

**THE ROLE OF K-REP BANK GROUP BASED LOANS ON SMALL MICRO
ENTERPRISES IN NYERI COUNTY, KENYA.**

By

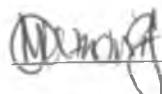
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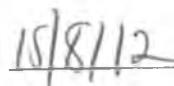
**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF ARTS
IN PROJECT PLANNING AND MANAGEMENT UNIVERSITY OF NAIROBI.**

DECLARATION

This is my original work and has not been presented for the award of a degree in any university or other institution of higher learning.



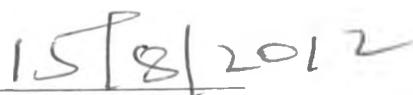
EMMA G. MUTHONI NJERU



Date

REG: L50/78587/2009

This research project has been submitted with my approval as the university supervisor.



Date

Dr. Lillian Otieno- Omutoko

Lecturer Department of Extra Mural Studies.

University of Nairobi.

DEDICATION

This project is dedicated to my husband Benson Gichohi Ngure, daughter Vanessa Gichohi and my parents Ephraim and Jane

ACKNOWLEDGEMENT

First, I acknowledge the University of Nairobi for having granted me an opportunity to further my studies through this program. I am grateful to Dr Lillian Otieno - Omutoko who was my supervisor for her time and efforts in guiding me through this project. It is due to her insistence in guiding me all through that I have come this far. I also recognize the efforts of all my lectures at Nyeri Extra Mural centre for broadening my knowledge in the area of project planning and management. My gratitude also goes to my course mates whose friendship, good humor, struggles and achievements in various aspects of the course and social life have inspired and encouraged me to achieve this noble goal. Special thanks to my managers and colleagues at K-rep Bank Nyeri and Nkubu Branch who constantly encouraged me. I can't forget to extend my sincere gratitude my sisters Margaret and Lillian and also my brother Paul for their moral and material support throughout the course. My greatest thanks also go to my beloved husband who assisted me financially and took good care our young daughter while I was away attending classes.

I also wish to appreciate my parents for their constant prayers and encouragement and all well wishers who wished me well in my studies. Last but not least, I thank the almighty God for giving me good health and sound mind and these has seen me this far. Without Gods guidance and mercy it's difficult to achieve success and therefore I am sincerely humbled by his grace and faithfulness. To him I trust.

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ABBREVIATIONS AND ACRONYMS

| | |
|---------------|--|
| ATM | Automated Teller Machine |
| ESOP | Employee Stock Ownership |
| GDP | Gross Domestic Product |
| ICT | Information Communication Technology |
| K-REP | Kenya Rural Enterprise Program |
| KDA | K-Rep Development Agency |
| MFI | Micro Finance Institutions |
| MFO | Micro Finance Officer |
| NGO | Non Governmental Organization |
| ROSACS | Rotating Savings and Credit Associations |
| SPSS | Statistical Package for Social Sciences |
| SACCO | Savings Credit Cooperative Organization |
| SME | Small Micro Enterprises |
| TA | Technical Assistance |
| USAID | United States Agency for International Development |

ABSTRACT

Lack of access to credit is almost universally indicated as a key problem for micro and small enterprises. The purpose of the study was to determine the contribution of K-Rep Bank group loans on growth of Small Micro Enterprises in Othaya and Mukurweini, Nyeri County. The objectives of the study included; the role of k-rep bank group based loans on growth of small micro enterprises, to establish how institutional capacity and organization policies adopted by K-rep bank influence growth of small micro enterprise, to find out the effect of customer satisfaction in the bank services and products and lastly to assess the contribution of SMEs in enhancing growth in Othaya and Mukurweini. The research employed a descriptive survey design. The target population of the study was recipients of K-Rep bank group based loans for not less than 5 years operating their business in Othaya and Mukurweini. Using a simple random sampling technique, the researcher arrived at a sample size of 80 individuals. During the month of July, 2012, data was collected using a pretested questionnaire. Additional data was collected using an interviewed schedule administered to credit officers at K-Rep bank Nyeri. The researcher found out the following; All the respondents had received a loan from the bank with the majority (67%) of the respondents able to access between quarter a million to half a million Kenya shillings. 46% wished to finance business development while 37% aimed to buy inventories for their business. SMEs had employed 1 to 5 employees while 14% of the SMEs in the study had 5-10 individuals as employees. The researcher established that K-rep bank's group based loans had contributed to many SMEs in Othaya and Mukurweini. However, the findings have revealed that the contribution was insufficient and the loanees had to look for additional credit from other financial institutions, the researcher concludes that K-rep bank has adequate institutional capacity and organizational policies. This was exhibited by the financial training given to the clients and the high level of awareness that was found on the ground, finally, the study established that SMEs have contributed to growth in Othaya and Mukurweini. This was evident by the number of enterprises set up and the number of employees earning their living from the establishments. SMEs had employed 1 to 5 employees while 14% of the SMEs in the study had 5-10 individuals as employees. The study recommended that K-rep bank should re-evaluate their lending policy to conform to the current demands of business which is faced by a high cost of living and inflation, K-rep bank should strengthen its institutional capacity to set up a training college where its members can gain management skills required to run an SME successfully and finally K-rep bank should look to innovate new products and services to meet the changing needs of customers adequately to enhance customer satisfaction.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The concept of small microenterprise was spear headed by Dr. Mohammad Yunus and emerged in the developing world through the Grameen Bank (Bank of the Poor) in the country of Bangladesh in 1976. The bank was established with the practice of making small loans to the poor - predominantly women to help them obtain economic self-sufficiency. The fundamental principle behind the Grameen Bank is that credit is a human right. The Grameen Bank has been extremely successful, reporting a 97% rate of repayment. Dr. Yunus is considered to be the architect of the microcredit revolution.

The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone. Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of

planning, improper financing and poor management have been cited as the main causes of failure of small enterprises (Longenecker et al, 2006). Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko & Dondo, 1992; Kiiru, 1991).

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo & Mutiso, 1999).

As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the most recent comprehensive picture of SMEs in Kenya. (Mead, 1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. When the state of the macro economy is less favorable, by contrast, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there was need to conduct an empirical enquiry to investigate the challenges SMEs in Othaya and Mukurweini face and how they manage those challenges.

Considering the size of the informal sector contribution to total employment, it is becoming increasingly important to consider the dissipation of the employment opportunities in the informal sector. The expansion in the informal sector employment creation has created significant benefits for overall labour absorption in Kenya. Firstly, as the informal sector is labour-intensive, it is a suitable vehicle for creating job opportunities where capital is scarce and labour is abundant. Secondly, with the necessary assistance, several informal sector enterprises can improve their profitability substantially, thereby creating scope for expansion and the creation of more job opportunities (Mead, 1998).

Despite many studies being carried out on failures and challenges of SMEs, very little has been done on the role played by micro finance institutions in enhancing growth of SMEs. Micro finance institutions are the major financiers of SMEs since most SMEs lack collateral required by commercial banks for lending while Micro finance lend basically on trust. This study therefore seeks to find out the role of K-rep bank on growth of SMEs.

1.3 Purpose of the Study

The purpose of the study was to determine the contribution of K-Rep Bank group based loans on growth of Small Micro Enterprises.

1.4 Objectives of the Study

The objectives of the study were as follows;

- i. To establish the contribution of K-Rep Bank group based loans as source of capital on growth of Small Micro Enterprises.

- ii. To establish how institutional capacity and organization policies adopted by K-Rep Bank influence Small Micro Enterprises.
- iii. To establish the level of customer satisfaction on products and services offered by K-Rep Bank on SMEs.
- iv. To assess the contribution of Small Micro Enterprises in enhancing growth.

1.5 Research Questions

The research was guided by the following questions;

- i. What is the contribution of K-Rep Bank group based loans as source of capital on growth of Small Micro Enterprises?
- ii. How do institutional capacity and policies employed by K-Rep Bank help Small Micro Enterprises grow?
- iii. What is the level of customer satisfaction on Small Micro Enterprises?
- iv. How does Small Micro Enterprises enhance growth?

1.6 Significance of the Study

The findings of the study were submitted to K-Rep Bank and will form basis on how the bank will allocate its resources in order to enhance growth of SMEs. The study created knowledge of the existence of microfinance in Kenya, their contributions to SMEs growth and development. The study was particularly useful to K-Rep bank as it was a preview of how the bank was fairing in the market. The study created awareness on products and services offered by the bank. Researchers in future will also use the findings of the study as a basis for their research work.

1.7 Limitations of the Study

The study focused on the financial support of K-Rep bank to small micro enterprises and K-rep bank represents a small percent of funds loaned to SMEs and this limited the degree of generalization of the findings. Confidentiality clauses and policies restricted access to much of the information with regard to financial which included the company loan book and this caused delays since special authorization from the management had to be sought to carry out the research.

1.8 Research Scope of the Study

The research study was carried out in Othaya & Mukurweini. The study focused on the role played by K-Rep Bank group based loans on growth of SMEs through its products such as Microfinance individual and project based loan products and services, these was mostly the small scale enterprises and low income earners. The research study was undertaken within a timeframe of four months.

1.9 Assumptions of the Study

This study assumed that the respondents will provide reliable and valid answers that could be used to make conclusions in relation to the study. The study will also assume that the variables remained constant. It is also expected that the respondents will provide answers to all questions and that they will return all the questionnaires on time.

