by considering countries in sub-Saharan Africa, Cameroon, Burkina Faso, Guinea, Sierra Leone, Ivory Coast, Madagascar and Mozambique. Berenbach and Churchill (1997), in their study found that there were various MFIs that were providing credit to MSEs. They employed various ways of lending although they were faced with different types of risk.

Jammeh (2002), gave the world micro - credit summit campaign in its website for countdown 2005 outlining the best process for micro - finance such as ensuring loan repayment towards institutional sustainability, sustainability in industrialized countries, empowering women, establishment and use of poverty measurement tools, measuring impacts on the lives of clients, mobilizing savings and ensuring their safe use and recruiting and retaining excellent staff. He adds that combination of the best practices in the appropriate proportions is useful in poverty alleviation and other development plans. This is because micro - finance deals with both business and human relationship, which involve a lot of risk-taking.
Mead (1998), in his study by interviewing entrepreneurs in South Africa, found that there were considerable relations between small and large businesses. They were in form of purchases, provision of services and sub-contracting activities. The study concluded that with promotion of business linkages, MSEs could achieve more.

2.2 SPECIFIC LITERATURE.

Ochieng’ (1987), in his study, observed that lack of access to credit was one of the major limitations of the informal sector and was therefore, a major constraint to employment creation in the sector. The study found that the injection of credit had a positive impact on the growth of the informal sector such that incomes increased with time, investment and cash flow increased. There was also improvement in managerial skills. The type of entrepreneurship was found to influence the rate of growth: manufacturing, trade and services of sub-sectors grew at 0.2, 1.2 and 1.3 respectively.

The study observed that there was no major change in permanent employment levels, which was attributed to the fact that firms hired additional workers mainly during peak periods. The study however omitted important factors such as the relationship between the amount of credit and the levels of profitability, accessibility to raw materials and in the turnovers. Furthermore, the study was done in Nairobi and in the pre-liberalization period (before 1992). Being a city, Nairobi has a heterogeneous environment in inflation and has; data on economic activities (especially trade) may not reflect the true behaviour of economic agents. The study used a sample of thirty firms which was too small for generalization purposes.
Owuor (1990), in his study established how government policies and programmes, NGO’s programmes and the general economic changes affect the performance of small-scale enterprises in small urban centres where the main sources of income are retail trade and agriculture. The government policy for rural development was found to encourage investors to start businesses in local areas. There was also constant supply of labour from a growing population and entrepreneur’s skills. Implementation of structural adjustment programmes (SAPS) that enables people to engage in trade and sub-division of agricultural and land enhanced the growth of SMES. Lack of institutional credit facilities, management skills and competition from formal domestic and multinational companies also affected the performance of the enterprises. The study obtained results that unlike the conclusions of some studies concerning availability of raw materials and skills were not significant problems since credit/capital availability enabled entrepreneurs to access them.

McCormick (1991), in his study highlighted a unique dilemma in that profitable firms usually employ few workers and are more flexible than unprofitable ones. The study attributed this to risk reduction by the informal businesses. He did not investigate the performance of the informal businesses in terms of their level of profitability. This is important since they are a source of employment income for many people.
According to Oketch, et al (1991), the informal sector assistance programmes especially credit schemes, are meant to add to the existing informal sector credit. According to the study, the impact of credit and other assistance programmes are reflected in changes in the scale of operation as composition and volume of traded or manufactured goods. It is also reflected in the change of customs and composition, market share, or geographical coverage of operations of products. Increases in output lead to decrease in costs so that the firms enjoy economies of scale by specializing in the efficient production of those goods or services that are cheap and through this, the credit beneficiaries expand their operations.

McCormick and Pedersen (1996), in their study found that factors related to initial and working capital and credit accessibility are the most critical issues in the informal sectors and small enterprises’ growth and development. The emergency therefore of official credit specifically for small - holders is closely linked to the concern basically for small-scale enterprises. In the case of Kenya, the colonial administration in the 1950s began to provide credit for African small - holder businesses. They found that channeling of increasingly large amounts of development credit into the rural sector did not, however take place until later in the 1970s. The World Bank (1975) notes that it was mainly the outcome of the identification of rural development as the focus of acid and development strategies under the aegis of the World Bank Levitsky (1989) in his study found that one of the main constraints of the informal sector is its restricted access to productive resources (capital and skills) and to more dynamic markets.
Levitsky (1989), suggested that due to this, the first priority is to set up mechanisms to permit access to these markets and to eliminate the discrimination, which this sector suffers in practice by being excluded. This implies the design of at least three types of measures which can be done by overhauling the systems whereby the state invites bids from supplies and by eliminating the restriction that prevents informal enterprises from participation. The second is to facilitate access to both investment and working capital in order to reduce the high interest rates facing the informal producers when, because of their exclusion, they have to resort to parallel credit channels. This necessarily leads to the conception of collateral mechanisms not limited to individual assets, for example by the introduction of insurance schemes or trusts to serve this purpose. A third measure will be to train the informal producers in the use of accounting and managerial procedures. They and their dependants would benefit from improved expertise in production matters, which at the same time could become suitable vehicles for the introduction of new technologies.

