

**FACTORS INFLUENCING CREDIT FINANCING OF SMALL
SCALE BUSINESS ENTERPRISES, IN KISII COUNTY, KENYA**

BY

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DECLARATION

This research project report is my original work and has never been presented for the award of any degree in any other University.

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DEDICATION

This research project is dedicated to University students and lecturers and my dear husband Samson Ogechi for their understanding and encouragement.

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LIST OF ABBREVIATIONS AND ACRONYMS

| | | |
|----------------|---|---------------------------------------|
| DFLs | – | Development Finance Institutions |
| GDP | - | Gross Domestic Product |
| NERFUND | - | National Economic Reconstruction Fund |
| NGOs | – | Non Governmental Organizations |
| NIC | – | New Industrialized Countries |
| NIL | – | New Industrial Countries |
| SSB | - | Small Scale Business |
| SSE | - | Small Scale Enterprises |
| WEDF | - | Women Enterprise Development Fund |
| YEDF | – | Youth Enterprise Development Fund |

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ABSTRACT

This study was carried out to determine the factors influencing credit financing of small scale enterprises in Kisii town. The cadre of SSBs understudy was the registered small scale businesses in Kisii town. The purpose of this study was to investigate factors influencing credit financing of small businesses in Kisii town, Kisii County in Kenya. The study addressed the following objectives to determine the extent to which financial status influence credit financing of small business enterprises in Kisii Town, to establish the extent to which size of business influence credit financing of small business enterprises in Kisii Town , to investigate the extent to which collateral measures influence credit financing of small business enterprises in Kisii Town and to ascertain the extent to which management skills influence credit financing of small scale business enterprises in Kisii Town. This study highlights the factors that influence credit financing of small business enterprises in Kisii town and give possible policies and measures on enhancing their growth. The suggestions of policies and measures to enhance the growth of microenterprises may enable the Kisii County to improve its development plan. The growth of the SSBs may boost the employment opportunities thus benefitting the locality and country at large. The literature review identified what other researchers have done in the area of credit financing of small scale enterprises. The study is conceptualized to determine the relationship between the dependent and independent variables. The study employed the descriptive survey research design and employed questionnaire to collect data from 160 SSB in Kisii town. The researcher sampled 160 SSB out of the population of 560 SSB using a simple stratified sampling technique. The questionnaires were tested in a selected sample of 20 businesses within Kisii town which were similar to the actual sample which was used in this study. The study employed questionnaires and interview in data collection. The reliability and validity of the research instruments was ascertained before being used in data collection. The study found out that the enterprises had inadequate funds. It was also revealed that the enterprises had stagnated in their financial status due to corruption in the municipality. It was also revealed that the enterprises had inadequate finances due to procedures that are too long to get the funding from financial institutions. The financial status of the enterprises is therefore affected in one way or the other. Therefore, there is need for accessing credit by the small scale business enterprises to boost the businesses.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Credit financing is one of the important interventions to solve poverty and plays an important role in small-scale businesses (Meyer & Nagavasan, 2000). Expanding the availability of credit has been widely used as a policy to accelerate small-scale enterprises and rural development (WorldBank, 2000). It is traditionally employed as a tool for providing the priority sector with access to production inputs and enabling production to be increased in Philippines in Asia (Lanto, 1993). Moreover, it is believed that expansion of credit programmes will have beneficial effects on small scale enterprises of small holders and rural incomes because credit could facilitate the start of business and continued existence of business enterprises (Zeller, Dagne, & Mataya, 1998). Small scale businesses need capital, a scarce resource, to improve their enterprises. The provision of credit can encourage the small-scale enterprise to use modern technologies, which lead to a higher level of productivity and increasing their incomes in Philippines in Asia (Lanto, 1987).

Concerns with providing accessible and appropriate credit systems for small-scale businesses in developing countries have been growing for many decades. This is because appropriate credit systems could cater for the financing needs of the small scale enterprises in the rural areas (Diagne & Zeller, 2001). It has been recognized that increased access by small scale enterprises to production resources like credit is needed for increasing economic growth and thus deserves particular attention in European Pepper Moth in Southern Europe (Zeller, Dagne, & Mataya, 1998). Many efforts have been made and a continuous search for sustainable interventions through appropriate credit schemes is being conducted to improve the living conditions and quality of life of small scale enterprises in the rural areas (WorldBank, 2000). However, such efforts and interventions are often hindered by problems which then contribute to the failures of some credit programmes which are not sustainable because of the failure and collapse of several financial institutions which are due to management and lack of good governance.

Different credit programmes in Kenya have been implemented under different policy regimes with defined approaches to the problems of credit delivery. During the 1970s, the supply-leading approach evolved where the emphasis was on direct approach that provided the small scale enterprise with loans below market interest rates. This kind of credit approach was undertaken so that small scale-borrowers could withdraw from government money lenders at lower interest rate (Esguerra E. , 1998). However, this approach did not succeed in the end because the financial institutions were reluctant to continue lending to small-scale enterprise due to the high number of borrower's defaults. Also in such approaches to credit a substantial amount of the loans did not go to the target groups (small scale enterprises) but instead went to those who could easily access credit from the formal credit markets (RIDA, 1995).

Following these supervised credit programmes were the market-oriented credit programmes, where the government implemented a low interest rate policy but these were still a failure because most of the participating financial institutions discontinued their participation again due to poor repayment in Australia. Finance has been identified in many business surveys as the most important factor determining the growth of small and medium sized enterprises in both developing and developed countries (Esguerra E. , 1998). Access to finance allows SSB to undertake productive investments to expand their business and acquire the latest technologies thus ensuring the competitors and that of the nation as a whole. Poorly functioning financial systems can seriously undermine the microeconomic fundamental of a country resulting in lower growth income and employment.

Despite their dominant numbers and importance in job creation SSBs traditionally have faced difficulty in obtaining formal credit or equity. For example, majorities of the commercial Bank loans extended to SSBs are often limited to a period far too short to pay off any sizeable investment. Meanwhile access to competitive interest rates is reserved for only a few selected blue-chip companies while loan banks in many developing countries have functionally lent overwhelming to the government, which offered less risk, and higher returns. Such practices have crowded out most private sectors borrowers and increased the cost of capital for them. Governments cannot expect to have dynamic private sectors as long as they observe the bulk of private savings. In case of venture capital funds they have been centered in high technology sectors likewise the international financial institutions have ignored the plight of SSBs. For

example the basic capital accords have not been analyzed and formed with any consideration for their impact on the ability of the commercial banks to survive the SSBs sector. These prevalence and tendencies have exacerbated the scarcity of financing for SSBs.

Small-scale enterprises (SSEs) have long been believed to be important in supporting economics development within a country. Akhtar (1997) observes that one of the important roles of the SSBs in this context includes poverty alienation through job creation .For instance in the Netherlands SSBs account 98% at all private sector companies contribute 31% to Cross Domestic product (GDP) and employ 55% of total workforce. These SSEs are increasingly seen as creator of new jobs. According to Indonesian static in 2003 the number of Indonesian SSBs was 47.4 million and their contribution to 60% of the GDP account 19.4% of total export and employs 79 millions of work. (KUKM, 2003). Therefore ensuring the economy growth of the country more attention should be paid in SSBs development.

According to Macke & Markley (2003) in Kenya, economies with high rate of SSEs are performing well, and this is exercised by high level of property. Although entrepreneurs commonly linked directly to SSEs however this new presents several problems and most small business owner do not innovate and most small business are founded on existing ideas and practices and in such situation, the so-called SSEs has to adopt and react rather direct and create (Casson, 1993). This is supported by (Macke & Markley, 2003) by stating that all entrepreneurs must be successful business people but not all people are entrepreneurs.

Small business failure is often attributed to lack of knowledge plain and simple. In fact if more small business owners were aware of the programmes and help that is available to them you would hardly see any business closing their doors for food unfortunately the insider secret have remained just that secret. As a result small businesses establishment survive at least five years. This is a far cry from the previous long-held belief that 50 percent of business fail in the first year and 95 percent fail within five years.

1.2 Statement of the problem

Credit continues to figure prominently in developing strategies for the small scale sector in Kenya. The lack of many commercial microfinance institutions, which is common in developing countries, is also a contributing factor that forces small scale business owners to go to informal lenders, even if it is less expensive to borrow from a commercial microfinance institution. It is true that informal money lenders provide important financial services to small scale businesses, but they charge very high interest rates (Robinson, 2001). Credit plays an important role in small scale business development. It is also a key to poverty alleviation, livelihood diversification and increasing the business skills of small scale business owners. However, most small scale business owners in Kisii depend upon informal sources of credit (RepublicOfKenya, 2009). Considering the problem of small scale business owners not accessing credit there is a need to examine further the reasons why they do not access credit from the formal institutions, and to investigate their preferences and perceptions regarding credit in order that their access can be improved and their needs for credit can be more effectively met which is the focus of this study.

1.3 Purpose of the study

The purpose of this study was to investigate factors influencing credit financing of small scale business enterprises in Kisii town, Kisii County, Kenya.

1.4 Research objectives

The study sought to address the following objectives.

1. To determine the extent to which financial status and management records influence credit financing of small scale business enterprises in Kisii Town.
2. To establish the extent to which size of business influence credit financing of small scale business enterprises in Kisii Town.
3. To investigate the extent to which collateral measures influence credit financing of small scale business enterprises in Kisii Town.
4. To ascertain the extent to which management skills influence credit financing of small scale business enterprises in Kisii Town.

