

**CONTRIBUTION OF SACCOS' TO THE GROWTH OF  
ENTREPRENEURSHIP IN KENYA: A CASE OF MWALIMU  
NATIONAL SACCO**

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE  
IN ENTREPRENEURSHIP AND INNOVATIONS MANAGEMENT SCHOOL OF  
BUSINESS UNIVERSITY OF NAIROBI**

**NOVEMBER 2015**

## **DECLARATION**

I Jairus Opati Ounza thereby declare that this research project is my original work and has not been submitted for any academic award in any college, university or institution of higher learning.

Signature.....

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## **ACKNOWLEDGEMENT**

I wish to thank the almighty God for His grace throughout this journey. He has remained faithful. To my family members, your moral support has given me the encouragement to keep going. I acknowledge the guidance of my supervisor Dr. James Gathungu that was thorough. I am also indebted to my moderator Dr. Mary Kinoti for her guidance to completion of this project. My appreciation also goes to my classmates singling out Raphael Kimolo who has been of great assistance and encouragement.

## **DEDICATION**

I dedicate this research to my children, Nixon, Daisy, Morgan and my wife Josephine for their encouragement while pursuing this programme.

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## **ABBREVIATIONS AND ACRONYMS**

<b>SACCO:</b>	Savings and Credit Cooperative Societies
<b>IMF:</b>	International Monetary Fund
<b>WOCCU:</b>	World Organization of Cooperative Credit Union
<b>SASRA:</b>	Sacco Society's Regulatory Authority
<b>MFI:</b>	Micro Finance Institutions
<b>CBK:</b>	Central Bank of Kenya
<b>ILO:</b>	International Labour Organization
<b>ROK:</b>	Republic of Kenya



## **ABSTRACT**

Entrepreneurship is emerging as a major contributor to enhanced economic development for any nation world over. It has assumed the importance for accelerating economic growth both in developed and developing countries by promoting capital formation and creating wealth in the countries. In the study, the researcher's aim was establish the contributions Mwalimu Sacco which provides business loans to those aspiring to grow businesses has helped grow entrepreneurship in Kenya. Previous studies have proved that availability of credit alone is not automatic that the businesses will prosper. Entrepreneurship has helped many economies make great strides in their development agendas. For entrepreneurs to effectively contribute to growth of a nations economy, there must be in place favourable policies enacted by governments to promote its growth. Resources have always stood out as a challenge for many entrepreneurs in Kenya. Saccos have filled this gap by being able to provide affordable credit services to members willing to venture into business. Mwalimu national Sacco provided the best case study being one of the largest saccos in Kenya with a department specializing in provision of loans specifically to support members willing to venture in businesses. It was found out that a majority of the members who had accessed this credit product failed to utilize it well for lack of training on the best investment opportunities for lack of business management skills. Apart from availing credit, there is need for further support in terms of providing non-financial services to borrowers. In the study, it was established that training is one of the major requirements entrepreneurs need to undertake so that they become adequately prepared to effectively face emerging challenges in business ventures. It was observed that quite a number of those loaned without going through basic business training were defaulting on their loan contracts with the Sacco and their businesses were running at a loss. Also majority of those who participated in the study were not aware of the fact that Sacco's, apart from offering credit should also provide basic training on financial management issues to members. The study adopted both qualitative and quantitative techniques to obtain data. The quantitative data was then analyzed using SPSS software to obtain graphs, Frequency distribution tables, Anova Table, Regression Analysis which were then interpreted. Conclusions were obtained, and recommendations provided for further actions to be taken by relevant stakeholders.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

According to Waweru (2011), Savings and Credit Cooperative Societies (Savings and Credit Cooperative Societies) are voluntary financial institutions owned and controlled by their members and operated for the purposes of promoting savings, providing credit at low interest rates and other non- financial services to their members. They mobilize significant volumes of personal savings and channel them into small loans for productive and provident purposes at the community level (Okwany, 2010; Wanyama, 2009). They play a critical role in entrepreneurship development, through the delivery of responsive, affordable and market oriented financial services tailored to the specific needs of their members RoK (2009). In Kenya, these institutions are the largest supplier of micro-finance to micro and small enterprises, accounting for a total market share of over 90 per cent (Coetzee, Kabbuchi & Minjama, 2000). They have the most visible impact on lives of many Kenyans. To attain goals set out in vision 2030, it's the governments' interest to maximize entrepreneurship among its citizens to allow growth of enterprises to create job opportunities for many unemployed youths. Saving and Credit cooperative societies must promote youth entrepreneurship as a viable, poverty reduction development strategy given that most new jobs are being created through small enterprises and self-employment Okwany (2010).

The study was guided by two theories; the entrepreneurship theory of Shane (2003) and the tax theory of credit. The entrepreneurship theory by Shane (2003), states that the ability to start or improve a business depends on the individual's ability to access

information and willingness to act upon the information. According to Beck et al (2011), micro and small enterprise sector can help in creation of employment, savings mobilization and production of goods and services that meet the basic needs of the poor. These enterprises have limited access to financial services from formal financial institutions to meet their working and investment needs. However, Savings and Credit Cooperative Societies have been able to bridge this gap slowly by issuing loans. These loans help the poor to accumulate capital and investment in employment generating activities, Beck et al, (2011). Credit availability to small business and low income households greatly enhance their economic strength and eventually break the vicious economic circle of low income, low saving, low investment, and low income. But, it is not clear whether Savings and Credit Cooperative Societies ensure that the loans issued are used for the purpose of entrepreneurship growth. In reference to this, the findings from the study established how the loans advanced were used to nature and expand business ventures ultimately resulting into growth of entrepreneurship in Kenya.

### **1.1.1 Concept of Training**

Training is the action of teaching or developing in oneself or others skills and knowledge that relate to specific useful competencies. It aims at improving ones capability, capacity, productivity and performance. Rasmussen & Sorheim (2010) argue that entrepreneurship training has traditionally focused on teaching individuals, but many initiatives are increasingly becoming more action-oriented, emphasizing learning by doing. According to Cole (1997), training is a learning activity, which is directed towards acquisition of specific knowledge & skills for the purpose of an occupation. Past research results have

consistently found out that Savings and Credit Cooperative Societies training result in better entrepreneurial performance (Mullei, 1999).

Technical training and Entrepreneurial management are very important to enterprise development. However, few entrepreneurs in Kenya access any sort of such training. In fact, seven per cent of MSEs in the 1999 Baseline Survey had received any form of non-financial assistance in the previous four years, despite the increasing number of formal and informal organizations in the country offering all types of non-financial assistance by way of training in business skills and entrepreneurship, practical skills, technical assistance, and marketing support. More emphasis is placed on provision of affordable financial services (credit) and less on non-financial services through tailored trainings.

These interventions can target a range of individuals and have a variety of program objectives, from enhancing socio-emotional skills to teaching business plan development to members, to providing training in bookkeeping to entrepreneurs. The diversity of these interventions reflects the variety of those who can be considered entrepreneurs. It is critical for entrepreneurs to undergo a variety of trainings that expose them to likely challenges of different ventures.

Despite a global interest in education and training for entrepreneurship, many high-profile efforts have not been rigorously evaluated. This has left critical gaps in information about the outcomes across interventions and, in particular, what is working and what is not. The corresponding lack of comparable data makes gauging the impacts across programs a challenge and complicates understanding their cost and effectiveness. In order to avoid wasted resources, more efforts are needed to strengthen the foundation

of quality studies on program interventions to enable a coherent and structured discussion of program outcomes and practices.

### **1.1.2 Concept of Credit**

Credit for a business person is the ability to obtain goods or services based on the trust that payment will be made at a future date. Nkurunziza (2005) states that, firms that use credit grow faster than those not using it. However, the results of this study apply only to the main manufacturing industry. No attempts were made to provide results for manufacturing micro and small enterprises. Mairura et al (2013) argues that financial intermediaries support (by offering banking services, credit, training and advisory services) to small and micro enterprises to promote their growth prospects. A study of 1,200 small scale soapstone operators in Gucha South District shows that 86% of the respondents had experienced growth of their enterprises as a result of loans obtained from financial service providers (Obwori et al, 2012).

Credit provision is absolutely crucial to the success of Small and medium enterprises as it directly impacts on their day-to-day operations, and, in turn, their profitability Lam & Burton, (2005). Provision of credit facilities is the main function of every savings and credit co-operative society. Loans given to members are supposed to uplift the wellbeing of the recipients'. However, Savings and Credit Cooperative Societies must set up a program to follow up and find out if the loans are well utilized if the main objective is to help develop entrepreneurs.

