

UNIVERSITY OF NAIROBI

FACULTY OF ARTS

DEPARTMENT OF SOCIOLOGY AND SOCIAL WORK

**Barriers faced by MSE entrepreneurs in accessing credit/
loans //**

by

MUTUGI/BENSON KANGANGI

C50/P/9016/2006

University of NAIROBI Library



0442245 7

**Research Project in partial fulfilment of the requirements
for Master of Arts in Entrepreneurship Development.**


2008

DECLARATION

I, Mutugi Benson Kangangi, hereby declare that this research project is my original work and has not been presented for a degree in any other University.

Signed.......... Date.....4/12/2008.....
MUTUGI BENSON KANGANGI

This project has been submitted for examination with my approval as University Supervisor:

Signed.......... Date.....05/12/2008.....
DR. KARATU KIEMO

ACKNOWLEDGEMENTS

I want to thank my lecturers from the Department of Sociology and Social Work for broadening my knowledge. A lot of thanks to my supervisor DR.K.Kiemo for his contribution, continuous advice and his availability to read and correct my work.

I would like to thank my dad and mum Mr. & Mrs. Mutugi for their financial support and their continuous encouragement during my study time. I wish to thank East Africa School of Management community for their support during the entire period of study.

I also do not forget my friends. Mwangi Komu, Julie Masese and my brother Moses for their support and understanding during the period of study. My classmates, Arunga, Zawadi, Esther, and Thurania from the Entrepreneurship cluster were also crucial.

DEDICATION

To my parents, who are really entrepreneurs and my mentors.

ABSTRACT

This study focused on barriers faced by MSE entrepreneurs in accessing finance from both formal and informal financial institutions.

The study covers MSE entrepreneurs within the Nairobi CBD and its environs, where a sample of 60 entrepreneurs was used to investigate what hinders them from accessing finance. Their perception, attitude, social demographic factors, types of business and views on financial institution were investigated.

The data were both quantitative and qualitative and were analysed using both descriptive and inferential statistics.

The findings revealed that MSE entrepreneurs do not access finance because of high costs by way of interest rates, and transactional costs incurred in the process of accessing credit. Bureaucracy in the form of stringent terms and conditions set by financial institutions are also a deterrent.

The study recommends that the government and financial institutions should develop products that suit the financial needs of MSE entrepreneurs in Kenya.

ABBREVIATIONS

AMEI	Association of Micro-Finance Institutions
ATM	Automated Teller Machines
CBK	Central Bank of Kenya
CBS	Central Bureau of Statistics
DFI	Development Financial Institution
ECA	Economic Commission of Africa
GoK	Government of Kenya
MSEs	micro and small Enterprises
KIPPRA	Kenya Institute of Public Policy and Research Analysis
K-REP	Kenya Rural Enterprise Programme
NGO	Non-Governmental Organisation
VC	Venture Capital

LIST OF TABLES

	Page
Table 1: Sociodemographic variables in relation to qualification for loan	42
Table 2: Distribution of Business Characteristics and ever qualified for loan	45
Table 3: Distribution of Business Financing and ever qualified for loan	47
Table 4 :Failure of MSE and reasons why entrepreneurs do not go for loan.....	49
Table 5: Percentage Scores on Perception towards borrowing and financial institutions	50
Table 6: Attitude of MSE entrepreneurs towards borrowing.....	52
Table 7: Financial Service Usage among entrepreneurs.....	52

LIST OF FIGURES

	Page
Figure 1: Conceptual framework.....	18
Figure 2: Gender Distribution of Respondents	43

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	iii
DEDICATION	iv
ABBREVIATIONS	vi
LIST OF TABLES	vii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	9
1.3 Research question	9
1.4 Study Objectives	10
1.4.1 Broad Objective	10
1.4.2 The Specific Objectives were;	10
1.5 Justification of the Study	10
1.6 Scope and Limitations of the Study.....	12
CHAPTER TWO	13
2.0 LITERATURE REVIEW	13
2.1 Introduction.....	13
2.2 Characteristics of Small and Micro Enterprises.....	14
2.3 Cost of Obtaining Finance	16
2.4 Bureaucracy Involved when Accessing Finance	20
2.5 Sources of Finance.....	21
2.5.1 Informal Sources of Finance for MSIs	21
2.5.2 Formal Sector of Financing	23
2.5.3 Micro-Finance Institutions.....	24
2.6 NGOs as MSE Development Agencies	26
2.7 Emerging Source of Finance for MSE.....	27
2.7.1 Insurance	27
2.7.2 Venture Capital	27
2.7.3 Invoice Discounting and Factoring.....	29
2.8 Gender and Finance Accessibility	29
2.9 Reference Theories	30
2.9.1 Pecking Order Theory of Financing	30
2.9.2 Rational Choice Theory	32
2.10 Conceptual Framework.....	33
2.11 Operationalisation of Terms	34
2.11.1 Small and Micro Enterprises (MSE).....	34
2.11.2 Entrepreneurship.....	34
2.11.3 Entrepreneurs	34
2.11.4 Venture Capital	35
2.11.5 Financial Structure	35
2.11.6 Microfinance	35

2.11.7 Micro Credit.....	35
2.11.8 Interest Rates.....	36
2.11.9 Non governmental Organisations (NGOs).....	36
CHAPTER THREE	37
3.0 RESEARCH METHODOLOGY.....	37
3.1 Description of the Study Area.....	37
3.2 Research Design.....	37
3.3 Unit of Observation.....	37
3.4 Unit of Analysis.....	38
3.5 Sample and Sampling Design.....	38
3.6 Data Collection.....	39
3.7 Data Analysis and Presentation.....	40
CHAPTER FOUR	41
4.0 DATA ANALYSIS AND RESEARCH FINDINGS.....	41
4.1 Introduction.....	41
4.1.1. Social and demographic factors influence on MSE entrepreneur's decision borrows.	41
4.1.2... Examining whether business characteristics, bureaucracy, and cost involved when accessing finance influence entrepreneurs borrowing decision.	45
4.1.3 Entrepreneurs' Attitude and Perception towards borrowing from financial Institutions.....	50
CHAPTER FIVE	53
5.0 Summary, Conclusions and Recommendations.....	53
5.1 Summary of the key finding.	53
5.2 CONCLUSIONS.....	57
5.3 RECOMMENDATIONS.....	61
5.4 SUGGESTIONS FOR FUTHER STUDY.....	63
REFERENCES.....	64
APPENDIX 1: QUESTIONNAIRE	67

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Micro and Small Enterprises (MSEs) constitute the most vibrant segment of many developing economies, where they help in employment creation and are the seedbed for innovation. They also create competition and flexibility in the market place and therefore promoting the growth and development of the country. In Government of Kenya (GOK) Sessional Paper No. 2 of 1986 and 1997, the government recognizes the importance of the small enterprises sector as a primary means of strengthening Kenya's economy through industrialization and enhancing private sector contribution to national economic growth. Micro-enterprises are generally small business units found in the informal (unregistered) and formal sectors(registered/licensed) and are distinguishable by the fact that they have less than ten (10) employees, while small enterprises employ between 11-50 workers (McCormick, 1992).

In spite of their importance to the economy, MSEs lack sufficient funds to run on. This statement would appear as an invalid premise given the reality on the ground where numerous Micro-Finance Institutions (MFIs) and commercial banks are competing to offer a variety of financial products to MSEs.

All business ventures, regardless of their size, maturity, geographical location and industry sector, require money (capital) in order to initiate, maintain, and/or expand operations. Capital may be acquired via debt or equity financing and may take the form of any number of financial instruments.

Debt instruments in MSEs may include bank term or demand loans, private loans, operating

lines of credit, credit cards, leases, supplier's credit contracts and government-backed loan programs. Equity investments in MSEs are typically reflected through ownership of one or more classes of shares in the venture. These investments may include personal investment by the entrepreneur, private investments (love money) by friends and family, Venture Capital (VC) investment, and in the case of publicly traded companies, public market equity (share traded in stock exchange). In the case of established companies, retained earnings may also be used to re-invest in the venture.

As at December 2006 the banking sector had a total of 575 branches and 617 Automated Teller Machines (ATMs) country-wide, (2006 (CBK). In light of recent moves by mainstream financial institutions towards branch rationalization and consolidation of operations there has been severe decline of access to financial services by the low-income households and MSEs.

Over the last few years the alternative financial institutions such as MFIs, Savings and Credit Cooperative Societies (SACCOs), Development Finance Institution (DFIs), and other informal financial entities including money lenders, shylocks, factoring/discounting houses who buy invoice from their client before their maturity date at a reduced value, merry-go-rounds, Accumulation and Rotating Savings and Credit Associations (ASCAs and ROSCAs) have emerged to fill the void. They provide a wide range of financial services, particularly to the low-income households and MSEs while employing a variety of appropriate methodologies and delivery channels. To date access to financial services outside Nairobi and other main urban areas remains limited.

Improving access to financial services and products for many more Kenyan household and small businesses is critical given that by December 2005 there were only 2,400,459 bank accounts, 666 Automated Teller Machines (ATMs) including 110 and 63 managed *pesa-points*¹ and *Kenswitch*² respectively and 537 branches for a population of adults to estimated to be about 15 million people. The percentage of Kenyans holding bank accounts still remains low by international standards. It is estimated that less than 10 percent of low-income household and MSEs received credit and other financial services from these mainstream financial institutions. (CBK, 2006)

Collateral that financial institutions ask from borrowers puts off many MSE operators (KIPPRA, 2000). Due to their size, they lack fixed assets and tangible property to guarantee their loans. Restriction of collateral to specific assets like land, vehicles and guarantors excludes MSE entrepreneurs from this source of financing (EAC, 2001)

Bureaucracy involved when accessing finance creates a very negative perception towards financial institution. Most requirements demanded by financial institutions discourage many borrowers. Such requirements include a number of guarantors, financial statements for at least six months and a proposal showing how money will be used and paid back. Many Kenyan entrepreneurs lack knowledge of preparing business proposals and plans to meet the standards of the financial institutions from which they seek to borrow. Bookkeeping is also a problem to MSE entrepreneurs as they do not know how to prepare their books which financial institutions often use to gauge the financial capabilities and position of these ventures (Odhiambo, 2008)

¹ Pesa-points-these are automated machine(ATM) that are owned by private a firm and work in conjunction with commercial banks in dispatching cash to clients with visa electronic ATM cards at fee. They are strategically located within major town

² Kenswitch- privately runs ATMs in much the same way as pesa-point

Financial services to MSEs have turned rigid especially in areas of credit rating and lending appraisals. Credit rating is not meant to frustrate customers, but should enable one to open their eyes to know the amount to borrow and how to pay it back. Credit rating is a financial tool that enables financial institutions to know the borrowing history and his capability to repay fully and timely his financial debts. Despite its usefulness many borrowers feel that this is giving too much information about their business (Odhiambo, 2008).

The Pecking Order Theory of Financing states that organizations prefer using internal sources of financing where they do not give their business information to outsiders, followed by equity if they are unable to finance their business internally or through debt. The theory assumes that borrowers follow this order of preference starting with internal funds then debts and lastly equity. MSE operators often opt for the source that does not expose the organisation to more scrutiny and does not involve giving more information to outsiders (Meyer, 2002).

MSE entrepreneurs have a negative attitude towards borrowing from financial institutions in Kenya either due to past bad experiences or negative information. Cases of default and closure of some financial institutions in the past years discourage borrowing (KIPPRA, 2000).

