

**FACTORS DETERMINING CREDIT ACCESSIBILITY BY
SMALL-SCALE ENTERPRISES: A CASE STUDY OF JUA KALI
ARTISANS IN NAKURU MUNICIPALITY**

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**A RESEARCH PROJECT REPORT SUBMITTED TO THE GRADUATE
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DECLARATION

This research project report is my original work and has not been presented in any University for the award of a Degree.

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This research project report has been submitted for examination with my approval as University Supervisor(s).

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DEDICATION

This work is dedicated to my mother Abisiba Mooka, my wife Esther Mutenyo and my son Vincent Oronge for their moral support.

ABSTRACT

This study sought to identify factors that determine credit accessibility by jua kali artisans in Kenya. Inadequate information is available on how the artisans' characteristics affect their access to credit from formal sources. It's therefore, the aim of this study to fill this gap. The principal purpose was to survey a number of jua kali artisans workshops in Nakuru municipality between October 2003-November 2003. The study sought to achieve the following objectives; first, identified factors that determine amount of loan received by jua kali artisans. Second established whether there is a relationship between amount of loan received and the identified factors. Owing to time limitation, proportionate random sample of 99 respondents was interviewed. Data obtained was analyzed using factor analysis and cross-tabulation. The hypotheses were tested using chi-square test of independence. The study revealed two factors that were conceptualized as enterprise and entrepreneur factors. The result indicates that gender has insignificant relationship with the amount of loan received. It also revealed that collateral, education level, size of business, age of business, cash flow, and managerial skills have a significant relationship with amount of loan received. It is recommended that constant review of government credit policy on jua kali artisans be made, closer collaboration between the beneficiaries and stakeholders, formal financial institution to create awareness to the public on lending terms and conditions and making their terms and conditions flexible for artisans. Research should be undertaken on the following areas: how lack of information about financial institutions affect jua kali artisans access to credit facilities, similar studies to be undertaken in other towns to test the validity of the study's findings, and a study on the extend to which the Grameen bank model has succeeded in the jua kali sector in Kenya.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
List of Figures	viii
List of Abbreviations	ix
1.0 INTRODUCTION	1
1.1 Background information	1
1.2 Statement of the Problem	3
1.3 Objectives of the study	3
1.4 Hypotheses of the study	4
1.5 Justification of the study	4
1.6 Definition of Terms	4
2.0 LITERATURE REVIEW	6
2.1 Conceptual Framework	14
2.2 Scope and Limitation of the study	15
3.0 RESEARCH METHODOLOGY	17
3.1 Research Design	17
3.2 Study area	17
3.3 Population	17
3.4 Sampling Frame	17
3.5 Type of Data collected and instruments	18
3.6 Sample Size	18
3.7 Sampling techniques	18
3.8 Data Analysis and presentation	18
3.8.1 Measurement of variables	19
3.8.2 Model of analysis	19
4.0 RESULTS AND DISCUSSIONS	20
Factor Analysis	30
Principle Component	33
5.0 CONCLUSION AND RECOMMENDATION	39

REFERENCES 42
APPENDIX I 44
QUESTIONNAIRE.....44

List of Figures

Figure 1: Conceptual framework..... 15

List of Tables

Table1: Distribution of main occupation of respondents by gender.. 19

Table 2: Education level of respondents..... 20

Table3: Age of the enterprise..... 21

Table4: Size of business..... 22

Table5: Gender vs. source of capital..... 23

Table 6: Gender vs. assets owned..... 24

Table 7:Gender vs. knowledge in management..... 25

Table 8: Loan application from formal sources..... 26

Table 9: Reasons for not applying for credit..... 27

Table 10: Response on whether loan applicant received what they applied 28

Table11: Frequency of selected variables 29

Table12: Correlation matrix of selected variables..... 30

Table13: Interrelationships of selected variables..... 31

Table14: Principle components..... 32

Table15: Identification of factors..... 33

List of Abbreviations

SAPs	Structural Adjustment Programmes.
ICDC	Industrial Commerce Development Corporation.
KIE	Kenya Industrial Estates.
CGS	Credit Guarantee Schemes
NGOs	Non-Governmental Organization
ROSCAS	Rotating Savings and Credit Associations.
K-Rep	Kenya Rural Enterprise Program
NCKC	National Council of Churches
KCB	Kenya Commercial Bank

1.0 INTRODUCTION

1.1 Background information

Since the introduction of the 8-4-4 system of education in Kenya in 1985, there have been an increased number of school leavers at the primary and secondary levels. Most of them usually end up in the Jua kali sector. In Kenya, the Jua kali as an informal sector was traditionally run in the form of small industries in a few African homes, which mainly dealt with blacksmith activities. The advent of the Asian communities to Kenya marked the gradual shift of “home-based” Jua kali activities to urbanized enterprises. Among the initial urban Jua kali enterprises were motor– mechanics, carpentry, masonry and blacksmith. With time, the indigenous Kenyans soon entered the market and gradually expanded the industry by producing a wide range of such items as Jikos, motor spares, wood furniture; steel windows and leather artifacts. Today the Jua kali industry represents an enormous conglomeration of products in many towns and villages across the Republic of Kenya.

Official policy initiatives show that the government of Kenya has taken specific increasingly steps in recent years to formulate policies, which address market failures, and environmental constraints facing informal sector entrepreneurs on different fronts.

The informal sector has been targeted as a primary vehicle for social and economic development in sessional paper No 1 of 1986 on economic management for renewed growth.

