FACTORS THAT INFLUENCE LOAN DEFAULTING BY SME OWNERS IN KENYA: A STUDY OF SMEs WITHIN THIKA TOWNSHIP OF KIAMBU COUNTY

BY

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DECLARATION

This research paper is my original work and has not been presented for degree award in any other institution of learning.

Signed …………………………. Date…………………

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This research paper has been submitted for examination with my approval as a University Supervisor.

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This research project paper is dedicated to my dear wife, Purity Kiende Karani, and children, Andrew and Abigail, for their support and encouragement during the course of my study.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

CBK	:	Central Bank of Kenya
CBS	:	Central Bureau of Statistics
CRB	:	Credit Resource Bureau
ICEG	:	International Centre for Economic Growth
K-Rep	:	Kenya Rural Enterprise Programme
MFI	:	Micro Financial Institution
No.	:	Number
NPLs	:	None Performing Loans
RoK	:	Republic of Kenya
SMEs	:	Small & Medium Enterprises
Vol	:	Volume
TEKUN	:	The economic Fund for National Entrepreneurs groups
UK	:	United Kingdom
YUM	:	Yayasan Usaha Maju

ABSTRACT

The study focused on the factors influencing loan defaulting by the SME owners operating within Thika Township of Kiambu County. The SMEs play a pivotal role in development and sustenance of world's economy, but not without many challenges that hinder their development. It focused on the type of loan collateral, purpose/intention of starting the SME, the need for achievement in the SME venture, the nature/type of the SME, the diversion of loan, and mode of loan repayment. The descriptive research design was adopted, where 50 questionnaires were administered to SME owners and detailed discussions of the questions conducted with 10 key informants in the SME sector. The probability and non-probability sampling techniques were used in the study. The data was analysed using descriptive techniques and the findings presented using graphs, tabulations and cross tabulations and percentages.

The study found that majority of the respondents were male with college/university level of education. It also found that majority of the SME entities had been in operation for four years or less while the SME owner's ability to manage a loan was enhanced by education, skills and experience. Majority of the SMEs are accessing loan services from the MFIs and more than half of them have ever defaulted on their loan contract. The direct cash deposits repayment mode was used by majority, with monthly repayment intervals. The majority of the respondents hold that the MFIs loaning services to SMEs have good future prospects. A majority of the SME owners disagree that the purpose of starting an SME entity could influence loan defaulting while majority of the key informants think it could. The study found that lack of need for achievement in business and diversion of loan funds influence SME owners to default on their loans while the type/nature of business and mode of loan repayment was found to be a less influencing factor of loan defaulting.

The study recommends that the SME owners learn how to plough their profits back into the business to increase their operating capital in order to grow their entities. In addition, SME owners should conduct sound business research before starting their entities. The study concluded that the SME sector is a fertile ground for investment not just for governments, but SME owners and the MFIs as well.

CHAPTER ONE: INTRODUCTION

1.0. Background information

The Small and Medium sized enterprises (SMEs) are considered as the power driving many countries' economies. It has been argued that SMEs are the lifeblood of most economies around the world and any government cannot afford to ignore the sector (Ayyagari et al, 2007). SMEs have a key role in economic growth and development innovation. They have greater tolerance for high-risk initiatives and capacity to reap substantial market rewards in niche markets. The credit access by the SMEs from the formal sector is constrained by the high risks and high transaction costs associated with commercial lending to the segment.

SMEs are more likely to be left without new loans during financial crisis. Access to financial capital can be a critical factor for the success of SMEs, particularly in their early years. The fundamental element for development of the SME sector stands out as access to financial capital (World Bank, http://www.enterprisesurveys.org). Several studies have shown that limited financial capital remains the greatest hindrance for SMEs than large firms, more so in developing countries, and the access to finance undesirably affects growth of the SME segment more than large companies (Schaffer and Weder, 2001; Beck et al, 2005; 2006). It is for this reason that the international development community listed SME financial access to be a crucial policy priority.

The evidence of the default pattern of loans to individual firms in emerging markets in general and the new EU member states in particular is still missing (Fidrimuc & Hainz, 2009). It is in this regard that this paper sought to highlight factors that influence loan defaulting by SMEs, based on Kenyan perspective. In Kenya, the informal sector has seen its share in total employment rise from 16% in 1980 to 63.6% in 1997 and 70% in 2000. The SMEs' share in GDP has also recorded significant increase, rising from 13% in 1993 to 18% in 1999 (Republic of Kenya, 2005). The informal sector is the second largest source of employment after small-scale agriculture (Ministry of Finance and Planning, 2000). The 1999 national survey of SMEs found that about 26% of the total households in the country are engaged in some form of SME activity (CBS and et al, 1999). The sector is, therefore, an important source of livelihood for a majority of the country's population. In Kenya, the informal sector's share in total employment stood at 78% in 2009.

Moreover, SMEs need adequate and timely financial resources to remain afloat and deliver their contribution to the country's economy.

Beck et al (2008, 2010) did a study to highlight SMEs from the financial supply point of view. He conducted survey on 91 banks in 45 countries and assigned the characterisation of how banks finance SMEs. From the study he found that banks term the SME sector as more profitable as they serve it with different lending technologies and organisation structures. The authors detected minimal variations in the extent to which SMEs are served by banks based on their proprietorship structure (for example, private-public or foreign-owned). However, they noted significant variations across banks both in developing and developed economies. They concluded that an enabling environment is key than the size of the firm or bank ownership in influencing bank financing for SMEs. This enabling environment will not only support the thriving of the SMEs, but reduce the loan defaulting rates, which hurt the funding parties. And for this, the understanding of what determines defaulting is important for lenders, borrowers and regulators. This paper is devoted to establishing factors that influence loan defaulting by the SMEs, bearing in mind their vital role in economic development of any given economy.

1.1. The Statement of the problem

The growth and sustainability of the world's economy revolves around the SMEs' performance on creation of wealth for their owners and employment opportunities for the larger population. This helps in poverty reduction in the general population thus leading to advancement of the country's economy. The SMEs have been considered as the main engines spurring economic growth and promoting equitable development in the world economies. SMEs universally face lack of sufficient financial credit as their main development and sustenance challenge that has diminished their ability to contribute effectively to sustainable development Wanjohi and Mugure, (2008). SMEs require a boost in financial capital to enable them grow their production through innovation and technological upgrading, which in turn increases their production, financial viability and development. In return, SMEs are supposed to repay the loans with interest to the lending institution according to the lending contract.

According to other studies on loaning, Fidrimuc at el, (2006) points out that liquidity and profitability factors are significant determinants of SMEs' loan defaulting. Harris, (2006) and Mansuri, (2003) pointed out that among micro-finance clients who are willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transaction costs without increasing client default. Also Armendariz and Morduch, (2005) report anecdotal evidence from Bangladeshi micro-finance providers that suggest micro-finance contracts with less frequent repayments saw higher client default. The studies point out that the duration of loan repayment schedules have influencing effect to loan defaulting. It also underscores the fact that since the MFI loans were not backed by collateral, clients' main motivation for repaying loans was their expectation of future loans from the MFIs if they repaid promptly.

In Kenya today, the real estate and construction SMEs are the most profitable sectors making good profit margins as pointed out by Ngugi, (2014), but a recent Central bank of Kenya (CBK) survey shows these SMEs topped the list of biggest loan defaulters in the first quarter of 2013. It is in this regard that this study sought to know what factors influence loan defaulting by the SME owners in Kenya. The study will interrogate the SME owner's intention of starting a business and the motivating factors behind borrowing a loan then failing to honour the lending contract. The study by Kipyego & Moses, (2013) points that commercial banks and micro-financial institutions in Kenya have been suffering serial loan defaulters who borrow several loans from different institutions. Since the role the SME sector plays in economic development is known, a study that will highlight factors that influence SME owners to default loans attained from the MFIs is important.

1.2. Research Questions

(i)   What considerations are used by MFIs in granting loans to SME owners?

(ii)   What loan management trainings are given to SME owners before loan granting?

(iii)   What characteristics of SME owners influence loan defaulting?

(iv)   What enterprise related factors foster loan defaulting by SME owners?

1.3. Objectives of the study

1.3.1. Main objective

The main objective of the study was to examine factors that influence loan defaulting among SME owners in Thika Township of Kiambu County.

1.3.2. Specific objectives

The specific objectives of this study were:

I. To establish the considerations used by Micro finance institutions (MFIs) in granting loans to SME owners.

II. To understand the form of loan-receiving management training that was given to SME owners and its relation to loan defaulting.

III. To identify characteristics of SME owners that influence loan defaulting.

IV. To examine enterprise related factors that foster loan defaulting by SME owners.

1.4. Scope and Limitations of the Study

The study focuses on the factors influencing loan defaulting by SME owners in Kenya. The study was conducted in Thika Township of Kiambu County where 50 SME owners operating within Thika Township were selected as sample. The study was limited to the views of SME owners and input of the key informants. The location was selected due to its accessibility, reasonable transport costs and because of the town's reputation of having brilliant SMEs. The study identified factors that influence loan defaulting by SME owners. It was difficult to draw out the necessary information from the respondents, however, the researcher used the principles of research ethic of anonymity and confidentiality to overcome the limitation.

1.5. Justifications

The SMEs play a great role in the development of any economy and thus it is important to know what should be done to encourage their growth and sustenance. This could not be well realised without first understanding what causes loan defaulting by SME owners because lack of access to loans by SMEs has been cited as a major impediment to their growth. This will act as the basis for making SME owners and other upcoming entrepreneurs to make more informed decisions in their search for funding as well as

maintaining good relationships with the loan lenders. Knowledge of the factors that influence loan defaulting will assist the SME owners to avoid them and the lenders to find more informed ways to avert the pitfalls of loan defaulting. This will in turn create confidence with the loan lenders and ensure equal chances of loan allocations to SMEs as corporate entities.

1.6. Assumption of the Study

The study assumed that all the respondents selected gave genuine information on how they have been operating their businesses. It assumed that the key informants were knowledgeable to give information on the SME operations and loan defaulting by the SME owners without favour or victimisation. The other assumption was that most of the SMEs would continue obtaining loans from financial institutions to boost their operations and innovations. The final assumption this paper made was that each SME does daily transactions that are profit making to enable it repay the loan.