The Rational Choice Theory supports the behaviour that is exhibited by MSE operators when accessing finance. They avoid the formal finance providers, who provide a service which is perceived to be more risky and unfriendly. Instead, they opt for informal finance providers who are perceived to be friendlier or they avoid credit at all costs since they perceive credit as

a risky way of financing. Rational Choice Theory explains why human beings have a tendency of avoiding activities that expose them to negative experiences and opt for the ones that give them pleasure, positive results and are perceived to be less risky. Therefore, MSEs opt to go to informal sector or shun credit to avoid scrutiny by outsiders. Before they go for finance they make a well calculated moves based on the knowledge at hand and past experience on financial institution.

The locality of many small enterprises affects their credit-worthiness as they tend to be located in temporary areas that have scanty infrastructure facilities. In Nairobi, popular sites tend to be poorer and undeveloped areas of the city and low incomes residential areas such as Gikomba, Kariobangi, Mathare, Muthurwa etc. Such structures within the city are very temporary stalls made of wood and cardboards etc. These entrepreneurial sheds are prone to dust, rain, fire, theft and other forms of insecurity. The lack of infrastructural facilities and security of tenure to the premises makes growth of these enterprises difficult since there is a lot of uncertainty among financial institutions and other money lenders.

Women make up 46% of the MSE entrepreneurs. In aggregate, women-owned enterprises generate 26% fewer jobs per year than do men-owned enterprises. Women entrepreneurs have different credit use patterns than do men, using less start up capital and little formal credit relying instead on informal credit. Similarly, women are more likely to join savings group as a means of financing their enterprises. Women run businesses are more likely to rely on unpaid and unskilled workers and are more likely to work from their homes (Parkers and Torres, 1994).

The Muslim community in Kenya is locked out in accessing funding from the available financial institutions because the faith does not allow them to seek loans from financial institutions that charge interest. The funds provided by the Government for youth and women are disbursed through the financial institutions which exclude Muslims on bases of their religion (Suda, 2008).

Only 19% of Kenyans are banked and thus have formal access to financial services through commercial banks, building societies and Post Bank. SACCOs serve an additional 8% of the population. While 35% depend primarily on informal financial services such as ROSCAs & ASCAs, informal money lenders, shylocks, merry-go-rounds, employers, NGOs, friends and family. Therefore 38% of Kenyans are financially excluded that is they have no access to financial services and are classified as *unbanked* reporting no usage of either formal or informal products. It is revealed that access to financial services varies across the country and is highest in Nairobi, which has the greatest number of bank branches (194 out of 575) by June 2007 (CBK, Supervision Annual Report, 2007).

There is a misconception among Kenyan entrepreneurs and financial service providers that “financing means credit”. Every entrepreneur seeking support to either start or expand their business thinks in terms of borrowing and virtually every other financial institution targeting MSEs has lending out cash and getting it back at a premium as their objective. Due to this misconception, most financial institutions have set up elaborate structures for lending to MSEs, to the extent that even when their personnel visit an MSE to assess its financial needs, they end up interpreting the need not on its own merit, but on the basis of the various lending products that their institution sells. That’s why loan officers disqualify most of the client because their business requirement does not qualify for the set product.

Business financing is a rather wide concept and comes with legion of option ranging from basic lending to invoice discounting/factoring, local purchase order (LPO) financing, venture capital, insurance, owner's capital, employee pension-fund, bank overdrafts hedge, trust fund and much more. However, it is the unfortunate lack of understanding of the specific financial need that an entrepreneur wishes to fulfil, coupled with lack of awareness of the many affordable alternatives available that has been a major constraint to matching demand and supply of financial products to MSEs (Kashanguki, 2008).

The main obstacle for MSEs is capital and the Kenyan Government, NGOs, Donors, MFIs, commercial banks and other stakeholders have tried to make capital available to MSEs. The Government has set aside some funds such as the Women Enterprise Fund with an allocation of Kshs one billion in the 2007/2008 budget, and the Youth Enterprise Fund with a similar allocation which was later increased to Kshs. 1.8 billion. These funds were aimed at: Providing loans to existing (MFIs) registered NGOs involved in micro financing and SACCOs, for lending to MSEs; Attracting and facilitating investment in micro, small and medium enterprises oriented commercial infrastructure such as business or industrial parks, market or business incubators that would be beneficial to youth and women; Facilitating employment; and Supporting youth and women oriented micro, small and medium enterprises.

These funds are distributed through constituency offices, micro finance and commercial banks that share the government's vision. Despite the effort to facilitate youth and women's access to capital, it has proved to be difficult, due to low up take of the funds by Kenyan entrepreneurs (Ministry Gender and culture, 2007).

The Economic Commission for Africa (ECA), (2001) noted the following challenges related to financing of MSEs in Africa: Mortgage firms and financial institutions inadequacy to support MSEs as their products are not tailored to meet the financial needs of the small enterprise. High interest rates, high collateral requirements and restriction of collateral to specific assets. Lack of effective coordination mechanisms to centralise information on possible source of finance. Misuse of government sources: financial assistance from government can be misused to target certain sectors of society that are not supposed to benefit from such schemes; and Concentration of finance sources in urban areas.

It may be that the government lacks an in-house capacity to facilitate an effective win-win partnership with financial institutions and friendly local banks that share their mission and vision to develop MSE related products. Lack of innovative entrepreneurs, lack of business education, and cost of obtaining capital, lack of entrepreneurial culture could also be contributing to why entrepreneurs are not going for credit and loans.

Bureaucracy involved when accessing finance, attitude perception towards credits and banks, type of business, location of business, lack of awareness, age, gender and religious factors are also factors at play. The main question is, could these factors be the reason why MSEs Entrepreneurs are shying away from obtaining funds that are readily available in financial institutions and from other money lenders?

1.2 Statement of the Problem

This study was motivated by the persistent inaccessibility of financial services experienced by interventions aimed at arresting the problem. Its main purpose was to identify the constraints that limit access to finance among MSEs Entrepreneurs.

Despite all the available financial institutions, the uptake of finance among the MSEs entrepreneur is still low. Fewer entrepreneurs understand their real financial needs and where to seek appropriate solutions and financial services providers in the market do not understand the real needs of MSEs and how to solve them appropriately. The study set to explore where the missing link in MSE financing could be. At what point do the financiers and MSEs Part ways or start working at cross purposes?

1.3 Research question

Why do MSE entrepreneurs shy away from getting credit/loan from available financial institution?

2

1.4 Study Objectives

1.4.1 Broad Objective

To establish factors that restrict MSE entrepreneurs when accessing finance from the available financial institutions.

1.4.2 The Specific Objectives were;

- 1) To establish the social and demographic influence on MSE entrepreneurs' decision to borrow money.
- 2) To examine the businesses characteristics and institutional factors involved when accessing finance affect MSE entrepreneurs borrowing decision.
- 3) To examine the MSE entrepreneurs, attitude and perception towards borrowing (credit) from financial institution available.

1.5 Justification of the Study

Interest in the role of MSEs in the development process continues to be in the forefront of policy debates in developing countries. The advantages claimed for MSEs are various, including: the encouragement of entrepreneurship; the greater likelihood that MSEs will utilize labour intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; MSE development can encourage the process of both inter- and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises. More generally the development of MSEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation.

Resources of business organizations comprise of finances, human capital, equipment and material used in the production of goods and services. Processes include location, design layout and installation of equipments, sourcing of raw materials, management of human resources production and distribution logistics. The processes are interrelated, they are preformed to produce a product or services and get it to the intended consumer.

Finance used in business processes constitutes capital and working capital expenditure. According to Parkers (1993), MSEs require business finance for payment of services license fees, working capital requirements for example buying stock, repair and maintenance and raw material and as business capital both initial capital to start up and initial capital injected into the business. If MSE financing is well managed and lenders understand the MSEs, and MSEs understand the lender, a mutual relationship will be developed that will see this country move from cottage industries to full fledged commercial entities.

1.6 Scope and Limitations of the Study.

The study establishes the influence of social and demographic factor such as age, gender, marital status ,religion and education level of entrepreneurs' within the Nairobi CBD on their decision to borrow money from the institution to borrow from the institutions available. The study also examines whether institutional barriers such as requirement by financial institution and bureaucracy, convenience in serving their clients influence MSE entrepreneurs decision to borrow loan/credit from financial institutions. Psychographics factors such as MSE entrepreneur's perception to towards financial institution in terms of risk, efficiency and cost are examined to know whether borrowing decision. Attitudes of MSE entrepreneurs towards financial institution and credit or loan are examined.

The generalisability of the study is limited to MSEs within the Nairobi CBD and their financing aspect. This is because the study sample and area were purposively selected.

CHAPTER TWO

2.0 LITERATURE REVIEW

This section sets to review relevant literature in the area of MSEs Financing among entrepreneurs. This section reviews social theories that try to explain entrepreneurs' behaviours when borrowing. This section also reviews other related literature on sources of finance, formal and informal and emerging sources of financing.

2.1 Introduction

MSE industry financing has been a major challenge to credit institutions and policy makers. A number of credit programs have been developed to enable effective credit provision to MSE operators. While some progress has been made, credit programs are still unable to reach a large percentage of MSE traders and industrialists seeking financial support (Gichira et al, 1989).

It was not until 1989 that a few commercial banks began to show interest in MSE financing. These included the Barclays Bank of Kenya, Kenya Commercial Bank and Standard Chartered Bank. The move towards lending was accompanied by demands for the reduction of government borrowing, lower deposit ratios to the Central Bank, interest rate decontrol and other monetary liberalisation measures.

Today, there are many institutions ready to finance MSEs in Kenya. They range from formal institutions (banks, insurance, building societies, micro-finance, SACCOs), informal institutions (shylocks, money lenders, merry-go-round), non-governmental organisations amongst others.

This section reviews literature and theories which are related to MSEs financing and the constraints faced by MSE entrepreneurs when accessing finance.

2.2 Characteristics of Small and Micro Enterprises

In Kenya, Micro and Small Enterprises (MSEs) are defined as those employing not more than 50 employees. According to the Gemini MSEs survey (Parker and Torres, 14), enterprises with more than 50 workers play an insignificant role in job creation. Indeed, this population is non-existent outside of commercial and industrial areas. Enterprises with 11 to 50 workers also play a minor role comprising only 1% of enterprise nationally. It is the enterprises with 1 to 10 workers that make up 99% of the enterprise population.

The MSE sector includes the micro self-employment endeavours and small enterprises that are remarkably dynamic operating a vast array of activities from both rural and urban locations. The 1993 survey estimated that there were more than 200,000 enterprises, employing 2 million people. By 1996, the sector's employment, excluding those engaged in small scale farming activities, had increased to 2.24 million people. Given that 99% of enterprises have fewer than 10 workers, graduation of these enterprises into medium enterprises with more than 50 workers would take a very long time.

Enterprises starting in the 3 – 5 workers' category use markedly more start-up capital than smaller enterprises, suggesting that they start with more business assets than simply their labour, whether it is land, material or equipment. Although two-thirds of these enterprises remain in the 3 – 5 worker category, a sizeable percentage of the remaining one-third grows into 6 – 10 or 11 – 50 worker enterprises.

Women make up to 46% of Kenyan MSE entrepreneurs and 40% of the sector's total employment. Women's enterprises start smaller, grow slower, and smaller than do men's enterprises with two-thirds remaining 1 worker concerns. In aggregate, women-owned enterprises generate 26% fewer jobs per year than do men-owned.

Women entrepreneurs have different credit-use patterns than do men, using less start-up capital and little formal credit relying instead on informal credit. Similarly, women are more likely to join savings groups as a means of financing their enterprises. Women-run businesses are more likely to rely on unpaid and unskilled workers and are more likely to work from their homes.

