A SURVEY OF THE FACTORS INFLUENCING ACCESSIBILITY OF CREDIT TO INDEPENDENT PETROLEUM DEALERS IN NAIROBI AND ITS ENVIRONS

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other University.

WACHIURI J.M

D61/P/8572/99

I confirm that I am the supervisor of this student and that I have read this final draft and I believe it to be the student’s own original work.

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SIGNED. ...................................... DATE ..........................
DEDICATION

This project is dedicated to independent petroleum dealers in the country.
ACKNOWLEDGEMENT

I would like to thank all those that helped me to ensure the success of this project. This included the several employees of various petroleum dealers in the city that took time out of their busy schedule to respond to my questionnaire.

I would also like to thank my supervisor for the useful comments that he gave to me in carrying the research.
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ABSTRACT

Trade credit is a significant source of financing business. It enables businesses to expand their sales volume and carry out promotional activities. However, this form of credit is not usually available to small businesses. This is because financial institutions do not provide trade credit to small businesses as they perceive them as risky. Most independent petroleum dealers are small businesses and mostly do not easily access loans. This study therefore sought to find out the factors influencing the accessibility of credit to independent petroleum dealers within Nairobi and its environs.

The objective of the study was to determine factors influencing the accessibility of credit to independent petroleum dealers in Nairobi and its environs. The study adopted a descriptive design in its methodology. A census study was used since the population was small. In this case, 44 independent petroleum dealers in Nairobi and its environs were involved in the study. Primary data was collected by questionnaire method.

The result of the study showed that petroleum dealers obtained credit in order to increase their sales volume, expand their businesses and carry out promotional activities. The factors that determine whether financial institutions advanced credit to petroleum dealers include existence of sound financial system, good management of cash, proper books of accounts, avoiding under capitalization and ability for business to pay principle and interest to creditors.
CHAPTER ONE: INTRODUCTION

1.1 Background

To access finance borrowers are compelled to meet a number of requirements before they qualify for credit. They may be required to have collateral, contingent provisions and credit committees to determine which individual can act as counterparty to financial transactions and meeting the requirements of the internal credit scoring system etc. Brealey and Myers (1988). According to Daniels and Mead (1998) Small enterprises flexibility and networking in an African context, the barriers to small-scale firms growth include among others: The risk and business owner response to risk, demand for products, economies of scale, entrepreneurship - alertness to opportunity, innovativeness and creativity, access to resources – capital, government policy, inappropriate technology, limited market and credit accessibility.

Debt and equity are the two sources of finance for a business. Debt refers to finances provided through borrowing while equity is finances provided by owners of the firm (Copeland and Weston, 1992). In the context of MSEs, the external sources of finance are limited due to their inability to gain access to funds from the mainstream formal financial system in Kenya (Parker 1993).

Credit is one of the many factors that can be used by a firm to influence demand for its products. According to Home and Wachowicz (1998), firm can only benefit from credit if the profitability generated from increased sales exceeds the added costs of receivable. Meyers (2003) defines credit as a process whereby possession of goods or services is allowed without spot payment upon a contractual agreement for later payment. Copeland et al (2005) asserts that the biggest disadvantage of credit sales is the potential credit and default risk exposures. According to Copeleand et al (2005), these risks if not efficiently managed and assessed, they affect business adversely and in severity may lead to insolvency and collapse. Firms managed credit risks by determining exposure portrayed by value of credit amount.
extended so that they devise efficient credit management methods in monitoring (Brigham et al, 1999).

Credit management and credit worthiness determination are two inseparable aspects of credit. According to credit theorist, creditworthiness is inversely related to the degree of portfolio credit risk. Baldunio (2000) also contrasts the traditional 4Cs of credit (Character, capacity, condition and capital) with the new 4Cs of credit (Consistency, creativity, compliance and consultancy) to show that financial institutions in credit risk determination consider several factors.

Mutwiri (2003) carried out a study on the use of 6Cs credit risk appraisal model and its relationship to the level of non-performing loans in Kenya commercial banks. He concludes that the most important factors in credit risk appraisal are Character, capacity and lastly collateral.

The petroleum industry was liberalized in October 1994 as part of Structural Adjustment Programs for the energy sector. The Government’s broad objective in deregulating the oil industry was to allow efficient allocation of resources through market forces, resulting to near perfect competition in the sector and therefore prices being market determined. This was expected to bring about a realignment of the market structure, and facilitate competition by removing behavioral and structural barriers to entry. However, heavy government participation in the Kenya Petroleum Refineries Limited (KPRL) meant that all product requirements for local consumption would first have to originate from the refinery and any shortfalls would then be catered for by imports to be made by specific firms through an Industry tender system. This way, the country would benefit from the lowest prices on the international market while the consumers would benefit from product availability in addition to stable and competitive pricing in a free market.

Eight companies, namely Shell, BP (British Petroleum), Total, Esso, Caltex, Agip, Kenol and Kobil were the only operators in the petroleum sub-sector prior to its deregulation on October 27, 1994. Of the eight, six were affiliates of international
oil companies. By 1992, these companies were trading through an estimated 750 retail outlets. Petroleum products were controlled under the Restrictive Trade Practices, Monopolies and Price Control Act, Cap 504.

Following liberalization, the first Independent Petroleum Dealers to be registered were small-scale international importers who were targeting the export market in the Great Lakes region. It took about a year after liberalization for the first independent retail outlets to emerge. The Independent Petroleum Dealers Association was formed and registered in January 2000 to help members consolidate their operations in order to take advantage of the resulting economies of scale. The other key objectives of this association included joint product procurement, training in product handling, safety and environmental protection, representation at industry forums, creating awareness on legal rights, and enhancing knowledge about the petroleum industry (PIEA, 1999).

Kessio (2004) noted that many of the independent petroleum dealers are either illiterate or poorly educated and so as a result, they lack important management skills. However, while education is not a prerequisite for successful business there are certain opportunities that would need a given minimum level of education and some specialized training in order to be explained. Examples of such opportunities are; The separation of profit and capital, diversification into high profit margin arrears, utilization of different financing instruments and structure for different profit centers and the management of working capital. These limitations have made it difficult for independent dealers to access credit at reasonable borrowing rates since majority of them are unable to prepare financial forecast and regularly divert funds to other non-petroleum investments. Consequently, they often find themselves in difficult financial situation and are therefore generally viewed by finance houses as bad credit risk. Due to the diversion of funds and inability in many cases to separate capital from profit, there have been instances where they cannot timely meet their financial obligations.
Lindetie (2003) established that since petroleum industry requires a high investment, has high turnover but low margin commodity, it is critical that detailed feasibility studies with future projections be carried out before investment is undertaken. This would ensure operation stability and the ability to seek credit having a projected repayment plan. It would also help forecast shortcomings so that strategies to overcome them are put in place. However, most of the independent petroleum dealers invest in the industry without any projected plan and exit on a day-to-day basis. This has occasioned the proliferation of small and poorly constructed filling stations that are not designed for growth across the country. There is no shortage of entrepreneurial talent in Africa. But lack of business skills and access to capital typically frustrates the start up growth of small and medium sized enterprises.

