AN EVALUATION OF THE MAIN FACTOR AFFECTING CREDIT REPAYMENT IN SMALL AND MEDIUM ENTERPRISES: A CASE OF NAIROBI COUNTY

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DECLARATION

This project is my original work and has not been submitted for a degree in any other university.

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

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DEDICATION

I dedicate this project to my Loving Mother, Jeniffer S. Kingole, for her prayers and moral support during my academic period.

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ABSTRACT

The main objective of the study was to identify factors hindering SMEs from committed and consistent credit repayments by focusing on SMES in Nairobi County. The specific objectives were to: identify conditions put by banks in offering loans to SMEs; assess whether or not SMEs are able to meet loan conditions put by banks; and establish the impact of loan conditions put by banks on growth and sustainability of SMEs. The study adopted a survey design method in determining the factors that affect SMEs in credit repayment. Its target population comprised SMEs operating within Nairobi County and sampled 100 SMEs within Nairobi County. The study found that independent variable (Character, Capacity, Conditions, Security, Common Sense and Contribution) explains 63.3 percent change of credit repayment. It found that most people have an Account with the Sacco's with the main reasons for borrowing the loans from these institutions ranging from seeking start- up capital for the businesses, purchasing inventory, business expansion and strengthening of the financial base of the business. It found that the main reason for failure of credit repayment is due to loans given out without any form of security to clients. It recommended that that small and medium enterprises should have a structure where funds are well projected over the period of repayment and portion money for such repayments.

CHAPTER ONE: INTRODCUTION

1.1 Background of the study

Small and Medium-sized Enterprises (SMEs) play a major role in economic development through employment creation and income generation. SMEs are sometimes referred to as Micro, Small and Medium Enterprises (MSMEs). They cover nonfarm activities such as manufacturing, mining, commerce and services. There are different yardsticks of categorizing SMEs. Commonly used yardsticks are total number of employees, total investment and sales turnover. (MSME BILL, 2009)

In the context of Kenya, MSMEs are those enterprises engaging less than 10 employees, in most cases family members, with an annual turnover not exceeding ksh 500,000.00. Majority of MSMEs fall under the informal sector. Small enterprises are formalized undertakings engaging more than 10 but less than 50 employees, with an annual turnover between ksh 500,000.00 to kshs 5 million. Medium enterprises employ more than 50 but less than 100 employees and have an annual turnover between kshs 5 million to Kshs. 800 million (MSME BILL, 2009).

Among many challenges facing SMEs in Kenya the major one is lack of access to finances. In Kenya, credit facilities to SMEs are in the form of loans or debt financing offered by banks, which provide growth capital for SMEs. However, there are numerous obstacles to SMEs in accessing credit facilities. One of the obstacles is the perception by banks that offering loans to SMEs is risky (MSME BILL, 2009).

The SME sector in Kenya has limited access to finance due to the following factors: the sector is perceived as a high risky; inability of the SME operators to fulfil the collateral requirements; lack of a guarantee scheme to back up banks financing SMEs; high cost of screening and administering small loans spread over big areas and inability of borrowers to prepare and present business plans that meet bank's requirements (MSME BILL, 2009).

Despite these challenges, in Kenya some banks have taken a chance on SMEs and are offering them loan facilities. This has largely improved on the stature of SMEs and thus contributing towards the vision 2030 specifically the economic pillar. In the recent past SMES have benefited from both banks and micro financiers for funding their businesses. However, just as the future of SMEs seems to be brighter another challenge of credit repayment on the part of the SMEs is cropping up. Although loans offered by these banks and micro financers have loosened their loan application requirements and conditions that SMEs can now access financing, there seems to be an increasing trend of loan defaults that has now created a issue of SMES credit repayments abilities which in turn is making financiers jittery to continue financing them.

1.1.1 SME's in Nairobi County

Nairobi County is home to Nairobi city, the capital of Kenya. Nairobi is Kenya's principal economic, administrative, and cultural centre and is one of the largest and fastest growing cities in Africa. Being the Kenyan capital, Nairobi county is home to about 60% of the SMEs in Kenya which straddle across various sectors ranging from the informal sector, banking, retail, farming etc, according to the economic survey 2010, an estimate of about 70% of the industrial employment is held by SMEs and more than 50% of the Gross Domestic Product is SMEs generated. It is estimated that Nairobi county is home to an estimated 5 million micro and small-scale enterprises, employing 8 million people (Memba, 2011).

1.2 Research Problem

The development of small firms is generally agreed to be a key ingredient in poverty reduction (World Bank, 2000). However, these firms suffer from a range of problems in their establishment and development. Out of the several problems affecting their growth, difficulties on accessing finance is arguably central. So far there is a consensus view from theoretical investigation supported by numerous empirical studies that small businesses as opposed to large firms face specific constraints in raising external finance (Berger et al., 1998).

A survey of 136 small firms in Tanzania found that 63 per cent of them consider difficulties in accessing finance from financial institutions as the major constraint to their development (Satta, 2006). Several reasons have been put forward to explain the difficulties small firms face in accessing credit from formal financial institutions. Among them small firms access to the formal financial sector is constrained by high risk and transaction costs brought about by information asymmetry, difficulties in enforcing contracts, and lack of appropriate instruments to manage the risk involved. In some cases the problem is aggravated by supervisory and capital adequacy requirements that restrict banks from extending uncollateralized loans to small firms (Obiero, 2002).

SMEs in Nairobi are just a part of what constitutes the SMEs sector in Kenya. Despite being in the business for many years, the SMEs businesses are not expanding or growing in size and in some instances they tend to be declining at a gradual rate and at times most of them tend to fail despite them having very good business concepts. The main challenge facing the SME is lack of capital. Lack of capital limits their ability to grow and expand their businesses, but even in the instances that they access finances there seems to be an increasing trend of loan defaults that has now created an issue of SMES credit repayments abilities which in turn is making financiers jittery to continue financing them. This will derail the advances made by SMEs in Kenya in accessing funding from banks which will in turn affect the advances made towards the vision 2030 specifically the economic pillar through empowering and encouraging the growth and sustainability of SMEs financing has been a major issue to industry players and scholars alike.

A number of studies have been conducted both locally and abroad to unravel the challenges facing SME financing and credit servicing. Local studies include; (Satta,2006), who evaluated the performance of small firms financing schemes in Tanzania and found out SME financing schemes are important actors in the financial sector particularly rural parts of the country where mainstream financial services are generally not available, (Memba ,2011), studied the impact of venture capital finance on the performance of the SMEs in Kenya, and found out that venture capital have an impact on SME performance.(Fatokil, 2011) who studied the role of reverse factoring in supplier financing of SMEs, (Fraser,2008), studied the strategy of financing small and medium enterprises in a new economic environment in Indonesia, (Olaitan,2006) evaluated the funding arrangements for SMEs in Nigeria. There are also numerous studies done to the subject of SME’s in regards to finance as shown in the table below however no study has been done on SME’s credit repayment locally.

A thorough examination of studies done locally two main issues arise, One, that these studies appear to be narrow on scope and no single study has sought to determine factors affecting credit repayment in SMEs. Secondly and perhaps most important is that most of the studies done on credit repayment were done abroad. However according to (Bowen, 2009), it‘s not right to import the wholesome results of a research without taking into account the environmental differences and hence the needs to carry out local research in order to understand better the problem. This study therefore sought to evaluate the factors affecting credit repayment in SMEs in Nairobi County. To fulfil it’s the objectives, the study will seek specific answer the following questions: What are the conditions imposed by banks in offering loans to SMEs? And are SMEs able to meet loan conditions put by banks?

1.3 Objectives of the study

1.3.1 The Main Objective

The main objective of this study was to identify factors hindering SMEs from committed and consistent credit repayments by focusing on SMES in Nairobi County.

1.3.2 The Specific Objective

The specific objectives were to;

i. Identify conditions put by banks in offering loans to SMEs;
ii. Assess whether or not SMEs are able to meet loan conditions put by banks; and
iii. Establish the impact of loan conditions put by banks on growth and sustainability of SMEs

1.4 Value of the Study

The findings of this study thus help to fill the existing gap in knowledge and act as a stepping stone for future researchers who would like to conduct studies on the same topic or similar topics.

The study will also help SMEs and stakeholders in the SMEs industry and banking sectors to understand the factors hindering SMEs from servicing their loans from banks and in doing so, enable them to come up with ways and means of overcoming those challenges. Nevertheless, the study will also enable the SMEs identify the factors affecting their credit repayments in a bid to find a solution and improve themselves.

