FACTORS INFLUENCING CREDIT FINANCING OF SMALL AND MEDIUM SCALE ENTERPRISES: CASE OF SMEs IN NYERI TOWN

BY

WACHIRA VIRGINIA KIRIGO
D53/OL/4221/04

A PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF KENYATTA UNIVERSITY.

August 2008

Wachira Virginia
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August 2008
DECLARATION

This project is my original work and has not been presented for the award of a degree in any other university

....................................................... ....................................................... 219/708
WACHIRA VIRGINIA KIRIGO DATE
D53/OL/4221/04

This project has been presented for examination with my approval as the University Supervisor.

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JAGONGO AMBROSE DATE
Lecturer,
Department of Accounting and Finance, Kenyatta University

This project has been presented for examination with my approval as the Chairman of Department

....................................................... ....................................................... 24 OCT 2008
JAMES MUTURI DATE
Chairman's Approval
Chairman Department of Accounting and Finance
DEDICATION

This project is dedicated to my lovely husband Stephen Wachira and our wonderful daughters Esther, Joyce & Caroline and Felister my cousin who have been my greatest blessing and source of my encouragement through out this research work. May the good lord keep them under his love. Amen.
ACKNOWLEDGEMENT

I am so grateful to the almighty Lord for his unfailing love, provision, protection and unmerited mercy; certainly He is the source of all knowledge. My sincere thanks go to all lectures and staff at Kenyatta University for their support throughout the MBA program in general and in particular this research project. I profoundly salute Mr. Ambrose Jagongo my supervisor. Mr. James Muturi, Chairman, the Department of Accounting and Finance for their unwavering support and advice. Special thanks go to Nancy Njeru who tirelessly typed this work and Mr. Maina Mwangi my colleague whose input and critical review of my questionnaire made this works a success. Special thanks to all my MBA colleagues for their encouragement especially when the going was getting tough.

To you all may the good Lord richly bless you.
ABSTRACT

This study was carried out to determine the factors influencing credit financing of small and medium scale enterprises in Nyeri town. The cadre of SMEs understudy was all the registered SMEs in Nyeri town. The main objective of this study was to investigate the factors that influence credit financing for the small and medium scale Enterprises in Nyeri town. The literature review identified what other researchers have done in the area of credit financing of small and medium scale enterprises. The study conceptualized to determine the relationship between the dependent and independent variables. The study employed the descriptive survey research design and employed a questionnaire to collect data from 280 SMEs in Nyeri town. The researcher sampled 280 SMEs out of the population of 5600 SMEs using a simple stratified sampling technique.

The questionnaires were pre-tested in a selected sample of 56 businesses within Nyeri town which were similar to the actual sample which was used in this study. Data was collected through questionnaire. The questionnaires were administered through a pick and collect technique. The analysis was done through descriptive statistics and findings of the study were presented in form of tables, charts and graphs. The study revealed that most of the businesses are service provider and very few are involved in manufacturing which may be due to the fact that Nyeri town is predominantly a rural town with very few industries. It was also noted that majority of the SME’S operators are women which account to 60.4% of the business in Nyeri town. The main hindrance to the accessibility of credit to SME’S the study revealed was lack of collateral since most businesses were small with low turnover. The study recommends among others that the government should come up with an integrated training framework for SMEs to enable them attain appropriate skills that would enhance competition in the sector.
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<tr>
<td>KNEC</td>
<td>Kenya National Examinations Council</td>
</tr>
<tr>
<td>MRTT&amp;T</td>
<td>Ministry of Research, Technical Training and Technology</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistics Package for Social Sciences</td>
</tr>
<tr>
<td>TIVET</td>
<td>Technical, Industrial, Vocational &amp; Entrepreneurship Training</td>
</tr>
<tr>
<td>SBP</td>
<td>Single Business Permit</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Credit Cooperative Society</td>
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<td>ROSCA</td>
<td>Rotating Savings and Credit Associations</td>
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<td>JKA</td>
<td>Jua kali Associations</td>
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<td>NCSE</td>
<td>National Council for Small Enterprises</td>
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<td>Small and medium enterprises</td>
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Operational Definition of terms

Collateral security
This is the market value of the security surrendered to a creditor on guarantee to secure a loan.

Employment
An opportunity to exchange time and labour for money. Growth and increase in number of employees, amount of sales profit improved technology changed sources of credit changed strategy entrepreneur's polices.

Employee
This is a person who earns his day to day livelihood from enterprises or contributes to the productivity of the enterprise.

Entrepreneur
This is a person who is able to organize and scan the environment, identify economic opportunity manages and assumes the risks of a business or enterprise (Nelson 1985)

Entrepreneurship
This is a process of starting new profit making businesses. It is used to signify a degree of success (Bird, 1989)

Growth
It is the actual and relative increase in the number of employees sales and assets of a business (Bird, 1989)

Micro enterprise
Business enterprise employing up to ten workers, including the working owner. (Economic survey: 1999).
Micro financing

Providing both financial and social intermediation inform of group formation, development of self confidence and training to small business entrepreneurs

Small enterprise

Business enterprise employing more than ten and up to fifty workers (Economic survey, 1999 pg4)
CHAPTER ONE
INTRODUCTION

1.1 Background of the study

This chapter gives details on the background information on credit financing for SMEs, the statement of the problem, objective of the study, research questions, significant of the study, assumptions, scope of the study as well as limitations of the study. Formal and informal sector, are classified into farm and non-farm categories employing 1-50 workers (Session paper 2, 2005). In the modern world, small and scale enterprise (SMEs) are perceived as the cornerstone of social-economic transformation. They stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and situations. They generate employment, help diversify economic activity and make a significant contribution to exports and trade (sessional paper 2 1996).

The contribution that this sector makes to their respective communities and economies is now commonly recognized and such there are high expectations of the SMEs sector (Reed 2006). This sector cut across all sector of the Kenyan economy and provide one of the most prolific sources of employment creation, income generation and poverty reduction (sessional paper 2 2005).

Therefore the MSEs sector is fast growing. According to the 1999 MSE Baseline survey (1999), the number of enterprises in the sector has grown from 910000 in 1993 to about 1.3 million in 1999. Out of the 1.3 million enterprises in 1999, about 66% were located in the rural area where women owned 48% of the enterprise. According to the survey, 64.3% of the SMEs are in trade, 14.8% services, 13.4% are in manufacturing while 7.7% are involved in other activities, (sessional paper No2 2005).
Moreover (Nick 2005) observes that SMEs are the engine of growth in this country. His report added that SMEs contributes substantially towards the number of people who are supported by the successful operation of small businesses. According to (Akabueze, 2000) SMEs act as the engine room for the development of any economy because they form the bulk of business activities in Africa’s economy. African countries like Nigeria, Ghana, Malawi, Mali, Senegal and Tanzania have manifested this in employment generation, rural development, economic growth and industrialization and better utilization of resources.

1.1.1 Role and Importance of SMES in Economics Transformation

SMEs in Market economies are the engine of economic development. Due to their private ownership entrepreneurial spirit, their flexibility and adaptability as well as their potential to react to challenges and changing environments, SMEs contribute to sustainable growth and employment generation in a significant manner (www.unece.org). A well functioning policy on the MSEs is critical for attracting and spreading investment in both urban and rural areas (Sessional paper no 2, 2005). The Government in its Endeavour to create durable and decent jobs, has reviewed policies and strategies outlined in previous Government policy documents, included in Sessional paper No 2 of 1992 on Small Enterprises and Jua Kali Development in Kenya.

The framework provides a more balanced policy focus in line with national goals of fostering economic growth, employment creations, income generation, poverty reduction and industrialization as stipulated in the economic Recovery strategy paper and the economic Recovery strategy for wealth and employment creation (2003-2007). According to the GOK survey (1999) the major benefits of the SMEs are the main contributors to economy in terms of output of goods and services and creation of jobs, relatively low capital cost, especially in
the fast growing services sector. The survey also emphasized on SMEs strengths in forward and backward linkages among socially, economically, and geographically diverse sector of the economy. The sector also creates demand as well as supply, since the report established that 90% of rural enterprise products are marketed directly to rural households. The survey further underscored the SMEs contribution in the increased participation of indigenous Kenyans in the economic activities in the country by offering excellent opportunities for entrepreneurial and managerial skills. The GOK survey (1999) on SMEs also support industrialization policies that promote rural-urban balances, increasing savings and investment by local Kenyans and encouraging use of local resources, thus leading to more effective use of capital and adapting quickly to market changes.

1.1.2 Roles of Government in promoting Small and medium sized enterprises.

In Kenya like in most of the other countries in Africa, Government has tremendous appreciation of the role that the small and medium sized enterprises SMEs play in the growth of the economy (Mbuvi, 2005). In an effort to formalize and regulate SMEs business Kenyan Government and development agencies are making large strides in reducing the barriers that traditionally frustrated many business people who sought to register and start new venture (Reed 2006).