Berenbach and Churchill (1997), found in their study that the lack of regulation of the micro-finance sector to date has allowed institutions across the globe to adopt innovative micro-finance methodologies where the credit process is appropriate for its market to issue micro enterprise loans, MFIs remove impediments that the formal financial sector has established to transact a loan application, such as collateral, financial statements, letters of references from banks and businesses, and by laws of the enterprise. They added that MFIs allow clients with no credit history to establish a track record; like other prudent financial institutions, MFIs lend against that credit history.
Through this approach, MFIs, keep loan applications simple, sidestepping the need for historical financial information. Security arrangements are also appropriately conceived. The MFIs secure credit through group guarantees, character references, reliable prior performance, and the viability of the business and through chattel mortgages when available. When borrowers grow to small enterprises scale, they can point to a reliable credit history and adequate asset base to qualify for subsequent loans.

Vogel (1992), in his study found that the borrowers on-time repayment is *sine qua non* for subsequent loans. Where available, computerized credit administration systems provide loan officers with accurate and current repayment information. He adds that successful MFIs do not tolerate loan delinquency. Clients with late payments are penalized and they may not be able to access continued loans. This approach, with the accompanying incentives built into lending process, is highly successful. Competent micro-finance lenders are able to hold delinquency and default to levels that rival well-performing financial institutions, levels that are easily handled by standard provisioning policies without detriment to profitability.

Macharia (2003), found in her study that most MFIs use a “stepped lending” approach. MFIs initiate borrowers with small, short-term loans. Although the loan sizes vary from country to country, nearly all MFIs in developing offer initial loans under US$1,000, and many offer initial loans of less than US$1,000.
If repayment is timely, borrowers can access successively larger, longer-term loans according to enterprise requirements. Borrowers are encouraged to undertake repeat loans and many receive multiple loans over the span of several years.

Macharia (2003), further comments that the majority are used for working capital although as mentioned above, MFIs are now diversifying into fixed-asset lending and even non-business loans. Credit administration is conducted quickly. While different organizations have diverse policies regarding the turn-around time on initial loan request, the period is generally short. Often MFIs extend repeat loans on the spot or within a few days. The repeat lending function allows MFIs to screen clients and to direct larger loans to proven borrowers. In this way, the MFIs establish a long-term relationship with the client who, in turn, has the incentive to complete his or her obligations to obtain a continuing, and perhaps increasingly, show of resources.

Ngugi (2001), in his study found that the lending policy of a successful MFIs is based on the use of positive real interest rates that lower the full cost of lending on the understanding that subscribers are unnecessary to the micro-entrepreneur and damaging to the institutions sustainability. Interest charged is calculated to cover full cost of lending operations, sometimes including a surplus for financing further loans. These relatively high interest rates are appropriate and essential. They are appropriate because of the high rate of return experienced by micro-enterprises. Conventional wisdom would suggest that low-income people could not pay high interest rates, when in fact the characteristics of their businesses actually make it possible.
High interest rates are essential because they make it possible for low-income communities to have continued access to financial services. Since subsidies cannot last indefinitely, MFIs have to charge a high enough interest rate to cover their costs, both operational and financial, if they want to provide these services over the long-term. To extend the lending market while covering their costs, MFIs must charge significantly higher interest rates than the traditional banking sector. This is a function of economies of scale in loan size. Just as small business loans have higher rates than multinational loans, micro-loans must carry still higher interest rates. Annual real effective interest rates typically fall into the 20 to 60 percent range.

The importance of high interest rates does not give MFIs liberty to be inefficient and to pass on their inefficiencies to low-income clients. Instead of regulating interest rates, however, a more effective approach to ensure that the rates charged by MFIs are appropriate is to encourage competition. This will spur innovation aimed at reducing the risks and costs associated with micro-lending.

