

**FACTORS WHICH AFFECT ACCESSIBILITY OF LOANS BY SMALL
BUSINESSES BY COMMERCIAL BANKS IN NAKURU MUNICIPALITY - KENYA**

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DECLARATION

This research project is my own original work and has not been submitted to any other institution of learning.

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DEDICATION

This research project is dedicated to my loving and supportive friends for their encouragement and support through my lifetime, for giving me good time to learn. The most gratitude goes to God almighty for his care throughout my learning period.

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I first and foremost want to express my sincere gratitude to my supervisor, DR ABEL ANYIENI for his immense expert guidance throughout this research project and without whom this project would not have seen the light of the day.

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ABSTRACT

The Kenyan financial sector is composed of banking sector, micro-finance institutions (MFIs), SACCOS and the informal financial services sector, with the banking sector contributing largest percent of all business loans advanced mainly to large and medium scale businesses leaving small businesses with little or no access to finance from commercial banks.

Despite the long existence of commercial banks in Kenya, both local, international and multinational, most of the them have shied away from lending to small-scale business. This has lead to mushrooming of microfinance institutions and SACCOS to cater for these small-scale businesses loans need. However due to their limited capital as compared to commercial banks, they have not been able to fully meets the loans needs of small scale business. Consequently, many small-scale businesses have been unable to grow despite their long existence while others have collapsed few years after their establishment. This study therefore seeks to find out lending conditions by commercial banks that affect small-scale business.

To achieve this, the following objectives, to determine the effect of bank competition and pricing on the accessibility of loans by small businesses in commercial banks in Nakuru , to determine the effects of banks lending requirements to small businesses that hinders easy accessibility of small-scale businesses and to determine the effect of bank geographical distribution on the accessibility of loans by small businesses in commercial banks in Nakuru were tested

The study was guided by research question, which includes, what is the effect of bank competition and pricing on the accessibility of loans by small businesses in commercial banks in Nakuru.

The study was guided by Ghatak and Guinanne (1999) Lending model theory. The study showed a comparison of individual liability contract, entrepreneurial effort was strictly higher under peer group lending with joint liability, that monitoring costs were low and social sanctions are effective. The research design in the study was survey study of Commercial Banks in Nakuru .The target population was selected from 8 commercial banks, 548 customers and 24 loan officers selected from the selected 8 commercial Banks. This study applied stratified and simple random sampling techniques. Stratified sampling was used to put the population into different categories of different Banks (large and small) .Simple random sampling used to select 30% of the target population of banks and customers which is 166 Customers. Census Method was used to select 24 loan officers. The research instruments that was used included questionnaires and interview schedules. Descriptive statistics, frequency tables and percentages were used to present the data, while for inferential statistics; multiple regression and Pearson's correlations were further used. The study found out that competition, pricing, Commercial banks tight bank requirement and geographical distributions as important factor that affect accessibility of loans by small businesses by commercial banks. The study concludes that Majority of the population are locked out of the formal financial sector due to the many strict requirements and stringent conditions required by the banks for one to open an account or access credit because their information is not captured. Consequently, the study recommends that CBK should influence the interest rate regime by offering treasury bills with very favorable rates of return and which are affordably denominated so that the banks are left with no option but to scramble for deposits by offering better rates of return. Suggestions for further study were on transaction costs for the consumers and the banks, Market power in relation to deposit rates and interest rates and concentration in the banking sector and its impact on deposit and loans.

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ABBREVIATIONS/ACRONYMS

| | |
|---------------|--|
| MFI s | Micro Finance Institutions |
| SACCOS | Saving and Credit Co-operative Societies |
| GDP | Gross Domestic Product |
| CBK | Central Bank of Kenya |
| ROSCA | Rotating Saving and Credit Association |
| FSAL | Financial Sector Adjustment Loans |
| CC | Commission Communication |

OPERATIONAL DEFINITIONS OF TERMS

Access to credit: the ability to borrowing sum of money (capital).

Business enterprises: It is a business venture formed for the purpose of carrying on some kind of economy captivity

Business enterprises: It is a business venture formed for the purpose of carrying on some kind of economy captivity

Deficit financing: It is a deliberately budget for deficit fiscal policy through the budget in low a recognized adjunct to monetary policy

Entrepreneur: It is a person who has possession of a new enterprise, venture or idea and assumes significant accountability for the inherent risks and the outcome.

Financial intermediaries: Include all financial institutions engaged in some form of borrowing and leading funds

Liquidity: It is the state of having cash of near cash in hand

Loan advancement: The act of borrowing sum of money (capital) at an agreed rate of interest

Loan: The act of borrowing sum of money (capital) at an agreed rate of interest

Reserves: It is a setting a part profit intending of distributing to the share holds of a company

Small and medium enterprises (SMEs), refers to those with less than 100 employees, while medium-sized business often refers to those with less than 500 employees.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter forms the introductory part of this research projects discussed under the following subheadings; background information to the study problem, statement of the problem, objectives of the study, significance of the study, scope and limitations of the study.

1.1. Background of the Study

Given a minimum acceptable level of macroeconomic stability, post-intervention financial deepening can be associated with either favorable initial conditions or successful institutional strengthening, or both, although the most deepening has occurred where initial conditions were good. Nearly 100 countries have experienced bank insolvencies in the past 20 years. Weakness in the financial sectors of many countries is reflected in the size of the insolvencies - many cases, the cost of bailout exceeded 15 percent of GDP - the fact that these crises often recur. Because a strong financial sector is important for economic growth, the World Bank has increasingly granted loans with conditions attached to achieve specific financial sector reforms.

The Bank often employs financial sector adjustment loans (FSALs) or, in poorer countries, credits (FSACs). FSALs are generally more comprehensive than other types of interventions and tend to concentrate on the reform areas most closely linked to the operations of deposit banks. Since 1990, their focus has shifted from improving prudential regulations and correcting interest rate distortions to privatizing and recapitalizing banks.

The Central bank of Kenya has been struggling through its monetary policy committee to mobilize savings by increasing interest on deposits and reducing the bankers interest rate spread (Irungu, 2009). Currently the Kenya's savings stand at 15 per cent of the gross domestic product (i.e. 800 Billion) and CBK is targeting to raise it to 32 percent

The Kenyan financial sector is composed of banking sector, micro-finance institutions (MFIs), SACCOS and the informal financial services sector, with the banking sector contributing largest percent of all business loans advanced mainly to large and medium scale businesses leaving small businesses with little or no access to finance from commercial banks.

Kenya has a reasonably sophisticated banking system with 43 licensed commercial banks and 5 representative offices of foreign banks. Commercial banks account for much of the total deposit in the country. The banks that dominate the commercial banking system in Kenya includes Barclays Bank, Kenya Commercial Bank, and Standard Chartered Bank

SACCOs in Kenya or the SACCO movement in Kenya is billed as the largest in Africa and among the top 10 globally. With over Ksh 230 billion in assets, over 90 SACCOs and a savings portfolio estimated at Ksh 190 billion, the SACCO movement in Kenya constitutes a significant proportion, about 20 per cent, of the country's domestic savings. SACCOs in Kenya have thus become a vital component of Kenya's economic and social development.

Innovative forms of microfinance and progressive government policies have helped to make Kenya's microfinance sector one of the most developed in Sub-Saharan Africa. Leading contributors to this dynamic are mobile money transfer (e.g. M-Pesa's) success in mobile banking, the passing of the Finance Act of 2010 allowing for agent banking, and the development of effective credit bureaus throughout the country.

Financial deepening is positively associated with macroeconomic stability (low inflation) and an initially underdeveloped financial sector. Therefore, it is critical to develop deep financial markets to cater for small business credit. They have difficulties accessing credit from the

financial institutions i.e. a majority of them does not qualify to get loans because of the banks' requirements or due to the lack of information or risks associated with it or because of pricing.

1.2. Statement of the Problem

Small-scale businesses are taunted as engine for economic development in most developing countries because of their very nature-majority of them are located in the rural areas. Despite the long existence of commercial banks in Kenya- local, international and multinational, most of them have shied away from lending to small-scale business. This has lead to mushrooming of microfinance institutions and SACCOS to cater for these small-scale businesses loans need. However due to their limited capital as compared to commercial banks, they have not been able to fully meet. the loans needs of small scale business. As a result, in an effort to bridge these financial needs by small-scale business the government has set up funds to meet loan needs by different groups to finance establishment of small-scale businesses such as youth fund, women fund that have been in adequate to satisfy all the financial needs of those intent to start small-scale business.

Consequently, many small-scale businesses have been unable to grow despite their long existence while others have collapsed few years after their establishment. This study therefore seeks to find out the factors affecting lending to small-scale business by commercial banks with a view to bringing them on board and bridge this huge financial needs gap by small-scale businesses given their capital advantage.

1.3. Objectives of the Study

The broad objective of this study was to determine lending conditions that affect accessibility of loans by small businesses in commercial banks in Nakuru -Kenya.

The study was guided by the following specific objectives:-

- i. To determine the effect of bank competition and pricing on the accessibility of loans by small businesses in commercial banks in Nakuru
- ii. To determine the effects of banks lending requirements to small businesses that hinders easy accessibility of small-scale businesses.
- iii. To determine the effect of bank geographical distribution on the accessibility of loans by small businesses in commercial banks in Nakuru

1.4. Hypothesis of the Study

The major hypotheses tested in this research project are:

- i. There is no significant relationship between bank loan competition and pricing on the accessibility of the loans by small businesses in commercial banks in Nakuru
- ii. There is a significant relationship between commercial banks in Nakuru requirements and loan accessibility by small-scale businesses
- iii. There is no significant relationship between commercial banks geographical distribution and accessibility of loans by small businesses in Nakuru.

