

**A SURVEY OF THE FINANCIAL CHALLENGES FACED BY**

**SMALL AND MICRO ENTERPRISES IN NAIROBI-**

**A CASE STUDY OF MOTOR VEHICLE REPAIR GARAGES IN NAIROBI**

**By**

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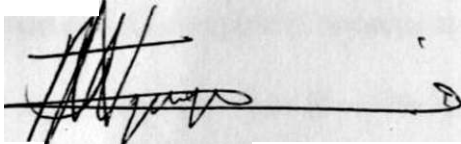
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**2009.**

# DECLARATION

I declare that this research is my original work and has not been presented by any other person anywhere.

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My first and most sincere gratitude goes to the almighty God for the good health and care that I have enjoyed while pursuing my education. Am profoundly thankful to all my family members for the support and encouragement throughout my study.

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To the entire university of Nairobi teaching fraternity for the support, guidance and encouragement that I have received from you individually and jointly.

## **DEDICATION**

I dedicate this project to my late parents (MR PETER NGUGI AND MRS JOYCE WAITHIRA). Thank you mum and dad for making me who I am today, I will forever cherish you, may God bless your souls.

## **ABSTRACT.**

The small and micro garages in Kenya are one of the major sources of employment for the youth in this country, this sector is critical to the economy as it keeps the road transport sector going, its survival is however threatened in the light of the financial challenges it encounters. The purpose of the study was therefore to identify the financial challenges by the SME garages.

The study was carried out in Nairobi. Its main objective was to identify the financial challenges faced by small and micro enterprises a case study of garages.

The research design was a descriptive survey. It targeted small and micro garages operating in Nairobi. The researcher used simple random sampling method and selected forty garages from the city council licensing department. Data was collected using structured questionnaires, thirty two respondents filled and returned the questionnaires. The data was coded, tabulated and analyzed by use of percentages presented using tables and pie charts

The study found out that small and micro garage faced a lot of financial challenges when conducting their business: some of those challenges include; payment of rent, financing of repairs, payment of salaries, accessing credit, financial planning among others. From the finding of the study, it was recommended that the financial institutions should be more sensitive to the unique financial needs of the small and micro garages and come up with tailor made products to assist the SME garages, it was also recommended that the SME garages should improve on their financial management in order not only to attract credit but also grow, the government was also asked to provide a conducive environment that would promote the growth of this sector.

The researcher hopes that the recommendations made in this project will be taken seriously by all the stake holders and implemented without much delay.

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## **LIST OF ABBREVIATIONS**

- AEO- Association of Enterprise Opportunity
- AVA- Associated Vehicle Assemblers.
- CBK- Central Bank of Kenya
- CKD - Completely Knocked Down
- GDP- Gross Domestic Product
- IDRC- International development research centre
- ILO- International Labor Organization
- KMI- Kenya Motor Industry
- K-REP- Kenya Rural Enterprise Programme
- KSHS- Kenya Shillings
- KVM- Kenya Vehicle Manufacturers
- MSE- Micro and Small Enterprises
- MVI- Motor Vehicle Industry
- NGO- Non Governmental organization
- ROK- Republic of Kenya
- ROSKA- Rotating Savings and Credit Associations
- SMEs - Small and Micro Enterprises
- US- United States



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# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND

#### 1.1.1 The Small and Micro Enterprises.

Early researchers did not pay a lot of attention to SMEs, they treated them as peculiar, peripheral and survival mechanisms whose development impact was marginal (Ongile and Mc cormick, 1996). This perception was changed by a report by the international labour organization that clearly demonstrated the imperative role that the SMEs play in the generation of revenue and employment creation (ILO, 1972). The last two and a half decades have witnessed a major recognition of SMEs by the governments especially in the developing countries. This sudden recognition was born out of the realization that the sector could be the kingpin for improving economic prospects in the developing world (King, 1996).

The change in perception was also motivated by the realization that a high and an increasing industrial employment was still in the small and micro enterprise sector. Previously, policy makers in the governments made policies that favoured the promotion of large, capital intensive industries by arguing that the potential for inducing more efficient use of capital and improving income distribution lay in more neutral policies.

In the developing countries where we have a surplus of labour and scarcity of capital, labour intensive technology is preferred. Relative to large enterprises, SMEs are more labour intensive as they show a higher labour capital ratios than their counter parts the large enterprises producing the same products (Snodgrass and Biggs, 1995). The small scale business sector is presently one of the fastest growing and important sectors in the sub Saharan Africa as far as labour absorption and poverty reduction is concerned (IDRC, 1996; Parker, Riopelle and Steel, 1995).

According to the National Baseline Survey report of 1999, An "enterprise" is defined here as any income-earning activity that is not in primary agriculture or mineral production, while Micro and Small enterprise (MSE) sector refer to all economic activities that engage up to 50 workers (all workers whether salaried, casuals or permanent). A micro Enterprise is one with not more than

10 employees including the owner, small enterprise as one with 11-50 workers while a medium /large is one with 50 employees and over. The definition does not include farm activities except economic activities related to trading and processing of farm produce. This definition covers informal sector activities performed by one or more persons and formal sector employing up to 50 workers. MSE activities are located in different sites and may be considered as main activities or secondary of the owner manager, and may be permanent, temporary, casual or seasonal activities.

The 1999 National baseline survey claims that, there were approximately 1.3 million MSEs employing 2.4 million people. At least 80% of MSEs were located in rural areas and 26% of households were involved in some form of MSE activities. About two thirds or 64.1% of MSEs were in trade sector involving buying and selling, manufacturing and services sectors accounted for 13% and 15% respectively. The average size of MSE is 1.8 regular employees with owners and family members comprising 80% of the total worker force'. The sector has recorded growth and the population of enterprises is estimated to be 2.8 million employing about 6 million people<sup>2</sup>. According to Economic survey 2005, employment in the sector grew by 37.2% from 4,668,700 in 2001 to 6,407,200 in 2005.

MSE sector plays a vital role in development of the Kenyan economy through creating the bulk of the jobs, providing goods and services, democratizing the economy by providing an avenue for the majority to contribute to economic development, creating a market for local raw materials and acting as a vehicle for country industrialization. In spite of the important role played by the MSE sector its growth has been hampered by various constraints cited in a number of studies and that need to be addressed including: limited access to finance and markets, poor infrastructure, inadequate technical and managerial skills, inappropriate legal and policy framework, inadequate access to information and gender inequality. These factors limits vertical growth of the enterprises since 97% of MSEs are micro, 2% small and 1% medium. The government, through the sessional Paper No.2 of 2005 on Development of Micro and Small Enterprises for Wealth

**1 National micro enterprise baseline survey 1999**

**2 Economic recovery strategy 2003**

and Employment creation for Poverty Reduction' has addressed most of the factors constraining the development of the sector.

### **1.1.2 FINANCING OF MICRO AND SMALL ENTERPRISES**

Kenya's financial sector experienced a steady growth in the 1990s as evidenced by the growth of the share of the financial sector in GDP from 7.9% in 1990 to 9.6% in 1994, and to 10% in 1997 (ROK, 1997, 1998). The assets of the banking system increased by more than 100% between 1990 and 1995, while those of the non-bank financial institutions grew by 16% over the same period. The financial sector in Kenya had the following composition of institutions as at 1998 :- 55 commercial banks, up from 48 in 1997; 16 non-bank financial institutions from 24 in 1997; 4 building societies; and 2 mortgage finance companies (Central Bank of Kenya, 1998).

There was a significant increase in the number of commercial banks in the 1980s, from 16 in 1981 to 26 in 1990 and 48 in 1997. The NBFIs also experienced growth over the same period, from 23 in 1981 to 54 in 1988. The number however declined sharply to 24 in 1997 (CBK, 1998). The rapid growth in the banks and NBFIs was pointed to a regulatory framework in which entry requirements were relaxed as a deliberate government effort to promote the growth of locally-owned financial institutions. The lower entry requirements for NBFIs was responsible for the growth of the NBFIs, lack of interest restriction enabled the NBFIs to attract deposits by charging high interest rates.

In the 1990s, there was a decline of the NBFIs with many converting to commercial Banks following the harmonization of capital requirements and interest rate regulation for both the Banks and the Non banking financial institutions. As the financial sector grows, institutional diversity is expected. However, this has not been the case, as reflected in the limited growth of other competing institutions like post bank, insurance and the stock exchange. According to (CBK 1998) The Kenyan banking sector is dominated by a few large firms, which focus mainly on short-term lending, Of the 56 commercial banks operating in the country, the largest four control 81% of the deposits. The short term nature of their lending and their policies of concentrating on a small corporate clientele has implied indifference to small savers and

<sup>3</sup> Sessional paper No 2 of 2005 .

borrowers. This has meant that they exclude a large number of potential borrowers and investors from their services.

The Kenyan financial system has grown and become sophisticated. However this has not translated to efficiency in the service delivery to their clients and to the economy. It has been argued that the large differential between deposit and lending rates is an indication of the lack of sufficient competition for savings among Kenyan banks. Despite the liberalization of interest rates in 1991, nominal interest rates have shown minimal increase, resulting in negative real interest rates, and a widening of interest rate spread, indicating inefficiency in the system. Bank charges for the service offered to clients also make the cost of banking prohibitive to the small and micro entrepreneurs.

The banking sector has enjoyed high profitability. This has however not triggered entry by new competitors as would be expected. This clearly indicates that there exist some barriers to entry in the market. According to the 1997-2002 development plan, there is need to introduce regulatory measures to check oligopolistic tendencies, which restrict entry and efficiency in the banking sector.

The performance of financial institutions and credit programmes in Kenya in as far as alleviating financial constraints of small and micro enterprises is concerned has attracted a lot of criticism. The criterion of creditworthiness, delays in loan processing and disbursement, and the government approach to preferential interest rates, resulting in non price credit rationing, have limited the amount of credit available to smallholders and the efficiency with which the available funds are used (Atieno, 1994). This is a clear indication of the general inadequacy of the formal credit institutions in meeting the existing credit demand in the country. Bottlenecks in the capacity of the existing institutions to deliver credit are also reflected in the existing unsatisfied demand (Aleke Dondo, 1994).

The Kenya's financial system does not meet the credit needs of smallholders especially in rural areas this shows a deficiency in the range of financial instruments and lack of coordination between different financial institutions this is consistent with the argument that credit markets in Africa are characterized by inability to satisfy existing demand, which for the informal market is explained by the high transaction costs and default risks.

The lending policies used by the main credit institutions in Kenya do not ensure efficient and profitable use of credit funds, and also result in a disparity between credit demand and supply (Atieno, 1994). This view is further supported by a 1995 survey by the Kenya Rural Enterprise Programme (KREP) showing that whereas credit is an important factor in enterprise expansion, it will most likely lead to enterprise contraction when not given in adequate amounts (Daniels et al., 1995). The existence of a sophisticated financial system in Kenya does not guaranteed the access to credit by small-scale enterprises. Although not much is known about the informal financial sector in the country, there is a consensus that it is an important source of finance to the small-scale entrepreneurs in the country (Aleke Dondo, 1994).

The financial market in Kenya is divided between formal and informal segments, these two segments operate independently. It is apparent that the informal credit market offers important alternatives to the small and micro enterprises because the formal sector is not effective in meeting the demand for credit. Informal credit sources in Kenya comprise traders, relatives and friends, ROSCAs, welfare associations, and moneylenders. Ouma (1991) found that 72% of the sample surveyed saved with and borrowed from informal sources. Whereas in the formal credit market only a selected few qualify for the predetermined loan portfolios, in the informal market the diversified credit needs of borrowers are better satisfied. The problems of formal financial institutions, especially security, loan processing, inadequate loans given, unclear procedures in loan disbursement and high interest rates, all underscore the importance of informal credit and the need to investigate the dynamics of its operations, especially with respect to how these factors determine the access to and the use of credit facilities.