Jammeh (2002), in his study observed that while in most countries NGO micro-lenders are not legally permitted to accept deposits, in a small number of cases, particularly in Asia, some micro-lenders are authorized to do so. This is allowed if they maintain a "Chinese wall" between these liabilities and their assets, and if they only collect savings from their borrowers. This deposit service encourages saving habits and serves as collateral for potential loan losses. In these cases, MFIs do not use deposits as a source of loan capital and therefore are not financial intermediaries.
Jammeh (2002), also found that many MFIs initially require compulsory savings from prospective borrowers before accessing loans but now some organizations are changing to a voluntary saving approach, whereby clients contribute deposits to an emergency reserve fund, because of client dissatisfaction with the hidden financial costs of compulsory savings. For these institutions, deposit taking may begin as "loans" from their clients. These term notes, which are not guaranteed, offer higher yields than are available to small savers in commercial banks, in these cases, since most clients are net borrowers, superintendents believe that it is not necessary to regulate these institutions.

The provision of savings services is becoming an increasingly important issue in the field of micro-finance. In some regions, either because micro-finance services have evolved out of the credit cooperative movement (West Africa) or because voluntary savings from borrowers are permitted (Bangladesh), savings facilities are an essential service offered by MFIs. In Latin America, however, with the exception of common bond organizations such as village banks, most NGOs, micro-finance institutions are not allowed to accept deposits. The perceived importance of offering a savings service is one of the reasons driving non-profit MFIs to become regulated financial institutions.
Vogel (1992), also in his study added that for successful MFIs, typically less than one quarter of staff is devoted to administrative functions, and more than 60 percent of all personnel are involved in the direct delivery of financial services. The administrative costs of well-managed MFIs, when expressed as a percentage of the average portfolio, are reasonable given the target population, its average loan size, and its fixed administrative costs relative to the total portfolio size, but are much higher than commercial banks. When reviewing all types of financial institutions, there is a consistent adverse correlation between loan size and the administrative costs. Whereas a commercial bank with large corporate clients may have administrative costs of approximately 1 to 2% of portfolio, a finance corporation that lends to smaller and riskier projects may have administrative costs in the 10 to 12% range. Within this context, many MFIs have administrative costs around 25% over the average portfolio.

Vogel (1992), concluded that the loan officer's basic functions are to select micro-entrepreneurs through personal promotion, propose amount and terms of the loan/visit the clients regularly, coordinate group guarantee schemes (where applicable), monitor repayments and follow-up on delinquencies. Loan officers select clients based on site visits and operate in a decentralized manner. The information that loan officers collect is usually qualitative and subjective, such as assessing contextual elements in the home, which they are only able to interpret effectively after significant experience. One of the greatest strengths of successful micro-finance institutions is the credit-assessment skill of its seasoned loan officers. With micro-enterprises, credit-scoring techniques and quantitative indicators of risk are neither appropriate nor effective.
Loan officers typically work out of branch offices located close to the target market. During the term of the loan, loan officers regularly visit their clients to evaluate the business and track its development.

This approach guarantees continuous contact between the loan officer and the borrower, accumulating knowledge and experience that is of great importance for the continued livelihood of the programmes. Loan officers perform outreach, promotion, and assist clients to formulate loan requests, and directly supervise loans at clients' workplaces. Portfolio management reports allow loan officers to track on-time repayment. For an MFI to be successful, loan officers need to know the day a repayment is overdue and respond immediately to delinquent loans.
2.3 CONCEPTUAL FRAMEWORK

Figure 1: Conceptual framework

<table>
<thead>
<tr>
<th>Terms of Loans</th>
<th>Loan Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Collateral</td>
<td>granted</td>
</tr>
<tr>
<td>• Group guarantee</td>
<td>not granted</td>
</tr>
<tr>
<td>• Financial statements</td>
<td></td>
</tr>
<tr>
<td>• Management skills</td>
<td></td>
</tr>
</tbody>
</table>

Providing collateral is a very common practice in most credit markets. This is normally done to reduce the risks of default by borrower, as it is also a method of screening the borrower. This guarantees one to be given a loan and without it, the loan is not given.

Most micro-financing institutions would ask borrowers to group themselves in fives or tens or even more so that when one wants to borrow a loan, the group will act as security of default responsible for repayment in case the loanee fails. Therefore, one is given loan if he belongs to a group rather than when he is alone.

Small and micro-enterprises often lack financial statements and management skills and are unable to present convincing investment proposals to loan granting institutions and this makes it hard to access the loans unlike if they had financial statements and good management skills which would provide a solid basis to being granted loans.
CHAPTER THREE

METHODOLOGY

3.1 THE TARGET POPULATION

The population of interest in this study consisted of 4 officers who deal with loans for traders who are assigned by Kenya Rural Enterprise Programme (K-Rep) and their 100 loanees who ran the second-hand clothes business in the area of study.

3.2 SAMPLE DESIGN

The study sample was selected after complete listing of all second-hand clothes dealers who have borrowed loans from K-Rep in the area. A systematic sampling using a list of about 55 borrowers, we selected 50 second-hand clothes dealers where each was administered.