1.7. The Definition of Significant Terms

Collateral: Security guaranteeing borrowed loan

Contract: Agreement

Defaulting: Act of failing to pay on time or completely as per the contract

Defaulter: Individual or entity not repaying loan

Economy: The economic structure of a given state

Factors: Reasons

Influencing: Inducing the results

Loan: Borrowed cash

Micro-financial institution: Any financial lending institution

Small & Medium enterprises: All enterprises, both farm and non-farm, employing less than 50 persons

SME credit officers: Employees of MFIs advancing loans

SME owner: Person owning business entity

CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.0. Introduction

This chapter reviews literature relevant to the study. It establishes the knowledge gap to bring out the factors that influence loan defaulting by SME owners in Kenya. The chapter discusses empirical literature review, theoretical framework and the conceptual framework of the study.

In the UK, small enterprises are defined as those having 1-50 employees, a turnover of not more than £6.5 million and a balance sheet total of not more than £3.26 million, while a medium-sized firm has 51-250 employees, turnover of not more than £25.9 million and a balance sheet total of not more than £12.9 million (Kirby, 2002). In Kenya, Sessional Paper No 2 of 2005 on development of micro and small enterprises for wealth and employment creation for poverty reduction defines SMEs as "those with 10-49 employees for small enterprises and 50-99 for medium enterprises". In order to integrate the SMEs sector into the national economic grid, the Sessional Paper No 2 of 2005 further expanded the definition of SMEs to include all enterprises, both farm and non-farm, employing less than 50 persons (RoK, 2005).

According to European scientific journal May 2013 edition, Vol. 9, No 13, loan portfolio is naturally the largest assets as well as source of income for banks. The commercial banks and financial institutions business expose them to risks of default from loan borrowers. Kipyego & Moses, (2013) noted that banks in Kenya have been lending funds to serial defaulters. This scenario has been aggravated by banks having different information on borrowers who have exploited the information asymmetry to borrow several loans from the Kenyan banks and default in the long run.

African Development Bank Group Working Paper series No. 144, (2013) points out that the SME segment is strategically significant for banks in East African region for they are considered profitable and present key opportunities. The banks and micro-financial institutions consider the SMEs' lending market as large and with a positive outlook. The paper estimates SME loans in the sample countries (Kenya, Tanzania, Uganda and

Zambia) at 37% of total loans to the private sector. The paper further states that the primary credit risk of small business loans is that they will not be repaid (defaulted). A recent Central Bank of Kenya (CBK) survey shows that the construction, building and real estate sector topped the list with the biggest loan defaulting in the first quarter of 2013. This is the SME sector that is known to have booming business in Kenya currently.

Fidrimuc at el, (2006) highlighted that banks entering an emerging market are faced with a lot of uncertainty concerning the risks involved in lending. After they analysed a unique unbalanced panel of around 700 SMEs issued with short-term loans in Slovakia in 2000 and June 2005, they found that on average, 6.0% of the firms defaulted on loans granted. They pointed out that liquidity and profitability dynamics are major determinants of SMEs loan defaulting, whereas debt factors are not as robust. Moreover, the legal form that determines liability holds important motivation effects.

In the MFIs, the non-performing assets present bad loans; the borrowers fail to fulfill the repayment obligations. The CBK, (April 2009) highlighted that the stock of non-performing loans (NPLs) expanded by 7.8% to Ksh. 64.9 billion by March 31st 2009 compared to Ksh. 58.3 billion in 2008. In the year 2006, the NPLs were Ksh. 56.4 billion compared to Ksh. 68.6 billion in 2005 (Bank supervision Annual report 2006). In 2003 and 2004, the average non-performing loan to total loans for the industry was 25% and 24% respectively (Market Intelligence, 2004). NPLs in Kenya stood at Ksh. 107.4 billion at the end of 2001. This represents 38% of the total loans of Ksh. 281.7 billion in the banking sector. These NPLs have been well exhibited in Kalani & Waweru, (2009) who highlighted that Kenya has experienced banking problems since 1986 culminating in major banking failures (37 failed banks as at 1998) following the crises of 1986 – 1989, 1993/1994 and 1998, which were as a result of loan defaulting caused by non-performing loans.

2.1. MFI Considerations for granting SME loan

The MFIs hold various considerations for granting SMEs loans which range from internal and external considerations, MFI institution policies, Central Bank policies, The Banking Act and the individual borrower's characteristics. The paper by Kipyego & Moses, (2013) highlights the impact of credit information sharing on non-performing loans of Kenya

Commercial Bank limited. The paper's objectives were to highlight the trend of bad loans prior and after the introduction of credit resource bureau; to ascertain the factors that account for the bad loans; to determine the economic sector that records the highest bad loans; and the measures taken to moderate the risks in the financial commercial banks. The paper also shows a decrease in loan defaulting following the introduction of credit information sharing by commercial banks. Whenever the MFIs in Kenya lend to any individual, a clean bill of health is issued by the Credit Resource Bureau (CRB) to the lending institution on the suitability of the individual. If the individual has any loan delinquent issue with any MFI in Kenya, it is reflected that he or she is a high risk individual to lend to. The www.bankinginfo.com (01/10/2015), indicates business idea, borrowers' capacity to repay, borrowers' credit history, business capital worthiness and loan collateral offered were the main considerations used by the MFIs on granting the loans.

2.2. Studies on credit worthiness and viability of borrowers

Chaudhary and Ishafq, (2003) examined the credit worthiness of 224 rural borrowers in Pakistan. Using logistic regression, they found that borrowers with higher educational levels, involved in a non-farm business activity, who were using the loans for investment and were female, had a higher probability of repaying their loan. The study found that the subsidised interest rate level did not have a significant effect on repayment behaviour among rural borrowers in Pakistan. They concluded that a subsidised interest rate is not the best way to ensure good repayment rate by borrowers.

Brehanu and Fufa, (2008) Using profit and legit regression, they conducted a study on the determinants of repayment performance among small-scale farmers in Ethiopia. In the study, they found that borrowers with larger farms, higher numbers of livestock and farms located in a rainfall area had a higher capacity to repay loans, since all those factors increased the farmers' productivity and income. The study also found that borrowers who had extra business income and were experienced in using agricultural technology had a good repayment performance.

Roslan and Karim, (2009) conducted a study on microcredit loan repayment behaviour in Malaysia. They conducted a study on microcredit loan borrowers from Agro-Bank

Malaysia. Agro-Bank is a commercial institution specialising in loans to borrowers involved in agricultural business. Apart from giving large-scale loans, it also provides small-scale loans such as microcredit loans to borrowers. In their research, they found that male borrowers and borrowers who had a longer duration for repayments had a higher probability of defaulting. Borrowers involved in non-production oriented business activities such as in the service or the support sectors who had training in their particular business and who borrowed higher loans had lower probabilities of defaulting.

Okorie, (1986) studied the repayment behaviour in one agricultural corporation in Nigeria. The author's results from interviews with borrowers showed that the nature of the loan, either cash or in kind (seeds, fertiliser and equipment), can influence the borrowers' repayment behaviour. He found that borrowers who received a loan in kind had higher repayment rates than those who received a cash loan. This was because many borrowers misused the cash, diverting it into personal consumption instead of investing in making their business productive. Regular visits by the loan officer to the borrowers' business site and higher profits generated by the borrowers also contributed to higher repayments by borrowers. Overall, the loan repayment performance can be influenced by three factors namely: (i) borrower characteristics, (ii) business characteristics and (iii) loan characteristics.

According to Brehanu & Fufa, (2008) a borrower can default on loan repayment either voluntarily or involuntarily. Involuntary defaults of borrowed funds can be caused by unexpected circumstances occurring in the borrower's business that affect their ability to repay the loan. Such circumstances include lower business revenues generated, natural disasters and borrowers' illness. In contrast, voluntary default is related to morally hazardous behaviour by the borrower. In this category, the borrower has the ability to repay the borrowed funds but refuses to because of the low level of enforcement mechanisms used by the institution, Brehanu & Fufa, (2008). Research has shown that a group lending mechanism is effective in reducing borrower defaults (Armendariz de Aghion, 1999). In a group lending, the loan is secured by the co-signature of members within the group and not by the microfinance institution. Each member will put pressure on others in the group to meet the loan repayment schedule. Thus, group sanction is important in discouraging defaults among members in microfinance (Tassel, 1999).

The study by Mokhtar at el, (1987) aimed to empirically analyse the factors affecting the Yayasan Usaha Maju (YUM) and the Economic Fund for National Entrepreneurs groups (TEKUN) borrowers who were having loan repayment problems. The examination of the determinants of the loan repayment problem among TEKUN and YUM borrowers was to benefit the two institutions to understand the factors that lead borrowers to miss their loan repayments or to default in the future. The study pointed to a significant positive sign on the gender variable, which indicated that the probability of a loan repayment problem was higher for males than for females. The Business Type variable was positive and significant at 5% level of significance. This implied that borrowers involved in agriculture, such as farming, animal husbandry and fisheries, were more likely to have a problem repaying the microcredit loan than borrowers involved in a small business activity. This result shows there are certain businesses that may be prone to defaulting on loan repayment. The results also showed that the Repayment mode coefficient was positive and significant at the 5% significance level. That result implies that the probability of a loan repayment problem was higher for borrowers who repaid their loans on a weekly basis. Weekly loan repayment schedule posed problems for borrowers who generated a lower revenue cycle. The Age dummy variable was positive and significant at the 5% level. This implies that borrowers in the 46 to 55 age group had a higher probability of having repayment problems.

2.3. Studies on motivation and credit contract repayment intervals of borrowers

Harris, (2006) and Jain & Mansuri, (2003) pointed out that among micro-finance clients who are willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transaction costs without increasing client default. In addition, Armendariz and Morduch, (2005) report anecdotal evidence from Bangladeshi micro-finance providers suggesting that micro-finance contracts with less frequent repayment saw higher client default. The studies points out that the duration of loan repayment schedules have influencing effect to loan defaulting. It also underscore that since the MFI loans were not backed by collateral, clients' main motivation for repaying was their expectation of future loans from the MFI if they repaid promptly. This, too, was pointed by Kiliswa, (2010) who noted that majority of the SME owners in Kariobangi were motivated to repay their loans due to future expectation of getting more

loans from the MFIs. He also noted that monthly repayment schedule is the most preferred by the SMEs.

