

**INFLUENCE OF BANK LENDING PRACTICES ON  
SMALL-SCALE BUSINESS PERFORMANCE IN TRANS-  
COUNTY, KENYA**

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**A Research Project submitted in the partial fulfillment of requirement of the award  
of the Degree of Master of Arts in Project Planning and Management of the  
University of Nairobi**

**2017**

## **DECLARATION**

I declare that this research is my project and has not been presented to any other university

.....

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**DATE**

**L50/84945/2016**

This research project has been submitted for examination with my approval as university supervisor

.....

.....

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## **DEDICATION**

I would like to dedicate this academic work to my beloved family for their anchor, support and cooperation, my capable lecturers and classmates.

## **ACKNOWLEDGEMENT**

I wish to thank Mr Julius Koringura, my supervisor for the guidance and support that made me to proceed successfully. His suggestion and advice made this study what it is. I would like to thank my fellow students for offering constructive suggestions toward the production of this proposal.

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## **ABSTRACT**

This study sought to investigate the influence bank lending practices on small-scale business performance in Kenya. Specifically, the study established how banking rates, loan insurance, loan product marketing and loan security influenced performance of small scale businesses in Trans-Nzoia County, Kenya. The move to focus on this study was caused by the recent move by central bank to list some of the banks in Kenya in terms of their cost of lending and other practices, which led to the proposition of capping interest rates as provided in the Banking Amendment act 2016. Apart from that, business performance in Kenya was unstable with the majority of player citing lack of technical information regarding bank-lending practices. The study focused on selected financial institutions, which had branches in Kitale, Trans-nzoia County. Some of the theories that supported the study included the modern portfolio theory, theory of money, and relationship between interest rate as proposed by Keynesian school of economic thought. The study used survey research design; it adopted the use of stratified and random sampling methods to identify 352 both in the banking sector and in the small-scale business sector in Trans-Nzoia County. The study adopted the use of structured questionnaires to collect data from the two groups; banks sector and small-scale business sector. After data collection, it was analyzed using SPSS version 16 and thereafter presented results in tables as shown in chapter four. From the results presented, it was clear from 23 out of 45 respondents (majority) from banks stated that low bank rates encouraged lending institutions to lower the cost of credit hence encourage small-scale business operators to secure loans. Out of 300 respondents from small-scale business group, 131 respondents strongly agreed that the loan application was complex and that insurance firms had to be involved. In another case, 202 respondents accepted that they were trained on saving and credit techniques by financial institution as a way of loan product marketing; however, they still lacked knowledge on loan products. From the banks point of view, 18 respondents stated that loan security did not greatly influence the ability of small-scale business operators to secure loans. It was recommended that, the government should reconsider amending the banking act 2016, which capped interest rates at which banks charged borrowers. Furthermore, loan product marketing should be done effectively because it determine the choice of the loan product.

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## **ACRONYMS & ABBREVIATIONS**

MFI	Microfinance Institutions
MPT	Modern Portfolio Theory
CBK	Central Bank of Kenya
SPSS	Statistical Package for Social Science

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# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the study

Lending is a key banking activity practiced by both microfinance institutions and deposit-taking financial institutions. According to MacLeary (1988), lending practices in the world could be traced to the period of industrial revolution, which increased the pace of money deposit and production activities thereby bringing about the need for large capital outlays for business projects. During this period, many captains of industries were unable to meet up with the sudden upsurge in the financial requirements and therefore turned to the banks for assistance. The essential role of banks in the economy has been to intermediate funds between surplus and deficit economic units. In the process of carrying out this primary task, banks have found themselves performing a number of functions which include: the mobilization of savings, stimulation of investment and economic growth, assistance in resources allocation, boosting of international trade and promotion of the payment system.

Even though lending is the heart of banking businesses in Kenya, it determines the performance of businesses in one way or the other. Ngigi (2015) observes that more than half the businesses operated in developing countries depend on loans from financial institutions for sustenance. Business cycles, influenced by macroeconomic conditions encourage banks to adopt various lending practices to leverage their business

performance and in so doing, they affect business operations. Market forces of demand and supply, institutional policies, and the central bank may determine banking lending practices, which in turn influence business performance. Categorically, due to market competition, banking lending practices have been decentralized thereby increasing the availability of credit for investors to leverage their capital in order to tap on the market potential.

Apart from that, various banks in Kenya have engaged in corporate collusion, which have allowed them to increase interest rates, which has brought about an artificial increase in the cost of capital, a move that has hindered expansion and growth of business entities across the country. Lending practices has led to an increase in the level of discrimination in the manner in which financial institutions lend credit to borrowers; for instance, large banks in Kenya prefer dealing with large business institutions and firms situated in depressed areas unlike small banks, which opt to deal with small and medium-scaled businesses for credit. The rationale behind such a selection is that large banks usually want to limit the rate of loan default associated with non-securitized loans unlike small banks, which engage in riskier activities of giving credit to individuals or businesses, which have low-value of no collateral to secure their loans.

Small banks engage in such lending practices to increase their profitability by increasing the cost of capital for businesses. Such lending practices aim at reducing the risk associated with lending and maximize the potential of lending during various business cycles. For instance, bank lending appears to be procyclical, expanding during economic

booms and contracting during economic recessions (Shekhar, 2006). The adoption of “extreme” lending practices such as selective lending, increased interest rates, unfavorable repayment terms, and increasing collateral requirement usually calls for the intervention of the central banks, which come in to review them during situations when the regulatory wants to regulate liquidity. In such cases, business performance depends on whether the regulatory seeks to expand or contract the economy based on existing macroeconomic conditions.

## **1.2. Statement of the Problem**

Fatas (2002) observes that lack of information on business cycles has always affected business performance because many business entities are not aware that business cycles influence banks’ lending practices. Again, information about banks’ lending practices should be availed to business operators to help them undertake their businesses accordingly. Apart from that, central bank of Kenya has been raising concerns as to why some banks levy high interest rates, while others levy relatively low interest rates despite getting benchmarking interest rates from the regulator. Failure to have information that shows effects of bank lending practices on business performance makes many businesses firms to fail to achieve their goals as expected.. According to Ngugi (2016), there were averagely 2.2million small-scale business enterprises that collapsed since 2015 and the situation was attributed majorly on bank lending practices, and cheap imports. As this was not enough, some banks also closed down their operations because of tough Central Bank rules and regulations, which in turn influenced greatly on the performance of small-scale business operators. Concisely, the business environment was harsh and businesses, which relied heavily on single sources of finance suffered due to the increased cost of

operation. It is therefore important for businesses and the central bank of Kenya to have information on bank lending practices and relate such information to how bank-lending practices affect business performance.

### **1.3. Purpose of the study**

To investigate the influence of bank lending practices on small-scale business performance

### **1.4. Research objectives**

- i. To establish how banking rates influence small-scale business performance in Trans-Nzoia County
- ii. To establish how loan insurance affect small-scale business performance in Trans-Nzoia County
- iii. To determine how loan product marketing influence small-scale business performance in Trans-Nzoia County
- iv. To determine how loan collateral influence small-scale business performance in Trans-Nzoia County

### **1.5. Research questions**

- i. How does banking rates influence small-scale business performance?
- ii. How does loan insurance affect small-scale business performance?
- iii. How does loan product marketing influence small-scale business performance?
- iv. How does loan collateral influence small-scale business performance?

## **1.6. Significance of the study**

The successful completion of this study will help the government and specifically the regulator central bank to establish how banking lending practices influence money supply, rates of investment, inflation and other macroeconomic indicators. Financial institutions might use the report presented to establish the level of loan product marketing to their customers, small-scale businesses, which in turn will help them strategize on how to improve credit services. Most small-scale business operators are usually not aware of loan policies and underlying regulations regarding credit services they seek from financial institution. Findings of this study will enhance the level of their knowledge on bank products.