1.5. Significance of the Study

Despite the long existence of commercial banks in Kenya, whose principal function is to advance loans to the business sector their impact on small-scale business in terms of the volume advanced to them is negligible. The findings of this study are therefore expected to inform the commercial banks the best way to increase lending to small-scale business and

hence contribute in revamping the growth of this sector whose contribution to the national economy cannot be gainsaid. The findings will also help the government to come up with appropriate regulatory framework, which make its easier for commercial banks to lend to small-scale business.

1.6. The Scope of the Study

This purpose of study was to examine the lending conditions that affect accessibility of loans by small businesses in Commercial Banks of Kenya carried out between the months of March and April 2013. Target population was drawn from 8 selected banks in Nakuru where it focused on customers / borrowers and loan officers. The researcher targeted a population of 24 loan officers and 548 customers with a sample of 24 and 166.

1.7 Limitation of the Study

The researcher encountered the following limitations; lack of full Cooperation from the selected commercial banks. This was minimized by the introductory letter. In the face of stiff competition within the banking sector, some banks were initially reluctant to allow the accessibility of some vital information in fear that it will find its way to their competitors. However the firm assurance given to them by the researcher that the information obtained is purely for academic purpose and that it is confidential, the researcher was able to access most the information thereby not compromising the findings and hence the conclusion of this study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a review of global, nation and local literature relevant to this study on the lending conditions that affect accessibility of loans by small businesses by commercial banks in Nakuru -kenya

The chapter concludes by presentation of conceptual framework highlighting the relationship of the variables tested in this study in the succeeding chapter.

2.1 Concept of Small and Medium Enterprises (SMEs)

Small and medium enterprises (SMEs), also known as small and medium businesses (SMBs), are companies whose headcount or turnover falls below certain limits (Wikipedia, 2003). The abbreviation SME occurs commonly in the European Union (EU) and in other international organizations such as the World Bank, the United Nations and the World Trade Organization. The small and medium-sized businesses have become more standard in a few other countries (Commission Communication (CC), 2003).

EU Member States traditionally had their own definition of what constitutes an SME. For example, the traditional definition in Germany had a limit of 500 employees, while in Belgium it could be 100. But now the EU has standardized the concept. Its current definition categorizes companies with fewer than 50 employees as "small", and those with fewer than 250 as "medium". By contrast, in the United States, when small business is defined by the number of employees, it often refers to those with less than 100 employees, while medium-sized business often refers to those with less than 500 employees. However, the most widely

used American definition of micro-business by the number of employees is the same of that of European Union: less than 50 employees (EU, 2003a).

2.2 Concept of Accessibility of Loans

Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Schmidt and Kropp, 1987). For small-scale enterprises, reliable access to short term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises. Schmidt and Kropp (1987) further argue that the type of financial institution and its policy will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

The Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established.

On the issue of interest rates, the bank also supports the view that high interest rate credit can help to keep away the influential non-target group from a targeted credit programme (Hossain, 1988). This further demonstrates the need to develop appropriate institutions for the delivery of loans to small-scale borrowers.

Banking and financial institutions rely upon accurate, up-to-date records to service customers. An integrated document management solution enables front-line workers at the touch of a button to fulfill any customer information request, access timely credit information and quickly validate customer identity. Financial sectors in most developing countries are characterized by fragility, volatile interest rates, high-risk investments and inefficiencies in the intermediation process (Ndung'u and Ngugi, 2000). According to Ndung'u and Ngugi (2000), widening interest rate spread is an indicator of the underlying weak institutional and policy set-up of the financial sector. According to Berger and Udell (2005), small businesses are an important part of the economy of virtually every nation and they are to be nurtured to grow to maturity stage of their lifecycle.

Nonetheless small firms all over the world have faced significant difficulties in accessing funding. Sacerdoti (2005) agrees by this and posits that faster economic growth will not be possible without a deepening financial system and in particular more support from the banking system. Financial markets in African countries are characterized by imperfect and costly information, risks and market segmentation resulting in credit rationing (Atieno, 2001). This implies that banks find it expensive to grant loans to small businesses even if they are liquid because it is costly to do so.

2.3 Theoretical Framework: Lending Model Theory

Ghatak and Guinane (1999) show that when compared to an individual liability contract, entrepreneurial effort will be strictly higher under peer group lending with joint liability, assuming, of course, that monitoring costs are low and social sanctions are effective. For the purposes of this paper, effort is defined as actions that would contribute to the success of entrepreneurial activity, and hence to greater repayment probabilities. Despite the competing predictions of a number of group lending models, some scholars indicate that there is little or no direct empirical evidence to suggest that peer group borrowers actually out perform

individual borrowers. While it is true that closer monitoring and increased effort is inherently difficult to measure, the consequences of these positive peer group effects should be easier to observe; group members should out perform individual borrowers in terms of repayment success, if other factors remain constant. Most empirical studies, however, have examined the relative performance of groups with different characteristics, as opposed to testing whether peer group lending improves upon traditional individual liability schemes. Moreover, by focusing only on group borrowers, empirical research has been unable to distinguish among potential channels of peer group influence. Group loans could range in size from \$500 to \$5000 with \$1000 being the typical loan size for first time borrowers. The loan term is typically twelve months and early repayment is an option with no penalty. The group-lending format has the following features. Any group of four to seven borrowers may apply for a loan from Calmeadow, and borrowers must form their group before applying for a loan. For the loan application, group borrowers must provide personal information, references, as well as business and demographic information. The information on this form must then be checked and approved by all other group members. Group members are encouraged to rigorously assess the credit worthiness and entrepreneurial competence of their potential peer-group members. Submission of the group's loan applications occur once group members have approved each other's applications. Calmeadow loan managers then assess the group's application using a series of credit checks. Upon Calmeadow's approval, group members receive their loans all at the same time. Group members, though not strictly liable for each other's loans, are ineligible to access subsequent loans if one group member falls into arrears and is not currently "paid up." In this way, joint liability is implemented. Calmeadow also offers individual loans that could range in size from \$1000 to \$15000 over longer terms (up to 60 months), for which anyone can apply. Many theoretical models of group lending drawn from the microfinance literature predict that peer pressure and monitoring will lead to more

effective borrower-side selection and greater borrower effort. While these effects are hard to measure, one should expect that if operative, group borrowers would out perform individual borrowers in terms of repayment success.

2.4 Competition and Pricing on the accessibility of loans by small business customers.

Pricing of interest rate plays an important role, Interest Rate is the main determinate of the amount of money borrowed. Rosen (2007) addressed the relationship between local banking markets and interest rate offered on deposits by the banks. But admits that even though market structure has an important impact on how banks set rates, the impact is very complex and that is why this factor is worth studying in the Kenyan situation. Hannan (2006) asserts that in response to change in the competitive environment, any combination of loan rates and fees will really involve the movement of prices in the direction that either benefits the borrower or harms the borrower.

Sacerdoti (2005) agrees that increased competition decreases the spreads between deposit rates and lending rates. Buchs and Mathisen (2005) posit that a non-competitive structure in the banking industry hampers financial intermediation causing the big banks to work in selfish manners. The banking sector's profitability is mainly derived from the net interest margins i.e. the higher the net interest margin, the higher is the bank's profits, which means that if the market is not competitive, it is the consumers who suffer from the wider margins. This infers that consumers will surely shy away from the banks resulting in poor borrowing culture which impacts negatively on the overall economic growth of the country.

Sacerdoti (2005) finds out that with increased competition some will find that their competitive advantage may lie in financing smaller businesses. It is reported in Kenya that all major banks are currently having a desk at their branches specifically dedicated to SME

financing. The increased competition induces banks with better knowledge of local markets to expand loans to small businesses with beneficial effects on access to credit.

If competition in the banking industry is very intense, market power will be eroded hence causing a reduction in profit margins. This may result in the banks taking more risks to increase returns, which lead to a weaker industry that cannot support the development of any country's economy (Berger, Klapper and Turk-Ariss, 2009). According to Berger, Klapper and Turk-Ariss (2009) 'competition-fragility' view, they say that a bank with a higher degree of market power also have less overall risk exposure. Again on the same context, increased competition for deposits lowers bank profitability and destroys franchise value as banks will be offering incentives and giving high interest rates so as to keep or attract depositors. This normally fuels moral hazard incentives putting both the customer and economy at a great risk of failure.

The views previously presented are supported by the structure-conduct-performance literature in banking, which states that banks with greater local concentration charge higher rates to small borrowers (Berger et al, 2009). It is also a known strategy that competitor banks normally price lower in order to lure the client and use that presented opportunity to establish a strong relationship and later reap the benefits of monopoly and this can also be found in the Kenyan context in the case of Equity bank.

According to Stanhouse and Stock (2004), the propensity of borrowers to prepay their loans is characterized as being inversely related to the level of interest rates. This implies that in a competitive market where interest rates on loans and deposits are volatile, customers tend to move to banks with favourable rates to them and by so doing banks are forced to price fairly and attract more customers.

Rosen (2007) looks at the relationship between number of banks and deposit rates and say that multi-market banks compete differently than banks that operate primarily in single markets. He says that this has contributed to banks' depositors' reluctance to switch banks for small differences in interest rates since banks do provide an array of services to customers/depositors but he acknowledges that as competition in the banking arena diminishes, there will be increase in prices because some banks will be enjoying a monopoly. Berger, Klapper and Udell (2001) argue that banks not exposed to competition tend to be less efficient than banks subject to more competition and that is why banks in developing economies in Kenya with more market power are not able to reduce costs and achieve lower cost efficiency levels compared to their peers in the developed economies. This will make such banks not to offer affordable financial services to the consumers thereby dwarfing the growth of that sector and failing to attract depositors and borrowers. Tokle and Tokle (2000) agrees with this and state that according to the structure-performance hypothesis, banks in more concentrated markets may collude so as to pay lower interest rates on deposits because they know that there is no threat to their stranglehold of the market.