Small businesses in Kenya have difficulty in accessing credit. Large, well-capitalized companies rarely have any problem, while micro businesses are increasingly being

catered for by the plethora of microfinance institutions operating in the country.(Kangero, 2004). Large, successful corporations are able to access finance at relatively low rates. Micro businesses, however, are charged very high rates of interest, but the loans tend to be relatively short-term. Therefore, the actual amount of interest being paid is acceptable when seen in the context of the overall transaction. This has been a major problem for members who desire to access the loans. Savings and Credit Cooperative Societies therefore play a pivotal role by advancing loans at interest rates lower than those charged by other financial providers especially micro finance institutions and commercial banks. This is beneficial to members since it supports strong financial performance, gives members access to new services and delivery channels, improves efficiency of operations and lowers costs and ensures long-term financial stability.

Financial availability and accessibility is cited in many studies as the major barrier and constraint to the growth of enterprises. The major factors that inhibit credit availability to entrepreneurs' are: lack of start-up (seed) capital; high interest rates, lack of awareness of existing credit schemes; lengthy and vigorous procedures for loan applications; and lack of collateral security for finance. These factors have become a major barrier to the growth potential of business ventures by small and micro entrepreneurs forcing many to wind in the early stages.

Factors such as credit conditions when forming a group, group registration fees, paying membership fees and joining saving plans, result in delays in accessing initial capital, thereby worsening the financial availability (Stevenson and St-Onge, 2005; Alila et al., 2002). However, the study goes further to highlight that this is no longer the key barrier and constraint, but a lack of creativity, innovativeness and responsiveness also has an

impact. Research studies reveal that age, capital, size, information access, risk and financial records are key factors influencing credit access by firms. Others include; interest rates, borrower's education level and past financial performance; World Bank report (2007).

### **1.1.3 Concept of Entrepreneurship**

Entrepreneurship is the process of coming up with an idea and mobilizing resources to turn it into a profitable enterprise. Entrepreneurship and self-employment is a source of new jobs and economic dynamism and can improve youth livelihoods and economic independence in developing countries Maxwell, (2002). The entrepreneur develops a business plan and is fully responsible for its success or failure. According to the findings by Nelson and Johnson (1997), the emergence of limited numbers of enterprises, the high mortality rate of those that start, and the slow or stagnated growth of the businesses that survive are clear indications that increased efforts are needed to prepare more competent entrepreneurs. Apart from access to finance, entrepreneurs need to know how to develop a business plan, business management, stress management, financial management (budgeting), time management, improving sales, managing and reducing costs, debt recovery techniques, stock control techniques, marketing and recruitment Chigunta, (2002).

Even though entrepreneurship has its own advantages, it is faced with many problems. Samiti (2009) and Tan (2010) classified the basic factors that affect entrepreneurs in to two broad categories which are economic and social. The economic factors include competition in the market, lack of access to the market, lack of capital or finance, lack of access to raw material, lack of marketing knowledge, lack of production/ storage space,

poor infrastructure, inadequate power supply and lack of business training. Social factors include lack of social acceptability, limited contacts outside prejudice and class bias, attitude of other employees and relations with the work force. Further, Gemechis (2007), Hisrich (2005), ILO (2009) added Social and cultural attitude towards youth entrepreneurship, entrepreneurship education, administrative and regulatory framework and barriers to access technology as crucial factors that affect entrepreneurial success.

Savings and Credit Cooperative Societies in Kenya have not fully embraced education and training campaigns particularly on the intensive savings mobilization to generate internal funds. They have been unable to start and effectively manage income generating activities to improve the capacity and ability of the Savings and Credit Cooperative Societies members to obtain and repay loans without difficulties in addition to being able to increase their propensity to save. It will be important to appreciate how credit provided by savings and credit cooperative societies has played a role in promoting the entrepreneurial skills of society members by the providing the means to actualize their dreams. Members do not only need to be facilitated by availing of credit facilities but also require additional skills to manage credit provided for effective utilization.

#### **1.1.4 Mwalimu National Savings and Credit Cooperative Society Ltd.**

Mwalimu National Savings & Credit Cooperative Society Limited was registered in 1974 as a savings and credit co-operative society (Sacco) in Kenya. It one of the largest cooperatives in Kenya with a membership of 62491 as at end 2014 spread in its twelve branches countrywide. By end of December 2014 the society had assets totaling to Ksh.28 billion with a net interest income of Ksh.1.3 billion. Loans to members amounted to Ksh. 21 billion in the same period. It draws its membership from the teaching



fraternity but only admits teachers with qualifications of diploma and above from all institutions as long as they are under the teachers service commission pay roll. The society was established, with the objective of mobilizing savings from its members and providing loans to them at affordable rates.

Among the recent flagship projects being under taken by the society is a housing estate in Kisumu of 871 houses for its members. The society is also a major shareholder of Equatorial commercial bank having purchased fifty one per cent of the shares. It holds the record of being the only cooperative society in Kenya that grants loans on demand and members do not queue for loans. It has wide category of loan products such as normal, school fees, emergency loans, super, vision, development, and business loans. This study will focus on one of the products of Mwalimu Sacco namely Business Loans product. As at end of December 2014 Mwalimu business loan product had released Ksh.363 million to over 3500 members who had patronized this product. Members who access this product must be engaged in business enterprises and the loan is specifically designed to assist in business growth. Members (Mwalimu Sacco members) form groups ranging from five members to fourteen for purposes of guaranteeing each other.

The department has adopted the microfinance group lending methodology pioneered by Prof. Muhamad Yunus in Bangladesh (Grameen bank model). Members form groups co-guarantee each to access this product as it is non-pay slip based and does not require conventional collateral. Those with collaterals can access this product as long as they secure their loans as individuals using their securities. Members who access this product are supposed to be put through basic financial management training to enable them put the loans to their intended goal and the department is supposed to make follow up to

confirm that indeed members are not diverting these loans for consumption purposes but are investing the loans to grow their various business ventures.

## **1.2 Research Problem**

According to Mudibo (2005), the objective of Savings and Credit Cooperative Societies is empowerment of its members through savings mobilization, disbursement of credit and ensuring Savings and Credit Cooperative Societies' long-term sustainability through prudent financial management. According to the Savings and Credit Cooperative Societies supervision report for 2011, loans disbursed to members accounted to three quarters of the total assets. The quality of loans has therefore been a challenge as the average gross non-performing loans stood at 9.6% contrary to the Sasra prudential guidelines which provide that the level of non-performing debts should not be more than five percent. This level of non-performing loans is quite high and underlines the need for the Savings and Credit Cooperative Societies subsector to come up with a follow up program on how members utilize the loans granted.

Locally studies have been done to find out how Savings and Credit Cooperative Societies have benefited growth of entrepreneurship. Chigunta et al. (2005) indicated that entrepreneurship has significant benefits such as creation of employment for the young person who own the business. On the other hand, Schoof (2006) argues that, there is a lack of on-the-job training focusing on technical aspects of starting up a business including business plan preparation, project formulation and start-up administration among others. This informs the study the need to establish whether the Savings and Credit Cooperative Societies provide both financial and non-financial services to members and whether they have a follow up program to ensure that the loans issued are

used wisely in starting and growing business enterprises to maturity. The study therefore sought to fill this gap by determining the contribution of Savings and Credit Cooperative Societies' in the growth of entrepreneurship after issuance of credit.

Access to credit and training provided by savings and credit cooperatives has led to an increase in growth of youth entrepreneurship (Mwangi&Wanjau,2013).Young entrepreneurs in Nairobi were expanded their enterprises by accessing affordable credit and training from sacco's. Intervention programs like youth enterprise fund that avail credit to young entrepreneurs provide an insight on the need to marshal financial resources to support entrepreneurs. Access to finance offered by savings and credit cooperatives has influenced the growth of youth entrepreneurship in Nairobi (Okwany,2010, Wanyama 2009). Many young people have ideas but lack the financial resources required to actualize them. Savings and credit cooperative societies offer tailored services that favour growth of micro and small enterprises (Beck et el 2005).