The levels of general business management skills as well as specific experience with the investment or activity are important determinants of borrower risk. Thus many lenders restrict term loans to the renewal or expansion of existing activities in order to ensure that the client has relevant management experience.

The erratic movements of international prices made pump prices in the domestic market to grow steadily. The high oil prices were major source of inflationary pressure in the Kenyan economy. The extremely high prices, on the other hand, affect the economies of the importing developing countries and their growth potential and adversely affect world oil demand and the growth of the industry. Oil prices volatility, therefore, is detrimental to the interests of producing and consuming countries as well as the international oil and gas industry. The fluctuation of oil prices makes trading conditions difficult due to the difficulty of timing the importation of crude oil and refined products thus banks when lending to such sector have to ask if the businessman knows the procedures when dealing with the purchase of oils products.

Muchai (1999) every country has a government body that sets out rules and regulations to govern any activity undertaken in the country. The initial conditions
that financial institutions ask from a potential client are those that are government in nature. Financial institutions which lend to small medium scale enterprise look carefully at all the government taxation, which are required to calculate the profit margin thus when they see that the taxation is too high they tend to shy away from lending to specific client (Muchai, 1999).

1.2 Statement of the Problem

The government of Kenya recognizes that greater access to and sustainable flow of credit to informal financial sector operations is critical to the progress in poverty reduction. Therefore, the government channels financial assistance’s to SMEs through reputable MFIs and other financial institutions in effort to reduce poverty (Kitaka, 2001). Initial attempts into micro lending were made by government through creating of development banks that were meant to allocate credit to certain sectors at subsided rates. Studies indicated here under show that direct credit has undermined development of sound financial systems in many third world countries.

Though many financial institutions are giving credit to MSEs, they do not seem to be well informed on the relative sizes or kinds of loans needed by enterprises in different sectors (Oketch 1991). In light of the low levels of operations and lack of information on the relative sizes and kinds of loans needed by MSEs, there is need to investigate factors influencing credit availability to independent petroleum dealers. Independent petroleum dealers just like other small and medium enterprises (SMEs) have faced persistent barriers in accessing credit for investments as they are viewed as risky and costly ventures. This is because their undeveloped nature and the very short life span (Mudiri, 2003). Most of them lack security that can be used to acquire funding. Since liberalization of petroleum industry, trading in petroleum products has seen new players entering the market to engage in import, export, wholesale, and retail petroleum businesses and thus most of the businesspersons in this sector cannot meet the cost of the large-scale businesses due to various reasons.
Mwirigi (2006) established that despite microfinance institutions having no stringent regulatory framework in relation to credit aspects in comparison to commercial banks, they all engage in credit risk management process and credit management policies form a base for credit risk appraisal.

Studies on Kenya’s manufacturing sector have shown that enterprises that have only limited access to credit also tend to be less productive and cannot always move to points of best practice (Lundvall, Ochoro & Hjalmarsson, 1998). Muchai, (1999) studied causes of failure and ways of improving performance of small holders dairy sector in Kikuyu and Limuru Districts of Kenya. Kessio, (2004) and Mbuvi, (1983) have made efforts to investigate reasons influencing the success of small-scale African businesses. This study adds to the literature by documenting the factors influencing the accessibility of finance to independent petroleum dealers. Since no research has been conducted on the oil industry on factors influence accessibility of credit to independent petroleum dealers from accessing credit, there was need to investigate them.

1.3 Objective of the Study

- To determine factors influencing the accessibility of credit to independent petroleum dealers in Nairobi and its environs.

1.4 Importance of the study

The finding of this study, it is hoped will be beneficial to the following:

Investors

This study will make key stakeholders aware of the specific business needs and hence the ability to understand what specific conditions are in place to assist them in financing their businesses. The study will assist them acquire knowledge which
will enable them to identify and predict ways of attracting financing from the lending institutions.

**Management**

Management is responsible for the day-to-day running of the company. The strategic policy issues may affect the action of managing either positively or negatively. The management of the various companies in existence in Kenya will use this information when making strategic decision on the way forward of their companies.

**Scholars**

The study is important as a catalyst to explore the area further. This is particularly so because the study is suitable for further research.
CHAPTER TWO: LITERATURE REVIEW

2.1 Credit Availability in Kenya

Credit availability in Kenya has not been very pleasing. The major providers of credit include banks and other financial institutions like micro finance organizations. Individuals too, for example, suppliers play a major role in the provision of credit services. Businessmen and entrepreneurs are required to meet or comply with laid down terms and conditions according to the provider of the credit. Due to this, many have not been able to access credit and few who afford complain of the restrictions imposed before one is given a credit. Collateral against the credit given is required and not many business starters or upcoming entrepreneurs have assets to keep as collateral. This has made many potential investors not to put into practice their noble business ideas and thus non-realization of ideas. The lenders also impose legal restrictions, which have to be observed by a prospective borrower before he/she lends. Some are complicated and to fulfill them requires cash flows, which the borrowers do not possess. This complicates the problems (Rukwaro, 2001)

ROK (1997) following the past poor economic growth in Kenya, there have been limited institutions established to offer credit services. This is a problem because the few ones, which are in existence, monopolies the market and raises the interest rates making the cost of borrowing to be very high and expensive for the borrowers. However, in the recent three years the economy has tremendously increased leading to an abrupt increase in number of microfinance institutions.

PIEA (1999) Government interference through setting up of laws and regulation to be applied by both the existing and upcoming microfinance institutions has drastically affected the availability of credit in Kenya. Most of the institutions have closed down as they find it hard to fulfill the requirements of the laws while the emerging ones have found it to be very costly to start up and survive in a dynamic Kenyan environment. Due to this the prospective borrowers are left with very few
of such institutions to provide them with credit services. Suppliers too need their debtors to adhere to their policies, which may not favour borrowers. This has made borrowers to lack adequate credit services as they fail to follow their supplier’s procedures and policies (ROK, 1997).

2.2 History and Future of Credit

At least 300 years ago, credit was used in the civilization of Babylon, Syria and Egypt but it was in medieval Europe that trade developed rapidly on the back of credit facilities (Edwards, 1997). In the 12th century, great trading fairs were held in Europe and merchants traveled from fair to fair buying and selling continuously, so that a supplier at one place would be paid by the proceeds of his buyer’s buyer in another place. Credit was widely used in medieval England to sell basic commodities and rich merchants were able to get advantageous discounts by generating ample cash in advance.

