

3000/2

**ACCESSIBILITY TO FINANCING BY MICRO AND SMALL
ENTERPRISES IN KENYA
(A Case of Gikomba Market Nairobi)**

**BY
MUGAMBI LIPIO
D53/OL/1062/02**

**A Research Project submitted in partial fulfillment of the requirements
for the Degree of Master of Business Administration (MBA,
Entrepreneurship), Kenyatta University.**

KENYATTA UNIVERSITY LIBRARY

JANUARY 2007

Mugambi, Lipio
*Accessibility to
financing by micro*



2012/383715

KENYATTA UNIVERSITY LIBRARY

I declare that this is my original work and has not been submitted for examination in any other University.

Signature:  Date: 3-1-2007

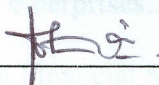
MUGAMBI LIPIO

This project has been submitted for examination with my approval as the University supervisor.

Signature:  Date: 23/1/07

DR. MARK O. OGUTU

CHAIRMAN, ACCOUNTING AND FINANCE DEPARTMENT.

Signature:  Date: 05.02.07

MR. D. NGABA

TABLE OF CONTENTS	PAGE
DECLARATION.....	i
TABLE OF CONTENTS.....	ii
OPERATIONAL DEFINITION OF TERMS.....	viii
LIST OF ABBREVIATIONS USED.....	ix
ABSTRACT.....	x

CHAPTER ONE

1.1	Background of the Study.....	1
1.2	Statement of Research Problem	3
1.3	Objectives of the Study.....	5
1.4	Research Questions	5
1.5	Significance of the Study.....	6
1.6	Scope and Limitation of the Study.....	6

CHAPTER TWO

LITERATURE REVIEW

2.1	Small scale enterprises.....	7
2.2	The Kenyan Financial Sector	9
2.3	Availability of Formal Credit to SME's.....	10
2.4	Commercial Banks.....	11
2.5	Development Finance Institutions.....	12
2.6	Cooperatives.....	12

2.7	Savings banks including post office savings bank.....	12
2.8	Savings and Credit Cooperative Societies (SACCOS).....	13
2.9	The Formal Subsidized System.....	13
2.10	Microfinance Institutions (MFI's).....	14
2.11	Government Agencies.....	15
2.12	Conceptual Framework.....	16
2.13	Summary of Literature Review.....	17

CHAPTER THREE

RESEARCH METHODOLOGY

3.1	Research Design	19
3.2	Population of the Study	19
3.3	Sampling Strategy	19
3.4	Data Collection Procedure.....	20
3.5	Data analysis.....	20

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.0	Introduction	21
4.1	The business sub sector.....	21
4.2	Gender of the respondents.....	22
4.3	Marital status.....	23
4.4	Business ownership.....	24

4.5	Number of employees.....	25
4.6	Formal education attainment.....	26
4.7	Attendance of business training.....	27
4.8	Legality of the business.....	28
4.9	The need for external finance.....	29
4.10	Opinion on borrowing.....	30
4.11	Effect of inability to acquire loans.....	31
4.12	Effect of borrowing to business.....	32
4.13	Application for a loan in formal lending institutions.....	33
4.14	Hindrance to expansion of business.....	34
4.15	Preferred source of lending.....	35
4.16	The intended use of borrowed funds.....	36
4.17	Sources of external finance during the business growth.....	37
4.18	Limitation to acquiring loans.....	38

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0	Introduction.....	40
5.1	Summary of findings.....	41
5.2	Recommendations.....	42
5.3	Limitations.....	44
5.4	Suggestions for further research.....	44

LIST OF TABLES

Table

4.1	The business sub sector.....	21
4.2	Gender of the respondents.....	22
4.3	Marital status.....	23
4.4	Business ownership.....	24
4.5	Number of employees.....	25
4.6	Formal education attainment.....	26
4.7	Attendance of business training.....	27
4.8	Legality of the business.....	28
4.9	The need for external finance.....	29
4.10	Opinion on borrowing.....	30
4.11	Effect of inability to acquire loans.....	31
4.12	Effect of borrowing to business.....	32
4.13	Application for a loan in formal lending institutions.....	33
4.14	Hindrance to expansion of business.....	34
4.15	Preferred source of lending.....	35
4.16	The intended use of borrowed funds.....	36
4.17	Sources of external finance during the business growth.....	37
4.18	Limitation to acquiring loans.....	38

LISTS OF FIGURES

Figure

4.1	The business sub sector.....	21
4.2	Gender of the respondents.....	23
4.3	Marital status.....	24
4.4	Business ownership.....	25
4.5	Number of employees.....	26
4.6	Formal education attainment.....	27
4.7	Attendance of business training.....	28
4.8	Legality of the business.....	29
4.9	The need for external finance.....	30
4.10	Opinion on borrowing.....	31
4.11	Effect of inability to acquire loans.....	32
4.12	Effect of borrowing to business.....	33
4.13	Application for a loan in formal lending institutions.....	34
4.14	Hindrance to expansion of business.....	35
4.15	Preferred source of lending.....	36
4.16	The intended use of borrowed funds.....	37
4.17	Sources of external finance during the business growth.....	38
4.18	Limitation to acquiring loans.....	39

REFERENCES.....45

APPENDICES

Appendix

I Micro Finance Institutions in Kenya.....46

II List of Commercial Banks in Kenya.....47

III Time Plan.....50

IV Budget plan.....51

V Cover Letter.....52

VI Questionnaire53

OPERATIONAL DEFINITION OF TERMS

Small and Medium Enterprises (SME's) - For the purpose of study. SME's, refer to independent unit employing 1 - 9 persons and these undertaken in the open market place, market stall, shopping centers, temporary structures and street parameters (GOK 1996).

Different countries have different cut offs on what can be considered small, medium or even large. For the purpose of this research, SME's are considered as those that are independently owned, do not dominate in their field of operation, and employ 1 - 9 employees.

Entrepreneur - Refers to a person who is able to identify business opportunities, mobilize the necessary resources and initiates a business actively hoping it will be successful.

Formal financing -Refers to credit advanced by formally established financial institutions like Commercial banks, DFIs, NBFIs, and Building societies, Insurance companies among others.

Informal financing - Refers to the financing activities that take place outside the ambit of institutional finance like moneylenders, rotating savings and credit associations among others.

LIST OF ABBREVIATIONS USED

MSE's	- Micro and Small Enterprises
SME's	- Small and Medium Enterprises
SSE's	- Small Scale Enterprises
GOK	- Government of Kenya
KIE	- Kenya Industrial Estates
ICDC	-Industrial Commercial Development Corporation
NBFIS	- Near Bank Financial Institutions
DFIS	- Development Financial Institutions
SACCO's	- Savings and Credit Cooperative Societies
KREP	- Kenya Rural Enterprise Program
KWFT	- Kenya Women Finance Trust
NGO'S	- Non Governmental Organizations

ABSTRACT

Small and Medium Enterprises (SME's) are important for raising the economic efficiency of a country. They are breeding grounds for entrepreneurship, innovations and inventions hence a reservoir for employment. Sustainable jobs, creates income which in turn reduces the level of poverty. In Kenya, the SME's have not grown to any notable impact often citing lack of finance. The Kenyan financial system is marked by a dualistic structure. It is characterized by the existence side by side of formal and informal financial markets. The informal suppliers of credit make up in part for the provision of the financial services. This then raises the issue on what determines whether the financial institutions will advance to the SME's credit.

The objective of the study was to investigate the accessibility to financing availability by SME's in Kenya, with a special reference to Gikomba Market in Nairobi. The constraints faced in accessing formal credit and the awareness of the financing from the formal sources to the SME's was addressed. The study was intended to be of help to individual entrepreneurs, investors, banks, micro finance organization, and the government as well as other researchers and in creating and facilitating enabling credit policies to SME's in Kenya.

The study used stratified random sampling and then applied the simple random sampling to select respondents from the selected stratas. There were 10 categories of respondents or stratas where 10 respondents were picked randomly from each category and therefore, 100 respondents were studied. Data was gathered using questionnaires, and observations.

The data was analyzed by using statistical package for social sciences (SPSS). It was then presented in tables, graphs, and pie chart and cross tabulations. Based on the findings, data and descriptive statistics were provided as well as the conclusions of the findings and recommendations.

The research results revealed that institutional credit to SME's has been substantially used despite the current strong interest of the credit. Interest rates, collateral requirement, cumbersome documentation and time involved were investigated and were found out to be some of the factors constraining access to formal credit.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises, (SME's) have been of special attention to organizations and governments worldwide especially in developing countries. In Kenya, they have been considered important because of job creation, generation of revenue to the government and enabling the sustenance of the individual and the growth of trade and supplying of goods and services (GOK 1997).

SME's generate more direct jobs per dollar of investment than do large enterprises. They serve as a ground for developing technical and entrepreneurial skills and by virtue of their greater use of indigenous technological capabilities; they promote local inter-sectoral linkages and contribute to the dynamism and competitiveness of the economy (Aryeetey, 1997).

One of the major development constraints faced by the SME's is lack of access to adequate credit. The main research question to this study is therefore: How can the access of SME's to credit be improved. The Kenyan financial system is marked by a dualistic structure, namely the formal and informal financial sector. The informal sector suppliers make up in part of this lack of financial services; however, they are not adequate (World bank, 1999).

Simply making credit available will not result in a significant investment if other factors are absent. Such factors include markets at remunerative prices, adequate infrastructure, availability of raw materials and other sources of competitive prices and existent of technical and organizational system of production. When these factors are present at the appropriate levels, however, credit can serve as a powerful catalyst in hastening the rate of growth.

SME's are reputed to be behind most of the socio-economic transformation in South East Asia and likewise they play a significant role in Kenyan development process. Creating access to reasonably priced financial services has been identified as an effective strategy to promote small-scale and medium enterprises growth (Sessional Paper No. 1, 1992).