Mwalimu National Savings and Credit cooperative society rolled out a micro finance product in 2008 alongside its traditional society products to specifically address the need of enabling members expand their enterprises. Members who access this loan product are strictly advised to invest the credit in growing their business ideas. They use the slogan, "You bring your dreams. We provide the means". More than 3500 members have benefited from this product and over 400m has been disbursed to these members. The study sought to shed more light on whether this product has helped create and grow these members into great entrepreneurs thus contribute to the general growth of entrepreneurship in Kenya.

### **1.3 Research Objective**

The main objective of the study was to determine the contribution of Savings and Credit Cooperative Societies' to the growth of entrepreneurship in Kenya.

### **1.4 Value of the Study**

It is anticipated that findings of this study are important to academicians and researchers as it provides relevant information on the role played by Savings and Credit Cooperative Societies in entrepreneurship. Findings will stimulate other researchers to venture into other roles of Savings and Credit Cooperative Societies that have not been studied, thus contribute to the general body of knowledge and form a basis for further research.

The study provides an insight to management on the various usages of loans granted by Savings and Credit Cooperative Societies and give hints on why members default. This enables them identify, plan, control and effectively manage Savings and Credit Cooperative Societies to enhance success. It also acts as a wakeup call for saccos to carry out proper research and ensure they consider the risk exposure before coming up with credit products for members. Alongside credit, members need information and therefore training should accompany credit. The study brought out the impact of providing non-financial services to members alongside the financial services highlighting the need for both to be availed hand in hand.

To the Government, findings for research can be used to assist in policy formulation in provision of an enabling environment for Savings and Credit Cooperative Societies to conduct fair business with other financial institutions. The findings from the study should assist policy makers know how well to incorporate the sector effectively in financial

service industry to ensure its full participation in the Kenyan economy. The government should be able to formulate taxation and other regulatory requirements that are conducive for the growth of this sector. The study informs the government on the need to set up a ministry for co-operatives other than placing them in other ministries as a department. The sacco sector is huge and controls a sizeable amount of money in the economy that qualifies it to have an independent ministry to oversee its operations to ensure prudent management of the sector.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the theoretical, conceptual and empirical literature on the role of Savings and Credit Cooperative Societies' in the growth of entrepreneurship. It looks at the theories upon which the study is anchored and draws conclusions drawings from similar studies that have been conducted by other scholars.

##### **2.1.1 Theoretical Foundations of the study**

The study was guided by two theories that are related to credit and entrepreneurship. The theories that formed the basis of the review included the entrepreneurship theory of Shane (2003) and the tax theory of credit. These theories support the conclusions drawn by Nelson and Johnson, (1992) that entrepreneurial education programs are necessary to develop personal entrepreneurial traits and thereby potential entrepreneurs would be more likely to initiate action and have a better chance for success in their business ventures.

#### **2.2 Entrepreneurship Theory**

Entrepreneurship theory of Shane (2003) states that an ability to identify and tap the opportunity provided by the external business environment to start or improve his/her business differs between individuals and depends on individual's ability to access information and willingness to act upon the information in terms of risk. Ability to access information and willingness to act upon the information in terms of risk could be inferred to represent attitude to risk.

Studies have found out that attitude and behavioural intention are positively related Crisp & Turner (2007) and that attitude towards behaviour leads to intention which eventually leads to actual behavior (Ajzen, 2009). The theory consists of opportunity discovery, evaluation of the opportunity and the decision to exploit the opportunity. Other elements of the theory include self-employment, business operation and performance. The theory highlighted four operational measures of performance which are survival, growth, profitability/income, and experiencing initial public offering. Survival refers to continuation of entrepreneurial activity while growth refers to increase in the venture's sales and employment. Profitability refers to new surplus of revenue over cost while experiencing initial public offer refers to the sale of stock to the public Shane, (2003).

Opportunities are created by the institutional or external environment for those entrepreneurs who could identify them to start or improve their businesses and subsequently, their welfare (North, 1990; Shane, 2003). Entrepreneurs' ability to identify and tap such opportunities differs between entrepreneurs. It also depends on their ability to access information and willingness to act upon the information in terms of risk; that is their attitude (Shane, 2003). Individual attributes affect discovery of entrepreneurial opportunity. It is made up of psychological and demographic factors such as motives, attitude to risk, education and training, career experience, age and social status. Schumpeter in his work "the theory of economic development" argues that entrepreneurship is a process that is entirely distinct from the rational economic behavior of people. He argues that for people to behave in an economically rational manner, they must have some amount of knowledge on which to base their decision.

### **2.2.1 Tax Theory of Credit**

The decision whether or not to accept a trade credit depends on the ability to access other sources of funds. A buyer should compare different financing alternatives to find out which choice is the best. In trade between a seller and a buyer a post payment may be offered, but it is not free, there is an implicit interest rate which is included in the final price. Therefore, to find the best source of financing, the buyer should check out the real borrowing cost in other sources of funds.

Brick and Fung (1984) suggest that the tax effect should be considered in order to compare the cost of trade credit with the cost of other financing alternatives. The main reason for this is that if buyers and sellers are in different tax brackets, they have different borrowing costs, since interests are tax deductible. The authors' hypothesis is that firms in a high tax bracket tend to offer more trade credit than those in low tax brackets. Consequently, only buyers in a lower tax bracket than the seller will accept credit, since those in a higher tax bracket could borrow more cheaply directly from a financial institution. Another conclusion is that firms allocated to a given industry and placed in a tax bracket below the industry average cannot profit from offering trade credit. Therefore, Brick and Fung (1984) suggest that firms cannot both use and offer trade credit.

A study by Karanja and Nyambura (2014), reiterates that financial institutions services are quite heterogeneous. They vary in terms of conditions offered to clients and their relationships to the borrowers vary from arm's length to close friend (Safavian & Wimpey, 2007). However, other financial institutions that do have access to this information (mainly savings and credit societies) do have a number of common characteristics. They can monitor borrowers and enforce contracts without having to rely



on written evidence of financial statements and without recourse to the legal system. This is because they acquire information through personal or business relationships with borrowers, through inter-linked contractual arrangements and can credibly threaten to seize borrowers' assets without recourse to the formal legal system. Because of being denied access to credit rating bureaus, they do not rely on the same sort of formal signals or creditworthiness as banks and other financial intermediaries.

Growth of entrepreneurship in Kenya has been hindered majorly by access to credit. Commercial banks and micro finance institutions have availed credit to entrepreneurs at prohibitive high costs. Savings and credit societies provide a better avenue to entrepreneurs in Kenya to access credit at affordable rates and should therefore be the preferred financial alternative to members to get seed capital to start business ventures. Saccos offer loans at affordable rates to members and provide convenient repayment periods without asking members to provide securities.

### **2.3 Empirical Review**

The study looked at a detailed research on some of the works done by other scholars on training, entrepreneurship and some of the challenges facing Savings and Credit Cooperative Societies in Kenya. The studies centre on both the positive and negative impacts of providing credit without accompanying it with education on its usage. Availing of credit to entrepreneurs without accompanying it with the necessary skills may not yield the desired outcomes of growing entrepreneurs.

### **2.3.1 Growth of Entrepreneurship**

The Kenya government vision 2030 recognizes entrepreneurship is a vital tool that will assist in attaining the goals set out in this blue print. The governments' interest in entrepreneurship and small business development as potential solutions to economic growth has increased in the recent past with enactment of policies that foster growth of entrepreneurs. According to Harbison (1967), entrepreneurs are prime movers in innovations. Entrepreneurs assist in effective utilization of resources by putting to better use the resources which are considered to be low value. With the creation of the Ministry for youth, the young people who have ideas have been offered an opportunity to achieve their dreams by ministry offered advisory services and linkage to credit at affordable rates to enable them actualize their dreams.

Since entrepreneurs are prime movers in the economy, the government has expanded entrepreneurship training that was previously aimed at technical institutions to include universities. This will enable students graduating from our universities think about entrepreneurship and less about white collar jobs. They are encouraged to consider self-employment as a career choice and not to expect jobs after completion. Students are encouraged to initiate micro businesses while still in college.

The setting up of small business centres in all the counties is another big step the government has made to grow entrepreneurship in Kenya. These centres assist young entrepreneurs gather resources and information as well as linking them to financiers. They provide need based training to target groups as well as consultancy and counseling services. However these centres face the challenge of developing self-supporting systems as funding is a major challenge.