The Government in its appreciation has developed new strategies and programme promotion like Rural Enterprise Fund (Baseline survey, 1999). According to the sessional paper No 2 (2005) the Governments pledge to create 500,000 jobs annually is set to be achieved within a framework of enhanced partnership between public and private sectors. The private sector is expected to seize the available opportunities in, developing competitive industrial sector and create jobs. The bulk of jobs will have to come from the medium and small enterprise sector.
It is for this reason that sessional paper No.2 (2005) seeks to promote medium and small enterprise to perform optimally for increased economic benefits.

According to baseline survey results (1999) the approach has been generally disappointing mainly because of the delays associated with government bureaucracy everywhere. The report states that a general approach will be used to encourage the small business sector to be more involved in providing for its own needs. In addition sub-contracting between large and small enterprises will also be encouraged to provide a new avenue through which larger firms can provide training and credit to the small enterprise with whom they deal (Lindasay 1986).

Due to the significant contribution by the sector to development, the Government has developed new strategies to develop the entrepreneur and improve his image which include training, awards to outstanding ideas and innovations, best use of local resources, optimizing labour intensive technologies and developing the best product for either the local or the export market (Baseline Survey, 1999).

1.1.3 Policies of the SMES in Kenya

The sessional paper No. 2 of 2005, on policy for development of Micro and Small enterprises observed that since independence, the Government has recognized the potential of the MSEs Sector in employment creation and poverty reduction in its numerous policy documents. The paper also states that effective policy co-ordination and implementation has remained a major challenge in this country. The weakness can be resolved through the introduction of institutional changes that include strengthening the capacity of the department of Micro and Small Enterprise Development to play an oversight function and establishment of a broad-
based and Independent National Council for Small Enterprises (NCSE) to advise on appropriate policies for the MSES sector and to mobilize resources for the same.

1.2 Statement of the Problem

True to the statement “it takes money to make money “every business needs funds to begin and maintain its operations. One of the most difficult tasks faced by the small and medium scale business is obtaining sufficient finance to start and operate their business. As contained in the GOK survey (1999), lack of credit has been rated second most challenging factor facing SMEs.

According to McCormick and Pedersen (1996) describing the trauma of doing business and its consequences one entrepreneur in the garment industry (second hand clothes) was interviewed and this was what he had to say “imported used clothing, cast off by affluent, fashion-conscious consumers in the United states, Europe and Japan, makes its way through the network of charitable organizations, recyclers, rag makers, wholesalers among others. These are the same goods that find their way through the market to compete with other entrepreneurs who spend money to have their goods in the market. For example, men’s trousers sold for ksh.40, and women’s dresses sold for Ksh 20 to 40 while low priced trousers cost at least ksh.120 and in expensive dress at ksh150” its an emotional experience to SMEs who has a loan with a microfinance institution and is expected to repay the loan (McCormick and Pedersen 1996. Aleke Dondo (1994) said many SMEs use their finance saved from employment or income given by friends. This is mainly because of lack of access to financial resources in the country’s financial system. He also pointed out the financial infrastructure has several limitations which include inconsistent government policy on interest rate, unmeant credit needs, poor instruments to cater for all credit schemes, low commercial bank
participation and unsustainable programmers which means credit has to be continued all the
time. Kinya (2005) further argued that Many SMEs don’t live to celebrate their fifth birthday
and if they know their main causes for failure they should be prepared to avoid them or at
least minimize their effect. This study therefore sought to investigate factors that influence
credit financing of SMEs, a study of SMEs in Nyeri Town.

1.3 Objective of the study

1.3.1 General Objective

The purpose of the study was to investigate the factors that influence credit financing for the
small and medium scale Enterprises in Nyeri District.

1.3.2 Specific Objectives

The study was based on the following objectives:-

1. To find out the primary sources of SMEs financing in Nyeri town.
2. To establish the factors that affect credit financing of SMEs in Nyeri town.
3. To identify problems that SMEs in Nyeri encounter in sourcing for financing for
   starting and growing their business.
4. To establish the implications of credit finance to the growth of SMEs in Nyeri town.

1.4 Research Questions

1. What are the primary sources of SMEs financing in Nyeri town?
2. What are the factors that affect credit financing of SMEs in Nyeri town?
3. What problems are encountered by Small and Medium Scale in Nyeri town in
   sourcing for financing for starting and growing their business?
4. What are the implications of credit finance to the growth of SMEs in Nyeri town?
1.5 Significance of the Study

This study will benefit the business community and the upcoming entrepreneurs, in job and wealthy creation and poverty eradication. To the government especially the ministry of planning and finance the study will come up with policy recommendations that will assist the policy makers when drawing regulatory measures aimed at overcoming the major barriers to growth of SMEs and seek ways of eradicating them.

In addition the study will contribute to increase participation of indigenous Kenyans in the economic activities of the country. It is also hoped that the study will benefit banks, NGOs, Non-bank financial institutions like Faulu, K-Rep, KWFT in coming up with ways of promoting SMEs. Finally, the study will benefit future researchers and academicians who would like to further the research in the area. The study will provide them with findings and relevant literature.

1.6 Assumptions of the Study

The study was based on the following assumptions:-

- The micro-finance will allow and ease the conditions of SMEs in acquiring the finances to start-up.

- The existing income generating activities in SMEs in Nyeri town will continue to operate for a long period of time.

- The government policy that seeks to distinguish between the impacts of SMEs in particular from policies that foster a competitive environment and property rights protection in general is there to stay.
1.7 Scope of the Study

The researcher carried out the study focusing on various enterprises in Nyeri town. The population in Nyeri town is 98,908 as per 1999 census. Nyeri town is about 180km north of the capital Nairobi and lies at the eastern base of the Aberdare Range, and on the western side of Mount Kenya. Nyeri town is the administrative headquarters of Central Province and Nyeri District (http://en.wikipedia.org/wiki/Nyeri_2007) (Appendix v)

According to information available from the council’s revenue office, Nyeri town has over 5,600 Small and Medium Scale Commercial enterprises. In addition the town has about 10 banks, 16 insurance companies and 14 insurance brokers and it is well served by various categories of hotels and restaurants, estimated to be about 1,090 in number.

The scope of this study was the small and micro-entrepreneurs in Nyeri town. However due to limitation in time and financial implications the study covered the sampled SMEs in Nyeri town. The SMEs in the town were purposively selected due to proximity and the schemes available.

1.8 Limitations of the Study

The Researcher's effort to carry out the research as exhaustively as possible was limited by the following:-

i. The time allocated to carry out the research was not adequate as was an academic research which must be carried out within a stipulated span of time and in this case four months. This forced the researcher to work overtime on weekend and any other time that was available.
ii. Money was another limiting factor. Money for traveling and other expenses was inadequate as no sponsor was identified in the current economic hardships. The researcher took a soft loan to enable her to overcome these hardships.

iii. The study was limited by the ability and willingness of the subject to respond to the questionnaire accusing her of being a member of the KRA. This was solved by the researcher assuring the respondent that the information given was confidential and only for academic purpose.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
The literature review was reviewed as follows. The first part briefly addresses meaning and importance of Micro and Small Enterprises (MSEs). The second part discusses contribution of small and medium scale Enterprises. Part three reviews characteristics of small scale enterprises. The fourth part addresses the sources of Small Business Finance. The fifth part touches the impact of Business Finance for SMEs while the sixth part states the influence of finance on small and medium size business. Part seven summarizes by establishing the gap, which justifies the need for this study, lastly a conceptual framework is developed from the reviewed literature.

2.2 Meaning and Importance of Micro and Small Enterprises (MSEs)
In defining SMEs the sessional paper No. 2 (2005) states that SMEs are businesses in both formal and informal sector, classified into farm and non-farm categories employing 1 – 90 workers. According to Ministry of Research of Technical Training and Technology (1997) one definition is taking the term in the broadest sense to include enterprises having 1-50 employees, enterprises (small enterprises) in the non-structured or informal sector of the economy engages in manufacturing. It also includes non-manufacturing enterprises, largely those that provide services and meet the criteria set.

The criteria that are easy to measure the definition of SMEs are based on enterprises that are essentially primary businesses, non-formal business activities excluding agricultural production, animal husbandry, fishing, hunting and forestry (GOK, 1999).
2.3 Performance of Small and Medium Enterprises (SMEs)

Business are said to grow as a result of the vision drive and skills of the owner-managers who run and manage the businesses and that it is the owner – manager who first notice the potential of the business to grow. In rapid-growth of a business, the owner-manager is the key factor, not only in the funding of the firm but in the rough and tumble process of running and growing the firm (Kinya, 2005).