1.10 Definition of Significant Terms

| | |
|---------------------------------|---|
| Capital: | Cash or goods used to generate income either by investing in a business or a different income property. |
| Customer Satisfaction: | A term frequently used in marketing, is a measure of how products and services supplied by a company meet or surpass customer expectation. Customer satisfaction is defined as "the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals. |
| Enhancing Growth: | It is positive change in the level of production of goods and services by a country over a certain period of time. Nominal growth is defined as economic growth including inflation, while real growth is nominal growth minus inflation. Economic growth is usually brought about by technological innovation and positive external forces. |
| Group loans: | Loans that do not attract any formal collateral but members of the group guarantee one another. Group co-guarantee mechanism is ensured and maintained at times |
| Institutional Capacity: | Concerns the attention to the development of strategies and competences to maximize the opportunities for programme effectiveness. |
| Small Micro Enterprises: | This is a type of small business often registered as having five or less employees and requiring seed capital of not more than \$ 35,000 |

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature review related to the study on the Role of K-rep Bank group based loans as capital on growth of small micro enterprises. Literature was reviewed from journals, books, working papers, reports and periodicals. Literature review helped to orient the researcher on what has been done to address the role of K-rep Bank group based loans on growth of small micro enterprises in Othaya and Mukurweini.

2.2 Emergence of Small Micro Enterprises in Kenya

Kenya is a developing economy with agriculture being the chief economic activity. Most of people in Kenya work in agricultural sector. Some practice subsistence farming while a very small number practice large-scale farming. Some people work as wage laborers in coffee farms or tea plantations. They depend on the small wages and life become rather unbearable at times (Meyanathan, 2003). For those who practice small scale farming, their source of income is mainly from the sale of the farm produce. Some are in small businesses like selling of agricultural goods in market places while others trade in livestock and selling of milk. There are all sorts of small businesses related to Agricultural sector. SMEs (Small and Micro-enterprises) within manufacturing industry have not seen much development since independence due to financial constraints and other factors that are going to be discussed in this paper. Jua Kali Sector, a Kiswahili term for a hot sun, is comprised of low scale artisans who mostly apply appropriate intermediate technology. This sector, given all conditions for growth can bring about

industrial revolution in Kenya. The phrase itself can tell it all. There are many other areas where SMEs seem to be picking well. For instance, with development of information technology in the world, Kenya is slowly and steadily moving towards embracing the technology (Palmar, 2003). It is evident everywhere in the major Kenyan towns with the rate at which cyber café and other information and communication technology businesses are coming up. This study looks briefly into SMEs opportunities for growth with particular reference to Kenya. The legal and economic framework in which enterprises operate is crucial to their performance. In the literature on enterprise development, it has been argued very forcefully that the legal framework of many countries serves as a barrier against enterprise. In many cases across Africa, the reduction of open hostility has been more important for smaller enterprises than any positive program of engagement from the state (King and McGrath 2002). According to Ngahu (2000), SMEs are obviously incapable of sourcing, evaluating, and adapting technologies effectively. The government policy should, therefore, aim to develop these capabilities in SMEs through supportive institutions. Policy can encourage the development of assistance programs to facilitate SMEs' access to resources, information, training, and technology. Further, policy should promote the development of technologies appropriate for SMEs. Although it is possible to develop policies designed to improve the circumstances of SMEs, it may be more feasible to support the development of technologies compatible with the SMEs' circumstances.

Policies, says (Ngahu (2000) should aim to encourage and promote the development of local technologies. Emphasis should be on the promotion of the local tool industry to reduce reliance on imports. SMEs are said to face a "liability of smallness." Because of their size and resource limitations, they are unable to develop new technologies or to make vital changes in existing

ones. Still, there is evidence that SMEs have the potential to initiate minor technological innovations to suit their circumstances. However, for SMEs to fully develop and use this potential, they need specific policy measures to ensure that technology services and infrastructure are provided. Further, research and development institutions that are publicly funded should be encouraged to target the technology needs of SMEs.

2.3 Micro-Finance Group Based Loans on Growth of SMEs

K-Rep Bank offers micro-finance loan facilities that are based on the Grameen Bank lending model. The loans are made available to specific groups whose members ensure that fellow members repay their loans on a set schedule. Members must also save weekly in personal accounts with K-Rep Bank, with the minimum amount being Ksh 300 per week. In order to benefit from the micro-credit facility, an individual must belong to a group. Groups must meet regularly and they guarantee one another for loans. The group will be unable to borrow again until the outstanding group loan is paid back. However, each member can also take a personal SME loan on top of the group loan depending on his or her savings in their K-REP Bank account and their credit history. A personal loan must have personal collateral, i.e. the group does not guarantee it. Despite the name watano, which means five people in Swahili, members making up a Juhudi group may be as few as three or as many as eight depending on the circumstances.

2.4 Types of Micro Finance Loan Product

The following are some loan products offered by the bank.

2.4.1 Group Loan, Level 1 (Juhudi)

The Juhudi scheme provides loans based on a modification of the group-lending methodology used by the Grameen Bank in Bangladesh. K-REP Bank facilitates the formation of five-member groups called watano whose members meet on a weekly basis and contribute Kshs 300 each, which goes into the group savings account. Members borrow small amounts of money ranging from Ksh 10,000 to Ksh 50,000. The loans are made to a few members in the beginning. As they repay, other members are able to access loans. Loans must be paid back within 6 to 18 months. Up to six watanos confederate into a kiwa, which is registered by the Ministry of Culture and Social Services as a self-help group. After a Juhudi group has been in existence for some time, it may seek approval to transform into a Chikola group (K-Rep Bank Notes, 2002).

2.4.2 Group Loan, Level 2 (Chikola)

The Chikola scheme provides credit to individual entrepreneurs through rotating savings and credit associations (ROSCAs). ROSCAs are groups in which members save a set sum during a specified time period such as every day or week or month. One member takes up the total amount saved each time, hence the rotating nature of the model. ROSCAs are very popular in Kenya, and this is why MFIs have incorporated them into their activities. Under the Chikola scheme, K-REP Bank provides a single loan to an established ROSCA group (there is an average membership of 20 persons) that retails the loan to its individual members. This group meets once per month and loans must be repaid to K-REP Bank within 12 to 24 months.

2.4.3 Group Loan, Level 3, Solidarity Loan (Kati-Kati)

This type of loan is made to voluntarily formed solidarity groups (five to ten existing K-REP Bank clients). Usually this group has evolved from a ‘Chikola’ group. The group meets about once per month, and a K-REP Bank official is present during all group meetings. Kati-Kati group members borrow relatively large sums of money (ranging from Ksh100, 000 to Ksh 1,000,000 per person) and they are soon ready to evolve into normal commercial banking activities (K-Rep Bank Notes, 2002).

2.5 Individual Loans

K-REP Bank’s individual loans are designed for both existing group clients and new individual clients, as well as for organizations. They are offered through the Bank’s branches. Individual loans require collateral, while group loans require members to guarantee one another. Individual loans fall under three categories. Retail Loans (i) Loans which are made to individuals and institutions such as companies, partnerships, government institutions, associations/clubs and NGOs. The loans are repayable within three years. Applicants pay percent commitment fee, and the loans are charged annual interest between 15 percent and 17 percent on a flat rate. Retail Wholesale Loans (ii) K-Rep Bank makes wholesale loans to other MFIs, cooperative societies and other associations who, in turn, on-lend to their own micro-finance clients. The loan term is one to three years, and interest rates range from 12 percent to 15 percent flat rate. Deposit Facilities (iii) K-Rep Bank offers a wide range of customer deposit (savings) accounts, which include conventional savings accounts, conventional current accounts with cheque facilities, and group savings accounts are made to organizations that will lend to low-income clients.

2.6 K-Rep Bank Institutional Capacity and Organizational Policies

According to Institution Capacity Theory, the capacity for development can be observed at three levels; Enabling environment, the political and social forces that shape public policy and determine the priority given to the different development objectives and accountability for their attainment. Institutional and policy framework, the formal and informal rules, laws, norms and regulations that determine the incentives and constraints that condition the efficiency and effectiveness of efforts to attain the objectives. Organizational resources, the systemic arrangements, personnel, and materials that are brought together to achieve specific development objectives. According to World Bank, (2007) the development of the micro finance institutions in the country has become so critical in strengthening the financial support of the low-income earners hence improving their living standard through expansion of their businesses hence improving the entire economy.

The creation of jobs also and attraction of the outside investors to such firms has really brought a huge impact to the entire economy of the country. Many small enterprises find this as a challenge since they are unable to raise capital required to operate business hence the cycle of poverty continues. K-rep institution capacity has created awareness to customers on how to utilize the capital they acquire wisely in order to realize some profits which in return have improved their standards of living hence community development. The organization has been able to support its customers due to its strong information Communication Technology it embraced which has helped it able to keep healthy customer records as well as serving its customers better. Rolling out of products which are tailored towards specific needs of customers has also assisted the bank to realize its objective ie promoting SME to grow Kimathi Mutua (1998) outlines that the Kenya Rural Enterprise Program (K-REP) was established in 1984 as an intermediary Non

Government Organization (NGO), with the aim of providing credit for on-lending and technical assistance to NGO's. To promote growth and generate employment in the micro-enterprise sector, K-Rep would lend to clients who would otherwise find it extremely difficult to access credit from commercial banks and other financial institutions. K-Rep was founded after a study conducted by USAID in 1983 identified micro-enterprise development as an effective means of poverty alleviation and community development Dondo (2006). K-Rep initially began as a five year project initiated by World Education Inc, a Boston- based NGO with a strong focus on the development of small micro-enterprises in rural areas. K-Rep early activities consisted of providing 100% grants to other non-governmental organization for on-lending to small and micro-enterprises. K-Rep entered into another five-year cooperative agreement with USAID in 1987. With this demonstration of ongoing USAID support, K-Rep registered as a Kenyan company limited by guarantee and with no share capital in 1992, and took its current abbreviation Kenya Rural Enterprise Programme (Mutua, 1998).