Another major factor associated to pricing and which leads to a negative perception of banks in most developing economies is the issue of transparency in their fee structure and this has led to a situation where potential consumers shun the formal financial sector in favour of the informal one for both their borrowing and savings needs (Tokle and Tokle, 2000).

Berger and Frame (2005) claim that consolidation of the banking industry has raised considerable policy concerns and Bank Charges and fees in whether the industry will continue offering adequate credit availability to the small businesses, particularly the opaque small businesses. This is because from their study it was noted that large banks are disadvantaged in small business lending.

2.5 Banks Requirements on lending to Small Businesses and accessibility by the borrowers

Commercial banks and other formal institutions fail to cater for the credit needs of small holders in Kenya and this is mainly due to their lending terms and conditions which the entrepreneurs are not conversant with or are hard to be met by the small businesses (Atieno, 2001).

Large banks do use quantitative methods on their decision making process while small banks rely heavily on personal interactions with loan applicants. The process being used to collect soft data is very expensive which definitely translates to higher interest rates charged by small banks that rely on such methods, it means that large banks charge lower loan rates and require less collateral than do small banks in general. Though according to Berger and Frame (2005), they state that small banks have a comparative advantage in making loans based on soft information and that studies have shown that stronger bank-borrower relationships are associated with better treatment for borrowers when it comes to lower interest rates and reduced collateral requirements. This infers that smaller banks are inclined to levy lower interest rates on borrowers.

Berger *et al.* (2007) looked at lending to informational opaque customers and found out that the big institutions have difficulty lending to such customers because that requires relationship lending. The big banks that control the market find it costly to practice relationship lending due to the number of customers they have and therefore prefer transactional lending which is based on information that is relatively easily available at the time of origination. The market conditions also determine what processes the banks adopt and what conditions they stipulate for both the depositors and borrowers. Berger *et al.* (2009) found out in their study that market power in the loan market may result in higher bank risk

as the higher interest rates charged on customers make it difficult to repay the loans and encourage moral hazard and adverse selection problems.

Sacerdoti (2005) concludes in his study that there are institutional deficiencies in Africa that make it difficult for the financial institutions to grant unsecured loans to small businesses. For example the land tenure system in most African countries is communal and the judicial systems are slow, which means that if collaterals are to be given out it becomes very difficult to recover the property in case of a default. This forces the banks to have stringent conditions, which are not met in most cases resulting in rationing of credit.

A deposit rate ceiling in the banking industry increases the risk (Koehn and Stangle, 1980).

Berger et al. (2009) found out in their study that market power in the loan market may result in higher bank risk as the higher interest rates charged on customers make it difficult to repay the loans and encourage moral hazard and adverse selection problems.

2.6 Geographical Distribution of banks and its effect on Loan Accessibility by small business customer

Distance of the Bank and Target Market ,According to Degryse and Ongena (2002), lending conditions may depend on the distance between the borrower and the lender and the distance between the borrower and the competing bank. This implies that if there are so many banks within convenient distance to the small businesses, the proprietors will have alternatives to shop around and will have the benefit of learning the requirements of accessing those loans. Ergungor (2007) supports this notion by giving an example of a behavior that is predominantly found amongst small businesses, where a lender connected to the community can easily know whether the account behavior of a business is due to lack of financial knowledge on the part of the lender or lack of viability in the business. Because if it because of lack of knowledge then the person can be brought into the mainstream financial system through training and counseling. Degryse and Ongena (2002) assert that an increase in the

number of banks increases the likelihood of receiving a lower loan rate offer due to harsher competition.

The distribution of banks in a local market may actually affect how deposits are priced (Rosen, 2007); banks with higher number of branches do give lower deposit rates due to the convenience they do offer the account holders. Hannan and Prager (2006) concur with this; they find that organizations that are large geographically offer lower interest rates than their counterparts and these they argue that is a result of having access to alternative sources of funds. Even though the emergence of different options for service delivery like telephone banking and internet banking, customers still consider proximity to branches as a very important factor more so for small businesses who deal mostly in cash and cheques (Heffernan, 2006).

Again the absence of a branch in any locality will definitely raise the monitoring cost of loans in terms of making visits to the customers and in terms of following up on impaired loans. This will henceforth lead to higher interest rates being levied on loans. Elyasiani and Goldberg (2004) say that the collection of information for purposes of accessing financial services especially loans requires the contact between the borrower and the lender and this must be facilitated by geographic proximity. It follows that geographically close lenders would incur lower costs in gathering the necessary information and borrowers would probably receive better loan terms when they are near a bank. Elyasiani and Goldberg (2004) also say that loan rates increase as the distance between the lender and borrower increases because of the cost implications involved.

Hannan (2006) is of a different opinion and suggests that banks with more branches in a locality are likely to have a bigger share of customers and this may allow them to exploit the market power by charging higher fees, this notion will definitely scare away the small

businesses who may find the costs exorbitant to sustain their operations. Another different view is that distances notwithstanding, the emergence of better, cheaper and faster access to information allows banks to lend increasingly more to distant firms without comprising their ability to successfully underwrite the loans, monitor the borrowers and intervene when necessary (De Young, Frame, Glennon and Nigro, 20103). But this scenario has not yet reached the developing economies such as Kenya where information is still hard to reliably source and therefore distance is still considered a major factor by banks in granting of loans.

Pinho (2000) stated that customers may prefer larger networks, which means that larger banks are able to serve their customers with a relatively lower cost and therefore can use this as a competitive advantage by lowering the interest rates on deposits; this will surely increase the number of small businesses who will be attracted to the low costs. Hefferman (2006) states otherwise that banks with more branches offer lower deposit rates and higher loan rates as the customers are forced to pay for that convenience, though he claims that in a Cournot model of Oligopoly, an increase in the number of firms should ultimately contribute towards lowering of prices which translates to higher deposit rates and lower loan rates.

Kim and Vale (2001) found out that less fear by borrowers as a result of non-existent lock-in effect caused by denser branch network would increase the aggregate loan demand because customers know that they can always approach an alternative lender without incurring much cost. Again the more branches there are the higher the quality of loans and that is why banks with many branches do attract many borrowers because they know many branches mean reduced adverse selection and moral hazards.

Hirtle (2007) suggests that banks with mid-sized branch networks may be at a competitive disadvantage in branching activities relative to branches with larger networks. This is attributed to the fact that large branch networks offer convenience of many contacts with the

institution and research has shown that depositors value geographic reach. The number of banks within a convenient distance to consumers affects the interest rate charged on small business borrowers and that the higher the numbers of banks in a locality, the lower are the interest rates charged on loans.

On the other hand it is a fact that full service branches impose significant costs on the banks and this must be covered through revenues generated which implies that branch dependent customers may be forced to incur additional costs as branches are increasingly consolidated (Atieno, 2009). This will definitely have an effect on customers' preference towards savings and borrowing in the banking industry as Kwan (2003) found out that distance is an important determinant of bank choice. With the emergence of many technological innovations and close substitutes which customers have embraced, branch location has become a secondary factor in the choice of a bank (Hefferman, 2006). On the contrary, Berger and De Young (2001) in their study on the effects of geographic expansion found out that a more geographically broad institution may be highly preferred by business customers because they are better able to serve them out of the fact that they have many locations and may have a broader menu of potential new investment opportunities outside its home market, this may be attractive to the SMEs who are in a growth path.

Ergungor (2007) in his study of relationship of branch presence and accessibility to credit in low income neighborhoods found out that favorable effects of branch presence get stronger as the branch gets closer to the neighborhood. Ergungor (2007) goes ahead and proposes that for banks to prudently lend to small businesses that have informational opaque problems, and then they must do relationship lending which calls for branch presence near the location of those small businesses. This will assist in alleviating the problem of credit rationing as the soft information can be collected at very lower costs. This is because the type of information

that relationship lending depends on can only be reliably collected and processed locally. This is the reason why in the Kenyan situation, small businesses have resorted to Rotating Savings and Credit Associations (ROSCA) because they have soft information about their members, unlike the big banks who rely on hard data like financial statements that are hardly prepared by the small businesses to do transactional lending (Atieno, 2009)

Many have argued that while large branch networks may be inefficient from the angle of looking at minimizing costs, they may be effective at generating revenue since the services being offered at the branch do attract fees and it is also very easy to mobilise cheap deposits which is very critical for profitability. Financial markets in African countries are characterized by imperfect and costly information, risks and market segmentation resulting in credit rationing (Ibid). The costs may include those of collecting information from customers who are far away and cost of monitoring. This will have an impact on pricing of the loans which will make them expensive to the small business, so the nearer the branches, the cheaper are the loans and finally the more attractive are they to the small businesses.

2.7 Empirical review

A lot of work has been done to study the interest rate spread in the banking sector globally and different contributing factors have been posited. According to Ndung'u and Ngugi (2000), they hinted that a widening spread is due to many reasons and serves as an indicator of the weak institutional and policy set-up of the financial sector. In their working paper, they also look at the performance in the loan market in Kenya in relation to the banks' profitability and the economic situation of the country.

Rosen (2007) looked at the impact of market size structure on deposit interest rates. He talked about the structure-conduct-performance paradigm and studied the relationship between price and competition in the financial sector. Some factors also studied in the same paper included the effect of switching cost of the customer on the pricing of deposits. It is also noted that

depositors may prefer a financial institution based on the size because it reflects the health and staying power of the institution (Neuberger and Zimmerman, 1990).

Hannan (2006) looked how bank interest rates have become very important and why larger institutions charge lower deposit related fees compared to smaller ones. He also explored how differences in marginal costs are caused by size and their effect on deposit pricing.