2.4. Business related factors and loan repayment

Kiliswa, (2012) in her study 'major determinants of loan repayment in small-scale enterprises in Kariobangi division of Nairobi County', found that business related factors have significant influence on loan repayment. The study revealed that various types of businesses have different rates of defaults, with manufacturing sector having the highest rate at 67.9%, followed by service industry at 64.0%, agricultural industry at 58.3% and trade sector at 34.9%. He also found businesses that had been in operation for less than two years had 52.4% default rate, while those with two to five years had 44.2% default rate. The study also noted that high default cases were regular in entities that had been in operation for five and ten years at 78.6%. She did not give further explanations for this.

Norell, (2001) highlighted that loans issued without proper business evaluation may influence loan defaulting. It is noted that poor business performance is the probable cause of loan default (Wakuloba 2005). When the business activities are a not yielding enough cash flow income for business operations and other obligations, this would influence loan defaulting by the SME owner. Home, (2007) points out that the nature and value of collateral the lender submits to the lending institution may be the cause of motivation to pay the loan and avert defaulting. For example, for an asset that is marketable and has high liquidity, the MFI will be willing to lend at fairly high percentage of the stated collateral and the borrower tends to be motivated to repay the loan in order to redeem his asset. When the MFI enters into contract with the SME owner concerning loaning, the MFI officer needs to make follow-up on the SME owner to ensure good management and investment of the loan.

2.5. Loan management training and relation to loan repayment

Mutegi et al, (2015) noted that SMEs operated by owners with loan management skills have great ability to repay loans. Loan management skills provide knowledge and understanding of financial concepts that improve the financial wellbeing of the SME (Hogarth, 2002). This will enable the SME to invest in sound business activities that are going to be economically viable, thus reducing the rate of loan default by the SME entity. The business ventures that are ran by individuals that have financial management skills are

able to accurately document reliable financial and non-financial information to back up their loan applications.

The business information plays a major role in helping the SME owner in making sound decisions in business development for it indicates the true business standing in terms of stability and worthiness. The financial literacy facilitates the process, making business expenses and proper department management, which improves the credit worthiness of potential borrower, as emphasised by the Grameen Banking Model.

2.6. Non-productive SME activities and loan default

When the SME owners are investing in their business ideas they believe that they will be able to organise the means of production to yield profits for them. Morris, (1985) in his study found that failure to lend to productive activities among others, are the causes of SME to default loans. When the SME owners invest loan capital into unproductive activities it may result to loan default by the SME owner because the SME entity suffers low cash flow that leads to low yields or no profits.

2.7. Theoretical Framework

2.7.1. Introduction

The purpose of this study was to examine factors that influence loan defaulting among SME owners in Thika Township of Kiambu County. This chapter reviews related literature and the theoretical and empirical literature on the subject under investigation. It looks at the David McClelland's Acquired Needs theory and the Rational Choice theory in helping to understand the study topic.

2.7.2. David McClelland's Acquired Needs Theory

According to David McClelland, (1996) a person acquires three types of needs at any time. These include; a) need for achievement, b) need for power and c) need for affiliation. The need to achieve refers to the desire to accomplish something with one's own efforts. It is the urge to excel or the will to do well. Need for power means the desire to dominate and influence others by controlling their actions by use of physical objects while need for affiliation implies the desire to establish and maintain friendly and warm relations with others.

The theory generally argues that running a business requires people to moderate risks, assume personal responsibility for their own performance, pay close attention to feedback in terms of cost and profits, and find new or innovative ways to make new products or provide a new service (Davison & Wiklund, 1999). This view purports that most SMEs are managed and operated by the owners with a need to achieve growth to meet their targets. In this respect, the theory predicts that people with high need for achievement value particular work-task situations and perform well in them, while those without such need will perform poorly. McClelland conducted an experiment and concluded that most people who achieve steady results do so based on impetus, and such people regularly set goals. Achievement-motivated persons set goals that can influence their efforts and ability, and such goals are considered attainable. This determines results-driven approach, which is almost invariably present in character make-up of all successful business individuals and entrepreneurs.

McClelland firmly believed that achievement-motivated people are generally the ones who make things happen and get results, and that this extends to getting results through the organisation of factors of production.

2.7.3. Grameen Bank Model Theory

Prof. Muhammad Yunus advanced this model in 1976 with the intention of enabling lending to poor women in Bangladesh rural communities, (www.grameenresearch-org). He came up with a model to enable persons with no collateral to access lending services for their business start-ups or to boost existing enterprises. The model states that individuals seeking loan capital should be in groups of five and must receive a five-day financial training in order to qualify for a loan from the Grameen Bank. The main objective of this model is to strengthen the Grameen Bank clientele, and build their capacity to plan and improve micro-level development decisions. In this model, the main collateral is social capital, where members of the group act as guarantors for the loan. They exert peer pressure and offer support for one another. The group of five meets once a week to repay the loan. When each loan is completely and successfully repaid, other members of the group get a chance to borrow and the amount to be borrowed is increased as they meet their repayment obligations. If one member fails to repay, all group members

become ineligible for another loan. This forms the basis for motivation to other members to ensure their businesses succeed and members repay the loan. This encourages sharing of entrepreneurial knowledge and skills among members and makes monitoring and management of the business the owner's responsibility.

The Grameen model supports social networking that empowers members to enlarge their business and repay loans. By this model, the study tried to relate the SME owners' repayment of loans and motivations behind it.

2.8. Variable description and measurement

This study focuses on the factors that influence loan defaulting by SME owners with focus on what MFIs put into consideration in order to term an SME as suitable for lending. The considerations focused on were the SME owner and SME entity itself. For the SME owner, history of loan default, loan diversion, intent of starting SME entity, education level and experience in business operation is reviewed. The SME entity related indicators investigated were type of loan collateral, the type of SME (i.e. agricultural, service, wholesale, manufacturing etc.), and loan repayment mode and mechanisms. Loan default refers to failure to repay lent financial capital as per the loan contract.

Figure 2.1 Conceptual Framework

MFI Considerations		Repay-ment Mechan-ism	
Business related factors	Loan Utilisation Activities	Lack of Collateral	Loan Defaulting
		None productive activities	
Training on Loan Management		Household Demands	

Independent Variables   **Intervening factors**   **Dependent Variable**
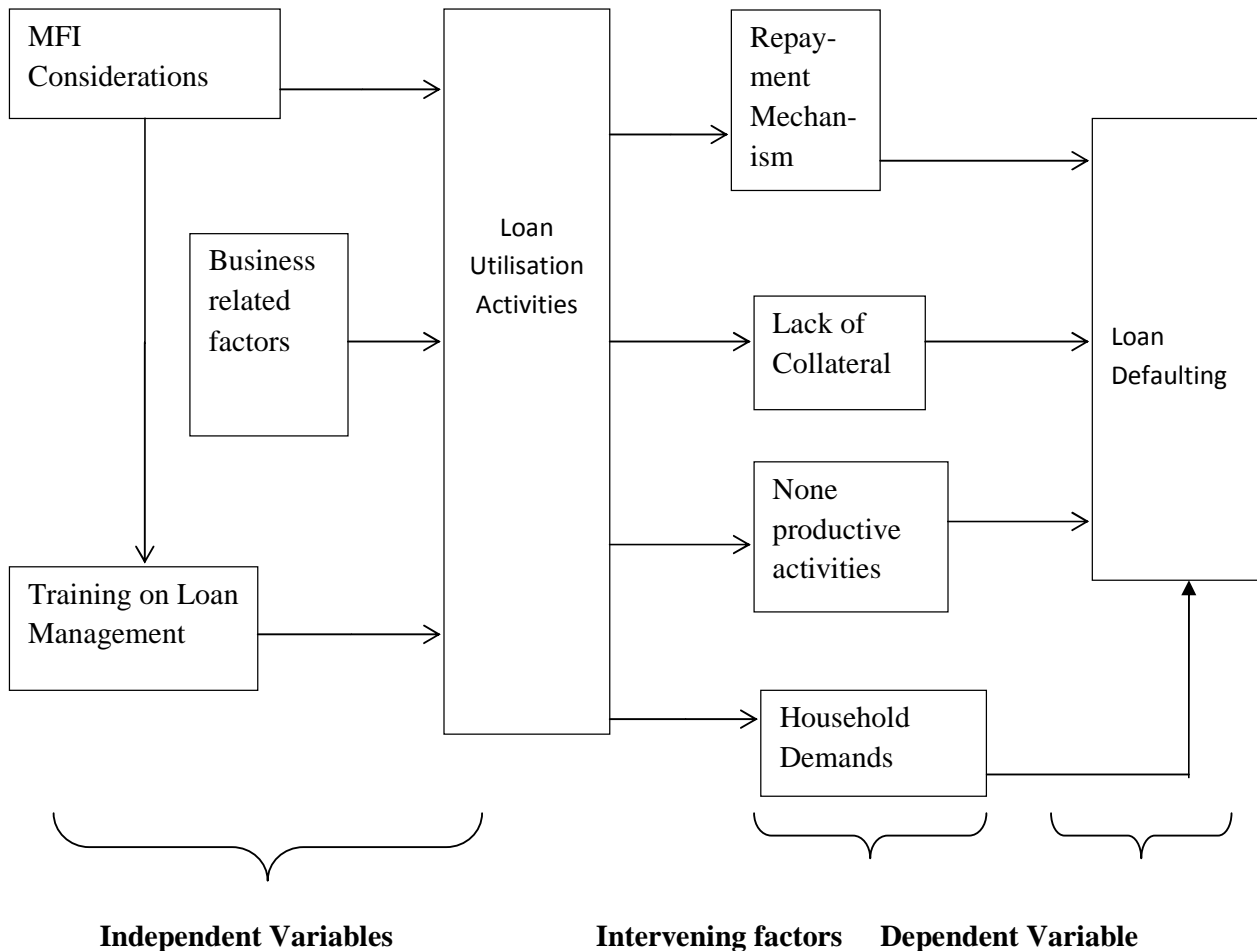
2.8.1. General Profile of SMEs

The general profile of the SME in terms of the type of loan collateral, intent/motivation for starting and running the SME, need for achievement, the type of SME (i.e. agricultural, service, wholesale, manufacturing etc.), purpose of loan application and loan repayment mode.

2.8.2. Type of loan collateral

The type of loan collateral was examined to determine how it influences the SME owners in defaulting or repaying loans. The Grameen Bank Model was used to inform what influences loan repayment.

2.8.3. Intent of starting SME

Various entrepreneurs start SMEs with varied focus and reasons, which may in turn influence the performance of the SME ventures. There are those who start an SME with the intention of wealth accumulation, livelihood sustenance, solving social problems in the society and so on. This may affect the performance of the SME, thus affecting the loan contracts with the financial institutions. The intention to venture into business may form the baseline for the SME plans development and target formulations, which are vital in business success.