1.5 Research questions

- 1 How do financial status and management records influence credit financing of small scale business enterprises in Kisii Town.
- 2 To what extent does the size of the business influence credit financing of small scale business enterprises in Kisii Town.
- 3 To what extent does collateral measures influence credit financing of small scale business enterprises in Kisii Town.
- 4 To what extent do managerial skills influence credit financing of small scale business enterprises in Kisii Town.

1.6 Significance of the study

This study highlights the factors that influence credit financing of small scale business enterprises in Kisii town and give possible policies and measures on enhancing their growth. The study findings will also contribute to the existing body of knowledge on the SSBs. The study findings may assist the government in improving the policies governing the SSBs. The suggestions of policies and measures enhancing the growth of microenterprises may enable the Kisii County to improve its development plan. The growth of the SSBs may boost the employment opportunities thus benefitting the locality and country at large.

1.7 Delimitations of the study

The study focused on credit financing on small scale businesses within Kisii Town specifically targeting those who have employees less than fifty. The researcher conducted a thorough and in depth inquiries from the Bank loan officers and micro-financial organizations (NGOs) when interviewing them. They provided variable information on credit financing, in not only Kisii town but also other towns where they have the same problem on accessing credit facilities and even all the other towns in Kenya. The study finding generalized to apply to all towns in Kenya.

1.8 Limitations of the Study

This research was undertaken in Kisii Town, Kisii County. The primary limitation of the study is the sample size which was limited only one District given the short time allocated for fieldwork. As such the research reflects the experiences of small scale business enterprise in the area which may vary from those in other communities within the region and in other parts of the country. Another limitation of this research is that the researcher had limited by financial resources. This was taken care of by arranging for a funds drive. Limited time hindered the researchers work. This was taken care of by starting the study in time. The respondents may also give limited information due to suspicion. This will be taken care of by assuring the respondents of the confidentiality in handling the information collected. Since the study relates to construct validity and reliability was yet another possible limitation. Due to the subjective nature of the qualitative data, it was difficult to apply convectional standard of reliability and validity (Babbie, 2001). The researcher also has no control; over the variables as they based on human behaviours and natural influences and applied in the real context of where they are.

1.9 Basic assumption of the study

The sample population chosen for the study was a representative of Kisii Town council. The data collected yield the desired findings and results and respondents interviewed answered questions and gave correct ,truthful and valid information .Specifically was assumed that most business project undertaken by small scale businesses within Kisii Town in Kenya do not achieve the desired goals. It is assumed that the management of small businesses within Kisii town council can be achieved through adequate allocation of credit facilities.

1.10 Definitions of the significant terms used in the study

Credit- This is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other materials of equal value) at a later date. The resources provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. consumer credit). Credit does not necessarily require money. The credit concept can be applied in barter economies as well, based on the direct exchange of goods and services (Ingham, 2004).

Credit financing – Is an institution or agency that provide trade financing to domestic companies for their local activities.

Collateral measure – Is the assets you pledge in order to receive a business loan, it may include a business or personal assets such as the equity in your account and equipments.

Management skill – This implies the planning implementation and monitoring of the day to day activities of the small scale business enterprises.

Finance status – This refers to measures of the risks, profits and gives an indication of whether the investment is good or not.

Management skills- This implies the planning, implementation and monitoring of the day to day activities of the small business enterprises.

Small-scale business – This refers to a privately-owned enterprise or franchise. In Kenya business with 10 or fewer workers are called micro enterprises. Those with 11 – 50 are small enterprises and 51 - 100 are medium.

1.11 Organization of the Study

Chapter one contains an introduction to the study. It consists a background of the study, statement of the problem, purpose of the study, objective of the study corresponding research questions of the study, limitation and the delimitation of the study, definitions of the significant terms and the organization of the study.

Chapter two contains literature review that entails, credit financing of small scale businesses. It comprises of an overview of credit financing, the factors that inhibit small business not to have access to credit financial services, financial status of the applicant, the size of the business, collateral measures in small scale businesses and business management skills. It also discusses the conceptual framework as well as the summary of the literature reviewed.

Chapter three covers a detailed description of research methodology for the study. It outlines the research design target population, sample and sapling design reliability and validity of research instruments, data collection and data analysis procedure.

Chapter four deals with data analysis, presentation, interpretation and discussion of the research findings. The chapter is organized into two sections, in the first section; descriptive statistics are

used to provide background information of the respondents who participated in this study. The second section presents the analysis of the responses to the specific objectives of the study as provided by the respondents in the questionnaires.

Chapter five gives the summary of the research findings as analyzed in the previous chapter. It also shows the conclusions as per the research questions and also the researcher's recommendations and indicates areas that need further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter consists of literature review as derived from works done by others researchers. It comprises of an overview of credit financing, the factors that inhibit small business not to have access to credit financial services, financial status of the applicant, the size of the business, collateral measures in small scale businesses and business management skills. It also discusses the conceptual framework as well as the summary of the literature reviewed.

2.2 Empirical literature

2.2.1 Overview of Credit Financing

Development strategists have advocated the progressive use of small scale enterprises) to accelerate the pace of economic growth especially in the developing countries of the world (Daodu, 1997). Most African countries are basically agrarian societies with the majority of the populace engaging in agro-related activities such as farming, livestock rearing, agro forestry and fishing (Owino, 2007). With little capital to invest, it seems obvious that the process of industrialization should be based on the development of the SSEs to link agricultural production with manufacturing activities. This requires specific incentives to assist in the development of the SSB Sub-sector, which include among others easy accessibility to credit, provision of infrastructural facilities, industrial extension services and development of production capacity based on locally developed or adapted technology and locally designed equipment and spares (Ekepeyong, 2002).

The Small scale Enterprises play a critical role in both developing and developed countries. Stiglitz (1996) argued that the East Asian countries miracle was partly because of a vibrant SSE Sub-sector, which triggered the up-surge in exports and subsequent development of the industrial sector. For example, the New Industrialized Countries (NICs) like Singapore, Taiwan, South Korea, Malaysia, Indonesia and China among others, were able to achieve economic growth through the activities of SSEs, which later contributed to the transformation of the Large-Scale

enterprises. The Republic of China over the years, despite her large population, has been able to generate employment and income for her teeming population through the activities of the SSEs. There has been an increasing financial need of SSB which have attracted government attention in the last three decades in Kenya. The government as a result put in place measures that will facilitate credit availability to the SSBs Sub-sector. The government had also sought collaborative effort with bilateral and multilateral agencies and non- governmental organizations (NGOs) in supporting SSEs in Kenya (Irungu, Zeller, & Mburu, 2005). Despite the significant role these industrial factors plays, a lack of sufficient capital and credit is often a major handicap to the development of SSEs, particularly in their early growth stages. The focus in this chapter is directed at describing the structures of SSB and the challenges they face with specific focus on their financial challenges. Several theories and previous researches conducted on the subject matter will be explored with the aim of approaching and drawing conclusions that reaches a deeper understanding of the financing problems of SSB in Kenya and particularly Kisii municipality

The Bank capital channel model considers the lending behaviours of bank to SSB to be affected by a capital adequacy requirement. According to Obamuy (2007), the bank capital channel views a change in interest rate as affecting lending through bank's capital, particularly when banks' lending is constrained by a capital adequacy requirement. Thus, an increase in interest rates will raise the cost of banks' external funding, but reduce banks' profits and capital. The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding. However, banks could also become more willing to lend during certain periods because of an improvement in their underlying financial condition. This condition as purported by this model, is seen clearly seen in the relationship between banks and small scale businesses as the SSBs suffers through a lack of financial assistance as a result of this situation.

The capital constraint model describes the behaviour of banks restrain to gives out loans to SSBs because of the limitation of available financial recourses banks. Obamuy (2007) asserts that basically, banks are subjected to both market- and regulator –imposed capital requirements. For prudential purposes, banks regulators generally require banks to maintain capital at not less than a stated fraction of the bank's total assets. For instance, banks are expected to meet the capital adequacy requirement of the Basel Accord of ten per cent. This situation is visible in Kenya, as banks are expected to maintain a minimum of 40 per cent liquidity ratio of total deposits.

In traditional SSBs interventions such as directed credit programs and/or technical assistance, the evaluation of the results of the support approach frequently has been limited to measurement of program inputs or program outputs, for example, the number of loan granted the number of clients served by a business advisory program, or the amount of market information provided. Attempts to measure the impact of support or intervention on SSBs and its performance are infrequently done and are plaque by measurement and methodological problems.

Improving the developmental impact of SSBs strategies will require much more attention to monitoring and evaluation of interventions. The trend away from public provision of services and towards the development of markets calls for different approaches to the evaluation of the success or failure of intervention. According to Keiser (2003) small-scale business are first employers of most of the work force. Small farm have hired much of the baby boom generation and are more likely to higher older workers .There have been employers of women entering the work force for the first time. The workers who find their first job in small farm are a diverse group but they include many of those less prepared by prior educated experience, or economic background to meet the changing of the work place of 21st century.