## **1.7. Delimitation of the study**

Despite the presence of many banks across the country, this research narrowed down to a few banks especially those that had branches in Kitale for instance, Equity Bank, K-Rep Bank, Family Bank and Kenya Commercial Bank. Information provided by this bank branches were used to analyze the effects of lending practices has on business performance. Again, this research study did not consider all businesses in Kenya, but focus on Second-hand business operators, Matatu business, and Boda-Boda businesses in Kitale town; this was not be a representative of small-scale businesses in Kenya.

## **1.8. Assumptions of the study**

The study had the following assumptions

- i. That the respondents will be honest in giving the needed information necessary for this study



- ii. That the political environment will be favorable to undertake the study
- iii. That weather conditions will be favorable especially during data collection

### **1.9. Limitations of the study**

It will not be easy for financial institutions to release confidential data on lending practices adopted different times of the year because it is expected that some bank branch managers might refer to issue to their headquarters, which are majorly based in Nairobi. However, upon receiving authorization letter from the department written to relevant institutions, then there will no doubt, data collection will be smooth.

Apart from that, private individuals operating mitumba, Boda-boda and matatu businesses may not be honest to explain how banks' lending practices affect their business performance. In order to ensure that honesty has been achieved, the researcher will have to disclose the purpose of data the study and the importance of giving correct information. Additionally, some business entities may not have information about various banks' lending practices, and how they affect their business performance; such a move might affect the accuracy of the data collected for the study.

### **1.10. Definition of significant terms**

**Lending practices:** The loaning manner or behavior that one uses while giving something that in future will be returned. In the context of this study, it refers to the behavior banks use in granting small-scale businesses.

**Small-scale businesses:** These are small business operators with usually a small capital of less than Ksh. 50,000 to start and manage their business ventures.

**Business performance:** This is the commercial or trading performance, which in most cases is evaluated based on profits or losses realized at the end of a financial period.

**Loan:** This is a credit advance that financial institutions grant its clients, which are supposed to return with interest in the later day.

### **1.11. Organization of the study**

In chapter one, the paper will highlight on background of the study, which include the history of lending from a global, regional and local perspective. The statement of the problem will follow this and it elucidate the rationale is conducting this study. Purpose of the study, research objectives, and research question all have an underpinning concept that forms the foundation and basis within which this paper is build. Significance of the study, which shed light on the importance of the paper to individuals, institutions and the government, will succeed the former section. This will be followed by the research assumptions, limitations, and definition of significant terms and the organization of the study. In chapter two, the paper will highlight on the related literature and specifically the concept of banking lending practices, theoretical review and empirical review. The conceptual framework, which showcases the relationship between independent and independent variable will follow. In Chapter 3, the paper will shed light on the research design, target population, sampling procedure and sampling size. Data collection procedures and data analysis techniques, and pilot study, will form the last sections that feature in the chapter.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Introduction**

In this section of the paper, the study will review some of the scholarly works that related to the research topic and the theoretical relationship that matches this research study. The theoretical framework will be guided by the independent variables as it variable might match the concepts presented in a given theory. A conceptual framework showing the relationship between independent and dependent variables as presented in the paper will follow this.

#### **2.2. The concept of bank lending practices**

In a modern economy controlled by the marketing dynamics; the law of demand and supply, every enterprise strives to avert risks, make profits, and minimize costs. In the banking sector, financial institutions usually tailor their operations and strategies to ensure that they thrive in the competitive and regulated market of goods and services (Ngigi, 2015) Notably, any regulatory policies from the central bank are usually handles tactfully to ensure that profitability of financial institution is maintained. Categorically, financial institutions may adopt strict lending policies such as increasing interest rates levied on loans, lend selectively, withhold or release some of the loan regulations and information, loan insurance, or increase the difference between the amount of the loan and the collateral. All these practices depend on the regulator, market forces of demand and supply, money supply, Gross Domestic Product among other macroeconomic

indicators in an economy. It should be noted that the level of competition in the banking sector may prompt different financial institutions to adopt or identify with certain lending practices, which influence the performance of small-scale businesses. For instance, Equity bank of Kenya was known to lend small-scale businesses, but usually withheld crucial information needed by the creditor in order to understand terms and conditions of the loans (Wanambisi, 2013). Such a practice saw many small-scale businesses to default payments or pay loans with high interest rates because of the unawareness of withheld lending information.

### **2.3. Theoretical Framework**

The Modern portfolio theory as developed by Harry Markowitz 1952 is for the opinion that , a risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward (Elton, 2010).The fundamental concept behind MPT is that the assets in an investment portfolio should not be selected individually, each on its own merits. Rather, it is important to consider how each asset changes in price relative to how every other asset in the portfolio changes in price. This explains why banks keep reviewing their lending practices to maximize loan portfolios.

Rationally, banks are risk averse investors who may use market forces of demand and supply to the level of risk associated with a given asset and the respective expected return. In such a case, banks may adopt discriminative lending practices to minimize the level of risk and maximize the expected return (Elton, 2010). For instance, the central bank of Kenya noted that NIC bank, whose cost of acquiring capital was lower preferred lending large businesses that have valid financial proof of their capabilities to service

loans. In such a case, such a lending practice will benefit large businesses at the expense of small businesses.

In other cases, small banks prefer lending small and medium-scaled business operators, but their cost of acquiring capital (interest rates) is usually higher because of the risk associated with repayment of such loans. When adopting such a lending practice, few small-scale businesses will seek financial support because of the unfavorable lending terms and conditions. a good example of a bank that prefer lending small business operators is K-Rep bank, which according to Central Bank of Kenya levies high interest rates on borrowers. Precisely, the performance of small and large businesses is usually different especially when evaluated on the ability to acquire capital and for this reason; bank-lending practices affect small businesses more than large operators (Ahmad, 2003).

Business performance depends on the consumption ability of the market to utilized produced goods and services. Business entrepreneur usually study the demand and supply trends of the market to influence their activities (MacLeary, 1988). For instance, an increase in consumption will trigger a price increase, which will encourage business entrepreneurs to lend in order to expand their productive activities. According to Keynesian and Monetarist school of economic thought, money supply has a direct relationship with long time price of goods and services such that increase in money supply triggers a corresponding increase in long time price of goods and services. In such a case, bank will lax some of their lending practices during the time when the economy experience high demand of goods and services. At this times, businesses visit banks to

acquire capital for expansion. Monetarists and members of the currency school who argue that banks can and should control the supply of money, explain the move by banks to adjust or adopt specific lending practices to increase their profitability (Ghatak, 1999).

In another school of economic thought, Keynes says that the interest rate does not change an individual's propensity to consume, but rather makes it more expensive for individuals to borrow. The interest rate, Keynes says, is determined by people's money demand, or "liquidity preference" Keynes, (2015). The interest rate has an obvious effect on the economy because as the interest rate increases, it becomes more expensive to borrow. According to Spiro (1989), individuals will borrow less, resulting in decreased consumption and decreased overall income. As the interest rate rises, Keynes argues that consumer spending and investment will fall.

Conventionally, business operators usually operate in places where they can reach potential consumers. They prefer acquiring capital within a short time and expand their productive capacities to leverage from the increased demand. However, depending on the economic situation, interest rates charged by banks on capital acquisition determines the ability of business operators to acquire loans in Kenya (Ngigi, 2015). This is to say business performs lowly during deflationary times (recession or economic downturn), but perform highly during inflationary periods. The underlying concept behind it elucidated in the relationship between interest rates and investment. The same concept affect bank's lending practices in a way that the regulator may increase interest rates as a way to mop-up excess liquidity and banks can respond to this by forwarding the same impact to

business operators, who will fail to expand their investment activities because banks “have taken away their power” (Keynes, 2015).