### **2.3.2 Entrepreneurship Training**

Of the seven principles of cooperatives, training is emphasized greatly. Apart from extending credit to its members, Savings and Credit Cooperative Societies offer other different services to micro and small business enterprises. These services include, training services where the entrepreneurs are trained on different aspect of business management, financial management and business planning services. Savings and Credit Cooperative Societies play an important role in lower income groups through increasing their assets via establishing a credit relationship, establishing an enterprise, accessing working capital, increasing income through business expansion, meeting housing credit needs and increasing wealth through savings Branch and Cora (1999). Branch and Cora (1999) further state that, Savings and Credit Cooperative Societies today emphasizes on scale and depth of outreach of financial services to large numbers of the working poor through financially sustainable organizations.

Cole (1997) defines development, as a learning activity, which is more devoted towards future needs, rather than present needs of the organization and is concerned with career growth and immediate performance. Armstrong (1999) concurs with Cole that training is a systematic modification of behavior through learning, which occurs as a result of education and instruction. Today's business environment can be characterized as changing. The accelerated pace of advances in technology, increasing foreign competition, widespread and growing unemployment creating serious adjustment problems, and diminishing resource supplies have affected the way business is conducted. This complex and unstable environment is a way of life, which will continue far into the future (Russo, 1994).

Rasmussen & Sorheim (2006) argue that entrepreneurship training has traditionally focused on teaching individuals, but many initiatives are increasingly becoming more action-oriented, emphasizing learning by doing. The cases show that entrepreneurship education focuses less on teaching individuals in a classroom setting and more on learning-by-doing activities in a group setting and network context.

### **2.3.3 Credit Services**

Access to credit refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services. Those who involuntarily have no or only limited access to financial services are referred to as the unbanked or under banked, respectively Beck and Honohan (2008). According to World Bank (2008) access to credit is the absence of price and non-price barriers in the use of financial services. Access to credit from both formal and informal channels requires a certain amount of Collateral. At times the security required is unaffordable. This becomes a constraint to many small and micro enterprises most of whom may not have deeds to capital assets to present as security against the loans. Secondly institutions may require the individual or the group goodwill of guarantors. This requirement acts as a major hindrance. Banks especially do not approve of just any guarantor presented, they have to scrutinize them.

Many prospective guarantors, for fear of the borrower running bankrupt will therefore not agree to be guarantors. This makes it even harder for small and micro enterprises owners to access funds from the formal financial institutions. Cost of borrowed funds is a key determinant to firm's access to credit. The rate of interest charged on the credit determines the cost of credit. The cost of credit is the amount of money the borrower is

obligated to pay above the principal sum of money lent. The interest rate is usually as a percentage of the borrowed amount, over duration of time, which may be a year.

High interest rate therefore increases the cost of credit. These may discourage small and micro enterprises from borrowing therefore reducing the accessibility of credit among them. The decline in interest rates on loans from 30.4% in 1997 to 13.2% in 2005 coupled with an increase in lending by the financial sector enabled household to access credit easily (GoK, 2006). Successful liberalization however can only take place under a controlled environment with a sound banking system Pradhan and Pill (1997). Saccos however, do not change their contractual obligations with members mid-way and allow members to continue servicing their loans at rates agreed at the time of accessing the credit facility.

#### **2.3.4 Entrepreneurs in Emerging Markets**

Scholarly work done on entrepreneurship owes a lot to Schumpeters' contributions. He was probably the first scholar to develop its theories. Schumpeter argued that the innovation and technological change of a nation comes from the entrepreneurs, or wild spirits. He believed that entrepreneurs are the ones who make things work in the economy of a nation. Lamoreaux, Levinstein, and Sokoloff (2004) have shown that certain innovative firms and former entrepreneurs served as hubs in entrepreneurial financing networks in turn off the century. Historically, entrepreneurship traces its roots to different motivations and theoretical concerns.

Studies on entrepreneurship have been particularly concerned with understanding the process of structural change and development within economies. Business historians have

focused on understanding the underlying character and causes of the historical transformation of businesses, industries and economies. These have employed to great extent the Schumpeterian definition of entrepreneurship. Unlike the recent management scholarship, it has not focused primarily on new firm formation, but rather on the varying forms that innovative activity has taken and on the role of innovative entrepreneurship in driving changes in the historical context of business, industry, and the economy.

Entrepreneurship has been considered the backbone of economic development. It has been well established that the level of economic growth of a region to a large extent, depends on the level of entrepreneurial activities in the region. The myth that entrepreneurs are born, no more holds good, rather it is well recognized now that the entrepreneurs can be created and nurtured through appropriate interventions in the form of entrepreneurship development programs. It is abundantly clear that entrepreneurship is important for economic growth, productivity, innovation and employment, and many countries have made entrepreneurship explicit policy priority. Entrepreneurial activities have been recognized as an important element in organizational and economic development, performance and wealth creation. Entrepreneurship is the vehicle by which (the most radical) ideas are sometimes implemented and commercialized, and can serve as the conduit for the spillover of new knowledge from the incumbent organization where it is created to a newly founded firm where it is used for innovative activity and ultimately high growth. Entrepreneurship is motivated by the opportunity afforded by new knowledge created that is not completely exploited for commercialization in an incumbent organizational context,(Carlsson, 2009; Audretsch and Keilbach, 2010).

## **2.4 Summary of Knowledge Gap**

The study seeks to determine the role of savings and credit societies in the growth of entrepreneurship in Kenya. Various scholars have carried out similar studies that contribute to the body of knowledge on contribution of credit to entrepreneurship as shown in table 2.1. A study focusing on the youth entrepreneurs in Nairobi county, (Mwangi & Wanjau, 2013) revealed that credit provided by saccoes led to growth in youth entrepreneurship. Youth need access to financial resources and saccoes that have set up provide credit to the youth have contributed immensely to growth in young entrepreneurs.

Findings by Rasmussen & Sorheim (2010) on how youth enterprise fund in Gatundu Kiambu county contributed to growth in youth entrepreneurship were positive. The youth enterprise fund greatly contributed to the rise in youth enterprises positively contributing to growth in entrepreneurship in Gatundu. Access to finance provided by savings and credit cooperative societies influences the growth of entrepreneurship (Okwany, 2010; Wanyama, 2009) as confirmed the study conducted among young entrepreneurs in Nairobi. Young people need financial facilitation to be able to put their ideas into profitable business ventures.

Savings and credit cooperative societies were found to have enhanced the growth of micro and small enterprises in Mombasa Island (Beck et al, 2005). The study revealed that saccoes offer tailor made services that promote the growth of startups of small and micro enterprises through provision of credit at affordable rates. This is supported by Nkurunziza (2005) in the study on credit and employment growth among small

enterprises in Kenya. Credit constraints experienced by many small enterprises hampers their fast growth thereby closing a window for many employment opportunities that would otherwise have been created. Cora (1999) emphasizes on scale and depth of outreach of financial services through financially sustainable organizations. Saccos were found to play this role effectively in Mombasa by assisting in the provision of financial services to entrepreneurs in their small and medium enterprises.

Challenges like SMEs competing among themselves, competition from large firms, lack of access to credit, cheap imports and insecurity are among the major factors that inhibit faster growth of enterprises (Mullei 1999).The management of business challenges among small and medium enterprises determine how successful any new venture becomes. All these studies point to fact that growth of entrepreneurship requires financial backing and saccos are in the front line in availing the funding that is appropriate for many young enterprises. Growth of entrepreneurship is only possible when entrepreneurs are able to access both the financial and non-financial services that saccos offer. Affordable credit plays a major role in facilitating growth of business ventures.