The Kenyan government has openly encouraged SME's either directly or indirectly through other organizations and parastatals such as Kenya Industrial Estates (KIE), Industrial Commercial Development Corporation (ICDC) to name a few. In Sessional Paper No. 1 of 1986, the government stated that

- i. The bulk of the jobs to be created between then and this year, 2004, were to come from the micro and small enterprises sector.
- ii. Future industrial development of Kenya will depend on the development of small and medium enterprises in the informal sector.

A world bank discussion paper no 251 of 1999 on the demand for finance based on studies in Ghana reveals that entrepreneurs readily identify the need for working capital to be a major constraint and adds that it has often been construed rightly or wrongly by

some researchers to be a reflection of other pressing problems such as lack of managerial training and market saturation.

The lack of access to credit does curtail the exploitation of highly profitable opportunities. Growth in the small-scale sector would be accelerated, if external financing were more readily available. High rates of application for loans and the willingness to pay above market rates of interest indicate strong excess demand (World Bank, 1999).

Despite some efforts to extend loans under the World Bank financed credit schemes, banks have done little to improve their information base and appraisal capacity for these clients. They instead tend to under estimate bankable demand for credit because they have not developed techniques for overcoming high transaction costs and risks that will emerge when collateral base is substituted.

1.2 Statement Problem

Numerous problems hinder the growth of (SME's) in Kenya. Among them is lack of credit, over liberalization of the economy and difficulty in access to advisory services and research findings (Nalwelisie, 2003).

The issue of inadequacy of credit is prominent in developing countries; affecting the SME's. This pertains mostly to credit from formal financial institutions. Many firms fear that they will be denied the formal loans from the financial institutions especially due to

the tedious and difficult application process. Most SME's resort to traditional sources of finance like personal savings, borrowing from friends, relatives and inheritances. Most SME's have poor collateral base and are excluded from the credit market (Steel 1992).

A shift from informal and internal sources would be expected as enterprises graduate to larger sizes. It is likely that poor access to formal loans and non-suitability of informal loans to some firms limits the use of credit by firms wanting to expand. Despite this the formal institutions have generally remained reluctant to enlarge their lending to smaller enterprises citing the risks involved (Ng'ang'a 2001)

Although many times when an enterprise can successfully borrow from formal sources, they may decline to borrow from formal sources because of limited ability to comprehend debt. Management and costs of borrowing fear of related potential hidden costs, previous disastrous experiences with financial institutions and others due to cultural norms discouraging borrowing. SME's base line survey in Kenya has shown in Kenya, only six percent of SME's have successfully applied for and used credit. The major question is how do the rest who form the majority raise their working capital and meet their investment needs? (GOK 1999)

Despite the many studies on, SME's few have addressed credit financing from formal institutions. This research particularly aimed at establishing the factors that determines availability of financing to the SME's.

1.3 Objectives of the Study

The study mainly investigated the determinants to the formal sources of financing availability to SME's in Nairobi, Kenya.

Specifically, the study intended to:

- i. To identify credit facilities in the formal financial sector obtainable by the SME's and to identify the sources of working capital available to SME's in Nairobi.
- ii. To establish the degree to which each of the factors influence the amount of credit accessible to the traders and to determine the level of dependence on other sources of finance/credit other than formal credit from banks and financial institutions.
- iii. To identify the constraints faced by SME's when seeking external finance
- iv. To make relevant policy recommendations to enhance the formal financing of the SME's and increase accessibility to credit.

1.4 Research Questions

The study sought to answer the following questions

- i. What are the sources of working capital available to SME's in Nairobi?
- ii. What is the degree to which each of the factors identified above influence the amount of credit accessible to the traders?
- iii. Which constraints are faced by SME's when seeking external finance?
- iv. What are the relevant policy recommendations to enhance the formal financing of the SME's and increase accessibility to credit?

1.5 Significance of the Study

The study will be of help to the individual entrepreneurs, potential investors, banks, micro finance organizations, the government and other researchers. SME's will be able to analyze the study results. Banks will be able to use the findings to set appropriate interest rates to attract the SME's.

Micro finance organizations will use the findings to build a better structural basis to tap this form of investors. Government and other policy makers will use the findings to create and facilitate enabling credit policies for SME's in Kenya.

1.6 Scope and Limitations of the Study

Nairobi was selected as the focus of the study. This is because in Nairobi, the small scale enterprises represents more than 60% of the town's employer in jua kali and other informal businesses.(GOK, 2000) .Nairobi is the capital city of Kenya and a hub of so many SME's. The population has recently tremendously risen and it's believed that both small-scale sector and the financial sector will rise in number to meet the needs of the growing population.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Small and Medium Enterprises in Kenya

Small and medium enterprises' (SME's) activities have become an important player in the Kenyan economy in the recent past. Small-scale enterprises (SSEs) generate more direct jobs per dollar of investment than do large enterprises. They serve as a training ground for developing technological capabilities and entrepreneurial skills and by virtue of their greater use of indigenous technological capabilities. They promote local inter-sectoral linkages and contribute to the dynamism and competitiveness of the economy (GOK, 1994).

Improving the availability to credit to this sector is one of the incentives, which have been proposed for stimulating its growth and the realization of its potential contribution to the economy. Despite the emphasis on the existing institutional problems, especially the lending terms and conditions, which limit the access of these enterprises to credit facilities, have not been adequately addressed.

Hillier, L (1993) in his study on small and medium scale enterprises in Ghana found out that large population of enterprises identify inadequate access to finance as a paramount concern. The study conducted for World Bank, gathered the following information on the nature of SME's demand for finance in relation to the firm performance;

- i. Small enterprises are often distrustful of banks
- ii. They are skeptical about their chances of getting credit in most institutions.

iii. They are reluctant to undergo the loan application process. They think it takes too long and is very rigorous.

They also analyzed data on financing the SSEs. They sought questions on;

- i. What extent do they make use of banks and formal financial institutions?
- ii. How actively do they seek external finance and what terms they are seeking?

A study by Ndiragu, S (2001) on the constraints to financing to SSE's asserts that policy liberation and the institution of small-scale credit program has not been sufficient to generate substantially more lending to these firms. The decline in the providence of formal credit to these enterprises has continued. Respondents cited the cumbersome documentation and the repeated request to seek more information as major obstacles because small enterprises can ill afford the time involved since the delay meant opportunities missed.

Muchai (1999) in, his survey on the causes of failure of small enterprises cited lack of capital and related financial problems as one of the main causes. In his study on smallholder dairy farmers in Kikuyu and Limuru, most of the surveyed enterprises indicated that if finance was more adequate their business could perform better. According to the survey, 42.5 % needed financial assistance but lacked collateral and 15% cited other problems by banks and financial institutions like short paying period and bad experience with a past loan.

Kiiru et al (1998) identified characteristics of small-scale entrepreneurs that restrict their access to credit. He asserts that

- i. Most enterprises lack experience of dealing with formal financial institutions. They are unaware of variations in terms and conditions of repayment of loans and the implication in the business.
- ii. Most of them do not have a recognizable credit history and are perceived to be in the high-risk category.
- iii. They are not able to prepare business plans that are suitable for a bank need, if the financing institutions need them.
- iv. Raising collateral and security is a major problem.
- v. The sector is extremely heterogeneous and it is difficult for financing institutions to issue general guidance to its lending officers regarding the loans.
- vi. Most of them have no management training and this has reduced their credibility with most bankers.

2.2 The Kenyan financial sector

Kenya has a diversified financial systems, comprising of a central bank, over 40 commercial banks, 72 near Bank Financial Institutions (NBFIS), 38 building societies, 69 hire purchase companies, 11 development financial institutions(DFIS), 36 Insurance Companies, 80 Insurance Brokers and Nairobi Stock Exchange (GOK, 2000). Formal Institutional Credit to SME's has not increased.

Informal financial sector refers to those financial activities that take place outside the ambit of institutional finance. A variety of individuals or entities may be involved in this sector, moneylenders and such traditional financial entities as rotating savings and credit association (ROSCAS) are considered part of informal sector (Chandavarkar, 1985).

This sector is also called the non-institutional, or the unorganized financial sector, but the term 'informal' is probably more appropriate given the informality of the financial activities.

2.3 Availability of Formal Credit to SME's

The institutions that comprise the formal financial sector in developing countries develop an array of different features and characteristics, which to an extent reflect the types of policy objectives pursued by the government. Ownership may be private public or a combination. In some instances particularly with commercial banks and insurance companies, foreign ownership may predominate.

One feature common to all formal financial institutions, however, is that they are subjected to varying degrees of central bank control. Such controls include interest rates and loan portfolio ceilings; cash reserve requirements, foreign exchange controls and selective credit policies.

In many developing countries central bank controls particularly those related to interest rates can be exaggerated by the existence of an oligopolistic banking system and lead to

phenomenon of financial repression whereby the financial needs of the large established urban borrowers are well served but the small urban and rural borrowers have limited access to formal credit and must depend on the informal financial sector (Steel and Takagi, 1983).

In Kenya, not all institutions in the formal financial sector are relevant to the small-scale rural entrepreneur, so this section concentrates on those considered significant.

2.4 Commercial Banks

As a source of finance to SME's, commercial banks view the SME's as high-risk borrowers, thus increasing the importance of collateral security. The small loan sizes imply high unit administrative costs, aggravated, at times by the geographical dispersion of potential clients. Also given the characteristics of the funds held by commercial banks, with most being in form of current liabilities, there is an obvious tendency to lend only for most periods. (Green, 1970).

Nevertheless, the small entrepreneurs themselves frequently view commercial banks as unattractive source of credit. The complex procedures, alien attitudes of bank staff, high transaction costs and high collateral requirements effectively reduce the accessibility of commercial bank credit. Access to commercial bank credit to majority of SME's is severely restricted unless these adverse circumstances are mitigated by intervening factors (Green, 1970).

2.5 Development Finance Institutions

Due to the inability of commercial banks to meet, the financial needs of large sections of borrowers in Kenya resulted to formation of public or quasi-public Development Finance Institutions (DFI'S).