#### **2.4. Bank rates and small-scale business performance**

As provided in the legal provisions of the Banking act Amendment Act of 2016, financial institutions are not supposed to levy interest rates of 4% more than the benchmark rate pegged at 10.5% (National Council of Law reporting, 2016). The move by the national government aimed to spur economic growth by increasing the level of investment; nevertheless, banks were reluctant to adjust based on the new law hence, denying small-scale business operators from accessing credit even if they qualify. Before the Banking Amendment act was assented in 24<sup>th</sup> August 2016, financial institutions used to post high levels of profits by giving credit especially to small-scale businesses at a high interest rate, a move that was burdening borrowers, small-scale business operators. Wafula (2016) observes that most financial institutions have reduced the profitability, after the Presidents assented to the Banking Amendment bill because they opt for trading government security as opposed to granting loans. Specifically, mobile lending, which is commonly used by many small-scale businesses is at the verge of shutting down because high costs of operation and low profitability on the bank side. For Instance, Wafula 2017 observes KCB-MPESA was not working because a technical hitch. Whenever such strategies are unveiled, small-scale businesses are abandoned because they do not have a strong financial power.

#### **2.5. Loan insurance and small-scale business performance**

Ogilo (2012) assert that loan insurance depends on bank’s lending behavior and it seeks to cover against any risk that would arise the lonee. It should be noted that people who

can cover their credit with loan insurance are a few who have large sums of money, have well-paying jobs, or are established businesspersons. This implies that small-scale businesses are not capable to seek loan insurance cover and hence; fail to benefit whenever bank implement such a policy or adopt this behavior. In situations when bank require loan insurance, credit worthiness may not be considered when awarding the loan; instead, a cover from the insurer. High loan defaulting rates have prompted banks to seek mitigating strategies that would help in reducing the losses; small-scale operators have a high rate of loan defaults because of the business cycles that affect their businesses. In this case, death, incapacity, bankruptcy, and lose of job, some of which are common among small-scale business operators

## **2.6. Bank Loan product marketing and small-scale business performance**

In the Banking Amendment act number 25 of 2016 section 31A provides that any financial institution before giving loans should disclose information about charges and other terms relating to the loan (National Council of Law reporting, 2016). However, most banks and financial institutions do not inform their members about such regulations. In 2013, Ngarajan, Ali, Sathyanarayana and Gowhar conducted a study in india with a purpose of studying customer marketing loan products and service in Banglore with special reference to state bank of India. They found out that most small scale business operators do not have information regarding bank products and therefore do not benefits from credit facilities awarded for such financial institutions.

## **2.7. Loan security**

A year after assenting the bill, Musyoka (2017) observes that there were many unintended consequences such as the practice by banks to increase collateral pledged against the loan and the move by banks to opt for government securities as opposed to

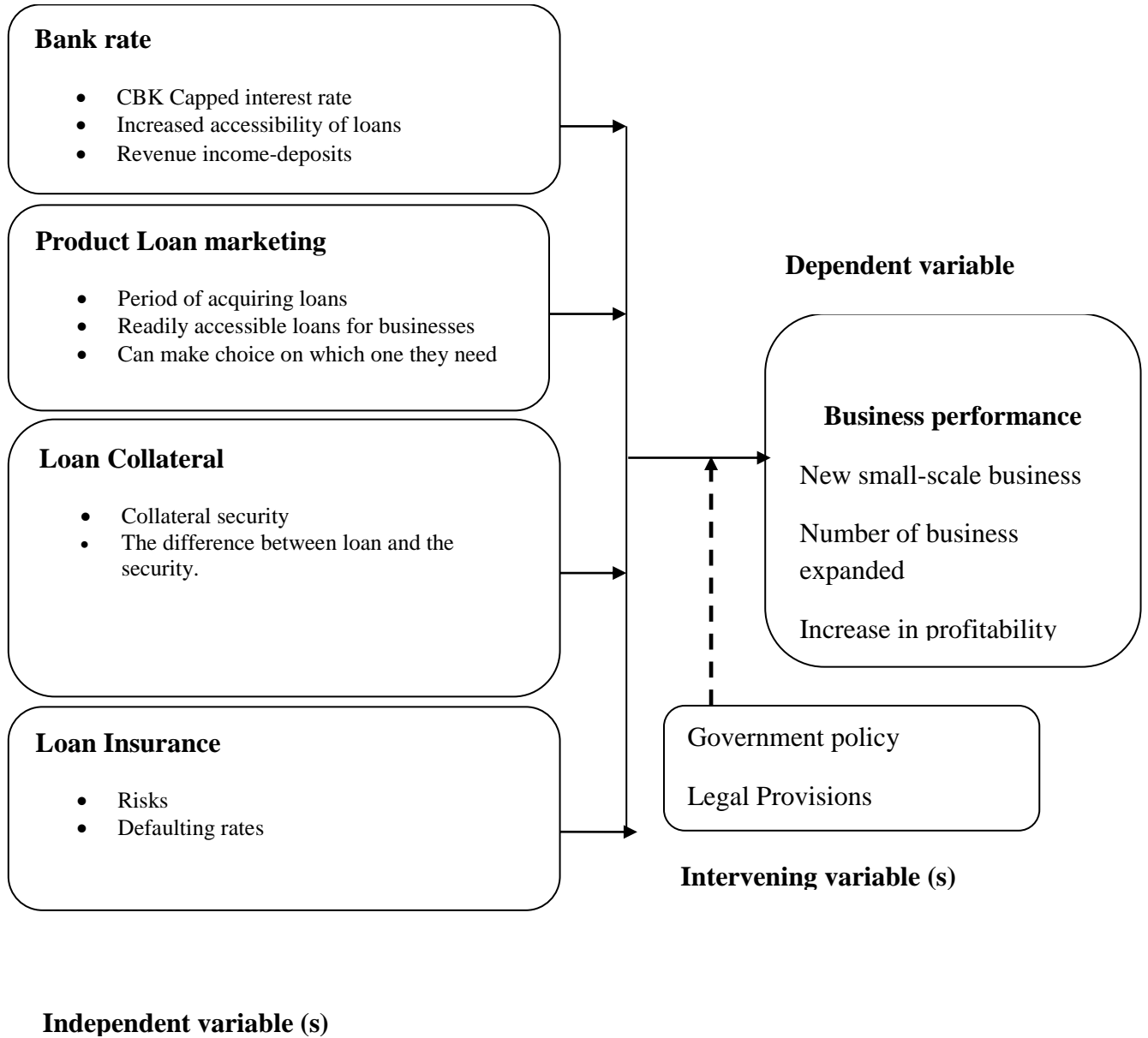


loaning individual and specifically small-scale business operators. In the latter, banks seeks to reduce the risk of operation because their profitability is reduced and the risk to default payment high. Currently, banks have increased the value of the collateral security such that the difference between the loan and the collateral is large; the loan acquired should be less than the collateral security. Based on such a banking policy, small-scale business operators fail to pledge property because some of them have little assets or own none, which banks can hold as a security before they get a loan.

## **2.8. Conceptual Framework**

The Conceptual Framework highlights the relationship between variables and in this case how independent variable relates to the dependent variable. It is important to note that each variable has indicators, which were used to measure it. Accordingly, business performance was the dependent variable while bank rate, loan product awareness, loan collateral, and loan insurance were independent variable. Notably, indicators used to measure bank rates were Central Bank capped interest rates, increased accessibility of loans and revenue income deposits. Parameters used to measure loan product awareness as an independent variable were period of acquiring loans, accessibility of loans, and informed decision making on loan products. Loan collateral was measured by loan security and the difference between the loan and the security. Indicators that were used to measure loan insurance were risk, and default rates. It should be noted that all the aforementioned indicators had their impacts on the independent variable, which in turn influence the dependent variable and specifically on the number of expanded small-scale businesses, number of new small-scale businesses, and the profitability of existing business ventures.