### **1.13 THE KENYA MOTOR SERVICE INDUSTRY**

The Kenyan motor vehicle industry (MVI) was established in the 1950s with servicing as the main activity, the sector then developed to include auto ancillary services, vehicle building, and coach works. The government has attempted to develop the motor vehicle assembly industry by requiring the assemblers to move from semi knocked vehicles to completely knocked down level of assembly. However the low demand for vehicles in the Kenyan market and the absence of long term planning to facilitate a transition from assembly to manufacturing has limited the growth of the sector and its ancillary subsector. (D.McCormick and Poul Ove Pedersen 1996)

The Kenya motor industry is structured into different categories:-the first distinct category consists of three assemblers: Kenya vehicle manufacturers (KVM), associated vehicle assemblers (AVA), and General motors. The first two assemblers are contract assemblers while General motors Kenya is a franchise holder as well as assemblers. (D. McCormick and poul Ove Pedersen 1996.)

The government of Kenya has shareholding in all the three assemblers together with major franchise holders. The second category are the importers of completely knocked down kits (CKDs), they hold license to import and assemble on behalf of principal car manufacturers in Japan, Italy, UK, German, and USA, these category consist of thirteen franchise holders. The third category consists of distributors who are also franchise holders. However they are distributors who just provide outlets for major franchise holders.

The fourth category is the auto ancillary sector comprising a variety of independent small and medium enterprises who supply the industry with assembly and replacement parts. These categories however get most of their business from the replacement market since the assemblers import completely knocked down (CKD) kit. The service and repair sector including body fabrication subsector is the fifth category, it is however not linked to the assembly or auto ancillary sector. In Kenya this is the category that employes the largest number of small enterprise workers in the motor vehicle industry. The focus of this study will be on this last category that is the service and repair industry.

The service and repair sector in Kenya benefits from the second hand vehicles which are imported in the country as they always need constant service and repair owing to poor state of the road infrastructure in the country. Studies show that used vehicles account for 70 per cent of the motor vehicle market in Kenya. The cost in terms of spares is high, since these vehicles cannot withstand the bad state of the local roads, the country has become a dumping ground for used motor vehicles from the western nations.

The motor vehicle industry in Kenya has the capacity to create between 24,000 and 25,000 jobs in the formal sector and about 240,000 jobs in the informal sector, the equivalent of the total number of civil servants in Kenya. But meeting this mark is difficult in the face of recession.



## 1.2 STATEMENT OF THE PROBLEM

The business environment in Kenya is comprised of large enterprises, medium enterprises, small and micro enterprises. All these enterprises are important to the economy for the purpose of employment creation and revenue generation. According to the 1999 National baseline survey, there were approximately 1.3 million MSEs employing 2.4 million people. Among the Medium, small and micro enterprises 97% are micro enterprises, 2% are small enterprises and 1% are medium enterprises. It is very clear from these data that though micro enterprises in Kenya are growing in numbers, their mortality rate is also high and their graduation from micro to small enterprises is a problem.

Small and micro enterprises have become an important contributor to the Kenyan economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the low-income households in the country, accounting for 12-14% of GDP. With about 70% of such enterprises located in rural areas, the sector has a high potential for contributing to rural development. (Republic of Kenya, 1989,1992,1994),

Studies conducted on the MSE sector in Kenya have identified access to credit as a major hindrance to the growth and development of MSEs. Other studies show that even though credit in the banking sector has grown significantly in the recent past, little of this credit reaches the MSE sector. ( Parker and Torres 1993). The 1995 Baseline survey showed that 10.8% of the MSEs had accessed credit; of these, only 3.4% received credit from formal sources.

The informal credit institutions have proved relatively successful in meeting the credit needs of small enterprises in most countries; however their limited resources restrict the extent to which they can effectively and sustainably satisfy the credit needs of these entrepreneurs (Nappan and Huddleston, 1993). This results from the fact that as SMEs expand in size, the characteristics of loans they require become increasingly difficult for informal credit sources to satisfy, yet they still remain too small for the formal lenders (Aryeetey, 1996a).

Research work done in this field include the work of:-J.k Kessio 1981 study of the problems facing small business and the effect of management training on the performance of the proprietor. A case study of Nandi district. Mbuvi A.K.N 1981, A study of the causes of failure of

small scale African business. A case study of machakos district and Kimuyu and Omiti 2000, institutional impediments to access to credit by micro and small scale enterprises in Kenya.

To the best of my knowledge no study has been conducted on financial challenges facing SMEs in the motor vehicle repair industry, this gap of knowledge is what this study intends to fill.

A relevant issue for empirical investigation is therefore that of the financial challenges faced by small and micro enterprises in the motor vehicle repair industry.

### **1J OBJECTIVE OF THE STUDY**

To establish the financial challenges faced by small and micro enterprises in the Motor vehicle repair industry.

### **1.4 IMPORTANCE OF THE STUDY**

This study will be of benefit to researchers in the area of small and micro enterprises in the Motor Vehicle repair industry.

This study will also benefit the Entrepreneurs in the Motor vehicle repair industry to be aware of the financial challenges facing them.

The study will provide useful information to the future potential investors in this sector.

The government will also benefit from this research by understanding the financial challenges of this sector, and this may help in shaping policy.

### **1.5 LIMITATION OF THE STUDY**

The results of the study may have been affected by the following limitations:

The use of predetermined questionnaires may have forced the respondents to answer some questions even without understanding them.

Some respondents were unwilling to give some information on some matters they considered sensitive, while others may have attempted to paint a rosy picture of their organization hence not giving the correct response.

Some respondents were unwilling to fill in the questionnaires, while others refused completely to undertake the exercise. The unwilling respondents may have answered the questions carelessly.

## **CHAPTER TWO:**

### **LITERATURE REVIEW**

#### **2.1 SMALL AND MICRO ENTERPRISES IN KENYA**

Censuses indicate that micro-enterprises comprise the lion's share of enterprises in Kenya, while there are a few medium enterprise, Small enterprises are almost non-existent. Micro-enterprises are indigenous while the medium-scale and lager manufacturing enterprises are dominated by Asian (Indian) capital (Parker and Torres 1994. The 1999 National baseline survey defines the MSE sector as all economic activities that engage up to 50 workers (whether on permanent or casual basis). A micro enterprise is defined as an enterprise with not more than 10 employees including the owner, a small enterprise as one with 11-50 workers while a medium/large enterprise is one with 50 and over. This definition includes both the informal and formal sector but does not include farm activities except economic activities related to trading and processing of farm produce.

The 1999 National baseline survey, found that there were approximately 1.3 million MSEs employing 2.4 million people. 80% of MSEs were located in rural areas and 26% of households were involved in some form of MSE activities. About two thirds or 64.1% of MSEs were in trade sector involving buying and selling, manufacturing and services accounted for 13% and 15% respectively. The average size of MSE is 1.8 regular employees with owners and family members comprising 80% of the total worker force. The Economic survey 2005 found that the SME sector has recorded growth and estimated that there are about 2.8 million SMEs employing about 6million people in Kenya, this was a 37.2% growth from 4668700 in 2001 to 6407200 in 2005.

MSE sector plays a vital role in the development of the Kenyan economy through creating the bulk of the jobs, providing goods and services, democratizing the economy by providing an avenue for the majority to contribute to economic development, creating a market for local raw materials and acting as a vehicle for country industrialization. In spite of the important role played by the MSE sector its growth has been hampered by various constraints cited in a number of studies and that need to be addressed. These constrains include: limited access to finance and

markets, poor infrastructure, inadequate technical and managerial skills, inappropriate legal and policy framework, inadequate access to information and gender inequality. (Sessional Paper No.2 of 2005)

The government, through the sessional Paper No.2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment creation for Poverty Reduction has addressed most of the factors constraining the development of the sector. A Micro and Small Enterprises Bill, 2006 was passed in November 2006 and will provide appropriate legal framework for the development of the sector.

## **2.2 THE VEHICLE SERVICE SECTOR IN KENYA**

The establishment of motor vehicle industry in Kenya dates back to the 1950s, during this time, servicing was the main activity. The Automotive industry in Kenya is primarily involved in the retail and distribution of motor vehicles. There are a number of motor vehicle dealers operating in the country, with the most established being Toyota (East Africa), Cooper Motor Corporation, General Motors, Simba Colt and DT Dobie. These dealers undertake the repair and service of motor vehicles and therefore in direct competition with the small and micro garages, however the small and micro garages mainly focus on individual clients and small corporate clients while the big motor dealers provide repair services to large corporate clients. The small and micro garages procure spare parts from micro traders who specialize on the sale of motor vehicle spare parts. The big motor dealers like DT Dobie however import vehicle parts directly from the manufacturers, (<http://www.kmi.co.ke/news>)

The motor vehicle repair and service sector is dominated by small and micro enterprises; the large firms in this sector operate big workshops that have state of art equipments and adequate technology to enable them to perform their motor vehicle repair service business. The small garages on the other hand operate in small workshops and semi permanent sheds or open Air. Garages with workshops are organized and have a formal status while those that have no workshops are run by freelance mechanics who are self employed. The main advantage that attracts customers to the free lance mechanics in the jua kali sector is the fair prices they charge and the personalized services they give to the customers, (<http://www.kmi.co.ke/news>)

There are also three vehicle assembly plants in the country, which concentrate on the assembly of pick-ups and heavy commercial vehicles. The established dealers face intense competition from imported second-hand vehicles, mainly from Japan and United Arab Emirates. These imports now account for about 70% of the market. The last decade witnessed a significant decline in the number of new vehicles sold in the country. There has been a steady recovery in the last four years, but the numbers achieved still fall far short of the numbers recorded a decade ago. In 2004, the leading motor vehicle companies recorded sales of 9,979 units. Although 27% better than the previous year, this is still well below the levels achieved in the early 1990's. ([http://www.kmi.co.ke/news\\_total\\_motor\\_show.php](http://www.kmi.co.ke/news_total_motor_show.php))

## **2.3 FINANCING SMALL AND MICRO ENTERPRISES**

High levels of poverty combined with slow economic growth in the formal sector has forced many Kenyans into self-employment and informal activities, yet access to financial services remains a major challenge. According to the World Bank development Report 2003, As of June 2003, there were an estimated 3,460 legally constituted microfinance service providers in Kenya, including 3,397 savings and credit co-operatives and co-operative-like community-based intermediaries, 56 microfinance institutions (MFIs), four commercial banks, two building societies, and the Kenya Post Office Savings Bank. Excluded from this list were 17,305 rotating savings and credit associations (ROSCAs), 115,884 registered women groups', and 1,342 primary agricultural producer and marketing cooperative societies, also involved in providing credit countrywide. There are approximately 3.8 million Kenyans depending entirely on financial NGOs, cooperatives, and the Kenya Post Office Savings Bank for financial services. (World Bank development Report 2003).