The study will provide documentation on the conditions put by banks in offering loans to SMEs in Kenya. This will ensure that the SMEs will have enough information for capital sourcing. The study will be very useful to the developing countries like Kenya since very little has been done with respect to non bank capital. The Kenyan government will also significantly benefit from the study since it has been on the forefront in promotion of initiatives that which promotes the capital availability to SME.

The Kenya government has continued to articulate policy measures and programmes aimed to achieve sustainable economic growth and development in the SMEs sub sector, through appropriate alternative funding. Most small businesses mainly use internal sources (personal income, friends and relatives or local/informal institutions) as sources of finance while external sources such as bank finance and other forms of institutional credit arrangements are hardly used the SMEs to access finance. This is mainly attributed to inadequate business skills, lack of track record and collateral to meet the existing lending criteria of risk adverse Banks (World Bank, 2000).Thus the government and other policy will gain an understanding of the issues that plague SMEs financing in order to formulate effective policies that will support entrepreneurs. Therefore this study will be of value to the achievement of Vision 2030.In the light of the findings of this study it is hoped that the financiers will review their stringent requirements to accommodate SMEs. The study is also expected to shed light to entrepreneurs on alternative sources of finance available to them in the form of non banking financial institutions in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter introduces the review of contextual and theoretical literature relating to process design and firm productivity. It encompasses both theoretical and empirical literature. The literature is reviewed in streams.

2.2 Theoretical Review

2.2.1 Evolution of Micro Credit Services

Credit facilities have been there in many African countries. Many organizations self-help credit groups like rotating savings and credit associations, commercial lenders, friends, families and non-commercial lenders and licensed cooperatives or unions have taken advantage of offering credit facilities. However a number have ended up collapsing due to non-repayment or late repayment of the credit that is advanced to the different groups.

In Kenya the, the idea of Micro credit can be traced back before independence. The colonial government did not provide credit facilities to the African people, and hence the informal credit groups such as merry go rounds were formed within the societies in rural areas and clan levels. During the 1970's government agencies were set up as and their main responsibility was to provide credit to those who had no previous access to credit facilities (Kabiru, 2002).

2.2.2 SME Credit policy in developing countries

Over the past two decades in particular, there has been substantial debate as to how best to maximize the small and medium enterprises' (SMEs) contribution to local economic development in the light of the failure of many financial institutional models and programmes for poverty alleviation (World Bank Group, 2004; Berger et al., 2006).

According to (Kibaara,2006), between 1960 and 1969, close to US$1 billion was provided to the developing countries by Inter-American Development Bank (IDB), International Bank for Reconstruction and Development(IBRD) and the United States Agency for International Development (USAID) for credit programmes to SMEs

One of the important factors which account for relative poverty of the rural population is the system of found in most developing counties. SME's especially start ups are trapped in the vicious cycle of poverty because they do not have the capacity to save because their real incomes are low. This is due to low productivities, which are due to lack of capital investments which, in turn, are due to their inability to forgo consumption and save.

World over, the SME subsector is dogged with a number of challenges. In Africa, for instance, their failure rate is approximated at 85% out of every 100 SME's start-ups. The major reason attributed to this failure is lack of skills and access to capital (GOK, 2007). The SMEs are only able to source and obtain micro finance mostly from the informal sector like friends and relatives. Bank credit is not available to SMEs because they generally considered high credit risks by financial institutions and most of them do not have adequate collateral. (Nduba, 2010) Other challenges include, discriminatory cultural practices which make it impossible for women entrepreneurs to borrow on own assets and land title deeds, high transaction costs etc. This limitation in access to finance by SME's undermines the critical role of in economic growth.

According to (FDS, 2007) that faster economic growth will not be possible without a deepening of the financial system and in particular, more financial support sector to the SMEs. It is noted that banks remain highly liquid in many countries and reluctant to expand credit other than to the most credit worthy borrowers which in most cases excludes the SMEs. While Micro Finance Institutions (MFIs) have expanded vigorously in a number of countries, the size of their credit remains limited, and their interest rates are punitive and terms of untenable repayment terms.

2.4.3 Interest Rates and SME Credit

The lending factors which govern the distribution of the available funds are the terms of lending. In a perfectly competitive market the credit is allocated to the prices (interest rates), borrowers are wiling to pay. Interest rates influence the movement of credit among the various sectors of the economy (Kimeu, 2008).

The factors that affect the structure of interest rates include the availability of collateral to obtain credit, the supply and demand conditions which produce change in interest rates, the opportunity costs and the availability of credit to SMEs, the scope of competition and the services if any, provided by the lenders. Low interest rates are defended on the grounds of being a special incentive for the SME's. Research has shown how efficient allocation of resources including borrowed capital and their willingness to seize potentially profitable opportunities.

2.2.4 Credit Systems

Kessio (1981) observed that that both formal and informal loans matter to poor SME's. However they note that even though formal lenders tend to provide much more production loans than informal lenders, loan defaults costs tend to be higher than what they recover. On the other hand, the benefits of informal of informal credit seem often problematic because such funds are very fungible.

Aryeetey (1997) has outlined three broad classifications of types of informal finances found in Africa. These include primary savings mobilization units, with little or no lending, primary savings mobilizations; and units that mobilize deposits and do considerable amount of lending, albeit to members of distinction associations or groups mainly self-help financing groups that include different levels of savings and credit association rotating savings (ROSCA's) and non-rotating ones or accumulating savings and credit associations (ASCARAs); commercial lenders, friends, family and non-commercial lenders, money keepers and savings collectors and licensed cooperatives or unions.

Aryeetey (1997) indicated that most organized forms of informal finance are SHGs. A variety of group savings are widely available in many African countries with communal, age and gender specific, performing agricultural, marketing or artisan activities and saving profits in kind. Savings and Credit Associations (SCAs) in Africa are divided into those that rotate the allocation of collected funds (Aryeetey, 1997) has identified four types of associations in Africa. These are Rotating associations (ROSAS), Rotating savings and credit associations (ROSCAs), Non rotating savings (NROSAs), Non rotating credit associations (NROSCAs)

In rotating savings associations (ROSAs) members pay a fixed amount at regular intervals and in a rotating order where each member receives a small amount collected at a time. A cycle is terminated when all members have received the full amount and the next cycle begins.

Rotating savings and credit associations require that each member pays a fixed amount at regular intervals. Part of the contribution is then allocated to one member in a rotating order and the other part is put into a general fund for loans, insurance and any other issue that the group may wish to put money into. (Owour, 2002) and (Oketch, 1995) have noted that in Kenya, ROSCAs exist in both rural and urban slum areas. They play an important role in credit provision to small businesses and even salaried employees.

Non rotating savings associations (NROSAs) have members paying a fixed or variable amount at regular intervals. These contributions are deposited and paid back to the individual member at the end of the stipulated period. While Non rotating savings and credit associations (NROSCAs) have me have members paying a fixed or variable amount at regular intervals. The income of the associations from sources such as contributions from members, fees, penalties or joint businesses put into a fund which may be utilized for loans, insurances and social services. The fund may be established for a specified or unspecified period of time and contributions may be or may not be paid back at the end of the stipulated period. Interest rates herein tend to be high as this provides an additional source of funds.

Different institutions working in different environments with different objectives have developed different approaches for loaning to SMEs. These include, solidarity lending whereby borrower form small groups among member borrowers for collective assurance of loan repayments in place of collateral. These include the Gramene bank model which originated in Bangladesh in 1976 as an action research project to test the hypothesis that if the poor are supplied with working capital they can generate productive self-employment without external assistance. The bank’s founder Mohammed Yunus, initiated the model first as an experimental university project and later established the bank with government support in 1983.

The model revolves around the micro-credit institution providing credit to groups of people who came together to access loans and guarantee each other. The model uses the group as a substitute for individual collateral. When a member of the group defaults, the group pays on behalf of the defaulter. Under the strict Gramene model, any savings collected by the group cannot be withdrawn and the members of the group may be forced to access loans even when they do not need the loans. (Shubhasis, 2005)

In this model, borrowers are self-organized into small peer groups of five or so of unrelated members who mutually guarantee repayments of each other’s loans. Repayment of each loan is requires in order for all group members to maintain access to future loans. Savings – led micro – credit is normally used as limited security against default of repayment. The peer groups arte then organized t o form a village center where borrowers make loan repayments at mandatory weekly meetings. In addition to leveraging capital and saving as a source of emergency funds groups often are required to meet regularly (mostly weekly) to monitored loaned activity, collected repayment of interest and principle and offer mutual support (Otero et al, 1994).

In Kenya and institutions that use this model include promotion of Rural initiatives and Development Enterprises (PRIDE – Kenya), Faulu, Kenya Women Finance Trust (KWFT), Kenya Rural; Enterprise Development (KREP). These institutions lend to individual micro – entrepreneurs, but they first require potential borrowers to form groups of about 5 to 10 members. They do not require collateral parse, but they depend on the group members’ collective responsibility, whereby all group members are collectively liable to each individual’s loan (Saito et al 1994).