The institutional performance should ensure proper coverage (outreach), in terms of the number of individuals, enterprises, and organizations reach by an intervention, financial sustainability, which refers to the extend which the service can be provided without dependence on subsidies, and cost effectiveness, with the objective of providing a service (of a given type and quality) at the lowest possible cost; the market development should include the number, distribution and quality of service providers, types and quality of instruments available in the market, risks and transaction costs, the price of services and subsidy incidence, awareness and willingness to pay for services on the part of SSB on economic impact, the indicators of the intervention should be the magnitude and durability of the effect of the service on SSE performance (productivity, sales, exports, etc.), and the developmental impact of the intervention at a Sectoral or economy wide level. Measuring the impact of credit support on the development of markets for financial and non-financial services is a critical need of the new approach to SSE support.

Fadahunsi (1997) argued that until recently, government policies, strategies and programs in several countries had laid undue emphasis on large enterprises, and in a number of notable cases have even discriminated against enterprises especially micro and small scale businesses. Large projects tend to be capital intensive in contrast to labour intensity of the small scale enterprises

and the low cost for creating jobs. SSBs have the added advantage of flexibility to easily adapt to changing market opportunities and conditions. They generally require limited capital and they can more easily combine simple and advanced technology as may be appropriate. There is also the possibility of using business activities to decentralize large commercial and industrial activity and diluting monopoly.

The significant contributions of SSBs to the economy of Asian countries are evident in the role that SSBs sub-sector plays in that region. For example SSBs represent 99.4 percent of total industries in Indonesia and generating 93 percent employment (1974); 99.4 percent in Japan and generating 8.4 percent of employment (1985); 96.6 percent in Korea and 49.3 percent employment generation (1980); 92.0 percent in Hong Kong (1981); 90 percent in Philippines and generating 61.2 percent employment (1983); 90 percent in Thailand and generating 72.2 percent employment (1988). SSBs in Philippines and Thailand accounts for 47.4 and 30 percent of total value added respectively (Fadahunsi, 1997). The unique feature of the Asian region is the emergence of a large number of NGOs and Voluntary Organizations promoting SSBs particularly in India, Bangladesh, Nepal and Philippines. Business finance from personal savings was 26.6 percent, 37.04 percent and 32.14 percent for the regions respectively. From friend sources it was 30.59 percent, 19.53 percent and 32.14 percent respectively. From bank sources it was 35.29 percent, 33.33 percent and 21.42 percent respectively. From government agencies it was 8.82 percent, 7.83 percent and 3.57 percent respectively; while trade groups and cooperatives was 5.88 percent, 11.02 percent, and 7.14 percent respectively. A study by (Ekpeyong, 1997) showed that the traditional financial institutions (the commercial banks) have provided very little financial supports to the SSBs. The reasons are that small businesses have serious inherent structural defects that make them high-risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 1995). The semi formal financial institutions defined in this study as the cooperatives and trade associations have been able to meet the credit needs of small businesses in small scale (Aryeetey, 1992).

2.2.2 Factors considered by banks on credit financing

The African report October –November 2008 Edition recorded that the only small percentage of Ghanaians have access to credit services due to collateral expenses and lack of startup finance at the same time some of the small scale enterprises are not aware of financial support available to

them both locally and internationally (Mazzarol, 1999). Most of the small scale enterprises have difficulty in accessing start up. There are other factors that come into place such as ignorance of sources of finance and lack of saving culture. It is quite unfortunate the problem with access to financial capital has been long due though there seem to be a little improvement. For instance, in 2003 it was recorded that the informal sector enterprises in Ghana relied on their saving or borrowing them from their friends and relatives as the main sources of financing in the view of the fact that credit from the formal banking system to the formal is very limited. However difficulties still exist regarding access to finance domestic resources and mobilization and support necessary for SSBs to grow and contribute to the economy (Kuziliwa, 2003).

Furthermore the spate of technological advancement makes it very pertinent for SSEs people to possess some computer and information technology skills. Computer skills would be needed in order to process various information as well as enable them to formally present activities to conform to current global way of doing business. Any businessman still documenting information manually would not be considered seriously. SSBs should be able to communicate their suppliers and customers through the use of the internet in order not to go out of business.

There are a number of factors that has stifled the culture of enterprise indeed. Most people graduate from their studies and tend to seek for white collar jobs. In this case they do not rely on entrepreneurship after completing their courses of study. The academic involvement is geared towards western philosophies which may not apply to their environment meanwhile the climate necessary for starting business by SSB such as finance, technological facilities are not available. Most businesses are at the micro level because of the culture of subsistence. Again the culture of mistrust makes us unwilling or reluctant to pool resources to form partnership (Akhtar, 1997) to inculcate the culture of enterprise amongst SSE it must start from one home SSE must be given every climate support being financially or morally in order to motivate them to take enterprise initiatives. Also the educated system which is very important means of socialization should be used to inculcate enterprise among SSE.

Lack of role model and business mentors most of the problems stem from their inexperience or little experience and knowledge in the business domain. A challenge associated with the SME environment is getting the kind of information from established entrepreneurs. In Africa most of young people have no mentor support for their operations. Mentor support is a form of informal

advice and experience and in some cases business networks and may need support. (Aryeetey, Nuakoh, & Steel, 1994). In Ghana there are very few of genuine role model young entrepreneurs. In fact in some Africa countries, there exist instantly rich people who became millionaires overnight by selling resources on fairly through corruption (Nafukho, 1998). It is therefore not surprising to note that the lack of credibility makes it impossible for those entrepreneurs to open the share their experiences.

Most of the SSE stuck at mainly the micro level. According to World Bank estimates, most business in Ghana which account for 70% of employment in the country fall within the categories of “micro” small and medium entrepreneurs they range from farming activities agri-business among others has stuck most of these business at these level. The resultant effect is stunted growth of these business and mobilization of larger capital.

Another characteristic of Asian entrepreneurial situation is the alarming segment of entrepreneurial in the formal sector .The informal sector of Asian is made of about 90% of the working population (Baah & Achakoma, 2007) .The informal sector is characterized by ease of entry of small scale operators ,unregulated markets reliance on indigenous resources and outdated technology other features include family ownership lack excess to credit self employment and a small element of wage employment labour intensity and low production (WorldBank, 1995).

Many small scale businesses started out with the support of mentors or partnership or cooperative setting DJ Penwill a civil servant in Kenya once said the African capital without the ability to use it properly can achieve no improvement it can merely lead disaster on grander scale (Norman & Zimmer, 1996). In case of the huge financial resources they need mentors to direct them and monitor their improvements. Role model are needed to motivate and encourage small business that it is possible to become entrepreneur in Ghana .Also the role model concept was developed to provide entrepreneurs with lectures .National mentoring programme for small business (VMPXB). This programme would seek to bring together successful businessman who have the desire to share their experiences with SSBs as well as guide link them to other business net management, process and procedures to avoid pitfalls and build formidable business foundation.

2.2.3 Influence of financial status and management on credit

Banks are equally influenced by the financial standing of the applicant, government policy on investments, the availability of funds to invest, applicants provision of acceptable collateral or guarantor. Banks are also equally influenced by the profitability of the business seeking finance, as well as the cost of administering the loan granted. Banks like commercial banks would prefer to invest in businesses located in urban areas. The small businesses enterprises should keep record of accounts and daily transactions, as a criterion for approving an application for a business loan from a micro-enterprise. Banks also require the micro-enterprises to source their finance from the Banks in the requirement that they should be registered firm. Owners of micro-enterprises understand this requirement of business registration as part of the reluctance of sources of funds to grant them loans or as part of the stringent conditions for bank loans.

Formal financial institutions which owned controlled licensed and registered or regulated by the government. These include the commercial banks state banks. State owned Banks Agricultural development Banks and small scale business (Esguerra E. , 1993). Most of the commercial Banks are active in urban centres financing trade business while the Agricultural development Banks are usually situated in rural areas serving farmers.

Based on the study of Chowdhury & Garcia (1993), the number of loans from formal Financial institutions in the developing Countries obtained by rural borrowers is low. The reasons for such scenario includes complicated and length loan procedures that borrowers also obtaining loan from formal institutions overburdened the rural borrowers in terms of slow release of the funds and higher transaction costs which led them to borrow from formal sources instead (Chowdhury & Garcia, 1993). Moreover some restrictive feature of loans also affects them one is the credit scope which is limited to only specific commodity and another is the security requirement as the borrowers do not have the assets to support their credit (Esguerra E. , 1993). In some cases many small towns lack banking and other institutional facilities and credit services and credit services..

Youth enterprise development fund (YEDF) is a preferred source of finance for youth enterprises, the factors influencing youth entrepreneur's utilization of YEDF and the challenges facing youth enterprises development fund. In Kenya is coined as the financial service rendered to the deprived group of people and small entrepreneurs to help them in developing self -

employment opportunities and various income generating activities. The small size of the loan, regular saving, small scale entrepreneurs, diversified utilization and simple and flexible terms and conditions are the determining characteristics of its definition.

Women Enterprise Development Fund (WEDF) is a Semi-Autonomous Government Agency in the Ministry of Gender, Children & Social Development established in August 2007, to provide accessible and affordable credit to support women start and/or expand business for wealth and employment creation. Women Enterprise Development Fund has partnered with Safaricom Limited to provide easier, faster, efficient and secure loan repayment method through the use of M-PESA.

2.2.4 Influence of Size of the Business on Credit Financing

The size of business is also considered as an important factor by commercial banks in responding to application for loans. Banks also refer to track record of applicants. They consider the demand for their products and services. The performance of the enterprises considered too low to warrant the commercial banks interest in financing them. Financing institutions have thus not been of much help to small businesses since they have continued to perform poorly and thus will continue to be unqualified for substantial assistance.

