FACTORS AFFECTING DEMAND FOR CREDIT FACILITIES AMONGST SMALL SCALE BUSINESS:

A CASE STUDY OF THE JUA KALI ARTISANS IN NAIROBI.

BY:

MAIYO K. NEHEMIAH

A PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS AND ADMINISTRATION (MBA), FACULTY OF COMMERCE, DEPARTMENT OF ACCOUNTING;

KENYATTA UNIVERSITY.

JUNE 1998
DECLARATION

This Research Project is my original work and has not been presented for a Degree in any other University.

Signed

MAIYO NEHEMIAH KIPKURGAT

Date 31/8/98

This project has been submitted with my approval as University Supervisor.

Signed

OCHOLA P.B.O

Lecturer, Department of Accounting

Faculty of Commerce, Kenyatta University

Date 31/8/98
DEDICATION

To my dear mum Elizabeth, my brothers and sisters whom I love most.
# TABLE OF CONTENTS

Table of contents ..................................(i)
List of tables ....................................(iii)
Acronyms used in the study .......................(iv)
Acknowledgements ...................................(v)
Abstract .............................................(vi)

## CHAPTER ONE: INTRODUCTION.

1.0 Background..................................... 1
1.1 Statement of the problem.................... 17
1.2 Objective of the study....................... 19
1.3 Significance of the study................... 20
1.4 Scope of the study............................ 20

## CHAPTER TWO: LITERATURE REVIEW.

2.0 General Literature............................ 21
2.1 Entrepreneurship............................. 23
2.2 Advantages of small business................. 27

## CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY.

3.1 Research design............................... 30
3.2 Target population.............................. 30
3.3 Sample design.................................. 30
3.4 Data collection................................. 31
3.5 Conceptual framework......................... 31
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS.

4.1 Introduction.................................35
4.2 Type of business operated by Jua Kali artisans.................................36
4.3 Location of Jua Kali businesses..............37
4.4 Source of input financing......................38
4.5 Size of Jua Kali businesses...................39
4.6 Proximity to Jua Kali businesses..............40
4.7 Opinion of Jua Kali traders towards factors affecting demand for credit facilities...42
4.8 Factor analysis................................44

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS.

5.1 Introduction..................................53
5.2.1 Factors affecting demand for credit facilities amongst Jua Kali artisans in Nairobi.................................53
5.2.2 Perception of Jua Kali artisans towards factors affecting demand for their credit facilities.................................54
5.2.3 Common source of financing available to Jua Kali artisans.................................55
5.3 Limitations of the study.........................56
5.4 Suggestions for further research..............57
List of tables.

Table 1..............................................36
Table 2..............................................37
Table 3..............................................38
Table 4..............................................39
Table 5..............................................40
Table 6..............................................41
Table 7..............................................42
Table 8..............................................43
Table 9..............................................45
Table 10.............................................46
Table 11.............................................48
Table 12.............................................49
Table 13.............................................51

BIBLIOGRAPHY........................................58
APPENDIX A.........................................64
ACRONYMS USED IN THE STUDY.

SBA - Small Business Administration.
FKE - Federation of Kenya Employers.
MTTAT - Ministry of Technical and Applied Technology.
KIE - Kenya Industrial Estate.
JLBS - Joint Loan Board Scheme.
SEFCO - Small Enterprise Finance Company.
ICDC - Industrial and Commercial Development Corporation.
SSE - Small Scale Enterprise.
LLDP - Lilongwe Land Development Programme.
ACKNOWLEDGEMENT

My special thanks go to my supervisor Mr. Ochola of Accounting Department for his invaluable guidance and tireless effort throughout this project.

My sincere gratitude goes to my employer for their financial support without which I could not have successfully completed my MBA programme.

I would also like to thank my parents, brothers and sisters for their strong love, constant support and encouragement throughout the course.

My thanks also go to my lecturers and my fellow MBA colleagues especially Martin, Kihara and Rono for their contribution towards my success in this programme.

I cannot forget to thank my dear friend Carolyne for her love, support and encouragement throughout the study. She had to bear with my absence hence constantly looked forward to my completion of this study.

I would also like to thank all those people not mentioned by name who have assisted me to shape my life in one way or another. To you all I say thanks a lots. Lastly, I am grateful to Mr. A.D Bojana for Proofreading the work.
This study sought to explore the factors affecting demand for credit facilities amongst small-scale Jua Kali artisans in Nairobi. The driving force to this area of study is that this sector is seen as impetus to accomplishing Kenya's objective of being an industrialised country by the year 2020.

Data were collected using interviews and a questionnaire designed to capture factors affecting demand for credit facilities. The target was to administer questionnaires to 60 respondents. In the end the researcher managed to get 42 respondents (response rate was 70%). Data were analyzed using SPSS statistical computer package and presented in terms of factor analysis and descriptive statistics.

From the research findings, the following factors were considered very important in affecting demand for credit facilities amongst small-scale Jua Kali artisans:

(i) collateral security,
(ii) level of business turnover in a given period,
(iii) location of the business and
(iv) legal requirements.
Factor analysis extracted five factors which affect demand for credit facilities namely, proximity and credit guarantee, performance of the business, alternative financing, efficiency and resource management and size of the business.
CHAPTER 1

INTRODUCTION

1.1 Background

Kenya's informal business sector was not formally recognised as a force in the country's economy during the sixties and early seventies. Its recognition became evident in the sessional paper No. 1 of 1986 and the Sixth National Development Plan (1989-1993) due to the growing unemployment, and the need for industrialization.

Until recently, the intermediate sector has been looked upon as a social and economic problem or at least an example of backwardness. Rather simple and even crude technology is used to produce low quality products under crowded even unhygienic conditions. More careful scrutiny reveals, however, that the intermediate sector fulfills a valuable social function, and with all its limitations; may be a blessing in disguise. Moreover, it is reasonable to propose that legal constraints on this sector be removed and that assistance to be provided, even at the expense of some growth of the modern sector (Child F.C, 1977).

A small business is one that is independently owned.
and operated and not dominant in its field of operation (Hodgetts and Kuratko, 1989). According to Hodgetts and Kuratko the Small Business Act of 1953 authorized the Small Business Administration (SBA) to develop a more detailed definition that takes into account such criteria as sales volume and the number of employees in the firm.

SBA has established the upper limits for small firms in this manner.

1. **Manufacturing**—250 or fewer employees.
2. **Wholesaling**—$9.5 Million to $22 Million in annual sales, depending on the line of wholesaling.
3. **Retailing**—$2 Million to $7.5 Million in annual sales, depending on the line of retailing.
4. **Service**—Not exceeding $1.5 to $10 Million in annual sales, depending on the line of business.

Small businesses have in-depth management. In small business, heads cannot be changed so readily. The small business manager must have a dynamic head size, one that can instantly retract or expand to fit and fill the hat (Wortman, 1976). The small business manager has to be considerably more versatile.
The chief executive of a large business faced with an important decision calls a meeting of his top management. These specialists convene, and in due time, define the problem, state and analyze the alternative solutions, decide on the course that offers the greatest probability for success, and initiate the action. On the other hand, the small business manager is literally on his own. Yet he must go through the same essential processes of problem definition, analysis, resolution, and course of action.

In his May 1985 report to Congress, President Ronald Reagan stated, "New businesses, new industries, and new jobs have been produced by millions of entrepreneurs free to test new ideas in open markets. This growing and dynamic small business role must be continued if we are to maintain our national strength in the World economy". (Kuehl and Lambing, 1987).

Since independence in 1963, very substantial funds have been spent to implement government policies and programmes, and build institutions specifically aimed at promoting the small enterprise sector. In the process of urbanisation in Kenya for the last 50 years, small-scale industries have played an important role not only as a source of employment but also for
the economic functioning of the main towns and economising scarce resources (Kabagambe, 1975).