Village Banking Model: village banks are established in relatively stable communities through the assistance of a sponsoring agency. The sponsoring agency lends seed capital to a newly organized bank comprising of between ten to fifty self – selected members who collectively guarantee repayment of the amount. Members are originally granted small loans from this initial capital, which is gradually increased through mandatory member savings. The size of future loans is granted in proportion to the accumulated savings in the hopes of eventual borrower graduation from the program once a certain loan level has been reached. Member meetings are held for administrative or training purposes or as a forum for social purposes (Saito et. al., 1994).

Credit Union model: Credit unions, while varied in their institutional approach, provide savings and loan services to members usually low –income micro - entrepreneurs similar to those served by specialized micro – credit program. Savings are prerequisites to loan access and incentives to save rest on a desire for low cost loans. Credit unions rarely provide technical or training assistance or other additional services. They evaluate loan request on the client’s ability to repay the loan. They recognize than micro – credit request often reflect a combination of family and micro – enterprise needs by the borrower and thus their loans are not targeted or limited to a specific goals or purpose.

2.3 Principles of Credit

The past few decades have led to the development of principles or best practises in the provision of micro credit. Shubhasis (2000) highlights these principles as: Full cost loans, individual basis, group guarantee, small regular payments, fixed purpose, short loan duration, increasing loan size and credit history.

On Individual basis, the method of lending is popular among clients that have specific needs and who have graduated sufficiently to have other means of managing their associated risks. Loans on an individual basis when are more easily collectible especially when well appraised.

Group guarantee loans may be given to groups of people who lack collateral securities. This lending methodology is necessary for individuals who have common heritage and yet do not have other means of collateral. In similar regular payments, a standard successful feature of micro finance small regular repayment schedule emphasizing on small but regular payments. Collection should ensure the amount does not increase to excessive amounts that cannot be collected.

In fixed purpose, successful programmes allow the borrowers to use or divert the loan to other activities. Many times, borrowers take credit for lump sum activities and repay using their business income rather than withdrawing funds from the businesses.

On the short loan duration category, microfinance practitioners across the globe have shown that long term loans have higher default rates than short term loans. In cases where long term loans are required then there is need to insist on physical security before advancing the loan. Increased loan size and credit history: This is an area that has been borrowed from the banking sector. As borrowers become familiar with the credit programmes, they become better trained and educated and on this basis they can be given larger loans.

2.4 Empirical Review

The economic theory of investment and spending brings out the idea of borrowing to argument of other capital assets in production (Davidson, 1993). The theory states that to decide how much other capital asset to use, SME entrepreneur must balance between revenues and costs. The actual costs of capital are either borrowed or funded by the firm. If borrowed, interest must be paid as a cost of obtaining an extra unit of capital. The economics of investments states that growth investment is due to used capital flow which will in turn lead it the growth of a business and a higher loan repayment

The guiding principle in credit appraisal is to ensure that only those borrowers who require are able to meet the repayment obligations can access credit. Lenders may refuse to give loans even though borrowers are willing to pay a high interest rate or give loans but restrict the size of loans to less than the borrowers would like to borrow (Kothek, 2004). Gurgand (1994) notes that the mandatory and voluntary saving schemes have been used effectively by rural financial institutions (RFI), where savings play a significant role in gaining access to credit. Credit e'parge Longement in Rwanda provides 5-15 years credit for home construction after one year of record savings effort.

Reinke (2001) identifies savings as a means of determining who to give credit and how much, whereby a borrower is required to accumulate savings both prior to and after borrowing. The borrower may also be required to pledge such savings as collateral. However this contradicts the logic of micro-credit lending in that borrowers may not have funds to save.

Ability to pay; 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 pressures (Gurgand, 1994). Reinke (2001), notes that instead of blocking all group members, access to future larger loans may be dependent on punctual and full payment of small initial loans.

Evaluation of business ability, this approach is practised in most African countries like Kenya, Malawi, and Burkina Faso whereby careful analysis of economic opportunities available in the village where credit is carried out. The use of credit is discussed with borrowers. Most NGO's in Kenya uses this lending approach and review loan able projects drawn out by farmers or other borrowers to asses on whether the asses on whether the projects are viable or not.

Target group and Character assessment are also used to allocate credit. The Grameen bank model bases credit on character assessment and trust groups. However, if any individual does not belong to a group and even if he or she is able to repay he/she may be denied credit if the MFI is purely using this model. According to Otero (1994) the lifecycle approach, was conceived on the premise of rapid growth and lack of access to the capital market. Small firm were seen as starting out by using only the owners' resources. If these firms survived, the dangers of undercapitalization would soon appear, and they would then be likely to make use of other sources of funds, such as trade credit and short-term loan from bank. Rapid growth could lead to the problem of illiquidity (over trading)

The dynamic small firm would therefore have to choose between reducing its growth to keep pace with its internally generated funds, acquire a costly stock market quotation, or seek that most elusive form of finance- venture capital (Otero, 1994) thereby indicating a trend in SMES that expanding small firms are likely to experience rising short-term debt and use little or no long- term debt.

2.5 Research Gap

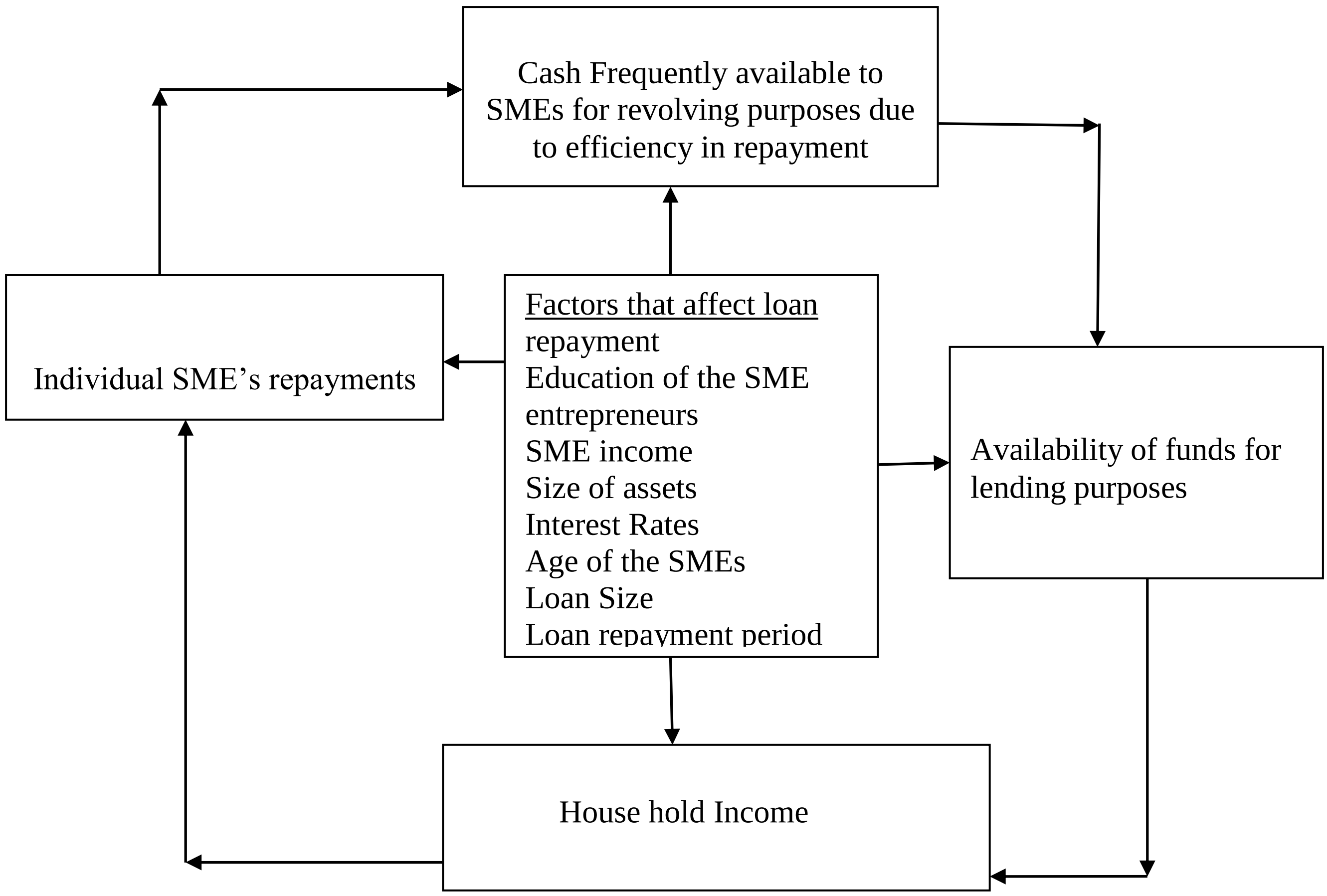
The existing body of knowledge has only limited value, as it reflects mainly isolated and biased research practices. There exists a scarcity of conclusive and empirically rigorous research to link SME financing and the challenges that are facing the SME sub sector in repayment of the loans advanced. Makana (2011) researched the challenges faced by small and medium enterprises in accessing finance in Kiambu town, and found out that SME'S face credit constraints mainly due to the level of risk inherent in lending to SME'S. Banks perceived SMES as risky entities and thus they were not inclined to advance them credit. Wanyama (2011) did a survey of the challenges of financing small and medium enterprises in Nairobi and found out that there are many challenge that SME'S face however these challenges can be overcome. The main challenge was determined to be finance but the researcher felt this applied to new SMES and that old established SMES that had credit history did not face this challenge. Hence the emphasis on the importance of credit history, as a means to access credit. The above mentioned studies showed that SMES still face the challenge of accessing credit for their businesses. Nduba (2010) did a study on the factors that determine creditworthiness of small and medium enterprises for bank loans and found out that there are many factors that influence the credit worthiness of SME'S and that credit worthy evaluations are necessary to help banks mitigate risk of default by SME'S. The study also showed that the banks that had a small loan default rate done rigorous evaluation on the credit worthiness of the SMES and this resulted to fewer SMES accessing credit while the banks with a high loan default rate had less stringent evaluations criteria and this resulted to many SMES accessing credit from them. It is evident that there is a gap in knowledge as to why SMES are defaulting their loans once they get them .Thus there is an urgent need for empirically rigorous research to bridge the knowledge gap that persists between the interests of various stakeholders in this area to increase SMEs access to capital for growth. Such research would offer a realistic benchmark against which stakeholders could evaluate progress in various financing option for SMEs at all levels of economic activity. It could also provide a transparent and realistic measure of ongoing regulatory reforms in the financial sector as well as an expedient response base in a rapidly changing global environment.