2.8.4. Need for achievement

Individuals with high level of desire to achieve are said to be likely to make it in life or are bound to achieve, as stated by McClelland. The desire and efforts of the entrepreneur to make achievements in his SME was looked at to understand its influence on loan repayment. It is logical that an entrepreneur with a high desire to achieve will promptly repay a loan obtained from a financial institution, for this is the only way he can keep his SME afloat in the market.

2.8.5. The original purpose of loan taking/application

The original purpose of the SME taking a loan from a financial institution may form the basis of loan defaulting if the SME owner diverts the loan from the original purpose. The original purpose of loan taking was examined to see its application on the SMEs taking loans from the financial institutions and its results.

2.8.6. Loan repayment mode

The mode of loan repayment by the SMEs was studied to assess its influence on loan repayment or defaulting by the SMEs. This looked at the interval of payment (the duration for making repayment), type of payment (is it batter or cash) and means of payment (electronic payment, standing orders, cheques etc.).

2.8.7. The type of SME

There are various types of SMEs; some are involved in agro-enterprise, service provision, wholesale, manufacturing etc. This was assessed to see whether there are some SMEs perceived to be more prone to default because of their nature of business.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0. Introduction

This chapter articulates the research design, target population, sampling techniques, research instruments, data collection, analysis procedures and report presentation techniques used.

3.1. Research Design

Bryman and Bell, (2007) defines research design as the structure that guides the execution of a research method, and the subsequent analysis of acquired data. It provides a framework for the generation of evidence that is suited both to a certain set of criteria and to the research question in which the investigator is interested. Descriptive research design was adopted in this study. A descriptive research determines and reports the way things are (Mugenda & Mugenda, 2003). Creswell, (2002) observes that a descriptive research design is used when data are collected to describe persons, organisations, settings, or phenomena. Descriptive design was ideal as the study was carried out in limited geographical scope and hence was logistically easier and simpler to conduct considering the limitations of this study (Mugenda and Mugenda, (2003).

3.2. Unit of analysis and observation

The Unit of analysis focuses on what it is that needs to be understood or analysed. In this case, the unit of analysis is the examination of factors that influence loan defaulting among SME owners.

On the other hand, units of observation have to do with sources of information or data that will enable the analysis. Consequently, the units of observation for this study were SME owners from whom the data was collected using a structured questionnaire and Key informants who provided qualitative data.

3.3. Target Population

The target population according to Cox, (2010) is the entire set of units for which the survey data are used to refer. The target population constitutes the entire or totality of the population under study (Kothari, 2004). The target population for this study was SMEs owners operating within Thika Township of Kiambu County, with population of 500 SMEs as show by table 3.1 below. The study took 10% of the total population attaining a

sample unit of 50 respondents who own SMEs within Thika Township and 10 key informants. According to Mugenda & Mugenda, (2003) a sample of 10% is acceptable and usable for the study.

Table 3.1 Target Population

Target Group	Target Population	Percentage of total	Sample size
Large, medium & small retails	232	46.4	23
General merchants & kiosks	147	29.4	15
Hawkers & other informal traders	31	6.2	3
Transport business	9	1.8	1
Agricultural producers & processors	11	2.2	1
Lodging hotels & restaurants	9	1.8	1
Private Education institutions	10	2.0	1
Entertainment business joints	10	2.0	1
Butcheries & eating places	21	4.2	2
Industrial plants/workshops/manufacturers	20	4.0	2
Total	**500**	**100.0**	**50**

3.4. Sampling procedure and sample size

Mugenda and Mugenda, (2003) define sampling as a selection of a portion of a population whereby the selected portion adequately represents the entire population. The method employed in this study was stratified random sampling for the owners of SMEs. This was possible through stratifying SMEs according to their nature of business (as shown in table

3.1.). This enabled the researcher to get the right respondents who had the information to deliver the study objectives.

The study target population was 500 SME owners operating within Thika Township of Kiambu County. Large, medium and small retails were 232 forming 46.6% with a sample size of 23; general merchants and kiosks were 147 making 29.4% with 15 sample size; hawkers and other informal traders were 31 in number constituting 6.2% with a sample size of 3; transport businesses were 9 making 1.8% with a sample size of 1; agricultural producers and processors were 11 forming 2.2% with sample size of 1. Others were lodging hotels and restaurants, which were 9 constituting 1.8% with a sample size of 1; private education institutions and entertainment business joints having 10 each making 2.0% with 1 sample respectively; butcheries and eating places were 21 with 4.2% and 2 samples. Finally, industrial plants/workshops/manufacturers were 20 with 4.0% and 2 samples.

The samples were randomly selected on each stratum where the target population in the stratum was allocated numbers and placed in a container and samples drawn randomly according to sample size required. This is represented in Table 3.1. The sampling size for this study was 50 respondents got through stratifying the businesses within Thika Township according to their nature, as represented, and 10 key informants.

3.5. Data Collection methods and instruments

The study used questionnaires to collect data from the SME owners and detailed discussions with Key informants. The structured questionnaire was used to capture vital data that enabled the researcher to address the problem statement. There was one questionnaire used for SME owners and detailed discussion questions for the key informants from the microfinance or loaning institutions and persons with experience in SMEs sector. The questionnaires were dropped at the SMEs entities to be filled by the SME owners and later picked at an agreed time. The detailed discussion questions for key informants who are MFIs credit officers and persons with knowledge in SME sector were conducted and notes transcribed and included in the data analysis as qualitative data.

3.5.1 Collection of Quantitative data

The quantitative data was collected through the questionnaire from the SME owners. This enabled researcher to generate sufficient data to deliver the study's objective.

3.5.2. Collection of Qualitative data

The questionnaire provided space to generate the qualitative data, which later was organised and yielded sufficient information to deliver study objective. In addition, the key informants who included credit officers from micro-finance institutions and persons with experience and knowledge in SMEs sector gave qualitative data to assist in study objective.

3.6. Study site description

The study was carried out in Thika Township of Kiambu County. The area was selected due to its proximity to communication network for both road transport and telecommunication. The area is marked with diverse economic activities ranging from small and medium enterprises to large companies.

3.7. Ethical considerations

The study dealt with a very sensitive part of humanity and high principle of confidentiality was observed to avoid any injury to the human subjects and their businesses. This called for adherence to professional research ethics.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0. Introduction

The chapter focuses on the study data analysis, presentation and interpretation of the findings. The main purpose of this research was to examine factors that influence loan defaulting among SME owners in Thika Township of Kiambu County. The researcher used two types of data collection tools -- questionnaire for the owners of SMEs and well formulated interview questions for the key informants. Fifty (50) questionnaires for SMEs owners were distributed and 10 Key informants interviewed to generate data for the study. The researcher has used frequency tables, cross-sectional tabulations, and graph for data analysis.

4.1. Questionnaire Return Rate

The study sampled 50 (10%) SME owners as respondents from a target population of 500 and 10 Key informants were interviewed to generate data inquest for the factors that influence loan defaulting by SME owners in Thika Township of Kiambu County. Fifty questionnaires were distributed for data collection from the SME owners within Thika Township of Kiambu County. The questionnaires returned were 37 forming 74.0%, with a non-response of 13 which is 26.0%. The returned questionnaires were coded, cleaned and data analysed according to the study objectives.

The thirteen respondents forming 26.0% who did not return their questionnaires even after several phone calls and visits did not find time to fill the data collection tools due to the nature of their businesses. The questionnaires response rate was good and adapts to Mugenda and Mugenda, (2003) prerequisite: that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and above is excellent. The questionnaires return rate conveys the acceptance of the respondents to be involved in this project research.

4.2. Social and Demographic Characteristics of the Respondents

4.2.1. Gender distribution of SME owners

The returned questionnaires were from 37 respondents, 40.5% of who were female and 59.5% male. Table 4.1 shows representation of both genders with 59.5% of males and 40.5% of females operating and owning the enterprises.

Table 4.1. Distribution of SME owners by gender

Respondents by gender	Frequency	Responses in %
Male	22	59.5
Female	15	40.5
Total	**37**	**100.0**

4.2.2. Level of education for the SME owners

The study investigated the level of education of the SME owners and the results were as shown in table 4.2. The study found that majority or 80.6% of the respondents had College/University education, 16.7% had secondary education while 2.7% had primary education.

Table 4.2. Response on level of education of the SME owners

Education level	Frequency	Responses in %
Primary	1	2.7
Secondary	6	16.7
College/University	29	80.6
Total	**36**	**100.0**

Education is thought to instill knowledge in individuals on how to make informed decisions in life. This may not be an exception to the SMEs operation, loan investment and management. The level of education forms a solid base for SME owner's skills

utilisation on conducting business research and business plan formulation that would influence business ideas, monitoring and evaluating business performance. "The SME owners require knowledge and skills to formulate calculated strategies that will avert high risks in the business transactions. The education level influences adaptation of technology and innovation necessary for the business to thrive," as stated by some key informants. In the current world, technology is playing a major role in how businesses are competing and running their affairs. So the persons with the know-how will always benefit by making their business entities reap benefits from technology by increasing loan management and investment.

4.2.3. Duration of experience in operating enterprises

The respondents had varying enterprise operating experience where 14.3% of the respondents had less than two years with 19% being males and 7.1% females. Those who had 2 to 3 years' experience were 42.9% where males formed 47.6% and female 35.7%, while those with 4 to 5 years' experience were 14.3%, with 4.8% being males and 28.6% females. The respondents who had 6 to seven years' experience were 17.1%, with 14.3% being males and 21.4% females. Those respondents who had over seven years' experience were 11.4% with 14.3% being males and 7.1% females. The larger part of the respondents had 2 to 3 years' experience in SME operation and ownership**.** The study found out that females are more resilient in business than males in the first years of business operations, that is between 2 and 7 years. But males become steady at 6 to 7 years. This is because women concentrate on one business line or entity while men may have several business entities or projects that demand a share of their time in the beginning before they settle in the business segment they desire. This can be easily visualised in Table 4.3.