The provision of credit has increasingly been regarded as an important tool for raising the incomes of micro and small-scale entrepreneurs, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to small-scale enterprises to make them take advantage of the developing entrepreneurial activities. The generation of self-employment in non-firm activities requires investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans by increasing family income can help the poor to accumulate their own capital and invest in employment generating activities.

Commercial banks and other formal institutions fail to cater for the credit needs of small enterprises mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable and since they can't afford the required collateral, they are considered un credit worthy. In the recent past, there has been an increased tendency to fund credit programmes in the developing countries aimed at small-scale enterprises. In Kenya, despite emphasis on increasing the availability of credit to small and micro enterprises access to credit by such enterprises remains one of the major constraints. A 1995 survey of small and micro enterprises found that up to 32.7% of the entrepreneurs surveyed mentioned lack of capital as their principal problem, while only about 10% had ever received credit (Atieno, 2001). Although causality cannot be inferred from the relationship between credit and enterprise growth, it is an indicator of the importance of credit in enterprise development.

1.2 Statement of the Problem.

Micro and Small-scale enterprises have become an important contributor to the Kenyan economy. Yet, majority of entrepreneurs in this sector are considered uncreditworthy by most formal credit institutions. Although informal credit sources have proved relatively successful in meeting the credit needs of small enterprises in Kenya, their limited resources restrict the extent to which they can effectively and sustainably satisfy the credit needs of these enterprises. This is because as micro enterprises expand in size, their demand for funds becomes high for informal credit sources to satisfy. Despite the growing number of financial institutions supporting small-scale enterprises in Kenya, many still have not accessed adequate credit. Therefore the problem can be stated as there is inadequate knowledge on how the entrepreneurial and institutional characteristics affect access to credit and thus constraining growth of small enterprises.

1.3 Objectives of the study.

The main objective of the study was, to investigate factors determining credit accessibility by small-scale entrepreneurs in Kenya. More specifically, the study aimed at the following objectives:

- (i) To identify factors that determine amount of loan received by jua kali artisans.
- (ii) To establish whether there is a relationship between the amount of loan received and the identified factors.

1.4 Hypotheses of the study.

To achieve the above stated objectives, the following hypotheses were tested

- (i) Gender has no significant relationship with amount of loan received.
- (ii) There is a significant relationship between age of the business, education level, collateral, size of the business, managerial skills, cash flow of the business, type of the business and amount of loan received.

1.5 Justification of the study.

The following were the justification of the study: Firstly, the study would contribute to the existing body of knowledge. Secondly, small-scale entrepreneurs would also benefit. Findings of the study would indicate conditions of credit accessibility. Hence create awareness to small-scale entrepreneurs on lending conditions of formal financial institutions. Lastly, the findings of this study would create awareness to the general public on lending conditions.

1.6 Definition of Terms

Entrepreneur – Refers to a person, who is able to identify business opportunities, mobilize the necessary resources and initiate a business activity hoping that it will be successful.

Small – scale Enterprises – Small-scale enterprise in this study refers to enterprises employing less than 10 employees.

Jua – Kali – Refers to those small scale workers eking out their living by manufacturing products in open air under the sun. Although, many are characterized

by an absence of premises, a number have shelter to store materials as well as workbenches and tables.

Informal Sector – The informal sector refers to a wide range of small enterprises employing less than ten workers. These enterprises operate with little capital, at low levels of productivity and often out of temporary structures.

2.0 LITERATURE REVIEW

A review of the existing literature about small-scale industry by the mid-1970s concluded that remarkably little is known about its composition and characteristics'. There is evidence that the situation has improved in recent years but those working in this area admit there are still shortcomings, pointing out that "small has not become beautiful whenever it appears, but it commands more respect and attention than it ever has" (Mc Cormick, 1992). The following are highlights on some existing policy and strategy framework for developing small-scale enterprise sector based on the sessional paper No 2 and ICEG on existing strategy and policy framework for development of micro-scale enterprise sector conducted in 1998.

Improving the legal and regulatory environment

The policy calling for improvement in the legal and regulatory framework required a comprehensive review of all pertinent acts in order to determine the extent to which such acts have adverse impact on SMEs. In line with this policy, a unit was set up to identify various laws and regulations hindering the growth of SMEs, various task forces were set up i.e. to review city council by-laws and reform and rationalization of trade license among others, introduction of single permit in 1999 and scrapping of trade licenses in year 2000.

However, the legal and regulatory environment of SMEs is yet to be conducive SMEs suffer from unclear licensing procedures, high cost of licenses, lack security of tenure for their premises and unclear by laws among other (ICEG, 1998).

Consequently law enforcers cause harassment to SME operators and this increases the risk of operations in the environment, which hinders the growth of SMEs.

Enhancing MSE access to credit and finance

The policies outlined in sessional paper No.2 of 1992 are aimed at identifying a number of factors constraining access to credit by SMEs. The policy paper outline a number of measures to promote SMEs access to credit and finance namely; deregulation of interest rates to allow commercial banks charge competitive interest rates to SMEs, review lending regulations and procedures by central bank with a view to making collateral requirement more flexible, establish venture capital institutions to provide SMEs with equity capital, establish SMEs departments in the major banks among other measures.

Although the interest rates are liberalized, SMEs departments are established in major banks and most of the bank officials are sensitized on the credit needs of SMEs, access to credit still remain a limiting factor towards the growth of the sectors. National baseline survey done in 1999 but documented – published in 2001 (CBS/ICE/K-REP, 1999) indicates that only 10.4% of entrepreneurs have been able to access credit. Local investors faced with structural obstacles such as inaccessibility to credit, lack of managerial and other business skills, lack of an enterprise culture, and low technological endowments tended to invest in transport, real estate, and retail and wholesale trade. Those with less capital ventured into small trading and artisan work.