As K-Rep continued to evolve, it began to organize its activities into two divisions namely, the financial and non-financial divisions: The financial division dealt with both retail and wholesale lending, though the later was ceased in 1994. K-Rep's financial division generated income that was ploughed back to the program to ensure financial sustainability of the program. The non-financial division monitored the performance of the credit program and provided recommendation and policies. Research was conducted to deeply understand the small and micro-enterprise operation and the results were used to expand the program (Kinyanjui, 2006). The institutions request to be awarded a banking license elicited negative response from the Central Bank which raised the following issues: The viability of micro finance in Kenya. The idea of a nongovernmental organization owning a bank, the unconventional lending practiced by

the institution, setting precedent, K-Rep being the first micro finance institution to apply for a banking license (Mutua, 2003). These issues were resolved after extensive lobbying by the institution's directors, as well as a visit organized for the Central Bank officials accompanied by K-Rep's directors to travel to Bolivia to see how Banco Sol was operating as a micro finance commercial bank. The Central Bank was convinced that this was a viable operation and gave K-Rep the following conditions to be awarded the banking license: To secure at least three other investors, to separate the bank from the non-governmental organization, to meet the minimum capital requirement and other requirements and assessment of the operational and portfolio quality (Kinyanjui, 2006).

This was going to be a difficult task for the institution and it was worried about issues like the new partner sharing its original vision and objectives and the pursuit of financial objectives verses social objectives. The search for a local investor was unsuccessful; though the few that were identified were seeking returns of over 20%. The foreign investors were similarly not convinced to undertake such an investment. This was taking too long, was proving to be expensive and resulted in pressure from the regulators (Kinyanjui, 2006). The bank thus came up with its own internal requirements that included; finding an institutional investor with similar social objectives to K-Rep, an international development institution which would be able to provide a sizeable investment thus influence regulators and gain public confidence and recognition, and lastly an employee stock ownership scheme (ESOP) to include staff as part of the organization's ownership (Kinyanjui, 2006). The pending regulatory issues were resolved by K-Rep obtaining a six year exemption on the 25% ownership limit and calling the field offices "marketing offices" as opposed to branches. K-Rep also pushed for the establishment of a micro finance unit within the Central Bank's bank supervision department (K-Rep Financial Statement

2005). With these issues resolved, K-Rep officially started bank operations in December 1999, with the Kawangware branch being its only branch as well as its headquarters. ICDC Investment Company acquired 3.8% shares from the K-Rep Group in September 2005, thus K-Rep has now managed to meet the Central Banks requirement for a maximum of 25% stake in all commercial banks being owned by a single investor. In terms of profitability K-Rep Bank has managed to record impressive profit of Kshs.60.3 million in 2002 and they increased in year 2003 to Kshs.80 million. The profitability took a downward trend in 2004 to Kshs.76 million and Kshs.33million in 2005 (K-Rep Financial Statement 2005).

This downward trend was as a result of the implementation of an ambitious 5 year strategic plan that started with major changes effected in 2005. This included the rolling out of a nationwide branch network that increased the bank's branch network from four to eighteen branches over a period of twelve months. The bank also acquired and commenced the implementation of a versatile and robust new core banking system. To support the new branches the bank established a data centre, countrywide branch interconnectivity and ATM network. These were major investments implemented over a short period of time thus affecting profitability especially in 2005 (K-Rep Financial Statement 2005).

2.7 Customer Satisfaction with Products and Services.

According to Ramdas & Sawhney (2001) increasing competition whether for profit or nonprofit is forcing businesses to pay much more attention to satisfying customers. Customers are arguably the single most important asset of any enterprise, large or small. Many companies, even with the best of intentions sometimes fall into the trap of taking their clients for granted, especially when things are going well. Yet building customer satisfaction and loyalty are becoming increasingly

important in this time of heightened competition and globalization. A motto or policy to adopt with customers is: "If you're not happy, we're not happy". Raju (1980) revealed that customer looks for seven values in any purchasing decision. These are the values you must deliver if you want a customer to come back. Cost, time, difficulty is low; does the job; fits with other things I am doing; Is readily available; makes me feel important or successful; gives me a wonderful story to tell others. The most important factor in gaining and retaining customers is the memory you leave with them, the story that they tell to others.

Product variety is one of those tools used to attract, retain and satisfy customer but it does not guarantee profitability in long run in fact can worsen the competitiveness (Ramdas and Sawhney 2001). Product variety pass on to the number of different products integrated in one product line (Dixit and Stiglitz 1977). In current years, swiftly embryonic technologies, brutal competition and demanding customers have contributed to a continuous increase of product variety in almost all product categories (Ho and Tang 1998). However increasing product variety doesn't guarantee the increase in profitability, as it requires great cost to manage thus hurting the profitability. Careful and optimal level of product variety can lead to customer satisfaction and generate profitability. Customer satisfaction is a measure of how products and services supplied by a company meet or surpass customer expectation (Hansen 1972). In the world of competition where businesses compete for customers, customer satisfaction sees as key differentiator and a core company strategy.

Within organizations, customer satisfaction ratings can have powerful effects. They focus employees on the importance of fulfilling customers' expectations. Furthermore, when these ratings dip, they warn of problems that can affect sales and profitability. These metrics quantify an important dynamic. When a brand has loyal customers, it gains positive word-of-mouth

marketing, which is both free and highly effective. Therefore, it is essential for businesses to effectively manage customer satisfaction. To be able do this, firms need reliable and representative measures of satisfaction (Nullifang, 2007).

In researching satisfaction, firms generally ask customers whether their product or services has met or exceeded expectations. Thus, expectations are a key factor behind satisfaction. When customers have high expectations and the reality falls short, they will be disappointed and will likely rate their experience as less than satisfying. For this reason, a luxury resort, for example, might receive a lower satisfaction rating than a budget motel even though its facilities and service would be deemed superior in 'absolute' terms (Ho and Tang 1998).

Right blend of varieties at right time can surely satisfy the customer but wrong management can confuse and frustrate the consumer choice. It is not just an easy task. Cost and other limitations such as technology harness the effectiveness of product variety. Product variety and customer satisfaction has a positive relationship. Consumers require variety in their choices "Variety is one of the consumer's greatest concerns (Hansel 1972).

According to Baumgartner & Steenkamp (1996) Consumer seeks variety because they require better options in order to satisfy their need and mostly they search variety in low-risk products. Raju (1980) quote "there is only one boss, and that is the customer. They can fire everybody in the company, from the chairman on down, simply by spending money somewhere else." It costs 7-9 times more to attract a new customer than it does to keep an existing one. A typical dissatisfied customer will tell 10 people about their problem. Approximately 7 of 10 complaining customers will do business with you again if you resolve the complaint in their favour. If you resolve a complaint on the spot, 95% of customers will do business again. If you

hope to stand out from the crowd and gain a competitive edge, your ultimate goal should not just meet, but exceed the customers' expectations. Remember, the satisfied customer tells no one. The unhappy customer tells a dozen others.

2.8 Contribution of Small Micro Enterprises in Enhancing Growth.

The importance of small and medium- sized enterprises (SMEs) is contributing to Job creation and output growth which is now widely accepted in both developed and developing countries, of particular interest is the process of expansion of these enterprises from very small into medium size, as it is when they become medium-sized that growth-oriented SMEs make their most tangible contribution to economic growth and job creation (Johnson 1997). Dynamic medium-sized enterprises provide a competitive edge in two ways as leading Sub contractors and as venture firms in their own right. They also tend to survive longer than most SMEs and create jobs that yield higher returns, thus multiplying their impact on economic growth. However, in many developing and least developed countries (LDCs) there is evidence of a "missing middle": a shortage of middle-sized growth-oriented SMEs that could make an important contribution to development. This "missing middle" is generally attributed to hidden and largely inadvertent biases in the economic policies of these countries that militate against the gradual and organic growth of their enterprises (McMahon 1998).

The lack of coherent SME development strategies, which take into account the three dimensions of enterprise evolution (i.e. start-up, survival and growth) and the different needs of enterprises in their various stages of evolution, is another important contributory factor. In the absence of a coherent policy framework for enterprise development, globalization and the opening of domestic markets as part of liberalization policies has had an adverse impact on the enterprise

structure in many LDCs and other developing countries. In particular, SMEs are being decimated or are continually losing ground in terms of their competitiveness. Instead, the microenterprise or survival sector has gained prominence. The twin processes of globalization and liberalization, combined with rapid advances in information and communication technologies, are creating new dynamics of production, enterprise development and international competition. Countries existing enterprise development strategies may no longer be effective in light of the changes in the environment. Any government that is concerned about promoting SMEs should therefore carefully examine the impact of its existing policies and programmes for enterprise development and redesign its SME strategies to focus on addressing the issues related to the “missing middle”.