In June 2003, the total deposits held by financial cooperatives, NGOs, the Kenya Post Office Savings Bank, and community-based financial intermediaries was estimated at Kshs 82.3 billion (US\$1.1 billion) while total loans outstanding was Kshs 71.4 billion (US\$940 million). (The financial cooperatives alone were holding more than Kshs 70 billion (US\$920 million) as of December 2003.) Altogether, the microfinance sector comprises a very large and diverse group of institutions providing a range of loans and savings products to their clients. It is estimated that there are 3.8 million Kenyans depending entirely on financial NGOs for financial services, while

another estimated 1.1 million depend on informal associations and groups for similar services countrywide. (World Bank development Report 2003).

The microfinance institutions in Kenya face a number of constraints in the provision of their services to small and micro enterprises, over the years the major impediment has been the lack of specific legislation to guide the operation of the MFI sector. Microfinance institutions in Kenya are registered under eight different Acts of parliament namely:- the Non governmental Organizations co-ordination Act, the building societies Act, The Trustee Act, The Societies Act, The Cooperative societies Act, The Company Act, The banking Act and the Kenya Post Office Savings Bank Act, some of these forms or registrations do not address issues regarding ownership, governance and accountability, they have also contributed to a large extent to the poor performance and eventual demise of many MFIs because of lack of appropriate regulatory oversight. This has had a bearing on a number of other constraints faced by the industry, namely: diversity in institutional form, inadequate governance and management capacity, limited outreach, unhealthy competition, limited access to funds, unfavorable image and lack of performance standard.

The lack of oversight, however, has enabled them to innovate and develop different techniques of providing micro finance services. The development of the micro finance institutions has received a major boost with the enactment of the micro finance bill 2006. The micro finance bill is tailored to provide regulation and supervision in the micro finance sector and lead to quality growth, broaden the funding base and administer deposits, credit facilities, and other financial services and start the process of integrating these institutions into the formal finance system. (George Owino 2005)

A business entity is financed by the equity and / or the debt source. The debt is advanced by the outsiders whereas the equity financing is done by the owner's share contributions and retained earnings. (Copeland and Weston 1992). According to Boomgard, (1989), the sources of finance for MSEs include Cooperatives, credit unions, pawnshops, Rotating savings and credit associations (ROSCAs) members save but do not necessarily borrow, mutual aid societies, commodity sellers, money lenders, shopkeepers, friends and neighbours. The 1999 National MSE Baseline survey identified the sources of finance for MSEs as family sources, money lenders, banks and NGOs.

The Entrepreneurs make their choice of the source of the credit they want to borrow partly based on the information on the available sources and partly based on their specific credit requirements. This information is, in turn, influenced by proximity of the different sources and perceptions about the sort of customers that a particular financial institution/credit Source entertains. The entrepreneur may also have considerations for profit and utility maximization when choosing the source of credit (Kimuyu and Omiti 2000).

According to the 1993 Baseline survey, 9% of the SMEs had accessed credit but only 4% of this credit was obtained from formal financial institution. The survey indicated that the bulk of SME credit (69.1%) came from informal savings and credit associations, mostly rotating savings and credit associations (ROSCAs), friends and relatives. The 1995 Baseline survey showed that 10.8% of the MSEs had accessed credit but only 3.4% received credit from formal sources.

The choice of a credit source is a phenomenon that seems to be influenced by attributes specific to both the Entrepreneurs and their enterprises it also depends on the credit environment. Considering the potential sources are many, the credit sources variable tend to be polytomous response variable that can be modeled using a multinomial logic framework (Madalla, 1983, SPSS, 1999), in which case the source of credit can be simultaneously explained by a set of enterprise and entrepreneur's attribute.

The government of Kenya (GOK 2000) has identified four main constrains that have impacted on MSEs. These are inadequate loanable funds for MSEs, stringent collateral requirement by commercial banks, lack of incentives for banks to lend and negative perception of MSEs by lending institutions. According to the 1999 National Baseline survey, the demand for credit is the least studied aspect of the sector. The survey further states that about 70% of the loan required by SMEs do not exceed Kshs 20000 and 96.3% do not exceed Kshs 100,000. It also indicates that there is a difference between the size of the loan required by men and women, about 82% of the women entrepreneurs require loans that do not exceed Kshs 20,000 compared to 39.7% of the men. Relatively large loans are required by men and jointly owned enterprises than by women.

Despite the importance of credit and the positive attitude towards borrowing, a good majority of SMEs prefer not to borrow from banks and hence rely on limited own or family savings for start up and additional capital, they hardly rely on external sources of funds. Informal enterprises



borrow about 1/6 of the amount borrowed by formal enterprises; the other factors that influence the structure of borrowing include Age of the entrepreneur, level of education of the Entrepreneur, membership in support groups and size of the Enterprise (Kimuyu and Omiti 2000). Educated and young entrepreneurs tend to borrow more relative to less educated and older Entrepreneurs, relatively large enterprises also demand more credit compared to smaller ones.

Kimuyu and Omiti 2000 indicates that the supply of credit nearly matches the demand with a gap of 17%, they further say that urban located enterprises are more successful in their credit application than the rural enterprises. Informal enterprises are also more successful in their level of formal loan application than the formal ones. This may be attributed to the fact that, either informal enterprises have better perceptions about their success possibilities or have advance information on how they hope to get from their credit sources. They are also said to be more likely to borrow from specific credit sources.

The loan application success is also determined by the credit source, for example, Entrepreneurs applying to cooperatives receive most of what they request, while those applying to non bank finance institutions are generally less successful in terms of level of credit sought than those applying elsewhere, this is attributed to the fact that the Entrepreneurs applying for the loans are well known to the management of the cooperatives. The econometric estimates of conditional credit supply function yields a positive impacts of formality and urban location as well as the differential impact of the various credit sources. This suggests that there is unsatisfied demand for credit within the SME market. (Kimuyu and Omiti 2000).

Trade credit from suppliers help entrepreneurs who are unable to access credit from lending institutions and therefore act as a substitute to borrowing. Trade credit may also arise in response to a sales promotion motive wherein suppliers are willing to provide credit for a purchase in order to complete the sale (Nadiri 1969). Trade credit is given by the suppliers based on the existing business relationship.

## **2.4 CHALLENGES OF FINANCING SMALL AND MICRO ENTERPRISES.**

According to the sessional paper no.2 of 2005, the issues and problems limiting MSEs acquisition of financial services can be grouped into two broad categories: lack of tangible security and an inappropriate legal and regulatory framework that does not recognize innovative strategies of lending to the SMEs: and the limited access to formal finance due to poor and insufficient capacity to deliver financial services to MSEs.

Lack of structured institutional mechanism in Kenya to facilitate the flow of financial resources from the formal financial sector through the Micro Finance Institutions (MFIs) to the MSEs is a challenge that constrains access to credit by SMEs. The lack of structured institutions increases the cost of credit to both entrepreneurs and financial institutions. The other challenge for SMEs in accessing financial services is the way the financial institutions operate requiring SMEs to be formally registered and to meet requirements such as proper maintenance of books of account and verifiable asset base. Most SMEs are unable to meet this criteria. (Sessional paper no.2 of 2005).

According to the sessional paper no. 2 of 2005, policies and strategies designed to boost credit and Finance to the MSE sector have been formulated without reliable information on reliable methodologies, data on the magnitude of the MSE sector, characteristics of MSE operators, and factors influencing the growth and dynamics of the sector. This state of affair results to high credit transaction costs, for collecting and verifying available information, mainly on the credit worthiness of MSE borrowers. In Kenya, the short-term nature of the lending policies by the commercial banks and the concentration on a small number of corporate clients has meant that they exclude a large number of small savers and borrowers from their services. (Republic of Kenya, 1997).

The present legal and policy framework for financial services tends to cater for the large borrowers and is less supportive to the small borrowers. The banking act for example prohibits MFIs from mobilizing savings and taking deposits for re-investment, hence the MFIs face problems in building a sustainable funding base for MSEs. The Post Office Act does not provide for effective supervision of the Savings and Credit Cooperative Societies ( SACCOS). (Sessional paper no.2 of 2005).

Credit markets are characterized by information asymmetry, agency problems and poor contract enforcement mechanisms (Nissanke and Aryeetey, 1995). Financial institutions find it difficult and costly to obtain information, the lenders are unable to freely observe all the relevant aspects of a firm's investment project. Hence they are unable to evaluate credit worthiness properly and to write a complete loan contract specifying all the possible contingencies. In most instances, lenders have less knowledge than managers about the quality of the firm's plant and equipment and the dedication and competence of its management and workers. Lenders also find it difficult to monitor how hard the entrepreneur or manager works on the investment project. And they find it costly to verify the firms output. Borrowers, of course, can potentially gain by exploiting their asymmetric information advantage. (World bank report 1994).

Entrepreneurs invest a lot of time in developing good relationships with their suppliers. The short life expectancy of the SMEs however reduces the opportunities of building such relationships. Some entrepreneurs get credit from their suppliers and others do extend credit to their customers. Credit related disputes occur very often and they have proved very hard to resolve. (Kimuyu and Omiti 2000). Trade credit may arise in response to a sales promotion motive wherein suppliers are willing to provide credit for a purchase in order to complete the sale (Nadiri (1969)).

The main challenge to the suppliers in using trade credit is when it comes to contract enforcement; when the beneficiary of trade credit refuses to honor his/her promise. Legal enforcement, by the nature of the conflict adjudication procedure, entails high costs and delays. It is also time consuming. The threat of legal enforcement is therefore rarely credible for small transactions. Yet the majority of economic transactions in the SME sector are small: because most SMEs operate in a small way. Majority of SMEs therefore miss on the opportunity of securing trade credit from their suppliers because of lack of an efficient and cost effective contract enforcement mechanism, (world bank report 1994).

Most financial institutions may shy off from writing financial contracts with SMEs because enforcing particular elements of a financial contract is very costly, perhaps even prohibitively so. For example, it is costly for courts to observe and verify all relevant economic variables, making it difficult to enforce contracts based on these contingencies. The costs of carrying out sanctions, such as collecting collateral and fines, selling off repossessed collateralized equipment,

and imprisoning offenders may also be high where markets are thin, law enforcement agencies are inadequate, and political authorities neglect the protection of property rights. High enforcement costs permit individuals and firms to gain by defaulting on debts. (World bank report 1994).

Formal financial institutions perceive MSEs as high risk and commercially unviable, this perception makes Commercial banks to be conservative in their lending practices, a tendency reinforced by the legal requirements for ensuring adequate security, this means SMEs without collaterals are denied credit from such institutions, these problem is great in the rural areas where bank branches are few and far apart. (Sessional paper no.2 of 2005)

# **CHAPTER THREE.**

## **RESEARCH METHODOLOGY**

### **3.1 Research Design.**

This was a descriptive survey aimed at determining the financial challenges faced by small and micro enterprises in the motor vehicle repair service sector in Kenya. Cooper and schindler (1998), a study concerned with finding out what, where and how of a phenomena is a descriptive study. The concern of this study will be the "what" question.

### **3.2 Target Population.**

The population of interest included all garages which offer motor vehicle repair services in Nairobi. The population of study was all the small and micro garages that operate from affixed premises or workshop. The study was carried out in Nairobi because the firms offering this service are concentrated in Nairobi.

### **3.3 Population frame.**

The sample was chosen from a population of two hundred and thirty six garages. This is approximately 17% of the entire population and was considered representative of the population.

### **3.4 Sample frame.**

The sample was drawn from the list of SME garages in the Nairobi City council Business Licensing Department.

### **3.5 Sample size**

The sample size comprised forty small and micro garages.

### **3.6 Sampling method.**

The researcher used simple random sampling in selecting the firms to be considered for the study.