Table 4.3. Owners duration of experience in operating enterprises for male and female respondents

Duration of experience	Male %	Female %	Total %	N
Under 2 Years	19.0	7.1	14.3	5
2 to 3 Years	47.6	35.7	42.9	15
4 to 5 Years	4.8	28.6	14.3	5
6 to 7 Years	14.3	21.4	17.1	6
Over 7 Years	14.3	7.1	11.4	4
Total % **N**	**100.0** **21**	**100.0** **14**	**100.0 35**	

The key informants stated that more years of experience in ownership and operation of an SME shows the entity has passed through a life cycle from one with high business death rate to where the business has attained a level of low death rate. One of the key informant stated that, "when the business owners have less experience in business operations many business entities die, but when the business owners have more years in business operations, they thrive". This is because the entrepreneurs tend to have developed knowledge and skills of their target market segments.

In addition, respondents stated that when majority of people enter a business line but lack understanding and knowledge required to succeed, this makes them change the business segment in focus to another that they may be better at. This process of hopping to another business segment may result to some difficulties in operation, thus affecting business cash flow and projections.

Some key informants stated that the business operations are not stagnant or a plateau throughout the year and seasons. Therefore, if the entrepreneur has experience he or she is suited to operate with informed plans than those with no or less experience. Good experience in business risk management enables the business entity to avoid risks that can cripple the entity or make it to operate at loss, which may affect the ability to meet all business operation obligations, leading to loan defaulting and bankruptcy.

4.3. Type of considerations by MFIs in granting loans

According to the key informants and respondents, there are various considerations used by the MFIs in awarding loans to SMEs. These include internal and external considerations (those governing the lending MFI and the SME owner being lent). Through detailed discussions, the Key informants noted the following considerations:

4.3.1. Financial viability

The economic activity the SME is involved in or intends to venture into should be economically viable and legal. The Key informants stated that according to the Banking policies, the MFIs are permitted only to fund activities that conform to the laws of the land. A pre-evaluation of customer's/SMEs business activity and financial viability is conducted by the granting MFI to ascertain the ability of the SME entity or owner to repay the borrowed capital. In this, the granting agent inquires of the documented cash outflows of the business and other assets owned by the SME owner, which gives a measure of the financial worthiness of the borrower.

4.3.2. Viable business proposal

The key informants stated that the SME owner is required to present a viable business idea with well-written business proposal that shows implementation plans, risks reduction and management plans for the business to the lending MFI. This stipulates the activities the SME entity is involved in and how it has structured budget for the financial capital being sought. The activities should have the approximated returns expected as profits and which the MFI should term as attainable for them to fund the venture. The SME owner is required to provide a well-drawn feasibility study with the expected cash inflows and outflows.

4.3.3. Monitoring and accountability mechanisms

The Key informants noted the SME owner should present a well-documented monitoring and accounting mechanism that is instituted in the business to monitor its performance and profitability. The SME owner presents business account, cashbooks and other books of accounts that will give the lending MFI an overview of the business performance and structures established by the SME owner in running the business.

4.3.4. The size of the business

The Key informants stated that the size of business should be proportionate to the loan applied for. This means the capital being sought should be utilised optimally by the SME entity being funded. This will help prevent overstocking, which may result to loan defaulting due to dead stock and other forms of wastage because of the business' failure to utilise the capital pumped into it.

4.3.5. The age and history of the enterprise

The Key informants reported that the SME entity being given loan should be at least six months or more in operation. This highlights the ability of the entity to strive and thrive through the risks and uncertainties experienced in the world of competitive business. As pointed out by some key informants, businesses which have longer lifetime in operations have passed through a life cycle where there is high business death rate to where the business has attained level of low death rate. One of the key informants stated that "when the business is young the likelihood of it failing or dying is higher".

4.4. Loan management Training and relationship to loan defaulting

The Key informants stated that training is good for the SME owners receiving loans, for it assures the leading MFI that the capacity of the client receiving the loan has been built on how to invest and manage the loan. The training also reduces the chances of loan misuse out of ignorance. The study found that 60% of the respondents received loan management training from the lending MFI. This is shown by figure 4.1.

According to Mutegi et al, (2015) financial literacy facilitates the process of making decisions concerning development of the business entity and even on how to make payments of bills on time.

Figure 4.1.Response whether SME owners received loan management training
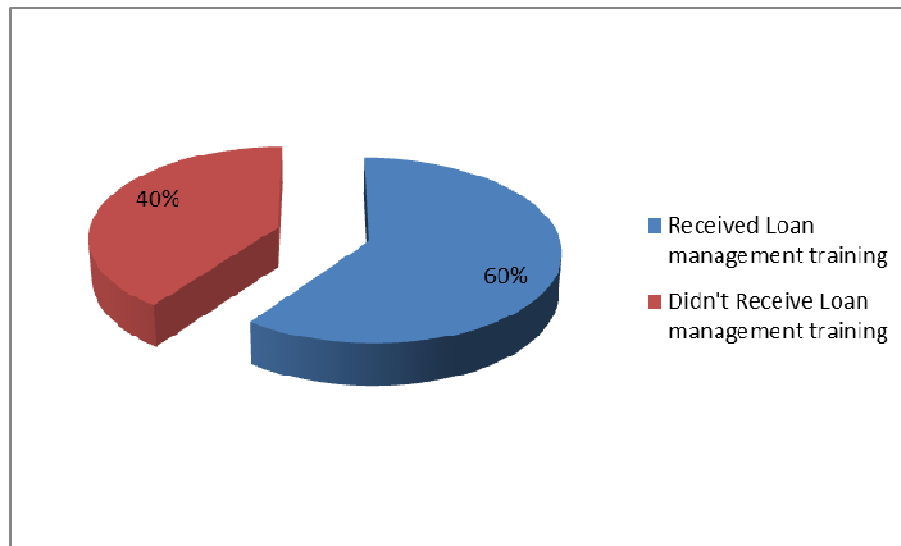
4.4.1. SME owners who received loans and reasons for getting the loan

The study investigated to find out the respondents who had ever received a loan for their SME entity. The study found that 92% of the respondents confirmed having received loans while 8% have never received any loan for their SME entities. The respondents stated that they seek loans to increase their stocks during peak seasons like major holidays e.g. Christmas, school opening days, and Valentine's Day. This enables them to have higher turnover that widens their profit margins. The SME owners indicated that they require loans to procure the means of production like machinery, means of transportation and premises for maximum profit. This shows that the majority of the SMEs want to boost their businesses and grow from small entities to corporates. This confirms what Schaffer and Weder, (2001) and Beck et al, (2005) report -- that SMEs require financial support from the MFIs to boost their business and expand. The SME owners agreed that they require capital money to keep their entities afloat and compete effectively in the market.

The Key informants noted the loan management trainings offered by the MFIs to the SME owners seeking loans are meant to enable the clients be more resilient in business operations and investment of the loan capital received or expected to be received. The training components mentioned by SME owners and Key informants include risk

management, business plan development, business evaluation, business documentation, stock taking and savings plan or schedule.

The study sought to establish the loan management training SME owners receive and the relationship to loan defaulting. The study found that 21 respondents or 60% of the respondents confirmed having received loan management training while 14 respondents constituting 40% said they had received no training. The Key informants suggested that the MFIs need to train all of their prospective clients on how to manage and invest the loans they are advanced. This would help the SME owners to figure out what is expected of them in ensuring that loan money is used for the intended purpose and avoid loan diversion, which may lead to loan defaulting and penalties associated with it. The Key informants stated that loan management trainings enable the MFIs to build the competence of their clienteles and create continuous market for their loaning services. The Key informants said building capacity of the SMEs on loan management and investment skills would result to SME growth in terms of turnover as well as profit margins, for they would have learnt how to invest and manage their business operations. This would in turn create a symbiotic relationship for them.

The study found that 70% of those who received loan management training were males and 30% were females. It further found that 50.0% of males who had received loan management training repaid their loans well while 50% did not repay as per the loan agreement. On the other hand, females who paid their loans promptly and had received loan management trainings were 33.3% and 67.7% did not repay well.

Women are seen to be more prone to loan defaulting than men. Individuals are likely to default on loan repayment not because of ignorance, but intentionally. This can be well explained by the Rational Choice theory supporting this study. Rational Choice theory states that human beings are rational beings and only engage in an action after analysis of the benefits and disadvantages. When one analyses the advantages he is likely to obtain versus the disadvantages and finds that the advantages outweigh the disadvantages, he is bound to take the action at hand. Again, men are known to be more risk takers than women and in their risk taking in the business, they may find that they cannot manage risks involved in keeping their ventures afloat and to repay their loans as per the agreed contracts, thus opting not to repay.

The study found that there are loans granted without the SME owners being trained by MFIs. The Key informants said this is due to the cost implications of conducting trainings. From the above analysis, it is clear that loan management training may not necessarily influence loan repayment by the SME owners since the larger percentage that defaulted loans had undergone training by their lending MFI. This is shown in the Chi-Square calculations below.

The null hypothesis: the loan management training may not necessarily influence the SME owners to avoid loan defaulting.

Calculations of the Total expected frequencies are as follows:

$E_{11}=R_1C_1/N = 9*14/20=6$ $E_{12}=R_1C_2/N =9*3/20=3$

$E_{21}=R_2C_1/N =11*14/20=8$ $E_{22}=R_2C_2/N =11*6/20=3$

Table 4.4. showing the expected observation

O	E	$(O - E)^2$	$(O - E)^2/E$
7	6	1	0.1667
7	8	1	0.1250
2	3	1	0.3333
4	3	1	0.3333
		TOTAL	**$\sum(O - E)^2/E= 0.983$**

$X^2=\sum(O-E)^2/E= 0.9583$

For $V=(r – 1) (C – 1) = (2 – 1) (2 – 1) = 1$

$V= 1$

$X^2 0.05$ $= 3.84$

Table of Chi – Square (X^2) at significance of 0.05 is 3.84.

From the above table X² is less than the table value (0.09583 is less than 3.84). According to the Null hypothesis, this means that loan management training may not necessarily influence loan repayment by the SME owners.

The study sought to establish the effect of loan training on the SMEs' performance among owners who received loans from the MFIs. The study found that 14 respondents did not receive loan management training. Of these, 50% were male and 50% female. Seventy one point four percent (71.4%) of those who paid well and did not receive the loan management training were male while 28.6% were female.

For those who did not repay well and did not receive the loan management training, 71.4% were female and 28.6% were male. This shows that men are likely not to default loans compared to women due to their nature of aggressiveness. This confirms what Bhatt & Tang, (2002) said, that women in the United States have low repayment rates because they engaged in high risk activities that had low returns. In addition, since men have alternative resources they may be in a position to cope well compared to women, who may only be focusing on the one enterprise. In summary, this shows that loan trainings may have no much influence on loan repayment for the two have equal value.