Schargrotsky and Sturzenegger (2000) state that regulation should in place to improve on banks' solvency and that there must be a trade-off between solvency and competition.

Smith (1984), says 'the rationale for regulating interest paid on deposits was that at times competitive banking was in some sense 'unstable''. Ndung'u and Ngugi (2000), state that adequate regulatory framework contributes to stability in the banking industry and that if no ceilings are put on the lending rates, banks can easily charge higher risk premiums so as to give loans to risky projects.

Schargrotsky and Sturzenegger (2000) say that the financial services are locational tailored and this benefits the entrepreneurs in close proximity to the bank more than those located further away.

When it comes to lending to small businesses, their characteristics differ in terms of provision of information for purposes of applying for loans from the banks and as such relationship lending is being vouched for via many empirical researches (Berger et al., 2007).

According to Atieno (2009) SMEs interaction with the financial institutions is very important as it provides an opportunity for external financing. This means that the factors under investigation are very critical and owners of small businesses can gain from it.

Berger, Udell and Rosen (2007), did a study to find out whether customers always look at the loan contract form before they commit themselves and how this affects their preference. The study also looked at the preference of the borrowers in relation to the size of the bank. Kim

and Vale (2001) focused on the role of branch-network in the provision of loans based on a view from the banks perspective i.e. information collection and processing are the hallmarks of any banks' operations and determines the quality of their loan portfolio. The paper also looked at the market share and market size effect and lock-in effect on the borrowers.

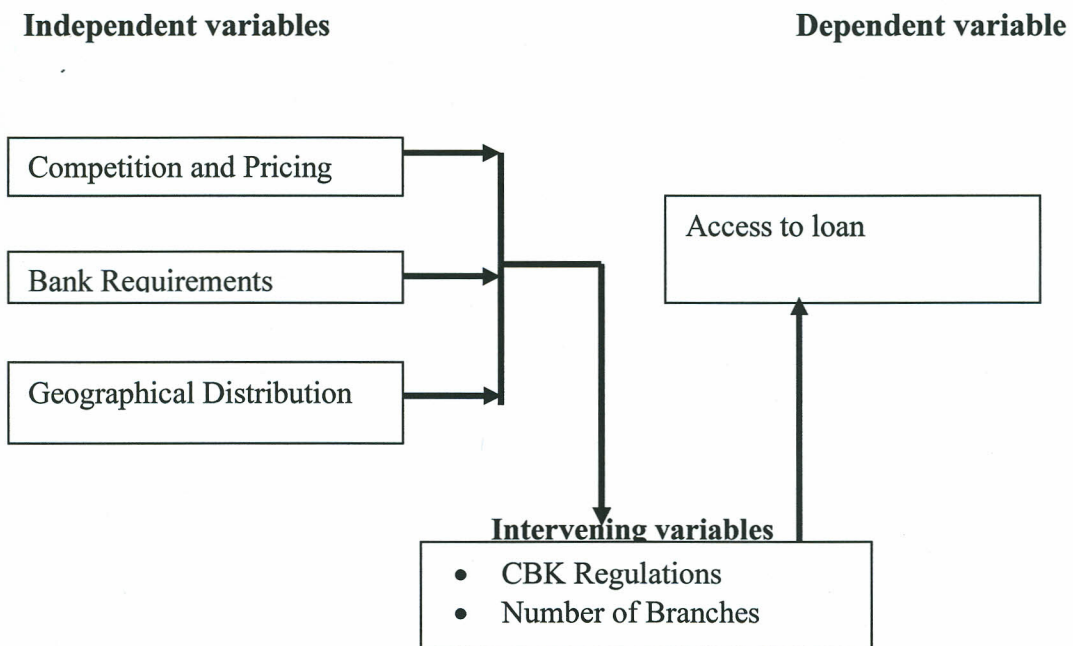
2.8 Conceptual Framework

Conceptual frameworks, according to educational researcher Smyth (2004), are structured from a set of broad ideas and theories that help a researcher to properly identify the problem they are looking at, frame their questions and find suitable literature.

The study will be guided by conceptual framework, which identifies the independent and dependent variable. The independent variable will be the loan accessibility factors which included competition and pricing, bank requirement, and geographical distribution.

The dependent variable will be the small business (borrowers).

Fig 2.1 Conceptual Framework



Source: Researcher own conceptualization

From the above figure, loan accessibility is determined by competition and pricing this is affected by factors like interest rate given by the various financial institutions. Bank charges and fees charged on loan, number and the size of the bank and market share.

For any financial institution to lend out any financial assistance , the customer or borrower are asked to follow certain bank requirement , this include terms and conditions of the financial institutions, CBK regulations on lending issues and the procedure and policies to be followed.

Geographical distribution of the financial institution plays an important role as far accessibility of loans are concerned, this geographical distribution is influenced by. the number of branches in the outskirts, banks infrastructure and the distance of the banks and the target market.

Loan accessibility however can also be measured in form of prescribed minimum loan amounts, complicated application procedures, restrictions on credit for specific purposes limit access to lenders and credit duration, which influences loan accessibility.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This chapter covers the methodology and procedures that was followed while carrying out the research project. The chapter provides a description of the research area or setting, an outline of the study population, sample size and sampling techniques, data sources and research instruments, data collection procedures and data analysis and presentation.

3.1 Research Design

The study examined lending conditions that affects accessibility of loans by small businesses in Commercial Banks in Nakuru. The study concentrated on selected commercial banks within Nakuru. Descriptive survey design was used in this study. The data gathered at a particular point in time with the intention of describing the nature of the existing conditions, identifying the standards against which existing conditions can be compared and determining the relationship that existed between specific events (Orodho, 2005).

3.2 The Study Area

The study was carried out in Nakuru Town in Kenya. This area of the study was chosen because it witnessed the increase in the number of commercial banks in the last five years. In addition, Nakuru is one of the fastest growing towns in Africa much of which can be attributed to small-scale businesses.

3.3 Target Population

Mugenda and Mugenda (1999) defined a population as a complete set of individuals, cases or objects with some common observable characteristics. The total population comprises of all Commercial Bank within Nakuru town.

The researcher targeted 30% of 24 Banks; therefore the target population was 8 banks and 3 loan officers from each bank. The target population of the borrowers was 548 and 24 loan officers.

Table 3.1 Target Population

| Category | Number of borrower | Loan officer |
|------------------------|---------------------------|---------------------|
| Barclays Bank of Kenya | 120 | 3 |
| Eco Bank | 67 | 3 |
| Equity Bank | 63 | 3 |
| Family Bank | 50 | 3 |
| KCB | 140 | 3 |
| Co-operative bank | 37 | 3 |
| National bank | 37 | 3 |
| Bank of Africa | 34 | 3 |
| Total | 548 | 24 |

Source: Survey Data, (2012)

3.4 Sample Size and Sampling Technique

The sample frame of the study was to stratify the commercial Bank into five both small and large. A stratified random sample was a useful blend of randomization and categorization, which enables both a quantitative and qualitative process of research to be undertaken (Cohen, 2003). The advantage in stratified random sampling is that it ensured inclusion, in the sample of subgroups, which otherwise, would be omitted entirely by other sampling methods because of their small numbers in the population. To obtain a sample from the commercial Bank the researcher took a sample of 30% also according to Mugenda, (2003) and Kothari (2003) also suggested that 10 – 30 % of the population forms a representative of sample; therefore the sample of borrowers was 30% of 548 making a sample of 166 borrowers. Since the number of loan officers was small the researcher selected all of them making sample of 24 using census method. This is supported by Orodho (2005) who asserted that a sample should be selected in such a way that you are assured that certain sub-groups in the population will be represented in the sample in proportion to their numbers in the population itself.

Table 3.2 Showing Sample size

| Category | Number of borrower (sample) | Loan officer |
|------------------------|-------------------------------------|---------------------|
| Barclays Bank of Kenya | 36 | 3 |
| Eco Bank | 20 | 3 |
| Equity Bank | 19 | 3 |
| Family Bank | 15 | 3 |
| KCB | 42 | 3 |
| Co-operative bank | 11 | 3 |
| National bank | 11 | 3 |
| Bank of Africa | 10 | 3 |
| Total | 166 | 24 |

Source: Survey Data, (2012)

3.5 The Data Collection Instruments

The data collection instruments are tools to collect information from the intended target population (sample size). The data collection instruments used in this study was developed by the researcher. The study used the questionnaires and interview schedules in data collection. These are briefly discussed below.

3.5.1 Questionnaire

This is a collection of items to which a respondent is expected to react in writing. The designed questions or items in word format were distributed to the respondents. This method collects a lot of information over a short period of time. The method is suitable

when the information needed can be easily described in writing and if time is limited. In this study, the respondents were given enough time to complete the copies of the questionnaire before returning them for analysis. The questionnaire includes both structured and semi-structured questions. This allowed the respondents to give their own views. The questionnaires were in three parts. The first parts sought to highlight demographic data; the next part obtained the information on specific information in relation to lending conditions and third part was the question on loan accessibility. Likert scales were useful in analyzing data in questions that directly involved the attitudes of the respondents.

3.5.2 Interview Schedule

The study also used interviews as a method of collecting data. Structured and semi-structured interview questions were designed for this exercise. The reason for use of interviews is that they were easy to administer since the questions were prepared in advance. They also allow a great deal of information to be gathered in a short period of time. Interviews eliminate many sources of bias common to other instruments like observations. In addition, interviews help seek clarification through probing. The questions that were asked were kept confidential between the researcher and the respondent. Above all the data collected through interviews will highly be amenable to statistical manipulation. The arrangement of events on questions asked and answers obtained allows easy tabulation and correlation statistically.