This study considers several key points that are used when developing strategies. First strategies should focus on assisting enterprises within the MSEs sector, rather than on assisting larger enterprises; second, any strategy that can reach this sector can also reach rural businesses and home based enterprises. (Parker and Torres, 1994).

This sector has some specific characteristics that make it very different from the other business or the economy at large. Due to the low capital requirement, and the informal nature of enterprises in the sector, it is very easy to enter and leave this market. There are hardly any economies of scale that can place one enterprise above the other in terms of cost saving measures (CBS & K-REP 1999).

The sector is mainly focused on small-scale activities. Most entrepreneurs are the owners of the business with a large proportion of family members forming the work force. The businesses are highly labour intensive and there is often little technological equipment and skill to run the businesses. The informal nature of the sector has contributed to the limited

access to organised markets, formal credit, education and training for both the employers and employed and social amenities like water and electricity (CBS, ACEG & K-REP, 1999).

2.3 Cost of Obtaining Finance

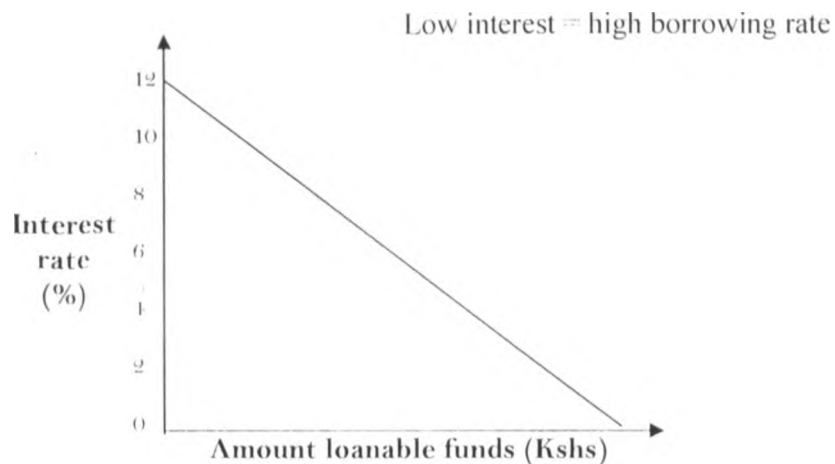
Micro entrepreneurs face several different levels of cost when they apply and receive a loan. This effective interest rate of each loan, which includes the interest cost as well as all commission and fee paid to the lending institutions, represent the financial cost of the loan to the borrower. The financial cost of loans to micro entrepreneurs especially the portion determined by the nominal interest rates is often considered most critical borrowing cost for the poor entrepreneurs. According to Castrello et al (1991), low effective interest rate can be more expensive for borrowers than loans with high rates because of transaction and opportunity costs. These transaction costs include bus fare to the financial institution, fee paid to proposal writer, accountant to prepare financial statement, cost of obtaining documents required to guarantee the loan, time spent by the borrower collecting information and documentation. All these are paid by the borrower not the lender.

Castrello et al (1991), also showed that financial costs, though often considered being the most burdensome for micro entrepreneurs are actually a small percentage of their total cost. The other borrowing costs that affect the entrepreneur include the transaction cost opportunity or accessibility costs. The transaction cost in the formal bank lending include (a) *valuation fee* if the collateral for the loan are not shares quoted in the stock exchange;(b) *appraisal fee* for the bank to appraise the loan proposal;(c) *renewal fee* paid when loan is disbursed and annually thereafter based on the loan outstanding (d) *legal fees*;(f) *discharge fee* after full repayment of the loan. Based on the charges currently levied by the major banks, the transaction cost (excluding interest) is very high.

Delay by fund providers to provide micro-entrepreneurs with finances on time often makes entrepreneurs to lose opportunities to purchase input or equipment under favourable conditions or lose important control. Taken together, all the three costs (financial, transaction and opportunity) make up the total borrowing cost that micro-entrepreneurs pay for loans.

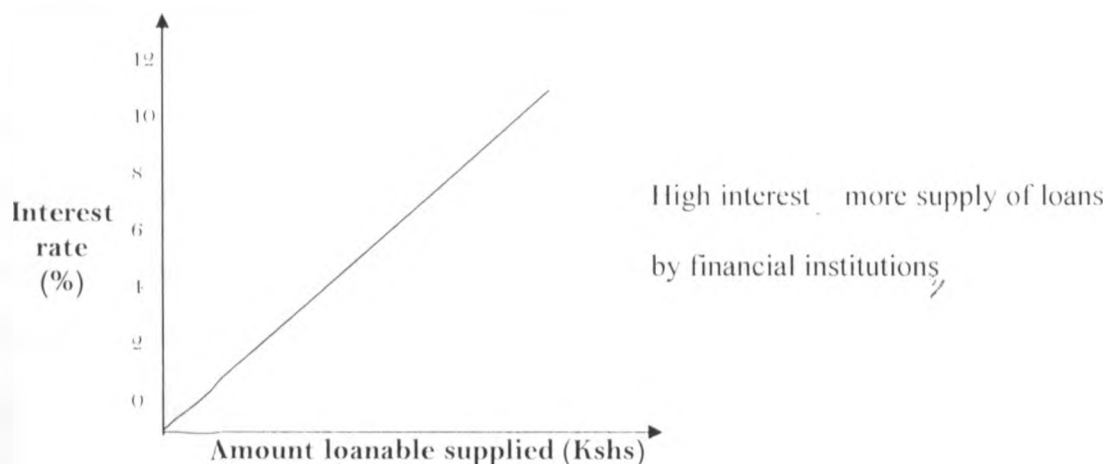
The Economic Commission of Africa (2001) revealed that administrative cost and risk of lending to MSEs are significantly higher than those associated with their regular, larger scale customers. The commission also noted that many financial institutions concentrate in providing working as opposed to fixed capital to MSEs. The Commission noted that the interest rate charged to MSEs is high enough to cover all the operating cost. As these features resemble those of informal credit institutions, it would appear that the closer formal lending institutions could imitate the practices of informal trader the greater the likelihood that they will be successful in making loans to small-scale firms.

The demand for loanable funds (money borrowed), that is, the willingness to borrow money is relatively related to the interest rates. This is, the lower the interest rate charged on borrowed money, the more money people are willing to borrow. Amount of money that firms are willing to borrow depends on expectations of interest rates. This can be illustrated by the graph below:



The supply of loanable funds is sensitive to the interest rates. The quantity of loanable funds increases when interest rates fall.

After all bankers are in business to make Money and higher interest does a better job in that respect than a low interest. The figure below illustrates this:



Until the early 1970s, it was generally believed that low interest rates on bank loans and deposits would promote investment spending and growth – a notion consistent with the Keynesian and neoclassical analyses where interest rate is part of the cost of capital (Keynes, 1936; Jorgenson, 1967). This prompted many countries to impose interest rate ceilings at

below market-clearing levels. McKinnon (1973) and Shaw (1973) challenged this conventional wisdom.

They argued that raising interest rates (to market-clearing level) increase the amount people are willing to hold as financial assets by decreasing the holdings of foreign assets and non-financial assets such as cash, gold, commodities, land, etc. Thereby, the domestic financial system is able to extend more loans to the investors and hence the equilibrium rate of investment increases.

This is further enhanced if the cost of intermediation by banks were kept low by having a competitive banking structure and minimum taxation on financial intermediation. Thus, McKinnon and Shaw argued in favour of "financial liberalization". Following the work of McKinnon and Shaw, many countries have undertaken financial liberalization. The outcome of these reforms has been mixed. While financial liberalization produced improved economic performance in some countries, it also led to financial distress and crisis in many others. The "neo-structuralism" economists argued that higher bank interest rates lead to higher bank deposits simply due to the transfer of funds away from alternative asset holdings such as the informal credit markets (Edwards, 1973) or share markets. They also argued that some of these, such as the informal credit markets, might be more efficient means of financing investment since these are unregulated and do not need to hold reserves (as banks do). Thus according to the neo-structuralists, raising interest rates on bank deposits would decrease, rather than increase, the investment rate in the economy.

However, (Kapur, 1992) have shown that the argument about the greater efficiency of the informal sector due to the lack of a formal reserve requirement is not valid if the central bank makes proper use of the banks' reserves, thereby ensuring that the reserves do not have a

social cost. This implies that as long as a part of the additional assets come to the banking sector from non-financial (McKinnon-Shaw) and/or foreign assets, raising bank interest rates would be desirable.

2.4 Bureaucracy Involved when Accessing Finance

The financial structure of any economy refers to the mixture of financial market and institutions operating in it. In Kenya as financial sector develops, greater institutional diversity is expected together with diversification of the service offered. Although Kenya's financial sector can be described as being relatively diversified in terms of the number of financial institutions, banking services continue to dominate the sector (Ndungu and Ngugi, 2000). There has been little activity between MSEs and banks in terms of financing and in their study on small scale manufacturers, Gray et al (1997) found that approximately 92% of MSEs Elect not to approach the formal institutions for funds or had applied and were rejected. Some banks have limited branch networks in the areas where majority of MSEs operate.

Taylor (1988) argues that financial liberalization will not result in more funds for borrowing being available. As interest rates rise funds available will be diverted out of the informal sector to the formal sector. An increased share of borrowing will take place in the formal financial sector but the total available funds between the two sectors will remain unchanged. The net result in a macro sense means there will be no new borrowing and this contradicts the McKinnon-Shaw hypothesis that argues that financial liberalization, by increasing interest rates, leads to higher savings, investment and growth. Unfortunately, the desired effects have not always materialized in the way that policy prescriptions envisaged. As Steel (1994) highlights, high transactions costs and risks associated with small loans, a lack of collateral

and an historical orientation towards larger enterprises, continue to restrict small scale enterprise access to formal credit.

2.5 Sources of Finance

2.5.1 Informal Sources of Finance for MSEs

The oldest known sources of informal credit are the traditional moneylender, commonly known as *shylocks*, which are often reviled for charging usurious interest rates. In the Old Testament, the law of Moses (Deuteronomy 23:19-20) only allowed charging usury¹ on the Gentiles, which has been dubbed as *tribal brotherhood and universal other hood*. The Law of Moses also commanded cancellation of debt every seventh year, except that owed by foreigners (Deuteronomy, 15:1-3). In Kenya, laws relating to informal credit, namely, the Money Lenders Act, Chapter 22 of the Laws of Kenya, contain limitation on recovery of civil debt, which appears to have been modelled on Mosaic Law on debt cancellation. The high interest rate charged by informal money lender s are due to (a) high risk of default,(b)high cost of screening potential borrowers and pursuing of delinquent loans.(Mukui, et al.1994)

Informal financial markets are largely characterised by financial transactions and activities that are not regulated by the Central Bank, unlike formal institutions such transaction rarely use legal documentation or legal system to enforce contents. Informal financial market agent specialises in either the credit on the savings side of the market. Organisations that are registered under non-financial legislation, for example as Cooperative business or Non-governmental organisations (NGOs) are sometimes referred to as "semi-formal". Dolz, (1992) found several informal sources of finance that are a reflection of Kenya and Africa as a whole.

¹ Usury is commonly interpreted as exorbitant or unlawful interest for money loaned. In the biblical sense it is the taking of any interest at all

Informal finance is a reaction to policy distortion or financial repression. Since the informal financial sector is not subject to regulation, it is more efficient than the formal one. The remedy for this relative inefficiency of the formal credit market may be seen in financial liberalization to those that find the formal financial market inaccessible. While it is costly for formal institutions to acquire information; informal agents can utilize local personal information, resulting in monopoly power. It is well known that a weak legal system inhibits contract enforcement that results in credit rationing of potential borrowers without collateral. Informal agent can fill such segments and collateral can be replaced by reputation, group responsibility and inter-linked transactions, (Isakson, 2002).