Figure 1: Conceptual Framework



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This chapter outlines the procedure through which the study will follow in an effort to collect data, analyze, and present. Notably, the research design used, sampling techniques, data collection methods, and analysis procedure will feature in this section. The sampling frame and sampling units will be highlighted for purposes of enhancing reliability, accuracy, and validity of the whole process.

#### **3.2. Research design**

This study adopted descriptive research methods that involve the use of interview and administration of structured questionnaire for purposes of collecting data. The choice of the use of descriptive research enabled the researcher to have a systematic data collection, analysis, and presentation from selected financial institutions in Kenya. Apart from that, the researcher tapped on the advantage of qualitative and quantitative data. Nevertheless, the use of interviews and structured questionnaires did not ensure data confidentiality and sometimes errors of omission and commission is common (Teddlie & Tashakkori, 2009). In order to avoid such errors the researcher avoided sharing data collected with other researchers or respondents. Furthermore, the researcher conducted a pilot study that orientated respondents on how to answer questionnaire questions and respond to interview question.

### **3.3. Location of the study**

Considering that there are many financial institutions in the Kenyan banking industry, this research study focused on a few selected banks and other deposit taking microfinance institutions such as Equity bank, K-Rep bank, Kenya Commercial Bank, and Family bank. For purposes of convenience, this research study narrowed down on information given at bank branches located in Kitale. The effects of lending practices from these financial institutions was used in determining the influence on business performance.

### **3.4. Target population**

According to the central bank of Kenya, there were 43 banks and 11 licensed microfinance institutions all of which engaged in lending activities. For the sake or convenience of effective data collection, this study focused on thirteen banks, which had their bank branches in Kitale. Apart from banks, the study considered a few business operators who specialized in the field of Mitumba, Boda-boda, and Matatu businesses; precisely, 15respondents from each category. The study opted to use a large sample size to improve on reliability and accuracy.

Out of the 13 banks, 5 banks were sampled; on average each financial institution was estimated to have 30 employees, a random sample of 10 employees was collected from each making the total number of bank officials who took part in the study to 50.

According to the Statistics from the County Government of Trans-Nzoia, there number of small scale businesses was over 3000, but the figure keeps on fluctuating because of business cycles, market forces of demand and supply and others challenges that affect small-scale operators (County Integrated Development Plan-2013-2017). This figure

includes operators in the Jua kali industry, transport industry, hotelier, and others whose business capacity and ability is low financially.

### **3.5. Sampling procedure and Sample size**

From the sampling frame, the researcher used probabilistic sampling methods such as random and stratified sampling to select sampling units. Notably, sampling units were selected using random sampling. After that, the researcher grouped the sampling units according to characteristics such as period of business operation, customer base (in the case of banks), the size of the business, and position of the business among others. Sampling units were selected from each group to form a refined and well represented group, which took part in data collection (Levy & Lemeshow, 2013).

In order to establish the sample size to be adopted for this study, the Yamane (1967:886) formula for population sample will be used as follows

$$n = \frac{N}{1 + N(e^2)}$$

**Where:** N = Population (3000)

n= sample size

e=Tolerance at desired level of confidence, (0.05)

$$n = \frac{3000}{1 + 3000(0.05^2)}$$

n= 352

### **3.6. Research Instrument**

After identifying the sampling units, the top management of banks at the branch level were contacted to take part in the study. Ideally, the branch manager, operations manager and a few credit officers took part in data collection. Key informants were used to get views, opinions, and ideas of the sampling units regarding the topic of study; they shed more light regarding the topic of study. Essentially, data collection for all the respondents used questionnaires. The rationale behind is that questionnaires collected quantitative data, views and opinions of respondents, which was used to make conclusions.

### **3.7. Pilot testing of instruments**

According to Blessing, and Chakrabarti (2009), pilot study, seek to test research instruments with an aim of establishing their validity and reliability. It also identifies potential problems that may affect the quality of the expected results, which might alter conclusions. The pilot set-up should be close to the actual study and should involve only one or two cases. The exercise can be used to establish the total expected time taken per respondent and even to complete the study.

### **3.8. Data collection procedures**

Following the sampling procedure, data collection followed. Key informants, who included branch managers, operation managers, and credit officers, responded to simple structured questionnaires, which was be different from that administered to Boda-boda operators, small hoteliers, “mama mboga,” and all other Jua kali operators.

### **3.9. Data analysis techniques**

After collection of data, quantitative data was cleaned, edited, and coded before it was entered in SPSS-16. Descriptive analysis was conducted and it included the use of

frequencies and percentages to establish distribution and occurrences of responses. Interpretation of data will be conducted with regard to research objectives and theoretical evidence. Findings, summary, and conclusions will be made in the following chapter.

### **3.10. Ethical considerations**

Everyone in the contemporary society has always been salient on issues relating to confidentiality and ethics. The researcher first informed the respondents the purpose of the study highlight all the necessary documents. As that is not enough, researcher confirmed to the respondents that he/she was not going share the information captured from the respondents because most respondents do not prefer sharing their information with neighbors. The respondents was assured that the purpose of this study and indeed the actual data collection was for academic purpose only.



## **CHAPTER FOUR**

### **RESEARCH FINDINGS, ANALYSIS AND DISCUSSION**

#### **4.1. Introduction**

The chapter deals with presentation of demographic characteristics for both small-scale businesspersons and bank officials; responses with regard to the research questions from two perspectives, banks and SME's will be presented. Analysis of descriptive statistics will also be presented and this will be followed by a detailed analysis elucidating the presented results from both SMEs and bank perspectives. This will be followed by a detailed analysis of inferential statistics including multivariate regression and correlation.

#### **4.2. Response rate**

Based on the sample size adopted for this study, which was 357 respondents, which included bank officials and Small-scale business operators, it was noted that respondents who successfully supported the study by responding to the questions were 345. Specifically, 300 from small-scale business operators and 45 from banks gave a response rate of 96%, which was reliable to be used to make conclusion.

#### **4.3. Demographic characteristics of respondents**

This section presents the demographic characteristics of small-scale business operators with regard to gender, age bracket, level of education, marital status, nature of small-scale business and the period engaged in Business. From the table below, it is clear that out of 300 respondents who took part in the study 181 and 119 representing 60.3% and 39.7% were male and female respectively. The majority of respondents (136 out of 300) who took part in the study were in the age bracket of 31-40 years. This was followed by

69 respondents in the age bracket of 41-50 years, 50 respondents in the age bracket 26-30 years, 35 respondents in the age bracket of below 25 years, 9 respondents in the age bracket 51-60 years and 1 respondent aged above 60 years. This indicated that more male than women were small-scale business operators aged between 31-50years. In the same study, it was noted that 141 respondents had reached secondary school level of education, while 100 respondents had attained college education level, 30 had attained a bachelor degree level, 22 primary levels, while 1 had attained doctorate level of education. From these results, it is true that the small-scale business environment in Trans-Nzoia County was full of college graduates and those who completed their secondary level of education. In another case, the majority of respondents (137 out of 300 respondents) confirmed that they were married, 128 respondents were “single parents,” while 18 and 17 respondents were divorced and widow/widowers respectively. In terms of the nature of business operated by the small-scale businesses respondents, the majority of respondents who took part in the study were mitumba and cloth sellers followed by Boda-boda operators who were 81 respondents while 57 and 50 represented fresh vegetable and fruit vendors together with hotel and fast food operators respectively.