### **3.7 Data Collection.**

The data was collected using a structured questionnaire, the questionnaire was properly formatted having both open ended and closed questions and it was divided into three sections which comprised of the background, sources of finance and challenges and recommendations. It had a self declaring statement assuring the respondents on the confidentiality of their responses. The researcher dropped and picked the questionnaires.

### **3.8 Data Analysis.**

The data was analyzed using descriptive statistics such as frequencies and percentages presented in tables and charts, a quick impressionist summary was used, this involved: Summarizing key findings, explanation and interpretations and conclusions.

## CHAPTER FOUR.

### 5.0 INTRODUCTION

The data was collected by use of questionnaires, the drop and pick method was use by the researcher. Forty questionnaires were dropped to respondent's garage premises, out of the forty, thirty- two respondents filled and returned the questionnaires. This response rate was deemed adequate and sufficient by the researcher for the purpose of data analysis.

### 5.1 DATA ANALYSIS

#### Information on the Age of the garages.

**Figure 4.1**

Age the garage in years	Frequency	Percentage
1-3	4	12.5%
4-7	6	18.75%
8-9	6	18.75%
10-15	4	12.5%
Over 15years	12	37.5%
Total	32	100%

**Source: Author 2007.**

The study shows that among respondents investigated, 37.5% of the garages were over 15 years, 12.5% were between 10-15 years, 37.5% were between 4-9years while 12.5% were between 1-3 years. This clearly shows that fifty percent of the respondents are over ten years old in yet they are still small or micro, meaning that graduating from SMEs status to middle enterprise status is a problem.

## Information on the legal form of business.

**Figure 4.2**

Legal form.	Frequency	Percentage
Sole proprietorship.	11	34.375%
Partnership.	4	12.5%
Limited company.	17	53.125%
Total	32	100%

**Source: Author 2009.**

The study shows that over fifty three percent of the respondents are limited company garages while 34% are sole proprietorships and 12% are partnerships, this means that most garages prefer the limited company legal form.

## Information on the size of garages in terms of the number of employees

**Figure 4.3**

Number of employees	Frequency	Percentage
1-5	7	23%
6-10	9	27%
11-20	6	19%
21-50	10	31%
Total	32	100%

**Source: Author 2009.**

The study reveals that 50% of the garages under investigation are micro enterprises while the other 50% are small enterprises. This means that the number of small enterprises are almost equal to that of micro enterprises.



## Information on the tenure status of the garage premises

Figure 4.4

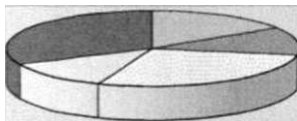
- Temporary occupation 4%
- Lease 19%
- Pays rent 62%
- Own premises 15%

**SOURCE: Author 2009.**

The study shows that 81% of the garages pay rent and on the garage premises, this clearly show that very few own their business premises, this means that a majority of the respondents are under obligation to pay rent and this can pose a financial challenge to them.

## Information on the rate of loss of clients due to financial challenges

Figure 4.5



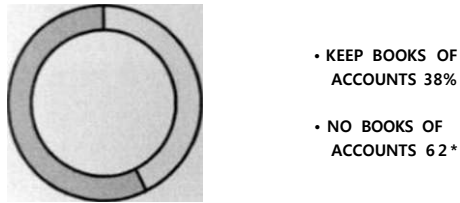
- Very high 16%
- High 12%
- Moderate 28%
- Low 12%
- Zero 28%

**Source: Author 2009.**

The study shows that 72% of the respondents lose clients due to financial challenges though at different rates. This means that financial challenges are a major contributors to slow growth or lack of it in the SME sector.

## Information on garages which keep books of account.

Figure 4.6

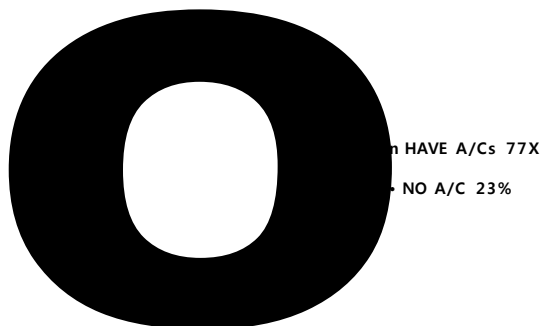


**Source: Author 2009.**

The study reveals that 62% of the respondents do not keep books of account and only 38% maintain the books of account. This clearly shows that financial planning may be lacking in over 60% of the respondents and this in itself may be the genesis of the financial challenges facing these enterprises. For example accessing credit from the banks without books of accounts is not easy, secondly to make sound financial decisions that will support business growth, one needs financial data.

## Information on businesses which operate bank accounts.

Figure 4.7

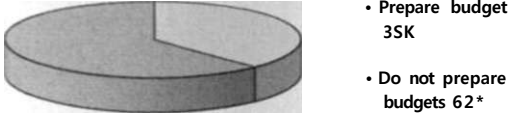


**Source: Author 2009.**

The study shows that 77% of the respondents operate bank accounts while 23% have no bank accounts. Operating a bank account makes it easier for a business to access credit and overdrafts from the bank and also to give credit to its customers and accept post dated cheques. A business without a bank can only make cash transaction with its customers, only individual clients transact business using cash, hence a business without a bank account cannot deal with corporate clients, it is therefore very hard for a business to grow if it only relies on individual clients.

**Information on garages which prepare monthly budgets.**

**Figure 4.8**

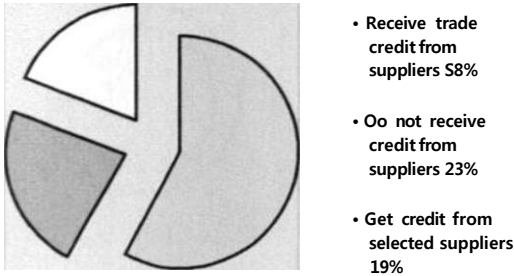


**Source: Author 2009.**

The study shows that 38% of the garages under investigation prepare monthly financial budgets while 62% do not prepare monthly financial budgets. This means that a majority of garages do not do financial planning and cash flow forecasting and they therefore react to financial challenges as they arise. This kind of approach to business leads to business failure because there is lack of proper financial planning.

**Information on garages which get credit from their suppliers.**

**Figure 4.9**

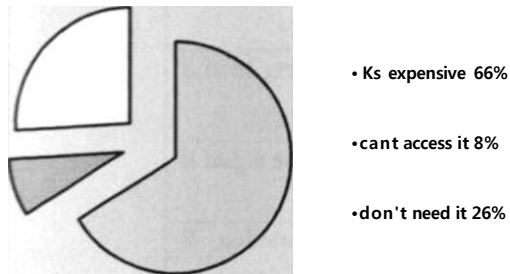


**Source: Author 2009.**

The survey established that 58% of the respondents get credit from suppliers, while 23% don't half of those who don't get credit, is because they don't require it while the other half said that their suppliers don't trust them. 19% of the respondents said that they only get credit from some suppliers. It is clear from the findings that a majority of the respondents get credit from suppliers, this means that a majority of the respondents have a good relationship with their suppliers and they make use of trade credit to improve their business. It also means that supplier credit is a major source of credit for SMEs garages.

## Information on why garage shy from bank overdrafts

Figure 4.10

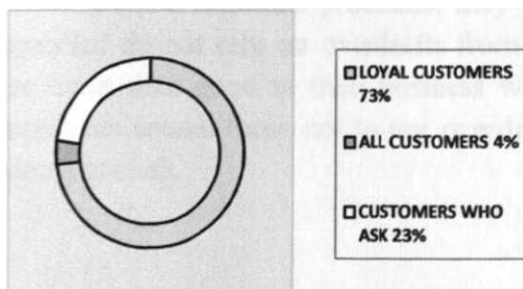


**Source: Author 2009.**

The survey also established that 58% of the respondents have never made an overdraft arrangement with the bank. Out of these respondents, 66% said it is expensive, 8% said they can't access it, while 26% said they don't need it. It is clear from the finding that bank overdrafts are not very popular with the respondents, the main reason being that the respondents believe that overdrafts are very expensive. This means that they have to rely on other sources of credit.

## Who gets credit from garages?

Figure 4.11



**SOURCE: AUTHOR 2009.**

The study reveals that 73% of the respondents give credit to loyal client, 4% to all customers while 23% of the respondents give credit to the clients who ask for it. It's very clear that over 75% of the respondents give credit to their customers, this means that without proper credit managements, then it is possible for these garages to fall into cash flow crisis, however with proper credit management, extending credit to customers can result to business growth.

**Information on the perception of the respondents on the usefulness of bank overdraft to their business.**

**Figure 4.12**

	<b>Frequency</b>	<b>Percentage</b>
It is of great help.	8	24%
It helps solve some problems.	3	8%
It solves some problems and creates new ones.	15	48%
It does not help at all.	3	8%
My business cannot access it	3	8%
Total	32	100%

**SOURCE: Author 2009.**

The study revealed that though a majority of the respondents feel that bank overdrafts are useful in solving some financial problems, they also create others. It is clear that over 64% of the respondent do not rely on overdrafts from the banks, they believe that the said facility causes more harm than good to their business when it comes to repayment. This perception by the respondents causes them not to use overdrafts to finance their operations, hence slowing their business growth.

**How respondents deal with customers who default on payments after receiving credit.**

**Figure 4.13**

<b>RESPONDENT'S ACTION</b>	<b>FREQUENCY</b>	<b>PERCENTAGE</b>
Take the customer to court	5	15%
Stop credit and ask for cash	15	46%
Offer service while persuading customer to pay debts	11	35%
Deny the customer access to the service and blacklist them	1	4%
Total	32	100%

**Source: Author 2009.**

The study reveals that only 15% of the respondents would take their clients to court for legal redress upon default of payment after extending credit to them, 4% of the respondents said they would blacklist the defaulters and deny them access to their services while 71% would continue offering their services and use other means to recover the debts. The mean that the respondents to not have faith in the legal system as a means of getting redress from defaulting customers, this may be due to the cost involved both financially and in terms of time and the small size of the transactions in question. This particular state of affair encourages rogue customers to continue defaulting and go scot free, at the expensive of small and micro garages hence hampering their growth.

## Information on the respondent's perception on the usefulness of credit.

Figure 4.14

- It can help me  
81%
- it cannot help me  
19%

### Source: Author 2009.

The study also established that 81 % of the respondents believe that they can benefit from access to credit while 19% don't believe that it is of any use to them. This means that over 80% of the respondents know that credit may be good for their business and are willing to use it but they can either not access it or they find it very expensive.

## Information on the perception of the respondents on the rates of interest.

Figure 4.15



### Source: Author 2009.

The study established that 56% of the respondents believe that interest rates on bank loan are very high, 16% said they are just high, another 16% said the rates are moderate while 12% of the respondents had no idea. It is clear that with over 72% of the respondents believing that the bank loans are expensive in terms of the interest rates they charge, very few businesses are likely to rely on banks to finance their operations. The entrepreneurs are therefore likely to rely on other sources of finance.