3.5 Data collection procedure

Before collecting data, the researcher sent a letter to the sampled commercial banks that allowed the collection of data in the commercial banks. The researchers also sought permission from the manager of the selected Banks after introducing himself and explaining the purpose of the study. After permission was granted, the researcher then proceeded to the respondents to whom he also explained the purpose of his visit. The respondents were assured of their confidentiality of any information they will give. The researcher then administered the questionnaire to customers /borrowers who filled the copies of the questionnaire in the presence of the researcher so that the researcher could give clarification on questions or items in the questionnaire that were not clear and be able to get all the questionnaires filled a per the sample size.

3.6 Validity of Research Instruments and Reliability

3.6.1 Validity of Research Instruments

Validity is the degree to which results obtained from analysis of the data actually represent the phenomenon under study (Best and Khan, 1993). It is the accuracy and meaningfulness of inferences, which are based on research results. It means the agreement between value of measurements and its true value. Validity is quantified by comparing measurements with values that are as close to the true values as possible. Poor validity also degrades the precision of a single measurement, and it reduces the ability to characterize relationships between variables in descriptive studies. The researcher ensure the content validity of the questionnaire by giving to the supervisor and other research experts to ensure that the questions test or measure what they are supposed to measure.

In order to ascertain validity of the research instruments, the researcher had to pilot the instruments by distributing ten (10) questionnaires to other Commercial Bank in Kitale

town, which were not to be part of the Bank to be sampled. The results of the piloted questionnaires enabled the researcher to determine the consistency of responses to be made by respondents and adjust the items accordingly by revising the document.

3.6.2 Reliability of the Research Instruments

Reliability is the measure of the degree to which a research yields consistent results or data after repeated trials. It is the degree of consistency that the research instruments or procedures demonstrate. It is qualified by taking several measurements on the same subjects. Poor reliability degrades the precision of a single measurement and reduces the ability to track changes in measurement in a study (Mislevy, 2004). The reliability of data collection instruments was determined from the pilot study where the researcher administered the research instruments to the other Commercial Bank in Kitale town. The research instruments administered questionnaires to the same respondents twice after a period of two weeks. The Pearson correlation was used to test the reliability of the research instrument.

3.7 Data Analysis and presentation

The data was analyzed, using descriptive statistics, frequency tables, bar graphs and percentages were used to present the data, while for inferential statistics; multiple regression and Pearson's correlations were further used to establish. Descriptive statistics that were used included frequencies, percentages, tables and means.

3.8 Ethical Considerations

Kombo and Tromp (2006), note that researchers whose subjects are people or animals must consider the conduct of their research, and give attention to the ethical issues

associated with carrying out their research. This study dealt with people as respondents, therefore, the researcher assured the respondents of confidentiality.

The researcher considered the fact that participation in research is voluntary. This is why the researcher took time to explain to the respondents the importance of the study and therefore requested the respondents to participate in the study by giving information relevant for the study. To establish good working relationship with the participants, the researcher endeavored to develop a rapport with them.

Also it will be hoped that the financial institution will take into consideration the findings in policy formulation towards the choice of appropriate lending conditions on accessibility of loan to small business.

3.9 Limitation of Study

It took a lot of time and financial commitment to get the primary data collected. Another related limitation was that the speed of internet connection from service provider and its reliability was poor. I therefore started using the resource at the late hours of the night when data traffic was very low.

Another limitation in the study was that the area which was being covered by the research was wide and considering the time constraint for the project, it was nearly impossible to get a larger sample which would have removed any biases caused by the small sample chosen. This was circumvented by going for targeted respondents so as to achieve quality data which gave a favorable view of the population.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, INTERPRETATION AND DISCUSSION

4.0. Introduction

The data was analyzed using SPSS computer package version 17.0. Using a coding system the data was entered into a database for ease of analysis. Correlations were worked out using this package for the secondary data while frequencies derived from the primary data using the same computer package. This Chapter presents, analyses, interprets and discusses the data that was gathered from respondents in the study in relation to the literature reviewed and the research objectives. The study sought to respond on the following objectives

- i. To establish the impact of bank competition and pricing on the accessibility of the loans on Commercial Banks in Nakuru.
- ii. To determine the banks requirements on lending to small businesses that hinders easy accessibility of the borrower.
- iii. To establish the effect of geographical distribution on loan accessibility on customer on Commercial Banks in Nakuru.

4.1 Demographic characteristics

4.1.1 Gender

The Respondents were asked to state their gender as far as loan accessibility is concerned, the response were as follows; male were the majority with 50.6% whereas female were 49.4 %. This indicates that male dominate in borrowing which could have been attributed by the fact that majority of them have bank accounts in this commercial banks unlike women who accesses their loan through micro –finance and women groups.

A number of women cannot open bank accounts in commercial banks as these banks do not accept their very small savings, because the transaction costs for the commercial banks are too high relative to the amounts deposited. Loan disbursements and repayments are publicly known in women groups only; men tend to overestimate the amount of money that women are handling. They therefore decide to contribute less to overall household expenditure, which often creates frictions within the household. This has dynamic effects. In many instances, women under these conditions no longer use their loans purely for investment but divert some to make up for these shortfalls in the allocation for normal household expenditures on food, health, and education

Table 4.1 Gender of Respondent

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------|-----------|---------|---------------|--------------------|
| Male | 84 | 50.6 | 50.6 | 50.6 |
| Female | 82 | 49.4 | 49.4 | 100.0 |
| Total | 166 | 100.0 | 100.0 | |

Source: Survey Data, (2013)

4.1.2 Length of borrowing response

Respondents were asked on the length of borrowing in this commercial bank, the response was as follows; 0-5 years (23.55%), 6-10 years (30.7%), 11-15 years (22.9%), 16-20 years (10.8%) and Over 20 years (12.0%). Majority had borrowed for 6-10 years this was as result of trust to customers who is frequently borrow.

Table 4.2 Length of borrowing response

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------|-----------|---------|---------------|--------------------|
| 0-5 years | 39 | 23.5 | 23.5 | 23.5 |
| 6-10 years | 51 | 30.7 | 30.7 | 54.2 |
| 11-15 years | 38 | 22.9 | 22.9 | 77.1 |
| 16-20 years | 18 | 10.8 | 10.8 | 88.0 |
| Over 20 years | 20 | 12.0 | 12.0 | 100.0 |
| Total | 166 | 100.0 | 100.0 | |

Source: Survey Data, (2011)

4.1.2 Length customer response

Majority of the respondent were customer to these banks for more than 6-10 years, this showed that the response on customer who borrow was the same as those who had accounts in those bank. The response on 0-5 years were 21.7% being the lowest and over 10 years were 36.1%.

Table 4.3 Length of customer response

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------|-----------|---------|---------------|--------------------|
| 0- 5yrs | 36 | 21.7 | 21.7 | 21.7 |
| 6 -10yrs | 70 | 42.2 | 42.2 | 63.9 |
| Over 10 yrs | 60 | 36.1 | 36.1 | 100.0 |
| Total | 166 | 100.0 | 100.0 | |

Source: Survey Data, (2011)

4.1.4 Commercial Bank Response

The researcher was interested to know the commercial bank that this customer had an account .Majority of the customer had accounts in K.C.B with 25.3% of the response; this was followed by Barclays bank of Kenya with 21.1% of the response, this is an indication that the long established commercial banks still have more customers unlike the recent established bank for the case of Bank of Africa which had the lowest customers

Table 4.4 Commercial Banks Response

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------------|-----------|---------|---------------|--------------------|
| Barclays Bank of Kenya | 36 | 21.7 | 21.7 | 21.7 |
| Eco Bank | 20 | 12.0 | 12.0 | 33.7 |
| Equity Bank | 19 | 11.4 | 11.4 | 45.2 |
| Family Bank | 15 | 9.0 | 9.0 | 54.2 |
| K.C .B | 42 | 25.3 | 25.3 | 79.5 |
| Co-operative bank | 11 | 6.6 | 6.6 | 86.1 |
| National bank | 13 | 7.8 | 7.8 | 94.0 |
| Bank of Africa | 10 | 6.0 | 6.0 | 100.0 |
| Total | 166 | 100.0 | 100.0 | |

Source: Survey Data, (2013)

4.2 LOAN ACCESSIBILITY

Table 4.5 Showing bank competition and pricing

| Bank competition and pricing | Strongly agree | | Agree | | Undecided | | Disagree | | Strongly disagree | |
|--|----------------|------|-------|------|-----------|------|----------|------|-------------------|------|
| | Freq | % | Freq | % | Freq | % | Freq | % | Freq | % |
| Comparison of interest rates is very important before taking a loan | 47 | 28.3 | 62 | 37.3 | 36 | 21.7 | 15 | 9.0 | 6 | 3.6 |
| Comparison of interest rates is very important before placing a deposit | 43 | 25.9 | 42 | 25.3 | 26 | 15.7 | 9 | 5.4 | 46 | 27.7 |
| Penalty charged by banks' on loans influences my decision to take a loan | 38 | 22.9 | 54 | 32.5 | 30 | 18.1 | 32 | 19.3 | 12 | 7.2 |
| Penalty charged by banks' to breaking fixed deposit influences my decision to deposit | 24 | 14.5 | 67 | 40.4 | 44 | 26.5 | 7 | 4.2 | 24 | 14.5 |
| Disclosure of price in terms of interest rate and fees is very important while taking loan | 41 | 24.7 | 61 | 36.7 | 22 | 13.3 | 30 | 18.1 | 12 | 7.2 |
| Consideration of other related charges is critical in choosing a savings product | 13 | 7.8 | 72 | 43.4 | 24 | 14.5 | 30 | 18.1 | 27 | 16.3 |
| Consideration of other related charges is critical in accepting a loan | 41 | 24.7 | 62 | 37.3 | 36 | 21.7 | 18 | 10.8 | 9 | 5.4 |

Source: Survey Data, (2013)

From the above table, on loan competition and pricing it is important for customer / borrowers to establish the effect on comparison of interest rates important before taking a loan. Majority of the response strongly agree with 28.3% and agree 37.3% meaning that

interest rate being levied on loans is an important factor to be considered by both the banks and consumers as it can attract or push away customers who want to borrow.