There is no significant commonality in conceptual approaches, and each player in the credit market appears to have different approaches in deciding mode of the requirements each SME need to fulfil in order to access and service loans advanced. (Ganbold, 2008) concludes that research in the area is sorely lacking. In addition, they further explain that research into small business conducted over the past ten years neglected two important points: policy implementation and an understanding of the economics of the sector.

2.6 Conceptual Framework

A conceptual framework can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Berger et al, 2006). A conceptual framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. When clearly articulated, a conceptual framework has potential usefulness as a tool to assist a researcher to make meaning of subsequent findings. It forms part of the agenda for negotiation to be scrutinized and tested, reviewed and reformed as a result of investigations (Obiero, 2002).It explains the possible connection between the variables and answers the why questions. It is a conception or model of what is out there that you plan to study, and of what is going on with these things and why – a tentative theory of a phemonena that you are investigating (Berger et al, 2006). Luce and Raiffa (1957) defined a conceptual framework as a visual or written product, one that “explains, either graphically or in a narrative form, the main things to be studied, the key factors, concepts, variables and the presumed relationship among them. The conceptual framework below guided the researcher in conducting the research.

Figure 2.1 Conceptual Framework



Source: (Own, 2012)

The repayment or non-repayment of credit advanced to SMEs has modelled as binary decision in which the borrower either repays or does not repay the loan. In situations such as this, when the dependent variable is a discrete dummy variable (Repay for Yes and don't repay for No), a logit or probit model is suitable. The choice of a logit model is because it has more use in situations where data is not normally distributed

The technique of logit analysis allows estimating a conditional probability model. For each of the loans advanced, it estimates the probability of failure or success conditional on a range of attributes. Those that access credit and use it for specific activity that credit was borrowed for and factors held constant will be able to expand their operations leading to higher profits and availability of their funds for loan repayments. With repayment rates, more funds become available for revolving g purposes and thus more SMEs get access to credit. This is illustrated in figure 2.1 above.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the overall methodology that was used to carry out this research. It embodies; the research design, the research population, sampling design, data collection methods, research procedures and the methodology that the researcher will employ in the study.

3.2 Research Design

The study adopted a survey design method in determining the factors that affect SMEs in credit repayment. This method is considered to be the most suitable research method for the study since the objective of the study was to seeking answers from specific questions from a large number of respondents. A number of previous researches have revealed that the survey method is the most appropriate in such a study (Nduba, 2010).

3.3 Population

According to (Mugenda and Mugenda 2003), a population is an entire group of individuals or events or objects having common observable characteristics that conform to a given specification. (Peil, 1995) defines population as a larger collection of all the subjects from which a sample is drawn. The target population entails the specific population that the researcher intends to carry the study. For this study, the target population comprises of the SMEs operating within Nairobi County. This is because Nairobi is the socio economic and political centre of Kenya and a majority of these SMEs are located in Nairobi County. For this study the population has been determined to be 1004 SMES spread across the county. The facts that will be studied do not vary substantially by regions across the country thus allowed for generalization of the results (Nduba, 2010).

3.4 Sampling

Stratified sampling will be applied to pick 100 respondents such that each of the regions will be adequately represented in the study. The choice of the region (Nairobi) is expected to reduced the study cost for the researcher and it’s expected that the region will provide a sample that represent adequate elements of the diversity for

SME’s in Kenya .The region under study is divided into five administrative regions namely: Nairobi south, Nairobi east, Nairobi west and Nairobi north and the CBD.

Region	Population	Sample (10%)
Nairobi north	152	15
Nairobi east	221	22
Nairobi west	200	20
Nairobi south	161	16
C.B.D	270	27
Total	1004	100

Table 2: Nairobi County SME Population

3.5 Data Collection

Both primary and secondary data were utilized by the study. Primary data was obtained by use of structured interview which consisted of both closed and open-ended questions. Secondary data was obtained from text books, special papers and periodicals on this subject, published and unpublished thesis previously done on this subject. Target respondents were Heads of the SMEs and middle level managers who have adequate understanding of the variables being studied.

3.6 Data Analysis

Upon the completion of the data collection process, the collected were edited for completeness and consistency, descriptive statistics and SPSS was used to analyze the data. These tools were selected because of their clarity, preciseness, ease of understanding and interpretation. Frequencies, percentages and proportions will also be used. In addition content analysis will be used to analyze qualitative information collected in the study. These were used to support the results of quantitative analysis in drawing recommendations. The results were mainly presented in tables and graphs.

The study will use regression analysis to describe the relationship that exist between the dependent variable (credit repayment) and independent variables (character, capacity, conditions, security, common sense and contribution). The study will use

Ordinary Least Square (OLS) analysis. In OLS, the intercepts and slopes are constant. The model will be:

$$Y=£+ß_1X1+ß_2X2+ß_3X3+ß_4X4+ß_5X5+ ß_6X6+ \varepsilon_{it}$$

Where:

Y	=	Credit repayment
X1	=	Character
X2	=	Capacity
X3	=	Conditions
X4	=	Security
X5	=	Common sense
X6	=	Contribution
£	=	Constant
ß	=	Coefficients

The study used 95% significance level. The 95%, a significance of p= 0.05 was used since it is the generally accepted conventional level in social sciences research. This indicates that there is only a 5% chance that the relationship does not truly exist.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis and interpretation which draws from the objectives of the study. Both qualitative and quantitative analysis was carried out. In this chapter we are going to analyze more extensively the findings that we acquired from the survey, distributed to several SMEs in Nairobi and surroundings. The chapter is structured according to the questionnaire and provides discussion of the findings. In addition data and observations, gained from the survey will be well incorporated into the discussion.

4.2 Data collection and population studied

The research was personally administered by researchers themselves by issuing questionnaires to several SMEs firms in Nairobi, Kenya. The study was carried out within Nairobi because of the limitation in resources and time. Out of the targeted 100 companies only 40 responded by completing the questionnaire thus achieving a response rate of 40%. The response rate was considered statistically sufficient for further analysis. The response rate is presented in Table 4.1 and Figure 4.1.

4.2.1 Response Analysis

Table 4.1: Response Analysis

Category	**Frequency**	**Percentage**
Response	40	40
Non response	60	60
Total	**100**	**100**

Source: Author (2014)

Table 4.1 above shows the response rate. Based on the analysis 39% of the respondent dully filled and returned the questionnaires while the remaining 61% represent those who did not return the questionnaire. From the analysis it can be concluded that the response rate was comprehensive enough to base conclusions on. This was realized by continuous follow up with phone calls and visits to the respondent’s desk.