**Table 2.1 Summary of knowledge Gap**

Study by	Main Focus	Methodology	Main Findings	Focus of the Study
Mwangi and Wanjau (2013)	Role of Savings and Credit Cooperatives in the growth of entrepreneurship of youth in Kenya.	Descriptive research design was employed.	An increase in growth of youth entrepreneurship resulting from credit access and training provided by Savings and Credit Cooperatives.	The focus was on youth entrepreneurs within the Nairobi County.
Waweru (2011)	Assessing opportunities and challenges facing saccos to deliver on their mandate	Desktop research by reviewing texts, websites, previous research, and journals.	Despite the challenges, opportunities were available for cooperatives to deliver.	The focus was Savings and Credit Cooperative Societies in Mombasa
Rasmussen & Sorheim (2010)	Factors that influence youth entrepreneurs towards the Youth Enterprise Development Fund.	A descriptive survey approach was adopted on performance of MSEs owned by youth.	The results from this study provided an insight in the intervention programmes in the Youth Enterprise Development Fund.	The focus was on youth entrepreneurs funded by (Youth Enterprise Development Fund) in Gatundu
(Okwany, 2010; Wanyama, 2009)	Role of Savings and Credit Cooperatives in the growth of youth	Descriptive research design was used. Census of all cooperatives that	Study showed that access to finance offered by Savings and Credit Cooperatives influence	The focus was on youth entrepreneurs within the Nairobi

	entrepreneurship in Kenya.	target youth entrepreneurs.	growth of youth entrepreneurship.	County.
Beck et al, (2005).	The role of Savings and Credit Cooperative Societies services in enhancing the growth of MSE's.	Descriptive survey method was adopted for the study	Findings were that Savings and Credit Cooperative Societies offer tailored services to entrepreneurs that favour growth of MSE.	Savings and Credit Cooperative Societies members in Mombasa Island.
Nkurunziza (2005)	Credit and employment growth among small enterprises in Kenya	It applied regression analysis.	Credit constraint on firm growth depend on access to workspace, to technology and formality status.	The focus was small enterprises in Kenya.
Cora (1999)	The role of Savings and Credit Cooperative Societies in growth of MSEs	The study adopted descriptive survey method of study.	Emphasizes on scale and depth of outreach of financial services through financially sustainable organizations.	The focus of the study was Sacco's operating within Mombasa Island.
Mullei (1999)	Management of business challenges among SMEs'	Descriptive survey method of study	Challenges like competing among themselves, from large firms, lack of access to credit, cheap imports, insecurity, recovery	The focus of the study was Central Business District in Nairobi City.

Source : Researcher

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents a description of the research methodology, including design of the study, target population, sample size and sampling procedures, instruments, the administration and data analysis methods employed in the study.

### **3.2 Research Design**

The researcher adopted a descriptive survey method for this study. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of respondents. This design was therefore adopted for this study as it enabled the researcher to obtain a cross-referencing data and some independent confirmation of data, as well as a range of options. The method helped the researcher to develop multiple perspectives and complete understanding about research problem.

### **3.3 Target Population**

The target population were members of Mwalimu Sacco Business loans department who had borrowed business loans from Mwalimu national savings and credit cooperative society Ltd. These are members who are engaged in income generating activities that have benefited from business loans product that Mwalimu business loans department offers to members with business ventures to grow their entrepreneurial abilities.

### **3.4 Sample Design**

Sampling is the process of selecting a number of individuals for a study in such a way that the selected represent the large group from where they are selected Mugenda (2003). The purpose of sampling is to secure a representative group which will enable the

researcher to gain information about a population. In the study, cluster sampling technique was applied to select respondents from the various groups that have accessed the product. Out of the targeted groups simple random sampling was used to select the sampling size.

### **3.5 Data Collection**

The instrument used was the questionnaire. The questionnaires consisted of both open and closed ended questions. The questionnaire had a list of structured and un-structured questions with space provided for selection of choices and explanatory answers. Close ended questions had the advantage of collecting viable quantitative data while open-ended questions allowed the respondents freedom of answering questions and the chance to provide further responses. The questionnaires were ideal because the researcher was able to give the respondents enough time to respond to questions.

### **3.6 Data Analysis**

Quantitative and qualitative data analysis techniques were used for this study because both approaches complement each other (Reinhardt & Cook, 1979). The completed questionnaires were first edited for completeness and confirmation of consistency. Data collected by use of the questionnaires was then coded, assigned labels to variables' categories and fed into the computer. Descriptive statistics such as frequency distribution and percentages were used to analyze the characteristics of the sampled respondents. Data presentation is in form of frequency tables and percentages.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1: Introduction

This chapter deals with data analysis and presentation. It is the main focal point of the study providing actual findings the researcher obtained from the sample selected. Data collected was entered into the statistical software called Statistical Package for Social Sciences (SPSS). Analyzed data was summarized in tables and percentages.

#### 4.2: Response Rate

The study targeted 70 respondents, out these, 59 questionnaires that were distributed were filled and returned. This represents 84.29% return rate. Out of these, 50 questionnaires were fully filled. This represents 84.75% of the completely filled in questionnaires and returned successfully. It also represents 71.43% success rate in the total number of respondents targeted.

#### 4.3: Descriptive Statistics

##### Gender

**Table 4.1: Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	33	66.0
Female	17	34.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

In Table 4.1, 66 per cent of the respondents were male while the remaining 34 per cent were female. This indicates that gender parity exists in terms of accessing credit in Kenya with more men still taking the larger portion as compared to ladies.

**Table 4.2 : Education Levels**

<b>Educational levels</b>	<b>Frequency</b>	<b>Percent</b>
Masters	15	30.0
Bachelors	17	34.0
Certificate/Diploma	18	36.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

Table 4.2, it was observed that 30 per cent of the respondents were master's Degree holders, 34 per cent Bachelor's Degree holders while the remaining 36 per cent had a Certificate/Diploma level of education. The Sacco has set a specific academic criterion for membership. All members of the Sacco had attained formal education above certificate level.

**Table 4.3 : Period with Mwalimu**

<b>Period</b>	<b>Frequency</b>	<b>Percent</b>
5 Years and Below	6	12.0
5-10 Years	18	36.0
16 Years and Above	26	52.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

Table 4.3 shows the duration of stay by members, it was observed that those who had been members for a period of 5 years and below were 12 per cent; followed by 36 per cent of the members between 5-10 years. Respondents who had been members for 16 years and above accounted for 52 per cent. This implies that a majority of the members have been with the Sacco for a long period of time. Retention rate for members with Mwalimu Sacco is commendable.

**Table 4.4: Type of Enterprise**

<b>Enterprise type</b>	<b>Frequenc</b>	<b>Percent</b>
Agriculture (poultry, dairy farming,)	47.0	47.0
Construction	16	16.0
Financial services(MPESA, Equity Agent, KCB Agent, Coop Agent)	6.0	6.0
Business(sale of phones and accessories, supplies and agro vet )	4.0	4.0
Service Businesses (saloon, Tours and Travel)	27.0	27.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

Table 4.4 above, 47% of the respondents reported that they engaged in agricultural activities. Under this category, majority of the entrepreneurs were engaged in the following entrepreneurial activities: Poultry and dairy farming as well as farm fresh products. This formed the largest percentage of business activities being conducted by the respondents.

Under the financial services, respondents participate in the following activities: money transfer services, agents for commercial banks among others and this category accounted for 6 per cent of the respondents. 16 percent of those sampled indicated that they established construction firms whereas other businesses accounted for 27% of the respondents. This included saloons, hospitality, beauty products among others. Most of respondents were engaged in small and micro businesses as shown in the table 4.4.



**Table 4.5: Duration in the Current enterprise**

<b>Duration</b>	<b>Frequency</b>	<b>Percent</b>
Less than 3 Years	24	48.0
3-5 Years	21	42.0
Over 5 Years	5	10.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

Table 4.5, when asked about the duration in their current business ventures, majority of them (48%) reported that they have been there for less than 3 years, closely followed by 42% of the respondents who indicated that they had been in the businesses for between 3-5 years as shown in table 4.5. Only 10 % of the respondents had been operating the businesses for over 5 years.

On inquiring about the management skills each of those sampled in the study possessed, it was observed that some of them had skills in accountancy, business consultancy, human resource management, financial management skills, marketing and records keeping. Further inquiry on knowing the technical skills each of the respondents had obtained, it was observed that some of them possessed basic computer skills, building construction, data analysis and phone repair.

**Table 4.6: Number of Employees**

<b>Number of employees</b>	<b>Frequency</b>	<b>Percent</b>
1	19	38.0
2	19	38.0
3	4	8.0
4	2	4.0
5	4	8.0
6	2	4.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

Table 4.6, the study was interested in knowing the number of employees each of those sampled had in their businesses and the following observations were made: Those with between one and two employees each accounted for 38 % of the respondents, those with between 3 and 5 employees accounted for 8% and those with between 4 and 6 employees for 4% . A majority of the entrepreneurs indicated having employed between one and two employees.

**Table 4.7: Number of Women employees**

<b>Number of Women employed</b>	<b>Frequency</b>	<b>Percent</b>
0	14	28.0
1	24	48.0
2	10	20.0
5	2	4.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

Table 4.7, it was observed that 28 per cent of those sampled had no women employee, majority by 48% of those sampled indicated that they had 1 woman hired while 20% of them had 5 women employees in their firms. This indicates that fewer women are employed in micro and small enterprises.