Informal financial markets thrive on personal relationships between the lender and borrowers and no matter how desperate the situation is, a borrower is always assured of getting finance from these markets. They meet needs of the large poor population. Borrowers from these markets often need small and short-term loans. These are services almost non-existent in the formal sector.

2.5.2 Formal Sector of Financing

Kenya has a diversified financial system, comprising a central bank, commercial banks, building societies, hire purchase companies, development financial institution, financial cooperatives, insurance companies, Nairobi Stock Exchange and stock brokerage firms and also micro-financial institutions.

Despite this range of financial institutions, financing of MSEs in Kenya is low. The structure of Kenya's financial market is characterized by a few strong and dominant institutions in each sub-sector (commercial banking, non-banking financial institutions, insurance and building societies, etc) surrounded by many smaller and financially unstable firms. Many of these weak institutions were formed in the late 1970s and the early 1980s. They were established largely because of low entry barriers and high liquidity in the economy arising out of 1976-8 coffee booms.

The new institutions increased competition and used new and innovative approach in attracting deposits and in lending. They were largely successful in this. These achievements however, were not without cost. On average, the new institutions were poorly managed, invested in riskier assets and liabilities maturity structure and operated within lower margins than the traditional institutions.

When the government instituted a credit squeeze in 1985-6 the fragile nature of these institutions was exposed. This led to collapse of some financial institutions and withdrawal of other new institutions. The government's response to this crisis was to strengthen the regulatory framework. Some of the key reforms introduced were:

- (a) A Deposit Protection Fund to cover deposits up to Kshs.100, 000;
- (b) An increase in the minimum paid-up capital from Kshs.2 million to Kshs.15 million and Kshs.150 million for locally and foreign incorporated banks respectively;
- (c) Limiting deposit mobilization capacity of any deposit-taking institution to a maximum of 13 ½ times of paid up capital and unimpaired reserves;
- (d) Mandatory provision for bad and doubtful debts to be made annually before appropriating for the year's profit;
- (e) Restriction of the shareholding of an individual to no more than 25% of equity capital;
- (f) Making it mandatory for every loan to be adequately covered by collateral and where collateral cover is inadequate making the directors of institutions personally liable for any bad debts arising from the loan.

The above regulations have the potential of reducing lending to MSEs or making any such lending more expensive than it would otherwise be (Mwarania, 1993, pp 214 – 229)

2.5.3 Micro-Finance Institutions

Development of the micro-finance industry traces back into the late 1970s and early 1980s when organizations registered under the NGO Act were formed. The mission of these organizations was to provide financial services particularly credit to MSEs with development potential that had hitherto been constrained by the inaccessibility of credit from the formal banking sector (Aleke & Dondo, 1990).

Micro-finance in Kenya has experienced considerable transformation over the past twenty years growing from fledgling industry dominated by a few donor agencies based NGOs to a

vibrant sector increasingly by commercialization. Micro-finance institutions are now recognized as legitimate producers of financial services and as the key to unlocking economic growth for entrepreneurs and poor families, especially in rural areas unarguably the most innovative and promising initiative to increasing access to financial services for impoverished and ordinary Kenyans. The Central Bank anticipates this trend to expand as institutions are licensed to intermediate deposits into new financial avenues (Central Bank of Kenya Report, 2006).

A significant step in the development of microfinance industry in Kenya is the enactment of the Microfinance Act in December 2006. The Act has been introduced to enhance the performance of this sector by putting in place the necessary laws and regulatory framework for the establishment, licensing and supervision of deposit-taking micro-finance institutions focused on providing services and products focused on low income household and enterprises. The Act envisages two tiers of micro-finance institutions i.e. nationwide micro-finance institutions whose minimum core capital is prescribed at Kshs.60 million and community micro-finance institutions with a minimum core capital of Kshs.20 million (Central Bank of Kenya Report, 2006).

The Association of Micro-Finance Institutions (AMFI) has the following mission:

- i) Develop the micro-finance industry in Kenya and facilitate the development of its members institutions;
- ii) Promote micro-finance systems and approaches which are to be followed and understood by practitioners, the government and donors;
- iii) Facilitate the institutionalization of micro-finance projects and programmers;
- iv) Provide members with access to information and expertise that increases their knowledge;
- v) Provide a forum for the exchange of ideas (KIPPRRA Report, 2001)

2.6 NGOs as MSE Development Agencies

NGOs are defined as a “private grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally for the promotion of social welfare, development, charity or research through mobilization of resources. The NGO Act under Section 3 (1) has established an NGO Coordination Board. Its functions are:

- To coordinate the NGO work, maintain a register to review the annual report and advise the government on the role and activities of the NGOs;
- To conduct regular review of the register to determine the consistency with the report submitted by the NGOs;
- To provide policy guidelines to NGO for harmonizing activities with the national development plan of Kenya;
- To approve the code of conduct prepared by the Council of NGOs for self regulation of the organization and the activities;

NGOs are registered and issued a certificate to allow them operate in Kenya. It is the perceived ability of NGOs to reach the most disadvantaged section of society that has attracted most interest, particularly from donors. NGOs differ from government agencies in that they have much clearer focus on the informal sector.

A lot of donor funds have been channelled towards development of MSEs through NGOs who have enjoyed a lot of support from both donors and the government because of their perceived effectiveness of working with targeted groups especially disadvantaged ones. Reasons that have been advanced in favour of NGOs as development agents include flexibility and responsiveness to target group needs, innovation, creativity and willingness to

experiment in ways that government agencies are unable to do with standardized “blue-print plan” project and they are much better positioned to mobilise popular participation as they operate close to their target groups.(Harvens,1999).

2.7 Emerging Source of Finance for MSE

2.7.1. Insurance

It is ironical that most people think of insurance only when things go wrong. Though local insurance companies hardly ever pay a significant role advancing capital to business people as start –up or for expansion purposes.

Insurance has an indispensable role in ensuring financial stability of business, both in small and large. The level of insurance punctuation in the local Market is still pitiable standing out about 2.6 percent of the GDP, further underscoring the nature of the Kenya Insurance Industry .Insurance can be a good source of finance only that many Kenyans do not have a lot confidence with Insurance Companies because of experience of the 1980's and early 90's when insurance companies had undesirable reputation of giving cover in right times ,only to invoke a hidden clause that would see them leave you out in cold when you need their help.(kuria,2008)

2.7.2. Venture Capital

This is the fund that provides start-up (seed money) capital to business ventures, in their growth stage and expansion fund to rapidly growing ventures. Venture capital markets are not developed in our Kenyan market of sources of finance. There are two primary types of venture capital firms. The first category operates on for-profit platform, while the second

demand no profit, but seek social returns on their investment. Examples of for-profit capital firms operating within East Africa are TBL mirror fund, Business Partners International (BPI), and Grofin, while Acumen fund, Root Capital and E & Co. Capital represent players in the non-profit category.

Typically, there are three ways that venture capital firms structure their investments: debts, equity, and combination of debt and equity. Debt investments are traditionally loans over a pre-determined period of time at a given interest rate (usually below or at par with bank lending rates). Equity investment, on the other hand, is usually to a company in exchange for a proportion of company in exchange for a proportion of company's ownership (shareholding) by the venture capital firm. Thirdly, the venture capital firm may lend the company, say Kshs.20 million in exchange of 20% shareholding in the company. In addition, the capital firm could extend a loan of Kshs. 35 million to the same company, raising the total capital to Kshs. 55 million.

Venture capital is a great source of funding for MSE that are not established enough to obtain funding from commercial banks. It can also be a viable option for MSE that require capital in addition to the loan required from the bank.

This form of funding can also serve as bridge financing for MSE that hopes to obtain funding from a bank in the future. Although venture capital funding is not suited for all business it is definitely an alternative to bank loan for business or start-up whose operation meets the investment criteria of venture capital firm.

2.7.3 Invoice Discounting and Factoring

Obora, (2008) a financial manager, who have been running a pilot programme for the last four years being it on the concept of invoices factoring and discounting. She argues that MSE who regularly supplies goods to a supermarket need to strike some delicate balance in their cash flow to afford the required supplies while they waits for delivery, they still need more cash to deliver else where, and to meet their other financial obligations .However many are the times when waiting for such payment takes longer than initially anticipated, leading to delay in delivering goods to other clients, outright cancellation of orders and severe cash closure of business. In a sense of invoice factoring it bridges the gap between invoices maturity and payments

The invoice factoring process has four steps: First, the buyer receives the invoice from the customer; second, he assigns another invoice to the factoring house, which ascertains that the goods were actually delivered. Third, it is at this stage that funds are disbursed a process that takes at least 48 hours. The final stage is meant for the factory house to collect payment for the invoice from the buyer. Factoring house faces challenges by lacking legal frame work that backs it and it's difficult to run a factoring house without a legal framework because banking and micro finance act do not cover factoring. In developing country factoring is doing well in support of MSE's and Obora believes they can do the same in Kenya.

2.8 Gender and Finance Accessibility

Njoroge, (2008) in an article in Business Daily Kenya noted that Gender and Children affairs ministry might have returned to the Treasury Kshs.680 million 68% of Kshs.1 billion set aside in the 2007/8 budgets for the Women Enterprise Fund.

The main reason the funds are lying idle is that the target group is not applying for the loans. The establishment of the Fund and earlier on the Youth Enterprise Fund was an innovative development approach by the government to reach the lower and ignite synergies that would enhance entrepreneurship in the country. The underlying principle of this Fund was to establish a revolving loan fund and subsequently reduce poverty through socio-economic empowerment. This Fund is to be delivered through financial intermediaries, micro finance institutions and banks with a track record of serving this target group. The Fund was also to be disbursed through women enterprise committees.

The study highlighted these as possible causes: ministry's failure to market the fund well; problem of project design or lack of entrepreneurship culture among Kenyan women or the result of the financial intermediaries' ability to fully serve their needs.

2.9 Reference Theories

2.9.1 Pecking Order Theory of Financing

Pecking order theory of capital structure states that firms have a preferred hierarchy for financing decisions. The highest preference is to use internal financing (retained earnings) before going for any form of external funds; If a firm must use external funds, the preference is to use the following order of financing sources: debt convertible securities, preferred stock, and common stock. (Myers, 1984).

This order reflects the motivations of the financial manager to retain control of the firm by using the internal funds where they are able to maintain their business secrets and retain control of their business. This theory suggests that management follows a preference ordering when it comes to financing. Internal financing of investment is preferred because it avoids

scrutiny from outside but when it is inadequate, management source for funds from external sources following this order of preference. The argument ,if entrepreneur go for external finances from financial institution both formal or informal they have to give information about their business, financial status of their business, and capability to repay back the loan. Many entrepreneur fill that by giving this information to money lenders is giving too much information to strangers and their for give the first preference to internal source and go for external sources when there is no otherwise The pecking order theory is mainly a behavioural explanation of why certain companies finance the way they do.(Hawawini & viallet 1999)

2.9.2 Rational Choice Theory

A pioneering figure in establishing rational choice theory in sociology was George Homans (1961), who set out a basic framework of exchange theory, which he grounded in assumptions drawn from behaviourists' psychology. It revolve around the idea that all action are fundamentally "rational" in character and that people calculate the likely costs and benefits of any action before deciding what to do. Where economic theories have been concerned with the way in which the production, distribution and consumption of goods and services is organized through money and the market mechanism, rational choice theorist have argued that the same general principles can be used to understand interactions in which such resources as time, information, approval and prestige are involved. In rational choice theories, individuals are seen as motivated by the wants or goals that express their "preference".