**Information on loan processing period.**

**Figure 4.16**

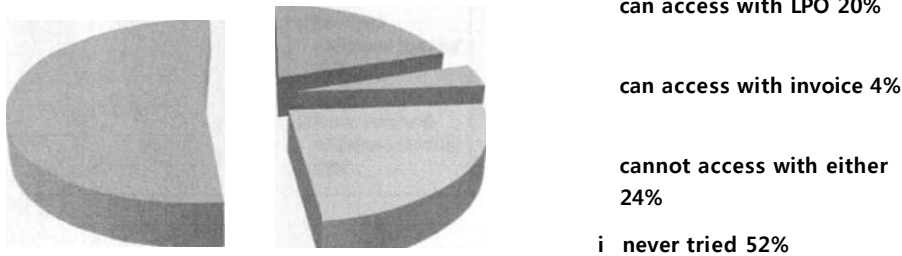
Number of days	Frequency	percentage
1-10 days.	15	47%
11 -20days.	8	24%
, 21-30days.	3	10%
31 -60days.	6	19%
<b>TOTAL</b>	32	100%

**SOURCE: Author 2009.**

The study reveals that 47% of the respondents believe they can access credit within 10 days respondents believe that once you comply with the bank requirements, loan processing is fairly efficient. The speed at which one gets the loan will therefore largely depend on how fast one complies with the bank requirements, while 34% believe that they will take between 10 to 30 days. 19% believe that it would take them between one and two months. A good number of These means that so long as a business is eligible for funding, bank loans can be relied upon as a source of finance in terms of fast processing of loans.

**Figure 4.17**

**information on access to credit using LPOs and invoice discounting**

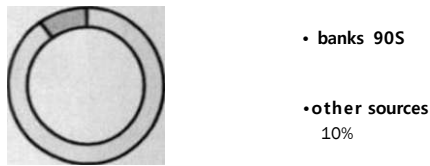


**Source: author 2009**

The study reveals that over 70% of the respondents do not discount LPOs and invoices, it was established that only 24% of the respondents discount invoices or LPOs. These means that a majority of the SME garages are missing on a very good opportunity of financing their operations and avoid the common financial challenges that they experience.



**Information on sources of additional funding.  
Figure 4.18.**

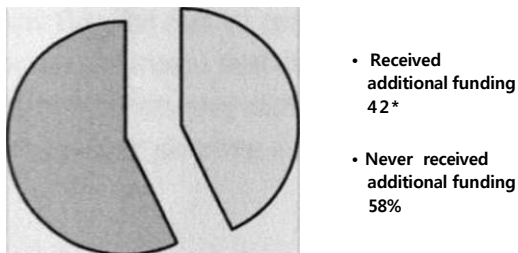


**Source: Author 2009.**

The study shows that among the garages which have received additional funding, 90% of this funding is from banks while 10% is from other sources. These means that most businesses that are operational prefer banks as a source of additional funding for their business because of convenience and trust and not necessarily because of its cost. The study further reveals that the additional funding received ranged between kshs 50000-100000, It was also established that 50% of the respondent a have preferences for specific sources of finance of this, 75% said they preferred banks because of convenience and trust. Those who preferred trade credit gave interest rates and fewer requirements as some of their reasons for their preference.

**information on additional funding to garages.**

**Figure 4.19**



**Source: Author 2009.**

The study established that 42% of the respondents have received additional funding while 58% have never received additional funding. This mean that either the conditions set by the banks are too hard for the garages to comply or the credit is too expensive.

**Arrangement of issues according to the challenge they pose to the respondents.**

When asked about the issues that pose the greatest challenge to their garages;

**Figure 4.20**

Issues	frequency	percentage
Rent/lease payment	11	33%
Financing repairs	9	29%
Payment of salaries.	7	21%
Payment of loans.	5	17%
Total	32	100%

**Source: Author 2009.**

The study reveals that the greatest financial challenge facing the respondents is rent/lease payment followed by financing repair then payment of salaries and lastly payment of loans. This means that the cost of rent and lease for garage premises in Nairobi is very high relative to the volume of business that the garage businesses undertake. The fact that financing of repairs is also a major problem may mean that the cash flow situation in garages is not good this may be due to lack of proper planning and poor access to credit.

## The challenge of payment of salaries.

Figure 4.21

	Frequency	Percentage
Experience salary delay always	1	4%
Most of the time	6	20%
Once in a while	13	40%
Never	12	36%
Total	32	100%

Source: Author 2009.

The study reveals that at least 64% of the respondents experience the salary payment challenge although at varying degree, 36% of the respondents however do not face any challenge as far as salary payment is concerned. These challenges in salary payments are largely due lack of proper financial planning.

## Information on VAT registration.

Figure 4.22

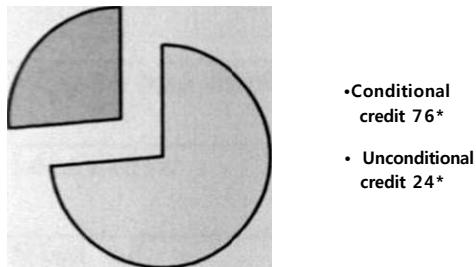
- VAT REGISTERED  
54%
- NOT REGISTERED  
46%

Source: Author 2009.

The study also established that 54% of the respondents are VAT registered while 46% are not registered. It was also revealed that 50% of the registered members experience difficulty in complying with VAT payment deadlines. This problem was attributed to lack of a steady cash flow which results from delays in debt repayment by credit customers.

## Conditions given by suppliers to garages before issuing trade credit.

Figure 4.23



**Source: Author 2009.**

The study established that out of the garages which get trade credit, 76% of them are required to fulfill conditions given by the suppliers while 24% are not given any condition. Some of the conditions given by the suppliers include; writing post dated cheques, payment period of 30days, bank statement, provide referrals, open accounts, be loyal customers, trade on cash basis for some time. This means that the access of trade credit to a majority of firms is not automatic. It also means that the suppliers in this industry are powerful. When suppliers give short credit periods and customers demand long credit period, the garages are left in a financial crisis.

## Information on action of suppliers to defaulting garages.

Figure 4.24



**Source: Author 2009.**

59% of the respondents said their suppliers would take them to court if they defaulted on payment of trade credit. While 41% felt that their suppliers would take other actions e.g. stopping suppliers, sending debt collectors etc. this kind of perception by the respondents' means that a good majority of them would try to avoid defaulting on payments for fear of legal redress even at the expense of their own financial crisis.

**Information on what respondents think financial institutions should do to increase the garages access to credit.**

**Figure 4.25**

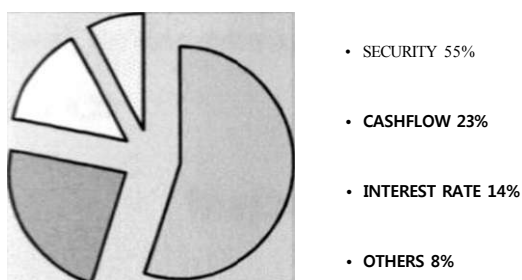
What the bank should do.	frequency	percentage
I don't know	<b>6</b>	<b>18.75%</b>
Silent	<b>6</b>	<b>18.75%</b>
Lower interest rates	<b>13</b>	<b>40.625%</b>
Better terms for SMEs.	<b>7</b>	<b>21.875%</b>
Give credit against LPOs	<b>2</b>	<b>6.25%</b>
Allow Longer repayment period	<b>2</b>	<b>6.25%</b>
Quick disbursement of loans.	<b>2</b>	<b>6.25%</b>
Give amount applied for.	<b>1</b>	<b>3.125%</b>
Reduce security requirements.	<b>3</b>	<b>9.375%</b>
Remove demand for business cash flow	<b>1</b>	<b>3.125%</b>

**Source Author:2009**

When asked what they think the financial institutions should do to increase their access to credit over 40% of the respondents said the bank should reduce the interest rates on the loans, this means that the respondents felt that the cost of borrowed money is too high for their businesses. Over 21% of the respondents said that the bank should offer better terms to the SMEs sector. This means that the bank should have tailored made products for small and micro enterprises.

## Information on the obstacles of accessing financial services.

Figure 4.26



**Source: Author2009.**

The study shows that greatest obstacle in accessing credit lack of security, followed by poor cash flow then high interest rates. This means that a majority of the respondents do not have the required security to access credit from banks and other financial institutions, it also means that most financial institutions are keen on the security requirement.

## The perception of the respondents on how they can increase their access to credit.

Figure 4.27

Response	Frequency	Percentage
Improve cash flow	17	<b>54%</b>
A void defaulting on loan payments.	6	<b>18%</b>
Get a collateral security.	4	<b>12%</b>
Improve financial management.	3	9%
Reduce the debtors	2	7%
Total	32	<b>100%</b>

**SOURCE: Author 2009.**

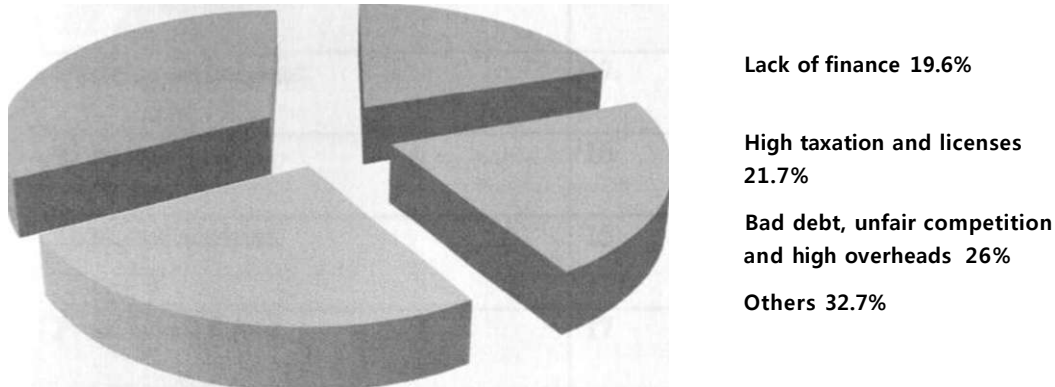
The study reveals that 54% of the respondents believe that they by improving their cash flow, they can significantly increase their chances of accessing credit from financial institutions. These means that the cash flow of a business is a critical requirement when accessing credit from financial institutions.

## Information on the major hindrance to business growth.

When asked what they consider to be the greatest obstacles that hinder the growth of their business, the respondents mentioned the following:-

Figure 4.28

### Major hindrance to business growth



Source Author: 2009

Lack of finances 19.6%, High rate of taxation 21.7%, bad debts 8.7%, unfair competition 8.7%, High overheads 8.7% and others 32.7%. It is clear from the study that taxation and licenses are the greatest obstacle to business growth followed by lack of finances.

The others include the following:- Shortage of spare parts, Harassment by the city council, Lack of security in the garage premises, Lack of electricity, Lack of adequate tools and equipments, High and unfair competition, Long credit period given to customer and short or no credit period given by the suppliers, High interest rates charged by the banks.

### **Information on the requirements asked by the banks before giving credit.**

The study established that over 60% of the respondents have at one time applied for a bank loan. It was revealed that they were asked to comply with the requirements as shown in the table below.

**Figure 4.29**

Bank requirements	Frequency	Percentage
Opening an account.	17	85%
Security	16	80%
Books of account.	15	75%
Proof of existence.	17	85%
Proof of profit history.	15	75%
Formally registered.	16	80%
Loan repayment history.	12	60%
Guarantors	2	10%

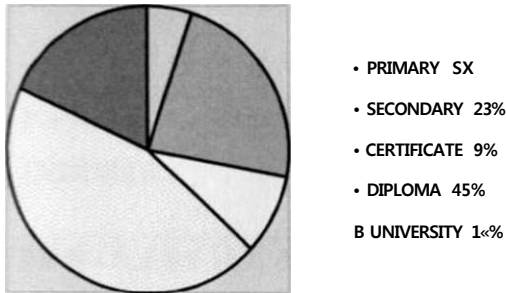
**Source: AUTHOR 2009.**

It is very clear from the study that the banks require the garages to fulfill various conditions before allowing them access to credit. Requirements like security, profit history and loan repayment history may not be favorable for new or young SME garages. The banks and other financial institutions need to come up with innovative ways of lending to SME garages.