Small enterprise development is constrained by factors such as inappropriate environment, particularly inadequate infrastructure, inappropriate technology, inadequate capital, limited market and credit accessibility. Lack of adequate capital, for instance, may mainly affect those in manufacturing and vehicle repair service sub sectors who require relatively higher seed capital and have no access to formal sources of credit.

Although originally skeptical of the economic development benefits derived from informal sector, host country government agencies have come to recognise the sectors importance and have sought strategies that support its growth (Levitsky, 1989). Creating access to reasonably priced financial services has been identified as an effective strategy to promote informal sector firms or micro enterprise growth (Sessional No 2 Paper, 1992). The general experience of setting up government – funded credit guarantee schemes (CGS) in developing countries has been very mixed (McCormick 1992). The schemes were embarked upon without sufficient preparation or concern for viability and for potential demand by the borrowers and the banks, and without establishing suitable arrangements and administration for the approval of guarantee and the processing of claims.

According to McCormick (1992) peer groups lending conducted by private non-governmental organizations (NGOs) or poverty – oriented development banks, is one of the successful models for financial service delivery widely introduced over the last decade. Group members collectively guarantee loan repayment; access to subsequent loans is dependent on successful repayment by all group members. Thuo

(2001) observed that group –lending methods draw heavily from traditional Rotating savings and credit Associations (ROSCAS). In Kenya they are popularly known as “Merry go round”. In these groups people with a common bond such as being from one village or clan join together at regular intervals, commonly once a month (Ondiege, 1991). At these sessions each member contributes the same amount to the pool of savings. Contributions of one month are given to one member and the process is continued until all members of the group are covered.

Group based lending approaches have been introduced in Kenya using the Grameen bank model. Many NGOs for example Kenya Rural Enterprise Program (K – REP), and National Council of Churches of Kenya (NCCCK) replicated the Grameen Bank success by using the model to reach more clients both urban and rural. Group liability is not based on collateral and therefore does not place the limited holdings of poor households at risk, but relies instead on peer pressure to enforce loan repayment (Kiiru 1987).

Levitsky (1989) contends that, one of the major problems depriving small scale enterprises of access to credit from financial institutions is the perception by the lenders that giving credit to small-scale enterprise is a high – risk undertaking. Most micro enterprises lack permanent locations, possess Assets that cannot be mortgaged, and have no credit reference, and have no management experience to enable them to prepare business plans. The small-scale enterprises are extremely heterogeneous and it is difficult for financial organizations to issue general

guidelines to its lending officers regarding loans (Government of Kenya /International Labor Organizations/United Nations Development Program, 1989). For the most parts, Small-scale enterprises do not have a recognizable credit history as do larger enterprises, and are perceived to be novices and in a high-risk category (Mc Cormick 1992). Maalu (1990) revealed that most small-scale firms kept simple transaction records and very few prepared any periodic performance reports of their business. Raising acceptance collateral and security is a major problem for small-scale enterprises in Kenya since many of their investments are not viewed by financial institutions as being easy to liquidate (Mc Cormick 1992). It is difficult for financial institutions to transform their programmes to cater for enterprises exhibiting different standards. On the other hand, informal sources of finance such as Rotating Savings and Credit Associations (ROSCAS), Relatives, and friends are considered as alternatives. While these informal sources are important in filling the gaps, they also have some drawbacks. The informal financial support is usually inadequate, uncertain and expensive whereas moneylenders charge exorbitant interests (Thuo, 2001). In addition ROSCAS are based on close acquaintance and proximity hence limiting the range of beneficiaries (Thuo 2001). As many Kenyans turns to small-scale enterprises it seems opportune to support small-scale entrepreneurs by making credit available to them.

However, entrepreneurs seeking for credit from formal financial institutions, still have no access to these loans. Waweru, (2002) observed that all the entrepreneurs surveyed had adequate equipment and machinery but lacked working capital.

Waweru further observed that, although there are about 80 micro finance institutions, they have not made significant impact in increasing access to credit.

Waweru, (2002) study indicated that small businesses enterprises face the following problems; Lack of market for their products, High cost of licenses and taxation, unstable economy, demolition and harassment by law enforcers, fire insecurity and theft, power interruptions and inaccessibility due to high connection cost and utilization and unpredictable political environment.

Wandungi, (1994) carried out a study on factors influencing the performance of small-scale industries. He observed that once a business is established, expansion is hampered by lack of funds and credit. Borrowing usually provides start-up capital from family or friends. Bank credit is simply not available for small-scale operators because they usually don't have security and the administrative cost of small loans is prohibitive. As many Kenyans turns to small-scale enterprises it seems opportune to support small-scale entrepreneurs by making credit available to them.

Abuodha, (1992) carried a study on small-scale industrial financing in Kenya; a case for venture capital. He found out that credit institutions in Kenya have addressed credit needs of established small-scale firms, but not those of new firms. He observed that start – up capital financing is crucial, if credit is to play a key role in the sector, yet few programmes exist for start up capital. The Kenya Commercial Bank (KCB) undertakes one for university graduates. Others exist in a few NGOs targeting village polytechnic trainees and others completing socially motivated training programmes.

Alila, (1992) carried a study on the informal credit and rural sector enterprise development in Vihiga (Western) and Nyakach (Nyanza). The study focused on small holding individuals or households, individual non-farm entrepreneurs, rural government and non-governmental personnel, rural leaders of co-operatives, Women's groups, leaders and rank –and-file members and other local welfare organizations.