In general, SMEs have been quick to respond to the opportunities created by growing urban for their produce. They therefore need financial support and assistance so as to cope with high demand. A survey conducted in 1999 (GOK) on business showed that there has been an upward trend in the nominal amounts of start-up capital since 1995. For Example in 1995 65.5% of the MSEs started with 1000 while in 1999 this had decreased to 38.8%. In a survey carried out by National MSE (1999) as shown in the table 2.0 the amount of start-up capital for most MSEs was still low.
Table 2.0: Start-up and additional capital for MSEs (%)

<table>
<thead>
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<th>Start up capital 1999</th>
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<tr>
<td>1 – 1,000</td>
<td>65.5</td>
<td>38.8</td>
<td>27.9</td>
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<td>19.6</td>
<td>31.3</td>
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<td>3.2</td>
</tr>
<tr>
<td>500,001 +</td>
<td>0.1</td>
<td>0.4</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The starting bracket for start-up capital in 1995 was Kshs.0 – 1000 while in 1999 it was Kshs.1 – 1000.


2.4 Contribution of Small and Medium Scale Enterprises

SMEs contribute up to 18.4% of the country’s Gross Domestic Product (GDP). The SMEs sector is therefore, not only a provider of goods and services, but also a driver in promoting competition and innovation, and enhancing the enterprise culture which is necessary for private sector development and industrialization (sessional paper No. 2, 2005).

According to Brown et al (1999) in terms of job creation, Small and Medium Enterprises (SMEs) have empirical evidence showing that SMEs offer stable employment, higher wages and more non-wage benefits in development and developing countries. Therefore the small and medium enterprises are the engine of job formation.
and more non-wage benefits in development and developing countries. Therefore the small and medium enterprises are the engine of job formation.

Although Pro-SMEs proponents hold that SMEs on national productivity, Governments all over Africa and in developing world in general are increasingly realizing the important role that small and medium sized enterprises SMEs has to play. In Kenya like most of other countries in Africa, Government has a tremendous appreciation of the role that the small and medium sized enterprises play in the growth of economy (Nick 2005).

The Government of Kenya in the GOK sessional paper No2(2005) suggests that financial development eases financial constraints on successful firms and allows them to grow, which on the other side help in expanding national trade. The report claim that Kenya’s very rapid development and expansion of SMEs is an attribute to factors such as promoting rural development therefore reducing rural-urban migration as well as assisting the SMEs to provide materials and other components to other industries. However, it is generally accepted that SMEs bring more benefits in the supply of goods and services to customers at reasonable prices.

2.5 Characteristics of Small Scale Enterprises

Small scale enterprises, which generally comprise up to fifty employees and take up to Shs five million in turnover are characterized by:-

2.5.1 Easy entry and exit

According to the Baseline Survey (1999) asked why they went into micro and small business 32.7% said that they had no other alternative while 21.8% said they were attracted by the
prospects for better incomes. However, asked further why they chose the particular activity within the MSEs the prospect for easy entry and exit commanded higher priority.

2.5.2 Low Capital requirement for establishment and operation

The survey also indicated that the pattern of capital investments was on the basis of capital requirement in establishment and operation. The mean initial capital used to start a business in 1995 was 40,500 while the mean amount of additional injected into each business was Kshs.24,300. (Baseline Survey (1999)

2.5.3 Employment of simple technologies that are easy to adopt and labour – intensive production techniques.

In 1996 the Ministry of Research Technical Training and Technology undertook study to determine why MSEs employ simple technologies that are easy to adopt and reviewed that, the entrepreneur may have started out with technical and production skills, but without much training and experience in small business management. According to sessional paper No. 2 of 2005 lack of basic skills in business management and entrepreneurship is a major drawback in the participation of small-scale enterprises.

2.5.4 Low cost skill acquisition mainly from outside the formal school system.

The study of MSTTP on low cost skill acquisition is caused by inaccessibility of information due to the entrepreneurs’ limited education. The entrepreneur’s restricted circle of contacts and networking rely mainly on immediate business, family and relatives, suppliers’ sales persons due to lack of financial resources to buy information.
According to Brown et al (1999) the Research on MSEs spring everywhere especially where there is favorable ground for small scale enterprises. Matters such as standards, the supply of raw materials link up with technological innovation in production that contribute to policy or programme development for small-scale enterprises. In the view of the above it is important to establish the factors influencing credit financing in small and medium enterprises.

2.6 Sources of Business Finance for SMEs

Finance is a key factor to be considered in setting and running of business. A study carried by the Government on small scale enterprises 1994 revealed that there are two main sources of business finance, Equity financing and Debt financing. The study states that equity financing represent personal investment. The main sources of equity capital are personal savings, family contribution, retained profits and proceeds from sales of shares to others in Partnerships Company. Debts financing are most common for the small businessman. The common financing institutions are trade credit from suppliers, short-term loans from commercial banks cooperatives savings and credit societies, financial institutions and other lending organizations and long-term loans from banks, insurance companies.
<table>
<thead>
<tr>
<th>Source</th>
<th>Start up capital</th>
<th>Additional capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family/friends loan</td>
<td>5.4</td>
<td>7.8</td>
</tr>
<tr>
<td>Family/friends loan</td>
<td>5.4</td>
<td>7.8</td>
</tr>
<tr>
<td>Money lender</td>
<td>0.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Bank</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Non-bank credit institution</td>
<td>0.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Rotating credit society</td>
<td>0.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Government loan</td>
<td>0.2</td>
<td>0.8</td>
</tr>
<tr>
<td>NGOs</td>
<td>0.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>0.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Trade credits</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Other</td>
<td>0.3</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

2.7 The impact of Business Finance for SMEs

According to the Government paper on entrepreneurship and small scale enterprises of 1994, SMEs need to determine the purpose for which the funds are needed. It revealed that some of the major costs and expenses that SMEs normally encounter are food, clothing, transport, school fees and medical bills. Purchasing of equipments fixtures, beginning stock, paying deposits for rents, legal fees and cost of licenses, are part of operating expenses that drain a lot of finances that would otherwise be used for the growth of the enterprise.

2.8 The Influence of Finance on SMEs in Business

A study carried out by Oburg (1979) on small scale enterprises, revealed that due to many challenges faced by Small and Medium scale enterprises to business growth and expansion many people find it more difficult to enter and sustain the business. Jane (2005) in her study found out that Banks and financial institutions have traditionally had a negative attitude towards women who are the majority in SMEs.

A case study of Micro and Small Enterprise Training and Technology Project (MSETTP) shows that 70% of SMEs is lacking business planning skills and some business could not get credit purely because they are not able to write a bankable proposal. Okech et al (1991) in their study noted that the main source of start-up capital as well as additional capital was overwhelmingly from the family or own funds, being 90.4% for start-up capital and 80.0% for additional capital. According to Economic Survey (1992) SMEs is faced with the problems of lack of finance and materials which featured prominently with 58.9% reporting the problem. A case study on MSETTP, Micro finance institutions are very cautious in extending credit to SMEs as they are viewed as risky businesses. Gemini (1992) in her study viewed SMEs as enterprises contributing to the economic growth. The study also indicated that the
funding from the micro finance institutions to SMEs is very minimal and cannot enhance business growth and development. A research conducted by National Development Plan (1997 – 2001) on micro and small enterprises Development in Kenya found that most SMEs are not organized and hence do not attract funding from the microfinance institutions. Some hardly keep books of accounts and cannot determine the profitability of the business.

Even as they join the SMEs Enterprises through their rudimentary group saving and credit merry-go-round and revolving fund schemes financing of SMEs enterprise is still low (MESTTP, 1997). According to the report, the available group savings and credit scheme is very rudimentary and cannot sustain the demand for financing growth and development of Jua Kali businesses, and only very few MSEs operate this scheme with a few members involved. The scheme only serves very few members. Even the merry-go-round and revolving fund schemes only serve very few members of the SMEs and may not be reliable sources of funding the SMEs businesses. The contribution towards the schemes is too low and hence the funding is also too low. Most of these schemes are based on mutual agreement among few members of the associations and may not be bidding at all especially when a member refuses to pay back the funds.

A research by Ndiritu (2005) on problems hindering women entrepreneurs showed that some SMEs currently operate savings and credit co-operative society as a source of financing the SMEs businesses, but only a few SMEs have formed savings and credit co-operative society with very few members benefiting. On the other hand the savings and credit co-operative societies are not under the co-operative societies act, and the members are unaware of the importance of the savings and credit co-operative society. The organization of SMEs into groups, self-help or otherwise, has provided to some extent a visible structure through which
SMEs can support each other and benefits from development initiatives and financial support. The study therefore aims at evaluating the influence of finance on SMEs enterprise businesses.

2.8.1 Challenges to the Development of Small and medium Enterprise

Although SMEs sector in Kenya plays an important role in socio-economic development of the country in terms of contribution towards economic growth, employment creation, poverty reduction and development of an industrial base, it is faced with many challenges and constraints sessional paper of 2005. The paper explains these challenges as:

2.8.2 Unfavourable Policy Environment

This is as a result of inappropriate policy design, weak implementation framework and failure to institute and effectively monitor policy implementation. While the government in sessional paper No. 2 (1992) acknowledged the potential of the MSE sector in employment creation and poverty reduction, institutional framework for effective coordination of various MSE policies, were not put in place. There is no institutional mechanism within Government for identifying and resolving policy conflicts and for overseeing implementation of policies and a programme neither is there a mechanism for co-coordinating all the stakeholders and facilitating their participation in policy development and implementation.