The ever increasing employment problems in most of the less developed countries (LDC) was one why reason it became urgent to explore the possibility of developing small medium scale enterprises. The development of small medium scale enterprises has played a significant role in creating employment opportunities within the larger process of industrialising a labour surplus economy.

It has become clear that it is a sheer waste of time to think of everybody getting employment after years of education (Amalemba, 1984). We the educated people have to think of ways of creating more jobs than wasting time thinking of ways to get jobs. Many students today are finding it extremely difficult to obtain jobs when they leave schools. At the moment, there are far more vacancies in the technical field than in any other fields, so it seems that the time is ripe for an expansion of technical education throughout the country (Ambalu, 1979).

Fifteen per cent of the over 70 per cent of economically active Kenyans are unemployed, the Urban Labour Force Survey (ULFS) released together with the
1989 Economic Survey has indicated. The ULFS found that the overall rate of open urban unemployment in Kenya is approximately 16 per cent of the economically active population between the ages of 15 and 64 (Kenya Times.4th June 1989,PP 23 Col 1).

Small scale business does provide affordable goods and services to the fast growing population of Kenya. Most of the technology used is local and therefore able to use the available cheap materials and also indigenous resources.

Small business enterprise sector as a primary means of strengthening Kenya’s economy was highlighted in the sessional paper No.1 of 1986 and the 6th National Development Plan (1989-1993). Small enterprises can emerge in almost any sector in response to existing demand for goods and services in such areas as in trade, commerce, distribution, transport, construction, agro-business, manufacturing and maintenance or repair services.

The importance of developing small-scale African businessmen so that they can play their full role in the economic development of Kenya has in recent years begun to receive due recognition. The small scale indigenous businessmen are a big majority and are
therefore potentially very important to the general development of the national economy (Kilonzi, 1992).

Nakuru Mayor, Clr Rafael arap Korir, said his council would set aside plots for the establishments of the Nyayo "Jua Kali" sheds in Nakuru town so that small industrialists could expand their businesses. The mayor also promised that his council would improve infrastructure facilities to the sheds for easy communication. Roads and streets would be a priority, he said, adding that the small-scale operators played a key role in the country's economic development. He appealed to banks and other financial institutions to also help the informal sector by giving them loans and expert advice, while not being too rigid in their demands for guarantees (The Standard, 2nd May 1988: Pg 9, Col 2).

The sessional paper No.1 of 1986 brings out clearly the significance of this sector by stating that the informal sector suffers from negative public image, yet it possesses many characteristics and has a vital role to play in contributing to renewed economic growth of the country.

The informal sector offers an unmatched potential as a source of new jobs for the fast expanding labour
force. The small-scale business or enterprise represents the major part of the business activity in the city and other major towns in the country.

Because of the very important role played by the small scale business as major part of the informal sector, the government in March 1988 hosted a workshop to identify barriers to small enterprise development. The workshop was composed of representatives of banks, parastatals, government, small enterprise development programmes, non-governmental organizations, and small enterprise owners. The main problems that came up clearly from the workshop was that, there were lack of information, inadequate managerial and entrepreneurial skills, difficulty in raising capital and business environment and investment climate.

Despite the government efforts in this area, the country has been unable to generate adequate employment opportunities as evidenced by the low growth of wage employment. With the realization that the formal sector will not be able to absorb the huge workforce and to help alleviate the unemployment problem the government has in the recent past recognised the importance of the informal sector, so that it can absorb the extra labour force over and
above what the formal sector will be able to accommodate.

According to the executive director of the Federation of Kenya Employers (FKE) Mr. Tom E. Owuor, all small and medium scale enterprises create jobs at relatively low capital cost than other sectors. The small and medium size enterprises not only act as breeding grounds for new entrepreneurs but also assist in reducing extreme poverty and deprivation by providing income to a large number of people in the developing countries.

It is estimated that by the year 2000, urban informal sectors will increase to a figure between 350,000 and 400,000. It was due to the importance of the small and medium scale enterprises to the country's economy that FKE came out in full support of the sector by organizing entrepreneurship courses. The informal sector has had a tremendous impact on the national economy e.g the development of the heat conserving stove (jiko) which has helped in conserving wood fuel (Kabara, Raphael: Kenya Times 12th Feb 1988. Pg 8, Col 5).

Small business also provides employment and goods and services. The distinguishing characteristics of the
small business from large firms include:

- Introducing new goods and services to the market place.

- Serving specialised markets. They try to satisfy specific demands by the consumer. They also provide goods which can be used to produce other goods.

- Acting as consumers of used capital equipment. This makes it possible to enter into the business because of the start-up capital.

- Using flexible production technologies and therefore can adjust their relative production levels and better able to accommodate random, short-term fluctuations in demand. Most of the technology is in form of labour and less specialised capital goods.

- Ease of market entry and exit in small businesses thereby ensuring mobility of capital resources. This will allow capital to flow from industries with low rates of return to industries with higher rates of return.

- Employing less-skilled workers and individuals with no prior work experience. Thus, they employ workers that might
otherwise have difficulty securing employment, thereby reducing the duration of transitional (frictional) unemployment among these individuals.

For this reason, small-scale businesses are characterised by:

- Ease of entry and exit. It requires a few thousands of shillings saved from wages and income in modern sector or cash farming.
- Low capital requirement for establishment and operation.
- Dependence on local resources and re-cycling waste.
- Employment of simple technologies that are easy to adopt.
- Labour-intensive techniques.
- Low-cost skill acquisition mainly outside formal school system. This is the low-cost way to upgrade the labour force.
- Ability to operate under highly competitive market conditions.

Most of the owners of the small-scale businesses possess entrepreneurial skills which is very necessary also for the success of the business.
The implications of entrepreneurial skills has a major impact on performance of small business enterprises in a particular Jua Kali enterprise. Jua Kali enterprises have been defined by various authors and writers based on activities performed by the sector.

Otieno (1988) defined Jua Kali sector as consisting of "firms comprising furniture manufacturing, welders, mechanics, panel beaters and other fabrication works". He continues to say that Jua Kali industries are established firms operating in fixed locations and whose workshops are either permanent, semi-permanent or temporary and owners must have one or more employees controlled by the owner.

According to Ministry of Technical and Applied Technology (MTTAT) policy document proposal of October 1988, Jua Kali is "a rural-urban non-farm small enterprise usually comprising 0-9 employees specializing in general servicing and production of a variety of items using indigenous technology".

According to Kariuki (1989) Jua Kali enterprise is "a technical craft manufacturing or servicing firm, managed by a self-employed entrepreneur (Jua Kali entrepreneur) and operates in open air (without roof, except for those that have benefited from the recently
government built "Nyayo" Jua Kali sheds, as at Gikomba and Kamukunji in Nairobi) or temporary structures, with zero or more employees". The artisans have however not been spared from harassment.

According to Kabagambe (1975) "where the activities have not been ignored, they have been harassed as a menace to the image of the towns and likely to cause healthy hazards. Some authorities consider them as activities which temporarily occupy migrants who are sporadically employed thus contributing minimal to urban coffers. This impression is perpetuated by the fact that most of the areas of operation are environments which some authorities consider as being troublesome and source of social and political crimes which deserve clearance rather than reconstruction".

Jua Kali has played a major role in this country and its importance can be seen areas such as:

- Creating employment opportunities,
- Contributing to GDP,
- Improving the standard of living,
- Bringing/increasing foreign exchange,
- Using of labour force,
- Providing affordable goods and services,
- Acting as a ground for developing skills.
Since independence, Kenya has witnessed considerable growth in financial institutions (i.e. for credit facility) some of which have been specifically designed for lending to the small and medium enterprise sector such as Kenya Industrial Estates (KIE), the Joint Loans Board Scheme (JLBS), and the Small Enterprise Finance Company (SEFCO). Other institutions have developed within their portfolio special credit programmes for the same sector such as Industrial and Commercial Development Corporation (ICDC), Kenya Commercial Bank Ltd, Barclays Bank of Kenya Limited and National Bank of Kenya Limited.