4.3 Business Ownership

The respondents were asked to indicate the form of ownership of their businesses. Through that it helped the researcher to know the respondent and a certain the validity and reliability of the information. The results are indicated in table 4.2.

Table 4.2: Business ownership

Category	Frequency	Percentage
Owner	25	63
Employees	15	37
Total	**40**	**100**

Source: Author (2014)

Source: Author (2014)

The table 4.2 indicate the response on the business ownership. The respondents were asked to state their relation with the business in existence. It was found that 37 per cent of the respondents were employees while 63per cent were owner of the business. With this the rate of employees is moderate and this implies that there is growth in their business though moderately.

4.4 Age Bracket

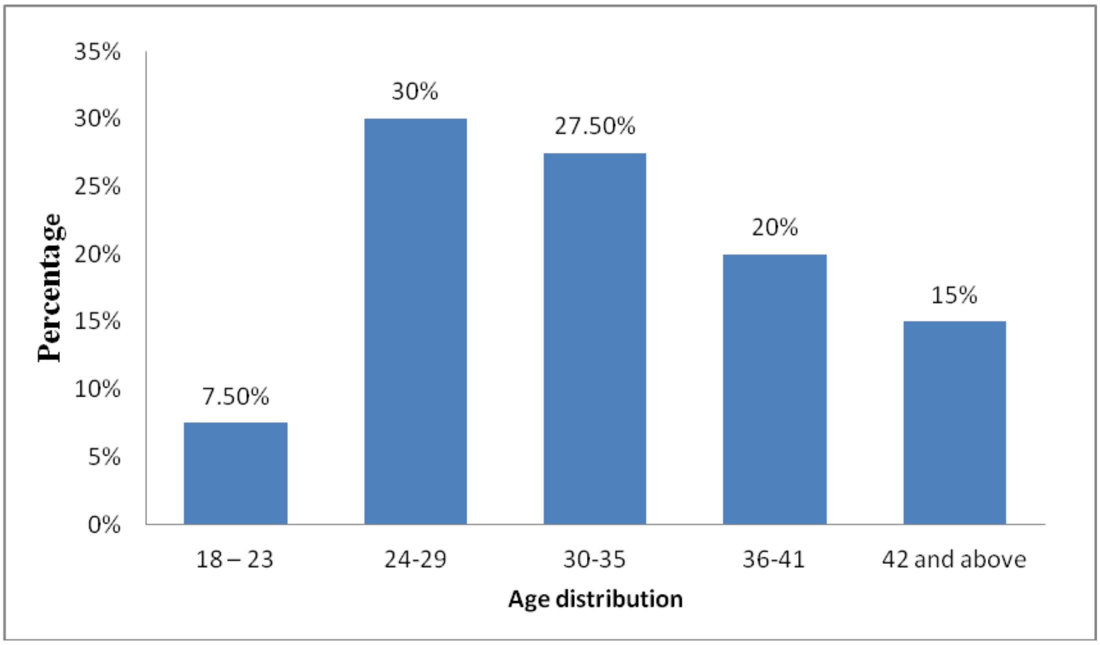
The respondents were asked to indicate their age which helped the researcher to know the age group that constituted majority of the SMEs entrepreneurs. The results are presented in table 4.3 and figure 4.3.

Table 4.3: Age Bracket

Category	Frequency	Percentage
18 – 23	3	7.5
24-29	12	30
30-35	11	27.5
36-41	8	20
42 and above	6	15
Total	**40**	**100**

Source: Author (2014)

Figure 4.1: Age Bracket



Source: Author (2014)

It was found that majority of the respondents were in the age group 24-29 and 30-35 indicating that majority of the SMEs owners are youth while minority are of the age of 18 -23. This reason could be that people at this age are either in colleges or they lack capital.

4.5 Highest Level Of Education

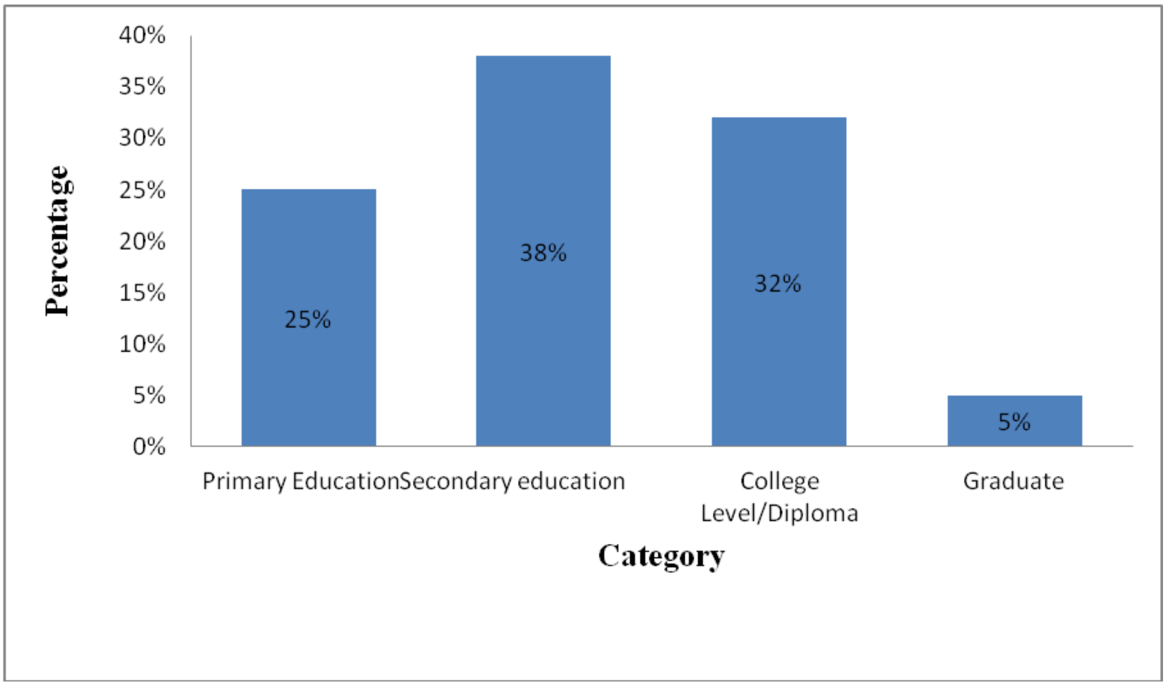
The respondents were also asked to indicate their highest level of education. The aim of capturing this information was to relate the level of education of the individuals is to determine if it affects the growth and sustainability of the SME and therefore researcher do a conclusion on training is required.

Table 4.4: Level of education

Category	**Frequency**	**Percentage**
Primary Education	10	25
Secondary education	14	38
College Level/Diploma	13	32
Graduate	2	5
Totals	**39**	**100**

Source: Author (2014)

Figure 4.2: Level of education



Source: Author (2014)

From the table 4.4 and figure 4.4, the above study reveals that the respondents had varying levels of education, that is, from primary level of education to graduates level of education the majority of the respondents have secondary education. Most of the SME members have a secondary level education; this implies that their level of skill is poor hence they need a lot of training on the operation of their businesses.

4.6 Type of business

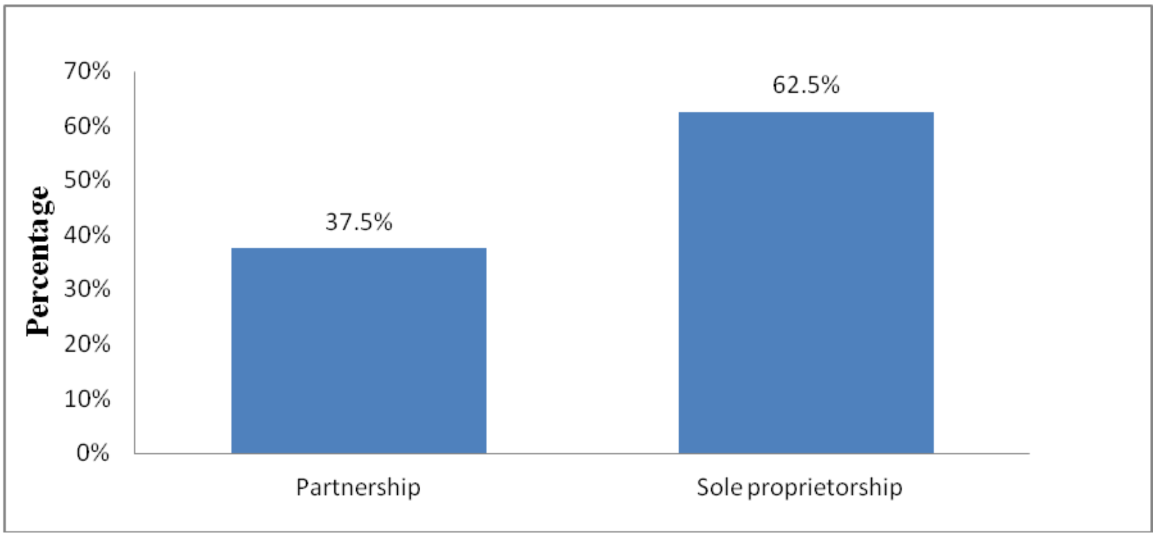
The respondent were asked the kind of busines they run besed on ownership. The aim of capturing the kind of business was to get an overview of the partnership businesses which are attributed to lack of enough capital. The results are indicated in table 4.5 and figure 4.5.