Mc McCormick and Pedersen (1996) noted that public and commercial polices have favoured large industrial Units. The tax systems has affected the development of small- scale enterprise in at least two ways .First the excessive tax has prevented enterprise from accumulating reserves for financing, expansion investment in productive activities to the advantage of investment in commercial and real estate activities( Tumubreine,1992).
In conclusion a policy shift towards the provision of greater opportunities for Small enterprises is bound to speed up the industrial output and growth of the country. Therefore there is need to have a seed fund or grant, possibly administered by, financial institutions NGOs or even commercial banks. Government should review its taxation policies and provide tax incentives for Small-scale enterprises (McCormick, 1996).

2.8.3 Inhibitive Legal and Regulatory Environment

According to sessional paper No. 2 (2005) an enabling legal and regulatory environment is imperative for the MSES sector to play an effective role as an engine for economic growth, poverty eradication and employment creation. Despite significant achievements in reforming the legal and regulatory framework, a number of existing law and regulations still remain cumbersome, out of step with current realities and hostile to the growth of MSE sector. The by-laws applied by many local Authorities are not standardized and appear, in most cases punitive instead of facilitative (Wanyanga, 1992). The role of Provincial Administration in the enforcement of regulations and in jurisdiction over land and utilities tends to overlap and conflict with those of Local Authorities. Finally, the bureaucratic and lengthy process of transacting business with Government agencies adversely impacts on the operations of the MSES by diverting the scarce resources from production to sheer housekeeping (Masha, 1990).

However, the Single Business Permit (SBP) system, launched in 1999 is not yet fully operational and the fees charged are considered by many MSES to be prohibitive. Harassment from Local Authorities and Government officials over attempts to operate on unused land, and daily license fees are often demanded as there is not clear policy and managing informal trade (Sessional paper, 1996). Dispute resolutions are another area of
problems for small business people. The judicial system is complex, expensive, time consuming and sometimes unfair, legal title deeds for sites on which they operate are not available therefore they cannot invest in the work sites. (Sessional paper No 2, 2005).

2.8.4 Limited Access to Markets

The sessional paper 2 (2005) further highlights, access to markets and marketing information as severe constraint to SMEs development in Kenya. Overall aggregate demand is low, markets are saturated due to dumping and overproduction, and in many cases markets do not function well due to lack of information and high transaction cost. Very few SMEs are capable of venturing into export markets and even fewer are able to gap the new market frontiers through electronic commerce. As a result, most markets where intense competition (drives places down, resulting in very low profit margins).

Although the flow of information on MSE markets has slightly improved, many MSES still do not know where and how to access existing and relevant marketing information and therefore they rely on informal feedback from customers. Competitiveness of the MSEs remains weak due to poor quality, packaging, advertising and distribution (Obuon, 1990). Table 2.0 indicates that market and competition are the major challenges with an indication of 34.1%.
2.8.5 Limited access to Financial Services.

Although there has been an improvement in government funding SMEs, lack of access to credit is a major constraint inhibiting the growth of the MSE sector. The present legal and policy framework for financial services is less supportive of small than larger borrowers and needs to be addressed. The Banking prohibits MFIs from mobilizing savings and taking deposits for re-investment (sessional paper no 2 2005).

As a result, the MFIs face problems in building a sustainable funding base for SMEs. The post office Act prohibits the post Bank from leading, and the cooperatives Act does not provide for effective supervision of the savings and credit co-operative societies (SACCOs) (Sessional paper 2, 2005). Similarly the paper states that policies and strategies designed to boost credit and finance to SMEs sector have been formulated in the absence of reliable information on reliable methodologies, data on the magnitude of the MSE sector, characteristics of MSE operator, and factors influencing the growth and dynamics of the sector. This situation translates into high credit transaction costs, for collecting and verifying available information, mainly on the creditworthiness of SMEs borrowers (Mwarania, 1991).

2.8.6 Inadequate Access to Skills and Technology.

Kenya MSEs are characterized by restricted levels of technology, inappropriate technology and inadequate institutional capacity to support adaptation and absorption of modern technological skills. They also suffer lack of information on existing technologies and their potential for increased trade. Specifically SMEs suffer a weak environment that hampers coordination and transfer of appropriate technology. The institutions expected to provide technical services to SMEs are weak and lack specialized capacity to meet the needs of the sector. The constraints limiting the availability and accessibility of relevant technology to
SMEs are further compounded by the general low investment in research and development. (Sessional paper 2, 2005).

2.8.7 Limited Access to Infrastructure

The Economic Recovery Strategy paper 2, (2003) has identified poor infrastructure as a critical factor that constrains profitable business in Kenya. These are characterized by the poor state of country’s road network which contributes to the additional cost of producing and marketing of goods and services, thereby rendering them less competitive than imported substitutes, other infrastructural problems include inaccessibility to land, workspace, feeder roads, electricity and other utilities.

2.8.8 Inadequate Business Skills

A major drawback in the growth and development of the SMEs sector is lack of basic skills in business management and entrepreneurship. According to sessional paper No. 2, (2005) the traditional approach to vocational and technical training has not addressed this need because there exists no provision in their curricula for appraising the programmes at business start-up, survival and growth stages to establish the extent to which their programmes are demand-driven, value adding and address the specific needs of the operators and beneficiaries.

2.8.9 Limited linkage with large Enterprises

Linkage between SMEs and large enterprises in Kenya are either weak or non-existent. This leads to inadequate technological transfer and development, poor information flow, weak subcontracting arrangements and inadequate marketing opportunities to promote expansion and especially vertical growth of SMEs (Sitterly, 1994).
2.8.10 Gender Inequality

It is apparent that the most critical factor in gender inequality is limited access to formal education and training and high drop out rates for girls (2005). According to SMEs GOK Survey (1999), 13.7% of women have no formal education as compared to 6.8% of men. Therefore more women are concentrated in the unskilled and semiskilled categories in the labour market and also in trade and services sub sector of the SMEs. Though women’s participation in SMEs is increasing, accounting for 48% of all SMEs enterprise owners in 1999, gender inequalities still persist. Consequently women have little claim to family property. Such gender imbalances in ownership and control of productive resources are a key factor that has contributed to the prevalence of incidences of poverty in the country (Aspaas, 1991).

2.8.11 Limited Access to Information

The major factors facing MSEs in relation to information are its acquisition, capacity to interpret and effectively utilize the acquired information, and dissemination of the same. At the same time, SMEs have been inadequately sensitized on their obligations and rights. Other shortcomings are lack of access to timely, simplified, reliable and relevant information on market opportunities production technology and government regulations. As a result of these shortcomings SMEs are unable to survive and grow in fast changing increasingly globalised and highly competitive market environment. Lack of acquisition of information has led to very little known about the SMEs sector with regard to products, prices, needs, constraints, opportunities and ways of dealing with the myriad issues affecting the sector.
2.8.12 Unfavourable Taxation Regime

The tax regime does not encourage SMEs to either register or pay taxes. Instead it serves as formidable barrier to formal sector. Value Added Tax (VAT) which is applicable to most products and services is costly for businesses to administer, increased transaction costs, and inhibits cash flow for all categories of enterprises.

2.8.13 Entry Barriers (Formal and Informal)

Formal and informal barriers inhibit the growth of the SMEs sector, especially those relating to self-regulatory bodies e.g. matatu industry. Insecurity is also a major challenge as it afflicts all the business sectors including SMEs

2.9.14 Health and Safety in workplaces

SMEs sector is adversely affected by limited access and adherence to the health and safety regulations. The factories and other places of work Act Cap. 514 does not cover this sector, yet it is in this sector where workers and other forms of work-related accidents emanating from the nature of their work and sites equipment and materials use mostly without any protective measures.