3.3 DATA COLLECTION TOOLS

This study utilized primary data. Primary data were collected using a questionnaire, both open-ended or closed. The researcher administered the questionnaire personally. One questionnaire was in form of interview schedule to each second-hand cloth dealer and the second questionnaire was given to each of the K-Rep officers.
3.4 DATA ANALYSIS

The major analytical tool, which was used in this study, was descriptive statistics such as proportions, frequencies, mean scores and standard deviations. The data were presented in tables on items pertaining to daily averages from the business, difficulties in access of credit, training, consultancy services, and the business growth. Data were coded and tabulated. Statistical package for social sciences (SPSS) was also used to analyse data.

3.5 LIMITATIONS OF THE STUDY

Due to lack of record keeping by most of the second - hand clothes dealers which was found out through the interviews, the research will not be valid as a representative of all the other vendors in the country. Since the information which the researcher obtained might not be true for most of these vendors were suspicious about the purpose of the study and think that the researcher was interested in their personal and financial details makes it unreliable in terms of comparison and interpretation of the findings. The researcher is not be able to generalize the information to all the vendors in the whole country for the problems encountered in this area of study might not be equally the same in the other parts of the country. Also the researcher had limited time to carry out the research and finally the study was restricted to Sotik Division, Bureti District for this is where markets are carried out throughout the week in different shopping centres.
CHAPTER FOUR.
DATA ANALYSIS AND INTERPRETATION.

1. INTRODUCTION
This chapter presents and discusses the results of data analysis. The study was carried out in Sotik Division, Bureti District on terms of loans in micro-finance institutions in particular K - Rep to second-hand cloths dealers. The data were analysed into two categories; from lenders and borrowers. In the study 56%, which represents 28 of the targeted borrowers responded and 44%, which represents 22 of the targeted borrowers failed to respond. 25% of the targeted lenders, which represents 1, responded and 75% failed to respond.

4.2 RESULTS
4.2.1 Analysis of Data from Borrowers

Table 1: Age of the Respondents

<table>
<thead>
<tr>
<th>Age in years</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25</td>
<td>1</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>26 – 30</td>
<td>17</td>
<td>60.7</td>
<td>64.3</td>
</tr>
<tr>
<td>31 – 35</td>
<td>4</td>
<td>14.3</td>
<td>78.6</td>
</tr>
<tr>
<td>36 – 40</td>
<td>2</td>
<td>7.1</td>
<td>85.7</td>
</tr>
<tr>
<td>Over 40</td>
<td>4</td>
<td>14.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
From table 1, we can observe that majority (60.7%) of the borrowers are between the age brackets of 26 – 30 years, 3.6% were below 25 years of age, 14.3% were at the age bracket of 31 – 35 and also over 40 years and the rest 7.1% are in the age bracket of 36 – 40 years.

**Table 2: Education Level of Respondents.**

<table>
<thead>
<tr>
<th>Education level</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult</td>
<td>4</td>
<td>14.3</td>
<td>14.3</td>
</tr>
<tr>
<td>Diploma / university</td>
<td>12</td>
<td>42.9</td>
<td>57.1</td>
</tr>
<tr>
<td>Secondary</td>
<td>12</td>
<td>42.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From table 2, 42.9% of the respondents interviewed had secondary education, 42.9% had diploma/university education and 14.3% had adult education. Therefore, we conclude that the educational level has a direct relationship to understanding terms of micro-finance institutional loans.
<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>Mean</td>
<td>4.5893</td>
<td></td>
</tr>
<tr>
<td>1.50</td>
<td>Median</td>
<td>4.000</td>
<td></td>
</tr>
<tr>
<td>2.00</td>
<td>Std. Dev.</td>
<td>2.91565</td>
<td></td>
</tr>
<tr>
<td>3.00</td>
<td>Variance</td>
<td>8.50099</td>
<td></td>
</tr>
<tr>
<td>4.00</td>
<td>Skewness</td>
<td>1.535</td>
<td></td>
</tr>
<tr>
<td>5.00</td>
<td>S.E Skew</td>
<td>.441</td>
<td></td>
</tr>
<tr>
<td>6.00</td>
<td>Range</td>
<td>13.00</td>
<td></td>
</tr>
<tr>
<td>7.00</td>
<td>Mode</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>8.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.00</td>
<td></td>
<td>3.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From table 3, most of the respondents’ have been in the business for 2,3,4 and 5 years at a percentage of 17.9% each. This shows that the knowledge of K – Rep in particular is still new and not widely spread. The mean of 4.5893 indicates that it is equivalent to the number of years the borrowers have been operating their businesses.