Edwards (1997) notes that trade credit was a significant source of financing business in early days and when business increased in the 18th and 19th centuries, local banks helped local firms in trade expansion. The U.K disease of late payment has always been allied to unwillingness to ask customers to pay up. As long ago as 1689 a Langshire merchant recorded, “it being a year since I began to trade, I have been too forward in trusting and too backward in calling”. A hundred years later, in 1980, a book seller wrote, “I have resolved to give no person whatsoever any credit, having observed that when credit was given, most bills were not paid within six months, some not for twelve months and some not in two years. The losses sustained of interest in long credits and by those bills not paid at all: the inconvenience of not having ready money to lay out in trade to advantage: together with the great loss of time in keeping accounts and collecting debts. But I might as well attempt to rebuild the Tower of Babel as to run a large business without credit (Edwards, 1997)
This and similar business records show how low credit was becoming a tool of expansion but also another item requiring the owners close attention. The historical development of credit shows that business can and must learn from the past if it is to succeed in the future. It is easy to identify failures where past lessons were not learned. For example, the massive 1970s over lending by each country banks to other governments, when nobody counted the total indebtness of anyone country resulted in the biggest bad debts in history. Another example is that, the unrestrained UK credit boom of the 1980s, which led to the mass inability of borrowers to withstand a downturn, which every credit manager has known for many years.

According to Edwards (1997) ways have always been and will always be found to satisfy the demand from ‘lenders’ without the means to pay right now, but good business management, whether of government, banks, companies, cooperatives or households require decisions, about time scales and amount that can be afforded from future earnings. These decisions need information on the customer or borrower, to be able to judge how much trust and for how long credit should be advanced. In the olden days, information was largely by word of mouth but nowadays, there is a vast industry for information providers, but the principle is the same – you only give credit where good information justifies it. The modern demand for credit, according to Edwards, requires the seller to organize a credit process to cope with continuing volumes; capital resources to fund the waiting time with a worthwhile return on investment, and regulation, informally or by-law, of credit agreements and their enforcements.

Since big and rich banks exist to lend money to trading firms, people often wonder why sellers of goods and services have taken the task away from the banks by allowing credit, mainly; the reason is to have more connection with a customer and a more direct aid to selling. However, trade credit is mostly chaotic due to misplaced tolerance by sellers (Mishkin, 1997).
2.3 Credit Policy

The management of accounts receivable essentially begins with the decision whether to grant to a customer, and if so how much and on what terms. It is consequently, the logical starting point for the examination of credit policy. The term credit policy is used to include all the company’s systems and include credit selection, credit standards, credit terms and collection policy (Edwards, 1997).

2.3.1 Credit Selection/Screening

This is the process of selecting the customers who will be granted credit and determining their individual credit limits. It is the initial stage in the operation of an effective credit management system. Usually, a set of criteria or checklists will be available to perform the initial credit screening. The process of credit selection and analysis is essentially an exercise in risk assessment that is, in assessing the probability of customer non-payment. Sound credit selection procedures help to reduce customer default risk by eliminating unsuitable applicants at the outset, and thus avoiding the costly process of chasing slow payments and incurring bad debts later. The old adage “prevention is better than cure” is appropriate here (McMenamin, 1999).

Mishkin (1997) a common approach to customer credit selection and analysis is the use of the six Cs’ of credit as an initial screening and risk assessment device. Applying the “six Cs’ involves a review potential customer’s capacity, capital, character, collateral, conditions and control as follows: Capacity; this is an assessment of the potential customer’s ability to repay the debt. The assessment would include a financial analysis of the customer’s account with a particular emphasis on liquidity and borrowings. Information is also likely to be sought from sources such as bankers and other suppliers relating to the customer’s payment record elsewhere.
Capital; How substantial are the customer's capital resource? What is the customer's capital structure? Character; it relates to an assessment of the personal character, honesty and integrity of the customer and his willingness to comply with credit terms and conditions. Character references may sought from bankers business contacts and associates. Are there any outstanding legal judgments against the customer? Collateral; this relates to an evaluation of the assets which the customer has available as security for the debt if required (Goacher, 1999).

Conditions; The decision to grant credit to customer could be influenced by current economy and business conditions generally or by specific business conditions relating to the applicant or the firm's itself. For instance, if the applicant for the credit is a small business and there is an economic recession in the country, the risk of small business failure in such circumstances is considerably increased. Alternatively, if the firm itself is finding sales for some of its products slow it may take a more relaxed view to granting credit to a potential customer (McMenamin, 1999).

Control; these deals with the operating effectiveness of the information systems used by the borrower to manage the business. The lender and investor must be assured that the firm's accounting system is effective, that the firm meets all regulatory and other legal requirement and that its management information system are adequate to manage it effectively (McMenamin, 1999).

2.4 Money Lenders and Interest Rates

While it is true that moneylenders provide important service to the poor, they typically charge very high interest rates. Hoff and Stiglitz (1990) suggest that these high interest rates are a response to either one or a combination of the challenges they face including the screening problem as a result of borrowers difference in their likelihood to default; the incentives problem as a result of the costliness in
ensuring that borrowers take actions which make repayment of the loan more likely and the enforcement problem to the difficulty experienced in compelling payment.

Given the excess in interest rate charged by money lenders, few long term investment opportunities can support the high cost capital. Only investment activities with fast turnaround can benefit (Waterfield, 2001). However, in spite of the fact that interest rate charged by moneylenders may exceed 75% and sometimes credit is unavailable at any price (Hoff and Stiglitz, 1990), the benefit of quick access to money without too many questions is seen to far outweigh the high cost of capital. It is important to note that while the transaction cost of a loan from the bank is higher than that from an informal lender, the difference in interest rate makes the cost of a loan from a formal institution lower to the borrower. The widespread use of informal finance especially in rural areas however suggest that it is well suited to most rural conditions.

Many scholars have argued extensively against what came to be known as the myth of malicious moneylender to demonstrate that the interest rates they charge reflect primarily their transaction cost and risk. To illustrate further, each moneylender tends to have a range of interest rates for different customers primarily due to the fact that a lender can never fully discern the extent of risk of a particular loan (the pool of applicants for a loan at any given interest will consist of borrowers with projects in different risk categories). The interest rates take on the dual function of price as well as an instrument for regulating the risk composition of lender’s portfolio (Stigler, 1987)

It is safe to conclude then that while some lenders are malicious and exploitive many are not and offer useful service. Even so ironically, poor borrowers are often charged more because they have fewer options and therefore have a lower bargaining power (Robinson, 2001).
Money Lending as Monopolistic Competition:

Monopolistic Competition has been defined as the market situation in which there is a large number of firms whose outputs are close but not perfect substitutes either due to product differentiation or geographical fragmentation of the market. The non-homogeneity of the product means one firm may raise its price relative to income sources and serving relatively few borrowers (Parker and Torres, 1994).