Table 4.5: Type of business

Category	**Frequency**	**Percentage**
Partnership	**15**	37.5
Sole proprietorship	**25**	62.5
Total	**40**	**100**

Source: Author (2014)

Figure 4.3: Type of business



Source: Author (2014)

From table 4.4 and Figure 4.4 found out that 37.5per cent of the respondents are partnerships while 62.5 per cent are sole proprietorship. The study found out that respondents preferred sole proprietorship because the legal requirements and fast decision making and the partnerships were as a result of lack of enough capital therefore the need to merge.

4.7 Gender of Enterpreneur

The respondents were asked to indicate their gender. This was to know the how the respondents were ditributed across the two genders. The results are indicated below.

Table 4.6: Gender of Enterpreneur

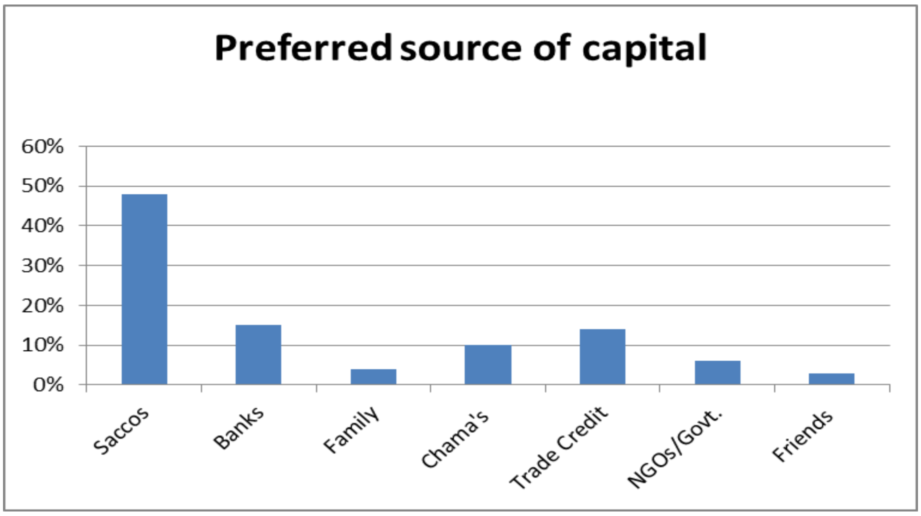
Category	**Frequency**	**Percentage**
Female	17	42.5%
Male	23	57.5%
Total	40	100

Source: Author (2014)

4.8 Source of capital

The respondents were asked to indicate their major sources of capital. The results are indicated below.

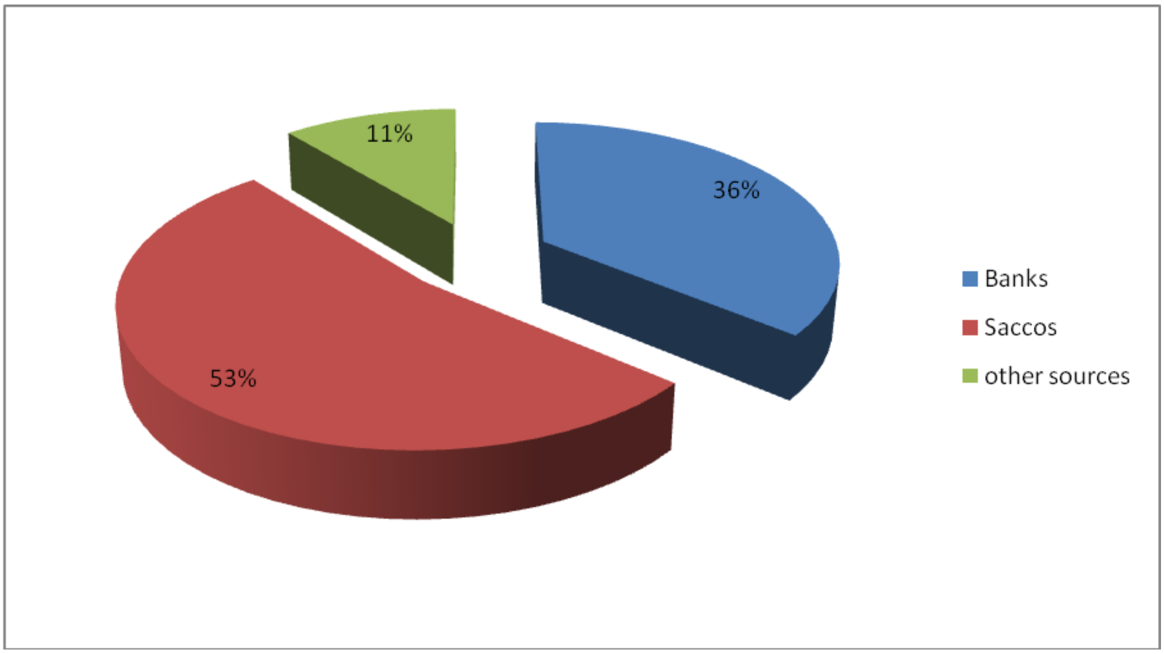
Figure 4.4: preferred source of capital



Source: Author (2014)

The most important source of funding of business start-ups was through funding from Sacco's with personal savings ranking last with only 11% of the respondents admitting to having obtained their start-up capital the from little savings they had made. The majority included those involved with low start-up cost businesses such as fruit and vegetable vendors as well as those running kiosks and groceries.

Figure 4.5: Sources of capital from financial institutions



Source: Author (2014)

This study concurs with the assertions of Vancil and Lorrag (Lorrage, 1975) and (Kauranen, 2009) that the majority funding methods for SMEs include overdrafts; retained earnings; factoring; leasing; private savings and donations from NGOs and friends. The findings displayed a wide variety in the amount that was required as capital for start-ups as funding with 36% of the respondents having taken up start-up capital from banking institutions and 53% obtaining funding from Sacco's with the majority having to recourse to loan facilities, rather than overdrafts from these institutions.

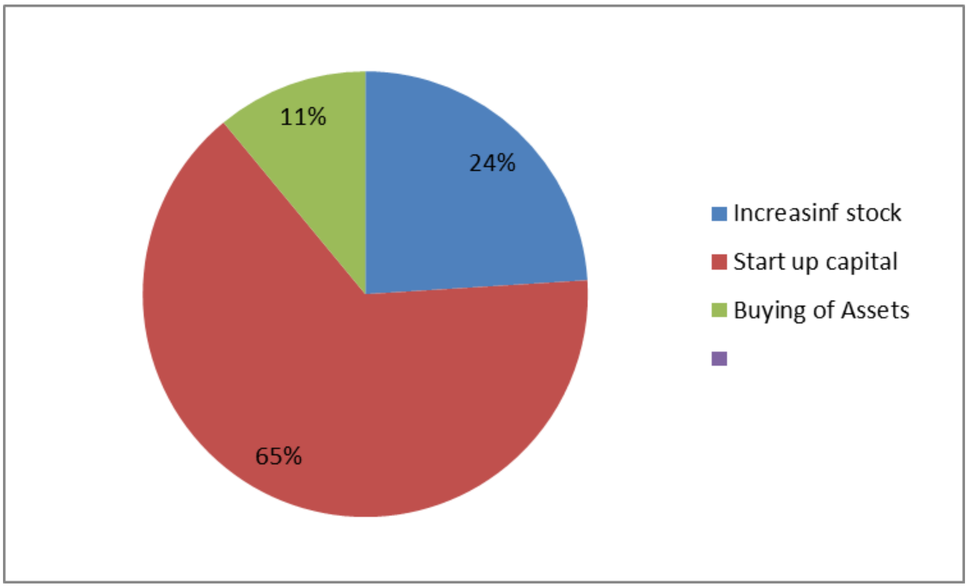
4.9 Bank accounts

The researcher wanted to know whether SMEs operate an account. Over 86% of the participants have an Account with the Sacco's with the main reasons for borrowing the loans from these institutions ranging from seeking start- up capital for the businesses, purchasing inventory, business expansion and strengthening of the financial base of the business.