2.2.5 Influence of Collateral Measures in Small Scale businesses

Many Government and international financial institutions have tried to address the problems of high transaction costs and risks by creating subsidized credit programmes and providing loan guarantees. Such projects have fostered a culture of non-repayment of failed to reach the target group or achieve financial self-sustainability. Credit schemes set up in sub-Saharan Africa in the early 1980's by the development finance institutions (DFIs) their aim was to provide either long term credit or specialized services to priority sectors in rural areas. The financial policies pursued were interventionism with government influencing the credit flow through a system of subsidies interest ceilings.

Lending institutions have improved their ability to improve financial services to SSB through commercial mechanisms that lower cost and minimize their risk exposure. Globalization trends are increasing competition especially for servicing large corporate customers and driving down margins and fees. The improving liquidity of securities markets in many countries is increasingly providing large corporations direct access to the capital market allowing them to bypass

financial intermediaries. Therefore banks are under increasing pressure to expand their business towards SSBs customers and to develop mechanisms to improve the profitability of lending to SSBs. Banks have launched a number of initiatives that both improve the profitability lending to SSBs and also provides SSBs with better access to finance and to financial products that are better tailored to their needs. A number of lending banks have demonstrated that providing that providing financial service to SSE can be turned into high profitable businesses. In developing and poor countries the rate of literacy is too low and thus it is hard for the small business owner to understand the basic business principles and interpret them. The government also supports small enterprise development by setting up of national economic reconstruction fund (NERFUND). Nigeria industrial development Bank was mandated to cover small scale enterprise to complement the Nigeria Bank for commerce and Industrial activities in the Sub-sector. Central Bank guidelines to commercial Banks to allocate 20% of the loan able fund to small scale enterprise. Creation of micro-finance Banks to aid cottage industries and small scale enterprise setting up industrial fund and entrepreneurship development programme. Due to global economic depression and economic recession an employment has become a serious phenomenon in Kenya today .To this end one should not fold his hands and die in silence but must leave for other ways of self employment.

Informal financial institutions operates without physical collateral involves small loans and short term transaction and are characterized by adaptability and flexibility of operations in a certain area (Adams, 1980). The characteristics are the same as for the informal sector and no data on their activities are available through official statistical offices (Esguerra E. , 1993). Lower transaction costs provide a comparative advantage for informal financial institutions

2.2.6 Influence of Management Skills on Credit Financing

Another essential skill needed is the business management skill needed is business management skill literacy of many investors creates a problem for them in management of large and complicated organizations and limit them to the operation of small enterprises (Nuakoh, 2003). Business is a profession and as such need adequate learning before entering. For SSB to be engaged in enterprises creation, they need to understand business methods advised by highly trained people how to plan book keeping, understand intricacies of modern business among others. This skill is much needed especially in a situation when SSEs is mostly dominated by the

informal sector. Small scale business enterprises need financial management skills in order to start their business analysis say that one of the biggest problem facing SSB mostly in the developing world's is financing management (Mukras & Seemule, 2005). Research indicates that the people who work in the informal sector mostly have limited access to formal sector mostly have linked access to formal education. Profile terms of the year spent in education suggest quite low levels in training (WorldBank, 1995). World Bank statistic (1995) for the informal sector in India indicates that 36% of the formal sector workers had complete the 10th grade and 10% had some tertiary education .The lack of education can affect the way they manage their finances .One of the skills including record keeping, Savings as well as writing business proposals .This would enable them manage their finances as well as move their enterprises from the micro –level to mid companies.

2.3 Conceptual framework of the study

The conceptual framework shows that the four independent variables; Financial status of applicant, size of the business, collateral measure of the business and business management skill of project activities can influence the dependent variables; Credit financing of small scale businesses.

INDEPENDENT VARIABLES

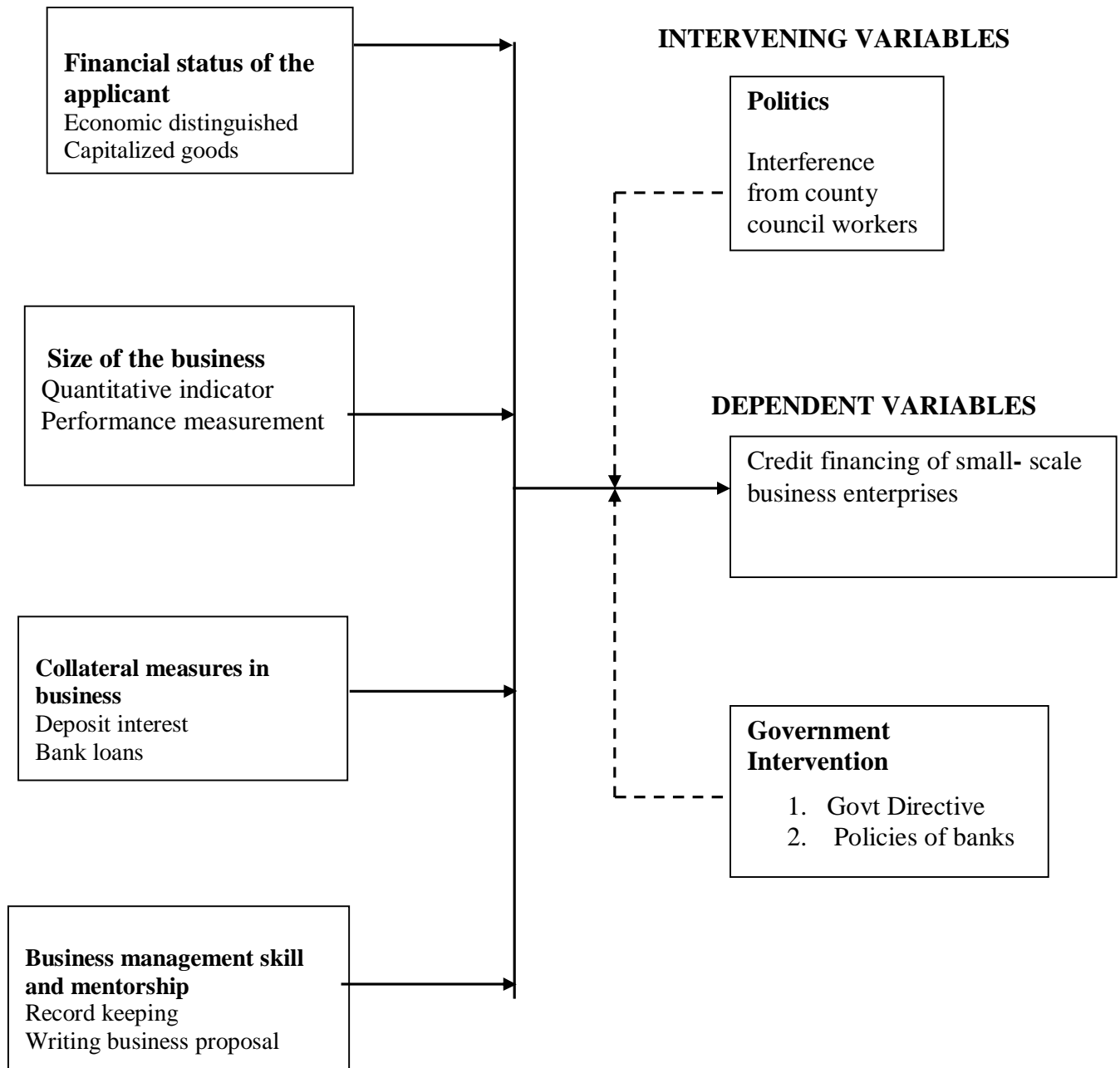


Figure 2.1: Conceptual framework of the study

2.9 Summary of the Literature Review

Theoretically, a number of analytical paradigms have attempted to explain the complexities and practicalities involved in small-firm financing. As early as the MacMillan Report in 1931, there has been recognition that British small firms suffer from what is termed the finance gap. In a first-world setting like that in the UK, this situation arises when a firm has grown to a size where the use of short-term finance is maximized, but the firm is not big enough to access capital-market funds. By contrast, in developing countries it is probable that such a finance gap arises.

Okraaku & Croffie (1997) argued that in Ghana SSBs rely primarily on personal savings of owners, business profits, family members or friends for their financial needs. They have little or no access to external credit. The effect of this is inadequate fixed capital as well as working capital. The consequences of these are very slow growth rate and frequent failures among small businesses. At the regulation level, the problems identified are high interest rates charged by banks thus making bank borrowing very expensive. The lending rates at Ghana were as high as 40 percent at a point in time. At the institutional level, banks were not motivated enough to lend to small business enterprises. The size of loanable funds available for lending to the sector is also small. Banks insist on tangible collateral as security as well as owner's equity for loans. At the enterprise level, SSBs are unable to mobilize owner's equity to satisfy banks requirement for loan, inability to provide acceptable collateral security to support loan and the lack of banking culture and practices.