Interests rates are an important aspect of demand management technology like other prices they ensure efficient allocation of financial resources. They influence demand and supply of investible resources and agents decision to consumers and invest. The existences of high interest rates acts as an obstacle to the growth of both private sector and public sector credit in an under developed economy like Kenya. A low interest rate regime is therefore essential for encouraging private investment in agriculture an industry (Mudiri, 2003).

Since in an underdeveloped country business have little savings out of undistributed profits, they have to borrow from the capital market for purposes of investment and they would borrow only if interest rates are low. The interest rate issue has remained one of the endemic macro-economic problems that economic structures have had a hard time to deal with in Kenya. Over the last decade, and most particularly in its last quarter, economic observers and academics have been concerned that the high and unpredictable interest rate were and would remain regressive to the development of the banking industry, unless something is done by the relevant authority. There is still no regulatory framework for insolvency liquidators; Individuals remain unable to pledge an asset without transferring possession of the collateral, which hinders access to credit (Goacher, 1999).

Mudiri (2003) it should be noted that many quoted interest rates are relatively straightforward in Kenya. Discounting in advance is relatively rare and interest is usually charged on actual balances outstanding. Interest premiums or penalty rates are normally levied or charged on overdue balances. Fees and other charges levied
directly on borrower do not appreciably raise the cost of borrowing from most lenders. Mortgage and hire purchase nominal rates depart widely from the true interest rates however.

2.5 Savings and Ability to Pay

Gurgand (1994) notes that mandatory and voluntary saving schemes have been used effectively by financial institutions where savings play a significant role in gaining access to credit. Rwinke (2001) identifies saving as a means of determining who to give credit and how much, whereby a borrower is required to accumulate both prior to and during borrowing. The borrower may also be required to pledge such savings as collateral. This excludes the potential borrowers and contradicts logic of micro lending in that the borrowers may not have funds to save.

Some lenders require potential borrowers to save before applying for a loan in order to demonstrate their intention to develop a long-term banking relationship. When the amount saved reaches a specified level, the lender will consider granting a loan, sometimes as a multiple of the amount saved. Some credit unions set loan sizes as a function of the amount of share capital the borrower owns. In this way, lenders limit the size of potential loan loss, because the borrowers are essentially borrowing some of their accumulated savings or capital. Though obligatory savings might be effective in helping control moral hazard risk, they increase the effective interest rate and are therefore expensive for the borrower. In Burkina Faso and Malawi, failure of one member to repay was used to block access to new credit for all group members, increasing repayment performance due to social pressure (Gurgand 1994).

2.6 Liquidity Risk of Petroleum Dealers

This is risk that an organization is unable to meet its cash flow obligation as they fall due. According to Corinne (1996), the primary concern for a firm’s liquidity is its ability to pay for its obligation in the short run without undue stress. Inadequate
liquidity in a firm can lead to decrease in profitability as short-term profitability investment decisions are foregone and in extreme cases may lead to insolvency.

2.7 Fluctuations in Foreign Exchange Rates and Petroleum

Goucher (1999) defines exchange rate as the price of one currency in terms of another. One of the critical problems in finance results from the need to deal with more than one currency. Exchange risks results from possible changes in the value of these currencies relative to each other i.e. change in exchange rates. The immediate influence on foreign exchange rates are the demand and supply of the domestic currency relative to the foreign currency. Another underlying factor influencing foreign exchange rates is inflation. The expectation of relative inflation in two given countries is of critical importance. E.g. if inflation is expected to recur at an annual rate of 10% in UK and say 20% in Kenya, the exchange rate of the Kenya shilling against the UK pound will be depressed. The relative interest rates in two countries can also affect exchange rates.

Corinne (1996) Government policies including tariffs, quotas, and import export restrictions etc. which prevent full adjustment of exchange rates to purchasing power parity also affect exchange rates. In addition government policy influences inflation and interest rates. Another factor is the balance of payments position, the actual flow of currencies related to international trade and capital movements and the longer-term trends in these accounts. Foreign exchange transactions are of two types. Spot currency transactions are those for which settlement must be completed within two business days. Forward currency transactions involve a price being agreed for currency to be delivered at a future date with settlement being more than two business days.

There are three main types of exchange risks, translation risk, transaction risk and economic risk. Translation risk arise from the need to restate transactions in terms of the firm's own currency, thereby affecting the value of the foreign denominated accounts due to a change in exchange rates. Transaction risk result from the
possibility of foreign exchange gains or losses when settlement takes place at a future date in foreign currency denominated transactions that have already been entered into. Economic risk exists when there is a possibility that the value of a company measured by the net present value of the companies after tax cash flows will change due to unexpected changes in the exchange rates (expected changes in interest rates should already have been reflected in the present market prices). Unexpected currency fluctuations can affect the future cash flow and the riskiness of the cash flows and both these factors are likely to result in change in the value of the firm (Corinne, 1996)

2.8 Rise in Inflation Rates

Henderson and Poole (1991) define inflation as the continual increases in the general price level. Inflation is measured through statistical measures of the consumer price index (CPI) and the producer price index (PPI). The consumer price index is an average of the prices of a wide range of goods purchased by a typical urban family. Goods prices are weighted in the index according to the amounts a family spends on the various goods. The producer price index (PPI) is an average of the prices of good sold by producers.

Henderson and Poole (1991) explain that during times of inflation when price levels rise, more dollars than before are required to buy a standard basket of goods. In other words, a dollar will not buy as much as it did before. Inflation affects the purchases and production of goods. People curtail their purchases of goods and services. The sector financial behaviour may be affected in a general sense because inflation may alter the balance between saving and consumption. Gains and loses from inflation depend on unanticipated inflation and not on the inflation rate itself. Inflation will not inflict gains and loses on borrowers and lenders so long as they predict inflation accurately. The main problem is in predicting the future rate of inflation. A person (or business) who borrows heavily at a fixed rate of interest gains from unanticipated inflation, whereas the person who saves and lends at a fixed rate of interest loses.
2.9 Political Environment

This refers to the probability that a political event will impact adversely on the personal credit portfolio. This risk is ever present since any firm doing business in sovereign country does business only at the pleasure of the governments in those nations. Each sovereign government has the right to establish the rules and regulations to which the business within its jurisdiction must conform. Dondo and Ongila (1994) these rules include tax laws, antitrust (anti monopoly) laws, fiscal and monetary policies, regulation of repatriation of profits and restrictions on workforce reduction as result of say reduced sales or improved technology. Political stability and investor attitude do also matter. For example, traders may be reluctant to enter into contracts or make investments in a country where there may be doubt about their ability to get their money out.

2.10 Asset Structure

Birgham and Gapenski (1990) asset structure indicates importance of firms to use assets to secure debt. They also found that firm’s assets indicate the extent of the business risk. This brings us into the picture on factors such as stability in sales and operating leverage as significant in business risk as well as capital structure. Asset structure is an area that affects Kenyan small firms. Because most of the firm’s assets are of high business risk hence inability to secure debt even if they want to borrow from our local commercial banks.