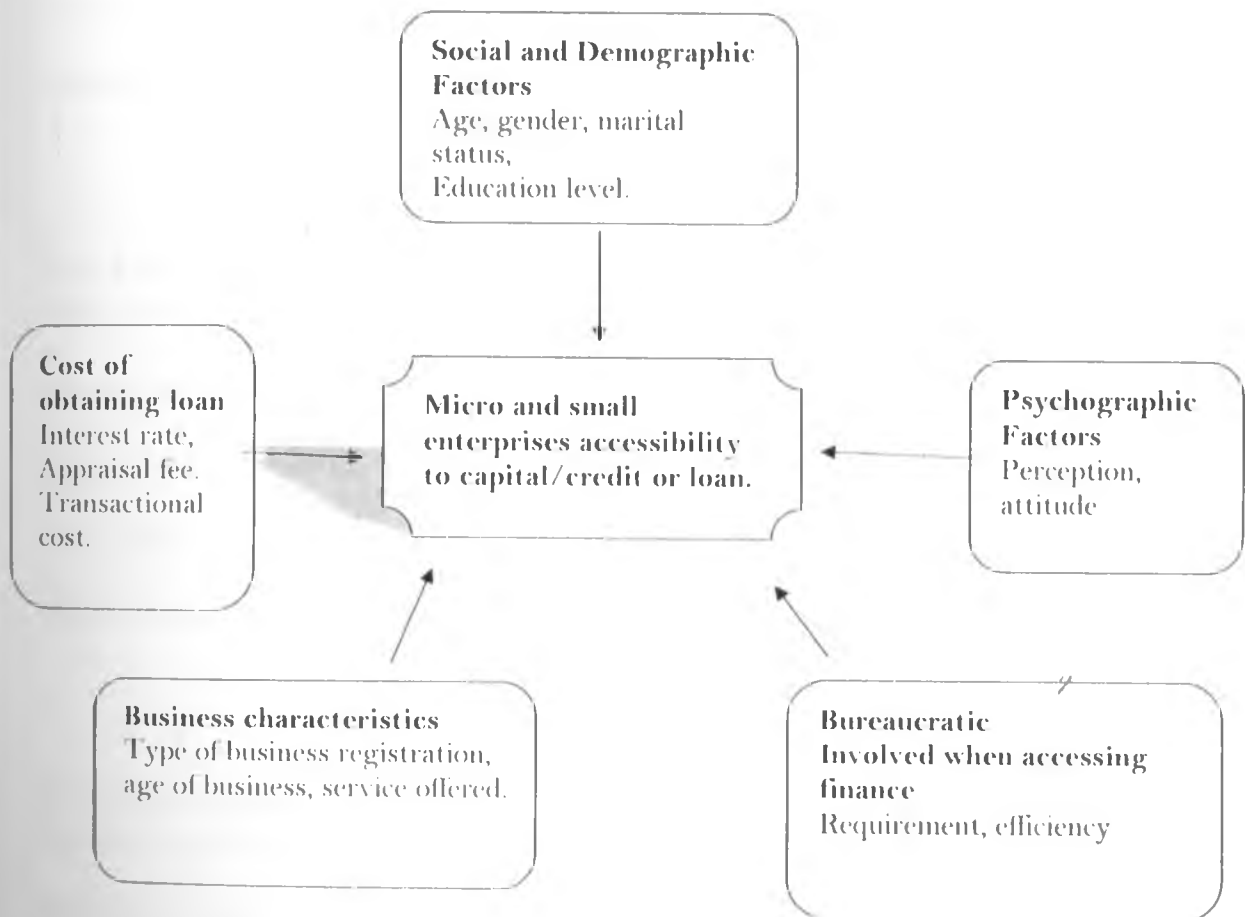
They act within specific, given constraints and on the basis of the information that they have about the conditions under which they are acting. At its simplest, the relationship between preferences and constraints can be seen in the purely technical terms of the relationship of means to an end. As it is not possible for individuals to achieve all of various things they want, they must also make choices in relation to both their goals and the means for attaining these goals. Rational choice theories hold that individuals must anticipate the outcomes of alternative courses of action and calculate that which will be best for them. Rational individuals choose the alternative that is likely to give them the satisfaction (Heath, 1976:3, Carling 1992:27; Coleman 1973.)

The idea of rational action has generally been taken to imply a conscious social actor engaging in deliberate calculative strategies. Human behaviours are shaped by the reward and punishments that are encountered

2.10 Conceptual Framework

This conceptual framework is used to explain the factors that the study was motivated to establish whether they influence the accessibility of loan /credit among MSE entrepreneurs. The arrows used suggest that the factors have influence on the MSE accessibility to capital/credit.

Figure 1 Conceptual Framework



2.11 Operationalisation of Terms

2.11.1 Small and Micro Enterprises (MSE)

Micro enterprises are generally small business units found both in the informal and formal sector and distinguishable by among other things, the fact that they usually have less than ten (10) employees. Business enterprise or firm will be used interchangeably to refer to an economic unit producing goods or providing services for example, kiosks, salon, shops, and stall operators, and exhibition owners among others.

2.11.2 Entrepreneurship

This is the process of creating incremental wealth. This wealth is created by individual who assumes the major risk in terms of equity, time and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources;

2.11.3 Entrepreneurs

Wealth of Nations described an entrepreneur as an individual who undertakes the formation of an organisation for commercial purposes (Adam Smith, 1776). Schumpeter describes an entrepreneur as the person who gathers resources, organises talent and provides leadership to make it a commercial success. In this study, an entrepreneur refers to the MSEs Entrepreneurs who have started small business ventures.

2.11.4 Venture Capital

This is the fund that provides start-up (seed money) capital to new ventures, development fund to youth business in their early growth stage and expansion fund to rapidly growing venture that have the potential for growing to big business organisation.

2.11.5 Financial Structure

These are the sources of funds in other words the right-hand side of a firm's balance sheet, detailing how its assets are financed including departments and equity issues. This includes both long and short-term sources of fund. In this study, they will include microfinance, government sources, non-governmental organisations, family, friends, and commercial bureaux among others.

2.11.6 Microfinance

This is defined by the Association of Microfinance institutions (AMFI) as the provision of micro-credit as well as other services such as savings deposits, insurance services and other financial instruments/products aimed at the poor or low-income people. This study will only consider the provision of micro-credit aspects of microfinance among the MSEs entrepreneur in Kenya.

2.11.7 Micro Credit

Micro-credit is defined as credit extended by formal institutions to individual or informal groups. The formal institution has been set up or is currently financed or supported by donor aid. This study defines micro-credit as fund provided by MFI to MSEs that are repaid at a cost and under specified conditions. (Mwindi, 2002)

2.11.8 Interest Rates

These represent the cost of money. They are what a borrower pays in order to have access to money, which is a scarce resource. This study will analyse basic types of interest rates that are essential to the management of micro enterprise credit programs.

2.11.9 Non governmental Organisations (NGOs)

These are defined as a “private grouping of individuals or associations not operated for profit or other commercial purpose but which have organized themselves nationally or internationally for promotion of social welfare, development, charity or research through mobilization or resources”.

7

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This section discusses the research design, sampling method, data collection, data analysis and presentation.

3.1 Description of the Study Area

The area of study was the City of Nairobi Central Business District (CBD). The CBD was purposively selected because of the high number of MSEs. Nairobi CBD is the functional centre around which consist of retail shops, office, hotel, entertainment, and government offices with a high density of housing.

3.2 Research Design

The survey research design was employed where the researcher studied various determinant factors that influence MSE entrepreneurs when borrowing money from financial institutions. This design is appropriate because it enabled the researcher to describe key variables as perception and attitude and views of entrepreneurs towards borrowing from financial institutions. With the help of this design, the researcher was able to describe, evaluate and establish various determinants of MSE entrepreneurial decision to borrow.

3.3 Unit of Observation

Mugenda (2003:15) defines unit of observation as the subject which we measure the characteristic s or obtain the data required in the research study. The Unit of Observation is the MSE enterprises within the Nairobi CBD. The study observed Micro and Small Enterprises (MSE) businesses that employ less than 50 employees. They were retail, wholesale, service provider businesses or small companies.

3.4 Unit of Analysis

The unit of analysis is defined as “the individual units about which /whom descriptive or exploratory statement are to be made”. Mugenda (2003). The unit of analysis can be people, positions, social roles and relationships. The Unit of Analysis in this study are the MSE entrepreneurs within the CBD. They are retailer, wholesalers, service providers or owners of small companies. The specific element studied includes psychographics factors such as perception, attitude, social and demographic factors, bureaucracy, and business characteristics.

3.5 Sample and Sampling Design

Sampling is the process of selecting a number of individuals for a study in such a way that the selected represent the large group from which they were selected. Mugenda and Mugenda (2003)

Due to the constraint of time, budget and human resource all MSEs entrepreneurs were not interviewed and thus purposive sampling was used, and a sample of 60 MSE entrepreneurs was sampled to represent the others. In purposive sampling technique a sample is selected on the basis of what a researcher think is appropriate for the study (Mugenda and Mugenda 2003).

A sample of 60 MSE entrepreneurs was sampled non-randomly within the Nairobi CBD .The respondent included the small business people, Micro and small entrepreneurs within the city CBD. The interviewed entrepreneurs were retailers, wholesalers and small company owners.

3.6 Data Collection

Primary data was collected by use of directly administered, semi-structured questionnaires to the MSEs Entrepreneurs. Questionnaires with close-ended questions were developed to guide respondents to answer the questions, few open-ended questions as well, were in use to allow collecting wide variety of information and free expression by the respondent. The respondents were guided by the researcher in answering the questions where they were stuck. The questionnaires were categorised according to the objective of the study for easier analysis.

Data collected was quantitative for example the age of entrepreneurs, cost and interest rates number of years while qualitative data included entrepreneurs views perceptions and attitudes.

Secondary information was used in literature review and it was obtained from libraries in academic institutions and government library Central Bureau of Statistics CBS.

3.7 Data Analysis and Presentation

Data analysis was done using SPSS (Statistical package for social science) which gave results in forms of Tables, Bar graphs and Charts. The data was analysed using descriptive statistics (frequencies and percentages) While qualitative data was coded and quantified for easier statistical analysis.

CHAPTER FOUR

4.0 DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Introduction

This section of the study reports findings obtained from the respondents who are MSE entrepreneurs within the Nairobi CBD. The study sampled 60 respondents from the CBD Nairobi who were picked non-randomly. The findings of the study and the analysis are summarized into Percentages and frequencies, Tables, Graphics and Charts that follows.

The findings of the study are presented as per the objective of the study as follows:-

4.1.1. Social and demographic factors influence on MSE entrepreneur's decision borrows.

The first objective of the study was to establish whether social and demographic factors influence MSE entrepreneurs to borrow money. The factors considered included gender, age, marital status and education level of the entrepreneurs. The table below shows the distribution of social demographic factors in percentages as show in Table I below.