The Small Scale Enterprises play a critical role in both developing and developed countries. Stiglitz & Marilou (1996) argued that the East Asian countries miracle was partly as a result of a vibrant SMEs sub-sector, which triggered the up-surge in exports and subsequent development of the industrial sector. For example, the New Industrialized Countries (NICs) like Singapore, Taiwan, South Korea, Malaysia, Indonesia and China among others, were able to achieve economic growth through the activities of SSEs which later contributed to the transformation of the Large-Scale enterprises. The Republic of China over the years, despite her large population, has been able to generate employment and income for her teeming population through the activities of the SSEs. There has been an increasing financial need of SSBs which have attracted government attention in the last three decades in Kenya. The government as a result put in place measures that will facilitate credit availability to the SSBs Sub-sector. The government had also

sought collaborative effort with bilateral and multilateral agencies and non- governmental organizations (NGOs) in supporting SSB in Kenya. In recent years, the promotion of entrepreneurship as a revolution to solving numerous economic and social challenges facing developing countries has attracted significant attention by policy makers and academia.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the methodology used in the study. It describes the research design, the target population, sample size and sampling procedures, research instruments, pretesting of the research instrument, reliability and validity of the research instruments, data collection procedures and data analysis techniques.

3.2 Research Design

This study used descriptive survey design. Descriptive survey designs are used when the objective is systematic or description of facts and characteristics of a given population or sample of the population or area of interest factually and accurately (Kothari, 2007). It gathers data at a particular point in time with the intention of describing the nature of the existing conditions, identifying the standards against which existing conditions can be compared and determining the relationship that exists between specific events (Orodho, 2005). Survey research design will be used because the population under study is too large to observe directly and this will enable the researcher to use questionnaires as a method of data collection. The survey research is therefore useful because of the economy of taking a sample of the population to generalize results for the whole population. The research purpose and question of this project was descriptive since investigation is being made to describe factors influencing credit financing of small business enterprises in Kisii town. It also allowed for familiarization with the problem or concept being studied.

3.3 Target Population

According to Mugenda & Mugenda (2003) population refers an entire group of individuals' events or objects having common observable characteristics. The target population for the research included all small business enterprises in Kisii Town .According to the record held by Kisii town council there are 560 registered small business enterprises in the town. One of the challenges in Kisii town is the existence of limited availability of funds and the limitation of

accurate statistics on the number of small business enterprises in Kisii town (Sharma, 1991). The population therefore included all the registered small business enterprises in Kisii town.

3.4 Sample Size and Sampling Procedure

From the basic list of registered business, a sampling frame of 160 possible respondents was identified in accordance with (Krejcie, Morgan, & Daryle, 1970). Hence, a population of 560 respondents needs a sample size of 160 (see table in appendix VI).The study therefore used simple random sampling to select the sample. Table 3.1 below shows the sample size distribution.

Table 3.1: Sample size distribution

| Description | Population | Sample size |
|--------------------|-------------------|--------------------|
| Respondents | 560 | 160 |
| Total | 560 | 160 |

3.5 Research Instruments

A questionnaire is a research instrument that gathers data over a large sample (Kombo & Tromp, 2006). The questionnaires that were used in this research consisting of structured and semi-structured questions. Structured questions are easier to analyze, easier to administer because each item is followed by alternative answers. They are also economical to use in terms of time and money. However, the responses were limited and respondents were compelled to answer questions according to the researcher's choice. Unstructured or open-ended questions on the other hand refer to those questions that give the respondent complete freedom of response. This permits a respondent to respond in his/ own way. Respondents' responses were given inside into their feelings, background, hidden motivation, interest and decisions (Mugenda & Mugenda, 2003). However there is a tendency to provide information that did not answer the stipulated research questions or objectives. There is also difficulty in categorizing responses and hence difficulty in analyzing quantitatively. An interview schedule is an oral administration of a

questionnaire, which involves a face to face interaction. The interview schedule was administered to the managers of the SSEs.

3.5.1 Piloting of the Research Instruments

As Orodho (2005) points out, piloting refers to the pre-testing of research instruments to a selected sample which is identical to the actual sample to be used in the study. Orodho (2005) adds that piloting helps to detect deficiencies in the research instruments such as insufficient space and ambiguous questions, and helps to reveal if anticipated analytical techniques are appropriate. A pilot study was conducted in one SSE that was randomly selected from the sample to validate the research instruments and test the reliability of the instruments. This SSE however, was not among the sampled SSEs. Simple random sampling was used to select the respondents who responded to the questionnaire.

3.5.2 Validity of Research Instrument

According to Mugenda & Mugenda (2003) validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Test and retest was used to ascertain the validity of the data collected. The researcher gave out questionnaires to a group of respondents not included in the study to fill and comment as was required. After a period of one week more questionnaires was administered to the respondents. The responses were then compared and those questions whose responses had great variances were restructured.

3.5.3 Reliability of the Research Instrument

Reliability refers to the degree to which the scores obtained with an instrument are consistent measures (Frankel, 1999). Test and retest was used to determine the reliability of the questionnaires. The correlation coefficient between the two separate administrations of the questionnaire gave a coefficient of 0.812 which was high enough to confirm the reliability of the questionnaires. The Spearman prophesies formula was used to calculate the reliability of the instruments.

$$\text{Reliability on total test} = \frac{2(\text{reliability for } \frac{1}{2} \text{ the test})}{2 + \text{reliability for } \frac{1}{2} \text{ the test}}$$

3.6 Data collection procedures

This refers to the collection or gathering of information to serve or prove some facts (Kombo and Tromp, 2006). It involves the real process of going to the field to get the required information from the selected population. The researcher got an introductory letter from Kisii Extra- Mural Center, University of Nairobi which enabled her get a research permit from the National Council for Science and Technology (NCST) which is under the Ministry of Higher Education, Science and Technology (M.O.H.E.S.T.) before proceeding to the field.

After acquiring the permit the researcher further sought permission from the District Commissioner of Kisii Central District, Kisii County which enabled her collect data. This was done through letter stating the research area, purpose of the research and the exact dates when the research was expected to take place. On the actual dates of the study, the researcher visited individual SSEs to conduct the research. The questionnaires were issued to selected respondents and some questionnaires were collected on the same day while others were collected later to allow for more time to enable proper completion of the questionnaires.

3.7 Data Analysis Techniques

Data analysis deals with the process of data coding, data entry and analysis in order to make interpretation possible. Data analysis deals with the statistics to be used to analyze data, that is, the organization, interpretation and presentation of collected data (Oso & Onen, 2005). Data in this study was collected by use of both closed-ended and open-ended questionnaire items. Quantitative data is presented by use of frequency tables and analyzed by use of percentages in consideration of the research questions. The qualitative data is read and categorized into distinct themes as shown by the responses of the respondents. These contributions are presented by use of frequency tables and analyzed and interpreted by use of percentages.

3.8 Ethical considerations

Most institutions are known to be suspicious of strangers and investigators, and therefore only release limited information. However, a letter of introduction attached to the questionnaires,

provided assurance of confidentiality in handling of the information collected, and hence reduced the effects of this limitation in the study findings.

It can also be realized that most respondents were positive about the study. Nevertheless, a few of them were very impatient and viewed the study as an interference with their programmes.

In the questionnaires it was clearly indicated that the respondents were not to write their names, nor their department and that the information they gave was to be used for research purpose only. The researcher ensured anonymity and confidentiality on part of the respondents. This was important to protect them from any psychological harm or public embarrassment of identifying with the information given to the researcher (Orodho, 2005).

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter deals with data analysis, presentation, interpretation and discussion of the research findings. The chapter is organized into two sections, in the first section; descriptive statistics are used to provide background information of the respondents who participated in this study. The second section presents the analysis of the responses to the specific objectives of the study as provided by the respondents in the questionnaires. The purpose of this study was to investigate factors influencing credit financing of small businesses in Kisii town, Kisii County, Kenya.

The study sought to address the following objectives.

1. To determine the extent to which financial status and management records influence credit financing of small scale business enterprises in Kisii Town.
2. To establish the extent to which size of business influence credit financing of small scale business enterprises in Kisii Town.
3. To investigate the extent to which collateral measures influence credit financing of small scale business enterprises in Kisii Town.
4. To ascertain the extent to which management skills influence credit financing of small scale business enterprises in Kisii Town.

4.2 Questionnaire Return Rate

A total of 160 questionnaires were given out to the respondents. Out of the 160 questionnaires, 113 were received back. This resulted in a return rate of 70.6%. The data from the questionnaires was then analyzed and presented in tables.

4.3 Demographic Characteristics

This variable was important since it enabled the researcher to obtain respondents' personal data in terms of age, gender, and academic qualification.

4.3 .1 Gender of the respondents

The respondents were asked to state their gender. Their responses were as shown in table 4.1 below.

Table 4.1: Gender of the Respondents

| Gender | Frequency | Percentage % |
|---------------|------------------|---------------------|
| Male | 63 | 55.9 |
| Female | 50 | 44.1 |
| Total | 113 | 100 |

From the table 4.1 it is revealed that 63 (55.9%) were male and 50 (44.1%) were female. This implies that both male and female are actively involved in small business enterprises in Kisii Town.

4.3.2 Age of the respondents

The respondents were required to indicate their ages. Their responses were tabulated as shown in table 4.2 below.

Table 4.2: Ages of the Respondents

| Gender | Frequency | Percentage % |
|---------------|------------------|---------------------|
| 18-22 years | 40 | 35 |
| 23-35 years | 50 | 44 |
| 36-50 years | 23 | 21 |
| Total | 113 | 100 |

The results obtained in table 4.2 showed that the respondents' ages ranged between 18 years and 50. Those aged between 18-22 years were 40 (35%). Those within the age of 23-35 years were 50 (44%) while those within 36-50 years were 23 (37 %). This implies that all the respondents were of age of running business enterprises and were beneficiaries of credit financing in Kisii Town.

4.3.3 Education level and qualification of the respondents

The question was asked to seek out the level of education of the responses. The result was as shown in the table 4.3 below.

