

**FACTORS INFLUENCING MICROCREDIT ACCESSIBILITY BY SMALL
AND MEDIUM ENTERPRISE OPERATORS IN KENYA: THE CASE OF
MICROFINANCE INSTITUTIONS IN KASARANI DISTRICT, NAIROBI
COUNTY**

BY

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**A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS OF THE AWARD OF THE DEGREE OF MASTER OF ARTS IN
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DECLARATION

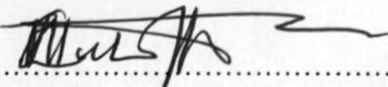
This research project report is my original work and has never been presented for any award in any other University.

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DEDICATION

This research project is dedicated to all Micro-Finance Institutions spearheading sustainable development through provision of Micro-Finance services in Kenya and other parts of the world.

To my caring parents Antonina and the late Mathew Wekhoba for their endless love, continuous encouragement, support, prayers and their desire to see me excel in life.

To my lovely children Martha, Petra, Oscar and Nina for the great support they have accorded me which propelled me to work harder, may the almighty God grant them wisdom, knowledge and the desires of their heart.

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ABBREVIATIONS AND ACRONYMS

BRI	Bank Rakyat Indonesia
CBP	Central Bank of Philippines
CBS	Central bureau of statistics
CES	Central Elasticity of Substitution
CGAP	Consultative group to assist the poor
CGE	Computable General Equilibrium
FGD	Focused Group Discussion
KADET	Kenya Agency for the Development of Enterprise and Technology
KCB	Kenya Commercial Bank
MIX	Microfinance Information exchange
KWFT	Kenya Women Finance Trust
MBVF	Million Baht Village Fund
MFI s	Micro-Finance Institutions
NGO s	Non-Governmental Organizations
RCT	Randomized Control Trial
ROSCA	Rotating Savings and Credit Association Group
SACCOS	Savings and Credit Co-operative Organization
SME s	Small and Micro-Enterprises
VSLA s	Village Savings and Loan Associations

ABSTRACT

This study investigated factors influencing microfinance credit accessibility in Kenya. From the literature review, microfinance is designed to improve the wellbeing of the poor and vulnerable populations through better access to financial services but a number of factors continue to frustrate the development of vibrant MFIs and SMEs in the rural and urban areas of most countries. In Kasarani district there has been a rapid increase of the number of MFIs licensed to operate from 2 in 2008 to 12 in 2010, most reporting increasing default rates, irregular loan repayments, client stagnation, pullout and an increase in number of loan applicants against a lower percentage of loan payments. Micro-credit has been found to have a limited application, being more relevant to the moderately poor than the destitute. Cross-sectional data was collected from a representative sample size of 46 respondents. This was sampled from 10 MFIs currently operating in Kasarani district of Kenya which was the area of study. The respondents were selected through simple random sampling procedure to represent the population. Data gathered from this study was analyzed using Microsoft excel. The finding shows that most MFIs considers only growth oriented businesses or enterprises that have the potential to grow, therefore agreeing with the argument that it's beneficial to a few and not the majority poor who are left with the choice of dependence on informal sources like relatives friends and community. The findings of the study will enable MFIs management review their management approach in view of the main principles that led to their creation. The study recommends that MFIs should arrange a mechanism of sharing their experiences and information with each other to reduce duplication of products, MFIs should invest much in research to understand the needs of their clients, Microfinance institutions should not compete with one another to reduce the problem of multi funding among the clients and reduce high debt, default rates and increase profitability. They should increase their outreach than concentrating in one area serving the same people with similar products as observed by the researcher, MFIs should strive to continuously improve their structures, practices and processes to ensure efficiency in service delivery and finally the study recommends Government policies that will improve business conditions to boost the capacity of SMEs and reduce their vulnerability.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Microfinance is widely recognized as a strategy to fight inequality, poverty and vulnerability. The term micro credit was first coined in the 1970s to indicate the provision of loans to the poor to establish income-generating projects. The term microfinance came to be used since the 1990s. Of late the terms micro credit and microfinance tend to be used interchangeably to indicate the range of financial services offered to the poor and vulnerable populations, low-income individuals/households and micro-enterprises (Brau and Woller, 2004).

While the concept of microfinance can be said to be relatively new, since time immemorial, nearly all societies in the world have had mechanisms for provision of credit and savings for the ordinary people. The West African societies have known the existence of social institutions like Esusu, Susu and Tontines which over the ages have provided financial and social support to local communities. In the colonial period the French established societies de prevoyance and the British post office savings facilities to provide financial services to the indigenous population. Similar traditional institutions and mechanisms have existed in Asia for instance chit funds in India and Tandas in Mexico (Latin America) where legions of savings, social clubs and burial societies are found. Hence provision of credit and savings is as old as the human society (Fowler & Kibiru 2004).

The effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities, have not been addressed. Informal credit institutions have proved relatively successful in meeting the credit needs of small enterprises in some countries; however, their limited resources restrict the extent to which they can effectively and sustainably satisfy the credit needs of the ever increasing entrepreneurs (Nappan and Huddlestone, 1993). Microfinance has become a popular part of poverty

reduction agendas since its inception by Hulme and Mosley (1996). These authors have made clear that, capital investment is a key factor in determining economic growth and rising incomes.

Meeting the gap between demand and supply of credit in the formal financial institutions frontier has been challenging (Von Pischke 1991). The gap is not aroused merely because of shortage of loanable fund to the poor rather it arises because it is costly for the formal financial institutions to lend to the poor. Lending to the poor involves high transaction cost and risks associated with information asymmetries and moral hazards (Stiglitz and Weiss 1981). Nevertheless, in several developing economies governments have intervened, through introduction of microfinance institutions to minimize the gap so as to allow the poor access credits. Economic inequality or “wealth and income differences” comprises all disparities in the distribution of economic assets and income.

Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. Small business in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. The financial system in most of Africa is under-developed however and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for SMEs. Non-bank financial intermediaries, such as micro-credit institutions, could be a big help in lending money to the smallest SMEs but they do not have the resources to follow up their customers when they expand.

Some of the reasons why SMEs find it hard to access finance are: high interest rates disparities between savings account returns and borrowing rates Collateral requirement land ownership, delays in processing, inflexible conditions, SME's to have good track records,

MFIs demanding group borrowing rather than individual company's lack of transparency where Conditions and requirements are not shown in advance, slow in processing loans, corruption

lack of skills to present bankable projects (sellable business plans) by SME operators majority who are limited by the level of education, people borrow and do not pay back, difficulties in follow up and monitoring by MFIs, sector diversification from agricultural to others, loan security is one of the important aspects of credit to SMEs. Most lending to small-scale enterprises is security based, without any regard for potential cash flow which limits growth of most businesses (Fowler & Kibiru 2004).

Microfinance institutions in Kenya lack cohesion; they operate under different mission statements as well as target different market niches. Most of the MFIs are not able to offer differentiated lending products or institute business support programs, whereas larger more established institutions may have access to larger and formalized enterprises. The issue is the lack of an intermediary between the two extremes. Microfinance is a great tool for poverty reduction however, it is limiting in that women who wish to expand their business further are not provided with the opportunity. Until recently, the commercial banks showed no interest in servicing SMEs because “of the perception of higher credit risk and the high transaction Costs”. However, banks are now realizing the value of catering to this growing sector due to an improved macroeconomic framework and lower interest rates. One of the banks taking part in this new trend is the Equity Bank, which provides financial literacy training and same-day emergency loans for SMEs. Equity Bank also directly targets women entrepreneurs with its product range (Fowler & Kibiru 2004).

This study aimed at analyzing the factors influencing microcredit accessibility by small and medium enterprises in Kasarani District of Nairobi County. In Kasarani district there is a rapid increase of the number of MFIs licensed to operate from 2 in 2008 to 12 in 2010, a look at some of the MFIs branch reports indicates increasing default rates, irregular loan repayments, client stagnation and pullout and an increase in number of loan applicants against a low percentage of loan approvals. Information at the local authority's offices in Kasarani also indicates an increasing number of entrepreneurs who run small businesses. The focus of the study will be on MFIs to assess the factors that influence microcredit accessibility by the SMEs.

1.2 Statement of the Problem

Microcredit is designed to improve the wellbeing of the poor and vulnerable populations through better access to financial services but a number of factors continue to frustrate the development of vibrant MFIs and SMEs in the rural and urban areas of most countries. Real annual interest rates on group loans range between 30-50%, according to a 2004 survey in Micro banking Bulletin. These rates are perhaps lower than what moneylenders typically charge, but remain punishingly high” (Pollin 2007). The question becomes whether these interest rates cause more harm than good, and if they are really intended for the poorest of the poor (Dichter, 2006; Murdoch, 1999). In these economies, it is argued that among other issues absence of access to credit is presumed to be the cause for the failure of the poor to come out of poverty. The effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities, have not been addressed. In Kasarani district there is a rapid increase of the number of MFIs licensed to operate and a look at some of the MFIs branch reports indicates increasing default rates, irregular loan repayments, client stagnation, pullout and an increase in number of loan applicants against a low percentage of loan approvals. Information at the local authority’s offices in Kasarani also indicates an increasing number of entrepreneurs who run small businesses. It was upon this background that the research sought to investigate factors that influence microcredit accessibility in Kasarani District of Nairobi County. The findings of the study will enable all stakeholders of microfinance industry in the district and country addresses the issues identified leading to the empowerment of individuals and subsequently national development.

1.3 Purpose of the Study

The purpose of this study was to assess the factors that influence microcredit accessibility by small and medium enterprises in Kasarani District of Nairobi County.

1.4 Objective of the Study

The study aimed to achieve the following objectives:

1. To establish the extent to which MFIs loan conditions influence credit accessibility by SME operators in Kasarani district.
2. To determine the extent to which demand for loans by SME operators influence credit accessibility in Kasarani district.
3. To examine the extent to which client rating influence credit accessibility in Kasarani district.
4. To assess the influence of MFI's performance on credit accessibility by SME operators in Kasarani district.

1.5 Research Questions

The study was guided by the following research questions:

1. How does MFIs loan conditions influence credit accessibility by SME operators in Kasarani district?
2. To what extent does demand for loan by SME operators influence credit accessibility in Kasarani district?
3. To what extent does client rating influence credit accessibility in Kasarani district?
4. What is the influence of MFI's performance on credit accessibility by SME operators in Kasarani district?