Alila found out that the main source of finance was from personal savings. Ngau and Keino (1993) carried out a study on Women's social background and entrepreneurship in Nairobi. The study found out that about 53 percent of the women had raised their initial capital through personal savings, while 44percent indicated that their initial capital had been borrowed from husbands, relatives and friends. Only 3 percent of the women had obtained their initial capital through a bank loan. Various studies have observed that most entrepreneurs use their own savings as start-off capital (Mc Cormick 1992).

National Baseline Survey (CBS/ICE/K-REP 1991) established that initial capital was from personal savings. The study revealed retained income as the main sources of finance for tools and equipment purchased within the last two years. Waweru (2002) observed that 71% of entrepreneurs had gotten their start-up capital from their own savings while in employment, 23% from family members, 5% from marry go round like KWFT.

Waweru also observed that 93% of entrepreneurs cited source of business credit as a major constrain limiting their enterprises vertical growth. Also National baseline survey indicates that only 10.4% of entrepreneurs nationally have had access to credit.

Waweru (2002) observed that all the entrepreneurs surveyed had simple tools for their trades. She noted that business assets had increased by 35% since enterprise inception.

Wandungi (1994) further observed that many informal sector enterprises are dependent on savings from the enterprises to finance expansion. He also noted that majority of entrepreneurs used their own savings to start their businesses.

However, he observed that those who performed well had taken loan from financial institutions. Majority of the entrepreneurs in his study had attained secondary school level. He concluded that education level and performance of the business are statistically independent.

Mwangi, (1975) carried a study on Development of small-scale African Retailers in Kenya. He found out that majority of the population surveyed used their own savings to start businesses. This accounted for about 60% of the respondent. 20% got their initial capital from the sale of land, 10% bank loans and 10% partnership.

Capital needs and how these are satisfied differ according to the size and stage of development of an enterprise. This implies that while many small enterprises may find personal or family savings adequate to launch a day-to-day working capital,

these sources of finance may be inadequate for large investments and operations (Otieno 1988). Thus a shift from informal (internal) sources to formal (external) sources would be expected as enterprises graduate to larger sizes.

Atieno, (2001) conducted a study about, formal and informal institutions lending policies and access to credit by small-scale enterprise in Kenya. She observed that the lending terms and conditions imposed by formal lenders ration a large number of borrowers out of the credit market.

Otieno, (1988) conducted a study on sources of finance for Nairobi based Jua Kali business firms. He observed that entrepreneurs started business using their own savings, and sale of property. He also noted that 34% cited lack of adequate capital as a major constrain.

2.1 Conceptual Framework.

The framework explains the links among several variables, such as gender, education level, collateral, managerial skills, age of the enterprise, size of the enterprise, type of business, and cash flow of the business. In a study, on redressing institutional impediments to micro and small-scale enterprises to credit in Kenya, the study findings revealed that; women entrepreneurs have poor access to credit relative to male entrepreneurs because of lack of collateral and Low education. Thuo (2001) observed that entrepreneurs with a minimum of secondary level education had more access to credit. Entrepreneurs with managerial skills will have more access to credit. However most small enterprise borrowers have no management skills and this is likely to reduce their chances of accessing credit from formal financial institution.

Business enterprises that have operated for longer period of time are likely to have more access to credit than those ones that have operated for a shorter period. Sizes of the business, collateral are likely to affect credit access. The major problems depriving small-scale enterprises of access to credit is the perception that giving credit to small-scale enterprise is a high – risk undertaking. Most micro enterprises have assets that cannot be mortgaged. Those enterprises with assets, which can be mortgaged, are likely to have more access to credit. Enterprises with high cash flows are expected to access credit more than those with low cash flows. Type of business activity will influence credit accessibility. Some business activities are perceived to be riskier than others. Carpentry is likely to be perceived to be less risk compared to black smith thus are likely to be awarded more credit than blacksmith.

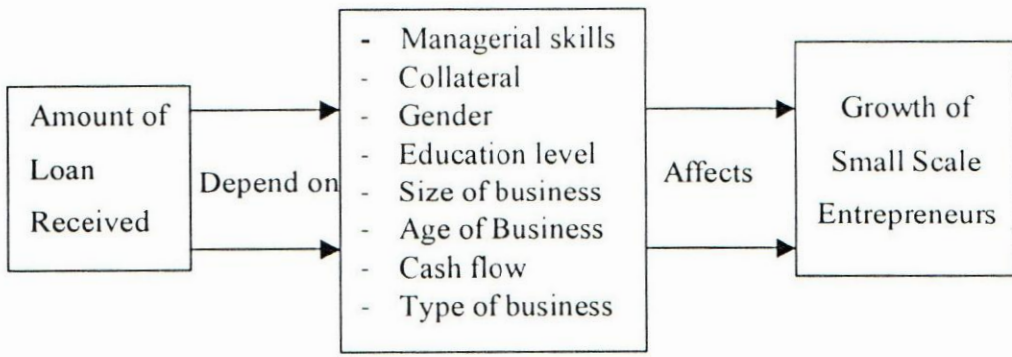


Figure 1: Conceptual framework
Source: own

2.2 Scope and Limitation of the study

This study covered Nakuru Municipality. It included small-scale enterprises involved in Jua Kali artisans activities specifically carpentry and blacksmith. The targeted sample size was 100 respondents. Data was collected during the month of October 2003. The choice of the above sector was because they tend to reflect the

highest value-added activities in the Kenyan small enterprise economy. Some respondents were uncooperative hence delaying the process of collecting data. Also, some respondents were illiterate this will compelled the researcher to explain the questions to them and thus prolonging the period of data collection

3.0 RESEARCH METHODOLOGY

This section presents research design, study area, population of interest, type of data collected, instruments used to collect data, sampling method and procedure used, method used to analyze data and presentation.