## Information on the education level of the respondents.

Figure 4 JO



**SOURCE: Author 2009.**

The study established that a majority of the respondents have diploma level of education, followed by secondary school level then university level of education and finally the primary level of education, it is clear that over 60% of the respondents are diploma level and above, these means that the challenges they face cannot be due illiteracy or level education, there was also no relationship between the level of education and the financial challenges faced by the respondents.

Figure 4.31

## Financial challenges faced by garages Aged over 15 years.



**Source: Author 2009.**

The study shows that the greatest financial challenge faced by garages which are over 15 years is the payment of rent followed by financing of repairs and payment of rent then loan payment. The major financial challenge here is payment of salary and the most probable cause may be lack of proper financial planning.

**information on the reason why the respondents started the garage business.  
Figure 432**

	Frequency	Percentage
FAMILY WORKED IN THE INDUSTRY	2	8%
SKILLED IN THE ACTIVITY.	8	25%
ADVISED BY OTHERS.	2	5%
AVAILABILITY OF CAPITAL REQUIRED	2	5%
BETTER INCOME.	9	27%
SELF EMPLOYMENT	10	30%
	32	100

**SOURCE: Author 2009.**

The study established that 67% of the respondents started the business either because they were advised by others, or for a better income and self employment or because they had the required capital. This means that a majority of the respondents may not be necessarily having any experience in this sector and hence not enjoying from the learning curve. However 33% of the respondent said they are in the garage business because they are either skilled in the activity or their family worked in the activity.

### Source of startup capital.

The study also established that the source of start up capital for the respondents were as follows;

Figure 433

Source	Frequency	Percentage
Family.	4	12.5%
Own savings.	17	53.125%
Friends.	5	15.625%
Bank loans.	5	15.625%
Kenya industrial estates.	1	3.125%
Total	32	100%

Source: AUTHOR 2009.

The study established that the major source of startup capital for the respondents was own saving. It also revealed that family, friends and own saving constituted over 80% of the startup capital for the respondents. This means that most financial institutions do not finance start ups either because of the level of risk involved or because they lack the required security.

### The legal form of the garages investigated.

Fig 434

LEGAL FORM	FREQUENCY	PERCENTAGE
SOLE PROPRIETORSHIP	11	34.375%
PARTNERSHIP	4	12.5%
LIMITED COMPANY	17	53.125%
TOTAL	32	100%

Source : Author 2009

The study clearly reveals that over 53% of the respondents are limited company garages this means that most respondents are taking the limited legal form, this is important because it makes the garage a separate legal entity. This means that the liability of the business is only limited to the business and not the owner.

## Respondents perception on the usefulness of bank overdrafts

Fig 435

RESPONSE	FREQUENCY	PERCENTAGE
Overdraft is of great help	6	18.75%
Overdrafts are of no help	3	9.375%
My business cannot access it.	3	9.375%
It helps to solve some problems and create others.	20	62.5%
TOTAL	32	100%

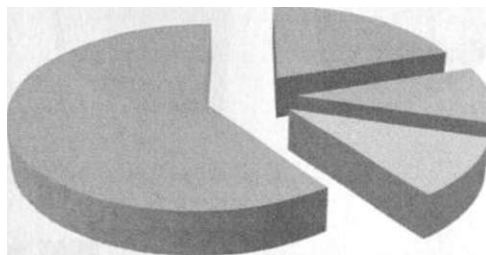
**Source: Author 2009.**

Half of the partnership garages said that overdrafts are of great help while the other half said they do not help at all. It is very clear from the data above that garages with the limited liability legal form have no confidence with bank overdraft in helping them unlock their financial challenges.

## Information on loss of clients due financial constrains.

Fig 4.36

### rate of loss of clients in soleproprietorship garages

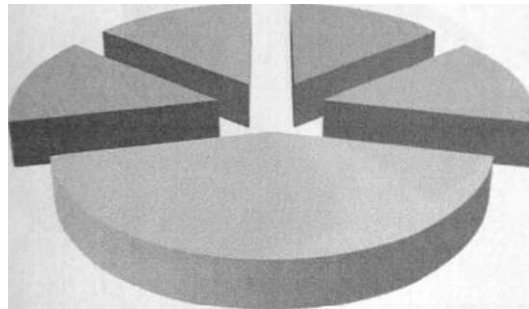


very high 20%  
high 10%  
moderate 10%  
zero 60%

**Source: Author 2009.**

The study shows that over 60% of the sole proprietorship garages have a zero client loss due to financial constraints. This may be because a majority of them finance their operations using the client money which they collect before starting a job i.e. the deposit. Secondly most of them do not keep permanent employees, they use the piece rate method whereby they pay the mechanics per job done.

**rate of loss of clients in limited company garages due to financial challenges.**



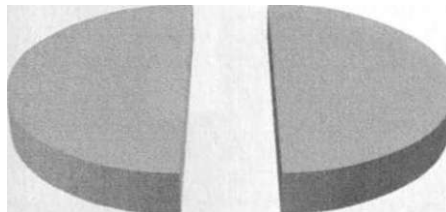
very high 14.2%  
high 14.2%  
moderate 42.8%  
low 14.2%  
zero 14.2%

**Source: Author 2009.**

The study established that the rate of client loss in limited liability garages due to financial challenges is a significant 42.8% of the respondents say that the rate of loss of client is moderate while 28.4% say the rate of loss is high and very high. This clearly shows that over 80% of the respondents suffer the loss of clients due to financial challenges in limited liability garages.

**Fig 438\_**

**Rate of loss of clients in partnership garages due to financial challenges.**



moderate 50%  
low 50%

**Source: Author 2009.**

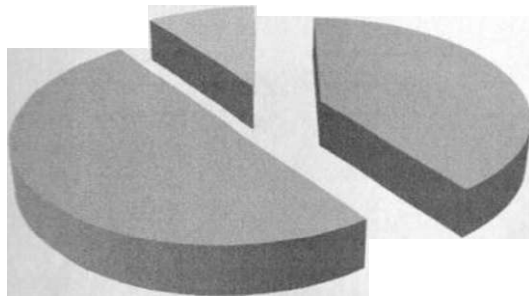
The study reveal that the loss of clients is also suffered by partnership garages but in a moderate manner.

It is clear from the findings of the study that limited liability companies are worst hit by the loss of clients due to inefficiencies created by financial challenges, this is due to the fact that most sole proprietorship garages ask for deposit from their clients which they use to finance the specific jobs from the client. However most limited company garages loose clients because of cash flow problems that arise when they give long credit periods to their customers making it very hard for them to finance their operations.



**Fig.439**

**soleproprietorships which get credit from suppliers**



receive credit 40%

No credit received 50%

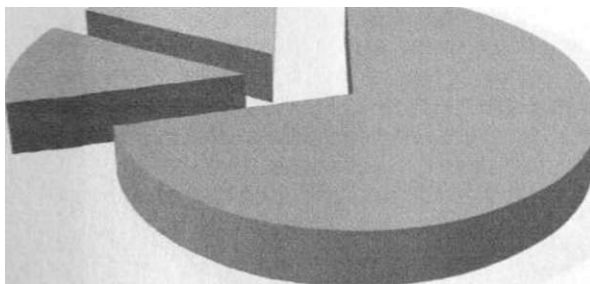
receive from some suppliers  
10%

**Source: Author 2009.**

The findings of the study shows that 50% of the sole proprietorship respondents do not receive credit from their suppliers at all while 40% get trade credit and 10% only receive from some suppliers. It is clear that over 50% of this type of garages cannot receive credit from the suppliers and that means that they encounter a lot of financial challenges in the operating their businesses.

**Fig 4.40**

**Limited company garages which get credit from suppliers**



• Get credit 70.6%

Get no credit 11.8%

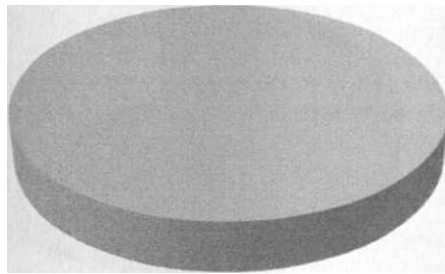
Get credit from some suppliers  
17.6%

**Source: Author 2009.**

It is clear from the findings that over seventy percent of the limited company garages get credit from their suppliers, while 17.6% access trade credit from some suppliers, however 11.8% of these garages do not get any trade credit at all. The study reveals that a majority of limited liability garages get credit from their suppliers, this means that they have a good relationship with the suppliers and hence they are able to overcome some financial challenges especially those that pertain to buying input materials.

**Fig 4-37**

**Financial planning in Soleproprietorship garages.**



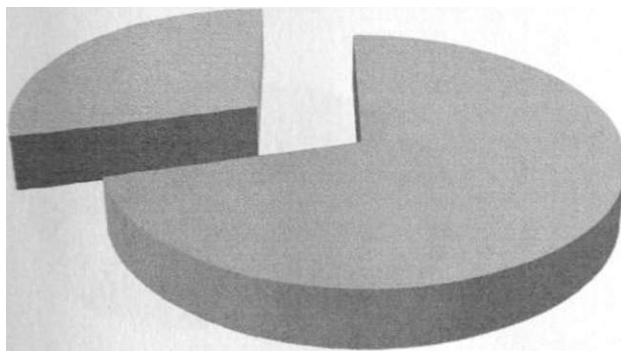
prepare budgets 0%  
no budgetting done 100%

**Source: Author 2009.**

The findings show that sole proprietorship garage do not engage in financial planning they prefer to respond to issues as they come. This means that this type of garages are more likely to encounter a lot more financial challenge in running their business operation because planning is critical to the success of any business enterprise.

**Fig 4.42**

**Financial planning in Private Limited Garages**



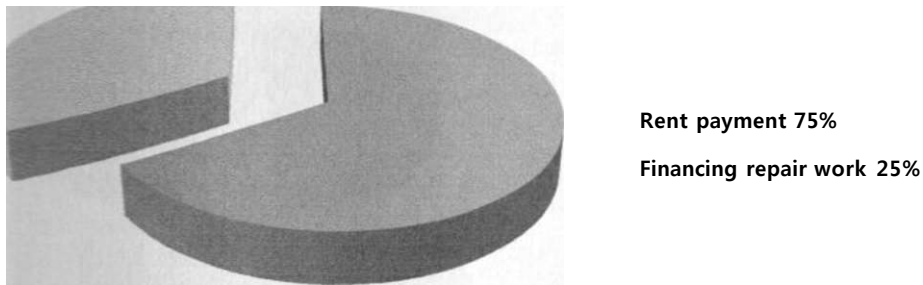
prepare budget 70.6%  
no budget 29.4%

**Source: Author 2009.**

The study established that 70.6% of the private limited garages do elaborate financial planning for their business whereas 29.4% respond to financial issues as they arise. This means that a majority of limited liability garages are able to plan on how to overcome some of the financial challenges that they encounter on a regular basis. For example salaries rent and lease payment.