1.6 Significance of the Study

Document review and literature analysis reveal that there has been a rapid increase in both MFIs and Small and Medium business operators in Kasarani district. The researcher hopes to contribute to the discovery of new strategies and solutions through the given recommendations and findings so as to establish a positive link between micro-finance

institutions and SMEs in Kasarani district for development and poverty alleviation. The economic planners shall utilize the findings in formulating policies that will be of benefit to the stakeholders.

1.7 Delimitations of the Study

The study was successful since it was narrowed down to one district. The microfinance institutions were located in one location which was of benefit to the researcher in terms of logistics. The respondents were knowledgeable and provided crucial information regarding experiences with their clients and their operating environment. This information was very important for compiling the report of this study.

1.8 Limitation of the Study

The major challenge was the difficulty of meeting most of the staff that were always out in the field to attend to their client and reluctance by some respondent who considered financial issues sensitive, and lack of time to fill the questionnaire. The researcher overcame by leaving behind questionnaires in most cases with the supervisor, collecting data very early in the morning before staff left for the field arrangement was done for another visit and creating a rapport with respondents so as to gain their acceptance and trust.

1.9 Basic assumptions of the study

The key assumptions underlying the study were as follows:

That the respondents provided truthful and honest responses to the researcher and survey questions exhaustively. The sample that was selected was a true representative of the whole population of MFI staff. The researcher also assumed that the data collection instruments had validity and measured the desired constructs.

1.10 Definition of significant terms as used in the study

Microcredit lending

This refers to a bottom-up development plan that focuses on giving small loans to poor entrepreneurs

Microloans

Small, and typically relatively short-term loans (e.g. one year or less), and have high repayment rates.

Micro-Finance

Provision of a wide range of financial services to the very poor on a sustainable basis. It means credit for income generation, for starting or expanding micro-enterprises.

Micro-Finance Institutions (MFIs)

Formal and informal “banks” providing financial services to the poor using trust and group pressure to replace the lack of physical collateral to help the working poor – employed or self-employed – in a variety of ways: to raise and diversify incomes, to package incomes around wage earnings, to manage risks, stabilize incomes and reduce vulnerability through group-lending that brings the poor together.

Loan condition

Set terms by microfinance institutions for the client who wish to consume their credit facilities.

Credit accessibility

Receiving of microloans by microfinance clients

Client stagnation

A situation where a microfinance customer is not moving upwards in accessing small to bigger loans.

Client pullout/dropout

A case where a client personally decides to stop using the services of a microfinance institution.

Client rating

The assessment of SME operators on their ability to repay the loan.

1.11 Organization of the study

The study is organized into five chapters: Chapter one contains the introduction including the background of the study, statement of the problem, purpose of the study, objectives of the study, delimitations of the study and definition of significant terms. Chapter two represents the relevant literature review of the study on factors that influence microcredit accessibility by SME operators, a conceptual framework and a summary. Chapter three consists of a detailed description of the research methodology that was used in the study. This includes research design, target population, sample size and sampling techniques, research instrument, data collection procedures and data analysis techniques. Chapter four represents the data analysis, presentation, interpretation and discussion of the research findings guided by research objectives. Chapter five consists of the summary of the research findings, discussions, conclusions and recommendations based on the findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a wide range of literature review from previous studies done on the area of microcredit from a global to regional point of view. It is then organized according to the research objectives to ensure relevance to the research problem. It is presented in four sections: microcredit, access to financial services, factors that influence the accessibility of microcredit and the conceptual framework analysis model illustrating diagrammatically the variable relationship.

2.2 Microcredit

Microcredit lending is a bottom-up development plan that focuses on giving small loans to poor entrepreneurs. Loans are mostly directed towards women to promote gender-balanced development (Robinson, 2001; Wright 2000). Loans are generally given for the purpose of encouraging entrepreneurial women to start their own business (Robinson, 2001; Wright 2000; Woller and Woodworth 2001). Borrowers repay loans with a small amount of interest. This is a development plan that seeks to create self-sufficiency rather than dependence (Yunus, 2007).

Muhammad Yunus emphasizes credit as a right to opportunity. According to Yunus, credit should not be seen as a luxury for the rich, it should be an opportunity for all: "Just like food is; credit is a human right" (Yunus, 1998). Traditional lending institutions do not lend to people without collateral.

Since the 1970s, and especially the new wave of microfinance institutions in the 1990s, microfinance has come to be seen as an important development policy, poverty, vulnerability and inequality reduction tool. According to Stewart et al. (2010), the assumption is that if one gives more micro credits to poor and vulnerable populations, inequality, poverty and vulnerability will be reduced. But the evidence regarding such impact is challenging and controversial, partly due the difficulties of reliable and affordable measurement, of fungibility, the methodological challenge of proving

causality, and because impacts are highly context-specific (Brau and Woller, 2004; Hulme, 1997; Hulme, 2000; Makina and Malobola, 2004; Sebstad and Cohen, 2000).

The Grameen Bank encourages the idea that the poor can benefit from financial services in the same way that people benefit in richer, developed nations (Pollin, 2007). Yunus argues that people can be held accountable to pay back loans even if they do not have any collateral (Yunus, 2007). The Grameen Bank uses different indicators of accountability, like social responsibility, to assure that loans will be paid back (Yunus, 2007; Daley-Harris 2007). Eyiah and Espinosa were able to allocate their loans by joining a “Trust Bank,” or a community bank set up by the microcredit network Opportunity International that uses social responsibility instead of capital as collateral (opportunity.org). These alternative indicators allow poor to be eligible for loans regardless of their financial situation.

The Opportunity International microcredit networks, The Grameen Bank, as well as other microcredit institutions, employ socially conscious borrowing groups like the “Trust Bank” in order to regulate the repayment and success of loans (Wright, 2000; Murdoch, 1999; Pollin, 2000). Borrowing groups are small cooperatives of borrowers who hold each other responsible for their loans (Pollin, 2000; Murdoch, 1999) This enables very poor people to establish credit using social collateral instead of limited assets (Pollin, 2007). “...poor people, by definition, have few assets to pledge...Losing these assets to a creditor would likely bring destitution” (Pollin 2007, 1). Microcredit allows poor to use social creditworthiness to acquire loans because poor people do not have material assets to use as collateral. Along with providing the opportunity for poor to receive a loan, this tactic promotes an increase in social capital and community, promoting education, healthcare, and social networks (Daley-Harris, 2007). Social capital has become increasingly important in measures of development, and microcredit seems to be a good way to increase social capital (Murdoch 1999; Daley-Harris 2007; Wright 2000; Rankin 2002).

Microcredit lending pays attention to new research in individual achievement and social capital. "It is no coincidence that the rise of microfinance parallels the rise of nongovernmental organizations (NGOs) in policy circles and the newfound attention to 'social capital' by academics" (Murdoch 1999, 1570). Borrowing groups are an alternative way to guarantee that a loan will be repaid, as well as a way to build social capital in developing societies.

Along with social capital, empowerment is a central theme of microcredit institutions. According to the United Nations Development Program (UNDP), empowerment is: "a process that leads to greater participation in social and political processes, greater decision-making power and to conscious action for social transformation" ("Gender Mainstreaming" 2000,). Microcredit lending is a grassroots opportunity to shape personal development, or empowerment, with outside help. Yunus emphasized self-determination and personal creativity to escape the cycle of poverty, a different approach than many other traditional development plans (Yunus 2007).

Empowerment is an important part of individual development, a part of the goal of microcredit lending (Daley-Harris 2007). Microcredit focuses on community and the individual who are not represented in most top-down development schemes, in most cases, women (Murdoch 1999). Other development plans focusing on individual empowerment contend that economic development within a state cannot occur without personal development. "Empowerment is at the center of human progress.

The state is an important determinant of whether or not economic rights and other human rights are applied (Richards et al 2001; Hertel 2006). "Political elites in developing countries have to make economic and political policy choices. Human rights conditions- the ability of citizens to enjoy human dignity- are due more to human rights policies - that is, decisions made by government leaders that affect human rights conditions- than anything else" (Richards et al 2001, 220). This suggests that states have a choice of respecting or not respecting human rights. If the state makes policy decisions that negatively affect human rights, one would expect to see less economic development because human rights, specifically women's rights, are important for the ability for

women to utilize economic opportunities. Humanist, feminist, and microcredit scholars contend that conditions within a state have an effect on whether or not microcredit lending is successful, so it is not enough strictly focus on the bottom-up aspect of development (Pollin, 2007, Dichter, 2006; Sen 1983; Elson 1993).

If a goal of micro-credit is development as well as empowerment of women, the state level of analysis is important to look at because it either creates opportunity or hinders development. While a bottom-up approach like micro-credit can be helpful because it has more potential to incorporate gender, it can ignore important top-down factors. If state conditions, especially gendered conditions, are an important factor in the success or failure of microcredit, microcredit institutions need to be aware of state conditions that may affect outcome of microcredit initiatives. Another critique of microcredit is its limited empirical research that could potentially lead to incorrect assumptions and analysis. The economic successes of microenterprises are notoriously difficult and expensive to measure empirically (Dichter 2006, UNDP Review, 2005). Most evidence of success or failure is based on anecdotal evidence that may not show strong long run economic success (Dichter 2006).

Questions regarding the impact of microfinance on the welfare and income of the poor have therefore been raised many times (Copestake, 2002; Hulme and Mosley, 1996; Khandker, 2003; Rogaly, 1996; Stewart et al., 2010). Despite various researches, the question of the effectiveness and impact on the poor of microfinance programmes is still highly in question (Westover, 2008).

Roodman and Morduch (2009) reviewed studies on micro credit in Bangladesh, and similarly conclude that “30 years into the microfinance movement we have little solid evidence that it improves the lives of clients in measurable ways.” Even the World Bank (2007) indicates that “the evidence from micro-studies of favorable impacts from direct access of the poor to credit is not especially strong.”

Lending methodologies also evolve because an MFI operates in an increasingly competitive environment. When clients have institutional choice, micro lenders become

more responsive to customer demand in order to stave off desertion. It is important to explore how MFIs retain their clients, and attract new clients, in a competitive environment. Increased success in the microfinance industry will also attract other types of institutions to niches of the micro market. These new entrants may bring innovations that diversify microfinance methodologies. Alternatively, an expanding MFI may wish to branch into new markets, such as rural areas or consumer loans. This would require employing new methodologies or modifying existing ones. Key ingredients of successful micro lending methodologies include convenient and timely service to borrowers, simple application procedures, small short-term loans and gradual loan size increases based on repayment history, reliance on character and/or non-traditional collateral, strong relationships between the lender, borrower and the community, and immediate follow up on delinquent loans. (USAID, 2009).