Table 4.3: Educational level of the respondents

| Level of education | Frequency | Percentage % |
|-----------------------|------------|--------------|
| CPE /KCPE | 40 | 35 |
| KCSE/KACE/KCE | 50 | 44 |
| Certificate and above | 23 | 21 |
| Total | 113 | 100 |

Information from table 4.3 revealed 40 (35%) had CPE/KCPE level of education while 50 (44%) had KCSE/KACE/KCE whereas 23 (21%) had certificate and above. This implies that the respondents had attained some level of education that could enable them run business enterprise.

4.3.4 Work Experience

The question was raised with the view of finding out the length of the time the respondents have been in the business. The responses were recorded as in table 4.4 below.

Table 4.4 Working experience of the respondents.

| No. of the years in the business | Frequency | Percentage % |
|----------------------------------|------------|--------------|
| 1-10 years | 60 | 53 |
| 11-20 years | 33 | 29 |
| 21 and above | 20 | 18 |
| Total | 113 | 100 |

Data from table 4.4 revealed that more than half 60 (53%) had run the business for 1- 10 years, 33 (29%) for 11-20 years while 20 (18%) had run for 21 and above years. This implies that the

small business enterprises have been in operation for more than one year and therefore would have solicited for credit financing from financial institutions.

4.3.5 Registration of the small scale business

The question rose to find out why most of small scale enterprises are not registered. The respondent gave different views as follows in table 4.5. This variable was important as it reflected the financial status of the business enterprises and their source of financing.

Table 4.5 Registration of small scale enterprises

| Reasons for not registered | Frequency | Percentage % |
|-----------------------------------|------------------|---------------------|
| Inadequate funds | 63 | 55 |
| Corruption in municipality | 30 | 27 |
| Procedure too long | 20 | 18 |
| TOTAL | 113 | 100 |

Information from table 4.5 shows that more than half 63 (55%) of the enterprises had inadequate funds. This implies that they were in entire need for credit financing. It was also revealed that 30 (27%) of the enterprises had stagnated in their financial status due to corruption in the municipality. This implies that in as much as the credit financing was a challenge there was a challenge of corruption thus affecting the financial status of the business enterprises in Kisii Town. It was also revealed that 20 (18%) of the enterprises had inadequate finances due to procedures that are too long to get the funding from financial institutions. The financial status of the enterprises is therefore affected in one way or the other.

4.3.6 Factors considered by banks on credit financing

The question was asked to find out why most of the small scale enterprises do not access credit. The responses which were given were as follows in table 4.6.

Table 4.6 Reasons why Small scale businesses do not access credit facilities

| Reasons for not accessing credit | Frequency | Percentage % |
|---|------------------|---------------------|
| Lack of collateral | 35 | 30 |
| No security | 25 | 22 |
| High interest rate | 20 | 18 |

| | | |
|---------------------------------|------------|------------|
| Size of business | 18 | 16 |
| Financial standing of applicant | 15 | 14 |
| Total | 113 | 100 |

Table 4.6 shows that 35 (30%) of the respondents indicated that the enterprises are due to lack of collateral, 25 (22%) had no security while 20 (18%) faced low financial status due to high interest rates from the financing institutions. Further, the size of the business was found to be a factor by 18 (16%) whereas 15 (14%) indicated that the financial status of the enterprises depended on the financial standing of the applicant. This implies that the credit financing of the enterprises is really influenced and these factors need to be overcome to boost the business enterprises in the Town.

4.4 Influence of Financial Standing of Applicant on Credit financing

The study sought to determine the extent to which financial status that influences access of credit by small business enterprises in Kisii Town. To do this the researcher used the following sub-divided the items into the following sub-headings.

4.4.3 Financial status and management records of Business Enterprises

The responses to the items have been tabulated in table 4.7 below.

Table 4.7 Financial Management of Business Enterprises

| Statement | SA | A | NC | D | SD | TOTALS |
|---|-------------|----|-------------|-------------|------------|--------|
| Financial statements like budgets, cash books, are always available in the enterprise . | 11 36.0% | 30 | 20 17.2% | 15 46.9% | 37 100% | 113 |
| Business members can freely access the financial records of the enterprise . | 10 39.5% | 35 | 13 11.4% | 40 49.0% | 15 100% | 113 |
| Members can understand the financial records of the enterprise. | 12 36.8% | 30 | 13 11.2% | 45 52.0% | 13 100% | 113 |
| Auditing of the enterprises financial records is regularly done . | 19 34.3% | 20 | 20 17.7% | 44 48.0% | 10 100% | 113 |

The table 4.8 shows that 41 (36.0%) of the respondents agreed that financial statements like budgets, cash books, are always available in the enterprise, 20 (17.2%) were uncertain and 53 (46.9%) disagreed. Further 45 (39.5%) agreed that members can freely access the financial records of the enterprise 13 (11.4%) were uncertain and 55 (49.0%) disagreed. It was revealed that 42 (36.8%) agreed that members can understand the financial records of the enterprise 13 (11.2%) were uncertain and 58 (52.0%) disagreed on whether auditing of the enterprise financial records is regularly done, 39 (34.3%) agreed, 20 (17.7%) were uncertain and 54 (48.0%) disagreed.

4.5 Influence of size of the business on credit financing

The second objective of the study was to establish the extent to which size of business influence credit financing of small business enterprises in Kisii Town. The responses are as in table 4.8 below.

Table 4.8. Size of Business Enterprises

| Challenges | Frequency | Percentage % |
|-----------------------------------|------------------|---------------------|
| Inadequate credit assistance | 30 | 26 |
| Skilled power | 13 | 12 |
| Lack of machinery and equipment | 13 | 12 |
| Poor project planning | 25 | 22 |
| Competition from large scale unit | 17 | 15 |
| Irregular supply of raw material | 15 | 13 |
| TOTAL | 113 | 100 |

Table 4.8 shows that 30 (26%) of the respondents indicated that the enterprises are have inadequate credit assistance, 13 (12%) had skilled power while 13 (12%) lacked machinery and equipment due to high interest rates from the financing institutions. Further, poor project planning was found to be a factor by 25 (22%) whereas 17 (15%) indicated that there was competition from large scale unit as well as 15 (13%) indicated that due to size of enterprise there was irregular supply of materials. This implies that the credit financing of the enterprises is really influenced and these factors need to be overcome to boost the business enterprises in the Town.

4.6 Influence of Collateral Measures on Credit financing

The third objective of this study was to investigate the extent to which collateral measures influence access of credit by small business enterprises in Kisii Town. The findings were presented in Table 4.9 as follows:

Table 4.9 Collateral Measures Influence Access of Credit by Small Business Enterprises

| Statement | A | | U | | D | | TOTAL | |
|--|----|------|----|------|----|------|-------|-------|
| | F | % | F | % | F | % | F | % |
| The business enterprise is has permanent assets for transaction | 12 | 11.1 | 9 | 7.4 | 92 | 81.5 | 113 | 100.0 |
| There is title deed for the land used for operation of the enterprises | 9 | 7.4 | 21 | 18.5 | 83 | 74.1 | 113 | 100.0 |
| The members have shares in the business enterprises | 34 | 29.6 | 12 | 11.1 | 67 | 59.3 | 113 | 100.0 |
| The business enterprises have mortgages as collaterals | 9 | 7.4 | 9 | 7.4 | 95 | 85.2 | 113 | 100.0 |

Table 4.9 reveals that the majority 92 (81.5%) of the respondents reported that the business enterprise is has permanent assets for transaction whereas 12 (11.1%) agreed. The remaining 9 (7.4%) were uncertain. Information from the table further reveals that only 9 (7.4%) agreed that there is title deed for the land used for operation of the enterprises whereas the majority 83 (74.1%) disagreed. The remaining 21 (18.5%) were uncertain. Data from the table reveals that more than half 67 (59.3%) disagreed that the members have shares in the business enterprises with only 34 (29.6%) agreeing. The remaining 12 (11.1%) were uncertain. Finally, it is noted that a majority 95 (85.2%) disagreed that the business enterprises have mortgages as collaterals whereas 9 (7.4%) agreed with another 9 (7.4%) being uncertain.

4.7 Influence of Management Skills on Credit Financing

The other objective of this study was to ascertain the extent to which management skills influence credit financing of small business enterprises in Kisii Town. The findings were presented in Table 4.10 as follows:

Table 4.10 Management Skills

| Statement | A | | U | | D | | TOTAL | |
|--|----|------|----|------|----|------|-------|-------|
| | F | % | F | % | F | % | F | % |
| The management of the enterprise is all inclusive in decision making | 12 | 11.1 | 9 | 7.4 | 92 | 81.5 | 113 | 100.0 |
| The management encourages an open system with the customers | 9 | 7.4 | 21 | 18.5 | 83 | 74.1 | 113 | 100.0 |
| The members have representatives in the management of the business | 34 | 29.6 | 12 | 11.1 | 67 | 59.3 | 113 | 100.0 |
| The members are granted leave of study with pay to improve skills | 9 | 7.4 | 9 | 7.4 | 95 | 85.2 | 113 | 100.0 |

Table 4.10 reveals that more than half 92 (81.5%) of the respondents reported that the management of the enterprise is not all inclusive in decision making whereas 12 (11.1%) agreed. The remaining 9 (7.4%) were uncertain. Data from the table further reveals that only 9 (7.4%) agreed that the management encourages an open system with the customers whereas the majority 83 (74.1%) disagreed. The remaining 21 (18.5%) were uncertain. Information from the table reveals that more than half 67 (59.3%) disagreed that the members have representatives in the management of the business with only 34 (29.6%) agreeing. The remaining 12 (11.1%) were uncertain. Finally, it is noted that a majority 95 (85.2%) disagreed that the members are granted leave of study with pay to improve business skills whereas 9 (7.4%) agreed with another 9 (7.4%) being uncertain.