The long-term maturity of the portfolios of DFI reduces the inability to generate new loan resources from loan capital repayments and SME's suffer particularly because they cannot get further credit from commercial banks after their limited collateral is already tied up with a medium or long-term loan from a DFI.

2.6 Cooperatives

This is another institutional form favored by the government. In practice, however the practice performance of many cooperatives suffers from high rates of loan delinquency, accounting and administrative inefficiency, and political interferences and at times virtual control by the rural elite (Robert, 1979).

2.7 Savings banks including post office savings bank

They operate like cooperatives, operating through a rural branch, network. They provide a useful financial service to small and medium enterprises. They attract small savers who are not properly serviced by commercial banks. (Desmond 2002)

2.8 Savings and credit cooperative societies (SACCOS)

SACCOS are established under the cooperative societies act and are an important form of financial intermediary, which over the years has played a vital role in provision of financial services to their members. The societies accept monthly payment for shares from which, members may borrow an amount equivalent to three times their own savings if they can get other members to guarantee them.

Growth in SACCOS over the last twenty years has been spectacular. The number of SACCOS rose from 630 in 1978 to 3169 by the end of 1997. Over the same period, Savings and share capital rose from Ksh 375 million to Ksh 29 billion by April 1999. Credit outreach similarly recorded significant growth, having risen from Ksh 357 million in 1978 to Kshs 22 billion by April 1999. Their rapid growth indicates a filled need, which has not been met by other financial, institutions. (GOK 1999)

2.9 The Formal Subsidized System

The formal subsidized system comprises of organizations or institutions, which provide financial services and receive subsidies in different forms. The main institutional actors are micro finance NGOs with credit programs for SSEs who benefit from foreign aid agencies. They receive grants from donors to meet operational cost. As institutions, they are formal. Their operations are however not regulated despite being formal institutions. They normally target people with low or very low incomes. In mid 1970s though, neo-classical economist identified this programmes as failures. They pointed out that subsidized interest rates led to excess demand for credit followed by rationing of credit,

thus causing distortions in the market. Further access to subsidized credit was skewed to the wealthier rural populations there by leading to less optimal allocation of investment funds.

In the 1980s, a number of NGOs introduced alternative credit delivery mechanisms of loans without the requirement of tangible collateral. These micro credit programmes unlike previous efforts by the government have developed overtime and succeeded in accessing financial services to the poor and achieving high repayment rates (Parker and Torres 1993).

2.10 Micro finance Institutions

This organizations range from small charitable units operating in a limited geographical area to large institutions covering vast tracts of the country for a variety of development and welfare activities. Increasingly organizations have emerged whose sole objective is providing financial "services to micro and small enterprises, for example the K-REP, Kenya women finance trust KWFT and Faulu Kenya. NGOs can develop micro finance assistant models that are cost effective and lead to sustainability. Many have adopted the principle of the Grameen Bank of Bangladesh with this aim in mind. Some of the most serious weaknesses of NGOs credit schemes are related to the method of funding, nearly all are donor based supported or sponsored. Donors often provide facilities and create a cost base, which the NGOs cannot sustain on their own. The schemes therefore last only as long as the donor is willing and able to support them. (Dondo, 1999).

2.11 Government Agencies

The earliest government sponsored financial support for micro enterprises predates independence and was meant to let African entrepreneurs into commerce from which they were previously excluded. The first independent government pursued this policy sometimes as Africanisation or Kenyanisation policy.

The main trust was to remove the bottlenecks of which lack of credit was considered the most important impediment by entrepreneurs into accessing capital. The principle institutions that support SSEs with credit are;

- i. Kenya industrial estates KIE
- ii. Industrial and commercial development corporations ICDC
- iii. District joint loans board
- iv. Kenya tourist development corporation KTDC

Credit whether in cash or in kind, has been reported to play a crucial role in investment decisions of individuals and business enterprises (Ekpenyong and Nyong, 1992) however Bhalt (1989) notes that credit markets are inherently imperfect in the sense that there is no certainty about the completion of a credit transaction. A credit transaction involves a relationship between a lender and borrower in time (hence in the context of uncertainty). A credit transaction is completed only when the borrower repays the amount borrowed and there can be no certainty about this repayment. This therefore makes eligibility requirements very high. The eligibility requirements such as collateral or guarantees usually prevent poor individuals and SSEs from having access to institutional credit.

However, significant changes in the design and provision of institutional credits have taken place to enhance credit availability to the needy poor and SSE'S during the last two decades. A plethora of distinct types of financial credit organizations have emerged including cooperatives, multi-purpose development agencies with credit responsibilities (finance houses), and NGO - based financial credit programmes

2.12 Conceptual Framework

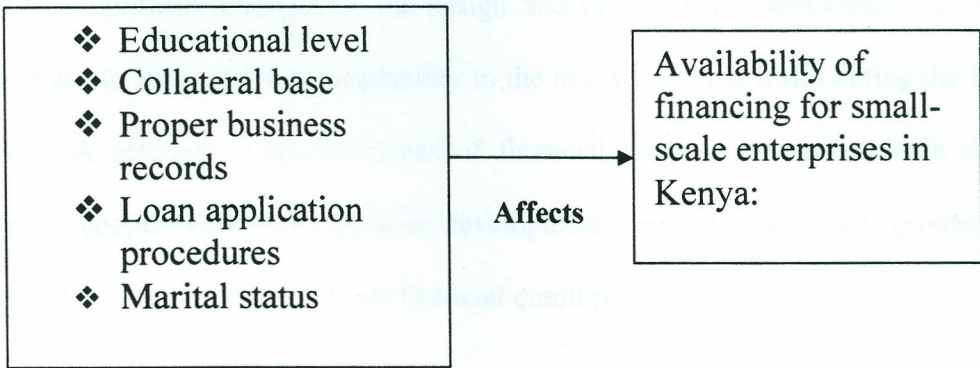
In this study, the determinants to formal financing were taken to mean those factors that guide the financial institutions in deciding whether to advance credit to these SME's and to what extent.

The factors that determine the accessibility of credit from the formal institution include educational level, collateral base, proper business records among others (Sessional paper 2, 1992). Loan application procedures are complex, confusing and even intimidating to people with little formal education. Failure to fill the forms as required by the lenders reduces the chance of applicants from getting the required credit.

Most institutions also assume that education of an entrepreneur is a determinant of how effective he or she will utilize the borrower loan. Dondo (1994) observed that traders with good education background for instance understand the dynamics of economy and stands a better chance of getting more loans. Lack of collateral limits the capacity to borrow as most financial institutions don't give unsecured loans to small-scale

entrepreneurs (Sessional paper 2, 1992). Marital statuses of entrepreneurs have been shown to be an important factor in accessibility of credit and control of the business enterprise (Parker, 1993).

Fig 2.12: The Conceptual Framework



Independent Variables

Dependent Variable

Source: Researcher (2006)

2.13 Summary of Literature Review

Credit whether in cash or in kind, has been reported to have played a crucial role in investment decisions of individuals and business enterprises (Ekpenyong and Nyongo, 1992) however Bhalt (1989) notes that credit markets are inherently imperfect in the sense that there is no certainty about the completion of a credit transaction. A credit transaction involves a relationship between a lender and borrower in time (hence in the context of uncertainty). A credit transaction is completed only when the borrower repays

the amount borrowed and there can be no certainty about this repayment. This therefore makes eligibility requirements very high. The eligibility requirements such as collateral or guarantees usually prevent poor individuals and SSEs from having access to institutional credit.

However significant changes in the design and provision of institutional credits have taken place to enhance credit availability to the needy poor and SSE's during the last two decades. A plethora of distinct types of financial credit organizations have emerged including cooperatives, multi-purpose development agencies with credit responsibilities (finance houses), and NGO - based financial credit programmes.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

The researcher adopted an exploratory research design to assist in attaining primary data to test to answer questions concerning the status of the issue under investigation. The study also adopted a descriptive research design to collect or gather secondary data for the study. This data was obtained through a library research of analysis of books, journals, several government sessional papers and the Internet. The purpose of the descriptive research was to determine and report the way issues are.

3.2 Population and Sample of Study

The sample for the study was drawn from the population of small-scale entrepreneurs based in Gikomba market Nairobi. Sectors covered included open-air market operators, such as; retail shop owners, mechanics, metalworkers, carpenters, butchers or meat sellers, fresh food sellers and green grocers, fishmongers, dress makers and second hand clothes sellers.

3.3 Sampling Strategy

Stratified Random sampling technique was used. The goal was to achieve desired representation from various subgroups in the population. The population of small and micro enterprises was divided on criterion of the different sub sectors for example mechanics, carpenters, and retail shops and so on.

Then a sample of 10 respondents was chosen from every stratum using random sampling method. An attempt was made to cover all available sectors in the region. It is intended that the sample size was approximately 100 entrepreneurs.

3.4 Data Collection Procedure

The study employed both primary and secondary data. Primary data was derived through administration of questionnaires. Secondary data was gotten from existing literature. Questions included were open-ended and closed-ended. The Questionnaires were self administered to the sampled respondents. Open-ended questions were used to solicit qualitative data and suggestions while closed ended questions sought to obtain quantitative data for statistical analysis.

Questions asked focused on both entrepreneurs and other business characteristics, which formed the core of the study. The questionnaires were dropped and picked later. Where the respondents were illiterate, questionnaires were administered orally.

3.5 Data analysis

Data for this study was analyzed using measures of central tendencies like mean, modes and median and with the help of SPSS (statistical package for social sciences); the data was presented in charts, graphs, tables and cross tabulations to allow easy interpretation, conclusion of the findings and finally recommendations of the study.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the data analysis and their interpretations. The researcher obtained information from 90 respondents while 10 of them did not respond to the questions giving a response rate of 90%. This response rate is considered quite significant to provide reliable findings for this study.