**Table 4.8: Number of Male employees**

	<b>Frequency</b>	<b>Percent</b>
0	20	40.0
1	17	34.0
2	7	14.0
3	3	6.0
4	2	4.0
5	1	2.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

Table 4.8, 40% of the respondents indicated to have male employees in their enterprises, 34% of them had 1 male employee in the businesses. 14% of those sampled indicated that they had 2 male employees in their businesses. 6% of those who participated in the study indicated that they had 3 male employees in their businesses. 4% indicated that they had 4 male employees in the firms and the remaining 2% reported that they had 5 employees. Further inquiry revealed that most enterprises did not prefer employing relatives.

**Table 4.9 : Number of Full-time Employees**

<b>Number of full-time employees</b>	<b>Frequency</b>	<b>Percent</b>
0	11	22.0
1	20	40.0
2	11	22.0
3	1	2.0
4	2	4.0
5	4	8.0
6	1	2.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Field Data

Table 4.9, most of the respondents preferred employing workers on part time basis. This was dependent on the seasonality of their businesses that made them hire only when need arose. In the study, only 2 % of the respondents had an employee that was not receiving pay while the remaining 98% of those sampled indicated that all their

employees received salaries. 40 per cent of them indicated that they had one full time employee. 22% of the respondents indicated that they had two full-time employees. 20% employed more than two on permanent basis.

**Table 4.10: Challenges**

	Frequency	Percent
Yes	26	52.0
No	24	48.0
Total		100.0

Source: Field Data

Table 4.10, 52% of the respondents confirmed that they faced major challenges in cash and credit management, with 48% stating that they were able to manage these transactions. This calls for basic financial management training for the respondents since a bigger portion was experiencing challenges arising from lack of management techniques that affected their business.

**Table 4.11: Loans Outside Mwalimu**

	Frequency	Percent
Yes	26	52.0
No	24	48.0
Total	50	100.0

Source: Field Data

Table 4.11, when asked if they had ever taken a loan from other financial service providers, it was observed that 52% of those sampled patronized other financial service providers and had accessed finances from these financial service providers alongside Mwalimu loans with 48% stating they only borrow from Mwalimu Sacco.

**Table 4.12: Mwalimu Rates and Others**

	Frequency	Percent
Expensive	11	22.0
Cheap	15	30.0
Fair	24	48.0
Total	50	100.0

Source: Field Data

Table 4.12 illustrate that the findings on rates charged by Mwalimu Sacco as compared to other service providers, 22% of them indicated that Mwalimu rates were expensive, 30% of them reported that Mwalimu rates were cheaper than other service providers whereas 48% of those sampled reported that Mwalimu rates were fair.

**Table 4.13 Loan Default**

	Frequency	Percent
Yes	30	60.0
No	20	40.0
Total	50	100.0

Source: Field Data

Table 4.13 shows business performance is closely related to servicing of loans. Findings on the frequency of defaulting on their loan contracts with the Sacco, it was observed that 60% of the respondents' loans were not being serviced as per the contractual agreements. Only 40% of the respondent's loans were being serviced as per the loan repayment agreements. About 60% of respondents loans were in default.

**Table 4.14 Training Services**

	Frequency	Percent
Yes	33	66.0
No	17	34.0
Total	50	100.0

Source: Field Data

Table 4.14, when asked if Mwalimu Sacco offers any training on how to use the loan, 66% indicated that the Sacco does offer training and they had participated in them. The remaining 34% indicated that it does not offer these services implying that the Sacco offers these services though they have not reached all the members.

**Table 4.15 Performance Without loans**

	Frequency	Percent
Poor	15	30.0
Moderate	32	64.0
Good	3	6.0
Total	50	100.0

Source: Field Data

Table 4.15, interrogates performance of the business before accessing credit facilities. 6% of the sample indicated that their businesses were good, 30% of those sampled indicated that they were poor and 64% reported that their business performance was moderate.

**Table 4.16 Performance After loan**

	Frequency	Percent
Poor	4	8.0
Moderate	14	28.0
Good	26	52.0
Very Good	6	12.0
Total	50	100.0

Source: Field Data

Table 4.16, when asked about the performance of their business ventures after accessing credit, 8% indicated that it was poor from 30% previous performance, 12% of them indicated it was very good, 28% reported that it was moderate and 52% indicated that it was good from 6% previously.

**Table 4.17 Clients Before and After Loan.**

	Frequency	Percent	Valid	Frequency	Valid Percent
	before		Percent	after	
Below 10	13	26.0	26.0	11	22.0
10-20	28	56.0	56.0	15	30.0
30-40	6	12.0	12.0	9	18.0
Above 50	3	6.0	6.0	15	30.0
Total	50	100.0	100.0	50	100.0

Source: Field Data

Table 4.17, 56% of the respondents had clients between 10 and 20 before access to credit. 6% had 50 and above, 26% had clients below 10 and 12% had clients between 30 to 40. After getting credit the figures changed as follows: 22% of the sample had below 10



clients, 18% of the sample had clients between 30 and 40 and 30% had clients above 50 client.

**Table 4.18: Performance Before and After Training**

<b>Performance</b>	<b>Frequency before</b>	<b>Percent</b>	<b>Frequency After</b>	<b>Percent</b>
Poor	14	28.0	28.0	6
Moderate	28	56.0	56.0	18
Good	7	14.0	20	40
Very Good	1	2.0	6	12
<b>Total</b>	<b>50</b>	<b>100.0</b>	<b>100.0</b>	<b>50</b>

Source: Field Data

Table 4.18 data on performance without training, 2% of them indicated that it was very good, 14 % reported that it was good, 28% reported that the performance was poor and 56% indicated that it was moderate. After training was conducted, the number of those whose performance was very good rose to 12% from 2%, those whose performance was good rose to 40% up from 14%, those whose performance was rated poor decreased from 14% to 6% and those whose performance was rated as moderate at 56% came down to 18%

#### 4.4: Cross Tabulation

**Table 4.19: Membership Period against Gender**

	Membership Period			Total
	5 Years and Below	5-10 Years	16 Years and Above	
Male	4	11	18	33
Female	2	7	8	17
Total	6	18	26	50

Source: Field Data

Table 4.19, shows the distribution of how long members had stayed with Mwalimu Sacco against their gender from respondents shows that 4 male respondents have been members between 5 and below years, 11 of the males have served between 5-10 years and 18 of those sampled have been members for over 16 years. Female respondents; there were 2 respondents who had served as members for a period of below 5 years, 7 of them have been in the Sacco as members between 5-10 years while the remaining 8 member have been in the Sacco for 16 years and above.

**Table 4.20: Gender, Education, Loan**

	Education			Total
	Masters	Bachelors	Certificate/Diploma	
Male	10	13	10	33
Female	5	4	8	17
Total	15	17	18	50

Source: Field Data

Table 4.20, the cross tabulation of gender, education and loan revealed that 10 of the male respondents had master's degree,13 of male respondents had an Undergraduate level of education while 10 of them had a certificate/Diploma education level. 5 of the female respondents had a master's degree level of education respondents had an Undergraduate level of education while the remaining 8 had a certificate level of education.

#### 4.5: Regression Analysis

**Table 4.21: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of Estimate	Change in R Square	F Change	df1	df2	Sig. F Change
1	.428 <sup>a</sup>	.183	.139	.64939	.183	4.146	2	37	.024

Source: Field Data

a. Predictors: (Constant), Advice, Taken a loan

Table 4.21, the multiple correlation coefficients (R) is a measure of the strength of the relationship between Y (PERFORMANCE) and the two predictor variables selected for inclusion in the equation. In this case, R=.428 which tells us there's a weak -to-strong relationship. By squaring R, we identify the value of the coefficient of multiple determinations (i.e., R<sup>2</sup>). This statistic enables us to determine the amount of explained variation (variance) in Y from the four predictors on a range from 0-100 percent. Thus, we're able to say that 18.3 percent of the variation in Y (performance) is accounted for through the combined linear effects of the predictor variable.

**Table 4.22: Anova<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.029	1	.029	.057	.813 <sup>b</sup>
Residual	24.471	48	.510		
Total	24.500	49			

Source: Field Data

a. Dependent Variable: Performance

b. Predictors: (Constant), Taken loan

Table 4.22, for each predictor variable in the equation, we are only concerned with its associated (1) standardized beta and (2) t-test statistic's level of significance (Sig.). As always, whenever  $p \leq .05$ , we find the results statistically significant. However if the  $p \geq .05$ , we normally Accept the null hypothesis and reject the Alternative Hypothesis. For the purpose of understanding MRA output, this means that when a p-value (SIG.) is greater than or equal to .05, the corresponding beta is not significant in the equation.