2.9.15 HIV/AIDS

According to sessional paper 2, (2005) the future potential of the SMEs sector is particularly affected by the impact of HIV/AIDS on productivity, skilled manpower, social and economic burden, and concentration of resources to productive activities. Although various HIV/AIDS programmes including advocacy and awareness creation in the mass media, Voluntary Counseling and Testing Centers (VCTs) and subsidized treatments are in place, the majority of workers in the SMEs sector have little access to them.
2.8.16 Limited Access to Finance

SMEs financing is a long unresolved problem that is too important to ignore. According to GOK Survey of 1999, the volume of credit to the Small Enterprise sector by specialized institutions since independence is estimated at kshs.1, 112 million.
Table 2.2 shows the major challenges faced by small and medium scale enterprises in Kenya.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>MSEs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markets and competition</td>
<td>34.1</td>
</tr>
<tr>
<td>Lack of credit</td>
<td>8.4</td>
</tr>
<tr>
<td>Poor road/transport</td>
<td>7.2</td>
</tr>
<tr>
<td>Shortage of raw material and stocks</td>
<td>6.8</td>
</tr>
<tr>
<td>Interference from authorities</td>
<td>6.0</td>
</tr>
<tr>
<td>Poor security</td>
<td>3.1</td>
</tr>
<tr>
<td>Lack of worksites</td>
<td>2.5</td>
</tr>
<tr>
<td>Lack of skilled labour</td>
<td>0.6</td>
</tr>
<tr>
<td>Power interruptions and inaccessibility to electricity</td>
<td>0.6</td>
</tr>
<tr>
<td>Poor access to water supply</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>9.1</td>
</tr>
<tr>
<td>No problems</td>
<td>11.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 2: Weight of challenges faced by MSEs

Source: National MSE Baseline Survey 1999 CBS, K-Rep and ICEQ). The table indicates that markets and competition are the major challenges with 34.1%.
2.9 Summary and gaps to be filled

Small and Medium sized (SMEs) are considered to be one of the principle driving forces in economic development (http://www.unece.org/indust/sme/sme-role.htm). A study by Nick (2005) indicates that SMEs are viewed as the engine of growth in this country. This is also supported by Ngethe and Ndua (1991) in their study where they noted that informal sector uses 48% input from formal sector, 44% input from itself and only 8% input from household productions. They also noted that the effect of the sectors dynamics on key developmental issues such as growth in employment, total employment and capital labour rations. The post studies identified various problems facing SMEs sectors. A study done by Ndege (1990) examined issues of the sector as, socio-economic standings of the operators, position of the sub-sector in industrial/economic hierarchy, linkage with the formal sector, systems of marketing products, capital accumulations and mobility within the sub-sector. The same findings were recorded by Kipera (1992) in her study where she states the SMEs experience problems which are categorized as market competition, finance, technological and other problems experienced by the SMEs to include inadequate funds stringent collateral requirements, lack of incentives for banks to lend and negative perceptions of SMEs by lending institutions. Masinde and Nzidi (1991) in their study also found out that lending SMEs is a mixture of confidence, convenience and empathy not without its constraints. It is therefore important to establish further the influence of credit financing of small and medium scale enterprises.

Facilitating finance for SMEs is an important and sensitive issue, as many SMEs have continuous cash-flow problems. This is supported by Kabagambe (1995) who observed that although the firms in the sector are small, their capital output are high and labour-relations low, which provide better average income compared to marginal agriculture and some formal
sectors. The report also indicates that the industries rely on indigenous resources and limited capital and provide cheap goods and services to the expanding low income groups in the urban areas. Mwarania (1991) in her study suggests that specific reforms should aim at eliminating liberalized disparity between commercial banks and near-bank financial institutions. The researcher therefore concludes that sustainability and future of SMEs depends heavily on the rate at which they are able to access the finances.

2.10 Conceptual Framework

Henderson (1994) urged that the major aim of research should be to “either relate data to a theory or to generate a theory from data”. In order to hold existing and new knowledge, theory should provide a conceptual framework, so that knowledge can be interpreted for empirical application in a comprehensive manner.

Figure 1- shows the conceptualization of the dependent and independent variables of the study related. The independent variable for this study indicates the factors influencing credit, financing which includes availability of financial services, market conditions and demand for the produce, information flow and level of awareness, entry barriers and industry conditions, social-demographic factors, etc. The dependent variable is the business performance which is indicated by, number of employees, assets, capital base and profit. There are uncontrollable or intervening factors which include economic conditions, political environment, and natural environment and government policies.
**Figure 1: Conceptual Framework of the Study**

**Independent variable**

<table>
<thead>
<tr>
<th>Factors influencing credit financing</th>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement variables</td>
<td>Measurement variables</td>
</tr>
<tr>
<td>• Availability of financial services</td>
<td>• Number employees</td>
</tr>
<tr>
<td>• Market conditions and demand for the product</td>
<td>• Assets</td>
</tr>
<tr>
<td>• Measurement variables</td>
<td>• Capital base</td>
</tr>
<tr>
<td>• Informational flow and level of awareness</td>
<td>• Profits</td>
</tr>
<tr>
<td>• Entry Barriers and industry conditions</td>
<td></td>
</tr>
<tr>
<td>• Collateral security needed.</td>
<td></td>
</tr>
<tr>
<td>• Repayment rates for the loans</td>
<td></td>
</tr>
<tr>
<td>• Interest rates</td>
<td></td>
</tr>
<tr>
<td>• Perceptions of the entrepreneurs.</td>
<td></td>
</tr>
<tr>
<td>• Credit conditions.</td>
<td></td>
</tr>
<tr>
<td>• Business management skills.</td>
<td></td>
</tr>
<tr>
<td>• Social-Demographic factors.</td>
<td></td>
</tr>
</tbody>
</table>

**Intervening factors**

- Economic conditions
- Political environment
- Natural environment
- Government policies

Source: Author (2008)
3.1 Introduction

This chapter gives a detailed outline of how the study was carried out. It describes the research design, the target population, the sample and sampling procedure, research instruments, validity and reliability of instruments, data collection and data analysis procedure.

3.2 Research Design

The research design that was adopted in conducting this study was descriptive research design. It was appropriate because it involved collecting data in order to answer questions on current status of subjects of the study. Kothari (2003) recommends descriptive design as it allows the researcher to describe, record, analyze and report conditions that exist or existed. The design also allowed the researcher to generate both numerical and descriptive data that would be used in measuring correlation, coefficient between variables.

3.3 The Target Population

Brinker, (1998) defines a target population as a large population from whom sample population was selected. The target population of this study was made up of all Small and Medium operating businesses in Nyeri Town.
Table 3.0: Classification and distribution of SMEs across the Nyeri town

<table>
<thead>
<tr>
<th>Type of target business</th>
<th>Total number of registered business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>1867</td>
</tr>
<tr>
<td>Service</td>
<td>2867</td>
</tr>
<tr>
<td>Light manufacturing</td>
<td>866</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5600</strong></td>
</tr>
</tbody>
</table>

Source: Municipal Council of Nyeri

3.4 Sample Design and Sampling Procedure

3.4.1 Sample Design

According to Singleton (1988:137), sampling design is that part of the research plan that indicates how cases were selected for observation. In this study the population of interest was rather large and time too short. Therefore stratified random sampling with proportional allocation was used to come up with a representative proportion of sample. This method was appropriate as all the existing subgroups were represented. This technique was also quiet easy to apply when the population is large. Each division of the business in target formed the strata and therefore a sample was drawn from each stratum by random sampling to ensure that every item in the population had an equal chance of being included in the sample.

3.4.2 Sample size

In various target business, stratification by proportional allocation method was used to classify the various business into small subgroups called strata. In every stratum, samples of respondents were selected by simple random sampling method. The figure below shows how samples were selected from the stratified stratum.
Table 3.1: Sample Size Determinants

<table>
<thead>
<tr>
<th>Type of target business premises</th>
<th>Total number of Business (N)</th>
<th>Sample (%) (Wi)</th>
<th>Sample Size (N x Wi)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>1867</td>
<td>5</td>
<td>93</td>
</tr>
<tr>
<td>Services</td>
<td>2867</td>
<td>5</td>
<td>143</td>
</tr>
<tr>
<td>Light weight</td>
<td>866</td>
<td>5</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>5600</td>
<td>5</td>
<td>280</td>
</tr>
</tbody>
</table>

Source: Researcher (2008)

3.5 Research Instruments

It was necessary to develop an instrument, which would be used to obtain the views of the businesses as a wide coverage on this topic is desirable. A questionnaire was judged to be the most appropriate for the study. This research adopted a descriptive survey design to analyze the influence of credit financing on SMEs in Nyeri town. This involved collecting information by interviewing and administering a questionnaire to a sample of individuals. The design was appropriate because, the researcher used descriptive statistics to analyze the data on tables, charts, graphs and discussions. Questionnaires were designed to get responses from respondents on the subject of interest. A random and representative sample from the entire group was selected for the purpose of this study and analyzed the responses which were considered as the responses of the entire group.

3.5.1 Pilot Study

The questionnaires were pre-tested in a selected sample of 56 businesses within Nyeri town which were similar to the actual sample which was used in this study. The pre-testing of questionnaire used similar procedure like the one which was used during actual data
collection. According to Orodho (2003) Pre-testing of the questionnaire enables a researcher to have a meaningful observation. Orodho (2003) recommends 1% for pivot study.