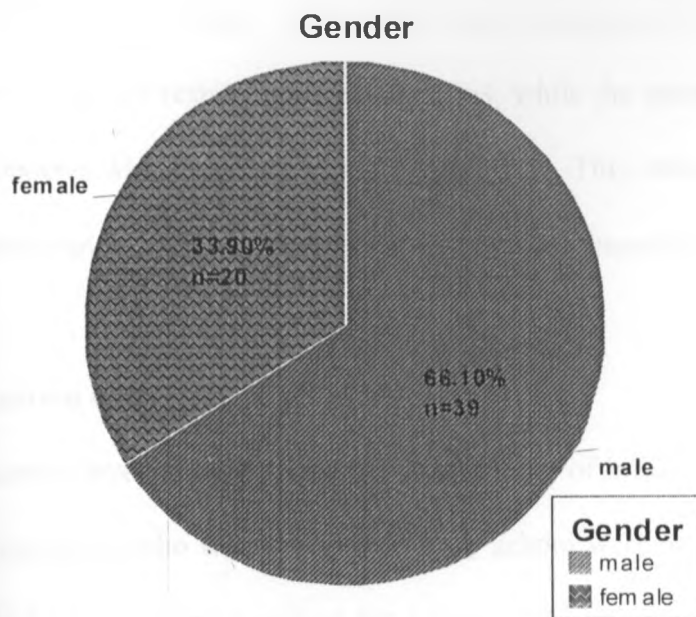
Table 1; Sociodemographic variables in relation to qualification for loan

	Ever Qualified for loan			
	Yes		no	
Gender				
- Male	15	39.5%	23	60.5%
- Female	7	38.9%	11	61.1%
Age				
- 18-24	1	6.3%	15	93.8%
- 25-34	11	37.9%	18	62.1%
- 35-44	10	90.9%	1	9.1%
Marital status				
- Never married	4	16.0%	21	84.0%
- Ever married	18	60.0%	12	40%
Education level				
- Secondary school and below	7	35.0%	13	65.0%
- Above secondary	15	41.7%	21	58.3%

Gender

The sampled respondents were 66.1% male and 33.1% female. The study revealed that many entrepreneurs who have ever qualified for loans were only 15 males and 7 females. The study also found that more men go for loan compared to females' entrepreneurs. The reasons given by female entrepreneurs are lack security, guarantors and majority because they do not have fixed assets like title deeds to secure their loans.

Figure 2: Distribution of Respondents by gender



AGE

The distribution of age of entrepreneurs was categorized into groups from 18 years to 55 years and above but most entrepreneurs were between Age 18 years to 44 years. The reason for this is that most of them are unemployed youth who starts up small enterprises to earn their living. Majority of respondent between age 25 years and 44 years have qualified for a loans compared to youths aged 18 years to 24 years. The reasons why youths do not qualify for loans is because they do not have security for their loans and most of them prefer financing their business using money from friends and relatives.

Marital status

Marital status portrayed connection with age because most of respondent above 25 years are or have ever been married. The study found that most of married people have ever qualified or taken a loan, 18 respondents reported this, while the ones who have never been married only 4 respondents who have ever qualified for a loan. This indicate that age play a very important role in entrepreneurs decision to borrow money from financial institutions.

Education level

Education level of entrepreneur indicated a lot of influence on their decision to borrow money. Entrepreneurs who went up to secondary school were only 7 who have ever qualified for loans, while 13 have never qualified for a loan. MSE entrepreneurs who have education level above secondary school either college or graduates seem to understand financial institutions and go for loans more than others. Education level plays a big role in entrepreneur's decision to finance as they understand financing procedures better than their counterparts.

4.1.2. Examining whether business characteristics, bureaucracy, and cost involved when accessing finance influence entrepreneurs borrowing decision.

The study analysed the following business characteristics. Business type of registration, Business description, in terms of service offered, Age of the business, Ownership of business premises and type of business structures. These factors are summarized in the table 2 below.

Table 2: Distribution of Business Characteristics and ever qualified for loan.

	Ever qualified for a loan				Total	
	Yes		No			
Type of business registration						
– Sole	13	33.3%	26	66.7%	39	100%
– Partnerships	7	50%	7	50%	14	100%
– Corporate	2	66.7%	1	33.3%	3	100%
Business description						
– 1retailers	12	33.3%	24	66.7%	36	100%
– 2 wholesalers	1	25%	75	75%	4	100%
Number of years in business						
– <1	2	20%	8	80%	10	100%
– 1-3	4	16.7%	20	83.3%	24	100%
– 4-7	11	64.7%	6	35.3%	17	100%
– 8-10	4	100%	0	0.0%	4	100%
– >10						
Business premises ownership						
– Owner	9	50%	9	50%	18	100%
– Not the owner	13	35.1%	24	64.9%	37	100%

Business registration:

These are type of business organizations, majority of MSE entrepreneurs interviewed were sole traders who run their businesses alone as indicated by 33.3% respondents who have ever qualified while 66.7% have never qualified for a loan. The study also noted that all partnership traders interviewed qualified for loans, the reason was that their businesses were large in size and operators seemed to be in more financial need compared with sole traders.

Corporate are small registered small private companies which operate within the CBD the few interviewed, 66.7% indicated that they have ever qualified for loan. The finding noted that sole traders are mostly the new business owners, who do not understand the financial institutions and do not have need money for expansion.

Business description

Business description analyses type of services provided by the entrepreneur interviewed ranging from retail, wholesaler, and service business. Most of Retailers have ever qualified for loan as many MSE are owned by Sole proprietors.

Number of years in business

Most of the businesses that are between one and seven years of age the owners tend to qualify for loan more than the starters. The study noted that the entrepreneurs who have been in business for some years understand the need of borrowing money and procedures followed when one want a loan from financial institution. Another reason why they qualify more than the starters is because they have a strong financial history, statement and some assets to secure the loan.

Bureaucracy: This includes requirements demanded by financial institution, process involved in terms of how quickly they process loans. The Table 3 below summaries these requirements

Table 3: Distribution of Business financing and ever qualified.

Variable	Frequency	
1. Sources of initial capital. (N= 56)		
- Family/friends/own savings	51	86.4%
- Mainstream financial institutions	3	5.1%
- SACCOs/micro-finance institutions	2	3.4%
2. Ever qualified for a loan (N=56)		
- Yes	22	37.3%
- No	34	57.6%
3. Provided security for loan	16	72.7%
4. Security provided (N=16)		
- 1 Car log book	1	4.5%
- 2 land titles	10	45.5%
- 3 house hold items	2	9.1%
- 4 others (assets placed as security)	3	13.6%
5. Asked for the following		
- A guarantor	19/22	
- Business proposal	8 /22	86.4%
- Bank statement	18/22	36.4%
- Books of account	12 /22	54.5%
		54.5%
6. Finished loan repayment	9/22	40.9%
7. Making repayment from		
- Profit	14/22	63.6%
- Others(friends, relatives)	3/22	13.6%
8. Additional expenses incurred		
- Proposal	3/22	13.6%
- Appraisal	4/22	18.2%
- Others(travelling, transaction cost)	11/22	50%

Sources of initial capital: Most of the MSE entrepreneurs used money obtained from family members, friends and their own savings this was noted from 86.4% of the respondent. This is due to tedious borrowing process and lack of collateral to secure loans in financial institution. Majority also perceive this source as the safest compared to others and the cheapest.

Security/Collateral: most of Entrepreneurs who have ever qualified for a loan 72 % of them were asked to provide security as a requirement to qualify for a loan.

Their main concern was that security was tied to some assets like land, car, and household items. Former financial institutions, banks SACCOs, Building societies, micro finance mostly demanded land as security for one to qualify for a loan as 45.5 % of the respondent who have ever qualified for a loan reported.

Bank statements, Most entrepreneurs, 18 out of 22 respondents reported this it shows the financial history of the entrepreneurs and financial capabilities. Books of account prepared qualified accounts to show the financial position of the business 12 respondent out of 22 who have ever qualified reported this. Most entrepreneurs were not able to provide them as their bank accounts were new and some did not have them.

Guarantors Were mostly asked by financial institutions 19 respondent out of 22 who have ever qualified for a loan were asked to provide a guarantor who must have known them for given duration of time, and ready to pay the loan if clients disappears or fails to pay. This was difficult to provide as nobody was ready to guarantee new and business which operate in a very unpredictable environment.

Business proposals: This is a plan of how the entrepreneur is going to spend money and what business activities he will be carrying out to generate the revenue. Business Proposals / plan are mostly prepared by experts and many respondents interviewed did not know how to prepare

them as 36.4% of respondent were asked to provide one. These requirements and long process involved when going for loan has been reported by many entrepreneur as a tedious process and discourages many from going to formal financial institutions .This is indicated by 22.03% of respondent interviews .Those findings as shown in Table4 below

Table 4: Failure of MSE and reasons why entrepreneurs do not go for loan

Variable	Frequency N=59	
1. Factors leading to business failure		
- Government policy (harassment and high taxes)	17	28.81%
- Lack of enough capital	26	44.07%
- Competition	8	13.56%
- Business location	2	3.39%
- Security	1	1.69%
- Poor management	36	61.02%
- Lack of entrepreneur culture	3	5.08%
2. Reasons for not going for loan in commercial banks		
- Lack of information (illiteracy)	10	16.95%
- Negative perception that its expensive	3	5.08%
- Lack of security	4	6.78%
- High interest rates charged on loan	42	71.19%
- Long process of loan processing and many requirements to qualify	13	22.03%
- Religious believes	1	1.69%

*Frequency-represent the distribution of respondent who responded in numbers and percentages

Cost : This study revealed the cost incurred by entrepreneurs as they try to access loan from financial institution is high and many blamed financial institutions of charging high interests rates which range from 11% to 16% per annum .High interests rates charges on loan is the main hindrance as 71.19% of respondent in the table 4 above reported.

Other cost incurred include the proposal and business plan for 13.6% reported thus appraisal for include valuation of security 'collateral and other charge by financial institution as they process the loan.

Other cost incurred on traveling documents processing cost and other transaction cost

4.1.3 Entrepreneurs' Attitude and Perception towards borrowing from financial Institutions

The entrepreneurs' perception was considered as how they perceive financial institutions in terms of cost convenience (efficiency) and how risky financial institutions are, and whether they trust money lenders with their finances and properties.

Table 5: percentage score on perception towards borrowing and financial institutions

	Perception in %				
	Bank	SACCO s/ co-op	Micro- finance institution	ROSCA S- Chama, merry go- round,	Money lenders, shylocks
Cost					
1. The cost for getting a loan is high (loan processing cost).	93.88	73.33	68.75	42.53	75.00
2. The interest they charge on loans are very high.	90.20	77.92	70.42	30.83	76.65
Convenience	44.68	49.56	59.13	65.53	76.60
1. you get loans quickly					
2. The requirements to qualify for loan are difficult to attain.	91.11	80.45	76.82	31.11	32.00
Risk/Trust					
1. You can lose your assets/property.	86.67	68.94	60.87	35.83	96.67

* Figures in the table are percentage of respondent's perception rated from 1 to 5 where 1 indicated lowest and 5-the highest and then converted into percentages.

Cost: Most of the MSE Entrepreneurs perceived Banks, SACCOs/Co-operatives and money lenders/ shylocks to be the mostly expensive sources of finances compared to ROSCAS,

*Chamas*¹ and merry go-round as indicated in the table above. This is because of high interest rates, transactional cost and appraisal fee incurred when going for a loan.

Convenience: MSE entrepreneurs perceived money-lenders; shylocks and ROSCAs, *Chamas* and merry go-round to be the most convenient source of finance as their requirement are minimal compared to those of other sources of finances as shown in the table above. Mostly informal sector are convenient because they don't scrutinise their customers a lot, as they lend to client they know well.

Risks: Most MSE Entrepreneurs interviewed perceived banks and money lender, shylocks as the most risky sources of finances as ranked in the table above. This is because they have empirical evidence of member of their community who have lost their properties through these institutions.