4.1 The business sub sector

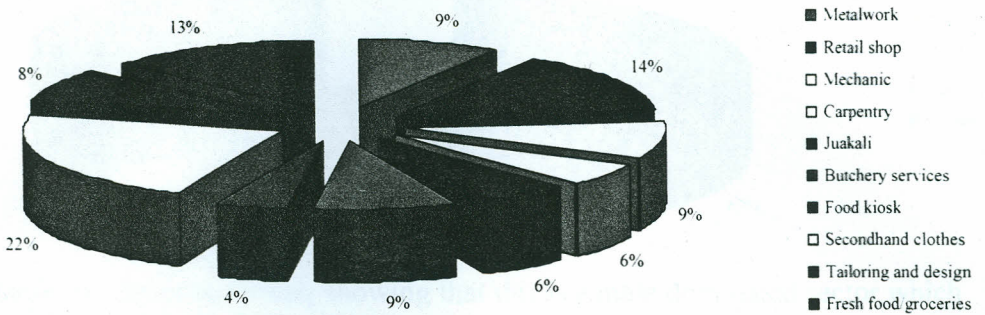
Table 4.1

The business sub sector

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Metalwork	8	8.9	8.9	8.9
Retail shop	13	14.4	14.4	23.3
Mechanic	8	8.9	8.9	32.2
Carpentry	5	5.6	5.6	37.8
Juakali	5	5.6	5.6	43.3
Butchery services	8	8.9	8.9	52.2
Food kiosk	4	4.4	4.4	56.7
Secondhand clothes	20	22.2	22.2	78.9
Tailoring and design	7	7.8	7.8	86.7
Fresh food/groceries	12	13.3	13.3	100.0
Total	90	100.0	100.0	

Figure 4.1

The business sub sector



Majority of the respondents were from the second hand clothes sub sector(22%) followed by those in retail shops(14%), fresh food and groceries (13%) while the remaining sub sectors, had the other percentages with tailoring and design having the least percentage of (4%).

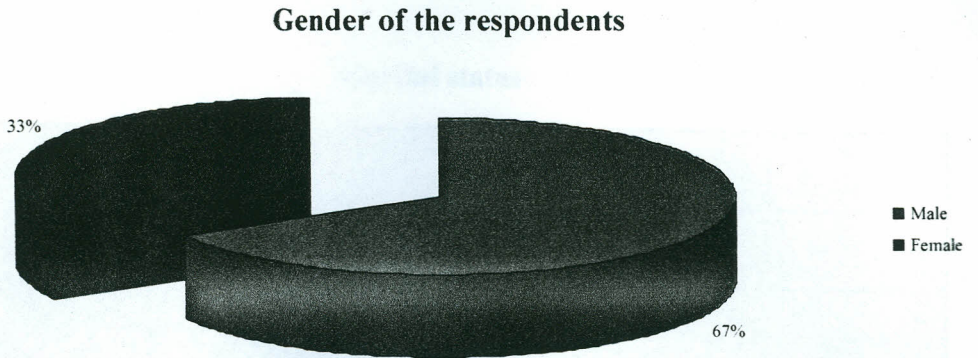
4.2 Gender of the respondents

Table 4.2

Gender of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	60	66.7	66.7	66.7
	Female	30	33.3	33.3	100.0
	Total	90	100.0	100.0	

Figure 4.2



Most of the respondents were male showing that this is a male dominated sector which the male have a great percentage of 67% while their female counterpart have a percentage of 33%. This is a challenge to the female who should join the industry so that we can have equitable contribution by all the genders.

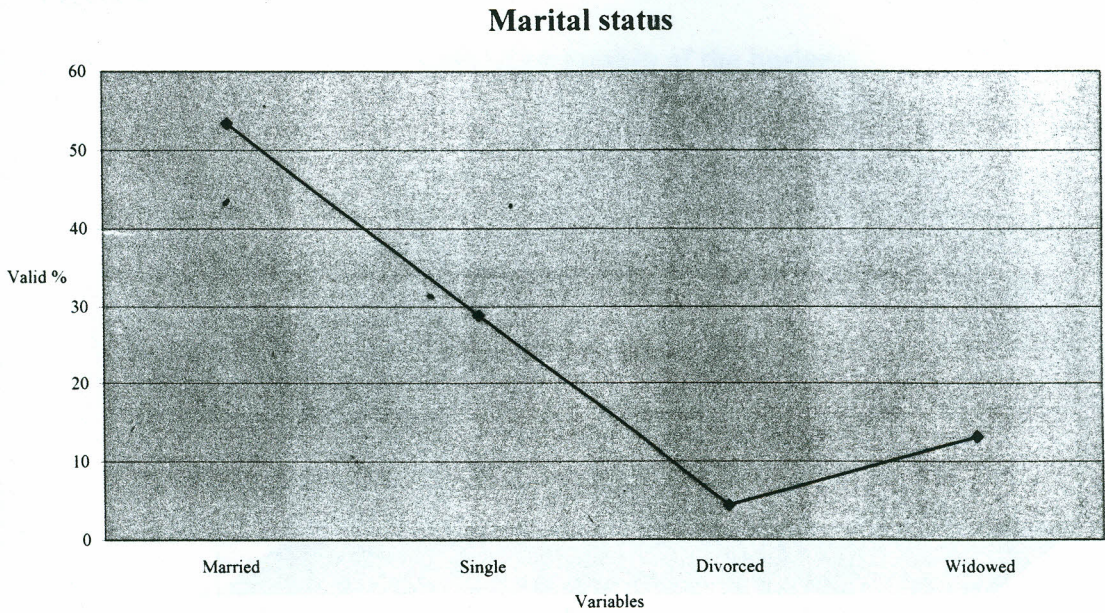
4.3 Marital status

Table 4.3

Marital status

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Married	48	53.3	53.3	53.3
Single	26	28.9	28.9	82.2
Divorced	4	4.4	4.4	86.7
Widowed	12	13.3	13.3	100.0
Total	90	100.0	100.0	

Figure 4.3



A high percentage of 53% of the respondents said that they were married when asked about their marital status. 28.9% of the respondents said they were single while 13.3% said they were widowed, the remaining 4% said they were divorced.

4.4 Business ownership

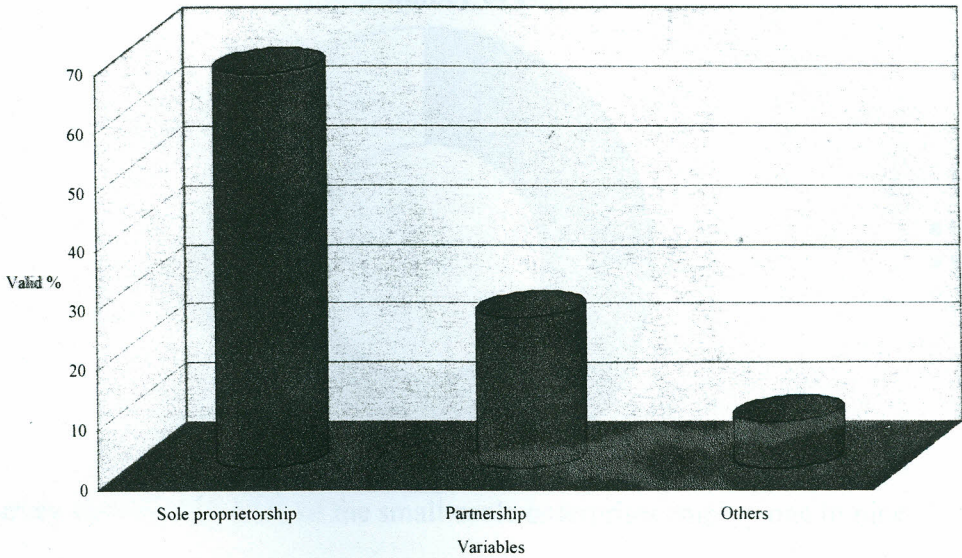
Table 4.4

Type of ownership of the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sole proprietorship	60	66.7	66.7	66.7
	Partnership	23	25.6	25.6	92.2
	Others	7	7.7	7.7	100.0
	Total	90	100.0	100.0	

Figure 4.4

Type of ownership of the business



The major type of business practiced is the sole proprietorship (66.7%) while the 25.6% said they practice the partnership and the remaining 7.7% of the respondents said that they had other type of business ownership.

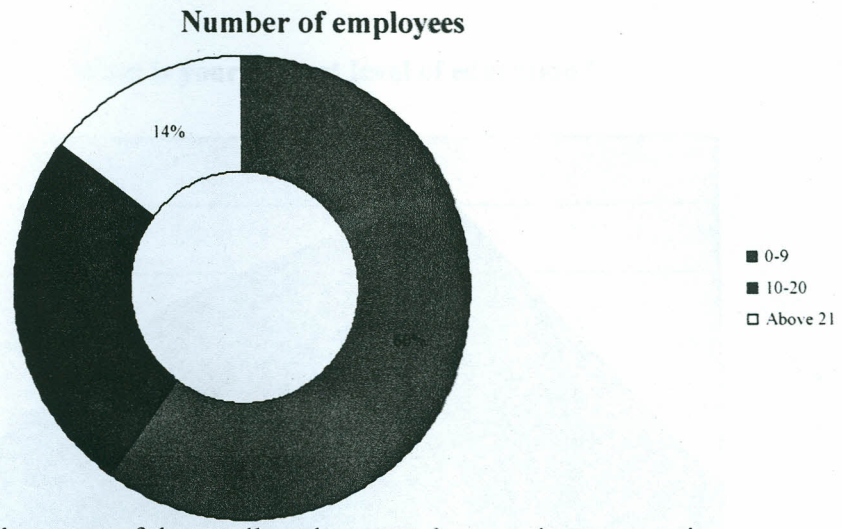
4.5 Number of employees

Table 4.5

Number of employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0-9	54	60.0	60.0	60.0
10-20	23	25.6	25.6	85.6
Abive 21	13	14.4	14.4	100.0
Total	90	100.0	100.0	

Figure 4.5



The survey showed that most of the small-scale enterprises employ one to nine employees, taking 60 percent and those who employ 10-20 employees had 26% whereas 14% others employ more than 21 employees .