3.5.1.2 Instrument Validity
Mugenda and Mugenda, (1999) defines validity as the accuracy and meaningfulness of inferences which are based on the research results. Validity is the degree to which results obtained from analysis of the data actually represent the phenomenon under study. In order to test hence improve validity of the instrument, the researcher first pre-tested the questionnaire in a pilot study. The response from the pilot study made the researcher to make some changes in the questionnaire in-order to enhance its validity. It was necessary therefore, to delete some questions in the questionnaires and also add new questions to the existing inventory. The result set of questions were discussed again with the respondent in the pilot study. The process was then repeated until sufficient questions were generated to enquire into all aspects identified for this study.

3.5.1.3 Instrument Reliability
Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda Ibid). Reliability of the instrument was piloted in the small markets outside the main market. Piloting was important because it helped the researcher to identify misunderstandings, ambiguities, and useless or inadequate items. Each business person was given a questionnaire and asked to answer each of the questions. The researcher made observations on the way the respondent responds to the questions and whether each respondent was satisfied.
3.6 Data Collection, Instruments and Procedures

The research used a questionnaire as the most preferred tool to elicit information. The tool was selected because it was easy to administer and respondent could fill in required data in the absence of the researcher. A questionnaire and a cover letter were administered by the researcher to the selected sample size. Each respondent received a letter requesting their assistance in filling the questionnaire. A total of 273 which was (97.56%) of questionnaires were received after follow up. The letter to the respondent on the instrument provided information about the purpose of the study, general instructions on how to respond to each question and an assurance of strict confidentiality for the respondent and business.

3.7 Data Analysis

Quantitative and qualitative methods were used for data analysis. Data was tabulated and classified into sub-samples for common characteristics with responses being coded to facilitate basic statistical analysis. Descriptive statistics were used to answer the research questions and objectives in relation to the research area. Orodho (2003) argued that the simplest way to present data is in frequency or percentage table, which summarizes data about a single variable. The Statistical Package of Social Sciences (SPSS) was used to analyze data. The data was presented using tables, pie chart, and bar graph.
CHAPTER FOUR

Findings and interpretation

4.1 Introduction
This chapter presents the findings of the data collected from the sampled small and medium scale enterprise in Nyeri district on factors influencing credit financing. Out of 280 respondents that the study targeted there were 273 respondents. This is (97.5%) of the target group. The data was interpreted according to the research questions. The analysis was done through descriptive statistics and findings of the study were presented in form of tables, frequency distribution, percentage charts and graphs. The discussion of the outcomes is based on the outputs from the statistical packages for social science (SPSS).

This section provides results and discussions of the findings and data analysis of the study. The discussion is linked to the questions of the study and research objectives. To establish whether availability of financial services, informational flow and level of awareness, security needed, interest rate among others have any influence on credit financing of small and medium scale enterprise in Nyeri town.

4.2 Type of business enterprise
The study looked into the ownership of business enterprises in Nyeri town in order to establish whether the form of a business has any influence as far as financing of small and medium scale enterprise is concerned. The finding of the study are presented in the table below
Table 4.2.1 Type of business

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesaler</td>
<td>36</td>
<td>12.9</td>
<td>12.9</td>
</tr>
<tr>
<td>Manufacturer</td>
<td>36</td>
<td>12.9</td>
<td>25.7</td>
</tr>
<tr>
<td>Retailer</td>
<td>84</td>
<td>30.0</td>
<td>55.7</td>
</tr>
<tr>
<td>Service provider</td>
<td>123</td>
<td>43.9</td>
<td>99.6</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The study revealed that most of the businesses are service provider. An overwhelmingly majority of the targeted respondent said that 43.9% of the businesses are service provider, with 30.0% and 12.9% being retailers and manufacturer respectively. This may be due to the fact that Nyeri town predominately a rural town with very few industries.

4.2.2 Gender

It was necessary to look into the gender to establish whether it had any influence in financing of SME’s in Nyeri Town. The table below represents the finding of the study as per gender.

Table 4.2.2 Gender

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>111</td>
<td>39.6</td>
<td>39.6</td>
</tr>
<tr>
<td>Female</td>
<td>169</td>
<td>60.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

37
From the study carried out of 280 respondents, majority were female accounting to 60.4% with 39.4% being male. This may due to the fact that most businesses are owned and run by women.

### 4.2.3 Highest Level of Education

The study looked into the level of education of the respondent with view of establishing where the majority lie. The table below shows this.

**Table 4.2.3 Highest level of education**

<table>
<thead>
<tr>
<th>Categories</th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>19</td>
<td>6.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Secondary</td>
<td>142</td>
<td>50.7</td>
<td>57.5</td>
</tr>
<tr>
<td>University</td>
<td>119</td>
<td>42.5</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From the table above majority of the businessmen in Nyeri town are secondary school leavers, who account for 50.7%, with 42.5% being graduates while only 6.8% have primary school education. This means that an overwhelming majority of the respondents are well educated.

### 4.2.4 Years in Operating Business

The number of years a business has operated dictates its success or failure. It was important therefore to establish general operating period with view of gauging it influence on the accessibility of credit. The findings of the study are presented in the table below.
Table 4.2.4 Years of operation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1</td>
<td>30</td>
<td>10.8</td>
</tr>
<tr>
<td>1-2</td>
<td>11</td>
<td>9.7</td>
</tr>
<tr>
<td>2-3</td>
<td>27</td>
<td>3.9</td>
</tr>
<tr>
<td>3-4</td>
<td>54</td>
<td>19.4</td>
</tr>
<tr>
<td>4 and above</td>
<td>55</td>
<td>19.7</td>
</tr>
<tr>
<td>Above 5</td>
<td>102</td>
<td>36.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>279</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
<td></td>
</tr>
</tbody>
</table>

He study revealed that most of the businesses have been in operation for more than 5 years. An overwhelming majority of the targeted respondent said that 36.6% of the businesses have operated for long, while 19.4% and 19.7% have operated for period ranging between 3 and 5 years. The rest of respondent said that their business have operated for less than 2 years. This may mean that most of the business in Nyeri town is well financed hence able to run for long.

4.3 Income level

The income level of the respondent gives an insight into whether the individual is worth to access credit or not. The study looked into various components of income with view of establishing how it influences the financing of SMEs in Nyeri town.
4.3.1 Categories of the business

The categories of the business premises determine the creditworthiness of a business especially in evaluating the financing viability of the enterprise. The table below shows the categories of business premises.

Table 4.3.1 Categories of the Business Premise

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned</td>
<td>42</td>
<td>14.4</td>
</tr>
<tr>
<td>Rented</td>
<td>238</td>
<td>84.6</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The study revealed that majority of the businesses accounting to 84.6% is operated on rented premises with only 14.4% of the premises owned by the businessmen. This explains why it is difficult to start business in Nyeri town without the help of micro-finance banks.

4.3.2 Accessibility of financing

The study looked into the daily revenues, daily expenses and the value of stock of the business with view of establishing how they can be used in accessing finance especially when only few businesses can use premise as collaterals.
The tables below shows this:

### Table 4.3.2.1 Daily revenues

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5000</td>
<td>34</td>
<td>12.1</td>
<td>12.1</td>
</tr>
<tr>
<td>5001-10000</td>
<td>206</td>
<td>73.6</td>
<td>85.7</td>
</tr>
<tr>
<td>20001-25000</td>
<td>24</td>
<td>8.6</td>
<td>94.3</td>
</tr>
<tr>
<td>25001-30000</td>
<td>15</td>
<td>5.4</td>
<td>99.6</td>
</tr>
<tr>
<td>Over 30000</td>
<td>1</td>
<td>0.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Form the study it was noted most of the businesses were getting good daily revenues. This means that their business were giving good returns hence could use them as a bargaining chip when looking for credit. The table shows that 73.6% of the businesses daily revenues were between ksh5001-10000 which is a comfortable most of the businesses daily revenues.

### Table 4.3.2.2 Daily expenses

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5000</td>
<td>234</td>
<td>83.6</td>
<td>83.6</td>
</tr>
<tr>
<td>50001-10000</td>
<td>27</td>
<td>9.6</td>
<td>93.2</td>
</tr>
<tr>
<td>10001-15000</td>
<td>1</td>
<td>0.4</td>
<td>93.6</td>
</tr>
<tr>
<td>over 30000</td>
<td>18</td>
<td>6.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The table 4.3.2 (b) shows that the daily expenses for most of the business were below 5000. This accounted for 83.6% of the respondents. This means that most businesses operating in Nyeri town can easily qualify for financing from banking institutions.

**Table 4.3.2.3 Value of stocks**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10000</td>
<td>45</td>
<td>16.1</td>
<td>16.1</td>
</tr>
<tr>
<td>10001-20000</td>
<td>75</td>
<td>26.8</td>
<td>42.9</td>
</tr>
<tr>
<td>20001-30000</td>
<td>34</td>
<td>12.1</td>
<td>55.0</td>
</tr>
<tr>
<td>30001-40000</td>
<td>27</td>
<td>9.6</td>
<td>64.6</td>
</tr>
<tr>
<td>40001-50000</td>
<td>34</td>
<td>12.1</td>
<td>76.8</td>
</tr>
<tr>
<td>Above 50000</td>
<td>65</td>
<td>23.2</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Form the study it was noted most of the businesses had an average stock value between ksh10001-20000. This accounted to 26.8% of the businesses operating in Nyeri town. This implies that the value of stock could easily be used as a security for loans from financial institutions by small and medium enterprises.