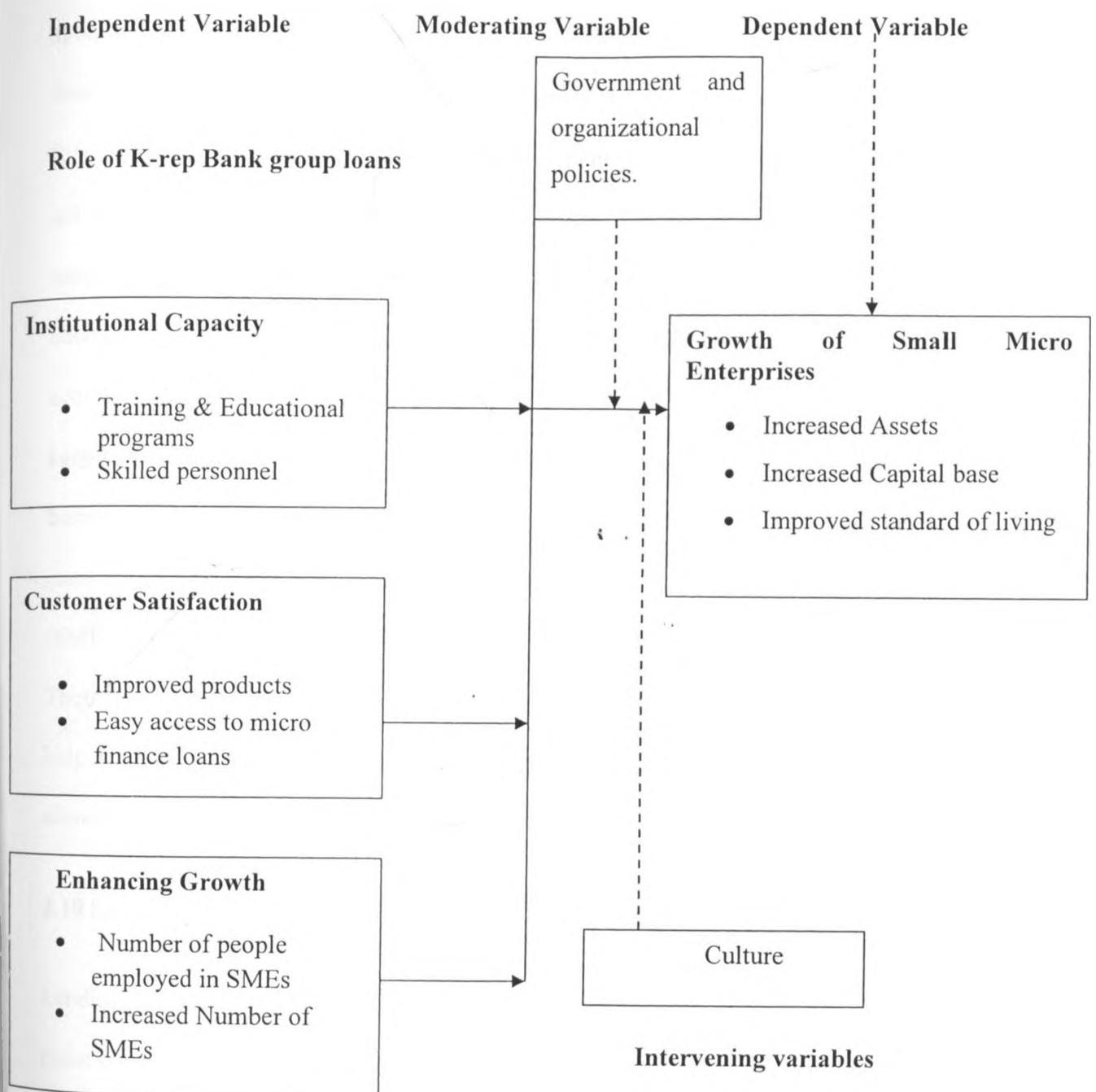
The contribution of small and medium-sized enterprises (SMEs) to employment, growth and sustainable development is now widely acknowledged. Their development can deepen the manufacturing sector and foster competitiveness. It can also help achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution. According to Udell (1980) available evidence suggests that SMEs have played a major role in the growth and development of all the leading economies. The Kenyan experience clearly shows that it is mainly the growth-oriented medium-sized enterprises among the SMEs that have a high propensity to apply technology and training and serve specialized niche markets. Among the factors that have contributed to the success of such SMEs is a high incidence of cooperative inter-firm relationships, which have rendered individual firms less susceptible to risks, fostered mutual exchanges of information and know-how between firms and created a rich pool of collective knowledge. A key factor has also been the provision by Governments to SMEs of technological extension services (such as quality assurance, research support and information on sources of technology). Micro and small

enterprises have potentiality of boosting a country's economy. Although they are faced by many challenges, they still have opportunities to grow. These include linkage with multinational companies, networks with other businesses, diversification of market and products, enabling environment and franchising opportunities. Such opportunities, if well utilized by the micro and small enterprises can turn round their future in many developing countries (Chen 2002).

All over the world it has been recognized that the small business sector plays an important if not critical role in the economic and social development of a country. This also applies to Kenya where the small business sector has been neglected during much of the century. While the importance of large industrial, mining and other enterprises for the growth of the economy cannot be denied, there is ample evidence that the labour absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation is vital for many of the challenges facing Kenyas economy (Dondo 2003).

Taking into account the very large micro-enterprise segment of the small business sector, as well as those struggling in survivalist activities it should be clear that the small business sector plays a crucial role in peoples' efforts to meet basic needs and help marginalized groups like female heads of households, disabled people and rural families-to survive during the current phase of fundamental structural changes where the formal economy is unable to absorb the increasing labour supply, and social support systems are grossly inadequate (Amyx 2005).

Fig. 1 Conceptual Framework on Role of K-rep Bank group based loans as source of capital on growth of SMEs



The aspect of availing group based credit to small micro enterprises is built on the premise that this will have a very significant role in shaping economic development. It is perceived that money will be put into economic development activities such as boosting an already existing business or any budgeted ongoing project. Once the members acquire assets through group based loans they are able to borrow larger amounts of money in other commercial banks as these assets act as collateral which is a mandatory requirement for lending. The bank has provided both material and non material resources. The skilled officers' offer training to a member who become empowered and are therefore able to utilize their credit well which has resulted in economic growth due to wise use of capital injected to business. Management and proper record keeping has relatively been easier for members leading to efficiency in operating profitable business. Customer satisfaction is of paramount importance in order to retail customers which consume products hence profitability. The contribution of small and medium-sized enterprises (SMEs) to employment, growth and sustainable development is now widely acknowledged. Their development can deepen the manufacturing sector and foster competitiveness. It can also help achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution.

2.10 Summary

Lending to groups is a very integral initiative geared towards empowering SMEs members to make contribution to economic growth. Understanding that small micro enterprises play a crucial role in economic advancement helps appreciate group members and lend them basically on trust.

The institutional capacity of the bank is in forefront in assisting clients meet their needs through training.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains the research methodology which was used in the study. It specifically covers research design, population target, sampling techniques, instruments of data collection and data analysis. The research aims at finding out the role of K-rep bank group based loans on growth of SMEs in Othaya and Mukurweini.

3.2 Research Design

The researcher used descriptive survey approach. The researcher gathered data without any manipulation of the research context, where the researcher had no control over the variables (Mugenda and Mugenda, 1999). According to Orodho (2003) descriptive design assisted in gathering information, summarizing, presenting and interpreting it for the purposes of clarification. Descriptive survey enabled researcher to generate statistical information on how group based loans as capital on growth of SMEs contributed positively towards economic growth.

3.3 Target Population

The target population was members of K-rep bank group based clients who had benefited from the banks loans. Four groups of 20 members each was the target population and a sample size of 10 members was used for better generalization of the data (a population of 160 members and

hence a sample size of 80 was used). All the members were studied at home and in their businesses.

Table 3.1: Table Showing Target Population of K-rep Group Based Clients

| Community | Group Name | Target population | Sample Size |
|--------------|----------------|-------------------|-------------|
| Othaya | Mageria | 20 | 10 |
| Othaya | OthayaBidii | 20 | 10 |
| Othaya | Kaaga | 20 | 10 |
| Othaya | Kagoki | 20 | 10 |
| Mukurweini | MwanaMwireri | 20 | 10 |
| Mukurweini | Murigatua | 20 | 10 |
| Mukurweini | Mageriaushindi | 20 | 10 |
| Mukurweini | Wendi Mwega | 20 | 10 |
| Total | | 160 | 80 |

Source; Author (2012)

3.4 Sampling Design and Sampling Procedure

The researcher used a Stratified simple random sampling technique. This sample design ensured that all client/members were equally represented and same effect characteristics in most group organizations. The sample included Clients of the various groups, their Leaders and the Officers/Managers who attended the group. These groups were picked at random from a list of 20 groups which were all clients from K-Rep bank. The customers who had been in the business and under the support of K-Rep bank as their financier for not less than 5 years were studied.