3.1 Research Design

A sample survey of jua kali artisans involved in carpentry and blacksmith in Nakuru Municipality was carried out. 0.5

3.2 Study area.

Nakuru Town is the provincial Headquarter of Rift valley Province. It is the fourth largest town after Nairobi, Mombasa and Kisumu .The town is centrally located a long the busy Mombasa – Uganda road. It links Nairobi with the other Western areas of Kenya.

The population in the Town is composed of people from almost all communities of Kenya. Therefore, these characteristics make the Town strategic for business activities.

3.3 Population

Carpentry and black smith business formed the population of this study. The targeted population included 100 carpentry and blacksmith workshops in Nakuru municipality. This population was targeted because it reflects the highest value-adding activities in the Kenyan small enterprise economy.

3.4 Sampling Frame

A preliminary survey of registered carpentry and Blacksmith was conducted in order to construct a sample frame. The information was retrieved

from municipal council records with the help of municipal officers. The information covered those businesses, which were registered 2002 – 2003. Within this period there were only, 142 carpentry and 129 Blacksmith workshops.

3.5 Type of Data collected and instruments.

Primary data was collected directly from the field. This data was obtained by interviewing entrepreneurs directly at their workshops. Both structured and unstructured questionnaire was used which was personally administered by the researcher.

3.6 Sample Size

A sample size of 100 respondents was initially targeted. However, only 99 respondents were successfully interviewed.

3.7 Sampling techniques

Stratified random sampling was used. The municipality was divided into five zones. From the five zones 99 respondents were interviewed from carpentry and blacksmith as follows: Eastern zone (24) respondents, Western zone (22) respondents, Southern zone (28), Central zone (7) respondents and Industrial zone (18) respondents.

3.8 Data Analysis and presentation.

Data was analyzed using both descriptive and analytical methods. These include frequency tables, cross-tabulations, and chi-test of independence and factor analysis.

3.8.1 Measurement of variables.

Variables	measure
Amount of loan	= Cash received
Age of business	= Period of operation in years
Education Level	= Highest Institution of learning attained
Collateral	= Assets owned
Cash flow	= Sales Volume.

Basic Business Management Skills = any knowledge in management obtained through experience on the job or formal training.

Size of business = Number of employees

Gender = Male / female

Type of business = Principal Business Activity.

Credit Accessibility = Awareness of credit sources, Application for credit and loan received.

3.8.2 Model of analysis

$$P_i = a_{1j}x_{1j} + a_{2j}x_{2j} + a_{3j}x_{3j} \dots \dots \dots a_{nj}x_{nj}$$

P_i = Principal Component

Where $i = 1, 2$; a_{ij} = Factor loadings; x_j = Variables; $j = 1, 2, 3, 4, 5, 6, 7, 8$

4.0 RESULTS AND DISCUSSIONS

This section presents findings and interpretations of the results.

Table 1: Distribution of main occupation of respondents by gender

Gender	Carpentry	Blacksmith	Total	Percent
Male	54	28	82	82.8
Female	16	1	17	17.2
Total	69	29	99	-
Percent	69.7	29.3	-	100

Source: computed from survey data.

From table1, 83 % of the respondents were male involved in Carpentry, the remaining 17% were female. These findings concur with that of Lodiaga and Kagera (2001) who found that women were involved in manufacturing activities such as metal work. These findings further offer an indication of the nature and the degree of sex segregation across major entrepreneurial activities. Extreme concentration of men in particular businesses (Carpentry and blacksmith) and under representation of women signifies the existence of labour market barriers and its inflexibility indicating a sub-optimal use of human resources.

These findings also show that women have moved into business activities once almost exclusively male, but their presentation in numbers is generally small. The venturing of women into men dominated enterprises can be interpreted as follows:

Since the 1980s women have moved from the formal sector due to retrenchment under structural adjustment programs. They have entered the informal sector and are actually taking up some of the male dominated businesses. This is an indication of a new dimension in gender perspectives in the division of labour in both the informal and formal sectors. Therefore, sex segregation patterns in the labour markets, which are based on culture, can break down easily in the face of economic change.

Table 2: Education Level of respondents

Education level	Frequency	Percent
Primary	47.0	47.5
Youth polytechnic	5.0	5.1
Secondary	36.0	36.4
College	8.0	8.1
University	3.0	3.0
Total	99.0	100.0

Source: Computed from survey data

Table 2: shows that most entrepreneurs attained primary and secondary level of education. This indicates that entrepreneurs with low level of education dominate the informal sector in Kenya. Among the respondent interviewed, 3.0% had university education. This indicates that the informal sector has started attracting highly educated people. This could be interpreted as follows; with increased rate of

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unemployment in formal sectors newly graduating Kenyans from universities have entered into informal sector whose employment capacity has not been fully utilized.

Table 3: Age of the Enterprise

Response	Frequency	Percent
Below 1year	11	11.1
2-3years	20	20.2
4-5years	32	32.3
6 and above	36	36.4
Total	99	100.0

Source: Computed from survey data

Table 3: Shows that most enterprises sampled ranged between one and five years. This indicates that the enterprises sampled were already established hence requiring credit for expansion purposes. Enterprise age is perceived to determine borrowers access to credit. This could be explained that lenders consider older enterprises to have more stable cash flow hence able to repay the loan.