2.11 Growth Rate

According to Dondo and Ongila (1994) growth rate was a factor that enable firms qualify for credit easier than firms whose growth is slow, and thus they rely heavily on their internally generated funds. This is another area where Kenyan small firms experience problems because they are too small that the majority of them generally because they are too small that the majority of them generally do not qualify for financing.
2.12 Profitability of the Investment

On profitability, Birgham and Gapenski (1990) observed that firms whose returns are higher on investment use less debt because they can afford to meet their financial needs. This position is equally true in Kenyan situation where small firms with higher return on investment may be able to finance their investment needs without taking credit.

2.13 Profitability

Bhalla (1997) profitability indicators such as return on equity and return on assets, tend to summarize performance in all areas of the company. If portfolio quality is poor or efficiency is low, this will be reflected in profitability. Because they are an aggregate of so many factors, profitability indicators can be difficult to interpret. The fact that a company has a high return on equality says little about why that is so. All performance indicators tend to be of limited use (in fact, they can be outright misleading) if looked at in isolation and this is particular the case for profitability indicators. To understand how an institution achieves its profits (or losses), the analysis also has to take into account other indicators that illuminate the operational performance of the institution, such as operational efficiency and portfolio quality.

Bhalla (1997) four indicators to assess profitability include Portfolio Yield (Cash Financial Revenue/Average Portfolio), Return on Equity (Net income/Average Equity), Return on Asset (Net Income/Average Assets), Net Interest Margin (Net Interest Income/Average Gross Portfolio) and Non Interest Income (Non Interest Income/Total Operating Income).
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is concerned with the various steps that will facilitate execution of the study to satisfy the study objectives. These steps include: research design, population of interest, data collection instruments and procedures and data analysis.

3.2 Research Design

The research was carried out through descriptive survey method. Mugenda and Mugenda, (1999) notes that a descriptive research attempts to collect data from members of a population which helped the researcher to get the descriptive existing phenomena by asking individuals about their perceptions, attitudes, behaviour or values. Moreover, it explores the existing status of two or more variables at a given time; hence most suited in analyzing the factors influencing the accessibility of finance to small-scale investors in oil industry.

3.3 Population

The population of the research consisted of small-scale petroleum dealers that are registered with the Independent Petroleum Dealers Association and KIPENDA and are within Nairobi area and its environs i.e. Ruiru, Thika, Athi River, Ongata Rongai, Kikuyu, Ngong, Machakos town. According to KIPENDA there are 150 members registered as at December 2006 in Nairobi and the above areas.

3.4 Sample

A sample size of 50 petroleum dealers was to be surveyed to help us get a better understanding of the factors affecting operations of independent petroleum dealers. The sample size for the study was stratified sampled according to their location.
### Table: 1 Sample Size

<table>
<thead>
<tr>
<th>Location</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ruiru and Thika</td>
<td>10</td>
</tr>
<tr>
<td>Machakos</td>
<td>10</td>
</tr>
<tr>
<td>Nairobi</td>
<td>20</td>
</tr>
<tr>
<td>Athi River</td>
<td>5</td>
</tr>
<tr>
<td>Rongai and Ngong</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

#### 3.5 Data Collection

Primary data was collected using a “drop and pick later” structured questionnaire. In the questionnaire both open ended and closed questions were asked. Follow ups were made to ensure collections of the questionnaires in time, as well as assist respondents in any difficulty encountered in completion of questionnaires. Dealers in the petroleum industry were also required to fill the questionnaires. A structural questionnaire was used since it is easier to administer, analyze and economical in terms of time and money.

The questionnaire had two sections. section A which collected information concerning the general information of the petroleum dealers while section B collected the information concerning the objective of the study which was to determine factors influencing the accessibility of credit to petroleum dealers. The respondents of the questionnaire were managers or owners of the firms.

#### 3.6 Data analysis

Data from the completed questionnaires was coded to facilitate statistical analysis. Descriptive statistics were used to analyze the data. Descriptive statistics such as means standard deviation and frequency distribution enabled the researcher to meaningfully describe the distribution of measurements. The data was presented using frequency distribution tables and graphs.
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents analysis and findings of the research. Findings in this chapter have tried to fulfill the objectives of this study. 44 firms were involved in the study out of the target of 50 thus creating 88% response rate. Distribution of the questionnaires took two weeks. A time limit of one week for feeling the questionnaire was given. Before collection, several calls were made to find out whether the questionnaires were actually filled. The main challenge to the study was to convince the respondents to fill the questionnaire and majority of them did not have adequate time to respond to the questions effectively and with careful thought.

4.2 Ownership of the organization

In this category, the researcher was interested in knowing the ownership of the organization.

Table 2: Ownership of the organization

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>44</td>
<td>100.0</td>
</tr>
<tr>
<td>Foreign</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100.0</td>
</tr>
</tbody>
</table>

It can be seen from the above table that all the firms involved in the survey were locally owned.
4.3 Nature of Business Ownership

In this section the interest was on the nature of business ownership. The results are as indicated in the table below.

Table 3: Nature of Business Ownership

<table>
<thead>
<tr>
<th>Nature</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole proprietorships</td>
<td>18</td>
<td>40.9</td>
</tr>
<tr>
<td>Family business</td>
<td>14</td>
<td>31.8</td>
</tr>
<tr>
<td>Partnership</td>
<td>10</td>
<td>22.7</td>
</tr>
<tr>
<td>Group</td>
<td>2</td>
<td>4.5</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100.0</td>
</tr>
</tbody>
</table>

It can be seen that 40.9% of the businesses involved in the study were solely owned, 31.8% were family businesses, 22.7% were partnership businesses and only 4.5% group businesses.

4.4 Category of the Company

This part was interested in the knowing the category of the company

Figure 1: Category of the company

![Category of the company chart](image-url)
The above chart shows that the majority of the petroleum dealers comprising of 45.5% were retailers, 36.4% were distributors while only 18.2% were wholesalers. The study means that our target members can be considered to be small medium entrepreneurs.

4.5 Number of Employees

This part was interested in the number of employees in the organization. The results are as shown in the table below.

**Table 4: Number of employees**

<table>
<thead>
<tr>
<th>Number</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10</td>
<td>9</td>
<td>20.5</td>
</tr>
<tr>
<td>10-20 employees</td>
<td>19</td>
<td>43.2</td>
</tr>
<tr>
<td>20-50 employees</td>
<td>12</td>
<td>27.3</td>
</tr>
<tr>
<td>More than 50 employees</td>
<td>4</td>
<td>9.1</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100.0</td>
</tr>
</tbody>
</table>

It can be seen that 43.2% of the firms involved in the survey had 10 to 20 employees, 27.3% had 20 to 50 employees, 20.5% had less than 10 employees while only 9.1% had more than 50 employees.

4.6 Length of time in existence

In this category, the researcher was interested in knowing the length of time the organization had been in existence.