Attitude

The study revealed the following entrepreneurs' attitude towards borrowing and financial institution

The study noted that majority of entrepreneurs interviewed dislikes owing money to any one as reported in the Table 6 below while other believe financial institutionary there to take advantages /exploit the poor people in the society. Also majority believed that they can live without a bank account and without borrowing even though they have. These finding are summarized in the Table 6 below

¹ *Chamas* are formed when a number of individuals get together and contribute money in a common kitty. These funds are distributed to the members on a rotational basis, also known as ROSCAs

Table 6 Attitude of MSE Entrepreneurs toward Borrowing

		% score
i.	You can easily live your life without having a bank account	52.14
ii.	Financial institution takes advantage of the poor people	57.86
iii.	You dislike owing money to anyone	77.78
iv.	Paying or receiving interest is not part of culture / religion	49.09
v.	You are satisfied with the little you have and focus on how to use it properly.	46.91

*scores above were rated using a Likert scale ranging from strongly disagree(1),disagree(2),neutral(3),agree(4),strongly(5) and then converted into percentages.

Table 7: Financial Services usage among entrepreneurs

Variable	Frequency	
1. Financial products N=56		
- SACCOs	8	13.6%
- Micro-finance	17	28.8%
- Building society	9	15.3%
- Informal groups	42	71.2%
- Insurance policy	19	32.2%
- Bank account	55	93.2%
2. Financial services frequently used (N=57)		
Savings	49	83.1%
Current	7	11.9%
salary	1	1.7%
3. How they prefer financing their business (N=58)		
- Own savings	50	84.7%
- Loan	8	13.6%

Frequency-represent the distribution of respondent who responded in numbers (N) and percentages.

The study noted that majority of MSE entrepreneurs 93.2% have bank account with commercial banks, but they use the for saving purpose as reported by 83.1% of them. But many prefer financing their business through own savings generated from within, they only source for external fund when there is no alternative 847% reported this as shown in Table 7 above.

CHAPTER FIVE

5.0 Summary, Conclusions and Recommendations

5.1 Summary of the key finding.

The study revealed that male entrepreneurs qualify for loan easily than their female counterpart.

The reason being that men have access to most of the requirements demanded by financial institution. The study noted that men have land title- deed while most of female entrepreneurs do not own land or car which either belongs to their maternal fathers or their husbands. Also African customs in many communities in Kenya limit female from owing land, which can be used as collateral/security to secure a loan.

The study noted that age and marital status of entrepreneurs influence their decision to borrow money from financial institutions. Entrepreneurs who are mature and married qualify for loan than young inexperienced entrepreneurs. The study noted that entrepreneurs who have education beyond secondary school go and qualify for loan more than the ones who went up to secondary school this is because they understands financials institutions operations' than their counterparts.

Second objective of the study was to examine whether business characteristics, cost and bureaucracy influence entrepreneurs' decision to borrow loan/credit .Business characteristic that were analyzed by the study indicated that sole proprietors entrepreneurs qualifies and go for loan than entrepreneurs in other forms of business organisation. The reason was that decision-

making is easier and requirement are not more compared to those of demanded from partnerships and corporate entrepreneurs. Business description was also noted to have influence on entrepreneurs, where retailers qualified more for loans than wholesalers and service providers, but this is because most sole traders interviewed were retailers.

Bureaucracy involved by entrepreneurs when trying to access finance in financial institutions discourages them to apply loans. The study analyzed bureaucracy in terms of requirement, and time taken in loan processing. It noted that security / collateral that is mostly demanded by financial institution is tied to some assets such as land, car and household items which limits many entrepreneurs especially the young and women in the society who have no access to them. Other requirement demanded were guarantors with certain specifications and ready to pay if client default payment this was also noted to be difficult. The study noted that guarantors were difficult to get.

Books of account, Business plans and Proposal were also difficult to provide, as many entrepreneurs interviewed have no idea of how to prepare them. Bank statement was another limitation, as most entrepreneurs do not have stable income of finances to give them a stable statement.

Finally, the study noted that the lengthy process before one qualifies for a loan is the main hindrance as to why they do not go for loan in formal financial institutions. The study revealed that cost incurred by entrepreneurs when accessing loan is very high. Cost was analyzed in terms of interest rates charged by commercial banks, which is high compared to informal sources of finance. Other costs incurred are fee paid to Accountants and proposal writers, lawyers which are high.

Valuation cost or appraisal fee on collateral / securities, which are carried out by financial institution is latter, extended to clients. Finally, study reviewed that entrepreneurs also incur other cost such as frequent traveling cost to the and from the bank, document processing fee, legal fee charged by lawyers to certify documents like title- deed and logbooks and also agreements drafting fee.

The study revealed that most entrepreneurs perceive formal financial institution banks, SACCOS /co-operatives and micro finance and informal sources like shylocks to be the most costly sources finance in terms of processing cost and interest rates they charge. Informal sources of finance like ROSCAS Chamas and merry go-round were perceived to be the cheapest source of finance and preferred by the majority as indicated. The study revealed that although most entrepreneurs have bank accounts they use them to save money but they mostly prefer informal sources ROSCIA, and chamas for credit and loans.

Entrepreneurs' perception was also analyzed in terms convenience, how quickly they advance loan after application and requirements to qualify for loan. Informal sources of finance were preferred because of their convenience in advancing loans to their clients. The reason is that they do not scrutinize their customers a lot. Their requirements are also minimal compared to those of formal institutions. Their lending is mostly based on trust between moneylenders and their clients.

MSE entrepreneurs perceive banks and shylock as the most risky way of financing their business. While ROSCAS, and Chamas and merry go-round are perceived as the safest sources of finance. The study revealed that informal sources are perceived to be safe because they are formed by members of the same community who understand and know each other.

Entrepreneurs' perception was also analyzed in terms convenience, how quickly they advance loan after application and requirements to qualify for loan. Informal sources of finance were preferred because of their convenience in advancing loans to their clients. The reason is that they do not scrutinize their customers a lot. Their requirements are also minimal compared to those of formal institutions. Their lending is mostly based on trust between moneylenders and their clients.

MSE entrepreneurs perceive banks and shylock as the most risky way of financing their business. While ROSCAS, and Chamas and merry go-round are perceived as the safest sources of finance. The study revealed that informal sources are perceived to be safe because they are formed by members of the same community who understand and know each other.

5.2 CONCLUSIONS

The study concluded that MSE entrepreneurs have limited access to finance for expanding their business. This study revealed that entrepreneurs shy away from getting loan credit to invest in their business from the available sources.

The available sources of capital noted can be either formal financial institution or informal financial sources. Formal financial institutions are regulated by the Central Bank of Kenya (CBK) and they include banks, Building Societies, SACCOs / Co-operatives and Micro-finance institution. While informal sources are the unregulated sources of finance where entrepreneur can access finances they include merry go-round, shylock/money lender, chama and ROSCAs

Formal financial institutions are the best source of finance but MSE entrepreneurs perceive them differently and do not approach them frequently for loan because of their bureaucratic operations. Formal sources are perceived to be bureaucratic because of their many requirements such as guarantor, business plans / proposal and a security / collateral to secure the loan. The study revealed that most of MSE entrepreneurs are not able to provide some of these requirements. The group which is mostly limited by this and do not qualify for loan in formal sector are women and young youth below 25 years. This is because they have no access to fixed assets to secure the loan. Their businesses are also new therefore they do not have any past financial history to convince formal institution credit officers that they are capable of repaying the loan if granted to them.

Formal institutions are perceived as the risky way of financing because they are very strict. When advancing loan to their client. The study noted that MSE fear going to credit / loan informal sector because of uncertainty in their business environment. They feel that they cannot risk security their credit with assets they have.

Length process and procedures that one goes through in the formal institution before one-get money also limit SME entrepreneurs. The study noted that the SME needs capital boost in smaller bits and urgently especially when they have stricken a deal. They need money to go and buy stock and repay immediately. This forces them to go for informal sources as they perceive them to be quick in advancing loans for example, shylocks even if they charge more interest on money lendered.

Cost of credit / loan in formal sector is perceived to be high because of their interest rates, and other cost which are incurred on the process of getting loan. These costs include transactional cost charged by formal sector, valuation of security fee (appraisal fee) which is extended to their clients. Traveling cost incurred when going to banks to claim and follow-up the loan processing is costly and discourages entrepreneurs for going for loans from formal financial institutions

The study revealed that MSE entrepreneur are forced by circumstances to go to informal sources of finance because of some reason. Informal sources are preferred by many because they are perceived to be very convenient in advancing loan / credit to their client. The study noted that informal money lenders, ROSCAs, Chama, merry-go-round and shylock understand their client

needs in a better way than formal financiers. They are convenient because of less requirement and bureaucracy; this is because their clients are people whom they know well for duration of time, they even know their capability to repay the loan.

Informal sources are preferred by MSE entrepreneurs because they are able to give loans in small figures according to entrepreneur needs. The study also revealed that shylocks / money lenders are also feared and perceived to be risky because they charge high interest and very strict if one fail to meet the deadline for repaying. Despite their convenient, they are not trusted by many because they have practical evidence of their entrepreneurs who have lost their property through shylocks.

The study also noted that factors such as social demographic age, marital status and education level influence entrepreneurs decision to borrow or not. This study concluded that majority of entrepreneurs who qualify for credit / loans are the mature and married people and mostly who have been in business for at least one year and above. The young and new in business do not qualify for the loan. This is because they do not have any financial history or business records to convince money lenders of their capability to repay the loan. The education level of entrepreneurs has been noted to play apart in their decision making, entrepreneurs who have education level, secondary and above qualified more for loans compared to the ones who have gone up to secondary. This is because they understand more about banks and their lending system and able to make well advised decision on the best way to finance their business.

positive reward or pleasure and avoid what give or expose them to unpleasant conditions, danger, lose and other risk.

The study found this theory relevant to explain the behavior of MSE entrepreneur way of financing. Entrepreneurs do a lot of consideration based on information and history they have about the source of finance. The choice of finance is evaluated in terms of risk involved, convenience, bureaucracy involved and requirement and cost involved and they pick the source that is favorable to them. The study concluded that is why most entrepreneurs go for informal sources of finance which they perceive favorable to them.

5.3 RECOMMENDATIONS

The study recommends the following after coming up with the finding and conclusion these recommendations will help the financial institutions, government and other stakeholders who have interest in the development of MSEs in Kenya.

The government of Kenya through the central bank should regulate the interest charged by financial institutions to accommodate MSE entrepreneurs. This can be done by central bank through their credit rationing mechanisms or giving subsidize to financial institutions that deal with MSEs.

Financial institution should come up with products that suit the needs of MSEs Entrepreneurs, for example, advancing loans in smaller amount, because their loans mostly target big business people and salaried individuals. Bureaucracy and requirements demanded by financial institutions should be reduced for this will simplify their process of advancing loans and increase their efficiency.

positive reward or pleasure and avoid what give or expose them to unpleasant conditions, danger, lose and other risk.

The study found this theory relevant to explain the behavior of MSE entrepreneur way of financing. Entrepreneurs do a lot of consideration based on information and history they have about the source of finance. The choice of finance is evaluated in terms of risk involved, convenience, bureaucracy involved and requirement and cost involved and they pick the source that is favorable to them. The study concluded that is why most entrepreneurs go for informal sources of finance which they perceive favorable to them.

5.3 RECOMMENDATIONS

The study recommends the following after coming up with the finding and conclusion .these recommendations will help the financial institutions, government and other stakeholders who have interest in the development of MSEs in Kenya.

The government of Kenya through the central bank should regulate the interest charged by financial institutions to accommodate MSE entrepreneurs. This can be done by central bank through their credit rationing mechanisms or giving subsidize to financial institutions that deal with MSEs.

Financial institution should come up with products that suit the needs of MSEs Entrepreneurs, for example, advancing loans in smaller amount, because their loans mostly target big business people and salaried individuals. Bureaucracy and requirements demanded by financial institutions should be reduced for this will simplify their process of advancing loans and increase their efficiency.