While the concept of microfinance can be said to be relatively new, since time immemorial, nearly all societies in the world have had mechanisms for provision of credit and savings for the ordinary people. The West African societies have known the existence of social institutions like Esusu, Susu and Tontines which over the ages have provided financial and social support to local communities. In the colonial period the French established societies de prevoyance and the British post office savings facilities to provide financial services to the indigenous population. Similar traditional institutions and mechanisms have existed in Asia for instance chit funds in India and Tandas in Mexico (Latin America) where legions of savings, social clubs and burial societies are found. Hence provision of credit and savings is as old as the human society (Fowler & Kibiru 2004).

The Association of Microfinance Institutions (AMFI) is an umbrella organization representing microfinance institutions in Kenya. AMFI was registered in March 1999 under the Societies Act. AMFI's Vision is to become a strong and sustainable association, which promotes the growth of a vibrant microfinance sector that meets the financial needs of needy Kenyans. AMFI's Mission on the other hand is to promote sustainable, efficient and effective delivery of Microfinance services. AMFI recognizes

that MFIs in Kenya are still relatively young and therefore they need support in order to build their capacity to meet the diverse financial needs of needy Kenyans. AMFI's strategic intent is therefore to become a dynamic focal point for coordinating wide-ranging interventions that are geared towards the development of this sector. AMFI is a member founded and owned institution. The philosophy of AMFI is to organize a network for microfinance institutions, which are committed to developing and availing a wide range of financial products and services to the poor and low-income earners. Currently, AMFI has 18 members comprising of the major MFIs in Kenya (USAID/Kenya, 2009).

AMFI recognizes that Microfinance is one of the major tools for poverty alleviation not in Kenya alone, but worldwide. AMFI believes that the Microfinance industry needs to be recognized as a vital part of the Financial System dedicated to meeting the needs of poor, low-income people. Majority of these people in Kenya still lack access to financial services. The Microfinance industry in Kenya is still nascent and requires various interventions to increase outreach and attain sustainability. AMFI therefore recognizes that for this industry to develop, strong and financially sustainable institutions need to be established (*ibid*).

Microfinance institutions in Kenya lack cohesion; they operate under different mission statements as well as target different market niches. Most of the MFIs are not able to offer differentiated lending products or institute business support programs, whereas larger more established institutions may have access to larger and formalized enterprises. The issue is the lack of an intermediary between the two extremes. Microfinance is a great tool for poverty reduction however, it is limiting in that women who wish to expand their business further are not provided with the opportunity. Until recently, the commercial banks showed no interest in servicing SMEs because "of the perception of higher credit risk and the high transaction Costs". However, banks are now realizing the value of catering to this growing sector due to an improved macroeconomic framework and lower interest rates. One of the banks taking part in this new trend is the Equity Bank, which provides financial literacy training and same-day emergency loans for SMEs. Equity Bank also directly targets women entrepreneurs with its product range (Fowler & Kibiru 2004).

In Kenya microfinance has emerged as that sub sector of the financial system which provides financial services to the micro economy comprising alignments of the rural and urban population, including small scale farmers, micro entrepreneurs, women and the poor. This micro financial sector comprises local financial institutions which maybe formal, semi formal or informal (Fitchett, 2004). Further more such institutions maybe owned fully or in part by individuals, groups or organizations in the micro economy. Micro finance services include savings, loans, insurance, money transfers and remittances.

With the new emphasis now given to micro-enterprises, self employment activities and household enterprises, now all considered as essential actors for achieving social and economic development in developed and developing countries, microfinance has become very fashionable and is attracting increased attention. The credit market in Kenya is segmented into formal, semiformal and informal sectors (Atieno 2001).

2.3 Financial services accessibility

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. Notable disadvantages of the formal financial institutions are their restriction of credit to specific activities, making it difficult to compensate for losses through other forms of enterprises, and their use of traditional collateral like land. There is need for a broad concept of rural finance to encompass the financial decisions and options of rural economic units, to consider the kind of financial services needed by households, and which institutions are best suited to provide them.

A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2002).

Many factors are believed to be responsible for the refusal of loans and equity fund to SMEs by formal banks. According to Cork and Nisxon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run. According to Kauffmann

(2005), access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. However, Cressy and Olofsson (1997) sum up constraints facing SMEs into two; these include demand-based (SMEs) and supply-based (formal banks) financial constraints.

Africa's SMEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. Small business in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. The financial system in most of Africa is under-developed however and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for SMEs. Non-bank financial intermediaries, such as micro-credit institutions, could be a big help in lending money to the smallest SMEs but they do not have the resources to follow up their customers when they expand. <http://www.un-kenya.org/InvestorsHandbook.pdf>

In an effort to encourage the growth of the microfinance industry outside of the commercial bank sector, the government of Kenya issued new regulations governing MFIs in 2006, and further revised these articles in 2008. The Microfinance Act of 2006 established a new regulatory category for deposit-taking MFIs on which it imposed licensing and transparency requirements, deposit protections, dissolution mechanisms, corporate governance, performance, and accounting standards, and supervision by the Central Bank. As of May 2010, non-deposit-taking microfinance institutions do not fall under the jurisdiction of the Central Bank's microfinance regulations, and as such they fall under either the SACCO category supervised by the SACCO Societies Regulatory Authority (SASRA), or the informal microfinance category, which is unregulated except for the licensing required of all NGOs in Kenya. The Central Bank is currently consulting

with a variety of industry stakeholders to determine the best practices for incorporating non-deposit-taking MFIs into their regulatory framework.

Hulme, *et al.* (1999) observed that there is ample evidence in various studies carried out in Kenya that poor people have limited or no access to formal financial services. The 1995 GEMINI study for example found that 90% of micro and small enterprises in Kenya have never received credit. Since about 56% of Kenya's population lives at or below the poverty line, this implies that a significant proportion of the populations do not have access to formal financial services. They may be relying largely on informal mechanisms such as merry-go-rounds, family and friends at the lowest end and NGO, church groups and SACCOs at the upper end respectively. Except possibly for the Kenya Post Office Savings Bank, banks in Kenya have not paid much attention to the poor. NGOs have made efforts to act as intermediaries but thus far their outreach is limited to densely populate urban and rural areas.

2.4 Factors that influence microcredit accessibility

In this subsection the research discussed the factors that influence credit accessibility by SMEs. These factors are MFIs loan conditions, demand for loans, client rating and MFIs achievement.

2.4.1 Loan conditions

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.

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. Notable disadvantages of the formal financial institutions are their restriction of credit to specific activities, making it difficult to compensate for losses through other forms of enterprises, and their use of traditional collateral like land. There is need for a broad concept of rural finance to encompass the financial decisions and options of rural economic units, to consider the kind of financial services needed by households, and which institutions are best suited to provide them. Microcredit interest rates can be high for poor people, even if they are what market forces dictate (Pollin, 2007). "Real annual interest rates on group loans range between 30-50%, according to a 2004 survey in Microbanking Bulletin. These rates are perhaps lower than what moneylenders typically charge, but remain punishingly high" (Pollin 2007). The question becomes whether these interest rates cause more harm than good, and if they are really intended for the poorest of the poor (Dichter, 2006; Murdoch, 1999).

A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2002).

Dichter (2006) questions the assumption that credit will be used strictly for entrepreneurial purposes. Credit is generally used for consumption purposes in the North where it is widely available (Dichter 2006). It is not necessarily reasonable to think that credit seekers in the developing nations will use it differently than people in developed nations (Dichter, 2006). If women are expected to take care of household expenditures,

there is a greater chance that loans allocated for a business will be used for household expenses in times of need (Elson, 1993). For example, if a child becomes ill and a loan allocated for the use of purchasing a loom, that money might be used to purchase medication for the ill child. In this case, a woman's household role is against the purpose of the loan (See for example Wright 2000). It is difficult to judge if the loan was used appropriately in this example. Another critique of microfinance is that women often feel pressured to give the loans that they receive to the male of the household, undermining the empowerment purpose of microcredit.

According to Atieno (2001) in a study that assessed the role of institutional lending policies among formal and informal credit institutions in determining the access of small-scale enterprises to credit in Kenya. The results of the study showed that the limited use of credit reflects lack of supply, resulting from the rationing behavior of both formal and informal lending institutions. The study concludes that given the established network of formal credit institutions, improving lending terms and conditions in favor of small-scale enterprises would provide an important avenue for facilitating their access to credit.

2.4.2 Demand for loans

If a local market becomes saturated with entrepreneurs funded by micro credit loans, there is a risk of copycat businesses and less experienced borrowers (Dichter, 2006). This would suggest that microcredit lending will have diminishing success from year to year as the market is saturated. Both effects are seen as a result of the imperfect information inherent in credit markets. Adverse selection occurs because lenders would like to identify the borrowers most likely to repay their loans since the banks' expected returns depend on the probability of repayment.

Credit has the very real possibility of creating a large amount of debt if the entrepreneurial project does not succeed, which would be disastrous for the already poorest of the poor (Dichter, 2006). The poorest of the poor that microcredit seeks to help are women, so debt incurred as a result of failed microcredit enterprises affects women

the most. Contrary to Yunus' plea for an alternate to wage employment in developing states, Pollin suggests that wage employment is important for microcredit success. "...when the wage-paying job market is strong, it means that the number of people trying to survive as micro entrepreneurs falls. This reduces competition among micro businesses and thereby improves the chances that any given micro enterprise will succeed" (Pollin 2007). More wage employment also means that people will have enough money to buy micro entrepreneurs merchandise or services (Pollin 2007).

In an attempt to identify borrowers with high probability of repayment, banks are likely to use the interest rates that an individual is willing to pay as a screening device. However, borrowers willing to pay high interest rates may on average be worse risks; thus as the interest rate increases, the riskiness of those who borrow also increases, reducing the bank's profitability. The incentive effect occurs because as the interest rate and other terms of the contract change, the behaviour of borrowers is likely to change since it affects the returns on their projects. Stiglitz and Weiss (1981) further show that higher interest rates induce firms to undertake projects with lower probability of success but higher payoffs when they succeed (leading to the problem of moral hazard).

Since the bank is not able to control all actions of borrowers due to imperfect and costly information, it will formulate the terms of the loan contract to induce borrowers to take actions in the interest of the bank and to attract low risk borrowers. The result is an equilibrium rate of interests at which the demand for credit exceeds the supply. Other terms of the contract, like the amount of the loan and the amount of collateral, will also affect the behaviour of borrowers and their distribution, as well as the return to banks. Raising interest rates or collateral in the face of excess demand is not always profitable, and banks will deny loans to certain borrowers. The result is credit rationing in credit markets, which refers to two situations: (1) Among loan applicants who appear to be identical, some receive and others do not, with those who don't having no chance of receiving a loan even if they offered to pay higher interest rates. (2) There are identifiable groups of people who at a given supply of credit are unable to obtain credit at any interest rate, but with a larger supply, they would.