The standard deviation and the variance are both measures of dispersion as it measures the risk exposure. From the table above, the standard deviation of 2.91565 and variance of 8.50099 shows that the business is risky to venture as most respondents fear to borrow.
Table 4: Source of Initial Capital

<table>
<thead>
<tr>
<th>Source</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>3</td>
<td>10.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Relatives and friends</td>
<td>12</td>
<td>42.9</td>
<td>53.6</td>
</tr>
<tr>
<td>Own savings</td>
<td>13</td>
<td>46.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From table 4, only 10.7% of those interviewed acquired loans from the banks, 42.9% obtained loans from relatives and friends and 46.4% got their capital from their own savings. None of those interviewed obtained their initial capital from K – Rep.

Table 5: Average Daily Profit

<table>
<thead>
<tr>
<th>Kshs.</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>150 – 200</td>
<td>3</td>
<td>10.7</td>
<td>10.7</td>
</tr>
<tr>
<td>200 – 250</td>
<td>9</td>
<td>32.1</td>
<td>42.9</td>
</tr>
<tr>
<td>250 – 300</td>
<td>10</td>
<td>35.7</td>
<td>78.6</td>
</tr>
<tr>
<td>Over 300</td>
<td>6</td>
<td>21.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
From table 5, 10.7% of the dealers got an average daily profit of Kshs. 150 – 200, thirty-two point one percent of the dealers got an average daily profit of Kshs. 200 – 250, 33.7% of the dealers got an average daily profit of Kshs. 250 – 300 and the rest 21.4% got an average daily profit of Kshs. 300.00. From the average daily profit analysis, the profit margins in this sector of business are very low.
Table 6: Difficulties in Accessing Credit

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
<th>CUMULATIVE PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Without difficulties</td>
<td>1</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>With difficulties</td>
<td>27</td>
<td>96.4</td>
<td>100</td>
</tr>
</tbody>
</table>

**COLLATERAL**

<table>
<thead>
<tr>
<th></th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
<th>CUMULATIVE PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest</td>
<td>15</td>
<td>53.6</td>
<td>53.6</td>
</tr>
<tr>
<td>Medium</td>
<td>11</td>
<td>39.3</td>
<td>92.9</td>
</tr>
<tr>
<td>Least</td>
<td>2</td>
<td>7.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**GROUP GUARANTEE**

<table>
<thead>
<tr>
<th></th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
<th>CUMULATIVE PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest</td>
<td>12</td>
<td>42.9</td>
<td>42.9</td>
</tr>
<tr>
<td>Medium</td>
<td>13</td>
<td>46.4</td>
<td>89.3</td>
</tr>
<tr>
<td>Least</td>
<td>3</td>
<td>10.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**FINANCIAL STATEMENTS**

<table>
<thead>
<tr>
<th></th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
<th>CUMULATIVE PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest</td>
<td>16</td>
<td>57.1</td>
<td>57.1</td>
</tr>
<tr>
<td>Medium</td>
<td>8</td>
<td>28.6</td>
<td>85.7</td>
</tr>
<tr>
<td>Least</td>
<td>4</td>
<td>14.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**MANAGEMENT SKILLS**

<table>
<thead>
<tr>
<th></th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
<th>CUMULATIVE PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest</td>
<td>15</td>
<td>53.6</td>
<td>53.6</td>
</tr>
<tr>
<td>Medium</td>
<td>6</td>
<td>21.4</td>
<td>75.0</td>
</tr>
<tr>
<td>Least</td>
<td>7</td>
<td>25.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

From table 6 above, 96.4% of the second-hand clothes dealers have had major difficulties as compared to 3.6%, which have not had any difficulties in accessing credit for their business from commercial banks.
The major difficulties as seen from the table above include collateral, group guarantee, financial statements and management skills.

On collateral as a difficulty of accessing credit, it can be concluded that 53.6% of the dealers have collateral as the highest contributor, 39.3% of them view collateral as the medium contributor and 7.1% view it as the least contributor in accessing credit for their businesses.

Group guarantee is another difficulty as 42.9% of the second-hand clothes dealers view it as the highest contributor, 46.4% view it as a medium contributor and only 10.7% view it as the least contributor of difficulty to accessing credit for their businesses. Fifty-seven point one percent view financial statements as a highest difficulty while 28.6% view it as a medium difficulty and 14.3% view it as the least difficulty in accessing their credit.

Fifty-three point six percent view management skills as the highest difficulty while 21.4% find it as a medium difficulty and 25% find it as the least difficult in accessing credit for their businesses.