Financial institutions loans to small scale and Jua Kali enterprise sector represent a small fraction of their total loan portfolio. Increased flow of loan funds to the SSE and Jua Kali sector from the financial sector, especially commercial banks, will be achieved only if banks perceive lending to the sector as a financially attractive part of their lending portfolio. The main areas of concern include inadequacy of loanable funds, stringent collateral requirements, and the negative attitude of lending institutions towards SSE borrowers.

Banks and Development Finance Institutions provide certain services to their SSE clients before and after
extending credit. These services are expensive and include preparation of feasibility studies, project appraisal, project implementation, project supervision, training, rehabilitation and other management advisory services (Republic of Kenya: Sessional Paper No.2 of 1992 on small enterprise and Jua Kali development in Kenya (March 1992).

Kenya’s small-scale projects sector is probably the single biggest employer to date. The multi-million financial support that the sector receives from such ministries as Technical Training and Applied Technology and the increasingly prominent place the sector occupies in government policy documents, is a clear testimony of the sector’s central role in the socio-economic development of the country.

A common problem among small-scale enterprises is that few of them ever develop into mega business concerns. Majority of them either remain small or simply fizzle out. The almost universal excuse given is lack of finances for expansion. What most would-be entrepreneurs are ignorant about is that in some instances the nature of the business could determine whether or not financial assistance would be forthcoming (Kibe, Mathew: The Standard 13th December 1991, Pg 19 col 1-3).
There are however several indicators a potential donor looks into in a business enterprise that he intends to help:

1. Viability of business. Whether it is capable of growth and development and that after he withdraws the financial support, the project would continue to flourish. Viability also means that the entrepreneur has the necessary skills and attitudes to manage the enterprise.

2. The extent to which the project would contribute to the overall development of the community. The degree to which the project improves community’s standard of living through raising people’s per capita incomes.

3. Employment creation. They want to know the number of job opportunities likely as a result of the project.

4. Financiers look at "forward linkages" and "backward linkages". Forward linkages refers to the smaller industries that are likely to mushroom around the parent project in order that they benefit from its products or by-products. Backward linkages refers to the projects that sprout in order to
supply goods and services to the main project.

Apart from the above indicators the investors are looking for in a business, there are certain conditions which must be met:

1. Loans must be fully secured, yet most small enterprises are not able to provide the required collateral.

2. They are not able to prepare business plans suitable for a bank’s needs.

3. Most small businessmen prefer to take medium term borrowing and the bank prefer short-term borrowing.

4. Lending institutions require businesses with established and reliable customers which is lacking in small-scale business.

5. Cost-Benefit Analysis. Current processing costs of lending to smaller businesses are higher than most banks can afford.

6. Availability of liquid funds in the bank. The government has been borrowing extensively from the domestic banking system.
1.2 STATEMENT OF THE PROBLEM

The traditional sector is characterised by a paucity of capital, a poverty level of income, and slow growth or stagnation (Child F.C, 1977). As a result, much of the growth of the small enterprise sector has therefore been spontaneous, especially among Jua Kali enterprises. The sector has reached a stage at which further growth is not possible without strong and effective support from the government, financial institutions, the aid agencies, the business community and the people at large.

Most small businesses especially Jua Kali Sector face a lot of problems and worst of it is how to finance the business at the start-up stage. The finance will be for rent, equipments, supplies, inventory, wages, licences and fees. According to Muturia "a business can obtain finance for operations and further expansion through contribution of capital by owners, sale of stock or loan obtained from banks and other financial intermediaries".

Banks and other financial intermediaries require that entrepreneurs deposit land titles and property documents for security purposes which most Jua Kali artisans do not have. Even when sufficient security
is arranged, the interest rates charged by commercial banks are high. Thus many artisans cannot buy their own plot, and have no alternative but to sub-rent from others. This automatically disqualifies them from access to credit facilities from financial institutions thus perpetuation of the vicious cycle or finance problems (Nyagaka, 1985).

Persons employed by small businesses have on average less education than those working in large and medium-sized enterprises. At the same time, the wages paid to people employed by small enterprises are lower than those received by workers in large ones.

A study conducted in Ghana reveals that shortages of working capital was the second most frequent problem apart from the shortages of raw materials. About 72 percent of the small firms relied on personal savings. It is common knowledge that the artificially low bank rates of interest favoured the large capital-intensive enterprises, while small firms' low profit margin and high rate of business failures make them unlikely recipients of bank loans (ILO Report, 1982).

According to the ILO report (1983) on Rural Employment Policy Research Programme conducted in Lilongwe, Malawi found that for an area with apparent labour

18
shortage, the level of mechanisation should be so low. It is often argued that the size of the farm limits the use of mechanisation due to the apparent lumpiness of mechanical implements. However, this problem has been successfully averted in other circumstances through hiring out extra time to other farmers. It therefore appears that the shortages of mechanical implements in LLDP may be due to other reasons rather than indivisibility. One of the reasons could well be lack of financial capital.

Efforts have been made to rectify it by granting loans and sometimes cash loans in connection with improvements and capital development but they affected a very small proportion of the smallholding community.

1.3 Objective of the study

1. To find out the important factors affecting the demand for credit facilities amongst Jua Kali artisans in Nairobi.
2. To find out the perception of Jua Kali artisans towards factors affecting demand for their credit facilities.
3. To determine the most common source of financing available to Jua Kali artisans.
1.4 Significance of the study

The findings will help the government and interested parties in the development of small scale businesses especially the Jua Kali sector.

1.5 Scope of the study

The scope of this study is limited to the Jua Kali artisans within Nairobi because they constitute more than half of the small businesses especially in Jua Kali sector. Within Nairobi, the study concentrated on the eastlands of Nairobi, particularly Kariobangi, Gikomba and Kariako and Shauri moyo areas. These areas have high concentration of the Jua Kali artisans within.
CHAPTER 2
LITERATURE REVIEW

2.0 General Literature

Muturia (1996) tried to identify factors that influence credit flow to Small Scale Enterprises (SSE) from the point of view of SSE and commercial banks. She further suggested that business can obtain finance for operations and further expansions through contribution of capital by owners, sale of stock or loan obtained from banks and other financial intermediaries.

A study done in Peru reveals that financial services for small businesses and microenterprises can only be provided on a lasting basis if the income generated by the provision of those services is sufficiently large to cover all of the costs associated with it. Whether or not this is possible is conditioned in the first place on whether the 'right' financial products, i.e. those which meet the demand exhibited by the target group, are offered at the 'right' price.

In Peru, forty-eight percent (48%) of the economically active population is employed in the enterprises that provide work for four persons or fewer. This share is increasing and it can be assumed that many small
business people and microentrepreneurs are former salaried and hourly paid employees of formal sector firms.

Across all sectors and trades, seventy percent (70%) of small and medium enterprises (MSE's) have working capital of less than US$500. Although these businesses usually do not have much in the way of fixed assets, the machinery they have is frequently underused, with capacity utilization ranging in many cases between 50 and 70 percent.

Commercial sector accounts for 55 percent (55%) of the people employed by MSE's; 18 percent (18%) of MSEs produce consumer goods, 7 percent (7%) work in the construction sector and 17 percent (17%) are engaged in the provision of services.

A study conducted in Peru shows that, the vast majority of small business owners do not have access to loans extended by the banking system; and in those cases where businesses have been able to obtain such finance, it was provided by intermediaries such as the state-owned development banks, the savings and loan associations and the cooperative bank 'Banco CCC', all of which either went bankrupt or were shut down as part of the banking sector reform programme. Small
business people and microentrepreneurs obtain most of their capital through self-financing or by borrowing from family members.