Besley (1994), following this line of argument, analyses the rationale for interventions in rural credit markets in the presence of market failure. Since credit markets are characterized by imperfect information, and high costs of contract enforcement, an efficiency measure as exists in a perfectly competitive market will not be an accurate measure against which to define market failure. These problems lead to credit rationing in credit markets, adverse selection and moral hazard. Adverse selection arises because in the absence of perfect information about the borrower, an increase in interest rates encourages borrowers with the most risky projects, and hence least likely to repay, to borrow, while those with the least risky projects cease to borrow. Interest rates will thus play the allocative role of equating demand and supply for loan able funds, and will also affect the average quality of lenders' loan portfolios. Lenders will fix the interest rates at a lower level and ration access to credit.

Imperfect information is therefore important in explaining the existence of credit rationing in rural credit markets. Moral hazard occurs basically because projects have identical mean returns but different degrees of risk, and lenders are unable to discern the borrowers' actions (Stiglitz and Weiss, 1981; Besley, 1994). An increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan repayment. This will lead to the possibility of credit rationing. Bell (1990) demonstrates that incomplete information or imperfect contract enforcement generates the possibility of loan default and eventually problems of credit rationing. The result is loan supply and implicit credit demand functions, both of which are simultaneously determined. The role of risk in allocation of credit through its effect on transaction costs, therefore, becomes important in incomplete credit markets.

Accordingly, where default risk exists, with an upward sloping supply curve, lenders offer borrowers only a choice of points on the supply curve, and borrowers are restricted to these points. It is impossible to identify the loan demand schedule using the observed loan amounts since these only reflect the existing supply. The credit demand function can only be interpreted from the borrower's participation decision, i.e., the decision to borrow or not, and from which sector to borrow. Such a decision will depend on, among other

things, the borrower's economic endowment and opportunities. The credit demand schedule identification problem therefore implies the existence of credit rationing (see also Elhiraika and Ahmed, 1998).

Empirically, research on the use of credit by rural households tends to imply that although it is not obvious that demand for credit far outweighs the supply, there are significant obstacles to the transformation of potential demand into revealed demand (Aryeetey, 1996b). The absence of supply creates a lack of demand expressed in low revealed demand. Again, due to market failure in the credit market, the transaction cost involved in obtaining credit is considered greater than the utility, prompting households to switch profits between activities as a way of financing working capital. This also explains the existence of informal credit markets alongside formal credit institutions. However, despite the exponential growth of the microfinance industry, its demand remains largely untapped. This large gap in the supply and demand of microfinance services is evident in Kenya. A 2001 survey by Faulu Kenya Ltd, a leading Kenyan MFI, estimated that based on a 1999 Central Bank of Kenya (CBK) survey, the gap between supply and demand for credit in Kenya is 68 billion Kenya shillings; approximately \$1 billion.

According to Atieno (2001) in a study that assessed the role of institutional lending policies among formal and informal credit institutions in determining the access of small-scale enterprises to credit in Kenya. The results of the study showed that the limited use of credit reflects lack of supply, resulting from the rationing behaviour of both formal and informal lending institutions. The study concludes that given the established network of formal credit institutions, improving lending terms and conditions in favour of small-scale enterprises would provide an important avenue for facilitating their access to credit.

2.4.3 Client rating

For any lender, scoring is difficult, and scoring for microfinance is even more difficult. The main difficulties are the organizational adjustments required to integrate scoring into

the lending process. A second important difficulty is amassing an adequate data base. A third difficulty is that one size does not fit all; a scoring model developed from the data base of one lender will be much less powerful if applied to a second lender because of differences in the lending technology, the clientele, the competition, and the general economic environment. Microfinance clients have limited opportunity to learn skills related to setting economic goals, making a financial plan, managing cash flow, minimizing debt, and planning for the future. The lack of attention to financial education for the poor in the context of development policies, programs, and projects is a large gap to be filled. For microfinance clients and others, good money management is a daily challenge. Pressures on their cash flow are persistent and often urgent. Future planning becomes difficult when people are struggling to make ends meet on a day-to-day basis. Planning horizons tend to be short and correspond to immediate needs, seasonal expenses, or school fees.

The difference in income between the rich and the poor is rather significant in developing regions such as Central Africa, causing serious problems in their societies. Further, financial depth eases the micro credit constraints on the poor and the vulnerable populations and increases their productive assets and productivity, thus contributing to poverty reduction (Hulme and Mosley, 1996; World Bank, 2001; Jalilian and Kirkpatrick, 2002; Kai and Hamori, 2009b). However, others argue that financial deepening only benefits the rich, thus increasing inequality and vulnerability. Beck et al. (2004) points out that since the poor and vulnerable populations depend mainly on informal finance such as borrowing from relatives, communities or friends, the development of the financial sector is beneficial only to the wealthy.

Ahlin and Jiang (2008) describe a model in which the adoption of microfinance is considered a financial development and show that microfinance decreases inequality. According to them, microfinance lowers inequality by increasing the income of the poor and lowering the income of the wealthy, since the wages paid by employers increase. Green et al. (2006) argue that improvement in the financial access of the poor and vulnerable populations can directly enhance poverty reduction, since an imperfect

financial market, which excludes the poor and the vulnerable populations, is an important factor that affects poverty (Stiglitz, 1998). As such, although the equalizing effect of microfinance can be explained theoretically, we lack sufficient research information on the empirical analyses of this study.

What mainly exist are impact analyses at the household level (micro level), such as analyses of the effect of microfinance on household income or consumption. There is a consensus that microfinance decreases the consumption volatility of households and leads to consumption smoothing and increased production (Khandker, 1998; Parker and Nagarajan, 2001; Zaman, 2001; Cuong et al., 2007). However, impact analyses such as the effect of microfinance on income or poverty reduction are controversial, provide different results for different subjects, and lack universality. For example, Pitt and Khandker (1998) show that microfinance increases household consumption, - while Morduch (1998) indicates that microfinance does not have a significant impact on consumption. Mosley and Hulme (1998) shows that micro-finance does not offer micro credits to the poorest of people or the vulnerable populations.

The impact of microfinance is not a simplistic debate on whether microfinance is transformative or ruinous. It is much more complex. Thus far literature reviews of empirical researches of the impact of microfinance on the poor found controversial and inconclusive findings. Such findings are classified into a three-fold typology: (1) Those studies that find beneficial socio-economic impacts, such as income stability and growth, reduced income inequality, reduced vulnerability, employment, nutrition and health improvements, school attendance, strengthened social networks, and women's empowerment (Beck et al., 2004; Khandker, 2003); (2) those studies that allude to negative impacts, such as the exploitation of women, unchanged poverty levels, increased income inequality, increased workloads, high interest rates and loan repayment, creating dependencies, and creating barriers to sustainable local economic and social development (Copestake, 2002; Rogaly, 1996); and (3) those studies that show mixed impacts. For example, benefits for the poor but not for the poorest (Mosley and Hulme, 1996;

Morduch, 1998), the vulnerable or helping the poor to manage the money they have but not directly or sufficiently increasing income, empowering women, among others.

Husain et al. (2010) argues that money spent on microfinance could be better used for other interventions, like supporting large labor-intensive industries for job creation. And there is literature that argues that a single intervention (like microfinance) is much less effective as an anti-poverty resource than simultaneous efforts that combine microfinance, health, education, among others. Yet, only a few impact analyses have been performed at the macro level, and there have been few researches on the impact of microfinance on inequality and vulnerability.

The analysis of the macroeconomic factors influencing microfinance performance is an emerging trend in the mainstream literature. The focus of existing studies so far can be divided into three broad categories: (1) the analysis of microfinance specific determinants of performance such as contract designs, lending methodology and corporate governance (Hartarska, 2005; Hartarska and Nadolnyak, 2007, 2008; Hermes et al., 2009; Caudill et al., 2009), (2) macroeconomic factors determining the uneven distribution of microfinance and the impact of country-level aggregates such as growth, inflation, poverty and corruption (Marconi and Mosley, 2005; Honohan, 2004, 2008; Vanroose, 2007, 2008; Vanroose and D'Espallier, 2009); and (3) the analysis of macro institutional determinants of microfinance success by disentangling the impact of microfinance sustainability factors and the external environment they operate in (Ahlin et al., 2010).

From Stewart et al. (2010), recently this debate became heated when the findings of two randomized control trials (RCTs) in the Philippines and India by the Massachusetts Institute of Technology's Jameel Poverty Action Lab (Karlan and Zinman 2010; Banerjee et al., 2009) that raised questions about the impact of microfinance on improving the lives of the poor. These researches did not find a strong causal link between access to microfinance institutions and poverty, vulnerability and inequality reduction for the poor. The results of these first RCTs in the field of microfinance have spawned a heated debate. Six of the biggest network organizations in microfinance - Acción International, FINCA,

Grameen Foundation, Opportunity International, Unitus, and Women's World Banking - in their reluctance to accept the findings, responded by pointing to anecdotal evidence of the positive impact of microfinance, while also highlights the weaknesses of these researches.

Their criticisms included the short time frame, small sample size, and the difficulty of quantifying the impact of microfinance. Rosenberg (2010) of the Consultative Group to assist the poor (CGAP) reacted to these six network organizations. The main value proposition put forward on behalf of micro credit for the last quarter century is that it helps lift people out of poverty by raising incomes and consumption, not just smoothing them. This debate between researchers and practitioners continues to rage on blog sites (Banerjee et al., 2009; Easterly, 2010) and in the media Boston Globe (Bennett, 2009), The Economist (2009), Financial Times (Hartford, 2009): the Seattle Times (Helms, 2010), New York Times (MacFarquhar, 2010). In 2010 the publication of a new book by Hanlon, Barrientos and Hulme, complicates the debate by calling for cash transfers directly to the poor. There is clearly a need for rigorous systematic reviews of the evidence of the impact of microfinance on inequality, vulnerability and poverty. The effect of microfinance on inequality, on poverty and vulnerability has been examined only within a region of a particular country or within a particular country using qualitative and quantitative methodologies.