**4.3.3 Bank Account**

The figure below shows whether the business operated bank account. This was important in order to establish whether having an account with banks influences credit financing of small and medium enterprises.
Of the 280 respondents 85.7% had banks account with only 14.3% operating without valid accounts. This explains the fact that since most businesses had banks account it was possible for SMEs to get loans to start their business.

**Table 4.3.3 Loan or other credit from the institution**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>130</td>
<td>53.4</td>
<td>53.4</td>
</tr>
<tr>
<td>No</td>
<td>148</td>
<td>46.6</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The study also revealed that most of the respondents accounting 53.4% had taken loans from the banks as shown on the table 4.3.3
4.4 Start-Up Capital

Access to Start-up capital explains the viability of a business in the eyes of the financiers. The ability to have a business plan, able to carry out the market survey and the source of start-up capital among other is paramount as far as the growth of small and medium enterprise is concerned. The study looked into these issues with view of establishing whether the SMEs financing is influenced by them.

The figure below explains this.

![Figure 4.4.1 Start-Up Capital](image-url)
The study revealed that most of the enterprises had business plans. This accounted 61.3% of the respondents while only 38.6% not having business plans. This implies that business plans was not an impediment to the most of the enterprise getting loans from the financial institutions.

### Table 4.4.3.1 Market surveys

<table>
<thead>
<tr>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>209</td>
<td>74.9</td>
</tr>
<tr>
<td>No</td>
<td>53</td>
<td>18.6</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Of the 280 respondents 74.9% said that they carry out market surveys. This means that many enterprises were likely to access financing from banks more easily since they seemed to show evidence of their activities and projections.
Table 4.4.3 .2 Source of start-up capital

<table>
<thead>
<tr>
<th>Source of start-up capital</th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends</td>
<td>6</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Relatives</td>
<td>13</td>
<td>4.7</td>
<td>6.9</td>
</tr>
<tr>
<td>Loan</td>
<td>189</td>
<td>69.0</td>
<td>75.9</td>
</tr>
<tr>
<td>Personal savings</td>
<td>54</td>
<td>19.7</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The table 4.4.3(b) further explains why most enterprises start-up capital was sourced from banks with an overwhelming majority of the respondents accounting to 69% saying that they got the capital from the bank as a loan.

Table 4.4.3 .4 Amount of start-up capitals

<table>
<thead>
<tr>
<th>Amount of start-up capitals</th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ksh5000</td>
<td>13</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Ksh50001-100000</td>
<td>62</td>
<td>22.2</td>
<td>26.9</td>
</tr>
<tr>
<td>Ksh100001-150000</td>
<td>31</td>
<td>11.1</td>
<td>38.0</td>
</tr>
<tr>
<td>Ksh1500001-200000</td>
<td>60</td>
<td>21.5</td>
<td>59.5</td>
</tr>
<tr>
<td>Ksh200001-250000</td>
<td>25</td>
<td>9.0</td>
<td>68.5</td>
</tr>
<tr>
<td>Ksh250001-300000</td>
<td>8</td>
<td>2.9</td>
<td>71.3</td>
</tr>
<tr>
<td>Above Ksh300000</td>
<td>80</td>
<td>28.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

However when asked the amount the banks offered a majority of the respondents accounting to 24% said that they got between Ksh50001-100000. The reason why they got this range may be due to the fact that majority of small and medium enterprises may not have tangible...
collaterals for example premises of their own as explained elsewhere in this report which could enable them get big funds. The table below further shows whether the SMEs have bought any more equipment since the start of business.

Table 4.4.3.5 Additional equipment since the business started

<table>
<thead>
<tr>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>197</td>
<td>70.9</td>
</tr>
<tr>
<td>No</td>
<td>79</td>
<td>29.1</td>
</tr>
<tr>
<td>Total</td>
<td>278</td>
<td>100.0</td>
</tr>
</tbody>
</table>

When asked about whether they had been able to buy any additional equipment which could be used as collateral in future majority said yes. This accounted to 70.9% of the respondents. This means that in future most small and medium enterprise could access even more funds from the banks to expand their business.

4.5 Problems in Accessing Financing to SME’S

Lack of collaterals by small and medium enterprise has been cited as one of major hindrances to the growth of these enterprises.

Table 4.5.1.1 Ever Applied For a Loan

<table>
<thead>
<tr>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>222</td>
<td>79.9</td>
</tr>
<tr>
<td>No</td>
<td>56</td>
<td>20.1</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Table 4.5.1.2 Reasons for loan not approved

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low profits</td>
<td>45</td>
<td>16.6</td>
</tr>
<tr>
<td>Lack of business plan</td>
<td>3</td>
<td>3.4</td>
</tr>
<tr>
<td>Lack of required minimum deposit</td>
<td>120</td>
<td>42.4</td>
</tr>
<tr>
<td>No guarantors</td>
<td>95</td>
<td>34.2</td>
</tr>
<tr>
<td>Lack of collaterals</td>
<td>50</td>
<td>17.8</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The study revealed that although majority accounting to 79.9% have ever applied for a loan most application were rejected due to the lack of required minimum deposit. It was noted that 42.4% of the respondents lacked required minimum deposit while 34.2% and 17.8% could either not get a guarantor or lack of collaterals. Low profits also contributed to the rejection of the loan application accounting to 16.6% of the respondents. However lack of business plan was not a big hindrance to accessibility of the funds for SME’S. This means for the accessibility of finance by SMEs, financiers should come up with other requirement such as revenue turnover so that most business can get credit.
4.5.4 Reasons for Not Applying for Loan from banks.

The table shows the varied reason which make some SME’S not apply for loans from banks.

Table 4.5.4 Reasons for not applying for loans from banks

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of business plan</td>
<td>28</td>
<td>10.4</td>
<td>10.4</td>
</tr>
<tr>
<td>Interest rate</td>
<td>104</td>
<td>37.1</td>
<td>57.5</td>
</tr>
<tr>
<td>Not aware the facilities existed</td>
<td>72</td>
<td>25.7</td>
<td>83.2</td>
</tr>
<tr>
<td>Low revenues</td>
<td>47</td>
<td>16.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

When asked why some do not apply for loans from the banks the respondents gave varied reasons. Of the 280 respondents 37.1% cited high interest as the reason why they don’t apply for loans from the banks while 25.7% said that they are not aware that banks can finance their operations.

4.6 The Implications of Credit financing To the Growth of the SMEs

Despite so many micro-financing institutions operating in Nyeri town and advancing finances to the SMEs most of the enterprises do not go long before collapsing. It was necessary therefore to know some of the implications of credit financing as far as the growth of SMEs are concerned. The study looked into various indicators of the growth in these sectors. These included the profit turnover, the additional equipment to facilitate business operations, and the number of employee employed over the last two years.
4.6.1 The profit turn-over

Profit turnover is viewed in this study as a good indicator to measure the stability of the business.

Table 4.6.1 The profit turn-over

<table>
<thead>
<tr>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>30</td>
</tr>
<tr>
<td>Moderate</td>
<td>51</td>
</tr>
<tr>
<td>Low</td>
<td>198</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
</tr>
</tbody>
</table>

The table 4.6.1 (a) shows the rate of profit turnover of the business operating in Nyeri town in the last two years. The study revealed that majority of the businesses in Nyeri town enjoys low profit. Of the 280 respondents the study targeted 69.7% said that they enjoy low profit turnover. This may explain why most of the businesses in the town were finding it so difficult to expand, hence have tended to remain small even after operating for a long time.

4.6.2 Additional equipment

Additional equipment was viewed in this study as an important in accessing the growth of the business in Nyeri town.
The table above shows that out of the 280 targeted respondents 57.5% had not added any extra equipment into their business in the last three years. This shows that there was minimal growth in the sector although most businesses were receiving moderate financing from micro-financing. The reason may be that most business may be using a lot their profits in servicing loans hence hindering their growth.

4.6.3 The number of employee

The numbers of employees employed over a period of time indicate the growth of a business. It was therefore necessary to look into how this indicator was used by the businesses operating in Nyeri town. The table below shows this.

Table 4.6.3 The number of employee

<table>
<thead>
<tr>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>63</td>
<td>22.6</td>
</tr>
<tr>
<td>No</td>
<td>217</td>
<td>76.4</td>
</tr>
<tr>
<td>Total</td>
<td>280</td>
<td>98.6</td>
</tr>
</tbody>
</table>
Of the 280 respondents majority of the respondents accounting to 76.4% said that they have not increased the number of employees in the last three years. This scenario further explains the slow growth of business in Nyeri town. Though there has been size able financing of the SMEs in Nyeri town majority have not witnessed the desired growth. This may due the burden of loans repayment which sometimes outweighs the benefits.
CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of the finding; conclusions reached and more so give the recommendations as per the response from the respondents. With the financing of small and medium enterprise becoming a more competitive endeavor, various institution involved in the provision of credit finance are using various tools and techniques to improve their performance.