The 'pawn loan' using gold or silver jewellery as collateral is the savings bank's response to the credit demand of household enterprises when this economic temporary household liquidity squeezes. Due to problems involved in valuing and storing household appliances and other electrical equipment, the savings banks will accept only gold and silver items as pledged assets, thus limiting access to this type of financing to persons who own such things.

2.1 Entrepreneurship

David McClelland (1969) defined entrepreneurs as "people who have the ability to see and evaluate business opportunities, gather the necessary resources to take advantage of them, and initiate appropriate action to ensure success". This is an individual who organizes, owns, manages, and assumes the risks of a business (Hodgetts, 1989). Therefore, entrepreneur is a person who takes initiatives for a business project, organizes the resources it requires, and assumes the risks it provides. In the same study, Hodgetts (1989) points out some of the main characteristics as:
a. Technical competence. The owners must know what they are doing. Garage mechanic who tunes a car improperly will soon find himself out of business. The first thing he must know is "how-to-do-it" side of the work. The success of most small businesses rests with the entrepreneur's technical skills.

b. Mental Ability. This is the capacity to know or understand. Through this, the individual must be able to develop competitive strategies. It requires the owner to be a generalist who possesses the ability to view operations in broad terms. It helps the owner-manager understand how all the jobs interrelate. It's also the ability to "pull everything together".

c. Human relation skills.

They should know how to get along with others, including their employees, business associates, suppliers and customers. They should also know how to communicate, motivate, and lead.

I. Communication. Transmission of meanings from sender to receiver. With improper communication, directives will be misunderstood, orders will be placed incorrectly, and general chaos will result.
II. Motivation. Many think that money is the greatest motivator. Even though it's through its a motivator, it can be misleading. Always money motivates the owners but not always to employees. Other factors counts, to employees such as job security, interesting work, promotions and growth, good working conditions, and management loyalty to workers.

III. Leadership. This is the process of influencing subordinates to direct their efforts toward attaining specific objectives. Such leadership traits are:

- emotional maturity and ability to handle extreme situations.
- ability to socialise well with others.
- self-assurance and self-control.
- knowledge of how to rely on other people to get work done.
- social understanding.
- employee orientation.

Effective leadership style depends on the situation. Sometime autocratic leader is most effective, at times democratic leader is best, other times laissez faire leader is preferred.
d. High Achievement Drive

Entrepreneurs feel that they both want and need to get things done. They are action-oriented and gauge their performance in terms of results.

Most high achievers:
- take personal responsibility for finding solutions to problems.
- tend to be moderate risk takers.
- like concrete feedback on how they are doing i.e looking at profit and loss statements, cost of production, and sales figures.

e. Creativity

Ability to process information in such a way that the result is new, original and meaningful.

Characteristics of creative people.
- They are bright but not necessary brilliant.
- They are able to generate a lot of different ideas in a short period of time.
- They have a positive image of themselves. They like who they are.
- They tend to be sensitive to the world around them and the feelings of others.
- They are motivated by challenging problems.
They are able to withhold the decision on a problem until they have collected sufficient facts.

- They value their independence and do not have strong needs for group approval.

- They have rich, perhaps bizarre, fantasy lives.

- They tend to be flexible rather than rigid or dogmatic.

- They are more concerned with the meanings and implications of a problem than small details.

### 2.2 Advantages of Small Business

Apart from the contributions made by Jua Kali sector in general, the small businesses do provide various advantages as follows:

1. **Independence.** Small business owners enjoy being their own boss and the freedom of doing things their way.

2. **Financial opportunities.** Many small business owners can make more money running their own business than working for someone else.

3. **Community service.**
4. Job security. The owner can work as long as he or she wants. Not retrenchment, firing or retirement.

5. Family employment. The owner-managers wants to perpetuate their businesses by getting children or relatives to take over and also there is trust in family-run businesses than others.

6. Challenge. Those who have succeeded wants to feel that there is a chance to succeed (want to know success is possible), and a chance they will fail (success is not a sure thing). There is psychological satisfaction.

A study done in United States of America reveals that small business dominates the American economy. The following are some of the facts about the small business in United States of America.

1. Currently, there are approximately 16.3 million US small businesses not including single employee operations, of which there are probably another 7.1 million. This is a total of 23.4 Million businesses and represents 106 million jobs.

2. Over the last few years, small independent firms created 2,650,000 new jobs, more than compensating for the 1,664,000 jobs lost by large industries.

3. Women-Oriented businesses are growing at an all-
time high. In 1985, 2.8 Million sole proprietorships were owned by women (4 times the number in 1977). Including partnerships and corporations, the number exceeds 3.7 million, or 25% of all small businesses.

4. Small businesses account for nearly $8 of every $10 earned by construction firms and $7 of every $10 earned by wholesalers and retailers.

5. Small business directly or indirectly provides the likelihood of more than 100 million Americans.

6. Small business (excluding the farm sector) represents 58 percent (58%) of all U.S business employments.

7. Almost one-half of the gross national product (G.N.P) is attributable to small business.

8. Ninety-eight percent (98%) of all businesses in the U.S are considered small by the SBA’s definition and size standards.

9. Ninety percent (90%) of the small businesses in the U.S employ less than 10 people.

10. In 1986, 650,000 new business incorporations occurred, which reflects a thirty-year trend in the growth of small businesses.

[Adopted from Effective Small Business Management by Richard M.Hodgetts and Donald F.Kuratko, 1989 U.S pp 4-5]
3.1 Research design

The design for this project was set to be descriptive. Descriptive research design has the capability of investigating the causal relationship between variables and also gives additional information concerning variable of interest. In this respect, descriptive statistics mainly measure frequencies, proportions and standard deviation were used to discuss findings. In addition to descriptive statistics, the researcher used factor analysis to investigate complex and diverse relationships that exist among the variables.

3.2 Target population

This study was based primarily on the small scale businesses especially the Jua Kali artisans in the east of Nairobi. The estimated population of the study was approximately 150 businessmen.

3.3 Sample design

The study’s sample was selected from the estimated
population of 150 businessmen using random sampling. The target was to administer questionnaire to approximately 60 businessmen operating small scale Jua Kali businesses in Nairobi.

3.4 Data collection

Data were collected via interviews and self administered questionnaire. The Jua Kali artisans were given the questionnaire to respond to in the presence of the researcher for those who can read and write English. For those who could not read and write, the researcher used personal interviews. The questionnaire contained two sections: Section A contained items eliciting general information concerning name of business, type, age, and number of employees in the business. Section B of the questionnaire contained items seeking to investigate pertinent factors affecting demand for credit facilities amongst small scale businessmen.

3.5 Conceptual framework

The researcher used descriptive statistics mainly mean score, frequencies, proportions and standard deviation in discussing findings of this research. The basis for this research was Factor Analysis. I was designed
to analyse interrelationships among the variables with an objective of determining a subset of the original set of variables expressing the interrelationships among the latter. The theory of Factor Analysis is hinged on the simplification complex and diverse relationships that exist among a set of observed variables by uncovering common dimensions or factors that link together the seemingly unrelated variables, and consequently providing insight into the underlying structure of the data. It ensures that several variables are loaded on to few unobservable common factors. Those variables which are highly correlated are grouped together based on the factors. A factor is a qualitative dimension and defines the way in which entities differ. A factor does not indicate how much different various entities are but provides a dimensional structure for the data in the sense of indicating the important common qualities present in the data. It can also provide information on quantitative differences.