3.5 Sample Size

Nyeri County is composed of 6 constituencies Mathera, Kieni, Othaya, Mukurweini, Tetu, and Nyeri central. Out of the 6 constituencies a sample was taken from 2 constituencies. A total of 8

groups were sampled out of 20 groups in both areas of study. The reason for settling on Othaya and Mukurweini was due to the consistency of the groups in the area and the fact that they were the oldest groups which had been started in poverty stricken area at the time in order to alleviate the high levels of poverty being experienced in the two areas.

3.6 Research Instruments

Kothari (2004) points out that questionnaire are the heart of a survey operation. The questionnaire instrument allows greater uniformity of questions hence ensuring greater comparability in the process (Mouly, 1978) thereby providing greater anonymity. There was use of Questionnaires and Interview schedule as a data collection tool. The questionnaires were both in structured and unstructured format in order to acquire the accuracy and comparable data from the sample. The different tools were used in order to compare the outcome. This helped in making good and reliable conclusion of report during the study. The questionnaires were structured on four categories of each independent variables Capital, Institutional Capacity, Competition and Economic growth. Semi structured interviews with credit officers were carried out to give in-depth information on how micro finance group based lending has contributed positively to growth of SMEs in Othaya and Mukurweini. The two data collection procedures were Primary and Secondary procedures. There was primary data collection through Questionnaire and Interviews and secondary data collection through company manuals, financials and brochures.

3.7 Pilot Survey

Pilot survey was done in two micro finance groups not in the sample taken. After a fortnight the process was repeated. It served as a feasibility study and increased the likelihood of the major

study succeeding. It was used to test the success of instruments to be used to confirm appropriateness.

3.7.1 Instrument Reliability

The test-retest method of measuring instrument reliability was adopted for the study. This is an approach that is used to establish reliability through repeated measurement. Twenty individuals were selected from the population however; these were not included in the sample during the study. The instrument was administered to the members on two different occasions, in two week intervals. The results were compared by correlating the sets of scores and calculating a reliability coefficient, which indicated the extent of the relationship between the scores. The coefficient of correlation was 0.8 hence the instrument had good test-retest reliability.

3.7.2 Instrument Validity

Before administering the research instrument, several experts in relevant fields were asked to evaluate the instruments' contents to determine its validity. The university supervisor was actively involved in scrutinizing the instruments so that they were in line with the laid down objectives. Research assistant was involved in vetting the instruments. The instrument used ensured high degree of accuracy was maintained through use of simple language that would not be misinterpreted by the targeted population in use of questionnaire and interview schedules.

3.8 Data Analysis

Raw data collected from the field was edited, coded and then data entry done. Organization of data was done under pre-determined categories. Tabulation was done on the raw data, whereupon the data was summarized and displayed in compact form for further analysis. The data was then

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summarized using descriptive statistics which included measures of central tendency. Data was presented using frequency distribution tables.

3.9 Ethical Consideration

The respondents participated in the study and gave the information requested at free will. No coercion was applied on the respondents so as to participate in the research. The researcher introduced herself to the respondents and explained the need of the study being conducted. The researcher gave a detailed explanation of the study. An assurance was made to all respondents on the confidentiality to be observed during the study and that the data collected was only be used for study purposes. All this was carried out after obtaining permission from the National Council of Science and Technology.

3.8 Operational Definition of Variables

According to Rubin and Babbie (2011) Operational definitions is how a variable is to be measured, if researchers' findings are to be of importance, other researchers must be able to replicate their study in different environmental conditions and get similar outcome (Ferrate 2011).

| Objectives | Variables | Indicator | Measurement scale | Tool of Analysis | Level of scale | Approach analysis |
|---|--|--|---|------------------|----------------|--------------------------|
| To establish the contribution of k-rep group based loans on growth of SMEs | Independent Variable Group based loans Dependent Variable Growth of SMEs | Amount of credit per individual and how its utilized | Number of successful facilities per individual | Mean | Ratio | Descriptive Quantitative |
| To establish how institutional capacity adopted by K-rep bank help in growth of SMEs. | Independent Variable K-rep Bank Dependent Variable Growth of SMEs | Number of formal training to customers by bank officials | Good management skills Increased profitability Improved customer care/minimal queries | Mean | Ratio | Descriptive Quantitative |
| To establish the level of customer satisfaction in banks products & Services. | Independent Variable Customer Satisfaction Dependent Variable Growth of SME | Number of customers with more than one facility | Number of transactions | Mean | Ratio | Descriptive Quantitative |

| | | | | | | |
|---|---|---|--|------|-------|--------------------------|
| To assess the contribution of SMEs in enhancing growth. | Independent Variable Enhancing growth Dependent Variable Growth of SMEs. | Number of people employed in SMEs Improved standards of living | Increase job opportunities Literate community | Mean | Ratio | Descriptive Quantitative |
|---|---|---|--|------|-------|--------------------------|

3.10 Summary

The research study used descriptive research design to investigate into the role of K-rep Bank group based loans on growth of SMEs in Othaya & Mukurweini. Stratified Random Sampling method was used for sampling purposes, whereby the population was divided into homogeneous sub-groups and then a simple random sample was taken from each sub-group. In the collection of data, the researcher used structured interview and questionnaire methods. The instruments were evaluated by various experts to determine their validity, and they were also pre- tested to ensure reliability. The raw data was edited and summarized using descriptive statistics. The ethical and moral issues arising out of the research were put into consideration and confidentiality of respondents was observed.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the findings of the study and their discussion in relevance to the objectives and past studies carried out in the same area. Quantitative data was analyzed using Microsoft Excel Suite 12 and SPSS version 19 both for windows and was presented in form of frequencies, means, modes and percentages. Qualitative data was presented by way of narration; Presentation was done using tables for easy yet effective communication. All the analysis was done according to objectives and aimed at answering the following research questions.

- i. What is the contribution of K-Rep Bank group based loans on growth of Small Micro Enterprises?
- ii. How do institutional capacity and policies employed by K-Rep Bank help Small Micro Enterprises grow?
- iii. What is the level of customer satisfaction on Small Micro Enterprises?
- iv. How does Small Micro Enterprises enhance growth?

4.2 Questionnaire Return Rate

The researcher distributed 80 questionnaires and had a return rate of 100%. Additional data was collected from K-rep bank Staff by interview.

Background Information

4.3 Distribution of respondents by gender

Table 4.1 Distribution of respondents by gender

| Variable | Category | Frequency | Percentage |
|----------|----------|-----------|------------|
| Gender | Male | 54 | 68% |
| | Female | 26 | 32% |
| | Total | 80 | 100% |

According to the table above, 68% of the participants in the study were of the male gender. This shows that the contribution of women to economy is still low. Women are marginalized when it comes to accessing credit. This is because for women, the majority of their assets are controlled by their spouses. A number of studies have shown that the economic wellbeing and financial behaviors of men and women differ significantly. Women hold lower levels of wealth and have significantly lower earnings than men. In addition, women spend as many as five more years than men in retirement as a result of having longer life expectancies. Researchers and financial practitioners have reported that women invest their financial resources more conservatively and are, in general, more risk averse than men (Mulino, & Chai, 2008.)

4.4 Distribution of respondents by age

Table 4.2: Distribution of respondents by age

| Variable | Category | Frequency | Percentage |
|----------|----------|-----------|------------|
| Age | 18-25 | 6 | 8% |
| | 26-35 | 8 | 10% |
| | 36-45 | 17 | 21% |
| | 46-55 | 34 | 42% |
| | Over 55 | 15 | 19% |
| | Total | 80 | 100% |

The majority (42%) of the study participants were aged between 46 and 55 years. The contribution of the youth was low with only (18%) of the respondents being in the youth bracket. The low involvement of the youth is not unique to the SME sector. In Kenya, youth involvement in all sectors of the economy is undermined. The financial institutions pass majority of the youth as not creditworthy as they do not have much in collateral bearing in mind that most of the youth are still unemployed. The age composition of a country's population may be associated with its saving rate, and may therefore have consequences for its economic growth. One explanation for such an association is that the savings rate tends to be relatively high for a birth cohort when it experiences its peak earnings, and relatively low when a cohort anticipates relatively low earnings, such as during retirement.

4.5 Distribution of respondents by highest Education level achieved

Table 4.3: Education level of respondents

| Item | Category | Frequency | Percentage |
|-----------------|-------------------|-----------|------------|
| Education level | None | 0 | 0% |
| | Primary | 3 | 4% |
| | Secondary | 22 | 27% |
| | Diploma | 37 | 46% |
| | Bachelor's degree | 16 | 20% |
| | Master's degree | 2 | 3% |
| | Total | 80 | 100% |

The respondents in the study had acquired some form of formal education; majority (46%) of the respondents had a diploma while 20% had graduated with a bachelor's degree. 27% had made it up to secondary school. This means that the bank was able to reach out to more members of the community in that aspect. The bank does not discriminate on the levels of education however; the bank encourages its members to be of relevant education levels and especially management and accounting skills as well as customer care skills in order to be able to manage businesses well.