CHAPTER FIVE
SUMMARY, CONCLUSION, RECOMMENDATION AND SUGGESTION FOR
FURTHER RESEARCH

5.1 Introduction

The study was based on exploitation and determination of the factors influencing credit financing of small scale business in Kisii Town. Kisii town possible suggestions were given in which leads to small scale business not accessing finance. Quantitative approach was used for it provided data easy to record tabulate analyze and interpret

Respondents for the study were from the 113 small scale businesses in Kisii town among the 560 registered small scale businesses in Kisii town.

In collecting data the study adopted questionnaires and structured interview schedules. The researcher too did documentary review from variety scores which included research reports and teaching materials. Data collected was analyzed quantitatively and quantitatively. Therefore it was computed into tables for interpretation.

5.2 Summary of the findings

5.2.1 General Information on the Respondents

The study established that that 55.9% were male and 44.1% were female. This implies that both male and female are actively involved in small business enterprises in Kisii Town. Concerning the education level, 35% had CPE/KCPE level of education while 44% had KCSE/KACE/KCE whereas 21% had certificate and above. This implies that the respondents had attained some level of education that could enable them run business enterprise. As for the working experience, (53%) had run the business for 1- 10 years, 29% for 11-20 years while 18% had run for 21 and above years. This implies that the small business enterprises have been in operation for more than one year and therefore would have solicited for credit financing from financial institutions.

5.2.2 Financial Status that Influence Credit Financing of Small Business Enterprises

The study sought to determine the extent to which financial status that influence credit financing of small business enterprises in Kisii Town. Information from table shows that more than half 55% of the enterprises had inadequate funds. This implies that they were in entire need for credit financing. It was also revealed that 27% of the enterprises had stagnated in their financial status due to corruption in the municipality. This implies that in as much as the credit financing was a challenge there was a challenge of corruption thus affecting the financial status of the business enterprises in Kisii Town. It was also revealed that 18% of the enterprises had inadequate finances due to procedures that are too long to get the funding from financial institutions. The financial status of the enterprises is therefore affected in one way or the other.

The table further shows that 30% of the respondents indicated that the enterprises are due to lack of collateral, 22% had no security while 18% faced low financial status due to high interest rates from the financing institutions. Further, the size of the business was found to be a factor by 16% whereas 14% indicated that the financial status of the enterprises depended on the financial standing of the applicant. This implies that the credit financing of the enterprises is really influenced and these factors need to be overcome to boost the business enterprises in the Town.

It was further revealed that 36.0% of the respondents agreed that financial statements like budgets, cash books, are always available in the youth group 17.2% were uncertain and 46.9% disagreed. 39.5% agreed that members can freely access the financial records of the enterprise 11.4% were uncertain and 49.0% disagreed. 36.8% agreed that members can understand the financial records of the enterprise 11.2% were uncertain and 52.0% disagreed on whether auditing of the enterprise financial records is regularly done 34.3% agreed 17.7% were uncertain and 48.0% disagreed.

5.2.3 Size of Business Enterprises

The second objective of the study was to establish the extent to which size of business influence credit financing of small business enterprises in Kisii Town. It was established 26% of the respondents indicated that the enterprises are have inadequate credit assistance, 12% had skilled power while 12% lacked machinery and equipment due to high interest rates from the financing

institutions. Further, poor project planning was found to be a factor by 22% whereas 15% indicated that there was competition from large scale unit as well as 13% indicated that due to size of enterprise there was irregular supply of materials. This implies that the credit financing of the enterprises is really influenced and these factors need to be overcome to boost the business enterprises in the Town.

5.2.4 Collateral Measures Influence Access of Credit by Small Business Enterprises

The third objective of this study was to investigate the extent to which collateral measures influence access of credit by small business enterprises in Kisii Town. The study established that the majority 81.5% of the respondents reported that the business enterprise is has permanent assets for transaction whereas 11.1% agreed. It was further revealed that only 7.4% agreed that there is title deed for the land used for operation of the enterprises whereas the majority 74.1% disagreed. Data from the table reveals that more than half 59.3% disagreed that the members have shares in the business enterprises with only 29.6% agreeing. Finally, it was found out that the majority 85.2% disagreed that the business enterprises have mortgages as collaterals whereas 9 (7.4%) agreed with another 7.4% being uncertain.

5.2.5 Management Skills that Influence Business Enterprises

The other objective of this study was to ascertain the extent to which management skills influence credit financing of small business enterprises in Kisii Town. It was established that more than half 81.5% of the respondents reported that the management of the enterprise is not all inclusive in decision making whereas 11.1% agreed. The remaining 7.4% were uncertain. Data from the table further reveals that only 7.4% agreed that the management encourages an open system with the customers whereas the majority 74.1% disagreed. The remaining 18.5% were uncertain. Information from the table reveals that more than half 59.3% disagreed that the members have representatives in the management of the business with only 29.6% agreeing. The remaining 11.1% were uncertain. Finally, it is noted that a majority 85.2% disagreed that the members are granted leave of study with pay to improve business skills whereas 7.4% agreed with another 7.4% being uncertain.

5.3 Conclusion

One of the concerns of this study was to determine the extent to which financial status that influences access of credit by small business enterprises in Kisii Town. The study found out that the enterprises had inadequate funds. This implies that they were in entire need for credit financing. It was also revealed that the enterprises had stagnated in their financial status due to corruption in the municipality. This implies that in as much as the credit financing was a challenge there was a challenge of corruption thus affecting the financial status of the business enterprises in Kisii Town. It was also revealed that the enterprises had inadequate finances due to procedures that are too long to get the funding from financial institutions. The financial status of the enterprises is therefore affected in one way or the other. Therefore, there is need for accessing credit by the small scale business enterprises to boost the businesses.

The other objective of the study was to establish the extent to which size of business influence credit financing of small business enterprises in Kisii Town. It was established that the enterprises are have inadequate credit assistance with skilled manpower while as well as lacked machinery and equipment due to high interest rates from the financing institutions. Further, poor project planning was found to be a factor coupled with competition from large scale unit. The size of enterprise there was irregular supply of materials was also established to influence access of credit by small business enterprises. This implies that the credit financing of the enterprises is really influenced and these factors need to be overcome to boost the business enterprises in the Town.

The study also investigated the extent to which collateral measures influence access of credit by small business enterprises in Kisii Town. The study established that the business enterprise had permanent assets for transaction. It was further revealed that there is title deed for the land used for operation of the enterprises. Data collected revealed that the members have shares in the business enterprises while business enterprises had no mortgages as collaterals.

The study further established that the management of the enterprise is not all inclusive in decision making as well as the management seldom encourages an open system with the

customers. It was further revealed that the members do not have representatives in the management of the business while the members are not granted leave of study with pay to improve business skills.

5.4 Recommendations

The research reveals that most of the financial institutions do not give credit to small scale enterprises because they fear of losing their money since small sale enterprises interest is low the researcher recommends for the following.

The Banks should lower their interest rate in order for small scale enterprise to access credit facilities.

The trade union and municipal council should be fair and honest in giving licenses to small scale enterprises.

The government and other financial institutions should come up with ways of supporting small scale enterprises because they are many and they support in developing the economy of the country.

5.5 Suggestions for Further Research

The following are the areas that need further research:

- i. The effects of credit financing on productivity of business enterprises
- ii. The relationship between bad management procedures and business enterprise
- iii. The costs of establishing small business enterprises.

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APPENDICES

APPENDIX I: LETTER OF TRANSMITTAL

Milka Kemunto Mokuu

University of Nairobi

milkamokuu@yahoo.com . 0727-130459

June .2012

Dear Sir/Madam

RE: FACTORS INFLUENCING CREDIT FINANCING OF SMALL SCALE ENTERPRISE IN KISII TOWN

I am a postgraduate student at the University of Nairobi undertaking a Master of Arts Degree in project planning and management.

Currently I am carrying out a research on the above topic, which is a requirement that must be made in order to successfully complete the course

I request that you assist by filling this questionnaire to enable me get the relevant information on this research work. The information you give shall be treated with utmost privacy and confidentiality and applied only for academic purposes.

Yours faithfully,

Milka Kemunto Mokuu

APPENDIX II

EMPLOYEE QUESTIONNAIRE

I am a student in the University of Nairobi undertaking Masters in project planning and management and therefore, request you to assist me this interview as part of a requirement to complete my project. There is no right or wrong answer. All response will be kept secret.