In this research the following variables were analyzed based on the above theory.

a) Expected credit---------------------Variable 1
b) Years in operation------------------Variable 2
   c) Number of employees-----------------Variable 3
   d) Turnover----------------------------Variable 4
e) Distance from customers----------------Variable 5
f) Distance from creditors---------------Variable 6

g) Other income------------------------Variable 7
h) Credit effects of other income------Variable 8
i) Collateral security-----------------Variable 9
j) Legal requirements------------------Variable 10
k) Training---------------------------Variable 11

The five dimensions of Factor Analysis used were:-

1) Correlation matrix.
   Correlation matrix was used to show the relationship that exists among various variables within itself and with the other variables in the matrix.

2) Communality: This dimension Analyzed proportion of the variable’s variation to the total variation that is involved in the factors.

3) Eigen Values: It was used to measure how much variance is accounted for by each other. After squaring each factor loading for each factor, the amount of variation explained by each factor, was obtained.

4) Initial Un-rotated factor matrix: This matrix showed the correlation between extracted factors and variables in terms of factor loadings (the coefficient within the matrix which indicate how important a factor is).
5) Final varimax rotated factor matrix: This is an orthogonal rotation of the initial factor matrix using varimax rotation criterion based on SPSS PC+. Factor loadings are set close to zero(0) or +/-1. This means that factor loadings close to +/-1 have a clear association between the variable and the factor and those close to zero(0) shows a clear lack of association. The statistical tool used was based on SPSS PC+ statistical package.
CHAPTER 4
DATA ANALYSIS AND FINDINGS

4.1 Introduction

This study set out to explore factors affecting demand for credit facilities amongst small scale businesses in Nairobi. Data were collected using a questionnaire designed to elicit responses from Jua Kali artisans towards factors influencing their demand for credit facilities. The questionnaire contained two sections, section A sought general information concerning name of the business, type of the business, age of the business and number of employees in the business. Section B of the questionnaire contained items seeking to investigate patient factors affecting demand for credit facilities amongst small-scale businessmen. Also contained in this section are Likert scale questions soliciting opinions of the artisans towards factors influencing their demand for credit facilities.

Only those items which are directly related to the objectives of this study were selected for analysis. The main tools for analysis used include factor analysis based on SPSS PC+ statistical package and descriptive statistics (Mean scores, Frequencies, Proportions and Standard deviations).
4.2 Type of businesses operated by Jua Kali artisans

Type of businesses operated by Jua Kali artisans are represented in table 1.

Table 1: Type of businesses

<table>
<thead>
<tr>
<th>Type</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture</td>
<td>14</td>
<td>33.3</td>
</tr>
<tr>
<td>Selling tools</td>
<td>8</td>
<td>19.0</td>
</tr>
<tr>
<td>Selling paints</td>
<td>3</td>
<td>7.2</td>
</tr>
<tr>
<td>Making and selling curios</td>
<td>5</td>
<td>11.9</td>
</tr>
<tr>
<td>Wood carving</td>
<td>3</td>
<td>7.2</td>
</tr>
<tr>
<td>Welding and Metal works</td>
<td>4</td>
<td>9.5</td>
</tr>
<tr>
<td>Motor vehicle repair</td>
<td>5</td>
<td>11.9</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>100</td>
</tr>
</tbody>
</table>

It is evident from the finding that, most Jua Kali artisans (33.3%) operates furniture business. 26.2% are in selling business, that is, selling various tools like nails, spare parts, wheelbarrows, paints and other building and farming tools. 11.9% are engaged in motor vehicle repair while only 9.5% are in welding and metalwork. Welding and metalwork and
motor vehicle repair have high potential in the market and some of the limitations are lack of collateral, security, legal requirements, years in business and business turnover.

4.3 Location of Jua Kali businesses

Table 2: Location of Jua Kali businesses in Nairobi.

<table>
<thead>
<tr>
<th>Area</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gikomba</td>
<td>17</td>
<td>40.5</td>
</tr>
<tr>
<td>Kariokor</td>
<td>7</td>
<td>16.7</td>
</tr>
<tr>
<td>Kamukunji</td>
<td>12</td>
<td>28.5</td>
</tr>
<tr>
<td>Shauri Moyo</td>
<td>6</td>
<td>14.3</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>100</td>
</tr>
</tbody>
</table>

From the above table, it is evident that most of Jua Kali artisans are located in Gikomba (40.5%) and Kamukunji (28.5%). Other areas like Kariokor and Shauri Moyo have only 31% of Jua Kali artisans.
4.4 Sources of input financing amongst Jua Kali artisans.

Various sources of financing Jua Kali businesses are given in Table 3.

Table 3: Sources finance in Jua Kali businesses.

<table>
<thead>
<tr>
<th>Source</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative loans</td>
<td>2</td>
<td>3.8</td>
</tr>
<tr>
<td>Savings</td>
<td>20</td>
<td>38.5</td>
</tr>
<tr>
<td>Profits</td>
<td>10</td>
<td>19.2</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>9</td>
<td>17.3</td>
</tr>
<tr>
<td>Credit facilities</td>
<td>5</td>
<td>9.7</td>
</tr>
<tr>
<td>Members contributions</td>
<td>6</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

From the research findings, it is evident that 38.5% of Jua Kali artisans finance their inputs from their personal savings. 19.2% from the profit made by the business while 17.3% from customer deposits. Only 9.7% of the artisans use credit facilities to finance their inputs. This was due to lack of enough collateral securities, restrictive credit policies and
general fear of business failures.

4.5 Size of Jua Kali businesses

Size of Jua Kali businesses was measured in terms of number of employees who are actively involved in the business and the average turnover of the business in a given year. The results are presented in table 4 and 5 respectively.

(a) Table 4: Number of employees in the business.

<table>
<thead>
<tr>
<th>Number</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10</td>
<td>30</td>
<td>71.4</td>
</tr>
<tr>
<td>10-20</td>
<td>11</td>
<td>26.2</td>
</tr>
<tr>
<td>20-30</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>100</td>
</tr>
</tbody>
</table>

The above results show that 71.4% of all Jua Kali artisans on average employ between 0-10 workers. Those who had employed at least 10 employees were only 28.6%.
(b) Table 5: Showing average turnover in Jua Kali business

<table>
<thead>
<tr>
<th>Turnover in Million Kshs.</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1</td>
<td>13</td>
<td>31</td>
</tr>
<tr>
<td>1-2</td>
<td>11</td>
<td>26.2</td>
</tr>
<tr>
<td>2-3</td>
<td>7</td>
<td>16.7</td>
</tr>
<tr>
<td>3-4</td>
<td>6</td>
<td>14.3</td>
</tr>
<tr>
<td>4-5</td>
<td>3</td>
<td>7.1</td>
</tr>
<tr>
<td>Over 5</td>
<td>2</td>
<td>4.7</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 5 shows that 57.2% of all Jua Kali artisans have an average turnover between 0 and 2 millions Kenya Shillings whereas 11.8% have a turnover exceeding 4 million Kenya Shillings. The main reasons are that most of the Jua Kali businesses are small in nature, lack necessary finance and distant from customers.

4.6 Proximity to Jua Kali businesses

This was measured in terms of the distance the business is from the customers and the creditors and the results are given in table 6 and 7 respectively.
Table 6: Distance from the potential customers

<table>
<thead>
<tr>
<th>Distance in (Kms)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10</td>
<td>2</td>
<td>4.8</td>
</tr>
<tr>
<td>10-20</td>
<td>4</td>
<td>9.5</td>
</tr>
<tr>
<td>20-30</td>
<td>5</td>
<td>11.9</td>
</tr>
<tr>
<td>30-40</td>
<td>15</td>
<td>35.7</td>
</tr>
<tr>
<td>Over40</td>
<td>16</td>
<td>38.1</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>100</td>
</tr>
</tbody>
</table>

From the research findings, most of the Jua Kali artisans' potential customers (73.8%) on average are located at least 30 Kilometres away from the business indicating that the artisans are far away from their customers.
Table 7: Distance from the creditors

<table>
<thead>
<tr>
<th>Distance in (Kms)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10</td>
<td>2</td>
<td>4.8</td>
</tr>
<tr>
<td>10-20</td>
<td>4</td>
<td>9.5</td>
</tr>
<tr>
<td>20-30</td>
<td>5</td>
<td>11.9</td>
</tr>
<tr>
<td>30-40</td>
<td>15</td>
<td>35.7</td>
</tr>
<tr>
<td>Over 40</td>
<td>16</td>
<td>38.1</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>100</td>
</tr>
</tbody>
</table>

From table 7, it is evident that 76.2% of the creditors on average are located between 0 and 20 Kilometres away from Jua Kali artisans’ business while only 7.1% of the creditors are located over 40 Kilometres from the artisans.