4.6 Formal education attainment

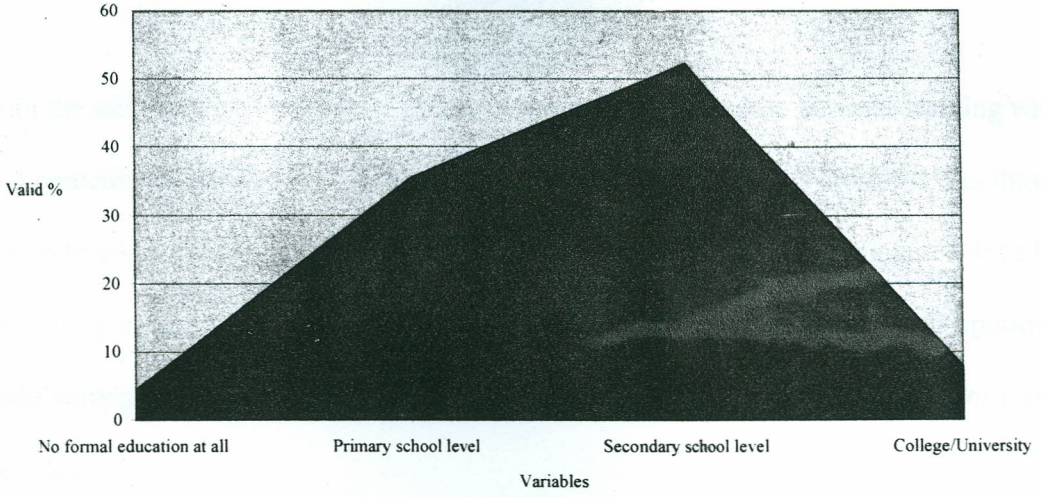
Table 4.6

What is your highest level of education?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No formal education at all	4	4.4	4.4	4.4
Primary school level	32	35.6	35.6	40.0
Secondary school level	47	52.2	52.2	92.2
College/University	7	7.8	7.8	100.0
Total	90	100.0	100.0	

Figure 4.6

What is your highest level of education?



According to findings, 7.8 percent of all the respondents had gained some college / university level education whereas, 52.2 percent had gone through secondary level and only 35.6 percent had gone through primary schooling while the remaining 4.4% had no formal education.

4.7 Attendance of business training

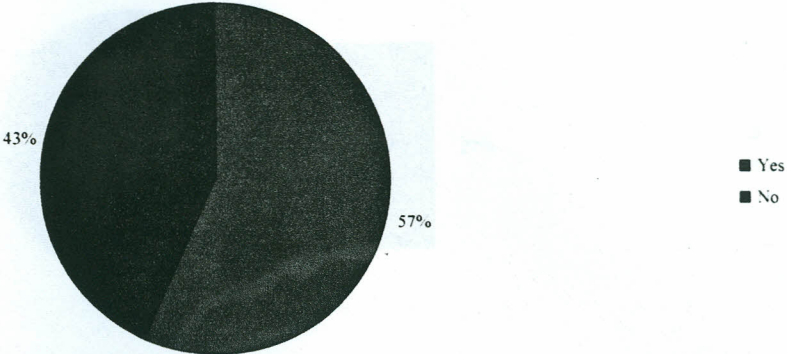
Table 4.7

Have you undergone any business training?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	51	56.7	56.7	56.7
	No	39	43.3	43.3	100.0
	Total	90	100.0	100.0	

Figure 4.7

Have you undergone any business training?



From the table 56.7 percent of the respondents had attended some business training while 43.3 percent had not attended any training. Most of the respondents indicated that they had undergone some form of business training. It was also observed a big percentage had not undergone any training. Most of those who had undergone training in their opinion on credit were positive with many indicating they didn't mind it or they could opt for it if provided.

4.8 Legality of the business

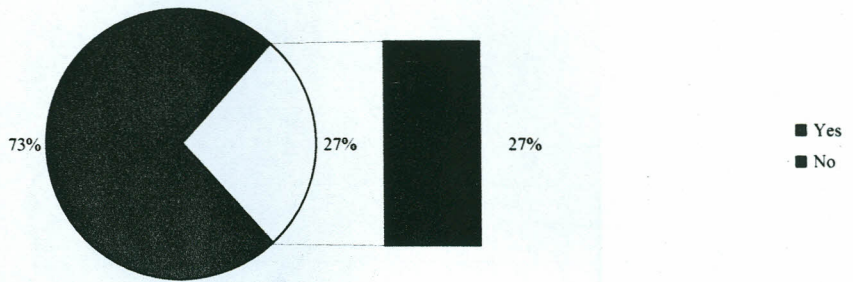
Table 4.8

Is your business legally registered?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	66	73.3	73.3	73.3
	No	24	26.7	26.7	100.0
	Total	90	100.0	100.0	

Figure 4.8

Is your business legally registered?



Findings indicate that 73.3 % of the firms had acquired a license from the local authority while 26.7 % were operating without licenses. Some of the respondents found the question too personal and declined to answer.

4.9 The need for external finance

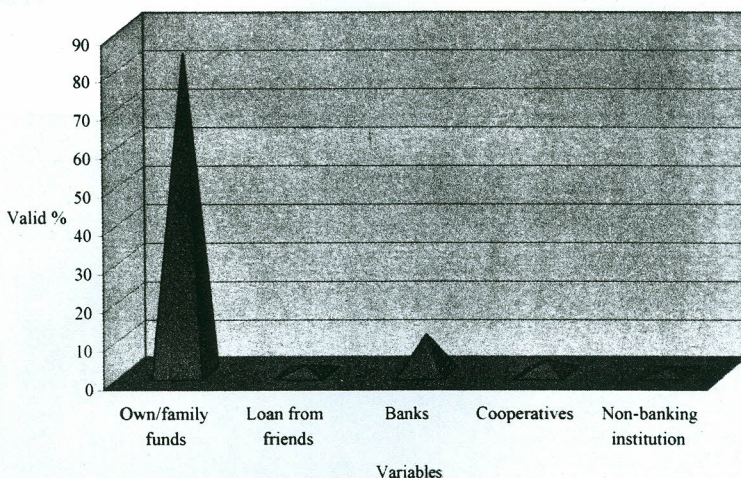
Table 4.9

How did you acquire your initial capital?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Own/family funds	75	83.3	83.3	83.3
Loan from friends	2	2.2	2.2	85.6
Banks	9	10.0	10.0	95.6
Cooperatives	3	3.3	3.3	98.9
Non-banking institution	1	1.2	1.2	100.0
Total	90	100.0	100.0	

Figure 4.9

How did you acquire your initial capital?



The survey indicates that owners' equity constitutes the major source of finance during business startup. Most of the enterprises, 83.3 % were funded by the owner, only 10 % were able to acquire loans from banks and 3.3 % of the firms were funded by the cooperatives. The remaining used informal sources and non-bank institutions.

4.10 Opinion on borrowing

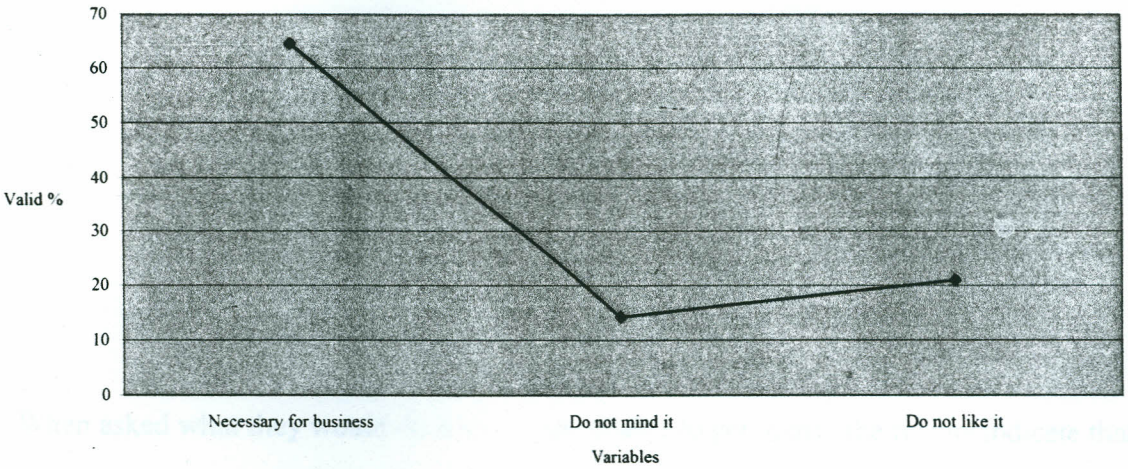
Table 4.10

What would be your opinion about borrowing?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Necessary for business	58	64.4	64.4	64.4
Do not mind it	13	14.4	14.4	78.9
Do not like it	19	21.1	21.1	100.0
Total	90	100.0	100.0	

Figure 4.10

What would be your opinion about borrowing?



From the analysis above, 64.4 % of the respondents thought that borrowing is necessary for business, 14.4 % were indifferent and 21.1 % of them didn't like it. This shows the SME's' demand for credit and their opinion on it despite the few of them who access to it. It was noted that majority of the SME's would opt for credit if it was made more accessible to them.

4.11 Effect of inability to acquire loans

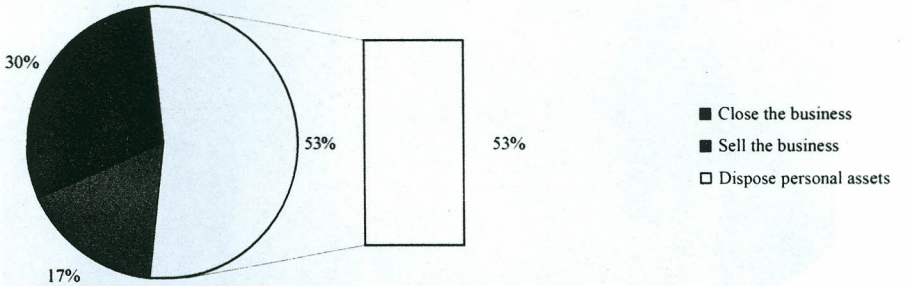
Table 4.11

What would you do if you are unable to get a loan?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Close the business	15	16.7	16.7	16.7
Sell the business	27	30.0	30.0	46.7
Dispose personal assets	48	53.3	53.3	100.0
Total	90	100.0	100.0	

Table 4.11

What would you do if you were unable to get a loan?