But since the appearance of the cross-country analysis in 1961, with the research carried out on the constant elasticity of substitution (CES) production function by Arrow et al (1961) there are many other papers based on a cross-country regression of the log of value added per worker on the log of wage rate. A recent cross-country analysis has been conducted by Kai and Hamori (2009a) on microfinance and inequality. Cuong et al. (2007) analyzed the Vietnam Bank for social policies and concluded that it lowers inequality, but its effect is insignificant. Mahjabeen (2008) used the computable general equilibrium (CGE) model to show that microfinance in Bangladesh lowers inequality. Yet there is no sufficient empirical information on the effect of microfinance on inequality, so further analysis is required.

Many factors are believed to be responsible for the refusal of loans and equity fund to SMEs by formal banks. According to Cork and Nisxon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run. According to Kauffmann (2005), access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. However, Cressy and Olofsson (1997) sum up constraints facing SMEs into two; these include demand-based (SMEs) and supply-based (formal banks) financial constraints.

In Kenya, SMEs have continued to face challenges related to accessing credit. Commercial banks are still bargaining with the issue of collateral. Due to limited land ownership status in Kenya (Property Rights in Kenya), entrepreneurs are unable to provide the necessary collateral needed for loan requests. According to ILO report published in 2008: 'Factors affecting Women Entrepreneurs in Micro and Small Enterprises in Kenya,' women make up nearly half of all Small and Medium Enterprises owners and 40 percent of smallholder farm managers, yet they have less than 10 percent of the available credit and less than 1 percent of agricultural credit. Despite the fact that some provisions have been made towards gender mainstreaming, there is much more that could be put in place.

The journey towards SME policy formulation by the Kenyan government has been long. The government's commitment to foster the growth of Micro and Small Enterprises (MSEs) emerged as one of the key strategies in the 1986 report: Economic Management for Renewed Growth. It was reinforced as a priority in the 1989 report, The Strategy for Small Enterprise Development in Kenya: Towards the Year 2000. This report set out the mechanisms for removing constraints to growth of the MSE sector. In 1992, the government published the MSE policy report, Sessional Paper No. 2 Small Enterprises and Jua Kali Development in Kenya. The report was reviewed in 2002, leading to a new

policy framework that provides a balanced focus to SME development in line with the national goals of fostering growth, employment creation, income generation, poverty reduction and industrialization.

According to Aleke, (1999), low income groups and SMEs operators find it difficult to access financial assistance through the formal commercial financial markets. Although the demand for the services is immense, the commercial banking sector has not found this market segment attractive because they perceive them as bad credit risks. Microfinance activities therefore do not seem profitable for commercial banks given the significantly higher costs of administering the services.

2.4.4 Microfinance institution performance

Different people perceive sustainability in different ways. A recent publication defined “the sustainability as development that meets the need of the present without compromising the ability of future generations to meet their own needs (Schriners, 2000)”. In general view sustainability is considered as development, which is about bringing certain types of positive changes in a dynamic system, linking ecology, economy and society. From banker’s perspectives, a microfinance institution is said to have financial sustainability when the operating income from the loan is sufficient to cover all the operating costs. To continually provide financial services to the poor, the MFIs themselves must be viable and sustainable. It should not be a case of the blind leading another blind wherein the end state will be the collapse of MFIs and microfinance programs. However, a recent study shows that many of the MFIs are far from attaining this goal.

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.

In an effort to encourage the growth of the microfinance industry outside of the commercial bank sector, the government of Kenya issued new regulations governing MFIs in 2006, and further revised these articles in 2008. The Microfinance Act of 2006 established a new regulatory category for deposit-taking MFIs on which it imposed licensing and transparency requirements, deposit protections, dissolution mechanisms, corporate governance, performance, and accounting standards, and supervision by the Central Bank. As of May 2010, non-deposit-taking microfinance institutions do not fall under the jurisdiction of the Central Bank's microfinance regulations, and as such they fall under either the SACCO category supervised by the SACCO Societies Regulatory Authority (SASRA), or the informal microfinance category, which is unregulated except for the licensing required of all NGOs in Kenya. The Central Bank is currently consulting with a variety of industry stakeholders to determine the best practices for incorporating non-deposit-taking MFIs into their regulatory framework.

Most MFI's in Kenya have a very strong emphasis on credit but some are getting into the position where clients are virtually forced to take loans. This may be partly because of the MFI's needs to pump out loans to achieve operational sustainability and partly due to a belief that loans are good for small entrepreneurs even if they do not want them. Despite the changes in development paradigms in the last half of the 20th century, the promise to bring wellbeing to all human being remained unfulfilled. As it stands more than 1.2 billion people in the world are struggling to survive. Even a country like US which has experienced a long and steady boom has not been able to benefit the life of its every citizen (Bakhtiari, 2006).

2.5 Conceptual frame work

This is a diagrammatical presentation of factors that influence credit accessibility by small and medium enterprises in Kasarani division of Nairobi County.

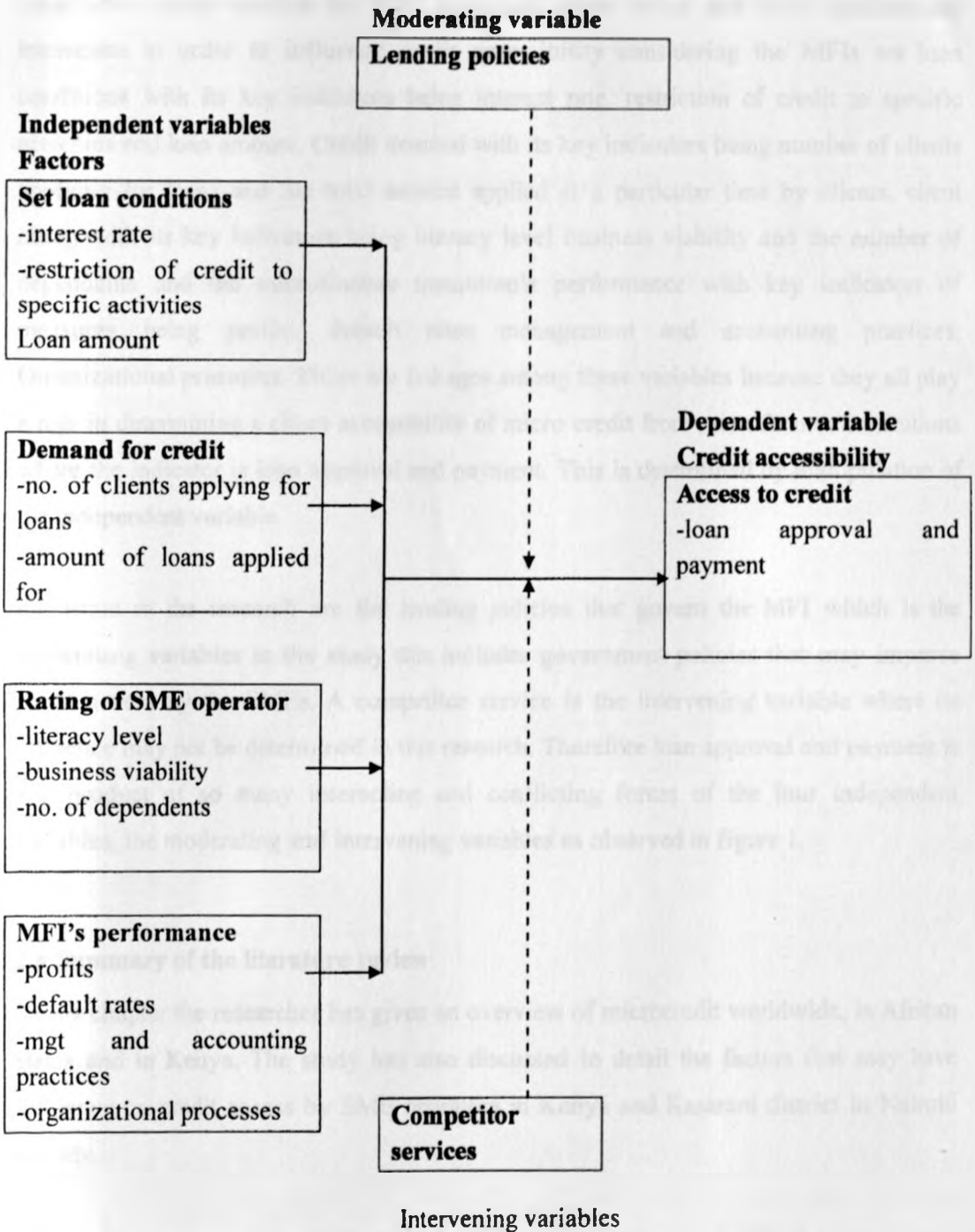


Figure 1: A Conceptual Framework Analysis Model

2.5.1 Relationship of variables in the conceptual framework

The conceptual framework illustrate how the four independent variable MFIs set loan conditions, credit demand by SME operators, client rating and MFIs performance interrelate in order to influence credit accessibility considering the MFIs set loan conditions with its key indicators being interest rate, restriction of credit to specific activities and loan amount. Credit demand with its key indicators being number of clients applying for loans and the total amount applied at a particular time by clients, client rating with its key indicators being literacy level business viability and the number of dependants and the microfinance institution's performance with key indicators of measures being profits, default rates management and accounting practices, Organizational processes. There are linkages among these variables because they all play a role in determining a client accessibility of micro credit from microfinance institutions where the indicator is loan approval and payment. This is determined by manipulation of the independent variable.

Important to the research are the lending policies that govern the MFI which is the moderating variables in the study this includes government policies that may improve credit access by the SMEs. A competitor service is the intervening variable where its influence may not be determined in this research. Therefore loan approval and payment is a byproduct of so many interacting and conflicting forces of the four independent variables, the moderating and intervening variables as observed in figure 1.

2.6 Summary of the literature review

In this chapter the researcher has given an overview of microcredit worldwide, in African states and in Kenya. The study has also discussed in detail the factors that may have influence on credit access by SME operators in Kenya and Kasarani district in Nairobi County.

Some of the reasons why SMEs find it hard to access finance are: high interest rates disparities between savings account returns and borrowing rates Collateral requirement

land ownership, delays in processing, inflexible conditions, SME's to have good track records, MFIs demanding group borrowing rather than individual companies lack of transparency where Conditions and requirements are not shown in advance, slow in processing loans, corruption lack of skills to present bankable projects (sellable business plans) by SME operators majority who are limited by the level of education, people borrow and do not pay back, difficulties in follow up and monitoring by MFIs, sector diversification from agricultural to others, loan security is one of the important aspects of credit to SMEs. Most lending to small-scale enterprises is security based, without any regard for potential cash flow which limits growth of most businesses. Microcredit lending has come to be seen as an important development policy, poverty, vulnerability, and inequality reduction tool.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the research design and methodology including data collection methods and procedure that was used in carrying out this study under the following sub-headings: Research design, Target population, sample size and sampling technique, research instruments, instrument validity instrument reliability, data collection procedure, Operational definition of variable, data analysis technique , ethical consideration and the Summary.