In summary, therefore, the second-hand clothes dealers interviewed had difficulties in accessing credit due to the terms and conditions of the loan which are enumerated above i.e. collateral, group guarantee, financial statements and management skills, each of which is over 50% difficulty from those interviewed.
Table 7: Training in Business Management

<table>
<thead>
<tr>
<th>Trained</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>20</td>
<td>71.4</td>
<td>71.4</td>
</tr>
<tr>
<td>Yes</td>
<td>8</td>
<td>28.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From table 7, 71.4% of the respondents had not received any training in the area of business management, and 28.6% had received training in the areas of business management such as; entrepreneurship, management of business change, marketing and sales, financial management. This shows that most of the second-hand clothes dealers do not have enough knowledge of managing their businesses.
From table 8, 60.7% of the second-hand clothes dealers do not seek professional assistance services in their business operations. Only 39.3% of the second-hand clothes dealers do seek professional assistance services, which are: customer service/care, accounting, financial management, entrepreneurship, purchasing, sales and marketing. This shows most of the second-hand clothes dealers do not have knowledge. Various professional assistance services in their business, which hinder their performance.

Table 9: Growth Rate as a Result of Financial Assistance (K – Rep)

<table>
<thead>
<tr>
<th>Change</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>4</td>
<td>14.3</td>
<td>14.3</td>
</tr>
<tr>
<td>Positive</td>
<td>23</td>
<td>82.1</td>
<td>96.4</td>
</tr>
<tr>
<td>Negative</td>
<td>1</td>
<td>3.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
From table 9, 14.3% of the second-hand clothes dealers, who had sought financial assistance from K-Rep have had no change in their business, 82.1% have had positive growth in their business and 3.6% have had negative growth in their business because of reasons like; high competition, lack of proper planning, lack of management skills, lack of proper guidance from K-Rep. Donde (1999), said that inflation in the Kenyan economy has had a negative influence on the business.

Other findings from the study are the reasons why borrowers fail to repay their loans because most borrowers lack proper financial and management skills of running a business, therefore are neither able to recover their initial capital nor make good their loans. Also, pressure from the family such as school fees and other family complications such as medical forced many borrowers to direct their loans from its intended purpose. Being in a remote location, there is no insurance cover and things such as theft, fire are a complete loss to the borrower, therefore will be full and not able to repay. Saturation of market due to the entry of hawkers and hence making the business difficult to break even, the poor state of the economy, most customers live in object poverty, living in less than a dollar a day, mainly eying on hand-outs, impact negatively on business of the borrowers and customers purchase the very basic of life to survive and finally lack of proper guidance from K-Rep management. Most people interviewed accused the lenders as of concurred attitude forcing them to make their misconstrued decisions.
4.2.2 Analysis of Data from Lenders (K-Rep Representative)

From the respondent, we found out that K-Rep has been tending to second-hand clothes dealers for the last four years since inception in the area. The terms and conditions of their loans are: - unsecured loans with guarantors as security repayable within a period of one year, at an interest rate of 19%. The terms and conditions of the unsecured loans are followed strictly to the later.

Table 10: Amounts and Number of Borrowers

<table>
<thead>
<tr>
<th>Amount borrowed (Kshs.)</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5,000 – 10,000</td>
<td>8</td>
<td>14.5</td>
<td>14.5</td>
</tr>
<tr>
<td>10,000 – 15,000</td>
<td>17</td>
<td>30.9</td>
<td>45.4</td>
</tr>
<tr>
<td>15,000 – 20,000</td>
<td>23</td>
<td>41.8</td>
<td>87.2</td>
</tr>
<tr>
<td>20,000 – 30,000</td>
<td>7</td>
<td>12.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From table 10, the average number of borrowers awarded loans was 55, at the range of Kshs.5, 000 – 10,000 to only 8 borrowers, Kshs.10, 000 - 15, 000 to only 17 borrowers, 15, 000 - 20,000 to 23 borrowers and Kshs.20, 000 - 30,000 to the remaining 7 borrowers.
We can say that people have fear of borrowing because repayment period is too short; interest rate charges are extremely high (19%) lack of training of business management, and lack of consulting services. K-Rep institution offer technical training to borrowers in business management before administering their loans, such as bookkeeping and financial management, management skills, marketing and sales, customer care/services and stock management.

The K-Rep representative gave some considerations they place for borrowers before administering their loans such as, the borrower should belong to a group of people, guarantors, should posses an account with K-Rep bank and undergo training about K-Rep policies procedures.

Other findings from the study are the problems experienced by K-Rep on payment for loans owing to borrowers’ default, rates, non-account holders with K-Rep, converting the collateral to cash for example livestock, sometimes takes a long period of time. All these variables among others make it difficult to collect their money back.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSIONS.