SECTION A

Instructions

1. Please fill the details required

Personal information put a tick where appropriate

Gender

Male

Female

Age bracket

0- 30 years

31- 40 years

41-50 years

51 and above years

Highest academic qualification (Indicate year attained)

Primary

Secondary

Certificate

Diploma

Degree (other)

SECTION B

Influence of the existing customer financial standing of the applicant, size of the business and the characteristics of a business enterprise in credit financing of small scale business

2. To what extent do you rate the following factors influence in credit financing of small scale business

Rating key: 5 – Very important 4 = important

3. – Fairly important ,2 Unimportant 1- least important

| Factor | 5 | 4 | 3 | 2 | 1 |
|--|----------|----------|----------|----------|----------|
| Existing customers | | | | | |
| Financial standing of the applicant | | | | | |
| Government policy on investment | | | | | |
| Availability of funds to invest | | | | | |
| Provision of acceptance collateral or guarantor | | | | | |
| Profitability of business seeking finance | | | | | |
| Cost of administering the loans if guaranteed | | | | | |
| Keeping records of accounts and gaily transaction registered firm | | | | | |
| Performance of micro enterprises | | | | | |
| Market penetration | | | | | |
| Enterprise culture | | | | | |

SECTION C

Influence of the government international financial institution and non-government organization in credit financing of small scale businesses

b) What is your rating on the following factors influence in small scale businesses?

Key ranking 5= strongly agree, 4= agree 3= fairly agree 2= Disagree 1= strongly disagree

| Factors | 5 | 4 | 3 | 2 | 1 |
|-------------------------------------|----------|----------|----------|----------|----------|
| Government | | | | | |
| International institution | | | | | |
| Non-government organization | | | | | |
| Commercial Banks | | | | | |
| Micro finance Bank | | | | | |
| Nation economic reconstruction fund | | | | | |

SECTION D

5. Which of these areas should the Municipal Council concentrate to provide good environmental for smooth running of small scale business?

Influence of Municipal Council and Administration in providing license and enough security in operation of small scale business in Kisii town.

Key 5= Important 4= Important 3= Fairly Important 2= Unimportant 1= Least important

| | 5 | 4 | 3 | 2 | 1 |
|---|----------|----------|----------|----------|----------|
| Proper planning of the municipal council by providing enough space for operation of SSB | | | | | |
| Honest in giving license to SSB | | | | | |
| Providing enough security in operation of their business | | | | | |
| Free to operate in a wide area | | | | | |
| Sufficient collateral money when starting a business | | | | | |

SECTION E

Influence of credit financing in small scale business (put a tick where appropriate)

6. Rank the following challenges in financing small scale businesses

Key: 5= strongly agree 4= Agree 3= Fairly agree 2= Disagree 1= Strongly disagree

| Challenges | 5 | 4 | 3 | 2 | 1 |
|---|----------|----------|----------|----------|----------|
| Lack of instructional capacity to source out additional sources of revenue | | | | | |
| Weak economic position i.e. limited economic activities | | | | | |
| The attitude of urban management officials and the public i.e. taxes charges, duties are considered as imposition by someone powerful to take away their money. | | | | | |

SECTION F

1. What can you comment about the town clerk in terms of its commitment to effective management of small scale businesses

Put a tick and comment

Comments

- a. Excellent
- b. Very good
- c. Good
- d. Average
- e. Below average
- f. Very poor

APPENDIX III

QUESTIONNAIRE FOR SMALL SCALE BUSINESSES

To be filled by the small scale businesses in Kisii Town. I am a student in the University of Nairobi .Undertaking Masters in project planning and management and therefore I request you to assist me in the interview as part of requirement to complete my project .There is no right or wrong answer .All responses will be kept secret.

This interview is based on the factors that could influence credit financing of small scale business in Kisii town council

Personal information

1. What is your designation
2. How long have you been in the business

Influence of financing institution such as commercial of the applicant, size of the business enterprise in credit financing of small scale businesses.

Tick where it is appropriate

1. Which financial institution which lends money to small scale business in Kisii county?
 - a) Kenya Commercial Bank
 - b) Barclays Bank
2. What are the criteria/conditions used in granting the credit?
 - a) Annual turnover
 - b) Total investment outlet
 - c) Business plan
 - d) Collateral security

3 Is your business insured?

a) Yes

b) No

4. Do you have access to any form of technical or managerial support (or training) to grow your business?

a) Yes

b) No

If yes state the sources (organization or institutions)?

5. Do you belong to any organization or institution that support or enhance business development?

a) Yes

b) No

6. Why do you find that most of small scale businesses are not registered?

a) Have no money for registration

b) They don't consider registration as being important

c) They assume

7. Do the funding arrangement made by the government through its agencies contribute to the growth of your business?

a) Yes

b) No

8. How did you raise funds to start up your business?

a) Personal saving

- b) Friends or farming
- c) Banks
- d) Cooperative societies
- e) International donor agencies
- f) Non government organization

9. Which year was your business established?

.....

.....

11. Apart from the bank what are the other source of finance to small scale businesses?

- a) Personal savings
- b) Industrial and commercial development cooperation
- c) Kenya small traders and entrepreneurs society

12. Characteristics of small scale businesses

- a) Small independent enterprises
- b) They rely on low cost materials
- c) Flexible and often small production runs
- d) Largely labour intensive unit with raw low technology.

13. Reasons why small scale businesses find it hard to access finance

- a) High interest rate
- b) Collateral requirement
- c) Delay in processing

d) Inflexible conditions

e) Slow in processing loan, corruption

14. What are loan terms and conditions and the choice of credit?

a) Application fees

b) Collateral value

c) Application period

d) Repayment period

Factors which hinder small scale business access to credit

1. Why small scale businesses need to have knowledge in computer and information technology skill before they go for credit?

a) Maintaining account ledgers

b) Audit work

c) Handling income taxes

d) Carrying out payroll tasks

2. I. Why do you relate the relationship between the banks, small scale businesses and workers of town council (Put a tick where appropriate)

a) Excellent

b) Very good

c) Good

d) Average

e) Below average

II. How do you rate the level of credit financing for small scale businesses

i) Adequately

ii) Inadequately

iii) Fairly financed

3. I. How do you rate the assistance given by government in financing small scale businesses

i) Government is highly supportive

ii) Moderately supportive

iii) Unsupportive

II. Challenges facing small scale businesses .Key least insignificant 2 Insignificant 3 fairly significant 4 Significant 5 Very significant .

| Challenges | 5 | 4 | 3 | 2 | 1 |
|--|---|---|---|---|---|
| Competition from large-scale units and imported articles | | | | | |
| Absence of adequate infrastructure | | | | | |
| Problem of skilled manpower | | | | | |
| Inadequate credit assistance | | | | | |
| Irregular supply of raw material | | | | | |
| Absence of organized marketing | | | | | |
| Lack of machinery and equipment | | | | | |
| poor project planning, | | | | | |
| Managerial inadequacies | | | | | |

APPENDIX IV

QUESTIONNAIRE FOR THE MEMBERS OF THE PUBLIC

To be filled by the chief officer of the council .I am a student in the University of Nairobi undertaking Masters in project planning and management and therefore request you to assist me in the interview as part of a requirement to complete my project .There is no right or wrong answer .All responses will be kept secret.

Put a tick where appropriate

1. What do you comment on the role of small scale businesses in the economy development of Kisii town
 - a) Job creation
 - b) Innovators of new ideas
2. Are you satisfied with the role of small scale businesses in the economy of development of Kisii Town?
Strongly agree
Agree
Fairly agree
Disagree
3. What problem do they face in collecting taxes from small scale businesses
 - a) They are not trained e.g. in public relationship
 - b) They are insecure
 - c) Communication barrier
4. What solution do you propose for the those who do not pay taxes to count council?
 - a) Not to be given licenses
 - b) They can be stopped from doing business
 - c) Not to be given a place to operate their business in the council

APPENDIX: VI

TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

| N | S | N | S | N | S | N | S | N | S |
|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 10 | 10 | 100 | 80 | 280 | 162 | 800 | 260 | 2800 | 338 |
| 15 | 14 | 110 | 86 | 290 | 165 | 850 | 265 | 3000 | 341 |
| 20 | 19 | 120 | 92 | 300 | 169 | 900 | 269 | 3500 | 246 |
| 25 | 24 | 130 | 97 | 320 | 175 | 950 | 274 | 4000 | 351 |
| 30 | 28 | 140 | 103 | 340 | 181 | 1000 | 278 | 4500 | 351 |
| 35 | 32 | 150 | 108 | 360 | 186 | 1100 | 285 | 5000 | 357 |
| 40 | 36 | 160 | 113 | 380 | 181 | 1200 | 291 | 6000 | 361 |
| 45 | 40 | 180 | 118 | 400 | 196 | 1300 | 297 | 7000 | 364 |
| 50 | 44 | 190 | 123 | 420 | 201 | 1400 | 302 | 8000 | 367 |
| 55 | 48 | 200 | 127 | 440 | 205 | 1500 | 306 | 9000 | 368 |
| 60 | 52 | 210 | 132 | 460 | 210 | 1600 | 310 | 10000 | 373 |
| 65 | 56 | 220 | 136 | 480 | 214 | 1700 | 313 | 15000 | 375 |
| 70 | 59 | 230 | 140 | 500 | 217 | 1800 | 317 | 20000 | 377 |
| 75 | 63 | 240 | 144 | 550 | 225 | 1900 | 320 | 30000 | 379 |
| 80 | 66 | 250 | 148 | 600 | 234 | 2000 | 322 | 40000 | 380 |
| 85 | 70 | 260 | 152 | 650 | 242 | 2200 | 327 | 50000 | 381 |
| 90 | 73 | 270 | 155 | 700 | 248 | 2400 | 331 | 75000 | 382 |
| 95 | 76 | 270 | 159 | 750 | 256 | 2600 | 335 | 100000 | 384 |

Note: “N” is population size

“S” is sample size.