3.2 Research Design

The study used descriptive survey design. This design was ideal because the research did not have any control of the variables (Kothari, 2004).

3.3 Target Population and the locale of the study

A preliminary census survey was done in Kasarani district to generate a population of study in the area. Target population consisted of 200 staff distributed among the microfinance institutions operating in Kasarani district.

Kasarani district is a residential area in Nairobi Kenya. It is in the Eastern part of Nairobi, about 10 km from the city centre along Thika road. Its population is 525,624 persons, (CBS, 2009). It has a population density of 6,082 sq/km. Kasarani District has common boundaries with Kasarani constituency of Nairobi. The entire constituency is located within Nairobi City Council area. The constituency has an area of 85.7km². It has the following locations Githurai, Kahawa, Kariobangi, Kasarani, Korogocho, Roysambu and Ruaraka. The micro finance institutions that are licensed to operate in the area include Kenya women finance trust (KWFT), Faulu Kenya, Equity bank, Kenya commercial bank, Corporative bank, Jamii bora, K-rep bank, Kenya Agency for the Development of Enterprise and Technology (KADET), Musoni ltd and family bank.

3.4 Sample size selection and Sampling technique

This section of the study discusses how the sample size was arrived at and the sampling technique involved.

3.4.1 Sample Selection

The sample used in the study was made up of 64 staff of various MFIs in Kasarani district. Mugenda and Mugenda (1999) suggest that for descriptive studies 10% of the accessible population is adequate. This study used a sample size of 32% resulting into 64 respondents from 10 MFIs operating in Kasarani district. The 64 respondents are distributed according to respective MFIs as shown in table 3.1

MFIs in Kasarani	No. of staff	Sample size
KWFT	50	10
Faulu Kenya	30	7
Equity bank	25	5
KCB	17	7
Corporative bank	23	5
Jamii bora ltd	32	7
K-rep bank	22	5
KADET	20	7
Musoni ltd	12	5
Family bank	19	6
TOTAL	200	64

Table 3.1: Sampling frame

3.4.2 Sampling procedure

The study targeted staff of ten (10) MFIs that are licensed to operate in Kasarani district. The study used simple random sampling to select the total of 64 respondents from the respective institutions that offer microcredit services. As shown in table 3.1. Kothari (2008) observes that sample size chosen by the researcher should be one that can give enough information about the population and can easily be analyzed.

3.5 Research instruments

The study used questionnaires and document analysis to gather data for the study. Prior to field work, desk research was conducted on the linkage between MFIs and SMEs. Data collection consisted of key informant interviews using a questionnaire. Questionnaires were used because they give the respondent freedom to express their views and also make suggestions and are anonymous which helps produce more candid answers than in a face to face interview.

Participant observation and field site visits; this method was used to gain holistic understanding of the research community. It involved field site visits for personal observations. Participant observation led to a deeper understanding than interviews alone, because it provided knowledge of the context in which events occur, and enabled the researcher to see things that participants themselves were not aware of, or they were unwilling to discuss. The researcher in this case acted as a full participant in the situation with a known identity. Both closed-ended and open-ended questions were used. Closed-ended questions were presented on a likert scale, which allowed participants to respond with a degree of agreement or disagreement.

The questionnaire was divided in four sections the first section gathering information on personal details of the respondent. The second section elicited views on accessibility of financial services. The third section was on the general perception of microfinance and the fourth section addressed the research objectives and questions soliciting views on the influence of the factors on credit accessibility.

3.5.1 Instrument Validity

Pre-testing of survey instruments was a good way used to increase the likelihood of face validity. Content validity the use of expert opinions, literature searches, and pretest open-ended questions helped to establish content validity. This was necessitated by the need to assess the clarity of the instrument items so that those that failed to measure the variables they were intended to were modified or discarded completely and new items added. Construct validity confirmatory factor analysis was used to explore how individual

survey items contributed to an overall construct measurement. The questionnaires were administered in two MFIs which were not in the main study

3.5.2 Instrument Reliability

This refers to the accuracy and precision of a measurement procedure. An instrument is reliable to the degree that it produces consistent results. To enhance reliability of the instruments a pilot study was conducted in 2 MFIs in central district of Nairobi county. The questionnaires designed for the study were administered to 9 staff of MFIs prior to the actual study. Data collected and analyzed from the pilot study gave the researcher an insight of the nature of expected results after the study was completed. It also helped the researcher identify gaps in the instruments in relation the research objectives and addressed them prior to the study. The information was not included in the study.

The aim was to assess the clarity of the questionnaire items. In order to improve the reliability of the instrument the research employed the test retest technique where the same instrument was administered to the same group of respondents at two different points in time. The degree to which both administrations were in agreement was the measure of the reliability of the instrument.

3.6 Data Collection Procedure

The researcher sought authority from the ministry of higher education by applying for a permit. The office of the district headquarters was also notified. The researcher then randomly sampled the respondents for actual data collection depending on their availability and administered the uniform questionnaire.

3.7 Data Analysis Techniques

Data analysis refers to the process which the researcher interprets the data collected systematically in order to make sense out of it. Data processing and analysis began shortly after the field data collection commenced. Completed data collection instruments were edited and data fed into computer. Descriptive statistics were most appropriate for the study because they helped in description, analysis and interpretation of circumstance the way they were at the time of study. The report was presented in Tables formatted in

Excel presented in tables, frequency and percentages which was used to answer research questions and interpret the data.

3.8 Ethical consideration

The principle of voluntary participation was adhered to and respondents were not coerced into participating in the research. The research ensured confidentiality. Individual permission was sought from institutions and individuals expected to participate in the study. The respondents were informed of the consent and the purpose of this research study. To ensure confidentiality, names of the respondents were not used in the study.

3.9 Operational Definitions of independent and dependent Variables

The operational definitions of variables describe the independent and dependent variables as well as their sub-variables as measurable indicators of the study as shown in table 3.2 below:

OBJECTIVE	VARIABLE	INDICATORS	MEASUREMENT	SCALE	DATA COLLECTION METHOD	DATA ANALYSIS
1. To establish the extent to which MFIs loan conditions influence credit accessibility by SME operators in Kasarani district.	Independent variable -Set loan conditions	-interest rate -restriction of credit to specific activities -loan amount	- interest charged, - specifications on use of loan - amount set	-nominal -nominal - nominal	- Interviews - Questionnaires -observation -document review	-descriptive
	Dependent variable -Loan accessibility	-loan approval and payment	-money paid	-nominal	- Interviews - Questionnaires	-descriptive
2. To determine the extent to which demand for loan by SME operators influence credit accessibility in Kasarani district.	Independent variable -Demand for credit	-no. of clients applying for loans -amount of loans applied for	no. of clients -total amount of loan applied.	nominal nominal	- Interviews - Questionnaires -observation -document review	-descriptive

	Dependent variable -Loan accessibility	-loan approval and payment	-money paid	-nominal	- Interviews - Questionnaires	-descriptive
3. To assess the extent to which SME operator vulnerability influence credit accessibility in Kasarani district.	Independent variable - Vulnerability of SME operator	-literacy level -business viability -no. of dependents	-Level of education attained -business potential -no. of dependants	nominal nominal	- Interviews - Questionnaires -document review	-descriptive
	Dependent variable -Loan accessibility	-loan approval and payment	-money paid	-nominal	- Interviews - Questionnaires	-descriptive
4. To assess the influence of MFI's performance on credit accessibility by SME operators in Kasarani district.	Independent variable -MFI's performance	-profits -default rates -mgt and accounting practices - organizational processes	-profits achieved -no. of defaults -level of accuracy of records -service efficiency	-nominal -nominal - nominal - nominal	- Interviews - Questionnaires -observation -document review	-descriptive
	Dependent variable -Loan accessibility	-loan approval and payment	-money paid	-nominal	- Interviews - Questionnaires	-descriptive

Table 3.2: Operational Definitions of Variables and Measuring Indicators

3.10 Summary

This chapter described the research methodology and design that was used in the study. The study used descriptive survey design. The area of study was Kasarani district which is a residential area along Thika road with the following locations: Githurai, Kahawa, Kariobangi, Kasarani, Korogocho, Roysambu and Ruaraka. Target population consisted of 200 staff distributed among the microfinance institutions operating in Kasarani district. This study used a sample size of 32% resulting into 64 respondents from 10 MFIs operating in Kasarani district. The study used simple random sampling to select the total of 64 respondents from the respective institutions that offer microcredit services.

Pilot testing was done in central district which is not part of the study. The aim was to assess the clarity of the questionnaire items. In order to improve the reliability of the instrument the research employed the test retest technique where the same instrument was administered to the same group of respondents at two different points in time. The report was presented in Tables formatted in Excel presented in tables, frequency and percentages which was used to answer research questions and interpret the data. The principle of voluntary participation was adhered to and respondents were not coerced into participating in the research. The research ensured confidentiality.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

The chapter presents findings based on the research objectives, the MFIs loan condition, demand, client rating and performance and how they all influence access to credit by SME operators. The data is presented in frequency tables and percentages.

4.2 Questionnaire return rate

The study dispatched 64 questionnaires, of which 46 were returned against a population of 200 staff. The return rate is indicated in Table 4.1.

Table 4.1: Questionnaire return rate

MFIs in Kasarani	No. of staff	Questionnaire distributed	Questionnaire returned
KWFT	50	10	6
Faulu Kenya	30	7	4
Equity bank	25	5	3
KCB	17	7	5
K-rep bank	22	5	5
KADET	20	7	6
Musoni ltd	12	5	3
Family bank	19	6	5
Jamii bora ltd	32	7	4
Corporative	23	5	5
	200	64	46

The questionnaire to respondents had a return rate of 71.88% which was adequate for the study to proceed.

4.3 Demographic characteristics of the respondent

The demographic characteristic of the respondent such as gender, age, work experience and qualification were sought to ascertain the nature of the population in the study.