Respondents were again asked whether or not they think comparison of interest rates is important before depositing money, 25.9 % strongly agreed and 52.5% agreed meaning that favourable interest rate on deposits is able to attract many depositors to bank.

Penalty charged by banks' on loans influences the decision to take a loan the responses for those who agreed were 22.9 % and 32.5%. This implies that before you borrow any amount one is required to produce a security, so that incase you fail to pay the bank can take the security and sell it to recover their money back.

Fixed Deposits require a customer to place cash in a savings account held with a financial institution for a particular time frame at a given interest rate. Early withdrawals from Fixed Deposits tend to result in a significant penalty. The respondents were asked on how they view penalty charged by banks' to breaking fixed deposit influences their decision to deposit and response were as follows; strongly agreed were 24.7% and agree were 36.7%. This could be reason as why majority of the customer/ borrower had current and saving accounts.

Disclosure of price in terms of interest rate and fees is very important while taking loan this will help the customers /borrower to know the amount of loan one can access and the repayment period agreed were 36.7% and strongly agreed were 24.7%.

The respondent was interested to know consideration of other related charges is critical in choosing a savings product. The amount of extra fees often borrowers get caught in a trap of having to pay several pay in a month. The responses were as 43.4% agreed. However the undecided had 14.5% which indicated that they had no idea about it.

Consideration of other related charges is critical in accepting a loan the response were as follows; strongly agreed 24.7% and agree 37.3%. The borrower must look at Annual Percentage Rate (APR) for the loan given this is the cost of credit and any other finance charges like taxes and insurance charges if any.

4.3 Bank requirement on lending

Table 4.6 Showing Bank requirement on lending

| Bank requirement on lending | Strongly agree | | Agree | | Undecided | | Disagree | | Strongly disagree | |
|---|----------------|------|-------|------|-----------|------|----------|------|-------------------|------|
| | Freq | % | Freq | % | Freq | % | Freq | % | Freq | % |
| I will take a loan from the bank that has terms and conditions specified clearly in the offer letter | 54 | 32.5 | 66 | 39.8 | 21 | 12.7 | 16 | 9.6 | 9 | 5.4 |
| There is need to understand the impact of CBK regulation on borrowing from commercial bank before taking loan | 35 | 21.1 | 50 | 30.1 | 45 | 27.1 | 23 | 13.9 | 12 | 7.2 |
| Policies and procedures have to be adhered to by bank and customers | 28 | 16.9 | 85 | 51.2 | 21 | 12.7 | 21 | 12.7 | 11 | 6.6 |
| Number of years I have had an account with the bank should be consider while borrowing from commercial banks | 51 | 30.7 | 69 | 41.6 | 26 | 15.7 | 16 | 9.6 | 4 | 2.4 |
| The borrowing history and frequency makes it easy to access loans from my bank | 39 | 23.5 | 61 | 36.7 | 22 | 13.3 | 22 | 13.3 | 22 | 13.3 |
| Availability of Collateral for securing lending affect accessibility of loan requirement | 46 | 27.7 | 55 | 33.1 | 39 | 23.5 | 9 | 5.4 | 17 | 10.2 |
| The nature /type of the business I operate determines whether I can access loan from a bank | 61 | 36.7 | 65 | 39.2 | 18 | 10.8 | 10 | 6.0 | 12 | 7.2 |

Source: Survey Data,(2013)

In accessibility of loan Bank requirement on lending is a very crucial factor .From the response borrowers / customers were willingly to take a loan from the bank that had

terms and conditions specified clearly in the offer letter, this was to avoid issues of late delay of loan accessibility that could attract more customers; strongly agree 32.5 % and agree 39.8%, strongly disagree 5.4%.

There is need to understand the impact of CBK regulation on borrowing from commercial bank before taking loan. This was of important since it determine that the interest that commercial bank is suppose to charge on the amount borrowed. The responses were as follows strongly agree 21.1%, agree 30.1%, Undecided 27.1%, Disagree 13.9% and strongly disagree 7.2%.

As bank requirement on lending, policies and procedures have to be adhered to by bank and customers; this was to ease the loan accessibility. The response was as indicated below; strongly agree 16.9% and agree 51.2%.

Respondents were asked whether the number of years one had an account with the bank should be considered while borrowing from commercial banks. The responses were as follows strongly agree 30.7 %, agree 41.6%, Undecided 15.7%, Disagree 9.6% and strongly disagree 2.4%.

Respondents were asked the borrowing history and frequency makes it easy to access loans from my bank. This usual help the commercial bank to know the trend borrowing of a customer in certain period of time, their deposits and how much one is worthy to be given. The responses were as follows; strongly agree 23.5% and agree 36.7%.

Availability of Collateral for securing lending effects accessibility of loan requirement agreed 33.1% and strongly disagree 27.7%. Before the customer is approved for any loans lending it can either be secure or unsecured loans. Restrictions are put on unsecured loans. Similarly, authorities in some countries restrict the volume of this loans banks can make to a multiple of their equity.

The nature /type of the business that customer operate determines whether one can access loan from a bank the response were as follows strongly agree were 39.2% and agree 36.7%.The nature can be in terms of size that's is small or big, the type of product one is dealing with.

4.4 Geographic distribution of banks

Table 4.7 Showing Geographical distribution

| Geographical distribution on loan accessibility | Strongly agree | | Agree | | Undecided | | Disagree | | Strongly disagree | |
|--|----------------|------|-------|------|-----------|------|----------|------|-------------------|------|
| | Freq | % | Freq | % | Freq | % | Freq | % | Freq | % |
| The number of outskirts banks | 65 | 39.2 | 52 | 31.3 | 24 | 14.5 | 16 | 9.6 | 9 | 5.4 |
| The distance of the bank and the target market contribute to accessibility of loan | 51 | 30.7 | 53 | 31.9 | 20 | 12.0 | 25 | 15.1 | 17 | 10.2 |
| Bank with regional presence has a positive influence on where one is borrowing | 49 | 29.5 | 68 | 41.0 | 34 | 20.5 | 10 | 6.0 | 5 | 3.0 |
| High number of branches in a locality is reason for opening account | 60 | 36.1 | 66 | 39.8 | 27 | 16.3 | 10 | 6.0 | 3 | 1.8 |

Source: Survey Data,(2013)

Geographical distribution on loan accessibility is determined by the number of outskirts banks 39.2% strongly agreed while 31.3% agreed meaning that depositors like depositing in branches which are near to them.

The respondents were asked on whether the distance of the bank and the target market contribute to accessibility of loan. The response were as follows 30.7% and 31.9 %,which means that distance is still a factor when it comes to borrowing as such customers will prefer borrowing from branches in their locality.

The study was interested to know the bank with regional presence have a positive influence on where one is borrowing. Which 41.0% agreed and 29.5% strongly agreed meaning regional presence is a vital factor when it comes to borrowing.

The critical thing when it comes to high number of branches in a locality is reason for opening account and 39.8% agreed and 36.1% strongly agreed meaning that an overwhelming proportion of the population want to be accessible to banking services

4.5 Accessibility factors

Table 4.8 Showing Loan accessibility factors

| Loan accessibility factors | Strongly agree | | Agree | | Undecided | | Disagree | | Strongly disagree | |
|--|----------------|------|-------|------|-----------|------|----------|------|-------------------|------|
| | Freq | % | Freq | % | Freq | % | Freq | % | Freq | % |
| Form of prescribed minimum loan amounts | 49 | 29.5 | 57 | 34.3 | 18 | 10.8 | 23 | 13.9 | 19 | 11.4 |
| Complicated application procedures hinders accessibility of loan | 51 | 30.7 | 66 | 39.8 | 31 | 18.7 | 31 | 18.7 | 5 | 3.0 |
| Restrictions on credit for specific purposes limit access to lenders | 61 | 36.7 | 41 | 24.7 | 48 | 28.9 | 12 | 7.2 | 4 | 2.4 |
| Credit duration influence loan accessibility to loan | 50 | 30.1 | 63 | 38.0 | 22 | 13.3 | 23 | 13.9 | 23 | 13.9 |

Source: Survey Data, (2013)

Respondents were asked whether forms of prescribed minimum loan amounts limit their accessibility in terms of loan borrowing was concerned and the agreed were 34.3% and strongly agree were 29.5 %.

The researcher was interested to know whether complicated application procedures is a hindrance to loan accessibility the response were as follows agreed were 39.8% and strongly agree were 30.7%.

The responses on restrictions on credit for specific purposes limited access to lenders from the response; strongly agree 36.7% and agreed were 24.7%. Sometime the bank has lending conditions that limited the borrower to access the financial assistant and this was a hindering to business expansion.

The researcher was interested to know credit duration influence loan accessibility to loan, the response were as follows strongly agree was 30.1% and agreed were 38.0%. This implies that the bank had to look at the repayment period of the amount borrowed against the range from three, six months and ten years.

4.6 DISCUSSIONS ON INTERVIEW SCHEDULE

The response on interview schedule was answered by loan officers of the selected sample.

The researcher was interested to know gender distribution of loan officers in the commercial bank selected. The responses were as follows 60% of the loan officer who were interviewed were male and only 40% were female. This is an indication that the issue of loan was left to male who do not fear responsibilities. Survey findings reported by Hisrich and O'Brien (1982) suggest that bank loan officers may be influenced by the gender of the entrepreneur, favoring males over females, in evaluating loan application.