4.7 Opinions of Jua Kali traders concerning factors affecting demand for credit facilities.

Opinion of Jua Kali traders were captured using Likert scale questions designed to elicit opinions of Jua Kali traders concerning factors affecting their demand for credit facilities. The results are discussed in terms of summary statistics (Mean scores and Standard deviations).
Table 8: Opinion of Jua Kali artisans towards credit facilities.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean score</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>1.714286</td>
<td>0.6730243</td>
</tr>
<tr>
<td>Location</td>
<td>1.857143</td>
<td>0.6466208</td>
</tr>
<tr>
<td>Other Income</td>
<td>2.309524</td>
<td>0.8111448</td>
</tr>
<tr>
<td>Security (Collateral)</td>
<td>1.666667</td>
<td>0.6866911</td>
</tr>
<tr>
<td>Legal Requirements</td>
<td>1.928571</td>
<td>0.5581324</td>
</tr>
<tr>
<td>Education Level attained</td>
<td>2.047619</td>
<td>0.660834</td>
</tr>
<tr>
<td>Years in the business</td>
<td>2.285714</td>
<td>0.7083376</td>
</tr>
</tbody>
</table>

Summary Statistics: These are given in table 8. It is evident that Jua Kali traders ranked collateral security (Mean score 1.67), Turnover (Mean score 1.71), Location (Mean score 1.86) and Legal requirements (Mean score 1.93) as very important factors (although tending towards important) affecting demand for credit facilities amongst small scale businessmen. Education level attained (Mean score 2.05), Year in business (Mean score 2.29) and Other
income (Mean score 2.31) were considered not very important that is they were considered important. From the above ranking it can be deduced that the most important factors affecting demand for credit facilities are:

(i) Collateral security;
(ii) Level of business turnover in a given period;
(iii) Location of the business;
(iv) Legal requirements.

4.8 Factor analysis

Factor analysis is a technique that tries to take a large number of variables and break them into a small group of variables called factors. The factors may represent the combined "influence" of the several discrete variables.

Factor analysis was performed on those items in the questionnaire that sought responses on the pertinent factors affecting demand for credit facilities amongst small scale Jua Kali artisans. The results are discussed in terms of correlation matrix, communality, Eigen values, initial un rotated factor matrix and final orthogonally rotated varimax factor matrix.
Correlation matrix of responses of Jua Kali artisans towards factors affecting demand for credit facilities is given in table 9 below.

Table 9: Correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>F1</th>
<th>F2</th>
<th>F3</th>
<th>F4</th>
<th>F5</th>
<th>F6</th>
<th>F7</th>
<th>F8</th>
<th>F9</th>
<th>F10</th>
<th>F11</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F2</td>
<td>.28</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F3</td>
<td>.44</td>
<td>.18</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F4</td>
<td>-.20</td>
<td>-.09</td>
<td>.04</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F5</td>
<td>.18</td>
<td>.19</td>
<td>.36</td>
<td>-.39</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F6</td>
<td>.15</td>
<td>-.04</td>
<td>.39</td>
<td>-.03</td>
<td>.32</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F7</td>
<td>.06</td>
<td>.17</td>
<td>.14</td>
<td>-.01</td>
<td>.29</td>
<td>.55</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F8</td>
<td>-.01</td>
<td>-.19</td>
<td>.21</td>
<td>-.07</td>
<td>.24</td>
<td>.28</td>
<td>.07</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F9</td>
<td>-.15</td>
<td>.00</td>
<td>-.03</td>
<td>-.40</td>
<td>.46</td>
<td>.01</td>
<td>.29</td>
<td>.03</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F10</td>
<td>.16</td>
<td>.11</td>
<td>.10</td>
<td>-.02</td>
<td>.09</td>
<td>.00</td>
<td>.06</td>
<td>.30</td>
<td>-.20</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>F11</td>
<td>.33</td>
<td>-.05</td>
<td>.20</td>
<td>.23</td>
<td>-.02</td>
<td>.07</td>
<td>.02</td>
<td>.31</td>
<td>-.02</td>
<td>.31</td>
<td>1.0</td>
</tr>
</tbody>
</table>

From the above table, two factors were found to have a moderate positive correlation i.e factors 6 and 7 (Distance from creditors and other income
respectively). Other groups of variables have a weak positive or negative correlation giving an indication that they were almost independent of each other. Correlation matrix was used as a basis for generating factors by Principle Component Analysis (PCA) based on SPSS PC+.

(b). Factor analysis output of variable and communality

Communality is the proportion of the variable’s variation to the total variation that is involved in the factors. A low communality is an indication that the variable is statistically independent hence cannot be combined with other factors. Communality is shown in table 10.

Table 10: Communality
<table>
<thead>
<tr>
<th>Variable</th>
<th>Communality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Expected credit</td>
<td>0.74339</td>
</tr>
<tr>
<td>2. Years in operation</td>
<td>0.68497</td>
</tr>
<tr>
<td>3. Number of employees</td>
<td>0.71198</td>
</tr>
<tr>
<td>4. Turnover</td>
<td>0.70564</td>
</tr>
<tr>
<td>5. Distance from customers</td>
<td>0.67947</td>
</tr>
<tr>
<td>6. Distance from creditors</td>
<td>0.71775</td>
</tr>
<tr>
<td>7. Other income</td>
<td>0.85264</td>
</tr>
<tr>
<td>8. Credit effects of other income</td>
<td>0.85667</td>
</tr>
<tr>
<td>9. Collateral security</td>
<td>0.78739</td>
</tr>
<tr>
<td>10. Legal requirements</td>
<td>0.74199</td>
</tr>
<tr>
<td>11. Training</td>
<td>0.60435</td>
</tr>
</tbody>
</table>

From table 10, it can deduced that 74.3% of variable 1 (Expected credit) is involved in the factors affecting credit facilities amongst small scale Jua Kali artisans. However, variables 1, 7, 8, 9, and 10 (expected credit, other income, credit effects on other income, collateral security, and legal requirements respectively) rank highest in terms of contribution to the factors. All other variables contributes significantly to other factors.
### Table 11: Eigen Values

<table>
<thead>
<tr>
<th>Variable</th>
<th>Eigen Value</th>
<th>Percentage of var.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Expected credit</td>
<td>2.41530</td>
<td>22.0</td>
</tr>
<tr>
<td>2. Years of operation</td>
<td>1.80146</td>
<td>16.4</td>
</tr>
<tr>
<td>3. Number of employees</td>
<td>1.46519</td>
<td>13.3</td>
</tr>
<tr>
<td>4. Turnover</td>
<td>1.33130</td>
<td>12.1</td>
</tr>
<tr>
<td>5. Distance from customers</td>
<td>1.07298</td>
<td>9.8</td>
</tr>
<tr>
<td>6. Distance from creditors</td>
<td>0.80322</td>
<td>7.3</td>
</tr>
<tr>
<td>7. Other income</td>
<td>0.72503</td>
<td>6.6</td>
</tr>
<tr>
<td>8. Credit effect on other income</td>
<td>0.49309</td>
<td>4.5</td>
</tr>
<tr>
<td>9. Collateral security</td>
<td>0.37509</td>
<td>3.4</td>
</tr>
<tr>
<td>10. Legal requirement</td>
<td>0.29868</td>
<td>2.7</td>
</tr>
<tr>
<td>11. Training</td>
<td>0.21865</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Eigen Value is a measure of how much variance is accounted for by each factor. After squaring each factor loading for each factor, we get the amount of variation explained by each factor. As shown in table 11, variable 1 (Expected credit) explains 22% of the total variation followed by variables 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 which explains 16.4%, 13.3%, 12.1%, 9.8%,
7.3%, 6.6%, 4.5%, 3.4%, 2.7%, and 2% respectively.