Table 4.2: Distribution of participants by demographic characteristics

Respondent Characteristic	category	Frequency	Percentage %	Cumulative Percentage %
Gender	Female	26	56.5	56.5
	Male	20	43.5	100
Age	20-29	12	26.1	26.1
	30-39	14	30.4	56.5
	40-49	11	23.9	80.4
	50-59	9	19.6	100
Experience	1-4	19	41.3	41.3
	5-9	22	47.8	89.1
	10-14	4	8.7	97.8
	15-	1	2.2	100
Qualification	Secondary	2	4.4	4.4
	Diploma	31	67.4	71.8
	Graduate	6	13.0	84.8
	Post graduate-	7	15.2	100

N=46

Both genders were represented in the study. 26(56.5%) of the staff were female and the rest 20(43.5%) were men. 12(26.1%) of the staff were aged 20-29, 14(30.4%) aged 30-39 11(23.9%) aged 40-49 and 9(19.6%) aged 50-59. On the experience in the industry 19(41.3%) worked for 1-4 years, 22(47.8%) 5-9years, 4(8.7%) 10-14 years and 1(2.2%) worked for 15 years and above. On their qualification 2(4.4%) attained secondary level of education. 31(67.4%) diploma level 5(13.0%) attained graduate level and 7(15.2%) had post graduate level of education and above.

4.4 Financial services accessibility

The study sought to establish the main social economic impact alluded to microfinance from the respondents and the findings are summarized in Table 4.3.

Table 4.3: Social economic impact of microfinance

Item	Frequency	Percentages
Creating dependencies	9	19.57
Unchanged poverty levels	13	28.26
Increased income inequality	6	13.04
High interest rates	17	36.96
Others	1	2.17
Total	46	100.00

According to the data in table 4.3 the main social economic impact alluded to microfinance are high interest rates with 36.96%, unchanged poverty levels with 28.26%, creating dependencies with 19.57%, increased income inequality with 13.04% and others with 2.17%.

The study also sought to find out if microfinance is the intervention for poverty reduction in Kenya and the findings are summarized in Table 4.4.

Table 4.4: Microfinance intervention

Response	Frequency	Percentage
Yes	27	58.70
No	19	41.30
Total	46	100.00

In Table 4.4 58.70% of the respondents indicated that yes it was while 41.30% indicated that it was not.

The study further sought to find out then the best intervention for poverty reduction in Kenya from the respondents who felt microfinance was not the best way and the findings are summarized in Table 4.5.

Table 4.5: Best intervention for poverty reduction

Intervention	Frequency	Percentage
Supporting large labor-intensive industries for job creation	2	10.53
Simultaneous efforts combining microfinance, health, education etc	9	47.37
No single intervention should be used	5	26.32
All the above	2	10.53
Others	1	5.26
Total	19	100.00

In Table 4.5 the data collected indicated 47.37% of the respondents felt the best microfinance intervention for poverty reduction should be Simultaneous efforts combining microfinance, health, education etc, 26.32% thought no single intervention should be used, 10.53% were of the view that Supporting large labor-intensive industries for job creation was the way to go, a further 10.53% felt the first three options given earlier were appropriate while 5.26% of the respondents opted for other undisclosed interventions.

The study sought to find out if microfinance clients are given the same treatment in terms of services offered and the findings are summarized in Table 4.6.

Table 4.6: Treatment of microfinance clients

Response	Frequency	Percentage
Yes	31	67.39
No	15	32.61
Total	46	100.00

In Table 4.6 15 out of 46 respondents indicated that they are not given the same treatment while 31 respondents indicated that yes they were given the same treatment.

The study sought to find out the cause of inequality from the respondents who did not agree and the findings are summarized in Table 4.7.

Table 4.7: The cause of inequality

Cause of inequality	Frequency	Percentage
Lack of regular income	6	40.00
Lack of adequate formal education	3	20.00
Lack of guarantors	5	33.33
Lack of political patronage	1	6.67
Others	-	-
Total	15	100.00

In table 4.7 40% of the respondents indicated that lack of regular income was one of the basis of client discrimination, 6.67% pointed to lack of political patronage, lack of adequate formal education 20% while 33.33% attributed discrimination to lack of guarantors.

4.4.1 Staff perception regarding MFI operations

The study sought various information on the perception regarding MFI operations. Respondents were asked to state whether they were in agreement with the statement given or not and the findings are summarized in Table 4.8.

Table 4.8: Respondent's perception on MFIs

Perception question	Response	Frequency	Percentage
Microcredit loans are easily accessible	Yes	13	28.26
	No	33	71.74
MFIs loan conditions lock out potential clients	Yes	28	60.87
	No	18	39.13
Borrowers are in need of credit and do not consider the interest charged	Yes	25	54.35
	No	21	45.65
High default rates in MFIs influence negatively on credit accessibility to SMEs	Yes	37	80.43
	No	9	19.57
Accessibility of loans is poor	Yes	27	58.70
	No	19	41.30
Credit demand is higher than the MFIs can supply	Yes	35	76.09
	No	11	23.91

In Table 4.8 It can be noted from the data obtained above that respondents who felt that micro-credit loans are not easily accessible were 33 out of a possible 46 while 13 indicated that the credit is easily accessible. On the question of whether MFIs loan conditions lock out potential clients 28 respondents said 'yes' while 18 were for 'no'. 25 respondents indicated that borrowers are in need of credit and do not consider the interest charged, while 21 suggest that borrowers indeed do consider the interest charged. 37

respondents indicated that high default rates in MFIs influence negatively on credit accessibility to SMEs while 9 did not think high default rates in MFIs would influence negatively on credit accessibility to SMEs. 27 respondents registered that accessibility of MFIs loans is poor while 19 respondents did not think that was the case. Respondents who were of the opinion that credit demand is higher than the MFIs can supply were 35 while those who thought that was not the case were 11.

4.5 Factors that influence microcredit accessibility

4.5.1 MFI loan conditions

The study sought to establish the extent to which set interest rates, restriction of credit to specific activities and specified loan amounts influence credit accessibility from the respondents and the findings are summarized in Table 4.9.

Table 4.9: Loan conditions and accessibility of credit

Item	Response	Frequency	Percentage
interest rates	Yes	16	34.8
	No	30	65.2
Restriction of credit to specific purpose	Yes	21	45.7
	No	25	54.3
Condition on loan amount	Yes	40	87.0
	No	6	13.0

In Table 4.9 Respondents were asked to state whether they were in agreement with the statement given or not. It can be noted from the data obtained above that respondent who felt that Pre set interest rates influence loan accessibility were 16(34.8%) and 30(65.2%) who disagreed. Restriction of credit to specific purpose 21(45.7%) agreed 25(54.3%) disagreed. On condition on loan amount 40(87.0%) agreed, 6(13.0%) disagreed.

4.5.2 Demand for loan

The study sought to establish the extent to which number of loan applicants and the total amount of loans applied for influence credit accessibility from the respondents and the findings are summarized in Table 4.10.

Table 4.10: Demand for loan and accessibility of credit

Item	Response	Frequency	Percentage
The number of loan applicants affect the rate of accessibility	Extremely dissatisfied	5	10.87
	Dissatisfied	8	17.39
	Neutral	5	10.87
	Satisfied	17	36.96
	Extremely satisfied	11	23.91
Total amount of loans applied for affect the rate of accessibility	Extremely dissatisfied	15	32.69
	Dissatisfied	7	15.22
	Neutral	7	15.22
	Satisfied	8	17.39
	Extremely satisfied	9	19.57

Table 4.10 Respondents were given statements and asked to indicate whether they were extremely dissatisfied, dissatisfied, neutral, satisfied or extremely satisfied. On the question regarding whether the number of loan applicants affect the rate of accessibility 36.96% indicated that they were satisfied; on whether the total amount of loans applied for affect microcredit accessibility the response that carried the day was extremely dissatisfied with 32.69%.

4.5.3 Client rating

The study sought to establish the extent to which the vulnerability of microfinance clients influence their access to credit from the respondents, the indicators that were considered were the level of education, business viability and the number of dependants and the findings are summarized in Table 4.11.

Table 4.11: Client rating and accessibility of credit

Item	Response	Frequency	Percentage
Literacy level	Strongly agree	17	36.96
	Agree	11	23.91
	Neutral	8	17.39
	Disagree	5	10.87
	Strongly disagree	5	10.87
Business viability	Strongly agree	15	32.69
	Agree	9	19.57
	Neutral	8	17.39
	Disagree	7	15.22
	Strongly disagree	7	15.22
Number of dependants	Strongly agree	13	28.26
	Agree	15	32.69
	Neutral	9	19.57
	Disagree	7	15.22
	Strongly disagree	2	10.53

Table 4.11 Respondents were given statements and asked to indicate whether they strongly agree, agree, neutral, disagree, or strongly disagree if literacy level affect the rate of accessibility 36.96% indicated that they strongly agreed; on whether the business viability affect microcredit accessibility the response that carried the day was strongly agree with 32.69% and number of dependants 28.26% strongly agree while 32.69% was those who agree.

4.5.4 Microfinance institution performance on credit accessibility

The study sought to establish the extent to which the performance of the microfinance institution influence credit accessibility by SME operators from the respondents, the indicators that were considered were the profits made, default rates, management and accounting practices and the organizational processes the findings are summarized in Table 4.12.

Table 4.12: MFIs performance and credit accessibility

Item	Response	Frequency	Percentage
Profits made	Yes	29	63.00
	No	17	37.00
default rates	Yes	32	69.6
	No	14	30.4
management and accounting practices	Yes	36	78.3
	No	10	21.7
organizational processes	Yes	42	91.3
	No	4	8.7

In Table 4.12 It can be noted from the data obtained above that respondents who felt MFIs performance influence credit accessibility were the majority 63% agreeing that profits made has an influence, 69.6% for default rates, 78.3% for management and accounting processes and 91.3 for organizational processes.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the study and highlights the conclusion made from the findings. It explains the findings and makes recommendations based on the study that are related to the problem studied. Finally, the chapter suggests several lines of research that will contribute to making the research's endeavor more meaningful and relevant.

5.2 Summary of Findings

This section summarizes the findings of the study based on the research objectives. The apparent poor accessibility of microcredit by small and medium enterprises was the motivation of this study. The study sought to establish the factors that influence microcredit accessibility by SMEs in Kasarani district.

In Table 4.8 respondents were asked whether they agree or not about the statements that were given, the following was the response; on whether microcredit is easily accessible by SMEs 71.74% disagreed, on whether borrowers are in need of credit and do not consider the interest charged 54.35% agreed, 60.87% agree that MFIs loan conditions lock out potential clients, 80.43% agree high default rates in MFIs influence negatively on credit accessibility, 58.70 agree that accessibility of loans is poor, and lastly 76.09 agree that credit demand is higher than MFIs can supply. In Table 4.9 the majority of respondents were of the view that condition on loan amount may hinder loan accessibility unlike set interest rates and restriction of credit to specific purpose.