When asked what they would do if they were unable to get loans, the results indicate that 53.3 % of the respondents would dispose personal assets, 30 % would sell off the business and 16.7 % would take adverse measures like closing down their business.

4.12 Effect of borrowing to business

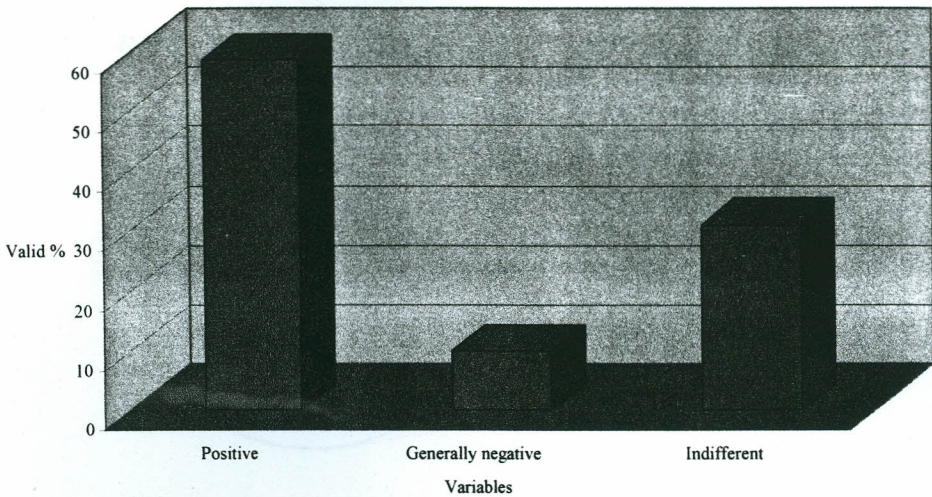
Table 4.12

What do you think is the effect of borrowing on business?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Positive	53	58.9	58.9	58.9
	Generally negative	9	10.0	10.0	68.9
	Indifferent	28	31.1	31.1	100.0
	Total	90	100.0	100.0	

Figure 4.12

What do you think is the effect of borrowing on business?



Many of those who responded to this question view borrowing as important to business with 58.9% having a positive attitude toward it. 31.1% were indifferent while the remaining 10% view borrowing as a generally negative hence not important to business.

4.13 Application for a loan in formal lending institutions

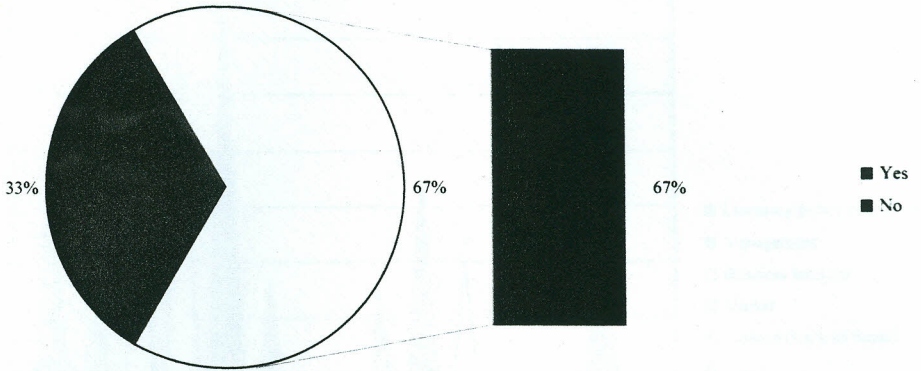
Table 4.13

Have you applied for a loan from a formal lending institution?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	30	33.3	33.3	33.3
	No	60	66.7	66.7	100.0
	Total	90	100.0	100.0	

Figure 4.13

Have you applied for a loan from a formal lending institution?



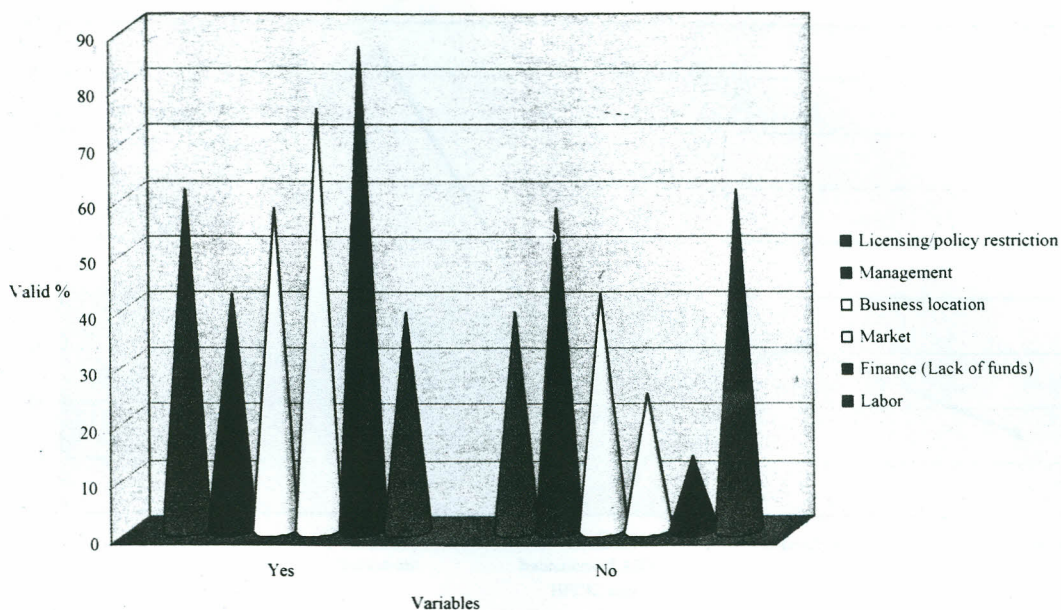
Very few people have applied for a loan in any formal lending institution (67%) while the remaining 33% said they have. These shows how people still view loans negatively or are facing difficulties to obtain a loan due to various bureaucracy or lack of formal lending institution in their locality.

4.14 Hindrance to expansion of business

Table 4.14

Ranking	Licensing/policy restriction	Management	Business location	Market	Finance (Lack of funds)	Labor
Yes	61.11111	42.22222	57.77778	75.55556	86.66667	38.88889
No	38.88889	57.77778	42.22222	24.44444	13.33333	61.11111

Figure 4.14



When asked about some of the factors hindering the expansion of business the following factors were ranked as follows. Finance (Lack of funds) was ranked as the biggest hindrance (86.7%), Lack market (75.6%) and Licensing/policy restriction (61.1%) while Business location, Management and Labour followed in that order.

4.15 Preferred source of lending

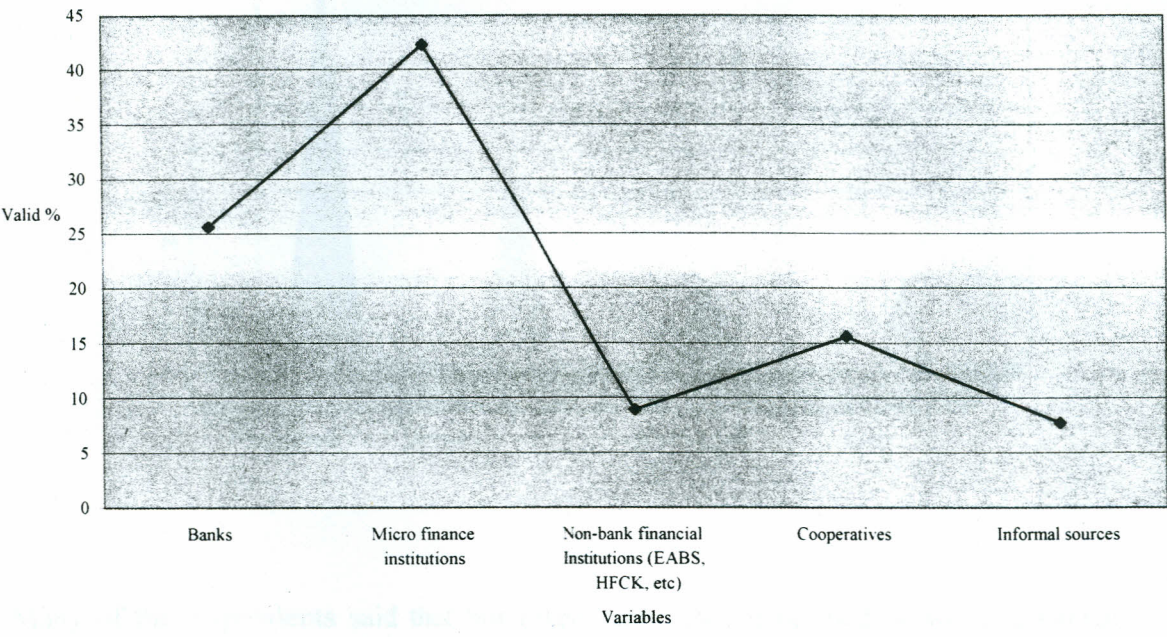
Table 4.15

Which of the following sources of lending would you prefer

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Banks	23	25.6	25.6	25.6
	Micro finance institutions	38	42.2	42.2	67.8
	Non-bank financial institutions (EABS, HFCK, etc)	8	8.9	8.9	76.7
	Cooperatives	14	15.6	15.6	92.2
	Informal sources	7	7.8	7.8	100.0
	Total	90	100.0	100.0	

Figure 4.15

Which of the following sources of lending would you prefer?