(d). Initial Un rotated Factor Matrix

This matrix shows correlation between extracted factors and variables in terms of factor loadings. Factor loadings are coefficient within the matrix which indicate how important a factor is. This matrix is represented in table 12 below.

Table 12: Initial un rotated factor matrix

<table>
<thead>
<tr>
<th>Variable</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
<th>Factor 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.20439</td>
<td>0.57371</td>
<td>0.24813</td>
<td>0.31178</td>
<td>0.46227</td>
</tr>
<tr>
<td>2</td>
<td>0.49156</td>
<td>0.45633</td>
<td>-0.46192</td>
<td>-0.10958</td>
<td>-0.09857</td>
</tr>
<tr>
<td>3</td>
<td>0.27919</td>
<td>0.21088</td>
<td>-0.58821</td>
<td>-0.12858</td>
<td>0.47648</td>
</tr>
<tr>
<td>4</td>
<td>0.66120</td>
<td>0.29827</td>
<td>-0.08213</td>
<td>-0.26814</td>
<td>-0.31756</td>
</tr>
<tr>
<td>5</td>
<td>-0.33440</td>
<td>0.46765</td>
<td>0.47456</td>
<td>-0.32356</td>
<td>0.13803</td>
</tr>
<tr>
<td>6</td>
<td>0.71179</td>
<td>-0.34536</td>
<td>-0.21571</td>
<td>0.18502</td>
<td>-0.10525</td>
</tr>
<tr>
<td>7</td>
<td>0.67435</td>
<td>-0.12649</td>
<td>0.42235</td>
<td>-0.44700</td>
<td>-0.06088</td>
</tr>
<tr>
<td>8</td>
<td>0.46651</td>
<td>-0.34198</td>
<td>0.36462</td>
<td>-0.38648</td>
<td>0.48967</td>
</tr>
<tr>
<td>9</td>
<td>0.43910</td>
<td>0.07446</td>
<td>0.48858</td>
<td>0.48563</td>
<td>-0.33836</td>
</tr>
<tr>
<td>10</td>
<td>0.20408</td>
<td>-0.64383</td>
<td>-0.00137</td>
<td>0.41765</td>
<td>0.33376</td>
</tr>
<tr>
<td>11</td>
<td>0.30244</td>
<td>0.48956</td>
<td>0.12542</td>
<td>0.48506</td>
<td>0.14900</td>
</tr>
</tbody>
</table>

49
As it is evident from table 12, factor 1 is heavily loaded by variables 4, 6, and 7 (turnover, distance from creditors and other income respectively), factor 2 is heavily loaded by variables 1 and 10 (expected credit and legal requirement respectively), factor 3 is heavily loaded by variables 3, 5 and 9 (Number of employees, distance from the customers and collateral security respectively). Factor 4 is moderately loaded by variables 9 and 11, i.e., collateral security and training respectively while factor 5 is moderately loaded by variables 3 and 8, i.e., number of employees and credit effect on other income respectively.

(e) Final varimax rotated factor matrix

This matrix is shown in table 13 below. It is an orthogonal rotation of the initial factor matrix using varimax rotation criterion based on SPSS PC+. Here, factor loadings are set close to zero(0) or +/-1. An interpretation of such loading would then indicate the variable factor loadings close to +/-1 have a clear association between the variable and the factor, and those close to zero(0) would indicate a clear lack of association. Orthogonal rotation gives rise to both structure and pattern matrix which represents the final solutions of the factors. The matrix generates both regression coefficients (weights) and correlation
coefficients. The loadings in a given row represent regress weights of a given variable.

Table 13: Final rotated varimax factor matrix

<table>
<thead>
<tr>
<th>Variable</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
<th>Factor 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-0.18319</td>
<td>0.00214</td>
<td>0.09099</td>
<td>0.83146</td>
<td>0.10106</td>
</tr>
<tr>
<td>2</td>
<td>0.10590</td>
<td>0.73069</td>
<td>-0.08760</td>
<td>0.19576</td>
<td>0.30636</td>
</tr>
<tr>
<td>3</td>
<td>0.17076</td>
<td>0.25482</td>
<td>0.03710</td>
<td>0.19578</td>
<td>0.76038</td>
</tr>
<tr>
<td>4</td>
<td>0.06522</td>
<td>0.79883</td>
<td>0.23192</td>
<td>0.06271</td>
<td>-0.07443</td>
</tr>
<tr>
<td>5</td>
<td>-0.79091</td>
<td>-0.08955</td>
<td>0.13524</td>
<td>0.15574</td>
<td>-0.05805</td>
</tr>
<tr>
<td>6</td>
<td>0.74238</td>
<td>0.32451</td>
<td>0.23900</td>
<td>0.02689</td>
<td>-0.05887</td>
</tr>
<tr>
<td>7</td>
<td>0.03535</td>
<td>0.38785</td>
<td>0.80026</td>
<td>-0.04838</td>
<td>-0.24127</td>
</tr>
<tr>
<td>8</td>
<td>0.09847</td>
<td>-0.10437</td>
<td>0.90487</td>
<td>0.02204</td>
<td>0.12962</td>
</tr>
<tr>
<td>9</td>
<td>0.23947</td>
<td>0.16670</td>
<td>0.08967</td>
<td>0.42848</td>
<td>-0.71457</td>
</tr>
<tr>
<td>10</td>
<td>0.68486</td>
<td>-0.46857</td>
<td>0.21848</td>
<td>0.07475</td>
<td>0.00927</td>
</tr>
<tr>
<td>11</td>
<td>0.05515</td>
<td>0.15505</td>
<td>-0.09840</td>
<td>0.74787</td>
<td>-0.09096</td>
</tr>
</tbody>
</table>

From table 13, it can be deduced that factor 1 is heavily loaded by variable 5, 6 and 10, i.e., distance from customers, distance from creditors and legal requirements respectively. Factor 2 is heavily loaded by variables 2 and 4, i.e., years in operation and turnover respectively. Factor 3 is heavily loaded by variables 7 and 8, i.e., credit effect on other income and other income respectively. Factor 4 is heavily loaded by variable 1 and 11, i.e., expected credit and
training respectively while factor 5 is heavily loaded by variables 3 and 9, i.e., number of employees and collateral security respectively.

From the above factor analysis, labels can be made of the five factors that summarises 11 factors affecting credit demand amongst small-scale businessmen.

Factor 1. Proximity and credit guarantee.
Distance from customers (-0.79)
Distance from creditors (0.74)
Legal requirements (0.68)

Factor 2. Performance of the business.
Turnover (0.80)
Years of operation (0.73)

Factor 3. Alternative financing.
Credit effect on other income (0.90) Other income (0.73)

Factor 4. Efficiency and resource management. Expected credit
management. Expected credit
(0.83) Training (0.75)

Factor 5. Size of the business. Number of employees (0.76) Available collateral security (-0.71)
5.1 Introduction

This study set out to establish the factors affecting demand for credit facilities amongst small scale Jua Kali businessmen in Nairobi.