**Table 5: Length of time in existence**

<table>
<thead>
<tr>
<th>Length of time</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 1 years</td>
<td>4</td>
<td>9.1</td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>22</td>
<td>50.0</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>12</td>
<td>27.3</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>6</td>
<td>13.6</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100.0</td>
</tr>
</tbody>
</table>
It can be seen that 50% of the firms involved in the survey had been in the business for 1 to 5 years, 27.3% had been in existence for 6 to 10 years, 13.6% had been in existence for over 10 years while only 9.1% had been in existence for less than a year.

4.7 Relative size of the company

This section sought to find out the size of the company in terms of annual sales turnover.

Figure 2: Size of the company

Majority of the firms involved in the survey comprising of 34.1% had an annual turnover of 15 to 25 million, 29.5% had an annual turnover of 10 to 15 million, 15.9% had a turnover of 25 to 30 million, 13.6% had annual turnover of 35 to 40 million while only 6.8% had annual turnover of over 50 million. It can be seen that from the findings above the size of a business can be a good indicator to banks to provide credit to the firms.
4.8 Significance of source of finance

This section was interested in finding out the significance of various sources of finance to their business operations.

Table 6: Significance of source of finance

<table>
<thead>
<tr>
<th>Source of finance</th>
<th>Highly significant</th>
<th>Moderately significant</th>
<th>Significant</th>
<th>Less significant</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq %</td>
<td>Freq %</td>
<td>Freq %</td>
<td>Freq %</td>
<td>Freq %</td>
</tr>
<tr>
<td>Owners contribution</td>
<td>26 59.1</td>
<td>12 27.3</td>
<td>6 13.6</td>
<td>0 0.0</td>
<td>0 0.0</td>
</tr>
<tr>
<td>Loans and creditors</td>
<td>15 34.1</td>
<td>22 50.0</td>
<td>4 9.1</td>
<td>3 6.8</td>
<td>0 0.0</td>
</tr>
<tr>
<td>Donations</td>
<td>0 0.0</td>
<td>2 4.5</td>
<td>5 11.4</td>
<td>26 59.1</td>
<td>11 44.0</td>
</tr>
</tbody>
</table>

Table 6 above indicate that majority of the respondents considered members contribution and loan to be significant to the business. Most of the respondents comprising of 59.1% said owner contribution was highly significant to the business, while 27.3% said that owner’s contribution was moderately significant. On the other hand 50% of the respondents said that loans and creditors were moderately significant while 34.1% said that these loans and creditors were highly significant to the business. With regard to donations, 59.1% of the respondents said that it was less significant to the business while 44% said that it was not significant at all to their businesses.
4.9 Source of Credit Information

In this category, the researcher was interested in finding out how various sources of credit information hindered access to credit by independent petroleum dealers.

Table 7: Source of credit information

<table>
<thead>
<tr>
<th>Source of credit information</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Less extent</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
</tr>
<tr>
<td>Financial statement</td>
<td>3</td>
<td>6.8</td>
<td>9</td>
<td>20.5</td>
<td>15</td>
</tr>
<tr>
<td>Credit Rating report</td>
<td>16</td>
<td>36.4</td>
<td>21</td>
<td>47.7</td>
<td>5</td>
</tr>
<tr>
<td>Banking checking</td>
<td>10</td>
<td>22.7</td>
<td>12</td>
<td>27.3</td>
<td>16</td>
</tr>
<tr>
<td>Trading checking</td>
<td>4</td>
<td>9.1</td>
<td>12</td>
<td>27.3</td>
<td>22</td>
</tr>
<tr>
<td>Company’s Own experience</td>
<td>0</td>
<td>0.0</td>
<td>3</td>
<td>6.8</td>
<td>11</td>
</tr>
</tbody>
</table>

Table 7 above shows that financial statement was to a moderate extent a hindrance to access credit to majority of the firms involved in the survey. On the other hand, 47.7% of the respondents reported that credit rating report was to a great extent a hindrance to access finance while 36.4% of the respondents said that banks checks were to a moderate extent a hindrance to access finance. Half of the respondents agreed that trading checks to a moderate extent acted as a hindrance to access finance. Half of the respondents agreed that trading checks to a moderate extent acted as a hindrance to access finance. Half of the respondents agreed that trading checks to a moderate extent acted as a hindrance to access finance. Half of the respondents agreed that trading checks to a moderate extent acted as a hindrance to access finance. Half of the respondents agreed that trading checks to a moderate extent acted as a hindrance to access finance. Half of the respondents agreed that trading checks to a moderate extent acted as a hindrance to access finance. Half of the respondents agreed that trading checks to a moderate extent acted as a hindrance to access finance.
4.10 Need for credit

In this part the interest was to find out why independent petroleum dealers would seek credit.

Table 8: Reasons for taking credit

<table>
<thead>
<tr>
<th>Reasons for taking credit</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
<td>%</td>
</tr>
<tr>
<td>To increase sales volume</td>
<td>25</td>
<td>56.8</td>
<td>16</td>
<td>36.4</td>
</tr>
<tr>
<td>To increase market share</td>
<td>17</td>
<td>38.6</td>
<td>23</td>
<td>52.3</td>
</tr>
<tr>
<td>For promotional purposes</td>
<td>1</td>
<td>2.3</td>
<td>4</td>
<td>9.1</td>
</tr>
<tr>
<td>To start up new ventures</td>
<td>1</td>
<td>2.3</td>
<td>1</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Table 8 above shows that majority of the respondents ranked increasing sales volume as the number one reason for taking a loan comprising of 56.8% of the respondents. 52.3% ranked increasing market share as the number two reason. 72.7% ranked promotion of their products as the number three reason for taking a loan while 84.1% of the respondents ranked starting up new ventures as the number four reason as to why they would take credit. The study shows that SME seek credit mostly to increase sales volume.
4.11 Consideration for getting Credit

In this category, the researcher was interested in knowing the factors that determined the award of credit to petroleum dealers.