Table 4.10 presents a summary of issues regarding demand for loan. Respondents were given statements and asked to indicate whether they were extremely dissatisfied, dissatisfied, neutral, satisfied or extremely satisfied. On the question regarding whether the number of loan applicants affects the rate of accessibility 36.96% indicated that they

were satisfied, 23.91 extremely satisfied, on the total amount of loans applied for 32.69% which is the majority were extremely dissatisfied.

On client rating Table 4.11 strongly agree and agree that literacy level, business viability and number of dependants an applicant has have a major influence on credit accessibility.

Whether the respondents agreed or not, on the influence of Microfinance institution's level of performance on credit accessibility, the majority response was in agreement in Table 4.12.

5.3 Discussion of the Findings

This section discusses the findings of the study based on the research objectives in relation to the literature that was reviewed. The apparent poor accessibility of microcredit by small and medium enterprises was the motivation of this study. The study sought to establish the factors that influence microcredit accessibility by SMEs in Kasarani district.

Table 4.9 identified several problems associated with SMEs in accessing financial services from microfinance institutions. One of the outstanding problem was restriction of credit to specific activities. It turns out that some of this MFIs deal with specific market niche such as women, farmers or working class. This locks out many potential entrepreneurs who are considered unqualified hence influencing accessibility of loans negatively. The condition on loan amount also locks out clients whose business financial need may not meet. This is also confirmed in table 4.3 the question becomes whether these interest rates cause more harm than good, and if they are really intended for the poorest of the poor (Dichter, 2006; Murdoch, 1999).

In Table 4.10 respondent agree that the number of loan applicants affect the rate of accessibility. According to Aleke, (1999), low income groups and SMEs operators find it difficult to access financial assistance although the demand for the services is immense. Many people yarn to be their own bosses and this is one of the main driving force behind

the overwhelming demand for individuals to venture into business and this puts a lot of pressure on the supply of credit facilities by MFIs. If a local market becomes saturated with entrepreneurs funded by micro credit loans, there is a risk of copycat businesses and less experienced borrowers (Dichter, 2006). Bell (1990) demonstrates that incomplete information or imperfect contract enforcement generates the possibility of loan default and eventually problems of credit rationing. The result is loan supply and implicit credit demand functions, both of which are simultaneously determined.

In Table 4.11 where the study was to establish how client rating influences credit accessibility, the finding established that the business viability, literacy level and the number of dependants an applicant has plays an important role. This shows that most MFIs considers only growth oriented businesses or enterprises that have the potential to grow, therefore agreeing with the argument that it's beneficial to a few and not the majority poor who are left with the choice of dependence on informal sources like relatives friends and community. In most cases poor households usually do not have access to guarantee mechanisms, such as non-real estate-based collateral. This situation, combined with the overall lack of information about these potential borrowers' creditworthiness, contributes to a virtual exclusion of this group of borrowers from formal credit markets. According to Kauffmann (2005), access to formal finance is poor because of the high risk of default among SMEs. Beck et al. (2004) points out that since the poor and vulnerable populations depend mainly on informal finance such as borrowing from relatives, communities or friends, the development of the financial sector is beneficial only to the wealthy.

In Table 4.12 a higher percentage of respondent are in agreement that MFIs processes may hinder loan accessibility this supports the critics of microfinance who state that one of the major constraint of SMEs is poor accessibility to credit facilities which is a creation of MFIs. Schmidt and Kropp (1987) argue that the type of financial institution and its policy will often determine the access problem. Most MFI's in Kenya have a very strong emphasis on credit but some are getting into the position where clients are virtually forced to take loans. This may be partly because of the MFI's needs to pump out

loans to achieve operational sustainability and partly due to a belief that loans are good for small entrepreneurs even if they do not want them. (Bakhtiari, 2006).

5.4 Conclusion

This section gives the conclusion of the study based on the research objectives. The apparent poor accessibility of microcredit by small and medium enterprises was the motivation of this study.

In most cases loan 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 or maximum loan amounts one can take which keep majority of SME operators. The SME operators are in need of credit and do not consider the interest rates. It also shows that borrowers are in need have credit and do not consider the interest charged which explains the high demand of credit. That the number of applicants influences the rate of accessibility.

Micro-credit has been found to have a limited application, being more relevant to the moderately poor than the destitute. The finding shows that most MFIs considers only growth oriented businesses or enterprises that have the potential to grow, therefore agreeing with the argument that it's beneficial to a few and not the majority poor who are left with the choice of dependence on informal sources like relatives friends and community. Lack of skills to present bankable projects (sellable business plans) by SME operators majority who are limited by the level of education is a key factor in accessibility of credit. The study has shown that the literacy level, business viability and number of dependants have a strong influence on credit accessibility

High default rates in MFIs influence negatively on credit accessibility to SMEs as per the findings of this study. The study has also shown that the management and organizational processes affects the rate of accessibility. In most cases loan access problem, especially

among formal financial institutions, is one created by the institutions mainly through their lending policies and processes.

5.5 Recommendations and Contribution to the body of knowledge

This study makes the following recommendation:-

Microfinance institutions should increase their outreach than concentrating in one area serving the same people with similar products,

The study recommends that MFIs should arrange a mechanism of sharing their experiences and information to reduce duplication of products. MFIs should also invest much in research to understand the clients and their needs and strive to continuously improve their structures, practices and processes to ensure efficiency in service delivery since the study has shown that the number of loan applicants, management and organizational processes affects the rate of accessibility.

. The study has shown that the literacy level, business viability and number of dependants have a strong influence on credit accessibility. This can be addressed by participation and networking with other stakeholders involved in community development. Microfinance institutions should not compete with one another, this will reduce the problem of multi funding among the clients, reduce high debt, default rates and increase profitability which the research has found to be an influence to credit accessibility.

Finally the study recommends Government policies that will improve individual wellbeing and business conditions to boost the capacity of SMEs.

5.6 Suggestion for further study

This study suggests the following area for further studies:-

1. State factors that influence accessibility of credit.
2. Factors that influence loan default in microfinance institutions.
3. The influence of group model on accessibility of loans in microfinance institutions.
4. The contribution of microfinance on gender development.
5. Challenges facing microfinance institutions.

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APPENDIX

Appendix I: Sample Questionnaire

SECTION A; BACKGROUND INFORMATION

(Instructions; Tick against the right choice given at the end of each question)

1. Indicate your gender (a) Male () b) Female ()
2. Indicate your corresponding age bracket from the options given below;
 - (a) 20 – 29 ()
 - (b) 30-39 ()
 - (c) 40-49 ()
 - (d) 50-59 ()
 - (e) 60 and above..... ()
3. Indicate your highest level of Education from the options given below
 - (a) Secondary ()
 - (b) Diploma ()
 - (c) Graduate ()
 - (d) Post graduate ()
4. How long have you worked with microfinance industry
 - (a) 1 – 4 yrs ()
 - (b) 5- 9 yrs ()
 - (c) 10-14 yrs ()
 - (d) 15 and above ()

SECTION B: ACCESS TO MICROFINANCE SERVICES

(Tick the option that fits your opinion on access to microfinance financial services)

5. What is the main social economic impact alluded to microfinance?

- (a) creating dependencies ()
- (b) unchanged poverty levels ()
- (c) increased income inequality ()
- (d) high interest rates ()
- (e) Others (specify).....

6. Do you believe that microfinance is the intervention for poverty reduction in Kenya?

- (a) Yes ()
- (b) No ()

If your answer to the above question is no, what do you suppose should be the best intervention? (Pick the best intervention from the options given)

- (a) Supporting large labor-intensive industries for job creation ()
- (b) simultaneous efforts that combine microfinance, health, education, among others ()
- (c) no single intervention should be used ()
- (d) all the above ()
- (e) Others (specify).....

7. Do you think microfinance institution treat all their clients equally in terms of loan accessibility?

- (a) Yes ()
- (b) No ()

If No, what is the cause of the inequality?

- (a) Lack of regular income ()
- (b) Lack of adequate formal education ()
- (c) Lack of guarantors ()
- (d) Lack of political patronage ()
- (e) Others (specify).....

SECTION C: PERCEPTUAL QUESTIONS

(Instructions; Tick either True or false that best describes your perception to the questions asked)

8. Microcredit loans are easily accessible.

- (a) True () (b) False ()

9. MFIs Loans conditions lock out potential clients

- (a) True () (b) False ()

10. Borrowers are in need of credit and do not consider the interest charged.

- (a) True () (b) False ()

11. High default rates in MFIs influence negatively on credit accessibility to SMEs.

- (a) True () (b) False ()

12. Accessibility of loans is poor

- (a) True () (b) False ()

13. Credit demand is higher than the MFIs can supply.

- (a) True () (b) False ()

SECTION D: FACTORS INFLUENCING ACCESS TO MICROCREDIT

(Instructions; Tick either yes or no regarding the following statements)

14. Preset interest rates influence loan accessibility.

- (a) yes () (b) no ()

15. Restriction of credit to specific purpose influence loan accessibility

- (b) yes () (b) no ()

16. Condition on loan amount influence loan accessibility

- (c) yes () (b) no ()

Beside each of the statements presented below, please indicate whether you are extremely satisfied, satisfied neutral, dissatisfied or extremely dissatisfied

17. How satisfied are you with the following issues regarding microfinance institutions.

- | | | | | | |
|--|---|---|---|---|---|
| (a) No. of loan applicants affect accessibility | 1 | 2 | 3 | 4 | 5 |
| (b) Total amount of loans applied for affect accessibility | 1 | 2 | 3 | 4 | 5 |

Beside each of the statements presented below, please indicate whether you strongly agree, agree, neutral, disagree, and strongly disagree

18. To what extent do you agree on the following vulnerability indicators influence on accessibility of credit?

- | | | | | | |
|--------------------------|---|---|---|---|---|
| (a) Literacy level | 1 | 2 | 3 | 4 | 5 |
| (b) Business viability | 1 | 2 | 3 | 4 | 5 |
| (c) Number of dependants | 1 | 2 | 3 | 4 | 5 |

(Instructions; Tick either yes or no on whether the following MFIs performance indicators influence credit accessibility)

19. Profits made.

- (a) yes () (b) no ()

20. Defaults rates

- (b) yes () (b) no ()

21. Management and accounting practices

- (c) yes () (b) no ()

22. Organizational processes

- (a) yes () (b) no ()

Thank you for your participation