**Table 1: Distribution of Small-scale business respondents by gender, age bracket, level of education, marital status, nature of small-scale business and the period engaged in Business**

<b>Characteristics</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	181	60.3
Female	119	39.7
<b>TOTAL</b>	<b>300</b>	<b>100</b>
<b>Age Bracket</b>		

Below 25 years	35	11.7
26-30 years	50	16.7
31-40 years	136	45.3
41-50 years	69	23.0
51-60 years	9	3.0
Over 60 years	1	0.3
<b>TOTAL</b>	<b>300</b>	<b>100</b>

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**Level of income**

primary	22	7.3
Secondary	141	47.0
College	100	33.3
Bachelor degree	30	10.0
Post graduate	7	2.3
<b>TOTAL</b>	<b>300</b>	<b>100</b>

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**Marital status**

Married	137	45.7
Single	128	42.7
Divorced	18	6.0
Widow/Widower	17	5.7
<b>TOTAL</b>	<b>300</b>	<b>100</b>

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**Nature of small-scale  
business**

Fresh vegetable and fruit vendor	57	19.0
Boda-boda	81	27.0

Mitumba and cloth selling	111	37.0
Hotel and Fast food vendor	50	16.7
Others	1	0.3
<b>TOTAL</b>	<b>300</b>	<b>100</b>

In table 2 below, the majority of bank (14 out of 45) officials stated that they had worked for a period of less than 1 year and this population related to respondents who were in the credit and customer care section; they had enough knowledge and experience with the reality. In the same table, respondents who worked from 1-3 years and 4-7 years were 12 respondents in each case meaning that a significant number of those who took part in the study were experienced in credit and bank lending practices. Out of 45 respondents, 7 respondents worked for more than 8 years and this group related to the managerial officials who majorly influenced lending practice decision making in banks.

**Table 2: Distribution of respondents from banks based period worked and section they work**

<b>Period worked</b>		
Less than 1 year	14	31.1
1-3 years	12	26.7
4-7 years	12	26.7
Over 8 years	7	15.6
<b>TOTAL</b>	<b>45</b>	<b>100</b>
<b>Department/section</b>		
Customer care	7	15.6
Credit section	26	57.8

Teller	4	8.9
Personal/business banker	4	8.9
Other	4	8.9
<b>TOTAL</b>	<b>45</b>	<b>100</b>

#### 4.4. Small-scale and Bank respondents results with response to research questions

##### 4.4.1. Bank rates and small scale business performance

**Table 3: Bank rates and their influence on small-scale business performance**

	Frequency	Percent
low rates encourage SME to secure cheap credit to enhance their businesses	23	51.1
increased bank rates encourage banks to lend selectively-develop profitable ventures	17	37.8
interest rate income revenue for banks-increased rates reduces bank revenue hence growth of SME	2	4.4
Other	3	6.7
<b>Total</b>	<b>45</b>	<b>100.0</b>

Based on the results given by respondents from lending institutions, it was clear from 23 out of 45 respondents that low bank rates encourage lending institutions to lower the cost of credit hence encourage small-scale business operators to secure loans in high numbers. In another case, 17 respondents from banks stated that increase in bank rates encourage banks to lend selectively and this impacts greatly on small-scale business performance because such lending practices do not favor small-scale business operators. Out of 45 respondents, 2 confirmed that increased interest rates reduces bank income revenue hence

discourage them from lending small-scale businesses because of the risk involved; hence influencing the growth and development of such small ventures.

**Table 4: Have you ever secured a loan in the last 1 year**

	Frequency	Percent
Yes	186	62.0
No	114	38.0
<b>Total</b>	<b>300</b>	<b>100.0</b>

In table 4 above, it was clear from the study that 186 respondents had secured loans in the last one year, while 114 representing 38% of the respondents who took in part in the study that they had not secured loans for the last one year. It indicated that over one half of the small-scale businesses had secured loans to enhance their businesses.

**Table 5: What was the interest rate charged?**

		Frequency	Percent
	less than 10%	25	8.3
	11-15%	46	15.3
	16-25%	44	14.7
	more than 25%	71	23.7
	Total	186	62.0
Missing	System	114	38.0
<b>Total</b>		<b>300</b>	<b>100.0</b>

In table 4, the results of respondents who secured loans were highlighted and in table 5 the results of interest rates charged is shown. In the table 5, 71 respondents who were the majority stated that they were charged an interest rate of more than 25%. Other respondents including 44, 46, and 25 who secured loans stated they were charged 16-

25%, 11-15% and less than 10% respectively. On average, the majority of respondents were charged an interest rate of more than 20%, which was considerably high for small-scale business operators.

**Table 6: How long did it take your loan to be approved?**

		Frequency	Percent	Valid Percent
	Less than 48 hours	28	9.3	15.1
	2-7 days	90	30.0	48.4
	1-3 weeks	50	16.7	26.9
	more than a month	18	6.0	9.7
	Total	186	62.0	100.0
Missing	System	114	38.0	
<b>Total</b>		<b>300</b>	<b>100.0</b>	

It was shown in table 4, the respondents who secured loans and those who did not secure loans in the last one year. Table 6 highlights the results of how long it took for small-scale business operators to secure loans. Evidently, it is clear from 48.4% or 90 respondents out of 186 stated that the loans they applied and secured took a period of 2-7 days. This is a shorter period compared to 50 respondents who stated that their loans were approved in a period between 1-3 weeks. It was also interesting to note from 18 respondents who confirmed that their loan took more than a month. Only 28 respondents stated that their loan took less than 48 hours to be approved. From the study, it was noted that on average, it would take a small-scale business operator at least one week to have an approval of the applied loan.

**Table 7: Aware of the bank amendment act 2016?**

	Frequency	Percent
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yes	198	66.0
no	102	34.0
<b>Total</b>	<b>300</b>	<b>100.0</b>

Results presented in table 7 indicate that 66% of the respondents were aware of the legal provisions outlined in the recently amended Banking act 2016. However, 102 respondents who represented 34% stated that they were not aware of bank amendment act of 2016.

**Table 8: Low interest rates on loans- would you secure loans?**

	Frequency	Percent
yes	170	56.7
no	107	35.7
I am not sure	23	7.7
<b>Total</b>	<b>300</b>	<b>100.0</b>

In table 8 above, it is vividly clear from 170 respondents that they would secure loans if interest rates were low. This population was among the 198 respondents from table 7 who indicated that they were aware of the bank amendment act of 2016, which capped interest rates that commercial banks charged customers; this set a limit within which banks should charge. However, in another case, 107 respondents indicated that they would not secure loans even if interest rates were low, such a group of respondents might be among those who suffered loan repayment challenges because of some reasons.



#### 4.4.2. Loan Insurance and small-scale business performance

**Table 9: bank officials' response towards Loan insurance**

	Frequency	Percent
Enables banks to avoid lending risks hence lend SME without much regulations	15	33.3
Business and personal assets of SME cannot be freezed/auctioned in case of failure to service the loan	30	66.7
<b>Total</b>	<b>45</b>	<b>100.0</b>

In table 10 above, 30 respondents from the banking sector indicated that business and personal assets would not be auctioned or freezed in an event that the loaned defaulted payment. As that was not enough, 15 respondents out of 45 who took part in the study confirmed that loan insurance enable banks to avoid lending risks hence lend small-scale business operators.

**Table 10: Ever defaulted loan repayment**

	Frequency	Percent
yes	208	69.3
no	92	30.7
<b>Total</b>	<b>300</b>	<b>100.0</b>

In table 10 above, out of 300 respondents, 208 respondents accepted that they ever defaulted on loan repayment. On contrary, 92 respondents stated that they did not default on loan repayment. From table 11 below, relative to table 10 above, 115 respondents who were the majority stated that unfavorable economic condition was the reason behind loan repayment. In another case, 47, 43, 8 and 13 respondents stated that lack of information

about dates of loan repayment, business failure, loan security, and other reason respectively contributed to loan defaulting.