4.5. Characteristics of SME owners and influence on loan defaulting

4.5.1. Gender of SME owner and loan defaulting

The study sought to know whether the SME owners who borrowed loans from MFIs repaid their loans according to the agreement. The response was of the 34 respondents who had received the loans, a majority or 53% did not repay as per the loan contract while 47% honoured the loan repayment contract promptly. The majority of the respondents stated that they had ever defaulted on a loan contract. A further analysis was done to see whether there is any gender that is more prone to loan defaulting than the other. The study found that 57.1% of the men who borrowed loans paid promptly while 42.9% defaulted. In the case of women, it showed that 30.8% of those who borrowed paid promptly while 69.2% did not. The study found out that women are likely to default loans than men, having 69.2% and 42.9% respectively having ever defaulted. This was contrary to the findings of Mokhtar at el, (1987), which pointed out that loan repayment problem was higher for males than for females, but it confirms Bhatt & Tang, (2002) and Kiliswa, (2010) who noted that women were more likely to default on loan repayments than men

were. This default by women was associated with family responsibilities, family crisis and sickness of a family member. This can be well seen in table 4.5.

Table 4.5. Response on whether SME owner paid loan promptly

Gender	Loan repayment response			N
	Yes	No	Total %	
Men	57.1	42.9	100.0	21
Women	30.8	69.2	100.0	13
Total	**47.0**	**53.0**	**100.0**	**34**

It comes out clearly from the key informants and the SME owners' responses that various reasons can lead to defaulting loans. These may include: One, lack of proper and detailed business research prior to investment of funds. Such a scenario will culminate in poor business plans development and poor profit projections, which makes the entrepreneur not to develop mechanisms of dealing with risks in the business environment. Two, they said the character of the SME owner would be probable cause of loan defaulting, for example, where the SME owner is not consistent on a specific business line but he keeps hopping from one market segment to another without sticking to and specialising in one line. Three, the Key informants identified loan diversion as the most likely cause of loan defaulting by the SME owners, for when you divert the funds from the business and invest somewhere else it affects the profit and cash flows the business plan had projected leading to less turnovers. This causes the business to suffer cash shortage that hurts its operations.

Four, poor business plans was mentioned by the key informants and SME owners as the major cause of false success of business ventures. They said when plans are poorly done it affects business implementation resulting to false expectations, thus influencing business performance and affecting honouring of its financial obligatory mandates, one being repayments of liabilities. Five, ploughing funds back: It was highlighted in the key informants' response that they encourage every business entity to have a seed capital. The seed capital and any profit the business makes should be ploughed back into the business operation to generate more liquid cash that will keep the business afloat. When profit is

not ploughed back into the business, this may affect the strength of its operations thus reducing the business' ability to produce wealth through profit maximisation. Six, information and skills: The key informants said some people may start business entities without good information or skills in that line of business, which may result to incompetence in operations and running of the entity. This will lead to collapse of the entity with the SME owner going into losses and defaulting on his or her loan obligations.

Seven, economic crisis: The key informants stated that the recent world economic crisis had great negative effects on the business environment, which in turn caused the loan lending rates to almost double. Such a crisis may cripple young or upcoming business entities making them to default on their loans. Eight, overstocking and overfunding: The key informants observed that sometimes one may find a business entity that is overstocked or overfunded. Such a business will have a lot of stock or products lying idle without giving any returns. This affects the ability of the business to repay borrowed utilities and capital, which compromises the fulfilment of contracts and other money agreements. Nine, stiff market competition: The key informants noted that in order for SME owners to compete successfully, their cost of production must be low. Without this, stiff competition may mean minimal profit margins and inability to meet other business obligatory commitments. Due to inability of many SMEs to own the means of production, they may be forced to hire them. If the hiring cost is high, it will force the borrowing SME owner to spend more on this and neglect the loan repayment.

Ten, supervision by the MFIs: Some key informants felt that the lending MFIs have an obligation to oversee the SMEs' loan implementation. This way they would have an opportunity to offer business advice on how to manage and account for their investment. This would in turn build a strong, long-term symbiotic business relationship between the two. Eleven, lack of integrity. The SME owners pointed out that lack of integrity by employees may result to loan defaulting by the SME owners. For example, when employees steal from the enterprise it affects the equilibrium of the entity's operations and profit projections, which may affect the commitments of the SME owner with the lending MFI.

Twelve, 'Acts of God': The key informants and SME owners observed that there are situations that are beyond human control. These may include floods, earthquakes, droughts, death of the SME owner, among many others. One SME owner reported that

when her spouse who ran the business died, the activities of the enterprise went down, thus resulting to less cash flow. When this occurred, it affected the ability of the entity to honour some or all of its financial obligations, including loan repayment.

Finally, Family crisis: The key informants noted that most SMEs are family-owned or interlinked entities so in case there is a family crisis or threat e.g. family separation or sickness of a family member, this could affect the business operations and consequently the loan repayment.

This is why Fidrimuc at el, (2006) stressed that the banks entering an emerging market face a lot of uncertainty about the risks involved in money lending.

4.5.2. SME owner level of education and loan defaulting

The study sought to establish whether level of education had any influence on SME owners defaulting loans from the MFIs. Some 27 respondents forming 72.9% affirmed that level of education attributed to ability to manage loans by SME owners while 10 respondents (27.1%) disagreed. According to some key informants, level of education shows the level of logic analysis an individual can make. People with high level of education are thought to make informed business decisions such that when a business owner is obtaining a loan for the SME entity he or she knows that the entity is in a position to repay the loan with interest and have some surplus to plough back into the business. This helps the business owner to avoid defaulting on his repayment. This is confirmed by Mutegi at el, (2015) who states that all businesses all over the world should keep records of their transactions to facilitate decision making such as payment of bills on time, which improves the credit worthiness of the SME entity. The key informants stated that an SME entity and owner are intertwined and inseparable. The owner runs the entity with his mind, skills and understanding; the SME owner with higher level of education is exposed to ideas and worldview, thus having wider and logical business ideas than one with low or no education. In essence, the one with higher education will organise his loan funds well and invest in what is thought to be profitable thus enabling him to repay his loan promptly.

4.5.3. SME owner need or lack of need for achievement/success in SME entity influence loan defaulting

The study investigated if lack of need for achievement and success in business can influence loan defaulting by the SME entity. Sixty four point nine percent (64.9%) of the respondents affirmed while 35.1% disapproved that lack of need for achievement and success could influence loan defaulting. (See table 4.6). The majority of the respondents agreed that the need for achievement may influence business owner to avoid loan defaulting because it makes the owner to develop strong attachment to his entity thus increasing the commitment levels on anything touching the business. This will make the owner to search for profits in all his business transactions and be dedicated to saving. This can be well expounded by acquired needs theory of David McClelland, which generally argues that running a business requires people to moderate risks, assume personal responsibility for their own performance, pay close attention to feedback in terms of cost and profits and find new or innovative ways to make new products and provide a new service (Davison & Wiklund, 1999). The view purports that most of the growing SMEs are managed and operated by owners who have a need to achieve and grow. In this respect, the theory predicts that people with high need for achievements value particular work-task situations and perform well in them, while their counterparts will perform poorly.

Achievement-motivated individuals set goals that they can influence with their effort and ability, and such goals are considered achievable. This determined results-driven approach is almost invariably present in the character make-up of all successful business people and entrepreneurs.

Table 4.6. Responses on whether lack of need for achievement and success in business influence loan defaulting

Response	Frequency	%
Yes	24	64.9
No	13	35.1
Total	**37**	**100**

4.6. Enterprise related factors that influence loan defaulting

4.6.1. Business history/duration and loan defaulting

The study found out that 69.7% of the respondents' businesses had been in operation for less than four years, with 47.8% having repaid their loans promptly while 52.2% did not pay promptly as per the loan agreement. Those who had been operating for more than four years were 30.3%, with 50% confessing to have paid promptly while 50% did not. The study showed that there is a slight relationship between business duration in operation and loan repayment, meaning there is increase in loan repayment by both genders by businesses which have been in operation longer. This is visualised in Table 4.7 below.

Table 4.7. Showing duration of experience in business and loan defaulting

Years in operation	Yes %	N	No %	N	Total %	N
Under 4 years	47.8	11	52.2	12	100.0	23
Over 4 years	50.0	5	50.0	5	100.0	10
Total	**48.5**	**16**	**51.5**	**17**	**100.0**	**33**

4.6.2. SME owners' future plans on loaning

The study also wanted to establish from the SME owners' point of view if there is a future for the loaning services and their plans. The response was that the majority of respondents or 94.4% affirmed that the future for SMEs loaning is bright and they plan to borrow to

boost their businesses while 5.6% said they had no plans of seeking loan services. This is illustrated in Table 4.8. The SME owners pointed out that they require more financial capital to grow their businesses and to enable them to remain competitive in the market. Majority of the respondents felt that the future of the SME lending is bright, for all along there has been new SMEs coming up and the existing ones need to expand their business to enable them increase their performance. They expressed hope that the MFIs will continue to provide loan services to the SME sector, which is economically viable and promising than other sectors. In addition, the key informants reiterated that the future of SME lending is bright and growing rapidly, forming the fertile market niche for the MFI loaning services. Moreover, it was reported by the respondents that if risks are well managed, the SME sector has great potential to yield good returns, which would benefit the SME owner, society, the Government and the lending MFIs. Some respondents pointed out that the SMEs will always be in need of cash to grow their businesses to enable them increase production and turnovers. Other respondents stated that middle-class Kenyans want to be self-reliant and own managers, which is only achievable in the SME sector thereby increasing market competition. This means the SME sector will never lack newcomers thus creating new clients for the MFIs for loaning services.

Table 4.8. Response of whether SME owners plan to seek loaning services in the future

Response	Frequency	%
Yes	34	94.4
No	2	5.6
Total	**36**	**100.0**

Armendariz and Morduch, (2005) reported that most borrowers repay their loans because they anticipate to borrow in the future. This was corroborated by this study. The key informants stated that most SME owners who repay their loans promptly are motivated by the expectation of borrowing larger amounts in future to boost their businesses. In

addition, the SME owners said they desire to graduate from lower loan ranks and be ranked higher in order to obtain larger loans.