4.6 Marital status of respondents

Table 4.4: Respondents marital status

| Item | Category | Frequency | Percentage |
|----------------|--------------------|-----------|------------|
| Marital Status | Single | 22 | 28% |
| | Married | 53 | 67% |
| | Divorced/Separated | 3 | 3% |
| | Widowed | 2 | 2% |
| | Total | 80 | 100% |

According to the figure above, 67% were married while only 28% were single. The marital status of a client is important to a bank especially when it comes to offering credit. This is because one's spouse is considered by law as the default next of kin. Also married individuals are deemed more capable to have sufficient assets as collaterals where they are needed by the bank. In case of the demise of such an individual, the bank is allowed by law to transfer the burden and the benefits to the surviving spouse therefore no total loss is incurred by either parties.

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4.7 Contribution of K-Rep bank loans on growth of SMEs

The researcher posed several questions to the study participants to establish, K-Rep bank group based loans contribution as source of capital for the growth of SMEs.

4.7.1 Amount of loan accessed

The amount of loan offered to the client by the bank was of interest to the researcher.

Table 4.5: Amount of loan accessed

| Variable | Category | Frequency | Percentage |
|----------|-------------------|-----------|------------|
| Amount | Below 100,000 | 6 | 8% |
| | 100,000 – 250,000 | 11 | 13% |
| | 250,000 – 500,000 | 55 | 67% |
| | 500,000 – 750,000 | 2 | 3% |
| | 750,000 – 1M | 1 | 2% |
| | Over 1M | 5 | 7% |
| Total | | 80 | 100% |

Majority (67%) of the respondents were able to access between quarter a million to half a million Kenya shillings. According to the interviewed credit officers at the bank, for one to access a micro finance loan at the bank, he or she requires to have a business and be a member of a group. The maximum amount of money that can be accessed by one is one million Kenya shillings while the minimum is Kshs, 10,000 which is mostly offered to new clients to gauge their

creditworthiness. Majority of respondents were able to acquire between Ksh 250,000 to 500,000 and this shows that their businesses are still small and growing.

4.7.2 Adequacy of loans

The researcher sought to find out if the loans accessed were adequate for the respondents in business startup.

Table 4.6: Adequacy of loans

| Item | Category | Frequency | Percentage |
|-------------------|-----------------|-----------|------------|
| Adequacy of loans | Very adequate | 6 | 7% |
| | Adequate | 15 | 19% |
| | Fair | 38 | 47% |
| | Inadequate | 13 | 17% |
| | Very inadequate | 8 | 10% |
| | Total | 80 | 100% |

The feeling from many of the respondents was that the amount in loans was neither adequate nor inadequate. 47% of them rated the adequacy of the loan as fair, 19% said it was adequate while 17% said it was inadequate. This shows that the clients were not fully satisfied with the amount in loans offered to them by the banks. This is probably due to the fact for many of them, they were offered way below what they had quoted when requesting for a loan. However, the

researcher appreciated that the bank considers various aspects before offering credit such as the viability of the business or the creditworthiness of the loanee.

4.7.3 Purpose for the loan

The respondents were requested to name the need that necessitated them to borrow a loan from K-rep bank.

Table 4.7: Purpose of the loan

| Variable | Category | Frequency | Percentage |
|----------|---------------------------------|-----------|------------|
| Growth | To buy inventories for business | 29 | 37% |
| | To finance business development | 37 | 46% |
| | To finance family needs | 14 | 17% |
| | To finance family leisure | 0 | 0% |
| Total | | 80 | 100% |

According to the table above, 46% wished to finance business development while 37% aimed to buy inventories for their business. This shows that the K-rep group based loans contributed a great deal as capital for expansion of SMEs in Othaya and Mukurweini. Lack of capital has been cited as a barrier to the growth of SMEs in Kenya (Oketch, 2000). Lack of capital in this case does not only refer to the entrepreneurs having the money in hand to develop their business, it also refers to the ability of such an individual to access credit.

4.8 Institutional Capacity and organizational policies

The researcher wished to assess the influence of K-Rep banks institutional capacity and organizational policies on the growth of SMEs in Othaya and Mukurweini, Nyeri County.

4.8.1 Financial training

The researcher sought to know whether the bank (K-rep) offered the study participants financial training.

Table 4.8: Financial training

| Item | Category | Frequency | Percentage |
|----------|----------|-----------|------------|
| Response | Yes | 54 | 67% |
| | No | 26 | 33% |
| | Total | 80 | 100% |

According to 67% of the respondents, the bank offered them financial training. According to the interviewed credit officers, the bank does offer financial training to members of the bank's groups. Such training is offered at no cost and the members attend training sessions voluntarily. The main goal of the financial training is to enable the bank's clients (most of whom have low academic qualifications) to gain entrepreneurial skills and management of business assert as well as maintaining proper books of accounts.

4.8.2 Effectiveness of training

For those who confirmed that the bank offered them financial training, the researcher asked them to rate the effectiveness of the training they received.

Table 4.9: Effectiveness of training

| Item | Category | Frequency | Percentage |
|---------------------------|-----------|-----------|------------|
| Effectiveness of training | Very high | 58 | 72% |
| | High | 8 | 10% |
| | Average | 9 | 11% |
| | Low | 3 | 4% |
| | Very low | 2 | 3% |
| | Total | 80 | 100% |

According to 72% the training's effectiveness was very high while 10% said it was high. By effectiveness the researcher meant that the recipient understood the information given to them, applied the same to their businesses and got positive results. According to K-rep's group notes (2002) the skilled officers offer training to its members who become empowered and are therefore able to utilize their credit well which has resulted in economic growth due to wise use of capital injected to business.

4.8.3 Awareness of K-rep's products and services

To assess the awareness of the community to the products and services offered by K-rep, the researcher requested the respondents to describe four groups based loans offered by the bank.

Table 4.10: Awareness of products and services

| Variable | Category | Frequency | Percentage |
|----------|----------------|-----------|------------|
| Loan | Chikola loans | 39 | 49% |
| | Juhudi loans | 36 | 45% |
| | Katikati loans | 3 | 4% |
| | Youth fund | 2 | 2% |
| | Total | 80 | 100% |

The awareness was high. The respondents were able to identify at least one group based loan offered by the bank. The Chikola loan was the most popular response at 49% followed by Juhudi loans at 45%. This is probably because the above two named loans are based on a strong group foundation and are able to offer relatively small amounts of money as credit. This awareness shows that K-reps institutional capacity was strong enough to create enough awareness at the grass root to its members.

4.8.4 Effectiveness of K-reps institutional capacity and policies

The researcher further asked the participants to rate the effectiveness of K-rep's organizational capacity and policies.

Table 4.11: Effectiveness of K-reps institutional capacity and policies

| Item | Category | Frequency | Percentage |
|-------------------------------------|-----------|-----------|------------|
| Effectiveness of K-Rep's | Very high | 2 | 3% |
| Institutional capacity and policies | High | 52 | 65% |
| | Average | 24 | 30% |
| | Low | 2 | 2% |
| | Very low | 2 | 0% |
| | Total | 80 | 100% |

According to the figure above, 65% said the effectiveness was high while 3% said it was very high. However, 30% said the effectiveness was only average. This shows that the clients had faith in the bank as a source of credit but there was room for improvement and establish why some of its members were dissatisfied with organizational policies.

4.8.5 Barriers to accessing credit form K-rep

The following were the barriers cited by the participants to accessing credit from K-rep bank.

Table 4.12: Barriers to accessing credit from K-rep

| Variable | Category | Frequency | Percentage |
|----------|-----------------------|-----------|------------|
| Barriers | High cost of loan | 34 | 42% |
| | Demand for collateral | 8 | 10% |
| | Group guarantee | 3 | 4% |
| | Low startup loans | 36 | 44% |
| | Total | 80 | 100% |

The high cost of loans (42%) and low startup loans (44%) were the two most popular responses given by the respondents as the hindrances that bar people from accessing credit facilities with the bank. Majority of the respondents were not bothered that the bank required them to place collateral for the loans. By high cost of loans, the respondents meant that the interest paid on the loans was too high for the business to realize any material profits and this increased rate of default as businesses were not able to generate high profits due to competition to match rate of interest while by low startup loans the respondents cried foul that the cost of setting up a business in the country was too high due legal and statutory requirements leaving very little cash to stock new business. This made some businesses to collapse after sometime.

4.9 Customer satisfaction

The researcher wished to assess the customers' satisfaction with K-Rep's products and services and its influence on the growth of SMEs.

4.9.1 Respondent who took loan from other financial institution?

The researcher requested to know whether the interviewee had borrowed a loan from any other financial institution apart from K-Rep.

Table 4.13: Respondent took loan from another financial institution

| Item | Category | Frequency | Percentage |
|----------|----------|-----------|------------|
| Response | Yes | 46 | 57% |
| | No | 34 | 23% |
| | Total | 80 | 100% |

57% of the respondents confirmed that apart from the loans offered to them by K-rep bank, they had borrowed from other financial institutions. On further enquiring, the respondents added they felt that the amount in loan that they had been offered was inadequate to develop their business. This led to many members being highly geared hence experienced difficulties in servicing their loans on time.

4.9.2 Type of financial institution borrowed from

For the respondents who said that they had borrowed from another institution, the researcher asked the respondents to describe the institution more.