**Table 4.23: Anova<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.497	2	1.748	4.146	.024 <sup>b</sup>
Residual	15.603	37	.422		
Total	19.100	39			

Source: Field Data

a. Dependent Variable: Performance

b. Predictors: (Constant), Advice, Taking loan

Table 4.23, the p-value is given as .024. The critical value is .05. This implies that the p-value is less than the critical value. In this case, training has been factored in. this shows

that training is significant in the Sacco for those intending to take loans for investment purposes.

**Table 4.24: Correlations**

		Performance	Taken loan	Advice
Pearson Correlation	Performance	1.000	-.156	.395
	Taken loan	-.156	1.000	.021
	Advice	.395	.021	1.000
Sig. (1-tailed)	Performance	.	.169	.006
	Taken loan	.169	.	.449
	Advice	.006	.449	.
Number	Performance	40	40	40
	Taken loan	40	40	40
	Advice	40	40	40

Source: Field Data

Table 4.24 shows that the relationship between taking loan and the performance of entrepreneurship is negative. However training of entrepreneurs and the performance of entrepreneurship is positive. Also it is observed that the p-value of advice against loan is 0.006. This implies that training of entrepreneurs is significant and must not be ignored.

**Table 4.25: Coefficients<sup>a</sup>**

Model		Un-standardized		Standardized	t	Sig.
		Coefficients				
		B	Std. Error	Beta		
	(Constant)	1.298	.456		2.848	.007
1	Taken loan ( <b>X<sub>1</sub></b> )	-.227	.206	-.164	-1.104	.277
	Advice ( <b>X<sub>2</sub></b> )	.771	.288	.399	2.682	.011

Source: Field Data

a. Dependent Variable: Performance (Y)

Table 4.25, the study wanted to establish the contribution of Mwalimu Sacco to the growth of entrepreneurship and improved performance of enterprises after accessing loans and training is an indicator. This was possible through the use of Regression analysis to obtain the contribution of each variable

The equation below was used in the determination of the contributions:

$$Y = \alpha + \beta X_1 + \rho X_2 + \varepsilon$$

Where  $\alpha$ , is the constant value of performance,  $\beta$  is the coefficient of variable X,  $\rho$  is the coefficient of variable  $X_2$ ,  $X_1$  and  $X_2$  are the variables i.e. loans and advice

In the equation above, an increase in loan taken by a Unit, reduces the performance (**Y**) **by -.227 or by 22.7%**, and an improved level of advice per client improves the performance of an entrepreneurship **by 0.771 or by 77.1%**

In the study, the researcher attempted to conduct a reliability test as shown in table 4.25 and it was observed that the value stood at 0.681 or 68.1 per cent. Since the value is above 60% requirement, the study was reliable.

#### **4.6 Chapter Summary**

Findings of the study show that saccoes contribute to the growth of entrepreneurship. Members who access loans without going through any training showed in high level in default. This implies that entrepreneurs need financial support but this should be supported by relevant training to enable them use the credit prudently. The number of loans that were being defaulted were traced to members who had accessed loans but were not put through any form of training. In order to reduce the levels of bad loans among savings and credit cooperative societies, the lending models need to be up dated to ensure credit is always accompanied by knowledge on how to the invest. Members who accessed Mwalimu Sacco business loans and went through business training performed better than those who never went through training. Training enabled them make wise investment decisions and thus enabled their businesses to grow and employ more people positively contributing to the growth of entrepreneurship in Kenya

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter summarizes the study findings, conclusions are drawn from the findings and recommendations for policy makers are made. The chapter suggests areas for further studies. From the findings, the study makes recommendations in considerations of similar studies for areas that require further studies to be conducted.

#### **5.2 Summary of the Findings**

The study aimed at finding out the contributions of Mwalimu Sacco's in the growth of entrepreneurship in Kenya. The study sampled members of Mwalimu Sacco Business loans department which is tasked with disbursement of both loans and training to members purely for business ventures. Schoof (2006), sees entrepreneurship education as one of the initiatives that can be designed to enhance skills and knowledge in entrepreneurship.

According to the population census conducted in 1999 women form the majority of the population in Kenya, yet they are not equitably represented in economic activities, either as employees or owner managers of businesses. In the study 66 per cent of the respondents were male while the remaining 34 per cent were female. This corresponds with ILO (2008) findings that men accounted for 70 per cent of wage employment and women for only 30 per cent. Study findings revealed that most members of Mwalimu Sacco have been in the Sacco for 16 years and above. Even though majority of members have been in the Sacco for more than 16 years, only 10% had been operating



entrepreneurial businesses for more than five years. This means a majority started running businesses when the product was started in the last quarter of year 2009.

Findings also reveal that majority of businesses have hired less than two people to operate the entrepreneurial businesses implying that most of these businesses are still at an infant stage. The study revealed that majority of those sampled face a lot of challenges when it comes to cash or credit management in entrepreneurial businesses. These calls for proper financial training to those applying for loans to enable them improve the performance of businesses. Members still sort for credit from other financial service providers. They did this because of the conditions that one had to meet to qualify for the Sacco loan. They also indicated that the limits set by the Sacco makes them to seek financial services elsewhere where the upper limit one could easily access was Ksh.500,000 and any amount exceeding this figure, one has to look for security to secure the loan. It is not easy to obtain a guarantor for startup businesses.

60% of the loans granted are in default. This number may hinder the growth and performance of Mwalimu Sacco. It shows that most of the clients are unable to meet the re-payment period deadlines. When asked if Business Development Advisory services were necessary, their response was affirmative stressing that training was essential. The main purpose of credit advisory services is to empower the borrower to make informed decisions on the various investment options and hence sureties of nonperforming loans as funds are put into proper use (Karugu et al., 2010).

The model summary that was conducted indicated that there was a weak relationship between the Performance and Loans taken but a strong relationship between performance

and advice provided through training.  $R=.428$  which tells us there's a weak -to-strong relationship. It shows that whenever there was training of loanees, a better performance of entrepreneurship was recorded. The findings of Wangari et al (2013) indicated that there was a weak positive relationship between enterprise growth and service and product provision by SACCOs hence an increase in the quality of service and product provision by SACCOs would lead to increase in growth of youth entrepreneurship. Findings further indicated that there was a strong positive relationship ( $r=.488$ ,  $P=.00$ ) between enterprise growth and entrepreneurship education.

### **5.3 Conclusion of the study**

Many entrepreneurs still do not have knowledge on how to plan carefully with money they receive as loans. Some of the respondents were not able to differentiate between interest rates and inflation. It was observed that many do not apply the loans granted to the initial purpose stated at the time of asking for the loan. Due to high default rate, a majority were unable to start new projects as they cannot receive funding. Stress was mentioned as a challenge whenever one defaults and pressure is exerted for recovery of the loan. They also got stressed up especially whenever their businesses failed to perform well. It was noted by a majority of the respondents that dealing with unreliable clients was a major obstacle to the success of their business ventures. Starting up a business in an area with a number of competitors has hindered successes of some of the entrepreneurs. Businesses that are new rarely succeed in such places.

The growth of entrepreneurship is tied to many factors that include economic, social, and economic factors. Saccos provide loans to entrepreneurs. Majority of these entrepreneurs' target is to supplement their salary by starting an extra source of income. Findings of the

study reveal that advice contributes a good per cent age to the growth of entrepreneurship. Loans alone regressed against the performance of entrepreneurship indicates that there is a negative relationship between loans and performance of entrepreneurship. This could be due to that fact that some opt for loans without proper plans. Taking a loan for starting up a business is not an automatic indication that the growth of entrepreneurship will thrive. Some take the loans for starting up business but end up using the money for other purpose it was not meant for. In the study, findings reveal that there is a negative relationship between loans taken for entrepreneurship and their growth. To improve the performance of entrepreneurship, training is essential as witnessed in the analysis.

#### **5.4 Limitations of the study**

Mwalimu national sacco has members across all the counties in Kenya. For sample to be representative of all counties samples were selected from each region. This diversity of clients caused a challenge as much time had to be spend locating members from each county. Some members were also unwilling to provide their true financial position for their own reasons. Those in default were especially unwilling to cooperate fearing that their status would divulged to the sacco. The time allocated to complete the study was also not sufficient.