Table 4.9. Response on whether SME owners see prospects for future loaning by gender

Response	Male %	Female %	Total %	N
Yes	95.5	92.9	94.4	34
No	4.5	7.1	5.6	2
Total	**100.0**	**100.0**	**100.0**	**36**

When further analysis was carried out on whether SME owners see prospects for future loaning service, the study found out that 95.5% of males affirmed while 4.5% disapproved and 92.4% of female affirmed while 7.1% disapproved. This shows that men are more risks takers than women. Men are always trying to better their lives due to their responsibilities. This is shown in Table 4.9.

4.6.3. Type/Nature of SME entity and influence on loan defaulting

The study also wanted to know whether type or nature of SME could influence loan defaulting. The response was 48.6% affirmed whereas 51.4% disapproved. The nature or type of SME should not be viewed 100% as cause of loan defaulting. This is because before any entrepreneur engages in any kind of business line he does business research and understands what risks are likely to crop up and formulates strategies to mitigate them to make his business a success. Other respondents said the agricultural sector may be affected by unforeseen risks like droughts, flooding of market due to bumper harvest which may reduce projected market prices. This is likely to impact negatively on the business making its ability to repay loans a challenge. But even with this the entrepreneur needs to have covered his business against such risks. This is presented in table 4.10.

Table 4.10 Response on whether type/nature of SME influences loan defaulting

Response	Frequency	%
Yes	18	48.6
No	19	51.4
Total	37	100.0

4.6.4. The SME loan collateral influence on loan defaulting by SME owners

Sixty seven point six (67.6%) of the respondents affirmed that SME loan collateral could lead to loan defaulting, while 32.4 % disapproved it. This is shown in table 4.11. This shows that if the collateral the SME owner gives as loan security is of less value in his view, he may default in repaying the loan. The Grameen Bank Model where individuals are put in groups that act as the motivating force for members to repay their loan is crucial in lending compared to other forms of asset collaterals. This is because each member of the group can get a loan if the others have repaid their loans well.

Table 4.11. Response whether loan collateral influence loan defaulting

Response	Frequency	%
Yes	23	67.6
No	11	32.4
Total	**34**	**100.0**

Out of those who affirmed that SME collateral influence loan defaulting were 63.6% of male and 75% female and those who disapproved were 36.4% of male and 25% female. This is shown in table 4.12. The key informants reported that any collateral greatly influences loan defaulting not only for the SME owners, but also for other loanees. They

added that human beings are so calculating in every move or action they make and evaluate the benefits and consequences that may be involved in all cases. The key informants stated that collateral forms the basis for loaning and it is required to be of higher value than the loan being awarded in order to compel the loan recipient to repay their loan. Otherwise if this is not the case the borrower may default the loan because he or she has nothing to lose. This has resulted to the MFIs preferring to offer loans to groups rather than individuals, but when it comes to the SMEs you find the SME owners granted loans with their businesses as collateral. This may have led many SME owners to default on their loans since they lack that motivating peer pressure from group members.

Table 4.12. Tabulation for Response whether loan collateral influences loan defaulting by gender

Response	Male		Female		Total	
	%	N	%	N	%	N
Yes	63.6	14	75.0	9	67.6	23
No	36.4	8	25.0	3	32.4	11
Total	100.0	22	100.0	12	100.0	34

4.6.5. The purpose of starting SME entity and its influence on loan defaulting

The study wanted to establish whether the purpose of starting an SME entity could influence loan defaulting. The results were 17.6% affirmed that it could influence loan defaulting whereas 82.4% disapproved it. This is presented in Table 4.13.

The majority of key informants stated that 60% of the loan defaulters are influenced by the original purpose of starting up the business entity. They also said the purpose of starting the business entity acts as the driving force to the owner, motivating him or her to achieve stated goals and objectives. The key informants observed that businesses with plans that are constantly monitored and reviewed became successful. Some of the Key informants said they knew some SME owners who had given their businesses as collateral fully aware that they would not repay the loan. Some of the SME owners said sometimes you may

have a genuine purpose of starting the business but along the way unforeseen issues strike and you find you cannot repay your loan thus ending up as a defaulter. This is confirmed by Brehanu & Fufa, (2008) who said borrowers may default on their loans either voluntarily or involuntarily.

Table 4.13. Response on whether the purpose of starting SME entity has influence on loan defaulting.

Response	Frequency	%
Yes	6	17.6
No	28	82.4
Total	**34**	**100.0**

4.6.6. SME mode of Loan payment influence on loan defaulting

The study sought to know if the mode of payment could be attributed to influence loan defaulting, where 8.1% of the respondents affirmed and 91.9% disapproved. The study found that most of the key informants encourage loan borrowers to pay their loans by making cash deposits because not only is it is easy to handle, but is also cheaper for it does not attract overhead charges. Cash deposits do not require one to have much knowledge to carry out the transaction and, moreover, the customer can keep the records for his or her loan deposits. Some 30% of the respondents preferred standing orders because they consider this mode of payment to be more convenient, easy and in case you forget to pay the loan premiums it would automatically be deducted. They added that it is efficient because the client is not in contact with the money, thus he cannot divert the funds for the deductions will have been done. Another 20% of the respondents preferred the continuous savings deposits. These respondents believed that the MFI can from time to time assess the financial progress of the SME and the client's capacity to pay the loan. This enhances client commitment and allows interaction between the client and the bank. The key informants indicated that those who make payments through cash deposits tend to develop an attachment and relationship which tends to build commitment in loan repayments. It was argued that using intangible modes of payment like electronic and standing orders

reduces that attachment and relationship resulting to distancing, which may cause non-commitment to honouring one's loan repayment. However, the SME owners did not see how the mode of loan repayment would influence them to default the loan. This can be viewed on table 4.14.

Table 4.14 Response on whether SME mode of loan repayment influences loan defaulting

Response	Frequency	%
Yes	3	8.1
No	34	91.9
Total	**37**	**100.0**

4.6.7. Loan repayment mechanisms the SMEs use

The study aimed at finding out the mechanisms the SMEs use to make their loan repayments. The study found out that 17 of 33 (51.5%) respondents used direct cash deposits; 8 of 34 (24.2%) respondents used continuous savings; 4 of 34 (12.1%) used standing orders/cash deposit and electronic money transfer respectively (see Table 4.15). The electronic money transfers was described as costly and insecure in case you get the transfer details of the payment wrong, which may make the sender lose his or her money. Some respondents said standing orders have additional cost for the client thus increasing the loan repayment expense. However, others said the extra cost should not make someone not to raise a standing order because there are times one may forget to make the repayment on the agreed dates thus attracting penalties, but if he had raised a standing order the payment will be honoured without resulting to loan defaulting. The direct cash deposit is thought to be cheaper and easier to transact by clients for it requires little experience and know-how compared to other means. Secondly, the client is able to monitor his performance because he holds the deposit slips, which can be used for future reference and ease reconciliation of the accounts. Third, direct cash deposit is thought to enhance the clientele relationship with the lending agency, thus enabling the lending agency to understand the SME owner's business performance and ability to repay the loan.

41

**Table 4.15. Response of SME owners on the mode/mechanism they use in loan repayment**

Mechanism of loan repayment	Frequency	%
Electronic money transfer	4	12.1
Continuous savings	8	24.2
Raised standing orders & cash deposits	4	12.1
Direct cash deposits	17	51.5
Total	**33**	**100.0**

4.6.8. Loan repayment time interval by SME owners

The study also sought to establish the time interval within which SME owners made loan repayments. A majority or 25 of 34 (73.5%) respondents were found to use monthly repayment interval, while 3 of 34 (8.8%) respondents indicated they used weekly/fortnightly/monthly interval, 2 of 34 (5.9%) used fortnight and weekly intervals respectively while 1 of 34 respondents (2.9%) indicated they used annual interval. None indicated daily interval in repayments (see Figure 4.1). This confirms the findings by Harris, (2006), Armendariz and Morduch, (2005) and Jain and Mansuri, (2003), which stated that among the micro-finance clients who are willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transaction costs without increasing client default. The SMEs using monthly repayment intervals are in a better position to monitor and reduce their loans evenly thus enabling them to reconcile their payments with a lot of ease as stressed by SME owners and key informants. It was also noted that monthly repayments lower the transaction costs and are cheaper to make than the weekly and fortnightly intervals, which allows savings and increased profit margins as well as growth of the business.

The key informants were against the long quarterly and annual repayment periods stating that these may give the SME owner false relief and result to loan defaulting. Moreover, they added that SMEs dealing in agricultural products may seek to have their payments adjusted because their produce do not bring monthly income.

Figure 4.1. Responses on Loan payment interval/duration within which SME owners make loan repayments
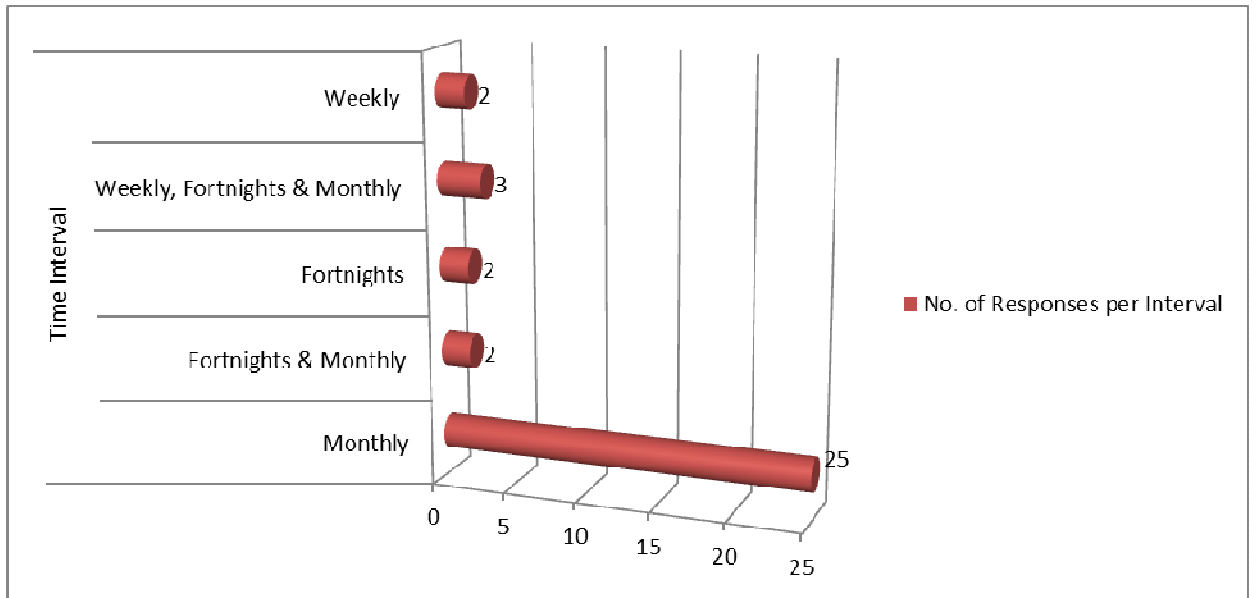
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter highlights the research findings summary, conclusions and recommendations as per the study objectives. The chapter also offers the recommendations for further project studies and research.