Table 4: Size of business

Number of employees	Frequency	Percent
None	23.0	23.2
1-2	33.0	33.3
3-4	19.0	19.2
5-6	9.0	9.1
7-8	5.0	5.1
9-10	3.0	3.0
11 and a above	7.0	7.1
Total	99	100

Source: computed from survey data.

From table 4 above most enterprises sampled employed less than ten employees. Only 7% employed more than ten employees. This indicates that the respondents constituted micro and small-scale enterprises in jua kali sector. These findings indicates that the sector contributes in generating employment opportunities in Kenya.

Table 5: Gender Vs source of Capital

Source	Male	Female	Total	Percentage
Friends and Relatives	10	2	12	12.22
Personal savings	66	11	77	77.88
Merry go round	2	1	3	3.00
Money lenders	2	0	2	2.00
Formal Micro finance	0	3	3	3.00
Commercial banks	2	0	2	2.00
Total	82	17	99	100.00
Percent	82.8	17.2	-	-

Source: Computing from survey data.

From table 5: we observe that most of the respondents interviewed sourced their initial capital from informal sources; Friends and relatives (12.2%) personal savings (77.8%), merry go round (3.0%) and money lenders (2.0%). A few of the respondents sourced their initial capital from formal sources; formal micro finance (3.0%) and commercial banks (2.0%). Most male (82.2%) sourced their initial capital from both informal and formal sources than women (17.2%). Both male and female sources of capital are similar. Thus entrepreneurs in the informal sector are poor whether male or female and their source of capital is extremely limited.

Table 6: Gender Vs Asset Possession

Gender	Yes	No	Total	Percent
Male	75	7	82	82.8
Female	16	1	17	17.2
Total	91	8	99	100
Percent	91.9	8.1%	100%	-

Source: Computed from survey data

Table 6: Indicate that 91.9% of the respondents interviewed possessed assets. The remaining 8.1% indicated that they did not possess any asset. Among those who indicated that they had assets, 75.8% were male while 16.2% were female. This result indicates that, despite of the cultural rigidity whereby women are marginalized in asset ownership, slowly, this culture is breaking down. Thus, gender could not be a determinant in credit accessibility, especially in cases where loan disbursement is based on collateral.

Table 7: Gender Vs Knowledge in Management of Business

Gender	Experience	Accounting (bookkeeping) skills	Total	Percent
Male	78	4	82	82.8
Female	15	2	17	17.2
Total	93	6	99	-
Percent	94%	6.0%	-	100

Source: Computed from survey data

Table 6: Shows that majority (94%) of the respondent had knowledge of managing their businesses. However the skills were acquired through experience. This result indicates that majority of the entrepreneurs in the informal sector have no formal training. Among them 78.9% were male while 15.1% were female. Very few (6%) respondents had accounting skills. Among these, 4% were male while 2% were female. This result shows that still women are marginalized in training. Women's limited access to education and training as compared to men may affect their management capabilities.

Table 8: Loan application from formal sources

Response	Frequency	Percent
Yes	41.0	41.4%
No	58.0	58.6%
Total	99.0	100.0

Source: Computed from survey data

Table 8; show that 41.4% of the respondents indicated that they had applied for loans before from formal sources while 58.6% did not. Borrowing is an individual decision process, which starts with the decision of the individual to apply for credit or not. This depends on whether the individual has a demand for credit. Among those who did not apply for credit gave a number of reasons, as shown on table 8, bellow.

Table 9: Reasons for not applying for credit

Reasons	Frequency	Percent
Unaware of lending Institutions	11	11.1
No need for credit	1	1.0
Fear of personal property being auctioned	36	36.4
Others (high interest and short grace period)	10	10.1
Total	58	100.0

Source: Computed from survey data

From table 9; there are those respondents who did not apply because they did not need credit, and those who did not apply because they were unaware of lending institutions, fear of personal property being auctioned and high interest rate and shorter grace period. Those who did not apply because of lack of need for credit can be considered as not credit constrained, while those who did not apply because of other reasons are considered as credit constrained. In this sample 1% of the respondents did not apply because they had no need for credit and therefore classified as not constrained. The remaining 57% are credit constrained. These findings show that 57% of the respondents sampled were credit constrained as affecting their growth. 11.1% of the respondents who indicated that they had no information on formal lending institutions indicate that non-availability of information could prevent one from accessing credit facilities.

Table 10: Response on whether loan applicant received what they applied for

Response	Frequency	Percent
Yes	40.0	40.4
No	1.0	1.0
Did not apply	58.0	58.6
Total	99	100.0

Source: Computed from survey data.

From table 10; above 1 % of the respondents indicated that they had not received what they had applied for. This difference between amount applied for and amount received suggests the existence of credit rationing in the formal market. This indicates that the concern with loan repayment among the formal lenders is given more emphasis and determines the amount of credit actually disbursed to the borrower compared with the amount applied for.

Factor Analysis

This section presents the extraction of factors that influence credit accessibility by the principal component method.

Table 11: Frequencies of selected variables

Degree	Ed	Co	Ge	Mg	Bs	Ab	Bt	Cf.
NI	5	92	4	12	46	39	81	86
FI	4	2	7	23	27	11	8	2
I	11	0	5	35	11	6	2	2
VI	79	5	83	29	15	43	8	9

Source: computed from survey data

Legend: Ed – Education level, Co – collateral, Ge – Gender, Mg – Managerial Skills, Bs – Business Size, Ab – Age of Business, Bt – Business Type, Cf – Cash flow
NI – Not Important, FI – Fairly Important, I – Important, VI – very Important.