**Table 11: Reasons for loan repayment**

	Frequency	Percent
	74	24.7
lack of information about dates of payment	47	15.7
business failure	43	14.3
unfavorable economic condition	115	38.3
Other	13	4.3
loan security	8	2.7
<b>Total</b>	<b>300</b>	<b>100.0</b>

In table 12 below, 131 respondents strongly agreed that the loan application was complex and that insurance firms or sections had to be involved; 126 respondents also agreed on the same; however, 36 denied that the loan application process was complex; they had no problem with loan insurance.

**Table 12: loan application process is complex- insurance company has to be involved**

	Frequency	Percent
strongly agree	131	43.7
Agree	126	42.0
Neutral	24	8.0
Disagree	12	4.0
strongly disagree	7	2.3
<b>Total</b>	<b>300</b>	<b>100.0</b>

#### **4.4.3. Loan product marketing and small-scale business performance**

From table 13 below, it was clear from 24 bank respondents who confirmed that they had done enough as a lending institution in terms of loan product marketing. However, 21 respondents who represented 46.7% stated that as a bank, they had not done enough in terms of loan product marketing.

**Table 13: done enough in terms of loan product marketing**

	Frequency	Percent
yes	24	53.3
no	21	46.7
<b>Total</b>	<b>45</b>	<b>100.0</b>

**Table 14: Loan product marketing**

	Frequency	Percent
Loan products are aligned to different economic sectors- wrong choice influence SME performance	8	17.8
If people are aware of loan cheap loan products, they will secure and enhance their business	23	51.1
Loan product marketing helps SME to study loan details, which helps in repayment plans	13	28.9
Other	1	2.2
<b>Total</b>	<b>45</b>	<b>100.0</b>

In table 14 above, 23 respondents from the banks stated that if people were aware of cheap loan products, they would secure the credit and enhance their business performance and hence growth. Out of 45 respondents, 13 respondents confirmed that loan product marketing helped small-scale businesses to study details, which would help them organize repayment plans. In another case, 8 respondents confirmed that loan products were aligned to different economic sectors and that wrong choice of loan

product by the loaned would influence performance of small scale performance. Only one respondent stated that other reasons apart from the given ones about loan product marketing would influence the performance of their businesses

**Table 15: trained on savings and credit by Bank or any financial institution**

	Frequency	Percent
yes	202	67.3
no	98	32.7
<b>Total</b>	<b>300</b>	<b>100.0</b>

In Table 15 above, 202 respondents accepted that they were trained on saving and credit techniques by financial institution as a way of loan product marketing. The remaining 98 denied having undergone any training from lending institution. As shown in table 16 below, the majority of respondents were positive on the issue regarding the need for banks to train small-scale business operators. Evidently, 135 respondents agreed, while 86 strongly agreed that lending institutions should train and do loan product marketing.

**Table 16: lending institutions should train and do loan product marketing**

	Frequency	Percent
strongly agree	86	28.7
Agree	135	45.0
Neutral	33	11.0
Disagree	39	13.0
strongly disagree	7	2.3
<b>Total</b>	<b>300</b>	<b>100.0</b>

In table 17 below, 87% or 263 respondents out of 300 confirmed having benefitted from credit from financial institutions, while the remaining 37 respondents denied having secured any credit from financial institutions. It indicated that the majority of small-scale business operators relied on loans to sustain their businesses.

**Table 17: Ever benefitted from credit from financial institutions**

	Frequency	Percent
Yes	263	87.7
No	37	12.3
<b>Total</b>	<b>300</b>	<b>100.0</b>

Relative to responses given in table 17 above, in table 18, respondents who benefitted from credit from financial institutions gave their views regarding the influence of credit from financial institutions. Out of 263 respondents, 39% or 103 respondents stated that they used the credit secured to increase business stock. While that was so, 93 respondents indicated that they used the credit to increase their savings, 39 respondents opened other branches, 25 acquired business assets, and 3 respondents engaged the credit in other meaningful activities.

**Table 18: how did it influence your business performance?**

	Frequency	Percent
increased my stock	103	34.3
opened another branch	39	13.0
I increased my savings	93	31.0
I acquired business assets	25	8.3
Other	3	1.3
Total	263	88.0
Missing System	37	12.0
<b>Total</b>	<b>300</b>	<b>100.0</b>

#### 4.4.4. Loan security and small-scale business performance

**Table 19: Loan security-bank officials' views**

	Frequency	Percent
it's a fallback advantage of banks, but hinders full usability of the security during the loaning period	12	26.7
Loan security encourage SMEs to work hard to avoid losing the security	15	33.3
it does not deny SMEs a chance to secure loans- personal property also works	18	40.0
<b>Total</b>	<b>45</b>	<b>100.0</b>

From the banks point of view, 18 respondents stated that loan security did not greatly influence the ability of small-scale business operators to secure loans; they used personal/domestic properties as fallbacks. In another case, 15 respondents stated that loan security encouraged small-scale business operators to work hard, enhance the performance of their ventures to avoid losing the security pledged. Furthermore, 12 respondents stated that loan security was a fallback advantage of banks, but disadvantage to small-scale business operators who could not use the security fully during the loaning period.

**Table 20: each bank requires a good collateral security**

	Frequency	Percent
strongly agree	162	54.0
Agree	91	30.3
Neutral	24	8.0
Disagree	10	3.3

strongly disagree	13	4.3
<b>Total</b>	<b>300</b>	<b>100.0</b>

From the small-scale operators' point of view, 162 respondents representing 54% strongly agreed that each bank required a good collateral security in order to extent credit to small-scale operators. In table 20, out of 300 respondents, 91 agreed, 10 disagreed, 13 strongly disagreed that each bank required a good collateral security for them to secure loans. Unusually, 24 gave neutral responses regarding the issue of loan security.

**Table 21: ever been a victim of loan not getting approved**

	Frequency	Percent
Yes	169	56.3
No	98	32.3
I do not know	33	11.0
<b>Total</b>	<b>300</b>	<b>100.0</b>

In table 21 above, the majority of respondents (169) confirmed by agreeing that they ever felt victims of loan getting approved, while 98 denied and 33 did not know whether they were ever victims of loans not getting approved. In table 22 below, the majority of respondents (124), whose not were not approved stated that the reason was poor credit record, 60 stated that it was lack of collateral, and 18 stated that they did not know the reason. From the results in table 22, it is vividly clear that good credit record (presumably from enhanced business operations) encouraged banks to lend.

**Table 22: reasons for not getting loan approval**

	Frequency	Percent
	97	31.7
lack of collateral security	60	26.7
poor credit record	124	31.3

I don't know	18	10.0
Others	1	.3
<b>Total</b>	<b>300</b>	<b>100.0</b>

#### **4.5. Discussion of main findings**

This section presents a discussion of findings relative to the research questions; specifically, the discussion will be geared towards providing answers for the research questions while citing evidence from the results presented above.

##### **4.5.1. Banking rates and small-scale business performance**

From the two results from the bank officials and from small-scale business operators, it is clear that bank rates greatly influence the performance of small-scale business operators. In table 3, 51% of the bank officials stated that lowered bank rates reduces the cost of credit, which encourage small-scale business operators to secure cheap loans to enhance their businesses. This means that reduced bank rates will lower down the discount rate, which in turn lower interest rates that bank charge borrowers and in such a case investment and profitability of small-scale business operators increases. In the same table 3, out of 45 bank officials, 17 stated that lowered bank rates would encourage banks to lend selectively because the revenue income accrued is low and requires strictness to avoid risks. In such cases, small-scale business operators will be disadvantaged because most lending institutions consider the high cost of lending credit to them. In table 4 and 5, it is clear that the majority of respondents secured credit in the last one year; however, the rate at which they charged was high and the move greatly influenced the performance of their businesses because the default rates as indicated in table 10 were 69.3%, which was very high. Among those who defaulted, as shown in table 11, it was clear from the



majority that hard economic times contributed to their defaulting loan repayment, an indication that high interest rates charged on loans encourage loan defaulting; hence affecting the performance of small-scale business operators. It is important to note that when default rates are high, there is a high likelihood that some lenders recovered property(s) of borrowers or took over the businesses in order to recover the remaining part of the loan. In table 8, 56.7% of respondents stated that upon lowering bank rates and indeed interest rates charged, they would secure loans to enhance their businesses; relative to their response, it is also true that increased interest rates will discourage many small-scale business operators to secure loans; hence, operate below optimum level.