Table 9: Consideration for getting credit

<table>
<thead>
<tr>
<th>Reason for consideration</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Less extent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
<td>%</td>
</tr>
<tr>
<td>Competitiveness in an industry</td>
<td>10</td>
<td>22.7</td>
<td>22</td>
<td>50.0</td>
</tr>
<tr>
<td>Geographical location</td>
<td>1</td>
<td>2.3</td>
<td>4</td>
<td>9.1</td>
</tr>
<tr>
<td>Desired profit margins</td>
<td>14</td>
<td>31.8</td>
<td>21</td>
<td>47.7</td>
</tr>
<tr>
<td>Desired market share and sales volume</td>
<td>22</td>
<td>50.0</td>
<td>13</td>
<td>29.5</td>
</tr>
<tr>
<td>Size and culture of an Organization</td>
<td>7</td>
<td>15.9</td>
<td>13</td>
<td>29.5</td>
</tr>
<tr>
<td>Political Environment</td>
<td>1</td>
<td>2.3</td>
<td>12</td>
<td>27.3</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>5</td>
<td>11.4</td>
<td>13</td>
<td>29.5</td>
</tr>
<tr>
<td>Interest rate</td>
<td>11</td>
<td>25.0</td>
<td>22</td>
<td>50.0</td>
</tr>
</tbody>
</table>

Table 9 above shows that, 50% of the respondents said that to a great extent competitiveness in an industry determined being awarded a credit, 56.8% said geographical location determined getting credit to less extent, while 47.7% said that desired profit margins to a great extent determined getting credit. On the other hand 50% of the respondents said that the desired market share and sales volume determined to a very large extent the award of credit. The size and culture of the organization determined to a moderate extent, the political environment determined the award of credit to a small extent, inflation rate to a moderate extent while interest rate to great extent the award of credit from financial institutions.
4.12: Criteria for Lending

This section sought to find out from the respondents the criteria used by financial institutions before giving loans to petroleum dealers as per banks client information forms that borrowers are required to fill when requesting for credit.

Table 10: Criteria for lending

<table>
<thead>
<tr>
<th>Factors</th>
<th>Very important</th>
<th>Important</th>
<th>Least important</th>
<th>Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
<td>%</td>
</tr>
<tr>
<td>Proper books of accounts</td>
<td>32</td>
<td>72.7</td>
<td>12</td>
<td>27.3</td>
</tr>
<tr>
<td>Profitable business</td>
<td>35</td>
<td>79.5</td>
<td>9</td>
<td>20.5</td>
</tr>
<tr>
<td>No debt outstanding</td>
<td>22</td>
<td>50.0</td>
<td>18</td>
<td>40.9</td>
</tr>
<tr>
<td>Regular savings</td>
<td>28</td>
<td>63.6</td>
<td>12</td>
<td>27.3</td>
</tr>
<tr>
<td>Savings as security</td>
<td>22</td>
<td>50.0</td>
<td>12</td>
<td>27.3</td>
</tr>
<tr>
<td>Savings for on lending</td>
<td>20</td>
<td>45.5</td>
<td>22</td>
<td>50.0</td>
</tr>
<tr>
<td>Savings as assurance that client can pay</td>
<td>20</td>
<td>45.5</td>
<td>24</td>
<td>54.5</td>
</tr>
<tr>
<td>Location of the business</td>
<td>10</td>
<td>22.7</td>
<td>22</td>
<td>50.0</td>
</tr>
<tr>
<td>Particular nature of business</td>
<td>11</td>
<td>25.0</td>
<td>23</td>
<td>52.3</td>
</tr>
<tr>
<td>Ability to pay the interest and installments</td>
<td>38</td>
<td>86.4</td>
<td>6</td>
<td>13.6</td>
</tr>
</tbody>
</table>

Table 10 indicates those very important factors that financial institutions considered before granting loans to petroleum dealers include; ability to pay the interest and installments, proper books of accounts, profitable business, no debt outstanding, regular savings and saving as security. The factors that were considered important by financial institutions when issuing loans to petroleum dealers include savings for lending, savings as assurance that client can pay, location of the business and the particular nature of business. The respondents indicated that the key factor which banks considered most when lending is the profitability of the firm.
5.1 Introductions

This chapter provides a summary of the findings, conclusions and recommendations into the factors influencing accessibility of credit to independent petroleum dealers in Nairobi.

5.2 Summary of the Findings

The findings indicate that all the firms involved in the survey were locally owned and were mostly sole proprietorships or family businesses. 45.5% of these businesses were retailers although a sizeable number were distributors. 43% of these companies had few employees indicating they were small medium enterprises.

The findings also indicate that 59% of the businesses involved in the survey valued owner's contributions and loans as a source of finance. When seeking to find out the various sources of credit information and how they hinder access to credit, there are a number of sources that were found. Those that hindered independent petroleum dealers from accessing credit included; profitability and sound financial systems. The respondents indicated that the main reason for them to seek loans were to increase their market share, increase sales volume and for promotional purposes. The main determinant of credit in the industry were competitiveness in the industry, desired profit margins, desired market share and sales volume and interest rates.

The findings indicate that the following factors were very important for financial institutions to evaluate before they could grant loans to independent petroleum dealers. These factors include; ability to pay the interest and installments, proper books of accounts, profitable business, no debt outstanding, regular savings and saving as security. Other factors that financial institutions considered include; savings for lending, savings as assurance that client can pay, location of the business and the particular nature of business.
5.3 Conclusions

Credit plays a crucial role in the survival of a business. However for financial institutions to grant small businesses credit, there are a number of factors they have to look at. Small businesses usually do not get loan facilities from financial institutions because such businesses are usually perceived to be risky. Usually financial institutions do a credit selection and analysis to determine whether small businesses should get loans. The problem usually arises when these small businesses do not keep business records and it therefore becomes hard for financial institutions to give them loans.

Daniels and Mead (1998) the process of lending to small businesses usually takes long and some of these businesses give up on the loan. This is because financial institutions have to evaluate that the business can be in a position to pay for that loan before it is received. A common approach taken by financial institutions is to evaluate the business’ capacity, capital, character, collateral, conditions and control. When one of these factors is perceived to be weak, the business fails to get the loan Daniels and Mead (1998). This means that the businesses cannot expand easily and eventually it may be forced to close down.

The findings shows that the only way small businesses like independent petroleum dealers can be able to access loans to keep good business records, have a sound capital base and have increasing revenue collection. Dondo (2006) it is important to have a good financial control. It is important for small business owners to know that income does not mean cash flow. In this case they should manage credit policies closely to assure a positive cash flow. The findings show that a good way to overcome financial problems is through good book keeping. Once financial institutions see a good management of business funds then they would be willing to partner with small business owners to ensure their growth (Dondo, 2006).
Mbuvi (1983) the decision to grant credit to small businesses is influenced by very many factors some within the customers control some without. Those within their control and which they need to monitor closely are sound financial system, size and culture of the organization, location of the business and nature of the business. Those that are without include political environment and inflation rate. In any case overall management of the business must be very good.

5.4 Limitations of the Study

This study sought to find out the factors influencing accessibility of credit to independent petroleum dealers in Nairobi. The main limitation of the study was that it did not cover the whole country thus limited to factors affecting dealers in other parts of the country.

5.5 Recommendation

There are a number of recommendations that can be made to independent petroleum dealers. These recommendations would mainly help them access credit. One thing that needs to be done is effective management of these organizations. Planning well would dramatically improve the chances of getting loans from financial institutions. It is also important to have basic business skills such as the ability to keep accounting records (Muchai, 1999). Keeping records will enable a business to manage its cash flows. Good management of cash would mean avoiding under capitalization as well as avoiding unnecessary acquisitions of fixed assets. With such planning the business can be able to increase its sales volume as well as its market share. When a financial institution sees a business whose revenue has been growing steadily then it would be easy to advance loans to them.