From the above frequency table, a correlation matrix of selected variables as captured by a likert scale was developed as follows:

Table 12: Correlation matrix of selected variables.

Variables	Ed	Co	Ge	Mg	Bs	Ab	Bt	Cf
Ed	1.00	-0.325	0.995	0.354	-0.471	0.607	-0.332	-0.287
Co	-0.325	1.00	-0.316	-0.875	0.903	0.539	0.999	0.999
Ge	0.995	-0.316	1.00	0.298	-0.424	0.626	-0.319	-0.280
Mg	0.354	-0.875	0.298	1.00	-0.989	-0.488	-0.896	-0.864
Bs	-0.471	0.903	-0.424	-0.989	1.00	0.394	0.922	0.889
Ab	0.607	0.539	0.626	-0.488	0.394	1.00	0.539	0.569
Bt	-0.332	0.999	-0.319	-0.896	0.922	0.539	1.00	0.997
Cf	-0.287	0.999	-0.280	-0.864	0.889	0.569	0.997	1.00

Source: Computed from survey data

Legend: Ed – Education level, Co – collateral, Ge – Gender, Mg – Managerial Skills, Bs – Business Size, Ab – Age of Business, Bt – Business Type, Cf – Cash flow

From table 12, variables with correlation coefficient greater than or equal to 0.5 were selected.

Table 13 interrelationships of selected variables of study

Variables	Interrelationships
Educational level (X ₁)	X ₃ X ₆
Collateral (X ₂)	X ₄ X ₅ X ₆ X ₇ X ₈
Gender (X ₃)	X ₆
Managerial skills (X ₄)	X ₅ , X ₇ , X ₈
Size of business (X ₅)	X ₇ , X ₈
Age of business (X ₆)	X ₇ , X ₈
Type of business (X ₇)	X ₈

Source: Computed from Survey data

Education level had significant relationship with gender and age of the business that is 0.995 and 0.607 respectively. Collateral had a significant relationship with managerial skill (0.875), size of the business (0.903), age of the business (0.539), type of business (0.999) and cash flow (0.999).

Gender had a significant relationship with age of the business (0.626). Managerial skills had a significant relationship with size of the business (0.989), type of the business (0.896) and cash flow of the business (0.864).

Size of the business had significant relationship with type of the business (0.539) and cash flow of the business (0.569). Type of the business had significant relationship with cash flow of the business (0.997).

Principle Component

As a rule thumb the research used loading of 0.33 as the minimum absolute value to be interpreted. The portion of available variance accounted for by this minimum loading is approximately 10%.

Table 14: Principle Components

Variables	Factors 1	Factors 2	Communalities
Types of Business X ₇	0.988	- 0.074	0.9816
Collateral X ₂	0.981	- 0.70	0.9673
Cash flow X ₈	0.980	- 0.031	0.9614
Size of business X ₅	0.947	- 0.223	0.94658
Managerial Skills X ₄	-0.943	0.101	0.8995
Gender X ₃	- 0.239	0.968	0.9941
Education level X ₁	-0.266	0.964	1.000
Age of Business X ₆	0.605	0.796	0.9996
Eigen value	5.179	2.571	7.75
Average % of variation by the factor	0.5179	0.2571	0.775

Source: computed from survey data

Table 14 above shows the two factors extracted, that is; Factor 1 and factor 2. The factors constituted of all those variables that have factor loading greater than or equal to 0.33. Thus the variables collateral, size of business, age of business, type of business, and cash flow constitute factor 1. The variable gender and education level the second factor. Factor one was conceptualized as institutional factor and factor two as entrepreneurial factor.

Table 15: Identification of factors

Factors name	Variable	Factor loading
Institutional factors	Collateral	0.981
	Size of business	0.947
	Age of the Business	0.605
	Type of Business	0.988
	Cash flow	0.980
Entrepreneurial factors	Gender	0.968
	Education Level	0.964
	Managerial Skills	0.943

Source: computed from survey data.

$$P_1 = 0.981x_2 + 0.947x_5 + 0.605x_6 + 0.988x_7 + 0.980x_8$$

Where:

P_1 = Entrepreneurial factors (principal component 1)

X_2 = Collateral

X_5 = Size of business

X_6 = age of the business

X_7 = type of the business

X_8 = cash flow of the business.

0.981, 0.947, 0.605, 0.988 and 0.980 are loading for collateral, size of the business, age of the business, type of the business, and cash flow of the business respectively.

$$P_2 = 0.964 X_1 + 0.968 X_3 + 0.943 X_4$$

Where:

P_2 = Entrepreneurial factors (Principal Component 2)

X_2 = Education level

X_3 = Gender

X_4 = Managerial skills

Factor loading:

As a rule of thumb, only those loadings with value greater than 0.33 were considered significant. From table 14, there was a significant relationship between factor one and type of business (0.988), collateral (0.981), cash flow (0.980) size of business (0.947) and age of business (0.605). This result indicates that the variables that constitute factor one were significant compared with the minimum loading to be interpreted.

Factor two also showed a significant relationship with, Education level (0.964) and Gender (0.968), and managerial skills (0.943)

This result also indicates that the variables that constitute factor 2 have a significant relationship compared with the minimum loading to be interpreted. Therefore enterprise factor and entrepreneur factor together affect credit accessibility.