Table 4.14: Type of financial institution

| Variable | Category | Frequency | Percentage |
|-------------|----------|-----------|------------|
| Institution | Bank | 14 | 31% |
| | SACCO | 23 | 49% |
| | Chama | 9 | 20% |
| | Total | 46 | 100% |

Majority (49%) of the participants who had sought credit from another financial institution had borrowed from a SACCO. 31% had borrowed from other banks while 20% borrowed from a chama. A Savings and Credit Cooperative (SACCO) is a type of cooperative whose objective is to pool savings for the members and in turn provide them with credit facilities. Other objectives of SACCOS are to encourage thrift amongst the members and also to encourage them on the proper management of money and proper investments practices. SACCOS are known for their low interest rates and longer periods of repayment; however they offer very small amounts of money.

4.9.3 Comparing K-rep's products and services to other financial institutions

The researcher further asked the respondents to compare Krep's credit facilities to other financial institutions.

Table 4.15: Other FI's products and services compared to Krep's

| Item | Category | Frequency | Percentage |
|--|-------------|-----------|------------|
| Comparison of K-Rep's products and services with those provided by other FIs | Much Better | 26 | 33% |
| | Better | 40 | 51% |
| | Similar | 8 | 10% |
| other FIs | Poorer | 3 | 3% |
| | Much poorer | 3 | 3% |
| | Total | 80 | 100% |

According to 51% of the respondents who had accessed credit from other financial body, that other institution's credit facilities were better than those offered by K-rep bank, 33% said that other financial institutions had much better facilities. According to the interviewed credit officers at the bank, K-rep as micro finance institution was facing stiff competition as a provider of loans to SMEs. The officers explained that much of the competition came from savings and credit cooperative societies (SACCOs) which were many in number and which were able to reach the people at the grassroots. Moreover the SACCCOs were able to offer loans at low interest and had a longer repayment period, something which K-Rep could not afford to offer due to the high inflation rate and the cost of acquiring funds.

4.9.4 Conformity of K-rep's products and services to modern business needs

The researcher sought to know from the respondents whether K-rep's products and services and especially credit facilities had conformed to modern business needs.

Table 4.16: Conformity of K-Rep to modern business needs

| Item | Category | Frequency | Percentage |
|--|-----------|-----------|------------|
| Conformity of K-Rep to modern business needs | Very High | 2 | 2% |
| | High | 14 | 18% |
| | Average | 50 | 68% |
| | Low | 12 | 15% |
| | Very low | 2 | 2% |
| | Total | 80 | 100% |

Majority (68%) of the respondents were of the opinion that K-Rep's bank conformity to modern business needs was only average. This is probably due to the issue of the loans offered to the respondent's. As seen in 4.5.2, majority of the respondents felt that K-Rep's loans were inadequate in an economy where the cost of life and doing business was high. The respondent's not only felt that the loans were insufficient but also that the loans were costly as compared to other financial institutions.

4.9.5 General customer satisfaction

The study participants were requested to rate their satisfaction with the bank

Table 4.17: Influence of competition

| Item | Category | Frequency | Percentage |
|-----------------------|-------------------|-----------|------------|
| Customer Satisfaction | Very satisfied | 4 | 5% |
| | Satisfied | 5 | 8% |
| | Fair | 26 | 33% |
| | Dissatisfied | 40 | 50% |
| | Very dissatisfied | 4 | 5% |
| | Total | 80 | 100% |

50% of the study participants were dissatisfied with K-Rep's products and services while 33% said they were only fairly satisfied with the bank's services. This shows that the K-Rep's customers were not fully satisfied with the terms and conditions of loans awarded to them. The researcher attributed this to the competition the bank was subject to from other MFIs such as SACCOs and *chamas* which had friendlier terms in awarding credit to its members such as lower rates or payment duration.

4.9.6 Way forward for K-rep bank.

The respondents were asked to recommend the way forward for K-rep bank in order to compete effectively in the market.

Table 4.18 Way forward for K-rep

| Variable | Category | Frequency | Percentage |
|----------|--|-----------|------------|
| Strategy | Reduce interest rate on loans | 49 | 61% |
| | Faster processing of loans | 26 | 33% |
| | Products and services befitting different business | 5 | 6% |
| | Intensive marketing | 0 | 0% |
| | Total | 80 | 100% |

61% recommended that the bank should reduce the interest rate on their loans while 33% recommended that the bank should strive to achieve faster processing of loans. The respondents did not seem to have an issue with the banks' marketing policies and strategies. This further compound the finding that the clients were not satisfied with the banks credit policies as high cost of acquiring funds hindered faster growth of businesses. The respondents also cited quick processing of the loans in order to meet deadlines for supplying their orders/tenders. Products such as Soko Loans were recommended by the members.

4.10 Contribution of SMEs in enhancing growth

The researcher wished to assess the contribution of the SMEs in the study to the enhancing growth of the study area.

4.10.1 Sector served

The respondents were requested to name the sector in which their business enterprise fell.

Table 4.19: Sector served

| Item | Category | Frequency | Percentage |
|----------------------|-------------|-----------|------------|
| Sector served by SME | Transport | 32 | 40% |
| | Service | 18 | 23% |
| | Agriculture | 20 | 25% |
| | Jua-Kali | 10 | 12% |
| | Others | 0 | 0% |
| | Total | 80 | 100% |

40% of the SMEs in the study fell in the transport category, 25% fell in the agriculture and 23% were in the service industry. The transport category included largely individuals who bought Nissan Matatus and motor bikes to service as public service vehicles. The agriculture sector included individuals who operate rabbit rearing business, fish farms and dairy farming. The service industry included people who started M-pesa shops, salons, car garages, hoteliers and repair and maintenance business. This was an indication that all the members were passively engaged in nation building hence improved standards of living.

4.10.2 Number of employees

The researcher assessed the number of employees in these SMEs.

Table 4.20: Number of employees

| Item | Category | Frequency | Percentage |
|---------------------|----------|-----------|------------|
| Number of employees | None | 6 | 7% |

| | | |
|---------|----|------|
| 1-5 | 58 | 72% |
| 5-10 | 11 | 14% |
| 10-15 | 3 | 4% |
| Over 15 | 2 | 3% |
| Total | 80 | 100% |

72% of the SMEs had employed 1 to 5 employees while 14% of the SMEs in the study had 5-10 individuals as employees. The high number of employees shows that the businesses were growing and that the income from the business was sufficient to cater for the large number of employees.

4.10.3 Adequacy of income

Finally the researcher sought to find out whether the income got form the business was adequate to meet the business' needs as well as the proprietor's needs.

Table 4.21: Adequacy of income

| Item | Category | Frequency | Percentage |
|---------------------|-----------------|-----------|------------|
| Number of employees | Very sufficient | 1 | 1% |
| | Sufficient | 22 | 28% |
| | Not Sure | 14 | 17% |

| | | |
|---------------------|----|------|
| Insufficient | 31 | 39% |
| Highly insufficient | 12 | 15% |
| Total | 80 | 100% |

Majority (39%) of the respondents were of the opinion that the income received from the business was insufficient while 15% said it was highly insufficient. This shows that whereas there was notable growth of SMEs in the study area, the income from these businesses was still low and hence need to boost income probably through low cost of acquiring funds in order to leave a margin for profit. Cost cutting was recommended to entrepreneurs in order to boost levels of profits.

..

4.10.4 Contribution of K-rep's loans to growth of SMEs

Finally the researcher asked the respondent to rate the contribution of K-rep's loans to the growth of SME's in the study area.

Table 4.22: Contribution of K-rep bank loans to growth of SMEs.

| Item | Category | Frequency | Percentage |
|--------------|-------------|-----------|------------|
| Contribution | Very much | 2 | 3% |
| | Much | 2 | 3% |
| | Moderate | 4 | 5% |
| | Little | 49 | 61% |
| | Very little | 23 | 28% |
| | Total | 80 | 100% |

61% of the respondents were of the opinion that K-rep's group based loans had contributed little to the growth of SMEs in the study area. 28% said the contribution was very little. The credit officers who were interviewed opined that the bank had contributed immensely to the growth of SMEs. According to the officers, the bank had seen the startup of over 200 SMEs in the last five years. The officers explained that majority of the enterprises established with the help of the bank had flourished. The failure rate of the SMEs owned by the bank's group members was less than 5% according to the officers. This shows that despite fierce competition among microfinance institutions, K-rep bank had contributed a great deal in the growth of SMEs in the study area.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the major findings from the results of the study and the conclusions made from them. It also presents the recommendations made by the researcher. This was done in respect to the stipulated objectives in a bid to answer the research questions.

5.2 Summary of the findings

The purpose of the study was to determine the contribution of K-Rep Bank group based loans on growth of Small Micro Enterprises. The study reviewed relevant literature that defined the problem and the gaps in the studies. The research employed a descriptive survey design. The target population of the study was recipients of K-Rep group based loans operating their business in Othaya and Mukurweini. Using a simple random sampling technique, the researcher arrived at a sample size of 80 individuals. Data was collected using a pretested questionnaire. After analyzing the data with the aid of SPSS version 20 for windows, the researcher found that.

5.2.1 Group Based Loans

The study found that K-rep bank group based loans have contributed to growth of SMEs. However, the findings revealed that the contribution was insufficient and the loanees represented by 57% had to look for additional credit from other financial institutions.

5.2.2 Institutional Capacity

The study found out that K-rep bank had adequate institutional capacity and organizational policies. This was exhibited by the financial training in which 67% rated training as effective. The bank had also created awareness of its products to members.

5.2.3 Customer Satisfaction

50% of the customers were rated as dissatisfied while only 33% were fairly satisfied with K-Rep's products and services.