5.6 Further Areas for study

This study concentrated mainly on factors influencing accessibility of credit to petroleum dealers in Nairobi. Future academician should consider expanding the
study to all other areas of the country so that policies made can be made comprehensive comparison of various studies.
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APPENDIX I: QUESTIONNAIRE

SECTION A: COMPANY DATA

1. Name of respondent..............................................................optional
2. Name of company.................................................................optional
3. Job designation .................................................................optional

For the following question from 4 to 9 tick one option (Please tick one appropriate response)

4. Is your organization [ ] local [ ] foreign [ ] jointly owned

5. Please indicate the nature of business ownership
   • Sole proprietor [ ]
   • Family business [ ]
   • Partnership [ ]
   • Group [ ]
   • Any other please specify ..............................................

6. What category does your company belong to
   • Distributor [ ] Retailer [ ]
   • Wholesalers [ ] other specify ......................... [ ]

7. What is the number of employees in your organization?
   • Less than 10 [ ] 10-20 [ ]
   • 20-50 [ ] More than 50 [ ]

8. How long has your company been in existence?
   • 0-1 years [ ] 1-5 years [ ]
   • 6-10 years [ ] Over 10 years [ ]

9. What is the relative size of your company in terms of annual sales turnover?
   • 10 to 15 Million [ ]
   • 15 to 25 million [ ]
   • 25 to 30 million [ ]
   • 35 to 40 million [ ]
   • Over 50 million [ ]
SECTION B

Factors influencing the accessibility of credit to petroleum dealers

10. Rate the significance of the following sources of finance for your organization.
   5= highly significant, 4 = moderately significant 3= significant 2= less
   significant 1= Not significant at all

   5  4  3  2  1
   [ ] [ ] [ ] [ ] [ ]
   Owners contributions
   [ ] [ ] [ ] [ ] [ ]
   Loans and creditors
   [ ] [ ] [ ] [ ] [ ]
   Donations
   [ ] [ ] [ ] [ ] [ ]
   Any other ..................................

11. The following are various sources of credit information. To what extent does
    this source hinder the access of credit by independent petroleum dealers?

   (1-Not applicable, 2=to a less extent, 3 to a moderate extent, 4= to a great extent, 5
to a very great extent)

   Sources 5  4  3  2  1
   Financial statements
   Credit Rating report
   Banking checking
   Trading checking
   Company’s Own experience

12. Please rank the following in order of why you would take credit (5 to represent
    the most important, in ascending manner)

   - To increase sales volume
   - To increase market share
   - For promotional purposes
   - Others specify

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13. To what extent do you think the following is consideration in determination of credit in your industry?

<table>
<thead>
<tr>
<th>Criteria</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness in an industry</td>
<td></td>
<td></td>
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<tr>
<td>Geographical location</td>
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<tr>
<td>Desired profit margins</td>
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<tr>
<td>Desired market share</td>
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<tr>
<td>sales volume</td>
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<tr>
<td>culture of an Organization</td>
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<tr>
<td>Size</td>
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<tr>
<td>Political Environment</td>
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<tr>
<td>Inflation rate</td>
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</tbody>
</table>

14. Have you ever taken a loan from any financial institution?

- Yes [ ]  No [ ]

15. Tick the criteria that was used by the financial institution to lend in your sector in order of importance. 5) Very important  4) Important  3) Least important  2) Not important  1) Not Important at all

<table>
<thead>
<tr>
<th>Viability of business</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proper books of accounts</td>
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<tr>
<td>Profitable business</td>
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<tr>
<td>No debt outstanding</td>
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<tr>
<td>Savings</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
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<tr>
<td>Regular savings</td>
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<tr>
<td>Savings as security</td>
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<tr>
<td>Savings for on lending</td>
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<tr>
<td>Savings as assurance that client can pay</td>
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<tr>
<td>Location of the business</td>
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<tr>
<td>Particular nature of business</td>
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<tr>
<td>Ability to pay the interest and installments</td>
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</tbody>
</table>

16. What other factors hinder you from getting credit to finance your business in your sector.............................................................................................................
APPENDIX II List of Small-Scale Independent Petroleum Dealers in Kenya

1. A AMPLE LTD
2. ADDAX KENYA LIMITED
3. ADM TWO THOUSAND LTD
4. ALKNACKS INVESTMENT LTD
5. AMBAR ENTERPRISE LTD
6. BAKRI INTERNATIONAL ENERGY CO. KENYA LIMITED
7. BRIDGEROCK PETROLEUM LIMITED
8. BRILLIANT PETROLEUM DEALERS
9. BUNYALA HOLDINGS
10. BURUBURU PETROLEUM COMPANY LIMITED
11. CYKA FUEL MART
12. DALBIT PETROLEUM LIMITED
13. DALE VENTURES LTD
14. DAQARE TRANSPORTERS
15. DELTA PETROLEUM TRADING CO. LTD
16. DUNHILL PETROLEUM AND CHEMICAL COMPANY LIMITED
17. ELISON KENYA PETROLEUM DEALERS
18. ENGEN KENYA
19. EXECELATION LTD
20. FUELEX KENYA LIMITED
21. GALANA OIL KENYA LIMITED
22. GAPCO KENYA LIMITED
23. GEOVIC LTD
24. GETHIN & DAWSON LTD
25. GOLDRING PETROLEUM LIMITED
26. HASHI EMPLEX LIMITED
27. HASS PETROLEUM LIMITED
28. JAMSOLS ENTERPRISES LTD
29. JONAFLO ENTERPRISES
30. KENPET LIMITED
31. KIGWE ENTERPRISES
32. KISSI PETROLEUM PRODUCTS
33. LAKEVIEW PETROLEUM DEALERS
34. MGS INTERNATIONAL (K) LIMITED
35. MODERN DISTRIBUTORS
36. MOROP DISTRIBUTORS
37. MT KENYA PETROLEUM DISTRIBUTORS LTD
38. MULSON ENTERPRISES
39. NAIROBI PETROLEUM PRODUCTS
40. NYANZA PETROLEUM DEALERS
41. OVERLOAD PETROLEUM DEALERS
42. P J PETROLEUM EQUIPMENT
43. PETRO OIL KENYA LIMITED
44. PETROLUBE KENYA LIMITED
45. PETROMART KENYA LIMITED
46. PREMIER AGENCIES
47. PRIEMFUELS KENYA LIMITED
48. ROSEBUD ENTERPRISES
49. SANDLIT INVESTMENT LTD
50. SGS KENYA LIMITED
51. SIMOSHA PETROLEUM ENTERPRISES
52. SOMKEN PETROLEUM COMPANY LIMITED
53. SONYAK PETROLEUM LTD
54. TRITON PETROLEUM LIMITED
55. WINKAR LTD

Source KIPENDA DECEMBER 2006