#### **4.5.2. Loan insurance and small-scale business performance**

In table 9, 30 out of 45 bank officials who took part in the study stated that loan insurance cushions not only banks from any eventualities, but also small-scale business operators from having their personal or business property auctioned by financial institutions to recover part of the loan not repaid. In the same table 9, one third of the banks officials confirmed that loan insurance discourage banks from putting strict measures on small-scale business operators who anticipate securing loans or those who are already loaned. Out of 300 small-scale business operators, 85.7% agreed that loan insurance enhanced the complexity of loan application process and according to them, it took time for the who process to be approved because a third party/department was involved. At times, small-scale business operators prefer capitalizing on small short-term business opportunities that arise and securing a loan in less than 24hours would be the best. However, from the results in table 6, it was clear that 48.4% and 26.9% confirmed that it took them more

than 3 days and more than a week to secure their loans after application, a move that really influence the performance of their businesses.

#### **4.5.3. Loan product marketing and small-scale business performance**

In table 14 above, 23 out of 45 respondents in the banking sector stated that loan product marketing educates small-scale business operators to understand the details of each loan product and make informed choices regarding the loan products that fit their business and the convenience of loan repayment hence influence their performance. Furthermore, 13 stated that good loan product marketing helps small-scale business operators to organize their repayment plans and in so doing, they will not interfere with their businesses' operations. In the same table 14, 8 respondents out of 45 stated that loan product marketing helps small-scale businesses to identify the products that are aligned relative to their businesses; hence, secure loans that would effectively improve that line of business. In table 15, 67.3% agreed that they had received training regarding loan products; however, the education received might not have been enough because most of the small-scale business operators still defaulted in loan repayment as shown above.

#### **4.5.4. Loan security and small-scale business performance**

According to the views of the majority of bank officials and even small-scale business operators, loan security was not the number one priority when it came to lending, banks considered account turnover or credit records in order to determine borrowers who qualify for loans, see table 22. The same views were evident from table 19 when 18 out of 45 respondents stated that loan security does not deny a borrower a chance to secure loan, personal or business property also works. From this results, it was true that small-scale businesses whose account statement was active and good, secured loans faster even

if they lacked security, as long as they possessed personal or business assets, which could be used as securities. In another case, one third of respondents from the banks stated that loan security withheld by banks, encourage small-scale business operators to work hard in their businesses in order to repay the loans to get back the security taken by the banks. Some respondents 12 from the banks stated that loan security was a fallback advantage of banks, but hindered full usability of the security during the loaning period. In such a case, in case the small-scale business operator relied on it to enhance business operations it means that loan security taken by the bank might not help in enhancing the performance of the small-scale business operators.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Introduction**

This chapter highlights a summary of major findings especially those related to the research questions and conclusions arrived thereafter. Recommendations to be implemented will be in two perspectives, based on the study and for further researcher.

#### **5.2. Summary of major findings**

Male form the majority of small-scale business operators in Trans-nzoia County, and this group are aged between 31-50 years, they attained at least secondary school and college level of education, were married and were engaged in boda-boda or cloth and mitumba selling. From the study, it was clear that bank rates largely influenced performance of small-scale business operators. The rationale behind it was that increased banks rates by the central bank reduces revenue income from deposits banks holds and in order for the banks to retain their profitability, they increase interest rates charged on loans, reduced bank rates reduces interest rates and hence lowers the cost of credit, which enhances growth and development of small-scale business operators. Loan insurance is a security measure, which benefits both the bank and the small-scale business operators; business operators can enhance their businesses even if they default loan payment, it enhances

confidence in business environment for both banks and small-scale business operators. Loan product marketing was conducted by banks, but most of the people educated seemed not to understand various loan products because of increased default rates. A few small-scale businesses who understood the details of various loan products enhanced their business performance by increasing stock, opening other outlets, buying business assets and increasing savings among others. Loan security according to banking sector officials was not essential in determining ability to secure loans; however, it encouraged small-scale business operators to work hard and enhance their performance in order to get their property back.

### **5.3. Conclusion**

From the study, is evident that bank rates, loan insurance, loan product marketing, and loan security all influence the performance of small-scale business operators. Notably, the recently amended banking bill 2016, which capped interest rates, could have been a window of small-scale businesses to secure cheap loans; however, banks changed their tact and they deal with alternative ways of making profit as opposed to lending small-scale businesses, whose risk and cost of lending was high as evident by the high default rates. Furthermore, it was true that loan product marketing was not effectively done because most of the small-scale business operators lacked information regarding various loan products even though they were educated.

## **5.4. Recommendations**

### **5.4.1. Recommendations based on the study**

Considering that the bank rates are relatively low, it was expected that small-scale business would benefit from reduced cost of credit, but the law of demand and supply was not followed by banks who considered high risk and cost of lending small-scale business operators and instead opted for other alternatives. It is strongly advised that the government should reconsider amending the banking amendment act of 2016, which capped the interest rates that banks should charge to borrowers. Such a move will ensure that the market forces of supply and demand determine interest rates, which in turn determines the ability to borrow and lend.

All small-scale business operators secured loans applied, even though the cost of securing loans with insurance cover might be expensive, it would be better than a situation where the majority of borrowers' properties are auctioned in order to pay the remaining part of the loan. Loan product marketing is essential; however, the manner in which banks and other financial institutions have done it was poor because the targeted persons were not educated effectively. The government through relevant ministries ought to formulate consumer protection laws that would ensure loan borrowers are informed accordingly before they decide on which loan product fit their purpose and convenience of repayment.

Loan security was not considered greatly by banking institutions and small-scale businesses; however, there is the need to educate borrowers to improve their account turnovers and credit history (because they were highly considered) instead of relying on loan securities in order to secure loans.

#### **5.4.2. Recommendations for further research**

In the future, there is the need for other scholars to explore other bank lending practices that such as selective lending, seasonal lending, and increased bureaucratic procedures all of which are banking lending practices, which influence the performance of small-scale business operators.

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## APPENDICES

### APPENDIX I: RESEARCH INTRODUCTORY LETTER

**JOSEPH  
MULONGO  
P.O BOX 560 Moi's  
Bridge  
Cell phone:  
0707927318**

**Dear Informant/Respondent,**

#### **INTRODUCTION TO INTERVIEW RESPONDENTS**

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I am currently undertaking a **Master of Science Degree in Project Planning and Management** in University of Nairobi. I am presently undertaking my research project, a requisite for the award of this degree. The topic of my research is, “**Effects of Bank lending Practices on business performance among small-scale businesses in Trans-Nzoia County, Kenya.**”The objectives of my research are:

- i. To establish how banking rates influence small-scale business performance
- ii. To establish how loan insurance affect small-scale business performance
- iii. To determine how loan product marketing as a lending practice influence small-scale business performance
- iv. To determine how loan security as a lending practice influence small-scale business performance

I am thus writing to request your kind participation by answering the questions in the attached questionnaire to enable me gather correct and relevant information for this research. It is my wish that the successful completion of this study shall be of great benefit for relevant policy formulation for this sector and add scholarly knowledge on the subject.I shall highly appreciate your valued contributions and support towards this research.