4.10 Reasons for Borrowing

The researcher wanted to know the reason for borrowing credit. The results indicate that majority 65% borrowed money to start up business while minority to buy assets. The results are shown in the figure below.

Figure 4.6: Figure depicting Reasons for Borrowing



Source: Author (2014)

Studies have shown that, most businesses based on their capital structure, determine their target structure for any business needs to keep its capital structure close to its target structure in the moment they need to raise funds. This assists the business determine what amount of its capital it needs to raise and hypothetically it has always been looked at as 80% being in debt form and 20% being equity (Creswell, J. W. 2003).

4.11 Credit Aspect

The researcher asked the respondent to rate the listed phrases from highest to lowest based on how they affect loan repayment where 5 represents highest effect, 4 represent high effect, 3 represents moderate, 2 represents low effect and 1 represent lowest effect. The results are as indicated in the table 4.7.

Table 4.7: Factors Affecting Credit Repayment

	Mean	**Standard deviation**
loan amount restrictions	4.1236	0.80
interest rate charged	4.8224	0.12

length of the loan facility restrictions	3.4280	0.32
collateral/security	4.0000	0.08
repayment restrictions	4.8000	0.21
conditions set by financiers	3.8628	0.48

Source: Author (2014)

From the findings it is evident that interest rate charged and repayment restriction have the highest effect when it comes to repayment of credit facility. This is because of their high mean. It is also evident length of the loan facility restrictions has a moderate effect.

4.12 Rate of Loan Repayment

The respondents were asked to indicate if they have been able to pay their loans promptly. This information is necessary because it was used to determine factors that lead to none repayment of credit. The results are indicated in table 4.8.

Table 4.8: Loan Repayment

	Frequency	**Percentage**
No	38	95
Yes	2	5
Total	**40**	**100**

Source: Author, (2014)

From the results it was evident that majority of SMEs have not been able to pay their loans promptly. Only five percent of the SMEs that respondent repay their loans promptly.

4.13 Reasons for None Repayment

The respondents were further asked to indicate to what extent they you think the following aspects have contributed to the non-repayment of the loan/credit with 1 representing the least contribution and 5 representing major contribution. The results are indicated in table 4.9.

Table 4.9: Reasons for None Repayment

	Mean	Standard deviation
Carelessness	1.128	0.230
Complacency	1.023	0.491
Lack Of Communication	3.283	0.327
Contingencies	4.524	0.216

Source: Author (2014)

From the above results it is evident that the measures taken to cater for the downside risk of default has the greatest contribution to the loan none repayment while carelessness and complacency had least contribution to none repayment. This could be because of the presence of a clear plan of how the credit repayment will be done, by whom and by what date. This includes contingency plans of notifying the financiers when the repayment will not be done on time. Most financial institutions will have this plan before giving any money to the SMEs.

4.14 Effect of The C's On Credit Repayment

The respondents were asked to indicate to what extent are the C's of credit listed affect your credit repayment. the listed factors that could affect of credit repayment by SME were rated in a scale of 1-5 were 1 represent to a least extent, 2 represents to a small extent, 3 represents to a moderate extent, 4 to a great extent and 5 represent the greatest extent. Results are presented in the table 4.10

Table 4.10: C's of credit

	Mean	Standard Deviation
Character		
Personal Willingness To Repay	1.82	0.64
Capacity		
Availability Of Cash To Repay The Loan	4.54	0.63
Projected Cash Flows	4.27	0.29
Conditions		

Economic Conditions	4.13	0.74
Correct Business Conditions	3.73	1.10
Financiers Imposed Repayment Conditions	3.53	1.30
Collateral/Security		
Secured Loan	2.72	0.63
Unsecured Loan	3.34	0.46
Common Sense		
Realistic Cash Flows	4.40	0.63
Purpose of Loan	4.12	0.78
Contribution		
Sales Proceeds	4.20	0.74
Other Sources of Funds	2.73	1.10

Source: Author (2014)

It was found that availability of cash to repay the loan, projected cash flows, economic conditions, unsecured loans, realistic cash flows and contribution from sales proceeds has the great effect on the loan repayment. The greatest effect came from capacity (ability of SMEs to repay the loan). If the cash flow project is wrong chances are high that the business will not be able to service the loan. Economic business condition was also found to have a great effect on repayment because it affects the performance of business and therefore its ability to repay loans. Most of the SMEs gave unrealistic cash flow so that they can secure huge amount of loans, this affect their repayment. The personal willingness to repay loan was found to have a small effect.

4.15 Regression Analysis

This section sought to determine the relationship that exists between the dependent variable (credit repayment) and independent variables (character, capacity, conditions, security, common sense and contribution). The findings are presented in tables.

Strength of the model

Table 4.11: Strength of the model

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension	1	.796[a]	0.633	0.594	0.30202

a. Predictors: (Constant), Character, Capacity, Conditions, Security, Common Sense and Contribution

Analysis in table 4.10 shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R^2 equals 0.633 that is, Character, Capacity, Conditions, Security, Common Sense and Contribution explains 63.3 percent leaving out 36.7 percent unexplained.

Table 4.12: Coefficients of the Model

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.255	.133		4.870	.000
	X_1= Character	.131	.131	.041	.335	.000
	X_2= Capacity	.170	.167	.161	.666	.000
	X_3= Conditions	.051	.006	-.643	.256	.000
	X_4= Security	.048	.006	-.165	.332	.000
	X_5= Common Sense	.131	.048	.254	2.729	.000
	X_6= Contribution	.151	.018	.254	2.729	.000

a. Dependent Variable: Credit Repayment

These are the values for the regression equation for predicting the dependent variable from the independent variables. The P- value of 0.000 (Less than 0.05) implies that the model of credit repayment is significant at the 5 percent significance level.

The regression model was:

$Y=£+ß_1X1+ß_2X2+ß_3X3+ß_4X4+ß_5X5+ ß_6X6+ \varepsilon_{it}$

Where:

Y	=	Credit repayment
X1	=	Character
X2	=	Capacity
X3	=	Conditions
X4	=	Security
X5	=	Common sense
X6	=	Contribution
£	=	Constant
ß	=	Coefficient

From the model and the regression coefficients, the regression is presented below.

Regression equation:

$$Y = 0.255 + 0.131X_1 + 0.170X_2 + 0.051X_3 + 0.048X_4 + 0.131X_5 + 0.151X_6$$

Where:

Constant = 0.255, shows that if Character, Capacity, Conditions, Security, Common Sense and Contribution all rated as zero, Credit repayment would be 0.255

X_1= 0.131, shows that one unit change in character results in 0.131 units increase in credit repayment.

X_2= 0.170, shows that one unit change in capacity results in 0.170 units increase in credit repayment

X_3= 0.051, shows that one unit change in conditions results in 0.051 units increase in credit repayment

X_4= 0.048, shows that one unit change in security results in 0.048 units increase in credit repayment

X_5= 0.131, shows that one unit change in common sense results in 0.131 units increase in credit repayment

X_6= 0.151, shows that one unit change in contribution results in 0.151 units increase in credit repayment

CHAPTER FIVE: SUMMARY, CONCLUSIOSN AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary and discussion of the findings, conclusions, recommendations, limitations and suggestions for further study. The main objective of the study was to identify factors hindering SMEs from committed and consistent credit repayments by focusing on SMES in Nairobi County.

5.2 Summary

The study found that 62.5% of the respondents are sole proprietorship. This is because the legal requirements and fast decision making and the partnerships were as a result of lack of enough capital therefore the need to merge. It found that most important source of funding of business start-ups was through funding from Sacco's with personal savings with 53% agreeing to the statement. An overwhelming number of respondents (86%) have an Account with the Sacco's with the main reasons for borrowing the loans from these institutions ranging from seeking start- up capital for the businesses, purchasing inventory, business expansion and strengthening of the financial base of the business.

The study found that 65% of the respondents borrowed money to start up business. It found that the main reason for borrowing money was to start a business. It found that that interest rate charged and repayment restriction have the highest effect when it comes to repayment of credit facility. The study found that the reasons for non-repayment of loans were the measures taken to cater for the downside risk of default has the greatest contribution to the loan none repayment while carelessness and complacency had least contribution to none repayment.

The study found that availability of cash to repay the loan, projected cash flows, economic conditions, unsecured loans, realistic cash flows and contribution from sales proceeds has the greatest effect on the loan repayment. The greatest effect came from capacity (ability of SMEs to repay the loan).

The study found that independent variable (Character, Capacity, Conditions, Security, Common Sense and Contribution) explains 63.3 percent change of credit repayment.