Collateral/security requirements needed for one to qualify for a loan should not be tied to some assets or properties like land, car or household items because this discriminates some groups of entrepreneurs for example youth and women who do not have access to these properties. Financial institutions should devise a way of advancing loans which will be secured with the stock held by the business enterprise or on the basis of entrepreneur's characters for example background information history of the entrepreneurs, aggressiveness and honesty. This will favor young and women entrepreneurs who are new in business and do not have bank statements, assets or any financial history to secure their loans.

Government need to introduce entrepreneurship development courses at all levels of education from primary ,secondary and other tertiary institutions to equip the graduates with skills such as basic business management, how to prepare business plans/simple accounts and finance. The government of Kenya through its legislative should revise the money lenders Act to strengthen it because many MSE entrepreneurs prefer them .this can be done through legalising shylocking and constitutionalising merry go-rounds, ROSCAs and, chamas. This can be done by placing them under regulation of central bank or a well established government body.

5.4 SUGGESTIONS FOR FUTHER STUDY

Since the study only covered MSEs in Nairobi (CBD) a further study in other parts of the country need to be studied. A further research is necessary to establish other constraints faced by MSE entrepreneurs in their operations, because this study only concentrated on financial constrains.

REFERENCES

- Aleke F. & Dondo.N (1990) The Nature and Characteristics of Small Scale industries in Kenya, Occasional Paper No. 7, KREP.
- Brealey, R.A. and Meyers. S.c.2000, Principles of Corporate Finance, 6th Edition. Irwin McGraw Hill Publishers Boston, MA, 2000.
- Brigham, E.F, L.C. Gapenski and M.C.Ehrhardt 1999, Financial management theory and practice 9th edition. Dryden press Orlando, FL.
- Caprio, Gerard Jr. and D. Klingebiel (1996) "Bank Insolvencies: Cross-Country Experience", Policy research Working Paper no.1620, The World Bank.
- Castello C (1999) "Exposing Interest Rates: Their true significance for micro-entrepreneurs and credit programs" Discussion Paper Series Document No. 6
- CBS, ICEG and K-REP (1999) National Micro and Small Enterprises, Baseline Survey, Nairobi, Government Press.
- Cook, P and Nixon, F (2000) Finance and Small and Medium Sized Enterprise Development, Research Program Working Paper No 14, April.
- David H. Holt (2002) Entrepreneurship and New Venture Creation, Prentice-Hall of India, New Delhi, 6th Edition
- Dolz F, 1992, SMEs and finance, policy working paper, no.1620, The word bank. Nairobi.
- GOK (1999) National Poverty Eradication Plan 1999 – 2015, Government Press.
- Government of Kenya (1992) Sessional Paper No 2 on Small Enterprise and Jua Kali Development in Kenya, Government Printers, and Nairobi.
- Harnz Vancy (2002) Financial Management and policy, 11th Ed. Prentice Hall, New Delhi, India
- Harvens, Mark (1991) NGOs as Agency for Small Enterprise Development, Vol 2, No. 3.
- Heidrick N(2002), Youth Financing MSEs in Canada: Barriers faced by Women, Aboriginal and Minority Entrepreneurs in Accessing Capital, Small Business Policy Branch, and Government of Canada
- Isakson J. 2002, financial management and policy, 11th Ed prentice Hall New Delhi, India.

- Kapur, Basant K. (1992) "Formal and Informal Financial Markets, and the Neo structuralist Critique of Financial Liberalisation ..." Journal of Development Economics, vol. 38, 63-77
- Kashanguki, Obora, Kuria and Odhiambo, (2008, July). Development of SME in Kenya, journal.KIPPRA.
- Kibera, L. (1998) Enhancing Competitiveness in Africa Business after the Millennium, Makerere University Business Journal, 5th Edition
- King, K (1996) Jua Kali Change and Development in an Informal Economy (1970 – 1995) East Africa Educational Publisher, Nairobi.
- Mbithi, K (2003) the Relationship between Financial Structures and Performance of Micro and Small Enterprises in Nairobi, Kenya. Unpublished MBA Management Research Paper, University of Nairobi.
- McCormick & Pederson, (1993), Small Enterprises and Changing Policies, Structural Adjustments, Financial Policy and Assistance Programs in Africa. Intermediate Technology Publications, London.
- McCormick (1992) Why Small Firms Stay Small, Working Paper no 45.
- McKinnon R.I and Pill Shaw (1997) "Credible Economic Liberalizations and Borrowing", American Economics Review, May, 189-193.
- Mugenda O. And Mugenda A (.2003) Research methods, Qualitative and Quantitative approaches, Acts press.
- Mukui J.T.1994 Kenya poverty profile, consultancy Report prepared for the world bank and office of vice-president and ministry of planning and national development, march.
- Mwarania (1993) Financing Small-Scale and Micro-Enterprises in Kenya under conditions of liberalized financial markets. KENYA.
- Mwindi, A. G (2002) Relationship between Interest Rate charged by micro finance institution sand performance of micro and small enterprise in Nairobi Unpublished MBA management research paper, University of Nairobi
- Myers S (1984) 'The Capital Structure Puzzle', Journal of Finance, (34) 3, 575-592
- Ndung'u and Ngugi (2000) Banking Sector Interest Rate Spread in Kenya, Discussion Paper No 5, March 2000, KIPPRA, Kenya.
- Njoroge, Business Daily dated 12/06/2008, Artical on women fund. Kenya

- Nziana, V (2006) Informal Finance as a Source of Funds for Small and Micro Enterprise, Evidence from Dandora Slums in Nairobi, Kenya, Unpublished MBA Management Research Paper, University of Nairobi.
- Parker, C and Torres, R (1994), Micro and Small Scale Enterprise in Kenya, Result of the 1993 National Baseline Survey, Department Alternistic Inc, Maryland.
- Sethna Armina, (1992) an Examination of Some Characteristics and Constraints of Micro Enterprises, KREP Research Paper No. 11, Nairobi.
- Shaw, Edward (1973) "Financial Deepening in Economic Development, Oxford press, London.
- Steel W (1994) 'Changing the institutional and policy environment for small enterprise development in Africa', Small Enterprise Development, 5 (2), 4-9
- Taylor, L. (1988) Varieties of Stabilization Experience: Towards a Sensible Macroeconomics in the Third World, Clarendon Press, and Oxford University.
- Wanjiru, M. B. (2001) Enterprises in Nairobi, Unpublished MBA Management Research Paper University of Nairobi Factors affecting Provision of Non-financial Business Development Services by Non-Governmental Organisation to Micro and Small.

2

APPENDIX 1: QUESTIONNAIRE

The objective of this survey is to gauge access of finance provided by the Government of Kenya through the Youth Enterprise Fund, the Women Enterprise Fund, Non-Governmental Organizations, Microfinance and other financial institutions to the Kenyans. Valuable information obtained from this research/survey will help me in fulfilment of Master of Arts project work. It can be used by primary stakeholders who share same vision and mission with the Government of Kenya in empowering Kenyans to join the informal sector of employment (Small business enterprises) by providing them with capital.

Background information (tick where applicable)

1.

Gender;

Male

☐

Female

☐
2.

What is your age bracket?

☐
- 1=

Below 18yrs
- 2=

18-24 years
- 3=

25-34
- 4=

35-44
- 5=

45-54
- 6=

55 and above
3.

What is your marital status?

☐
- 1=

Single
- 2=

Married
- 3=

Divorced / Separated
4.

What is the highest education level you have received?

☐
- 1=

None
- 2=

Primary
- 3=

Secondary
- 4=

Mid-level colleges
- 5=

Graduate

Business characteristics.

5. Specify the type of registration for your business ☐

1= Sole proprietorship

2= Partnership

3= Corporate

4= others (specify) _____

6. Give a brief description of your business

7 where is your business located?

8. How long have you been in business? ☐

1= below 1 year

2= 1-3years

3= 4-7 years

4= 8-10 years

5= Above 10years

9. Do you own this business premises? ☐

1= yes

2= No

10. Type of business premises structured? ☐

1= Permanent building

2= Semi-permanent

3= Temporary

4= No structure

5= others (specify)

11. What influenced your decision to go into business? ☐

1=Unemployment

2= Friends/ relatives

3= Your own ambition

12. How many employees do you have?

Business financing

14. Did you raise the initial capital you used to start up your business from any of these sources?

☐ Family/ friends /own savings

☐ Mainstream financial institutions

☐ Shylock/money lenders/Chama.

S/ ☐ Os/ Micro-finance institutions

☐ Government's fund

☐ Others specify _____

15. Have you ever qualified for a business loan?

☐

1= yes

2=No

16. Did you provide any security for the loan?

☐

1= yes

2= No

17. What kind of security did you give?

18. Did they ask you for the following? (Yes/no)

Guarantor.....

Business plan/proposal.....

Bank statement.....

Books of accounts

Which ones were you not able to provide? (Explain why)

19. What were other terms and conditions demanded for you to qualify for the loan?

20. What was the interest rate for paying back?

21. Have you finished repaying your loan?

☐

1= yes

2 No

3=N/A

21. Are you making payment on the loan amount borrowed?

☐

1= yes

2=No

3=N/A

h). Are you making loan repayment using any of the following?

Profit from business

Other sources (specify) _____

i) Did you incur any other cost when trying to access loan/credit?

Proposal development

☐

Appraisal

☐

Other (specify) _____

Tick Yes or No.

		Yes	No
i.	Have ever had a SACCO saving account?		
ii.	Have ever had a micro-finance account?		
iii.	Have ever had a savings account with a building society?		
iv.	Have ever had an informal group product (merry-go-round, shylock, money lender etc)?		
v.	Have ever held an insurance policy?		
vi.	Have ever had a bank account?		

22. Which financial service you most frequently use?

Savings account ☐

Current account ☐

Salary account ☐

Fixed Account ☐

23 How do you prefer financing your business

Using own savings ☐

Using Loan ☐

Perception and attitude towards borrowing and financial institutions

Using 1-5, 1 being the lowest and 5 the highest, rate the following on the topic given.

	perception				
	Bank.	SACCO s/ co-op	Micro- finance institution	ROSCA S- Chama, merry go- round.	Money lenders, shylocks
Cost 1. The cost for getting a loan is high (loan processing cost). 2. The interest they charge on loan are very high.					
Convenience 3 You get the loan quickly 4 The requirements to qualify for loan are difficult to attain.					
Risky/trust 5. You can lose your assets/property.				/	

Indicate your level of agreement with the following sentences:

Strongly Disagree Disagree Neutral Agree strongly
 Disagree Agree
 (SD) (D) (N) (A) (SA)
 1 2 3 4 5

		Level of agreements
i.	You can easily live your life without having a bank account	
ii.	Bank takes advantage of the poor people	
iii.	You dislike owing money to anyone.	
iv.	Paying or receiving interest is not part of culture / religion	
v.	You are satisfied with the little you have and focus on how to use it properly.	

24. In your opinion, what are main factors that make small business fail or succeed in Kenya?

25. In your opinion, why do small business owners don't go for loan in our commercial banks and other financial institution?

Social factors and financing

26. Your religion?

Catholic _____

Muslim (specify) _____

Protestant _____

Hindu _____

Traditional religion (specify) _____

Others (specify) _____

27. Does your religion allow you to pay or receive interest?

28. What is your ethnic background?

29. Your community allows you to borrow money at an interest?

Thank you for taking time out of your busy schedule to complete this survey. Your participation is appreciated. If you would like to receive the results of this study, please leave your business contacts:

Mobile No.....

Email Address.....

Address:.....