**Fig 4-37**

**Financial challenges of businesses aged between 1-3 years.**

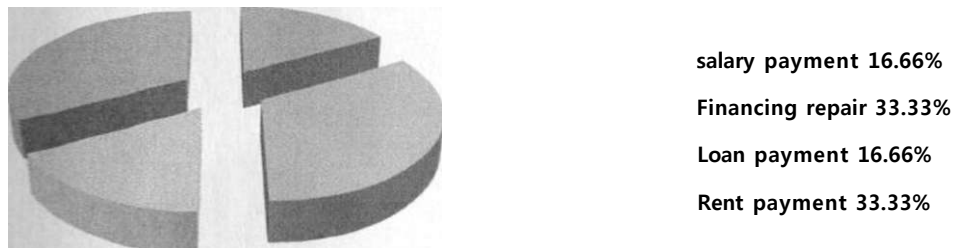


**Source: Author 2009.**

The study established that the worst challenge affecting businesses aged between 1-3 years is rent payment followed by Financing of repair work. 75% of the garages in this category said that rent payment is their greatest challenge while 25% said financing of repairs is the greatest financial challenge. This may be because these businesses are new and they do not have enough business as yet to cover their fixed cost that is they have not reached the breakeven point.

Fig 4.44

**Financial challenges of garages aged between 4-7 years.**



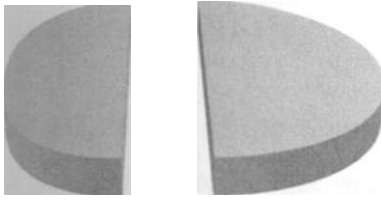
**Source: Author 2009.**

The study shows that rent payment and financing of repairs are the major challenges faced by garages of age between 4-7 years, while salary payment and loan payment are challenges are also experienced but in a lesser magnitude compared to garages aged between 1-3 years. This means that firms aged between 4-7 years have expanded their operations, they have more business and can even access loans. Planning may be the major challenge at this stage for these garages.



**A\***

**Financial challenges of garages aged between 8 -10 years.**



**Financing repair 50%**  
**Rent payment 50%**

Source: **Author 2009.**

lie study established that for the garages that are between eight to ten years, financing repair and rent payment are the greatest challenges facing those businesses. This means that firms se nt getting enough trade credit from supplier and they are either giving longer credit period s to customers or the level of business is significantly low.

**Fig 446**

**Financial challenges faced by firms aged between 11-15 years**



**Payment of salaries 33.3%**  
**Loan payment 33.3%**  
**Rent payment 33.3%**

**Source: Author 2009.**

study shows that the three main financial challenges faced by garages aged between 11-15 years are payment of salaries, loan payments and rent payment. This may be due to the fact that the business volume is low but the rents and salaries are high and relationship with suppliers is good.

# CHAPTER FIVE

## NUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### 5.0 INTRODUCTION.

The study was a survey of the financial challenges faced by Small and micro enterprises, a case study of garages in Nairobi. The researcher's objective was to establish the financial challenges faced by small and micro enterprises.

### 5.1 SUMMARY OF MAJOR FINDINGS OF THE STUDY.

The study established that the payment of rent/ lease, payment of salaries, complying with VAT requirements and financing of repair activities are some of the major financial challenges faced by SME garages.

The study established that though the SME encounter several challenges, the greatest financial challenge experienced by garages is the payment of rent/lease for the garage premises. The study shows that over 80% of the garages either rent or lease their garage premises.

The second greatest financial challenge faced by the garages is the financing of repairs, this challenge is more severe with small enterprises (garages) which deal with institutional clients who ask for credits, however for micro garages which only deal with individual clients, this challenge is overcome by asking the customers to pay a deposit which is used to buy the required input material.

The payment of salaries is ranked 3<sup>rd</sup> in terms of the financial challenges posed, however this challenge is only experienced by small and micro enterprise garages which have salaried employees, some garages have overcome this challenge by using the piece rate method of payment instead of salaries, employees are paid based on the jobs they do and after the payment is made by the customer.

The study clearly showed that SME garages rarely get the start up capital from the formal financial institutions; most of them get financing from informal sources like friends family and

savings. The study shows that over 80% of respondents got their startup capital from either -ends, family or own savings. This clearly implies that financial institutions rarely finance start-ups, this may be because the start up can rarely meet the conditions set by financial institutions i.e. loan repayment history, profit history, security, etc.

The study shows that over 54% of the respondents felt that they need to improve their cash flow in order to access more credit from financial institutions. The cash flow crisis is more rampant on parages that have a large percentage of their businesses coming from institutional customers, this is because most of these institutional customers get the garage services on credit and ask for long credit periods. This kind of arrangement poses financial challenges to the garages especially when trying to meet their financial obligation like payment of VAT. This is because when the payment of VAT becomes due the credit may not have been settled, meaning the garage has to look for finances from elsewhere.

It is clear from the findings of this study that small and micro garages have a problem in dealing with customers who default on payments after credit has been extended to them. Only 15% of the respondent would take the defaulters to court, 85% would use other means to recover their money. This kind of an approach may be emanating from the high cost of legal redress in terms of money and time. The SMEs garages are therefore left with among others the options dealing with those customers on cash basis while persuading them to pay or blacklisting them from their services.

The study revealed that over 80% of the respondent believe that accessing credit can boost their business however, over 70% of the same respondent say that the interest rates charged by the financial institutions is very high. The high rate of interest therefore has become a barrier for the SME garages to access the credit they need in order to finance their operations.

The speed of processing the loans from the bank did not seem to be a challenge, the main challenge was found in complying with the requirements of the bank. 48% of the respondents said their loans were processed within 10 day after complying with the bank requirements.

The study also established that 90% of the respondents who got additional funding got it from the bank. They said that they prefer the bank as a source of finance because of convenience and trust

^ study also established that SMEs garages are given conditions by their suppliers before credit is extended to them, some of which are not favourable to them hence reducing the availability of trade credit as a source of finance. The consequences of defaulting on trade credit are also severe as 59% of the respondents said that their suppliers would take them to court if they defaulted on loan payment.

The study also revealed that financial planning is a major challenge in SMEs garages, only 38% of the respondents said that they prepare financial budgets for their garages, 62% said they respond to issues as they arise. This kind of a reactive approach to financial issues is a symptom of poor cash flow management and it reduces the chances of a business accessing finances hence inhibiting growth.

It was also found that although 77% of the respondent operate bank accounts, most of their transactions, especially micro garages do not pass through their bank account for example the deposit money that is paid by the client before a job is started goes straight to the purchase of input materials. Secondly the cash money paid by the client after the job is completed is used to pay the specific mechanics that did that particular job. This kind of financial practices reduces the volume of transactions in the bank statement and hence reducing the likelihood of the garage to access credit.

The study established that most SME garages find it difficult to comply with the many requirements that are put by the financial institutions before advancing credit to them.

The study revealed that a majority of the sole proprietor garages do not have faith in the bank overdraft and therefore they rarely use them in financing their operations, they instead require their clients to pay an upfront amount to cover for the cost of financing the job. Secondly most of them maintain a casual work force which gets paid on piece rate. Most of their transactions are cash. The garages which operate in this manner rarely lose clients due to financial constraints.

The study also reveals that among the sole proprietorship, partnership and limited company garages, the worst hit by client turnover due to financial constraints is the limited liability company garages, this is attributed to the fact that most of them have powerful institutional customers who demand long credit periods in exchange for large volumes of transactions hence

Placing the garage into a cash flow crisis and debt, by the time this customer pays, the garage — already incurred enough debt, hence they use the money to settle these debts.

The study reveals that the limited company garages rely more on trade credit compared to the sole proprietorship garages, this may be because most of the sole proprietorship garages, especially those who ask the client to pay an upfront amount do not actually require the trade credit. The limited liability company garages on the other hand may require the trade credit because most of them extend credit to their customers and they deal with larger transactions.

On the issue of financial planning and budgeting, the study revealed that monthly budgets and cash flow forecasts were lacking in sole proprietorship garages and some limited company garages, it was however noted that a good majority of limited liability company garages do usually prepare monthly budgets and cash flow forecasts for their business.

The study reveals that the type and severity of financial challenges faced by garages do differ according to their age. Respondents with garages aged between 1-3 years said that rent payment is their greatest challenge followed by financing of repair work. The respondents aged between 4-7 years also said that rent payment and financing of repair work are the greatest challenges, however it is important to note that these problems at this stage are not as intense as those of a respondent with garages aged 1-3 years. The garages aged between 8-10 years also cited rent payment and financing repair work as the main challenges facing them, however those between 11-15 years said that the three main challenges they encounter are rent payment, salary payment and loan payment, the problems were found to be of the same magnitude at this stage. At the age 16 and over the study revealed that the greatest financial challenge was payment of salaries followed by financing of repairs and rent payment then loan payment.

It was also established that lack of proper financial planning and management prudence in SME garages minimize their chances of accessing credit from financial institutions.

It was established that most SME garages prefer banks as a source of credit to finance their operations, however it was noted that they perceive the rates of interest to be very high.

It was established that SME garages do not prefer the use of courts in recovering their money from customers who default on payment after receiving credit from them, this may be due to lack

of an efficient legal mechanism that would ensure a cost effective debt recovery and also the fear of loss of clients business.

The study established that among the respondents, only 33% started the garage business because they have the necessary skills and experience in the job, the rest started because of other reasons like self employment, better income, advise from others etc. this means that the financial challenges experienced in this industry may be as a result of lack of knowledge and experience in this particular industry.

## **5.2 RECOMMENDATIONS.**

### **5.2.1 To the Financial institution;**

I recommend that financial institution that offer credit to the SME garages to come up tailor made products that are favorable to SME garages in terms of rate of interest, repayment period and the security requirements. I recommend that credit offering institutions stop the heavy reliance on collateral security which most SME garages might not have and instead come up with innovative ways of reducing the risk of loan default like training SME garage on basic financial management tips, use social guarantors and giving credit against LPOs and invoice discounting. I recommend that financial institutions should help the small and micro enterprises in financial planning and management by organizing and facilitating training for their client as a way of giving back to the society.

### **5.2.2 To the SME garages;**

I recommend that they improve on their financial management, keep proper books of account, do proper cash flow forecasts, and ensure all transactions pass through the bank, avoid defaulting on loan payment and maintain their relationship with financial institution. I also recommend that they improve the relationship with their supplier, renegotiate with them to get longer credit periods, improve on both marketing and debt collection tactics and not to rely on institutional clients only.

### **5.2.3 To the government;**

I recommend that they come up with a legal mechanism that will ensure efficient and cost effective conflict adjudication among the SME garages and their debtor. I recommend that they

allow more micro-finance institutions take deposits from their clients so that they can use the money to create more credit. I recommend that they review tax structure of SMEs to come up with growth friendly taxes and also reduce on the licensing requirement and harassment by the local government authorities.

#### **5.2.4 To academicians.**

### **SUGGESTIONS FOR FURTHER RESEARCH**

I suggest that the future researchers investigate how the performance of the SMEs is affected by their inability to attract and retain a competent work force.

### **5.3 Conclusion.**

The small and micro enterprise garages offer employment opportunities to millions of young people in Kenya; it is also one of the few sectors which are predominately owned by the indigenous Kenyans. The small and micro garage in Kenya rarely graduate from the SME status to middle, or large enterprises, if streamlined and supported, this garages can grow and have a very great impact to the economy and to the people of Kenya at large.

The SME garages, the government authorities and all the relevant stakeholders should come together and look into ways of mitigating the financial and other challenges facing this crucial sector of the economy.

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# APPENDIX 1:

## LETTER OF INTRODUCTION

23<sup>rd</sup> APRIL, 2009

Dear Respondent,

RE: MBA RESEARCH PROJECT

I am a student at the University of Nairobi, and am carrying out my research study as a requirement for the fulfillment of the award of Masters in Business Administration degree.