The purpose of the study was to investigate the factors that affect accessibility to micro-finance institutional loans by small and micro-enterprises especially to those operating the second hand clothes businesses in the rural areas. The data were collected from 28-second-hand clothes dealers and one (1) K-Rep representative to whom the questionnaires were personally administered.

The response rate was 56% for the borrowers and 25% for the K-Rep representatives. These response rates are explained by the fact that most of the borrowers were conservatives hence not willing to disclose information about their business secret. Some other respondents could not respond to all the questions in the questionnaire for their own personal reasons.

According to the findings, the borrowers appear to have problems on acquiring K-Rep loans, due to lack of training in micro-finance and acquisition of accounting and financial management skills/knowledge.
We can say that people have fear of borrowing because repayment period is too short; interest rate charges are extremely high (19%) lack of training of business management, and lack of consulting services. K-Rep institution offer technical training to borrowers in business management before administering their loans, such as bookkeeping and financial management, management skills, marketing and sales, customer care/services and stock management.

The K-Rep representative gave some considerations they place for borrowers before administering their loans such as, the borrower should belong to a group of people, guarantors, should posses an account with K-Rep bank and undergo training about K-Rep policies procedures.

Other findings from the study are the problems experienced by K-Rep on payment for loans owing to borrowers' default, rates, non-account holders with K-Rep, converting the collateral to cash for example livestock, sometimes takes a long period of time. All these variables among others make it difficult to collect their money back.
5.1 SUMMARY AND CONCLUSIONS.

The purpose of the study was to investigate the factors that affect accessibility to micro-finance institutional loans by small and micro-enterprises especially to those operating the second-hand clothes businesses in the rural areas. The data were collected from 28-second-hand clothes dealers and one (1) K-Rep representative to whom the questionnaires were personally administered.

The response rate was 56% for the borrowers and 25% for the K-Rep representatives. These response rates are explained by the fact that most of the borrowers were conservatives hence not willing to disclose information about their business secret. Some other respondents could not respond to all the questions in the questionnaire for their own personal reasons.

According to the findings, the borrowers appear to have problems on acquiring K-Rep loans, due to lack of training in micro-finance and acquisition of accounting and financial management skills/knowledge.
It can be concluded that there is need to sharpen the skills of the borrowers on the key management areas such as business planning. They need training on stock management, unfortunately, there are a few companies in Kenya that offer training in stock management. The government should come in to create an investor friendly environment by providing training package.

The study found that borrowers face management problems that they are able to identify; they have heavily relied on past experience to build knowledge on how to deal with financial management problems.

5.2 RECOMMENDATIONS

The researcher recommends that the government and NGOs should come in and consider offering short-term training programmes on businesses conditions that would contribute or promote the growth of second-hand clothes dealers.

The micro-finance institutions should encourage participatory management consultancy approach on issues affecting the borrowers, they should explore ways and means of extending the grace period of say more than one year as it is currently.

Micro-finance institutions should also consider introducing of more courses in terms of loans such as group guarantee, management skills, financial management, loan acquisition, management of business change, marketing and sales, which are relevant to the purpose of the loan.
5.2.1 Suggestions For Further Research

The study focused on investigating the factors that affect accessibility to micro-finance institutions loans by small and micro-enterprises especially to those operating the second-hand clothes in Sotik Division, Bureti District. A further study could be done on the other areas, like one division in each district all over Kenya.

The sample used involved second-hand clothes dealers in Sotik Division. A further study could be carried out in other areas of small and micro-enterprises.

A comparative study should be done on other lending MFIs to find out if other are similarities or differences experienced by second-hand clothes dealers studied in this research.
REFERENCES


SPECIMEN LETTER TO THE RESPONDENTS (BORROWERS)

Dear Respondent,

I am a masters student in the Department of Business Administration at Kenyatta University and I am carrying out a Research Project on: “Second - Hand Clothes Dealers and Terms of Loans on Micro - Financing Institutions: A case of Sotik Division, Bureti District.”

The attached questionnaire is to help gather data, which will be useful in the mentioned research as part of the Masters of Business Administration Degree requirements.

You have been selected as one of the respondents in this study. I therefore kindly request you to facilitate the collection of the required data by answering the questions posed in the questionnaire.

Please note that the information sought is purely for academic purposes and will be treated with utmost confidentiality. Your cooperation will be highly appreciated.

Yours faithfully,

Mutai R. C.
QUESTIONNAIRE FOR SAMPLE OF BORROWERS

Please put a tick in the box [ ] where applicable to you.