#### **5.5 Recommendations of the study**

From the findings of the study, there still exist several challenges that if not addressed, will derail the entrepreneurial spirit. In the study, it was observed that some of the members apply for loans when they do not have a proper plan on how to start up a

business. Majority of them lack skills to manage business challenges. For instance, some of them meet stiff competitions from other business people. Patience is essential and coming up with new products to challenge those already in the market was crucial for any new ventures to succeed amidst existing competition.

It was also found that most of the respondents do not study the market. They request for loans before identifying which business to venture in. Money comes into their pockets before plans.

It was also observed that many of the members lack basic education in business management. This calls for training in various fields of business. It is also important that members start with small business to gain experience rather than starting with huge capital intensive projects which later end up failing leading to failure in servicing loans advanced.

Sacco's concentrate majorly on provision of credit to its members but fail to provide the non-financial services to enable members to utilize the credit prudently. It is important that Saccos introduce compulsory advisory services to ensure that those applying for loans get advance information on the best ways to invest. Sacco's should continually train their members on all emerging economic issues. Members will make informed business decisions and business ventures will flourish providing more job opportunities for the growing population.

Sacco should introduce a program that will see some of its experts visiting its members to assess the development of their businesses. This will reduce the default rates amongst its

membership. Loans should be given progressively as business prospers to minimize cases of default. The loan limits should be considered to enable those aspiring for higher business opportunities to obtain the loans with very minimal restrictions. Saccos should also come up with programs that will help its members identify suitable business ventures within their localities.

The government should ensure that inflation rates are stabilized to ensure that the prices of commodities produced locally do not suffer. This will enable entrepreneurs get and sell their products with reduced effects of inflation. Further, interest rates play an important role in the money circulation. If interest rates are high, members will be discouraged for going for loans.

#### **5.6 Implications of the study**

The findings of this study clearly illustrate the importance of saccos in provision of credit to facilitate growth of enterprises. Saccos are the financial service providers that have a wide coverage and provide favourable financial products to their members. Sacco rates are fairly lower compared to other financial institutions and the fact that members do not require collateral but member guarantee to access loans makes them easy to access for all members.

These findings should therefore stimulate other researchers to sample other saccos, interrogate their lending methodologies and provide solutions that can be adopted across the industry to enable saccos fully participate in entrepreneurship growth. The insights provided on why members default on loan repayment, should be picked by sacco management and assist them to find ways of mitigating them. Saccos should carry out

proper research on credit risks and only market products with less risk exposures. They should re-look at their lending models and accompany the credit with training for it to have the desired impact.

### **5.7 Suggestions for Further Research**

On the basis of this study, it is recommended that a comprehensive study be conducted across the major Saccos in Kenya to inquire into strategies Saccos have put in place to foster entrepreneurship. Particular emphasis should be on provision of non-financial services Saccos offer to help members make wise investment decisions. Since Saccos play a major role in provision of financial services, studies need to be done on their lending methodologies to establish if they are meeting the intended object of uplifting the lives of their members.

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# APPENDICES

## Appendix I: Letter of Introduction



UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MSC. ENTREPRENEURSHIP AND INNOVATION MANAGEMENT PROGRAMME

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Nairobi, Kenya


Date.....24/9/2015

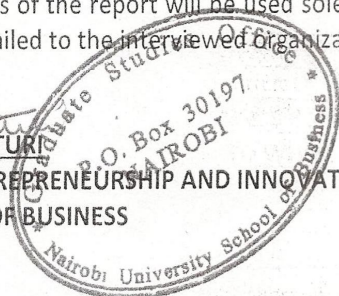
### TO WHOM IT MAY CONCERN

The bearer of this letter.....JAIRUS OATI OUNZA.....  
Registration No.....D 66/67581/2013.....  
is a bona fide student in the Master of Science in Entrepreneurship and Innovations Management (MSc. EIM) degree program in this University.

He/She is required to submit as part of his/her coursework assessment a research project on Entrepreneurial problems. We would like the student to do their projects on real problems affecting firms in Kenya. Your organization has been identified for the study and we would, therefore appreciate your assistance to enable him/her collect data in your reputable organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.

  
**JANE MUTURI**  
MSC. ENTREPRENEURSHIP AND INNOVATIONS MANAGEMENT ADMINISTRATOR  
SCHOOL OF BUSINESS



**Appendix II: Questionnaire**

To assist me carry out my research, please kindly provide me the following information.

**Section A: Background Information**

**Instructions:** Please fill the blank spaces and put a tick in the brackets against appropriate answer for questions with options provided.

**Section A: Background Information**

**Part (I)**

- 1: Gender  
Male  Female
- 2: Highest level of education  
Masters  Bachelors  Certificate/Diploma  Primary
- 3: How long have you been a member of Mwalimu Sacco?  
5 years and below  5-10  10-15  16 years and above
- 4. Name of the enterprise and physical location .....

If you have specific abilities/skills please, give details below and how you acquired them (apprenticeship, on-the-job training, workshops, formal training)

- a) Management skills - list specific abilities:  
.....  
.....
- b) Technical skills e.g. computing etc - list key skills:  
.....  
.....

**Part (II)**

- 1. Number of employees in the enterprise: ..... Women ..... Men.....
- i) Full time  ii) Part time  iii) Relatives Paid.
- iv) Relatives Unpaid  v) Number paid  vi) Number unpaid
- 2. Type of enterprise and sector (Brief description of products and or services offered)

.....  
.....

3. (a). Duration in the current enterprise (in years): Please tick

- i) Less than 3 years ( )      (ii) 3 - 5 years ( ) (iii) Over 5 years ( )

(b) Any other business experience prior to the current one?

.....  
.....

4. Enterprise Assets, Liabilities and Capital:

a) How did you start this enterprise?

.....  
.....

b) Why?

.....  
.....

5. Do you own any other business or businesses?

.....  
.....

**SECTION B: Contribution of Savings and Credit Cooperative Societies' to the Growth of Entrepreneurship**

**Part (I): Accessibility and Availability of Credit for the Enterprises.**

a) How accessible is credit to you?

.....

b) How much money have you borrowed to date? Ksh.....

c) From who have you borrowed? .....

d) To what extent do the conditions imposed by Sacco and financial institutions affect you?

- i) Are there conditions? Yes( )      No ( )

ii) How do they affect you?

.....

e) List the sources of funds for loan repayment in order of importance.

i)..... ii)..... iii)..... iv).

.....

g) Are you facing any challenges in managing your cash and credit transactions?

YES..... NO .....

If yes, list the challenges in order of priority of how they affect your business

.....

.....

..

.....

..

.....

..

h) Do need advice on how to manage your credit or cash? Please explain.

.....

..

.....

..

.....

..

i: Have you taken a loan from other service providers?

Yes [ ] No [ ]

j. If yes, how do you compare rates of Mwalimu Sacco to other credit providers?

Expensive [ ] Cheap [ ] Fair [ ]

L Is your loan being serviced as per loan terms or in default? Yes ( ) No ( ) If YES

Please explain.....

.....

**Part (II)**

To what extent do you use the following business development services (if available or accessible to you): training, business advisory services, and marketing? How relevant are they to your business (i.e. are they appropriate?)

1. a) Training:

.....  
.....

b) Business Advisory (counseling and mentoring):

.....  
.....

c) Marketing Services:

.....  
.....

From (a) to (c) above, which one is working best for your business?

.....

2: Does Mwalimu Sacco offer training on how to use the loan?

Yes [ ] No [ ]

If yes, what are the training methods used? .....

.....

3: What benefits have you achieved from the trainings?

.....

.....



- 4: What was the nature of your business before taking the loan and training?  
Poor  Moderate  Good  Very Good
5. What was the nature of your business after taking loan?  
Poor  Moderate  Good  Very Good
- 6: (a) How many clients did you have before taking the loan?  
Below 10  10-20  20-30  30-40  Above 50
- (b) How many clients do you have after taking the loan and training?  
Below 10  10-20  20-30  30-40  Above 50
- 7: (a) How was the performance of your business without financial training?  
Poor  Moderate  Good  Very Good
- (b) How is the performance of your business with financial training?  
Poor  Moderate  Good  Very Good

**THANK YOU**

Mwalimu National Savings and Credit Cooperative society Ltd.  
 Organization Structure

Appendix III: Organization Chart