I am conducting a research with the sole purpose of gathering information on "**The Financial Challenges Faced By Small And Micro Enterprises In the Motor Vehicle Service Industry in Nairobi.**"

The information and data required will be used solely for academic purposes and will be treated with a high degree of confidentiality.

Your cooperation will be highly appreciated.

Thank you

Yours faithful,

**Joshua Muturi Ngugi**

Student

**Ms Florence Muindi**

Supervisor

**APPENDIX 2:**  
**QUESTIONNAIRE**

NAME OF THE BUSINESS

DESIGNATION OF THE RESPONDENT

**SECTION ONE.**

**Background information**

**1. How old is the business? (Tick one)**

- A) One to three years.....[ J
- B) Four to seven years.....[ ]
- C) Eight to ten years.....[ ]
- D) Ten to fifteen years.....[ 1
- E) Over fifteen years.....[ 1

**2. Is the business formally registered? (Tick one).**

[YES], [NO],

**3. What is the legal form of the business?**

- A) Sole proprietor.....[ ]
- B) Partnership.....[ 1
- C) Limited company.....[ ]
- D) Others (specify).....[ 1

**4. What is the gender of the owner?**

- MALE.....[ ]
- FEMALE.....[ ]
- MORE THAN ONE OWNER.....[ ]



**9). what is the tenure status of your garage premises**

- A) We own the garage premises. .... [
- B) We rent the premises. .... [
- C) We have leased the premises. .... [
- D) Free occupation
- E) We are squatters
- F) Temporary occupation license
- G) Others (specify) ..... [

**10) What sort of marketing and promotion do you undertake for your services?**

*(Tick all appropriate)*

- A) Advertising on print media. .... [
- B) Advertising in the electronic media. .... [
- C) Trade exhibitions/ brochures/fliers. .... [
- D) Public marketing bodies. .... I
- E) Calling clients. .... [
- F) Word of mouth. .... [
- Others (specify)

## SECTION 2

### SOURCES OF CREDIT INFORMATION

**11). what was the source of your start up capital i.e. the money to start the business?**

- A). Family [   ] B). Own savings [   ] C) Friends [   ] D) Sacco [   ]  
E) Bank loan [   ] F) Micro finance institution [   ] G) N.G.O [   ]  
H) Others (specify)

**12)(A) Has the business ever received additional capital from other sources?**

Yes [   ], NO [   ].

**B). If yes, how much in Kenya shillings.**

- A) 1-10,000.....[   ]  
B) 10001-20,000.....[   ]  
C) 20001 -50,000.....[   ]  
D) 50000-100000.....[   ]  
E) 100,000-200000.....[   ]  
F) 200000-500000.....[   ]  
G) 500000 and over.....[   ]

**(C) What was the source of your additional funding?**

- A) SACCO.....[   ]  
B) NGO.....[   ]  
C) Trade credit.....[   ]  
D) Bank loan.....[   ]  
E) Money lenders.....[   ]  
F) Family/Own funds.....[   ]  
G) Others (specify).....[   ]

13) A). **Do you have any preference for a particular source of finance?**

YES.[    ],                      NO.[    ]

**B) IF YES, Name it and give at least two reasons for your preference of that source.**

14 (A). **Do you get credit from your suppliers?**

A) YES.....[    ]

B) NO.....[    ]

C) Only from some.....[    ]

**B). If yes what credit period do you get?**

**C). If No why?**

15).A) **Have you ever made any overdraft arrangement with the bank?**

YES.... [    ]                      NO.....[    ]

**B) If NO why**

16). **How would you describe a bank overdraft in solving the financial challenges in your organization?**

A) It is of great help.....[    ]

B) It helps solve some problems.....[    ]

C) It solves some problems and create new ones.....[    ]

D) It does not help at all.....[    ]

E) My business cannot access it.....[    ]



17). Do you give trade credit to your customer?

E) Others (specify)

18) What do you do with customers who fail to pay you after you have extended credit to them?

- A) We take them to court. .... [ 1 ]
- B) We stop offering them credit facilities and deal with them on cash basis. .... [ ]
- C) We continue servicing their vehicles while persuading them to pay. .... [ ]
- D) We blacklist them from accessing our services. .... [ ]
- E) Others (specify)

19). If your business was allowed to access credit freely would that benefit your business?

**SECTION 3**

**CHALLENGES AND RECOMMENDATIONS**

**20) How do you manage your cash flow?**

- A) We prepare monthly budgets.....[    ]
- B) We respond to financial issues as they arise.....[    ]
- C) Others *{specify}*.....[    ]

**21) Arrange the following issues according to the level of financial challenge they pose in your organization. (start with the most challenging by writing number one in the box provided up to number six in box for the least challenging).**

- A) Payment of salaries.....[    1
- B) Financing repair services.....[    J**
- C) Financing marketing operations.....[    ]
- D) Payment of loans.....[    J
- E) Rent/lease.....[    1

**22). How often do you experience delays in the payment of salaries due to financial constraints?**

- A). Always..... [    ]•
- B). Most of the time..... [    ]•
- C). Once in a while..... [    ]•
- D). Never..... [    ]•

**23). Does your business experience financial difficulty in complying with VAT requirements?**

- A) YES..... [    ]
- B) NO..... [    ]
- C) We are not registered with VAT..... [    ]

**24) How would you describe your rate of lose of clients due to inefficiencies resulting from financial constraint?**

- A) Very high ..... [    ]
- B) High ..... [    ]
- C) Moderate ..... [    ]
- D) Low ..... [    ]
- E) Zero ..... [    ]

**25). What requirements does the bank need you to fulfill before granting you the loan.**

*{Tick ALL the applicable answers.}*

- A).Must open an account with them ..... [    ]
- B).Must have a security ..... [    ]
- C).Must keep proper books of account ..... [    ]
- D).The business should have been in existence for some time ..... [    ]
- E).The business should show proof of profit history..... [    ]
- F).The business must be formally registered ..... [    ]
- G).Loan repayment history..... [    ]
- Others

**26). How would you describe the interest rates charged by the financial institutions.**

- a) Very high ..... [    ]
- b) High ..... [    ]
- c) Moderate ..... [    ]
- d) Low ..... [    ]
- e) Very low..... [    ]
- f) Others [specify]

27). **Have you ever defaulted on the payment of any loan.**

Yes [ ], NO [ ].

28). **How would you describe the loan application process**

- a) Long and Frustrating . . . . . [ ]
- b) Quick and adequate . . . . . [ ]
- c) Full of unnecessary procedures. . . . . [ ]
- d) My business has never applied for a loan. . . . . [ ]

29) **How long after applying for the loan did it take the bank to process your loan?**

- A) 1-10 days. . . . . [ ]
- B) 11-20 days. . . . . [ ]
- C) 21-30 days. . . . . [ ]
- D) 31-60 days. . . . . [ ]
- F) Over 60 days. . . . . [ ]

30). **Is your business able to access credit against a local purchase order?**

- A) YES. . . . . [ ]
- B) NO. . . . . [ ]
- C) Never tried . . . . . [ ]

31(A). **Does your suppliers require you to fulfill any condition before advancing trade credit to your Business.**

Yes [ ], NO [ ].

B). **IF yes what conditions,**

**32). What action do you think your supplier will take, if you failed to pay for goods he has supplied to your business on credit?**

**33) What do you think the financial institutions should do in order to increase your access to credit?**

**34) What do you consider as your greatest obstacles to accessing financial services from the financial institutions?**

**35) What do you think you should do in order to increase your chances of accessing credit from the bank and other financial institutions?**

**36) What do you consider to be the greatest obstacle that hinders the growth of your business?**

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The End

**Thank you for your cooperation in filling this questionnaire. Information given in this questionnaire is confidential and will only be used for academic purposes.**

### APPENDIX 3.

#### TABLE

The table below shows the different sources credit from which entrepreneurs got credit between 1993,1995,1999.

#### Sources of credit for SMEs

<b>Source</b>	<b>1993</b>	<b>1995</b>	<b>1999</b>
<b>None( no credit received)</b>	<b>85</b>	<b>89.2</b>	<b>89.6</b>
<b>Formal credit institutions,including NGOi</b>	<b>4</b>	<b>3.4</b>	<b>5.7</b>
<b>Cooperatives</b>	<b>0</b>	<b>0</b>	<b>1.2</b>
<b>NGOs</b>	<b>0</b>	<b>0</b>	<b>2.8</b>
<b>Commercial Banks</b>	<b>0</b>	<b>-1.5</b>	<b>0</b>
<b>G overnment</b>	<b>0</b>	<b>0</b>	<b>0.2</b>
<b>Informal institutions</b>	<b>5</b>	<b>7.4</b>	<b>4.7</b>
<b>ROSCAs</b>	<b>0</b>	<b>5</b>	<b>2.5</b>
<b>Family and friends</b>	<b>0</b>	<b>2</b>	<b>1.5</b>
<b>Money lenders</b>	<b>0</b>	<b>0.1</b>	<b>0.1</b>
<b>Trade credit supplies</b>	<b>0</b>	<b>0</b>	<b>0.6</b>
<b>Total</b>		<b>100</b>	<b>100</b>

**SOURCE: National MSE Baseline Survey 1999 (CBS, K-Rep, and ICEG)**

## **APPENDIX 4**

### **LIST OF SMALL AND MICRO GARAGES IN NAIROBI.**

- 1- ACE AUTO CENTRE.
- 2- AUTO FINE LTD.
- 3- AUTO VILLAGE.
- 4- BON MOTORS CO. LTD.
- 5- BRUCE TRACK AND EQUIPMENT (EA LTD).
- 6- CARBASE LTD.
- 7- DALEX MOTORS LTD.
- 8- DAYSTAR AUTO CARE CENTRE LTD.
- 9- DESERT TREKS LTD.
- 10- DIESEL CALIBRATION CENTRE LTD.
- 11- DOUBLE KWIK AUTO SERVICES LTD.
- 12- DYNACORP MOTORS LTD
- 13- EMBAKASI ENTERPRISES
- 14- FAR WEST MOTORS.
- 15- HIGHLANDS TOURISM INDUSTRY GARAGE.
- 16- JAIVIS AUTO SERVICES.
- 17- JOSH MOTORS.
- 18- KENYA MOTORS AND EQUIPMENTS LTD.
- 19- LEEMAN REGULAR MOTORS
- 20- MIDLAND AUTO CARE LTD.
- 21- MOTOR MANIA LTD.
- 22- MOTOR MEC MOTORS LTD.
- 23- MOTOR WAYS (K) LTD
- 24- MOTORWAYS KENYA LTD.
- 25- MWIRERI AUTO GARAGE
- 26- NEOTECH MOTORS
- 27- NGACHATON AUTO GARAGE
- 28- PALM MOTORS
- 29- PARAMOUNT AUTO CARE.
- 30- PRATTS AUTO SERVICE LTD.
- 31- PRODETECH LTD.
- 32- RALLYE SPECIAL MOTORS GARAGE.
- 33- RANA BODY SHOP
- 34- RYCE MOTORS.
- 35- SPARCO AUTO EXPRESS CENTRE.
- 36- SPRING VALLEY SERVICE CENTRE LTD.
- 37- STANTECH MOTORS LTD.
- 38- VIC PRESTON LIMITED.
- 39- WILBRO TRADING COMPANY.
- 40- YUSUF GARAGE

**SOURCE:CITY COUNCIL RECORDS 2009**