5.2 Summary of the Findings

The study found out that majority of the SME owners were males. All the SME owners had business entities operating within Thika Township of Kiambu County. Majority (80.6%) of the SME owners had college/university level of education while none had no education.

The study also found that majority of the SME entities had been in operation for four years or less and that level of education, skills and experience contribute to owner's ability to manage loans. The study found out that majority of the SMEs take up loan services from the MFIs and more than half of them have ever defaulted on their loan contracts. In addition, it was highlighted by both SME owners and key informants that majority of SME owners divert loans from the original purpose for which the loan was obtained.

A majority of the SME owners prefer direct cash deposits to repay their loans and majority of the key informants encourage the SMEs to make cash deposits for loan repayments on monthly intervals. The majority of the SME owners and key informants hold that there is a future for the MFIs loaning services to the SMEs. The majority of the SME owners disagreed that the purpose of starting a business could influence loan defaulting while the majority key informants agreed. It was noted that some loaning institutions do not offer loan management training for their members.

The study found out that the SME environment is not a plateau but has ups and downs with risks. It also found that these risks can be well managed, if business research was well conducted and the risks identified with strategies and plans to address them formulated and reviewed from time to time.

It was also found that lack of need for achievement in a business entity can influence loan defaulting by the SMEs taking loans, while the type/nature of business and mode of loan repayment was found as less attributing factors in influencing loan defaulting.

5.3 Conclusion

The SME sector is a fertile ground rich for investment for governments, SME owners and the MFIs. This sector is the only one in which individuals can grow wealth. Though the sector has some uncertainties and risks, sound risk mitigation plans and strategies can yield positive results that can improve the living standards of the owners, profit margins for the MFI industry and uplift overall national economy of the State.

The SMEs should be viewed like projects that are operating and implemented to solve a given problem in the society and thus require the efforts of all partners involved, including the customers. The SME owners, being the drivers of the sector, require skills on business investment and management to enable them prevent the risks inherent in the business world. When this is well executed, the SMEs are bound to excel and register positive growth. The SME sector is here to stay as long as there are individuals thinking and expressing their ideas practically.

5.4 Recommendations

5.4.1 Management training

The study recommends that MFIs should train SME owners on loan investment and management skills in order to avert loan defaulting. In addition, MFIs credit officers should visit business entities from time to time to enhance the SME owners' loan monitoring capacity. The SME owners need to understand that their business entities are of key importance to the economic development of the nation, hence they need to put more efforts in them not only to meet their immediate needs, but also that of the larger society as well.

The SME owners need to enhance their skills and capacity in running their entities. This will enable them gain experience in business risk management, operations management, loan investment and management, among other vital skills necessary for making an SME venture successful.

The MFIs offering loan services to the SMEs should ensure that all their clients receive loan management and investment training, which will ensure their clientele invest and manage the borrowed loans efficiently. If the MFIs do this, they are assured of minimised risks and fewer non-performing loans (NPLs), thus reaping massive profits.

5.4.2 Developing viable business plans

I would like to recommend that SME owners develop proper business plans that are informed by business research. Business market studies should be conducted and appropriate risk management plans developed and monitored as they are being implemented. The business plans should be reviewed and amended as proper feedback is obtained to enhance business performance. This will keep the venture afloat by avoiding stiff competition that would otherwise cripple the business due to low and insufficient cash flow.

5.4.3 Separation of business entity and self

The SME owners should draw a line between their business entities and personal life. This will enable them to view their businesses as different entities, which would allow the entities to flourish without the owner placing undue burden on them, hence draining the business of cash flow.

5.4.4 Never divert loan funds

The SME owners should ensure that loan funds obtained for boosting their business is not diverted or misused. Procedures and mechanisms for proper checks and balances need to be developed and monitored.

5.4.5 Ploughing profit back

I would like to recommend that SME owners learn to plough back the profits into the business to ensure increased turnovers that would enlarge the business profit margins. In order to overcome and manage unforeseen risks like 'acts of God', theft, accidents, fire, sicknesses, acts of terrorism and injuries at the business, the SMEs should take risk covers to ensure business funds are not used to cater for the above, as this could cripple the business.

5.4.6 Conduct loan account reconciliations

The SMEs should conduct loan account reconciliations with the loaning institutions so that they may be in the know of their loan repayment status. The loan repayments should be done on monthly basis and loan account reconciliations done quarterly.

5.4.7 Setting priorities right

The SME owners need to set their priorities right when starting the business entity and have the right attitude to succeed in that business line. Their purpose of starting the entity should act like the motivational force to help them remain focused even when unforeseen eventualities occur.

5.5 Suggestions for Further Studies

1. The study has explored the factors that influence loan defaulting by SMEs within Thika Township in Kiambu County, Kenya. I would recommended that other studies be done with an aim of finding out the factors that influence loan defaulting by SME owners in other counties in order to come up with more reliable generalisable data that can be used in relation to other counties.

2. This study targeted the SME owners whose business entities are in operation. I would recommend a study on SME owners who have received loans from MFIs but defaulted on their loan repayment contracts.

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Appendix I: Transmittal Letter

Kiraithe Peterson Karani

University of Nairobi

P.O. Box 30197,

Nairobi.

Date: …………………………..

RE: DATA COLLECTION

I wish to inform you that I am a student at the University of Nairobi undertaking a research study leading to the award of Master of Arts degree in Sociology (Entrepreneurship development).

The study focuses on "factors that influence loan defaulting by SME owners in Kenya: a case study of SMEs within Thika township". When the study is successfully completed the findings will enable the Micro-financial Institutions, SME owners and other aspiring entrepreneurs to understand what they can do to avert loan defaulting and strengthen the SME sector. This will go a long way in ensuring that the SMEs continue to contribute positively to the country's economic growth.

Attached herewith, please find a questionnaire that requires you to provide the information by answering questions honestly and objectively. You are not required to record your name anywhere and the information you provide will be treated with utmost confidentiality.

Thank you.

Yours faithfully,

Kiraithe Peterson Karani

Appendix II: SME owners questionnaire

This questionnaire was used to collect data for purely academic purpose. The study investigated the factors influencing loan defaulting by SMEs in Thika Township. Answer all questions as indicated by either filling in the blank or ticking the option that applies.

SECTION A: GENERAL INFORMATION

1. What is your gender?
    a) Male ☐
    b) Female ☐

2. Duration of ownership of the SME.

    Years ☐   Months ☐

3. What is your highest educational qualification?
    a) Primary education ☐
    b) Secondary education ☐
    c) College/University ☐
    d) None ☐

SECTION B THIS SECTION OF THE QUESTIONNAIRE SEEKS TO UNDERSTAND THE CHARACTERISCS OF SME OWNER, LOANING, LOAN TRAINING AND REPAYMENT IN REGARD TO LOAN DEFAULTING.

4. Have you ever borrowed a loan from financial institutions to use in your SME business?
    a) Yes ☐
    b) No ☐

5. If yes to question 4; did you pay promptly as per the loan contract?
    a) Yes ☐
    b) No ☐

6. If your answer in question 4 is **Yes** what could you attribute to your ability to pay it back to your loaning institution?

    _____

    _____

7. Does experience and skills in running a business contribute to SME avoiding loan defaulting?

    a) Yes ☐

    b) No ☐

Please explain the above answer.

_____

_____

_____

8. Would you attribute the type of loan collateral to influence loan defaulting by the SMEs?

    a) Yes   ☐

    b) No   ☐

Please explain your above answer.

_____

_____

_____

9. A). If Yes to question 8, Please explain why.

_____

_____

    B) .If No to question 8, please explain why.

_____

_____

_____

10. Can the type of SME enterprise influence loan defaulting by the owner?

    a) Yes   ☐

    b) No   ☐

11. A). If yes to question 10, please explain why.

_____

_____

_____

    B) .If No to question10, please explain

_____

_____

_____

12. Would you attribute the purpose of starting a business enterprise to be a reason that can influence loan defaulting by SME owner?

a) Yes ☐

b) No ☐

Please explain your above answer.

_____

_____

_____

13. In your view, can lack of need to achieve business success by an SME owner be a cause of loan defaulting?

a) Yes ☐

b) No ☐

_____

_____

_____

14. What mode/Mechanism of loan repayment do you use to pay your loan?

a) Direct cash deposits ☐

b) Raised standing orders ☐

c) Continued Savings deposits ☐

d) Electronic money transfers ☐

e) None ☐

15. What duration interval do you make your loan repayments?

a. Less than a month ☐

b. Monthly ☐

c. Annually ☐

d. Any other (specify) …………………………………………………..

16. Indicate what factors influence loan defaulting by SME owners?

a) _____

b) _____

c) _____

d) _____

17. What major steps or mechanisms does an SME owner put in place to avoid loan defaulting?

    a) _____

    b) _____

    c) _____

    d) _____

    e) _____

18. Do you expect to get loan services for your SME in the future?
    a) Yes ☐
    b) No ☐

    Please explain your above answer

19. Have you ever received any loan management training from your credit supplier/provider?
    a) Yes ☐
    b) No ☐

    Please explain your above answer.

20. A) If Yes to question 19, explain the type of training you received.

B) If No to question 18, explain why you did not get any training.

Appendix III: **Detailed questions for key informants**

1. What factors would you say influences loan defaulting by the SMEs?

2. What are major steps or mechanisms an SME should put in place to avoid loan defaulting?

3. What are the best methods of loan repayment mechanisms for SMEs and why?

4. Does experience and skills in business running help avoid loan defaulting by SMEs? Why?

5. What business practices and procedures should SME owners put in place to avert loan defaulting?

6. What are your perceptions and advice for the loaning services for SMEs owners in Kenya?

7. What loan management trainings are offered by MFIs to the SME owners? And why?

8. What are the underlining considerations that MFIs use to grant the SME owners loans?