The objectives of this study were to find out the important factors affecting the demand for credit facilities amongst Jua Kali artisans in Nairobi, to find the perception of Jua Kali artisans towards factors affecting demand for their credit facilities and to determine the most common source of funding Jua Kali businesses, data were collected using interviews and a questionnaire. The response rate was 70%. Factor analysis and descriptive statistics e.g mean score, frequencies were used to analyze the findings.

5.2 Conclusions and recommendations

5.2.1 Factors affecting demand for credit facilities amongst Jua Kali artisans in Nairobi

From the correlation matrix two factors were found to
have a moderate positive correlation i.e distance for creditors and other income. Other groups of variables had a weak positive or negative correlation meaning that they were almost interdependent on each other.

Factor analysis generated five factors with their corresponding factor loadings which indicated the importance of the variables. Two important matrices used for analysis were initial factor matrix and final orthogonally rotated factor matrix. From the results of factor analysis five important factors influencing demand for credit facilities amongst Jua Kali artisans are:

1. Proximity and credit guarantee
2. Performance of the business
3. Alternative financing
4. Efficiency and resource management, and
5. Size of the business.

5.2.2 Perception of Jua Kali artisans towards factors affecting demand for their credit facilities

It was found out that the most important factors affecting demand for credit facilities in order of their importance are collateral security, level of business and legal requirements. The policy
implication here is that since the small business sector (Jua Kali sector) plays an important role in the economy, the lenders to this section must introduce supportive credit policies as opposed to highly restrictive credit policies.

Small-scale businesses should not be denied loans due to lack of enough collateral securities. Restrictive legal requirements, size, turnover should not be used to discriminate these traders against getting credit facilities.

5.2.3. Common source of financing available to Jua Kali artisans

The most common sources of funding Jua Kali businesses were found to be loans from cooperatives, savings, profits, customer deposits, credit facilities and members’ contributions. 38.5% of all Jua Kali artisans use their personal savings to finance their inputs. 19.2% finance their inputs from the profit made by the business, 17.3% finance from customer deposits, 11.5% from members’ contributions, while 9.7% use credit facilities to finance their inputs.

It was found that 9.7% use credit facilities to finance their inputs. A possible explanation may be
due to lack of enough collateral securities, restrictive credit policies or general fear of business failures. The policy implication here is that credit institutions and governments should encourage Jua Kali artisans to use credit from these institutions by reducing their restrictive lending policies like interest rates, collateral securities, legal requirements and others. They should organize seminars or workshops to educate these artisans on important credit issues. They should endeavour to drive out fear amongst these traders and promote entrepreneur will culture in them. It is in this way that Kenya can cherish the dreams of being an industrial country by the year 2020.

5.3 Limitations of Study

The major limitation of this study was that Jua Kali artisans were very suspicious that the research was aimed at capturing data to enable the relevant authorities to tax them effectively, hence some of them refused to fill the questionnaire.

Some of the artisans were very busy hence did not give enough attention to the interview. Financial constraints was also a major limitation in this study hence the study was limited to only certain sections.
occupied by these traders in Nairobi.

5.4 Suggestion for further research

A comparative study should be carried out countrywide to find out whether there is variation of credit requirements between rural and urban based Jua Kali artisans. Another study should be carried out to find out the contribution of non-governmental institutions in financing this sector.
BIBLIOGRAPHY.


- Government Printer, Nairobi.


ARTICLES.

APPENDIX A

CREDIT FACILITIES AMONGST SMALL SCALE BUSINESS:

JUA KALI BUSINESS QUESTIONNAIRE.

The purpose of this questionnaire is to help collect data for an MBA project in Kenyatta University. All responses will be treated as confidential.

Designation ________________________________
Respondent No. ____________________________

Please answer the following questions by placing a tick ( ) where necessary in the spaces provided.

FORM A:

1. What is the name of the business? ____________________________________________

2. How old is the business (For how long has the business been operational)? ____________________________________________

3. What type of business do you operate? __________________________________________

4. How many employees/workers do you have in your business? __________________________________________

5. Indicate the general level of education of your _______
employees?

a) Primary School Level of education  

b) Secondary School Level of education

c) Post Secondary school Level of education

FORM B:

1. Where is your business situated?

2. a) Give a list of inputs that are required in your business?

b) Briefly list how you are financing those inputs.

3. a) Have you requested for credit facility from any institution?
4. a) Have you ever asked for credit facility and have been turned down?
   a) YES [ ] 
   b) NO [ ] 
   b) If Yes, for what reasons?
      ____________________________
      ____________________________
   c) What is your expected credit to be able to cover the inputs (approximately)?
      ____________________________
      ____________________________

5. a) How many employees are actively involved in your business?
   a) 0 - 10 employees [ ]
   b) 10 - 20 employees [ ]
   c) 20 - 30 employees [ ]
d) 30 - 40 employees [ ]
e) 40 - 50 employees [ ]
f) Over 50 employees [ ]

b) What is the average turnover of your business in a year?
a) 0 - 1,000,000 [ ]
b) 1,000,000 - 2,000,000 [ ]
c) 2,000,000 - 3,000,000 [ ]
d) 3,000,000 - 4,000,000 [ ]
e) 4,000,000 - 5,000,000 [ ]
f) Over 5,000,000 [ ]

6. a) In your opinion, is the location appropriate to your customer?
a) YES [ ]
b) NO [ ]

b) How approximate in kilometers are your potential customers?
a) 0 - 10 kms [ ]
b) 10 - 20 kms [ ]
c) 20 - 30 kms [ ]
d) 30 - 40 kms [ ]
e) Over 40 kms [ ]

c) How approximate are you from your potential creditors?
a) 0 - 10 kms [ ]
b)  10 - 20 kms  [  ]
c)  20 - 30 kms  [  ]
d)  30 - 40 kms  [  ]
e)  Over 40 kms  [  ]

7.  a) To what extend are the roads accessability satisfy the potential creditor?
    a) Very Satisfied  [  ]
    b) Satisfied  [  ]
    c) Not Satisfied  [  ]

   b) To what extend telephone communication satisfy the potential credit giver?
    a) Very Satisfied  [  ]
    b) Satisfied  [  ]
    c) Not Satisfied  [  ]

   c) To what extend does the electricity satisfy the potential creditor?
    a) Very Satisfied  [  ]
    b) Satisfied  [  ]
    c) Not Satisfied  [  ]

8.  a) Do you have any other sources of income apart from the business?
    a) YES  [  ]
    b) NO  [  ]

   b) Does it have any effect on the credit facility acquisition?
    a) YES  [  ]
9. Do you have enough/adequate security or collateral for the loan?
   a) YES [ ]
   b) NO [ ]

10. a) Have you been refused credit facility because of legal requirements?
     a) YES [ ]
     b) NO [ ]

     b) In your opinion, list the legal requirements that have hindered you from getting credit facilities:

     ______________________________________________________
     ______________________________________________________
     ______________________________________________________

11. From your own experience, indicate the most likely level of education and training the potential lenders would require?
   a) Primary school level of education [ ]
   b) Secondary School level of education [ ]
   c) College level and above [ ]

13. For how long have you been in business?
   a) 0 - 5 years [ ]
   b) 5 - 10 years [ ]
   c) 10 - 15 years [ ]
d)  15 - 20 years [ ]
e)  Over 20 years [ ]

14. Opinions of the small-scale businessmen towards factors affecting the demand for credit facilities. Listed below are a number of factors affecting the demand for credit facilities. In your opinion, how important are the following factors in determining credit facilities demand? (put a tick) in the appropriate box:

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>VERY IMPORTANT</th>
<th>IMPORTANT</th>
<th>NOT IMPORTANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Turnover</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2  Location (Central Business District)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3  Other income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4  Security (collateral)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5  Taxation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6  Legal requirements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7  Education level attained</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8  Years in business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (specify and put tick where appropriate)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12