From the results, it was revealed that 42.2 % of the respondents preferred credit from micro-financial institutions, 25.6 % preferred banks and 15.6 % preferred cooperatives. The other sources were non-bank financial institutions and informal sources with 8.9% and 7.8% respectively.

4.16 The intended use of borrowed funds

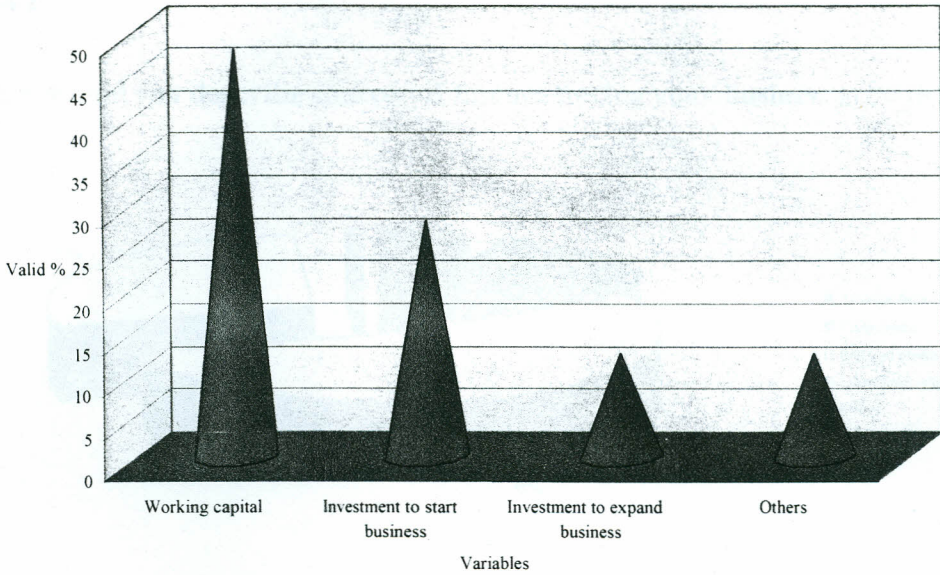
Table 4.16

What is your intended use of borrowed funds?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Working capital	43	47.8	47.8	47.8
	Investment to start business	25	27.8	27.8	75.6
	Investment to expand business	11	12.2	12.2	87.8
	Others	11	12.2	12.2	100.0
	Total	90	100.0	100.0	

Figure 4.16

What is your intended use of borrowed funds?



Many of the respondents said that borrowed funds should be used as working capital (47.8%); others had the opinion that borrowed funds should be used as investment to start business (27%) while the remaining had the opinion that it should be used as investment to expand already existing business (12.2%).

4.17 Sources of external finance during the business growth

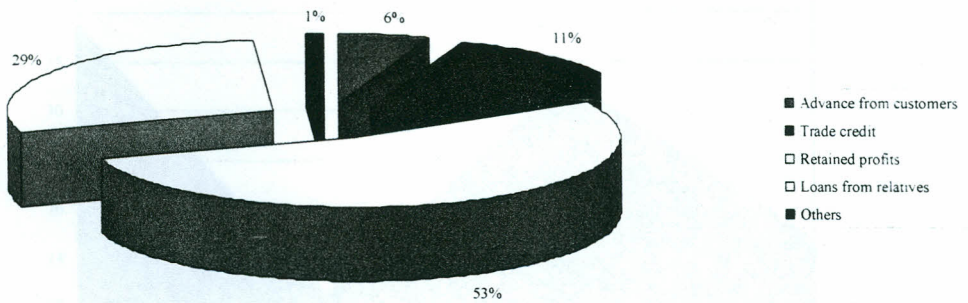
Table 4.17

How would you describe sources of finance during your business growth?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Advance from customers	5	5.6	5.6	5.6
	Trade credit	10	11.1	11.1	16.7
	Retained profits	48	53.3	53.3	70.0
	Loans from relatives	26	28.9	28.9	98.9
	Others	1	1.1	1.1	100.0
	Total	90	100.0	100.0	

Figure 4.17

How would you describe sources of finance during your business growth?



Retained profits earning and family sources were the major sources (53.3% and 28.9% respectively). Most of them also used informal sources to finance their business with 11.1% using trade credit as a source of finance while 5.6% of them got advance from customers and 1.1% used other sources of finance.

4.18 Limitation to acquiring of loans

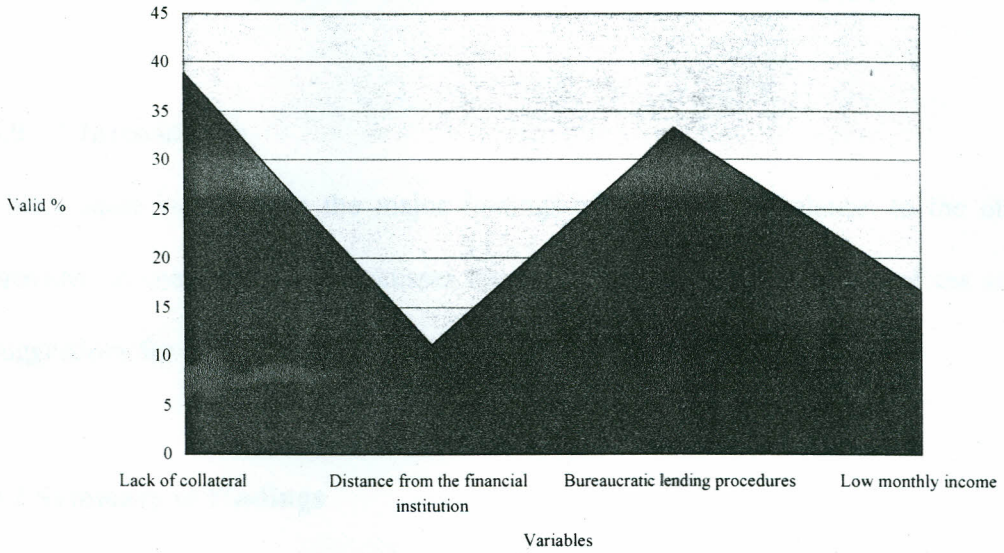
Table 4.18

What limits your chance of getting a loan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lack of collateral	35	38.9	38.9	38.9
	Distance from the financial institution	10	11.1	11.1	50.0
	Bureaucratic lending procedures	30	33.3	33.3	83.3
	Low monthly income	15	16.7	16.7	100.0
	Total	90	100.0	100.0	

Figure 4.18

What limits your chance of getting a loan?



Lack of collateral ranked prominent as the major factor limiting the chances of getting loans (38.9%), bureaucratic lending procedure came second with 33.3% while low monthly income and distance from financial institution had 16.7% and 11.1% respectively.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes the major findings of the study in relation to the objectives provided in chapter one. It discusses the recommendations, limitations of the study and suggestions for further research.

5.1 Summary of Findings

The findings from this study of accessibility to financing by Micro and Small Enterprises in Kenya, shows that institutional credit to small-scale entrepreneurs has not been substantially utilized. The decline of formal credit to the SME's has continued. Despite strong interest in credit, most of the small-scale entrepreneurs complain about the terms of the credit i.e. interest rates, collateral requirement, cumbersome documentation and time involved. They insisted that the loans took long to be approved which translated to missed opportunities in their business.

The research shows that the male population dominates the small-scale enterprises sector with majority of the enterprises being owned by males. The survey also indicates that this sector has continued to offer employment with majority of the firms employing one to nine employees.

On the type of ownership of business, sole proprietors, own most of the small-scale enterprises with 66.7 percent of the firms surveyed and 25.6 percent owned through partnership.

As regards formal education attainment, 52.2 percent had undergone secondary education and a mere 7.8 percent have been to college/ university. Only 35.6 percent of the respondents had undergone primary schooling level. This is contrary to a common belief that only illiterate people manage this sector. It also enhances the importance of the small-scale enterprises sector in the provision of employment to school leavers.

It was observed that formal credit institutions do not fund business startups. This was evidenced by 83.3 percent of the respondents confirming that they used their own or family sources to finance their startup capital on the demand for external funding very few respondents indicated that it was necessary and a few of the respondents were against the idea of borrowing.

It was also evidenced how respondents value their business with 53.3 percent of the respondents indicating that they would rather sell their personal assets rather they close their business if they were unable to borrow. Only 16 percent indicated that they would close down their business if unable to borrow 30 percent indicating that they would sell off the business if unable to access credit.

On the constraints, getting access to finance was ranked first by the respondents. This was by 86 percent of the respondent. Marketing was ranked second with 75 percent of the respondents, licensing restrictions was third with 61 percent of the respondents. Business location had 57% while labour and management were ranked the least with respondents indicating other more pressing problems.

On the preferred sources of credit, most of the respondents favored micro-finance institutions. Only 26 percent preferred banks. Other sources of finance like co-operatives and formal sources were also indicated by respondents. On probe of the preferred credit institutions, the respondents cited better terms, accessibility and lack of collateral base as the main reasons. Others were better terms by interest rates and accessibility of the institution. Reliance in advancing of the loan to the traders was also indicated as major reason against preference.

5.2 Recommendations

The researcher would like to make the following recommendations;

- i) Enactment of the Donde (2000), Interest Regulatory Bill into law. This will regulate the interest rates thus giving small-scale enterprises access to cheaper credit and make banks to stop discriminatory against this sector.
- ii) Due to lack of collateral SME's are often unable to obtain large credits from banks. To improve this situation, it would be possible, to formalize assets of the SME's. Specifically, most of the SME's indicated that they were unable to

use land properties as collateral because there was no clear regulations on proving property rights as most land titles are not registered. To increase their collateral bases policy makers should promote the registration of land owned by the traders.