**Yours Sincerely**

**JOSEPH MULONGO - Researcher**

**APPENDIX II: QUESTIONNAIRE SMALL-SCALE BUSINESS OPERATORS**

*Instructions: Kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided. Do not write your name anywhere in the questionnaire and you is requested to provide necessary information with utmost honest.*

**Section A: General Information**

1. Gender Male  Female

2. Please indicate your age bracket

Below 25yrs

26 – 30 yrs

31 – 40 yrs

41 – 50 yrs

51 – 60 yrs

Above 60 yrs

3. Please indicate your highest level of education

Primary

Secondary

College

Bachelors' degree

Post graduate

Others-specify.....

4. Marital status: Married[ ] Single [ ] Divorced [ ] Widowed[ ]

5. Nature of small-scale business:

Fresh vegetable and fruit vendor [ ]

Boda-boda [ ]

Mitumba and cloth selling [ ]

Hotel and fast food vendor [ ]

Others (Specify).....

6. For how long have you been engaged in small-scale business?

Less than 6months [ ]

7-12 months [ ]

1-4 years [ ]

More than 5 years [ ]

**Section B: Study Variable-Independent**

**Bank rate**

7. Do you have a bank account or are you registered with any microfinance institution?

Yes [ ] No[ ]

8. Have you ever secured a loan in the last 1 year?

Yes [ ] No[ ]

9. If Yes in (8), what was the interest rate charged?

Less than 10% [ ]

11-15 % [ ]

16-25 % [ ]

More than 25% [ ]

10. If yes how long did you take to have your loan approved?

Less than 48 hours [ ]

2-7days [ ]

1-3 weeks [ ]

More than a month [ ]

11. Are you aware of the recently assented Banking Amendment Act, 2016, which benchmarked the interest rates to 10.4% and capped to a ceiling of 4%

Yes [ ] No [ ]

12. Considering that the CBK rate was reduced to 10.5% and regulated in such a way that Commercial banks only charge no more than 4% above the benchmark placed, would you be encourage to secure loans?

Yes [ ] No [ ] Not sure [ ]

### **Loan product marketing**

13. Have you ever been trained on saving and credit by microfinance institutions and/or banks?

Yes [ ] No [ ] I don't know [ ]

14. In your own opinion, how do you respond to the following statement “each lending institution should train and dissemination loan product information to client”

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] Strongly disagree [ ]

15. In your own view, what is the extent to which banking lending behavior influence your ability to acquire credit?



- Great Extent [ ]
- Moderate Extent [ ]
- Neutral [ ]
- Low Extent [ ]
- No extent [ ]

**Loan Insurance**

16. Have you ever defaulted paying your loan?

- Yes [ ]                      No [ ]                      I don't Know [ ]

17. If yes, in (16) above, what was the reason for defaulting?

- Lack of information about the dates of payment [ ]
- Business failure [ ]
- Unfavorable economic conditions [ ]
- Others, specify [ ]
- Loan Security [ ]

18. "Loan application process is a complicated process, which sometimes officials at the branch level have to consult with others at the regional or headquarters before approval" Give your reactions to this statement

- Strongly agree [ ]    Agree [ ]    Neutral [ ]    Disagree [ ]    Strongly disagree [ ]

19. What is your take on situations where people apply for loans and they time before they mature, brief explain.....

.....

**Loan security**

20. Each microfinance institutions requires that one should have a good collateral security before is the loan is approved, what is your response to this statement?

Strongly agree [ ]    Agree [ ]    Neutral [ ]    Disagree [ ]    Strongly disagree [ ]

21. Have you ever been a victim of a situation where your loan was not approved?

Yes [ ]                      No [ ]                      I do not know [ ]

22. If No in (21) above, what was the reason given?

Lack of collateral security [ ]

Poor credit record [ ]

I don't know [ ]

Others, Specify.....

**23.** What is your recommendation on bank lending practices and it should improve small-scale business performance. Briefly explain.....

.....  
.....

**ADDITIONAL QUESTIONS**

24. Have you ever benefitted from credit offered by lending institutions?

Yes [ ]                      No [ ]

25. If yes in (24) above, how did it influence your business performance?

I increased my stock [ ]

I opened another branch/stall/shop/business [ ]

I increased my savings [ ]

I acquired business assets [ ]

Other

specify.....

26. In your own opinion, to what extent do you think bank lending practices influence performance of small-scale businesses?

Very Great extent [ ] Great Extent [ ] Moderate Extent [ ] Low extent [ ]

No extent at all [ ]

27. In your own view, which of the following bank lending practices do you think has the great influence on the performance of small scale businesses?

Bank rates [ ]

Loan Insurance [ ]

Bank loan product marketing [ ]

Loan marketing [ ]

**Thanks you**

### **APPENDIX III: QUESTIONNAIRE- FINANCIAL INSTITUTIONS**

*Instructions: Kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided. Don't write your name anywhere in the questionnaire and you is requested to provide necessary information with utmost honest.*

#### **Section A: General Information**

28. Gender Male  Female

29. Please indicate your age bracket

Below 25yrs

26 – 30 yrs

31 – 40 yrs

41 – 50 yrs

51 – 60 yrs

Above 60 yrs

30. For how long have you worked with this financial institution?

Less than 1 year

1-3 years

4-7 years

Over 8 years

31. Which department or section of the financial institution are you actively involved in? (OPTIONAL)

Customer care

Credit section

Teller

Personal/business banker [ ]

Other, specify.....

**Section B: Study Variable-Independent**

32. In your own understanding, how do you think bank rates influence the ability of financial institutions to lend credit to small-scale businesses? Briefly explain.....

.....  
.....

33. In your on view, how does loan insurance affect small-scale business performance? Briefly state.....

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

34. Have you as a financial institution done enough in terms of loan product marketing

Yes [ ]                      No [ ]

35. If No in (7) above, what do you think should be done to enhance the practice? Briefly explain.....

.....  
.....

36. In your own opinion, how do you think loan product marketing influence small-scale business performance? Briefly explain.....

.....  
.....


37. How does loan security influence small-scale business performance? Briefly

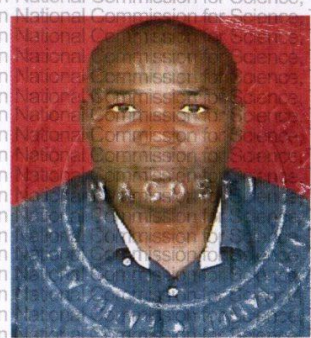
explain.....  
.....  
.....  
.....

*Thanks you*

## APPENDIX IV: RESEARCH PERMIT



**THIS IS TO CERTIFY THAT:** **Permit No : NACOSTI/P/17/63616/16725**  
**MR. JOSEPH MULONGO WANYAMA** **Date Of Issue : 28th April, 2017**  
**of UNIVERSITY OF NAIROBI , 4380-30200** **Fee Received :Ksh 1000**  
**KITALE, has been permitted to conduct**  
**research in Transzoia County**  
**on the topic: INFLUENCE OF BANK**  
**LENDING PRACTICES ON BUSINESS**  
**PERFORMANCE AMONG SMALL SCALE**  
**BUSINESSES IN TRANS-COUNTY, KENYA**  
**for the period ending:**  
**28th April, 2018**

  
**Applicant's Signature**

  
**Director General**  
**National Commission for Science, Technology & Innovation**

**CONDITIONS**

- 1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do that may lead to the cancellation of your permit.**
- 2. Government Officer will not be interviewed without prior appointment.**
- 3. No questionnaire will be used unless it has been approved.**
- 4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.**
- 5. You are required to submit at least two(2) hard copies and one (1) soft copy of your final report.**
- 6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice.**

  
**REPUBLIC OF KENYA**  
  
**National Commission for Science, Technology and Innovation**  
**RESEACH CLEARANCE PERMIT**  
**Serial No. AI 3889**  
**CONDITIONS: see back page**