1. What is your age?
   - Below 25 [ ]
   - 26-30 [ ]
   - 31-35 [ ]
   - 36-40 [ ]
   - over 40 [ ]

2. What level of formal education have you attained?
   - None [ ]
   - Primary education [ ]
   - Secondary education [ ]
   - Diploma or University education [ ]
   - Adult literacy [ ]

3. What is your average daily profit from your business per day?
   - Less than 100 [ ]
   - 100 to 150 [ ]
   - 150 to 200 [ ]
   - 200 to 250 [ ]
   - 250 to 300 [ ]
   - over 300 [ ]

4. When did you start your business? __________________________

5. What was the source of your initial capital?
   - Own savings [ ]
   - Loan from relatives and friends [ ]
   - Loan from MFIs [ ] (specify)-----------------
   - Loan from cooperative, or commercial bank [ ]
   - Other (specify)-----------------------------------

6. (i). Have you had major difficulties in accessing credit for your business?
   - Yes [ ]
   - No [ ]

   (ii). If 6 (i) is yes, what do you think is the problem? (Please put a tick in the appropriate box, 5 represents highest contributor while 1 represents least contributor)

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7. (i) Have you received any training in the area of business management?
   Yes [ ] No [ ]

   (ii) If 7 (i) yes, please indicate the nature of training
        ........................................................................................................................................
        ........................................................................................................................................

8. (i) Do you seek professional assistance services in your business?
      Yes [ ] No [ ]

   (ii) If yes in 8 (i), please indicate what types of professional assistance services you normally receive?
        ........................................................................................................................................
        ........................................................................................................................................

9. (i) Other than K-rep loan, do you have other sources of finance?
      Yes [ ] No [ ]

   (ii) If 8 (i) is yes, please state the sources
        Own savings [ ]
        Bank loans [ ]
        Loans from friends or relatives [ ]
        Other (specify) .........................................................

10. (i) How would you rate your business growth as a result of financial assistance from K-rep?
      Business has had no change [ ]
      Business has expanded (positive growth) [ ]
      Business has got worse (negative growth) [ ]
      Others (specify) ..........................................................

11. (ii) If the answer to 10 (i) is that the business has a negative growth, please give the reasons:
        ........................................................................................................................................
        ........................................................................................................................................
        ........................................................................................................................................
        ........................................................................................................................................
        ........................................................................................................................................

12. Why do some other borrowers fail to pay back their loans?
    ........................................................................................................................................
    ........................................................................................................................................
APPENDIX 2

SPECIMEN LETTER TO THE RESPONDENTS (LENDERS)

Dear Respondent,

I am a masters student in the Department of Business Administration at Kenyatta University and I am carrying out a Research Project on: “Second - Hand Clothes Dealers and Terms of Loans in Micro - Financing Institutions: A case of Sotik Division, Bureti District.”

The attached questionnaire is to help gather data, which will be useful in the mentioned research as part of the Masters of Business Administration Degree requirements.

Your organization has been selected as one of the respondents in this study. I therefore kindly request you to facilitate the collection of the required data by answering the questions posed in the questionnaire.

Please note that the information sought is purely for academic purposes and will be treated with utmost confidentiality. Your cooperation will be highly appreciated.

Yours faithfully,

Mutai R. C.
QUESTIONNAIRE TO THE LENDERS.

Please tick the most appropriate choice for you.

1. How long have you been giving credit to businesses? .................

2. What are your terms of loans?

3. What in average is the number of borrowers (second-hand clothes dealers) did you give loans according to the following amounts?
   - Kshs. 5,000
   - Kshs. 5,000 - 10,000
   - Kshs. 10,000 - 15,000
   - Kshs. 15,000 - 20,000
   - Kshs. 20,000 - 30,000
   - Other (specify) ______________

4. (i) Do you offer technical training to borrowers in business management?
   Yes [ ] No [ ]

   (ii) If yes in 4 (i), please indicate the kinds of technical training you offer
   ........................................................................................................
   ........................................................................................................
   ........................................................................................................

5. (i) Do you offer consultancy services to borrowers in business management?
   Yes [ ] No [ ]

   (ii) If yes in 5 (i), please indicate the kinds of consultancy services you offer
   ........................................................................................................
   ........................................................................................................
   ........................................................................................................

6. (i) What is your loan repayment period? ......................

   (ii) Do you stick to this loan repayment period? ......................
7. What other considerations do you have for borrowers?
   The borrower should have other sources of income. □
   The borrower should belong to a group of people □
   The borrower should have a collateral □
   Other (specify) .................................................................

8. What rates do you charge?

9. (i) What problems do you experience in repayment of loan?
     ........................................................................................
     ........................................................................................

   (ii) What are the reasons given by the borrowers for defaulting?
     Repayment period is short □
     The interest rate charges are high □
     Lack of training on business management □
     Lack of consultancy services □
     Lack of grace period □