- iii) Access to information should be boosted by issuing of magazines, which enlightens the traders on the trends on the financial markets.
- iv) Since the less educated entrepreneurs show little interest on credit and receive little credit, the educational opportunities should be enhanced for them. This will improve the literacy and numeracy of the pool of Kenyans from which the pool entrepreneurs is drawn. Having self-financing adult literacy classes for businesspersons can also encourage this.
- v) The formal credit institutions should make the regulations more flexible by allowing use of broad collateral bases for securing loans to SME's.
- vi) The institutions should create exceptions to minimum capital requirement for those targeting SSEs and also reduce entry and exit barriers in the financial sector to make the sector more contestable and therefore more customer friendly.
- vii) Develop mechanism of mainstreaming informal enterprises such as reducing registration costs and delays; this is because the less access of credit of SME's has been caused by uncertain legal status, higher mortality rates and low exit and entry barriers that create intense competition.
- viii) Encouragement of the entrepreneurs to diversify their investment portfolios to include stocks and shares, which can be used as security for loans.

- ix) The institutions can control risk by indulging into character based lending to entrepreneurs who have good record of accomplishment and close on site monitoring. The cost of frequent monitoring can be minimized through greater decentralization of responsibility for small loans provided local branch officers be adequately trained.

5.3 Limitations

1. Time-due to a limited time, it was not possible to sample the 100 firms earlier targeted. The number had to be reduced to 90.
- 2) Lack of co-operation-some respondents were not willing to give information regarding some financial aspects. Some respondents might have given false information to please the researcher. Suspected of false information, an interview was administered to dig for more accurate information from the respondents.

5.4 Suggestions for Further Research

The following areas deserve further research:-

- i) A study may need to be carried out on the determinants of formal financing to the small-scale enterprises from the formal credit institutions side i.e. credit suppliers view.
- ii) A study should be carried out on the impact of this formal credit to the growth of small-scale enterprises.

REFERENCES

- Aryeetey, E et al (1997) '*Finance, for small enterprises in Ghana*' Washington .C, A World Bank publication
- Bolton committee (1971) *Small Business Report*, UK.
- Chanda varka A (1985) '*The non institutional financial sectors in developing countries; microeconomic implications, for savings policies*'.
- Dondo, A (1999), the status of micro finance in Kenya; KREP
- GOK (1996). *Economic survey 1996*, Nairobi, government printer.
- GOK (2000) *Financial sectoral survey 2000*, Nairobi government Printers
- GOK, 1989 -1993, 1997 - 2001 *development plans*.
- Green, J B (1970) '*The role of commercial banking in agriculture*' A.H. Bunting, e.d London.
- Hiller I. (1993), '*small and medium scale enterprises in Ghana*, Washington DC. World- Bank discussion paper.
- Kiiru. K et al (1997) *Case study of micro finance scheme*, KWFT, Nairobi.
- Levitskey, J (1989) *Micro enterprises in developing countries*, Intermediate technologies publication, London.
- Muchai, P.W (1999), *Investigation of the cause of failure and ways of improving performance of small enterprises case study of smallholder dairy sector in Kikuyu and Limuru divisions*. Unpublished MBA thesis, Kenyatta University.
- Nalwelisie, C. (2003) '*Sources of finance available to small scale enterprises in Nairobi, Kenya*'. Unpublished MBA thesis, Kenyatta University.
- Ndirangu, S. (2001). '*Constraints to financing, a case of small scale enterprises in Thika town*'. Unpublished MBA thesis, Kenyatta University.
- Panos (1997), *The failure for micro finance handbook; an institutional and financial perspective*, Washington DC, A World Bank Publication.
- Sessional paper no. 2 of 1992 on small-scale enterprises and the Jua Kali development in Kenya*. CBS, Nairobi,
- Steel, W. (1992) '*How small enterprises in Kenya have responded to adjustments*. The World Bank economic review 6 '3'; 423 - 438.

APPENDICES

APPENDIX I

MICRO FINANCE INSTITUTIONS IN KENYA

Local NGOs

Kenya Rural Enterprise Programme

Undugu Society of Kenya

Women Enterprise Development

Kenya Women Finance Trust

PCEA Bahati Community Centre

Kenya Small Traders Society

Daraja Trust Co. Limited

Partnership for productivity Kenya

Horizon Kenya Co. Ltd

Imani Marianists

Kamukunji SACCO

Young Women Christian Association

Dandora Catholic Church

Faulu Kenya

K – Map Kenya Management Assistant Programme

Micro – Kenya Ltd

SISDO micro finance

Cross bridge Credit Ltd

Charity Development for family

Pride Management Services Ltd

Charity Development For family

Pride Management services Ltd

Family Finance

Kenya Cats by Trust

Pride Ltd

ECLOF

Sunlink

BIMAS

International NGOs

Action Aid

Provide International

Food for the Hungry International

Adventist Development relief agency

Fridrich Ebert Stiftung

Council of International Development pride

CARE International in Kenya

Techno Serve International

Hope Africa

Pride Africa Drumnet

Others

Kenya Commercial Bank Special loan unit

Co-operative Bank of Kenya

Post Bank

Small Micro Enterprise Programme (SMEP)

**Source: How to approach Banks. A guide for Kenyan Entrepreneurs. (2002),
Nairobi, Kenya.**

APPENDIX II

LIST OF COMMERCIAL BANKS IN KENYA

African Banking Corporation Ltd

Akiba Bank Ltd

Bank of Baroda (K) Ltd

Bank of India

Barclays Bank of Kenya Ltd

CFC Bank Limited

Chase Bank (Kenya) Ltd

Charterhouse Bank Ltd

Citibank N. A

City Finance Bank Ltd

Commercial Bank of Africa Ltd

Consolidated Bank of Kenya Ltd

Co-operative Bank of Kenya Ltd

Credit Agricole Indosuez

Credit Bank Limited

Daima Bank Ltd (Under Central Bank Statutory Management)

Development Bank of Kenya Ltd

Diamond Trust Bank Kenya Ltd

Dubai Bank Kenya Limited

Equatorial Commercial Bank Ltd

Fidelity Commercial Bank Ltd

Fina Bank Limited

First American Bank of Kenya Ltd

Guardian Bank Limited

Giro Commercial Bank Limited

Habib Bank A. G Zurich

Habib Bank Ltd

Imperial Bank Ltd

Industrial Development Bank Ltd
 Investments & Mortgages Bank Ltd
 Kenya Commercial Bank Ltd
 K – Rep Bank Limited
 Middle East bank Kenya Ltd
 National Bank of Kenya Ltd
 National Industrial Credit Bank Ltd
 Paramount – Universal Bank Ltd
 Prime Bank Ltd
 Southern Credit Banking Corp. Ltd
 Standard Chartered bank (K) Ltd
 The Delphis Bank Ltd
 Trans-National Bank Ltd
 Victoria Commercial Bank Ltd

**Source: How to approach Banks; A guide for Kenyan Entrepreneurs. (2002),
 Nairobi, Kenya.**

APPENDIX III

TIME PLAN

PHASE	ACTIVITY	DURATION IN WEEKS	MONTH
1	Study concept development	2	January 2006
2	Proposal development	3	February-March 2006
3	Submission of the proposal and presentation	1	April 2006
4	Pre-testing the questionnaire and correction	1	May 2006
5	Primary data collection	3	May 2006
6	Data coding and Analysis	3	June 2006
7	Report writing	4	June/July 2006
8	Compiling and Presentations	4	July/August 2006
	TOTAL	21 Weeks	6 Months

APPENDIX IV

BUDGET PLAN

ITEM	QUANTITY	UNIT PRICE	TOTAL
Typed Proposal	1 (50 pages)	2000	2000
Proposal copies	4 (200 pages)	750	3000
Binding	8 copies	100	800
Diskettes	2 pieces	50	100
Questionnaires	230 copies	10	2070
Report	1	800	800
Computer Time	100 hrs	100	10000
Report duplicates	4 copies	150	600
Contingency			13500
TOTAL			32870

APPENDIX V

LETTER TO RESPONDENTS

MUGAMBI LIPIO

P.O. BOX 34427-00100

NAIROBI.

Dear Respondent,

I am a postgraduate student in the school of business, Kenyatta University. I am undertaking a research project on “*Accessibility to financing Small and Micro Enterprises (SME's) in Kenya, A Case of Gikomba Market in Nairobi*”. This is in fulfillment of the requirements for the Master of Business Administration (MBA) degree.

Kindly fill in the attached questionnaire as honestly as possible. The information you give is needed purely for academic research and will be treated with strict confidence.

Your assistance and cooperation is highly appreciated. Thank you.

Yours sincerely,

Mugambi Lipio

e) No of employees

0-9

9-20

Above 20

f) What is your highest level of formal education attained

No formal education at all

Primary school level

Secondary school level

College/university

f) Have you undergone any business training?

Yes

No

h) Is your business legally registered?

Yes No

PART II

(Question to identify need for external finance.)

a) How did you acquire your initial capital?

Own/family funds

Loan from friends

Banks

Cooperatives

Non-bank institutions

Supplier credit

Others (please specify)

b) What would be your opinion about borrowing?

Necessary for business

Do not mind it

Do not like it

c) What would you do if you were unable to get a loan?

Close the business

Sell the business

Dispose personal assets

Others (please specify)

d) Have you ever applied for a loan from a formal lending institution?

Yes No

e) Please make some few comments about the loan application procedures if your answer is yes to question (e).....

.....

.....

PART III

(Identify the constraints to seek external finance).

a) Please indicate four most serious reasons that hinder expansion of your business.

Licensing/policy restriction

Management

Business location

Market

Infrastructure

Finance (Lack of funds)

Labor

Others (please specify).....

b) Which of the following sources of lending would you prefer

Banks

Micro finance institutions

Non-bank financial institutions

Cooperatives

Informal sources

Others, (please specify)

c) What is your reason for preferring this form of credit?

.....
.....

d) What is your intended use of borrowed funds?

Working capital

Investment to start business

Investment to expand business

Others (specify).....

e) Which of the following has been the source of finance during your business growth?

Advanced from customers

Trade credit

Retained profits

Credit institutions Overdraft

Loans from relatives/ friends

Others (please specify)

f) What limits your chances of getting a loan?

Lack of collateral

Distance from the financial institution

Bureaucratic lending procedures

Low monthly income

THANK YOU FOR YOUR COOPERATION