The loan officers were also interviewed on their experience in the field of credit, majority of them had experience for about 5-10 years. This had an indication that they were well conversant with their customers and therefore they had their borrowing history,

collection and restructuring of poor performing, moderately-complex to complex loans, both unsecured and secured by various types of collateral including real property, inventory, accounts receivable, stocks, etc.

The qualification of loan officers was importance since it was an indication of skill and knowledge that one had. 65% of the respondent had bachelor's degrees in various business fields. The qualification helped in the persons planning a career. As a loan officer one should be capable of developing effective working relationships with others, confident in their abilities. The experience and track record of the applicant, level of risk involved, clarity of the company's planning, quality of the business plan, profitability, collateral, and the nature of the need for the loan.

In the professional qualification 70 % of the loan officer had bachelor degree in business management/ administration with finance option while 30% had bachelor degree in business management/ administration with banking option.

Respondents were asked to mention the length of training they had, majority of the respondent hand trained for four years. This is the normal training of any degree course in Kenya.

Respondents were interviewed on whether competition and pricing had an influence on loan accessibility, 55% of loan officers agreed that pricing help in determining the interest rates before one borrows money. Tax levied on loans is a consideration by both the banks and consumers as it can attract or push away customers who want to borrow.

45% of the respondent indicated that with increased competition amongst banks, competition decreases the spreads between deposit rates and lending rates. The increased competition induces banks with better knowledge of local markets to expand loans to small businesses with beneficial effects on access to credit.

Bank requirement was an issue that respondent were asked whether it hinders accessibility of the loan, the loan officer responded that Commercial banks have tight bank requirement that hinders many small business who fail to cater for the credit needs of small holders in Kenya and this is mainly due to their lending terms and conditions which the entrepreneurs are not conversant with or are hard to be met by the customers / borrowers.

A majority of respondents agreed geographical distribution of banks had an effect on loan accessibility on customer. Places where there so many banks within convenient distance to the small businesses, the proprietors will have alternatives to shop around and will have the benefit of learning the requirements of accessing those loans. Ergungor (2007) supports this notion by giving an example of a behavior that is predominantly found amongst small businesses, where a lender connected to the community can easily know whether the account behavior of a business is due to lack of financial knowledge on the part of the lender or lack of viability in the business.

4.7 Correlation Analysis

The table below shows that at 95% is the level of confidence, since 1 percent change in Loan competition leads 0.085% change in loan accessibility. 1% change in banks lending requirements leads to 0.140% change in loan accessibility, 1% change in Geographical

distribution leads to 0.45% change loan accessibility From our finding it clearly indicates banks lending requirements has high level of association to loan accessibility as compared to other independent variable variables.

Table 4.10 Correlations between Loan competition and pricing, banks lending requirements, Geographical distribution and loan accessibility

| | | Loan competition and pricing | banks lending | Geographical distribution | Loan accessibility |
|------------------------------|---------------------|------------------------------|---------------|---------------------------|--------------------|
| Loan competition and pricing | Pearson Correlation | 1 | .088 | .044 | .085 |
| | Sig. (2-tailed) | | .258 | .576 | .274 |
| | N | 166 | 166 | 166 | 166 |
| Banks lending | Pearson Correlation | .088 | 1 | .160* | .140 |
| | Sig. (2-tailed) | .258 | | .039 | .072 |
| | N | 166 | 166 | 166 | 166 |
| Geographical distribution | Pearson Correlation | .044 | .160* | 1 | .045 |
| | Sig. (2-tailed) | .576 | .039 | | .563 |
| | N | 166 | 166 | 166 | 166 |
| Loan accessibility | Pearson Correlation | .085 | .140 | .045 | 1 |
| | Sig. (2-tailed) | .274 | .072 | .563 | |
| | N | 166 | 166 | 166 | 166 |

Correlation is significant at the 0.05 level (2-tailed).

4.7.1 Testing of Hypothesis

A multiple linear regression model was used to investigate these hypotheses

- i. there is no significant relationship between loan competition and pricing on the accessibility of the loans. The results reject the null hypothesis. ($\beta = 0.73$, $p < 0.351$)

ii. There is no significant relationship between banks lending requirements and accessibility to small business customers. The results rejected the null hypothesis

($\beta = 0.13, p < 0.101$).

iii: Geographical distribution has no effect on loan accessibility to small businesses.

The results rejected the null hypothesis. ($\beta = 0.021, p < 0.788$).

Table 4.11 showing Regression of lending condition and loan accessibility

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|------------------------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | 2.078 | .398 | | 5.225 | .000 |
| Loan competition and pricing | .096 | .103 | .073 | .936 | .351 |
| lending requirements | .161 | .098 | .130 | 1.651 | .101 |
| Geographical distribution | .021 | .079 | .021 | .269 | .788 |

a. Dependent Variable: loan accessibility

Source :(Survey data, 2013)

a. Dependent Variable: loan accessibility

b. $Y = 0.073X_1 + 0.130X_2 + 0.021X_3 + e$

Where y =loan accessibility,

β =beta

X_1 = Loan competition and pricing

X_2 = lending requirements

X_3 = Geographical distribution

The results show that the regression weights of three of the independent variables were significant. This means that three of the postulated hypotheses were not supported. Thus

bank competition and pricing, lending requirement and geographical distribution are predictor variables for loan accessibility. The standardized coefficients indicate the corresponding change in the dependent variable when a change of one unit is effected in the independent variable. Thus, a 1% improvement of loan competition and pricing had an effect of 7.3 % loan accessibility; a 1% improvement of lending requirements would lead to 13.0% loan accessibility, and a 1% improvement in geographical distribution of banks would result in a 2.1% improvement in loan accessibility. Besides, the magnitude of the t values indicates that lending requirements (t= 1.651) is the main predictor variable for loan accessibility. This is followed by Loan competition and pricing (t= 0. 936) and finally Geographical distribution (t= 0. 269).

Table 4.12 showing Model Summary

| Model | R | R Squared | Adjusted R Squared | Std. Error of the Estimate |
|-------|-------------------|-----------|--------------------|----------------------------|
| 1 | .159 ^a | .025 | .007 | .58994 |

a. Predictors: (Constant), Geographical distribution
Loan, competition and pricing, lending requirements

From the results on model summary R= 0.159, R- square = 0.025, adjusted R- square= 0.007, and the SE= 0.5899. Multiple correlation R coefficients indicate the degree of linear relationship of loan accessibility with all the predictor variables, where as the coefficient of multiple determinations R-square shows the provision of the total variation in loan accessibility that is explained by the independent variables, loan competition and pricing ,banks lending requirements and Geographical distribution in the regression equation. The R square gives us the coefficient of determination between the variables

the results from the regression analysis give an R-square value of 0.025, which means R-2.5% of the independent variables causes the change on dependant variable (loan accessibility).

Table 4.13 Anova

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|-------|-------------------|
| 1 | Regression | 1.470 | 3 | .490 | 1.408 | .243 ^a |
| | Residual | 56.381 | 162 | .348 | | |
| | Total | 57.851 | 165 | | | |

Source :(Survey data, 2013)

a. Predictors: (Constant), loan competition and pricing ,banks lending requirements ,Geographical distribution

b. Dependent Variable: loan accessibility

As shown from the table, $F = 1.408$, $p < 0.243$

The F test provides an overall test of significance of the fitted regression model.

The F value of 1.408 indicates that all the variables in the equation are important hence the overall regression is significant. Since the level of confidence was 95%.

CHAPTER FIVE:

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The findings of this study are further summarized here with a view to crystallize the key findings in relation to the research objectives. The conclusion is then drawn based on the findings and in order to answer the research objectives. The chapter finally captures the researchers' conclusions and recommendations.

5.2 Summary of the findings

i.To establish the effect of bank competition and pricing on the accessibility of the loans on Commercial Banks in Nakuru.

The study sought to find out effect of bank competition and pricing on the accessibility of the loans .Competition and pricing was important an important factor since it determined by interest rate being levied on loans both the banks and consumers as it can attract or push away customers who want to borrow. Penalty charged by banks' on loans influences the decision to take a loan, this is an implication that before you borrow any amount he or she is required to produce a security, so that incase you fail to pay the bank can take the security and sell it to recover their money back. From the study finding of the tested hypothesis indicated that there was a relationship between the bank competitions and pricing on the accessibility of the loans.

Customers and lender agreed that pricing of interest rate plays an important role, Interest rate determine the amount of money borrowed. Hannan (2006) asserts that in response to change in the competitive environment, any combination of loan rates and fees will really involve the movement of prices in the direction that either benefits the borrower or harms

the borrower. Sacerdoti (2005) agrees that increased competition decreases the spreads between deposit rates and lending rates.

ii. To determine the effects of banks requirements on lending to small businesses that hinders easy accessibility of the borrower.

The study sought to establish effects of bank requirement on lending to small businesses. In Kenya Commercial banks have tight bank requirement that hinders many small business who fail to cater for the credit needs of small holders in Kenya and this is mainly due to their lending terms and conditions which the entrepreneurs are not conversant with or are hard to be met by the customers / borrowers. From the response borrowers / customers were willing to take a loan from the bank that had terms and conditions specific clearly to the offer letter, this was to avoid issues of late delay of loan accessibility that could attract more customers. The tested hypothesis proved that there was significant relationship between banks requirements and loan accessibility.

Majority of the respondent agreed that Banks requirements hinder the accessibility of loan .Atieno, (2001).also agrees that this lending terms and conditions which the entrepreneurs are not conversant with or are hard to be met by the small businesses

iii. To establish the effect of geographical distribution on loan accessibility on customer on Commercial Banks in Nakuru

The study aimed to establish the effects of geographical distributions on loan accessibility. These were determined by the number of outskirts banks; places where there so many banks within convenient distance to the small businesses, the proprietors will have alternatives to shop around and will have the benefit of learning the requirements of

accessing those loans. This finding agrees with the geographic distribution has a relationship on loan accessibility.