5.2 Summary of Major findings

The study revealed that most of the businesses are service provider. An overwhelmingly majority of the targeted respondent said that 43.9% of the businesses are service provider, with 30.0% and 12.9 % being retailers and manufacturer respectively. This may be due to the fact that Nyeri town is predominantly a rural town with very few industries. Of 280 respondents, majority were female accounting to 60.4% with 39.4% being male. This may due to the fact that most businesses are owned and run by women.

Majority of the small and medium enterprises in Nyeri town are owned by secondary school leavers, who account for 50.7%, with 42.5% being graduates while only 6.8% have primary school education. This means that an overwhelming majority of the respondents are well educated. This may explain why most of the businesses in Nyeri town have been in operation for more than 5 years. An overwhelming majority of the targeted respondent said that 36.6% of the businesses have operated for long, while 19.4% and 19.7% have operated for period ranging between 3 and 5 years. The rest of respondent said that their business have operated for less than 2 years.
The study revealed that majority of the businesses accounting to 84.6% is operated on rented premises with only 14.4% of the premises are owned by the SME’S operators. This explains why it is difficult to start business in Nyeri town without the help of micro-finance banks.

Form the study it was noted that most of the businesses were getting good daily revenues while their expenses were low. This means that their business were giving good returns hence could use them as a bargaining chip when looking for credit. In fact 73.6% of the businesses daily revenues were between ksh5001-10000 which is a comfortable range, while the average expense range accounting to 83.6% of the business was below ksh5000. On the other hand majority of the business had an average stock value between ksh10001-20000. This accounted to 26.8% of the businesses operating in Nyeri town.

The study revealed that most of the enterprises had business plans. This accounted to 61.3% of the respondents while 74.9% said that they carry out market surveys. This means that many enterprises were likely to access financing from banks more easily since they seemed to show evidence of their activities and projections. It further explain why most enterprises start-up capital was sourced from banks with an overwhelming majority of the respondents accounting to 69% saying that they got the capital from the bank as a loan. However when asked the amount banks offered a majority of the respondents accounting to 24% said that they got between Ksh50001-100000. The reason why they got this range may be due to the fact that majority of small and medium enterprises may not have tangible collaterals for example premises of their own as explained elsewhere in this report which could enable them get big funds.
The study further revealed that although majority accounting to 79.9% have ever applied for a loan most application were rejected. It was noted that 42.4% of the respondents lacked the minimum required deposit while 34.2% and 17.8% could either not get a guarantor and lack of collaterals. However lack of business plan was not a big hindrance to accessibility of the funds for SME’S. This means that accessibility of finance to SMEs can be made easier if the financiers are able to come up with other requirement apart from guarantor. When asked why some do not apply for loans from the banks the respondents gave varied reasons. Of the 280 respondents 37.1% cited high interest as the reason why they don’t apply for loans from the banks while 25.7% said that they were not aware that banks can finance their operations.

5.3 Conclusions

Small and medium enterprises face major challenges in accessing credit finance from micro finance institutions. The study revealed that most of the businesses are service provider and very few are involved in manufacturing which may be due to the fact that Nyeri town is predominantly a rural town with very few industries. It was also noted that majority of the SME’S operators are women which account to 60.4% of the business in Nyeri town. The main hindrance to the accessibility of credit to SME’S the study revealed was minimum required deposit since most businesses were small with low turnover. Most businesses applications for loans were rejected on this ground. It was further noted that many SME’S were not applying for loans or not interested for financing due to the huge interest rate the banks were asking. However it was prudent that these institutions should come up with better ways of accessing the creditworthiness of an individual by considering the repayment period and to lessen the credit conditions.
The study also noted that start-up capital was sourced from institutions which were the bases to boost their business. However the amount institutions offered to majority of SMEs ranged between Ksh50001-100000 which affected the small enterprises. It was revealed that this range may be due to the fact that majority of small and medium enterprises may not have tangible collaterals for example premises of their own as explained elsewhere in this report which could enable them get big funds.

5.4 Recommendations

Based on the finding of the study the researcher can give the following recommendations:

- There should be more integrated approach in promoting and supporting SMEs especially to revamp existing policy and institutional framework to the industry to meet market demand.

- The SMEs should explore the equity financing as a mode that would give them a better leverage in the industry.

- In today business conscious society there is a need for a greater concern for impact on business development by putting more funds requirements on up coming business.

- The government should come up with an integrated training framework for SMEs to enable them adopt skills that would enable them become competitive in this sector with outside world.

5.5 Areas for further research

Although the study concentrated on various factors influencing credit financing of microfinance and the extent to which they give credit to SMEs there is a need to investigate further on other factors.
• The availability of financial services, informational flow and level of awareness, security needs, and interest rate should be researched in order to know their impact as far as credit financing of small and medium scale enterprise in Nyeri Town.

• The researcher also recommends micro-finance will allow and ease the conditions of SMEs in acquiring the finances to start-up.

• The government policy that seeks to distinguish between the impacts of SMEs in particular from policies that foster a competitive environment and property rights protection in general should also be researched.
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APPENDIX I

BUSINESS FINANCING QUESTIONNAIRE

Town/Estate/Market

1. Type of business
   i) Wholesaler [ ]
   ii) Manufacturer [ ]
   iii) Retailer [ ]
   iv) Service provider [ ]

2. Please give a description of the service/products you deal in.

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

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

GENERAL INFORMATION

1. Your gender [ ]
   (a) Male [ ]
   (b) Female [ ]

2. Highest level of education
   i. Primary [ ]
   ii. Secondary [ ]
   iii. University [ ]

3. State what training if any you have undergone in your type of business
   .............................................................................................................................
   .............................................................................................................................

4. For how many years have you operated your business?
   i. Less than 1 [ ]

60
5. In which category would your business premises fall?

   i. Owned [ ]
   ii. Rented [ ]

6. Which of the following ranges would your daily revenue fall?

   i. Below 5000 [ ]
   ii. 5001-10000 [ ]
   iii. 10001-15000 [ ]
   iv. 20001-25000 [ ]
   v. 250001-30000 [ ]
   vi. Over 30000 [ ]

7. In what range would your daily expenses fall?

   i. Below 5000 [ ]
   ii. 50001-10000 [ ]
   iii. 10001-15000 [ ]
   iv. 200001-25000 [ ]
   v. 250001-30000 [ ]
   Over 30000 [ ]

8. In which of the following ranges would your value of stock fall?

   i. Below 10000 [ ]
9. Do you have a bank account?

   i. Yes [ ]
   ii. No [ ]

10. Did you have a business plan?

    i. Yes [ ]
    ii. No [ ]

11. Had you carried out a market survey?

    i. Yes [ ]
    ii. No [ ]

12. What was the source of your start up capital?

    i. Friends [ ]
    ii. Relatives [ ]
    iii. Loan [ ]
    v. Personal saving [ ]
    v. Others specify ........................................

13. Indicate the range in which your startup capital would fall

    i. Ksh 500 [ ]
14. Since you started your business, have you bought any additional equipment?

**LOANS AND COLLATERALS**

15. Have you ever applied for a loan?
   
i. Yes [ ]
   
ii. No [ ]

16. If the answer above is yes to which source was the application made?
   
i. Bank (specify) .................................................................
   
ii. Non Government Organizations (specify) ..............................
   
iii. Development Financial Institution .....................................
   
iv. Micro Finance Institutions (MFI) (Specify) ........................
   
v. Savings and credit co-operations ........................................
   
vi. Employer’s loan ..............................................................
   
vii. Friends and relatives .....................................................

Others (specify) ........................................................................

17. If the loan was approved, for what purpose was the loan applied for?
   
i. For start up [ ]
   
ii. For expanding business [ ]
   
iii. For personal use [ ]
18. If your loan was not approved, why?

i. Lack of collaterals
ii. Low profits
iii. Lack of required minimum deposit
iv. Lack of business plan
v. Low revenues low net assets
vi. No guarantors
vii. Lack of financial records

Others (specify)

18. Have you increased the number of your employees in the last 2 years?

Yes [ ]
No [ ]

19. (a) Since you started your business have you bought any additional equipments to facilitate operations.

Yes [ ]
No [ ]

(b) Is your business running at a profit or at a loss?

Profit [ ]
Loss [ ]

(c) If at a profit how is the profit turnover?

(i) High
(ii) Moderate
(iii) Low
20. What recommendations would you make that will enhance continuous growth and sustainability of SMEs businesses in this town?

THANKS FOR YOUR CO-OPERATION