5.2.4 Enhancing Growth

The study found out that SMEs had contributed in enhancing growth in Othaya and Mukurweini. This was evident by the number of enterprises set up and the number of employees earning their living from the establishments. 200 new businesses had come up with 72% employing between 1-5 and 14% employing between 5-10.

5.3 Discussions

All the respondents had received a loan from the bank with the majority (67%) of the respondents able to access between quarter a million to half a million Kenya shillings. 46% wished to finance business development while 37% aimed to buy inventories for their business. When asked to rate the adequacy of the loan, 47% of them rated the adequacy of the loan as fair, 19% said it was adequate while 17% said it was inadequate.

According to 67% of the respondents, the bank offered them financial training. When asked to rate the effectiveness of the training, 72% rated the training's effectiveness as very high while

10% said it was high. The awareness was high. The respondents were able to identify at least one group based loan offered by the bank. The ‘Chikola’ loan was the most popular response at 49% followed by ‘Juhudi’ loans at 45%. When asked to rate the bank’s institutional capacity and organizational policies 65% said the effectiveness was high while 3% said it was very high. The high cost of loans (42%) and low startup loans (44%) were the two most popular responses given by the respondents as the hindrances that bar people from accessing their products and services.

57% of the respondents confirmed that apart from the loans offered to them by K-rep bank, they had borrowed from other financial institutions. 49% of the participants who had sought credit from another financial institution had borrowed from a SACCO. According to 51% of the respondents who had accessed credit from another financial body, that other institution’s credit facilities were better than those offered by K-rep bank; 33% said that other financial institutions had much better facilities. 68% of the respondents were of the opinion that K-rep’s bank conformity to modern business needs was only average. The majority (57%) of the respondents were of the opinion that the competition among financial institutions had not influenced the growth of the SME sector. 61% recommended that the bank should reduce the interest rate on their loans while 33% recommended that the bank should strive to achieve faster processing of loans.

Majority of the SMEs in the study fell in the transport category, 25% fell in the agriculture and 23% were in the service industry. Most (72%) of the SMEs had employed 1 to 5 employees while 14% of the SMEs in the study had 5-10 individuals as employees. However, Majority (39%) of the respondents were of the opinion that the income received from the business was insufficient while 15% said it was highly insufficient. Majority (61%) of the respondents

were of the opinion that K-rep's group based loans had contributed little to the growth of SMEs in the study area.

5.4 Conclusions

After a thorough study carried out on the role of K-rep bank group based loans on growth of SMEs the researcher concluded the following;

5.4.1 Group Based Loans

The study concluded that K-rep bank group based loans had contributed to growth of SMEs, However, the findings revealed that the contribution was insufficient and the loanees represented by 57% had to look for additional credit from other financial institutions. That there exist barriers to accessing credit with interest rates being rated at 42%.

5.4.2 Institutional Capacity

The researcher concludes that K-rep bank has a very strong institutional capacity and organizational policies. This was exhibited by the financial training given to the clients and the high level of awareness that was found on the ground.

5.4.3 Customer Satisfaction

It is the conclusion of the study that there exists low customer satisfaction among the banks clients in providing credit facilities. The researcher attributed this to low start up loans of Ksh 10,000 and competition in micro-finance sector especially from SACCOs.

5.4.4 Enhancing Growth

Finally, the study has concluded that SMEs have contributed in enhancing growth. This was evident by the 200 enterprises set up and the number of employees earning their living from the establishments. 72% employ between 1-5 employee while 14% employ between 5-10 employees.

5.5 Recommendations

In light of the above findings, the researcher makes the following recommendations:

- i. K-rep bank should re-evaluate their lending policy to conform to the current demands of business which is faced by a high cost of living and inflation.
- ii. K-rep bank should strengthen its institutional capacity to set up a training college to offer management and accounting skills to its members in order to be able to run businesses well.
- iii. K-rep bank should look to innovate new products and services that meet the changing needs of customers and help the bank survive in the competitive loans market where customer satisfaction is key factor to watch.
- iv. The government should allocate some money and channel it through micro finance institutions to loan SMEs at low interest rate in order to enhance growth of SMEs and create more job opportunities.

5.6 Suggestions for further research

This particular study concentrated on access of credit for SMEs, the study recommends further research on

- i Savings culture
- ii Group co-guarantee mechanism
- iii Dynamics of groups

The study worked with a relatively small sample of business men and women, there is need to work with a larger sample for comparative analysis.

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APPENDICES

APPENDIX I: COVER LETTER

Emma Muthoni Njeru

P.O. Box 870 10100

Nyeri.

Dear Respondents,

I am a student of the University of Nairobi pursuing a Master of Arts Degree in Project Planning & Management. I am currently undertaking research on the role of K-rep Bank group based loans as source of capital on growth of SMEs in Othaya & Mukurweini. The questionnaire attached is for the purpose of collecting information in regard to this research. Please provide objective, truthful and honest information in the spaces provided. Kindly note that information provided will be treated with utmost confidentiality and anonymity and will only be used for purposes of the study. Your co-operation and assistance will be highly appreciated.

Thank in advance

Yours faithfully,

Emma Muthoni Njeru

APPENDIX 2: QUESTIONNAIRE ON K-REP BANK GROUP BASED CLIENTS

The researcher was carrying out a study on the role of micro finance group based loans as capital on growth of SME in Othaya and Mukurweini, Nyeri County. Please answer all the questions as objectively and truthfully as possible. Do not indicate your name in the questionnaire. Using a tick, indicate your responses in the boxes provided.

SECTION A: BACKGROUND INFORMATION

1. Gender

Male []

Female []

2. Age bracket

18-25 []

26- 35 []

36-45 []

46-55 []

Over 55 years []

3. Highest education level attained

None []

Primary []

Secondary []

College []

University []

4. Marital Status

Single []

Married []

Divorced/Separtaed []

Widowed []

SECTION B: CONTRIBUTION OF K-REP'S GROUP BASED LOANS ON SMEs

5. How much loan did you access from K-Rep Bank?

Below 100,000 []

100,000 – 250,000 []

250,000 – 500,000 []

500,000 – 750,000 []

750,000 – 1M []

6. How would you rate the adequacy of amount received for the business?

Very adequate []

Adequate []

Moderate []

Inadequate []

Very inadequate []

7. What financial needs highly necessitate you to seek loans from financial institutions?

To buy inventories for business. []

To finance business development []

To finance family/personal needs []

To finance leisure []

8. How would you rate K-Rep's group credit facilities as sources of finance?

Highly satisfactory []

Satisfactory []

Moderate []

Unsatisfactory []

Highly unsatisfactory []

SECTION C: INSTITUTIONAL CAPACITY AND ORGANIZATIONAL POLICIES

9. Does the bank offer financial training to members?

Yes []

No []

If yes above, how effective would you say it is?

Very effective []

Effective []

Moderate []

Ineffective []

Very ineffective []

10. Which of these K-rep loan products and services are you aware of?

Chikola loans []

Juhudi loans []

Katikati loans []

Youth fund []

11. How would you rate the effectiveness of the organizations, policies and institutional capacity to enhance financial services to customers?

Very effective []

Effective []

Moderate []

Ineffective []

Very ineffective []

12. Which of these factors do you feel dissuades people from taking loans at K-rep bank?

High cost of loan []

Demand for collateral []

Group guarantee []

Low startup loans []

SECTION D: CUSTOMER SATISFACTION WITH K-REP PRODUCTS & SERVICES

13. Have you borrowed from any other financial institution apart from K-rep?

Yes []

No []

If yes above, what kind of financial institution was it?

Bank []

SACCO []

Chama []

14. How would you rate the products and services of K-rep with those of other financial institutions?

Much better []

Better []

Similar []

Worse []

Much worse []

15. How would you rate the K-rep bank products and services conformity to modern business needs?

Very High []

High []

Moderate []

Low []

Very low []

16. Which of these strategies do you feel would improve customer satisfaction of K-rep group members?

Reduced interest on loans []

Faster processing of loans []

Products and services befitting the different business []

Intensive marketing []

17. How much do you think customer satisfaction influences growth of SMEs among members of K-rep bank?

Very much []

Much []

Moderate []

Little []

Very little []

SECTION E: CONTRIBUTION OF SMES TO ENHANCING GROWTH

18. In what sector does your business fall?

Transport []

Service []

Agriculture []

Jua-kali []

19. Have you employed any people to work in your business?

Yes []

No []

If yes above, how many?

1-5 []

5-10 []

10-15 []

Over 15 []

20. How would you rate the adequacy of the income of your business in meeting the cost of business and your personal needs?

Very adequate []

Adequate []

Moderate []

Inadequate []

Very inadequate []

21. In your opinion how would you rate K-REP's loans to growth of the SMEs in this area?

Very much []

Much []

Moderate []

Little []

Very little []

**APPENDIX 3: INTERVIEW GUIDE FOR CREDIT OFFICERS AT K-REP BANK
NYERI.**

1. Gender

Male

Female

2. Years of experience as credit officer

a)

0-2

b)

2-5

c)

5-8

d)

Over 8

3. What is required for one to qualify for a micro finance loan?

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

4. What is the lowest and highest amount one can get for the first loan in a group and why?

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

5. What strategies has the organization put in place to ensure that default rate is at minimal?

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

6. What competition does K-rep face as a financer of SMEs?

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