Ergungor (2007) supports this notion by giving an example of a behavior that is predominantly found amongst small businesses, where a lender connected to the community can easily know whether the account behavior of a business is due to lack of financial knowledge on the part of the lender or lack of viability in the business.

Degryse and Ongena (2002) also added that an increase in the number of banks increases the likelihood of receiving a lower loan rate offer due to harsher competition. (Rosen, 2007); banks with higher number of branches do give lower deposit rates due to the convenience they do offer the account holders. Hannan and Prager (2006) concur with this; they find that organizations that are large geographically offer lower interest rates than their counterparts and these they argue that is a result of having access to alternative sources of funds.

The study also found out that access to loan as a dependent factor was determined by factors like forms of prescribed minimum loan amounts limit their accessibility in terms of loan borrowing, complicated application procedures restrictions on credit for specific purposes limited access to lenders and credit duration influence loan accessibility to loan.

5.3 Conclusion

In majority of commercial bank that were sampled they had suffered from gender disparity for both loan offers and customers. This is an indication the issue of loan was left to male who do not fear responsibility. Survey findings reported by Hisrich and O'Brien (1982) suggest that bank loan officers may be influenced by the gender of the entrepreneur, favoring males over females, in evaluating loan application. This indicate that male dominate in borrowing this could have been attributed by the fact that majority

of them have bank account in this commercial banks unlike women who accesses their loan through micro –finance and women groups this is result of women cannot open bank accounts in commercial banks as these banks do not accept their very small savings, because the transaction costs for the commercial banks are too high relative to the amounts deposited. Loan disbursements and repayments are publicly known in women only groups, men tend to overestimate the amount of money that women are handling. They therefore decide to contribute less to overall household expenditure, which often creates frictions within the household. This has dynamic effects. In many instances, women under these conditions no longer use their loans purely for investment but divert some to make up for these shortfalls in the allocation for normal household expenditures on food, health, and education.

The study also found out that a majority of the population are locked out of the formal financial sector due to the many strict requirements and stringent conditions required by the banks for one to open an account or access credit. From the government planning perspective, it makes it harder to budget because the figures from the informal sector are not captured in the government’s statistics and this is detrimental to the economic development of the country.

5.4 Recommendation

Based on the above findings, the researcher concluded that in spite of the failure to find major differences between male and female entrepreneurs, it is still possible that sex stereotypes influence the decision for approval of an entrepreneurial loan. To the extent that venture capitalists and loan officers consider personal qualities of the entrepreneur such as ability to manage risk, managerial experience and endurance, sex stereotypes

depicting women as lacking in these critical entrepreneurial attributes can influence funding decisions.

CBK should try to control the interest rate regime by offering treasury bills with very favourable rates of return and which are affordably denominated so that the banks will be left with no option but to scramble for deposits by offering better rates of return.

In Kenya the CBK needs to come up with policy guidelines geared at creating a stable financial sector, one which very competitive and can gain the confidence of the consumers. The trend of borrowing in Kenya is very worrying, though this is a creation of the few big banks that do control the market.

Eliminating restrictive practice of requiring customers to open an account before being granted loans. This strategy is frequently employed by the big banks due to the power of their balance sheet which puts them in a position to lend huge amounts that cannot be accessed in the small banks. This practice normally leaves the customer with no option but to either shy away from the formal banking sector or to limit the level of doing banking.

Many customers in Kenya alluded to the fact that they consider bank fees to be very important in choosing where they bank, so to remove the notion that banks charge higher fees and to reduce the cost of switching, charges must be made very transparent. Though this is normally published by CBK, few bank customers know about it, therefore sensitization should be part of this process so as to attract a section of the un-banked/partly-banked population who consider bank fees to be very high. The same can

also assist in reducing the high degree of inertia among consumers caused by lack of information, thereby stimulating more competition.

5.5 Suggestion for further study

Since the research dealt on the factors of lending condition on loan accessibility, from this study it has been noted that further research need to be carried out in the following areas so as to conclusively narrow down on the specific factors and to what extent they influence savings and borrowing behavior in Kenya:

- Transaction costs for the consumers and the banks
- Market power in relation to deposit rates and interest rates
- Risk premium on loans
- Bank efficiency and its effect on bank charges
- Concentration in the banking sector and its impact on deposit and loans

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APPENDICES

APPENDIXES A

QUESTIONNAIRE FOR THE CUSTOMER / BORROWERS

Please do not write your name anywhere on this questionnaire. Information provided will be treated with utmost confidentiality. You are requested to read each question carefully and provide your honest response. Please tick (√) on your appropriate response.

A. RESPONDENT BIODATA

Please tick the appropriate box

1. What is your gender?

Male Female

2. How old are you?

18-25 years 25-32years 32 -40 years
 40-50 years 50-65years Above 65years

3. What is your highest level of education?

Certificate level Diploma level Bachelor's degree
 Masters Degree PhD Other; Specify

ORGANIZATION DETAILS

4 .Please tick the name of commercial bank that you belong

| Commercial bank | Tick (√) |
|------------------------|----------|
| Barclays Bank of Kenya | |
| Eco Bank | |
| Equity Bank | |
| Family Bank | |
| KCB | |
| Co-operative bank | |

| | |
|----------------|--|
| National bank | |
| Bank of Africa | |

5. How long have you been Borrowing from this bank?

- (a) 0-5 years []
- (b) 6-10 years []
- (c) 11-15 years []
- (d) 16-20 years []
- (e) Over 20 years []

6. For how long have you been customer here?

- 0- 5yrs []
- 6 -10yrs []
- Over 10 yrs []

7. **Section B loan competition and pricing on the accessibility of the loans**

On the scale of 5-1, rank the following statements

5= strongly agree; 4= Agree; 3= Neutral; 2= Disagree; 1=strongly disagree

Please rate the following statements according to the best of your knowledge

| Factors | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|----------------|-------|-----------|----------|-------------------|
| Comparison of interest rates is very important before taking a loan | | | | | |
| Comparison of interest rates is very important before placing a deposit | | | | | |
| Penalty charged by banks' | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| on loans influences my decision to take a loan | | | | | |
| Penalty charged by banks' to breaking fixed deposit influences my decision to deposit | | | | | |
| Disclosure of price in terms of interest rate and fees is very important while taking loan | | | | | |
| Consideration of other related charges is critical in choosing a savings product | | | | | |
| Consideration of other related charges is critical in accepting a loan | | | | | |

Any other comment

8. Section C: Banks requirements on lending hinder small businesses from lending.

On the scale of 5-1, rank the following statements

5= strongly agree; 4= Agree; 3= Neutral; 2= Disagree; 1=strongly disagree

Please rate the following statements according to the best of your knowledge

| Factors | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|----------------|-------|-----------|----------|-------------------|
| I will take a loan from the bank that has terms and conditions specified clearly in the offer letter | | | | | |
| There is need to understand the impact of CBK regulation on borrowing from commercial bank before taking loan | | | | | |
| Policies and procedures | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| have to be adhered to by bank and customers | | | | | |
| Number of years I have had an account with the bank should be consider while borrowing from commercial banks | | | | | |
| The borrowing history and frequency makes it easy to access loans from my bank | | | | | |
| Availability of Collateral for securing lending affect accessibility of loan requirement | | | | | |
| The nature /type of the business I operate determines whether I can access loan from a bank | | | | | |

Any other comment

9. How geographical distribution of banks affects loan accessibility on customer?

On the scale of 5-1, rank the following statements

5= strongly agree; 4= Agree; 3= Neutral; 2= Disagree; 1=strongly disagree

Please rate the following statements according to the best of your knowledge

| Factors | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|--|----------------|-------|-----------|----------|-------------------|
| The number of outskirts | | | | | |
| Bank infrastructure in commercial bank | | | | | |
| The distance of the bank and the target market contribute to accessibility of loan | | | | | |
| Bank with regional has a positive influence on where one is borrowing | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| High number of branches is a locality is reason for opening account | | | | | |
|---|--|--|--|--|--|

Any other comment

10. Accessing Loans

On the scale of 5-1, rank the following statements

5= strongly agree; 4= Agree; 3= Neutral; 2= Disagree; 1=strongly disagree

Please rate the following statements according to the best of your knowledge

| Factors | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|--|----------------|-------|-----------|----------|-------------------|
| Form of prescribed minimum loan amounts | | | | | |
| Complicated application procedures | | | | | |
| Restrictions on credit for specific purposes limit access to lenders | | | | | |
| Credit duration influence loan accessibility to loan | | | | | |

Any other comment

APPENDIXES B
INTERVIEW SCHEDULE FOR LOAN MANAGER
Personal Details

1. (a) Gender Male [] Female [] (b) Age _____ Yrs

2. (a) Experience _____ Yrs

3. Qualifications

(a) Academic _____ (highest class/form reached)

(b) Professional (finance and Banking) _____

4. List the factors that affect loan competition and pricing on the accessibility of the loans in your organization.

5. List the bank's requirements on lending to small businesses that hinders easy accessibility of the borrower

6. In what ways does geographical distribution of financial institutions affect customer loan accessibility?

APPENDIX C: ESTIMATED BUDGET

| ACTIVITY | UNIT COST | TOTAL COST |
|----------------------------------|------------------|-------------------|
| Travel and subsistence | Varied | 50,000 |
| Printing | Varied | 15,000 |
| Secretarial services (Typing) | Varied | 15,000 |
| Hiring of research assistants | Varied | 60,000 |
| Photocopy | Varied | 10,000 |
| Binding | Varied | 5000 |
| Communication/Internet | Varied | 10,000 |
| Miscellaneous | Varied | 10,000 |
| TOTAL | | 175,000 |