It found that the model of credit repayment is significant at the 5 percent significance level. The study also found that one unit change in character, capacity, conditions, security, common sense and contribution results to 0.131, 0.170, 0.051, 0.048, 0.131 and 0.151 change in credit period respectively.

5.3 Discussions.

The study found that the most important source of funding of business start-ups was through funding from Sacco's with personal savings. Lorrage (1975) and Kauranen (2009) asserted that the majority funding methods for SMEs include overdrafts; retained earnings; factoring; leasing; private savings and donations from NGOs and friends. The SMEs are only able to source and obtain micro finance mostly from the informal sector like friends and relatives. The findings also differ from the findings of Nduba (2010) who found that bank credit is not available to SMEs because they generally considered high credit risks by financial institutions and most of them do not have adequate collateral.

The study found that most people have an Account with the Sacco's with the main reasons for borrowing the loans from these institutions ranging from seeking start- up capital for the businesses, purchasing inventory, business expansion and strengthening of the financial base of the business. However, Aryeetey (1997) explains that the three broad classifications of types of informal finances include primary savings mobilization units, with little or no lending, primary savings mobilizations; and units that mobilize deposits and do considerable amount of lending.

It found that the main reason for failure of credit repayment is due to loans given out without any form of security to clients. The guiding principle in credit appraisal is to ensure that only those borrowers who require are able to meet the repayment obligations can access credit. Lenders may refuse to give loans even though borrowers are willing to pay a high interest rate or give loans but restrict the size of loans to less than the borrowers would like to borrow (Kothek, 2004). Gurgand (1994) notes that the mandatory and voluntary saving schemes have been used effectively by rural financial institutions (RFI), where savings play a significant role in gaining access to credit.

The study found that 65% of the respondents borrowed money to start up business. According to Creswell (2003), most businesses based on their capital structure, determine their target structure for any business needs to keep its capital structure close to its target structure in the moment they need to raise funds. This assists the business determine what amount of its capital it needs to raise and hypothetically it has always been looked at as 80% being in debt form and 20% being equity (Creswell, 2003).

5.4 Conclusions

The study concludes that most of businesses are sole proprietorship. The legal requirements and fast decision making and the partnerships were as a result of lack of enough capital therefore the need to merge. It concludes that most important source of funding of business start-ups was through funding from Sacco's with personal savings. It concludes that most businesses have an Account with the Sacco's with the main reasons for borrowing the loans from these institutions ranging from seeking start- up capital for the businesses, purchasing inventory, business expansion and strengthening of the financial base of the business. It concludes that the main reason for borrowing money by businesses was to start a business. It concludes that interest rate charged and repayment restrictions have the highest effect when it comes to repayment of credit facility. The study concludes that the reasons for non-repayment of loans were the measures taken to cater for the downside risk of default has the greatest contribution to the loan none repayment while carelessness and complacency had least contribution to none repayment.

The study concludes that availability of cash to repay the loan, projected cash flows, economic conditions, unsecured loans, realistic cash flows and contribution from sales proceeds has the greatest effect on the loan repayment. The greatest effect came from capacity (ability of SMEs to repay the loan). It concludes that independent variable (Character, Capacity, Conditions, Security, Common Sense and Contribution) explains 63.3 percent change of credit repayment. It finally concludes that the model of credit repayment is significant at the 5 percent significance level.

5.5 Recommendations

The study found that capacity affects credit repayment in small and medium sized enterprises. The study recommends that small and medium enterprises should have a structure where funds are well projected over the period of repayment and portion money for such repayments.

The study also found that conditions under which SMEs operate affect credit repayment. Before SMEs requests for a loan, they should consider their economic conditions and their financial status to determine whether they will be able to repay the loan requested.

The study also recommends that financiers should put in measures of determining the credibility of the SME that requests for a loan and secure the loan against a collateral. This will lead to quality credits with high repayment rates from the SMEs.

5.6 Limitations of the Study

The study was limited to small and medium enterprises within Nairobi County excluding those from other Counties within the country. The study was also limited to small and medium enterprises only excluding large enterprises.

Time and cost were also a limitation. The available time did not allow the researcher to include more companies within the country in order to increase its sample size. The cost that could have been used if the sample size was enlarged is high hence limiting the sample size to 100 companies.

5.7 Suggestions for further study

The study found that the independent variables (Character, Capacity, Conditions, Security, Common Sense and Contribution) explains 63.3 percent change of credit repayment. This means that there is a 36.7 percent unexplained on what brings a change on credit repayment. The study therefore suggests further study to be done in order to identify factors that explain the 36.7 percent.

The scope of the study was small that did not produce results that can generalised in the whole country. The scope also did not provide enough information that can be used in policy development. Further study is necessary in other Counties in the country and gather enough information for policy development.

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APPENDIX 1: QUESTIONNAIRE.

(SME INFORMATION)

1. Ownership

Employee ☐ Owner ☐

2. Age bracket

18 – 23 ☐ 36-41 ☐

24-29 ☐ 42 and above ☐

30-35 ☐

3. Highest level of education attained

Primary Education ☐ Secondary education ☐

College Level/Diploma ☐ Graduate ☐

4. Type of Business

Sole proprietorship ☐ Partnership ☐

Others state………………………………………………………………….

5. State your line of business……………………..
6. Gender of entrepreneur

Male ☐ Female ☐

7. Kindly indicate your source of capital?

- □ Banks
- □ MFI's
- □ Personal Contribution
- □ Borrowings from friends and Relatives

□ Others (specify) ……………………………………………………………………………

8. Does your SME operate/have a bank account?

□ Yes

□ No

If yes, which type of Account do you operate……………………………………….............

9. What challenges does your SME face in accessing Financing?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

………………………………………………..

10. Has a SME, ever received any type of financial training?

□ Yes

□ No

PART C: (CREDIT ACCESS AND REPAYMENT)

10. Are you aware of the existence of any micro - credit institution?

□ Yes

□ No

11. Are you a member of a savings and borrowing group?

□ Yes

□ No

If yes, how often do you use group credit?

□ It's my first time

□ Always

□ Rarely

□ Never

How much did you borrow?

....

12. What was the source of your credit?

□ AFC e.g

- □ Cooperative Society e.g
- □ Micro Finance Institutions e.g
- □ Banks e.g
- □ NGOs
- □ Others

13. For what purpose did you use the borrowed funds?

………………………………………………………………………………………

……………………………………………………………………………………….

………………………………………………………………………………………..

14. In what form were you given the credit?

- □ Cash
- □ In Kind
- □ Both

15. What requirements did you need to fulfill before you were given the credit?

- □ Formed group
- □ Organization membership
- □ Collateral e.g. Title deed
- □ Others (specify)

16. Rate the credit aspects factors below

		HIGHEST	HIGH	MODERATE	LOW	LOWEST
1	loan amount restrictions					
2	interest rate charged					
3	length of the loan facility restrictions					
4	collateral/security					
5	repayment restrictions					
6	conditions set by					

financiers						

17. Have you been able to repay the loan promptly?

- □ Yes
- □ No

18. If no, to what extent do you think the following aspects have contributed to the non repayment of the loan/credit?

least contribution				most contribution
1	**2**	**3**	**4**	**5**

i. **Carelessness:** This refers to forgetfulness of the date the credit repayment falls due and absence of protective loan covenants

ii. **Complacency:** this refers to over reliance on certain factors such as reliance on other staff members, a personalized alert system or a reminder from the financiers in order to make the credit repayment.

least contribution				most contribution
1	**2**	**3**	**4**	**5**

iii. **Lack of communication:** this refers to absence of clear plan of how the credit repayment will be done, by whom and by what date. This includes contingency plans of notifying the financiers when the repayment will not be done on time.

iv. **Contingencies:** This refers to the measures taken to cater for the downside risk of default.

least contribution — most contribution

1	2	3	4	5

19. To what extent are the C's of credit listed below affect your credit repayment. Rate the listed factors that could affect of credit repayment your SME

least contribution — most contribution

1	2	3	4	5

	GREATEST	GREAT	MODERATE	SMALL	LEAST
Character					
Personal Willingness To Repay					
Capacity					
Availability Of Cash To Repay The Loan					

Projected Cash Flows					
Conditions					
Economic Conditions					
Correct Business Conditions					
Financiers Imposed Repayment Conditions					
Collateral/Security					
Secured Loan					
Unsecured Loan					
Common Sense					
Realistic Cash Flows					
Purpose of Loan					
Contribution					
Sales Proceeds					
Other Sources of Funds					

12. Suggest ways forward for your SME in terms of credit repayment.

………………………………………………………………………………………………………

……………………………………………………………………………….....…

………………...…