Eigen value

This represents the percent of variation for the variables under study that is accounted for by the extracted factors. From table 14, it was observed that factor one had eigen value of 5.179. this indicates that factor one explains 51.79% variability in type of business, collateral, cash flow, size of business, managerial skills, gender, education level and age of business. On the other hand, factor two explains less of variance that is 25.7%. In total the two factors explains 77.49% variability in all variables under study.

Communalities

This measure the amount of a variable's variance that is explained by the extracted factors together. Each communality represents the proportion of variance in the corresponding (row) variable accounted for by factor one and two. The result in table 14 indicates that the variations in each variable under study are explained by the common factors (1 and 2) rather than any unique factor. This is because the variable's communalities are higher as shown on table 14.

Hypotheses testing

The hypotheses of this study were tested using chi-square test of independence.

Hypotheses 1

Ho: Gender has significant relationship with amount of loan received. Decision rule – reject Ho if the probability of the computed chi-square value is less than the level of significance set. Since the computed chi square value is less (0.00) than the level of significance set (1.00), the researcher rejected Ho and concludes that gender is independent of amount of loan an applicant receives.

Hypotheses 2

Ho: There is no significant relationship between age of business, education level of an entrepreneur, collateral, size of the business, managerial skills cash flow of the business, type of the business and amount of loan received.

A part from managerial skills and type of business, the other variables had chi-square value of 0.333 and level of significance set of 0.564. Decision rule - reject Ho if chi-value is less than level of significance set. Since chi-square value is less than the

level of significance set the researcher rejected H_0 and conclude that age of business, education level, collateral, size of the business, and cash flow, are independent of amount of loan received by loan applicant.

It was noted that there was no significant variation in applicants' response on managerial skills acquired by an entrepreneur and on type of business entrepreneurs are engaged in. Therefore, there were no chi values on these variables.

5.0 CONCLUSION AND RECOMMENDATION

The study reveals a gender cross over in nature of business conducted. This has been due to retrenchment in the formal government sector. Consequently women are entering into fields formally dominated by men. Therefore sex segregation patterns in the labor markets that are based on culture, break down easily in the face of economic change.

Among the 99 respondents interviewed, majority of the respondents had attained primary and secondary education, only 3% had university education. This reveals that the informal sector in Kenya is dominated by entrepreneurs with low level of education. It is also attracting people with high education level. This could be interpreted as follows: with increased rate of unemployment in the formal sector newly graduating Kenyans from universities have ventured into informal sector whose employment capacity has not been fully utilized.

The study also revealed that most of the respondents had sourced their initial capital from informal sources like; friends and relatives (12.2%), personal savings (77.8%), merry go round (3%), and moneylenders (2%).

This indicates that Kenyan formal financial market has not offered attractive loan packages than what is offered by the informal financial market.

It was also observed that 41% of the respondents had applied for credit from formal financial institution before. The remaining 59% indicated that they had not applied for credit before. For those who had applied for credit before 40% indicated that they had received the amount they had applied for. 1% indicated that they had not

received what they had applied for. This difference between amount applied for and amount received,

Suggests the existence of credit rationing in the formal market. The concern with loan repayment among the formal lenders is given more emphasis and determines the amount of credit actually disbursed to the borrower compared with the amount applied for. Therefore, there are two types of credit rationing whereby those who are credit constrained are discouraged from seeking credit due to the lending terms and conditions, and loan quantity rationing whereby those who apply receive less than they applied for.

The study also revealed that among those who did not apply for credit, 11% indicated that they had no information about formal lending institution, 62% indicated that they feared for their property being auctioned, 17% indicated high interest rate and short grace period, and only 1% indicated that they had no credit need. Therefore, apart from those who indicated that had no credit need, the remaining 57% were classified as credit constrained.

The result also revealed two factors, which determine credit accessibility. They include; entrepreneur factor and enterprise factor. These factors are actually credit conditions imposed by formal credit lenders.

Credit accessibility is imperative for the growth of the jua kali artisans. The sector requires constant innovation so that to keep abreast with the ever-changing technology. This requires capital. Consequently, it is hereby deemed necessary to outline a number of recommendations that are pertinent to the jua kali industry in particular.

Constant review of government policy.

To keep abreast with unfolding credit needs of jua kali artisans and of the entire informal sector, it is imperative that the Kenyan Government reviews its official policy of financing the jua kali artisans to remove unnecessary regulations and restrictions and to inject new positive requirements and guidelines. This should be achieved through, collaborative efforts between the beneficiaries and the stakeholders. Further the review should create an enabling environment that facilitates improved jua kali operations. Among such actions could include low custom duty for raw material used by many artisans, relaxed collateral arrangement to facilitate access to credit, cheaper license and reduced income tax rates.

1. Information availability

It is important for formal financial institution to educate jua kali artisans on credit programmes specifically meant for them. This could be achieved through seminars and networking.

Areas of further Research

1. To conduct a study on the extent to which Grameen bank model has succeeded in the jua kali sector in Kenya.
2. It may be useful to conduct field research to establish how information availability on financial institutions affects jua kali artisans' access to credit facilities.
3. A similar research study to be conducted in other towns to test the validity of these research findings.

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APPENDIX I
QUESTIONNAIRE
INTRODUCTION

Dear respondent,

I am an MBA student at Egerton University. Am carrying out a management research project as a partial fulfillment of the requirement for the Award of A Masters degree in Business Administration (MBA). The topic of this study is; factors determining Micro-credit accessibility by small-scale manufacturing enterprises a case study of Jua Kali artisan in Nakuru Municipality. I kindly request you to provide the required information to the best of your knowledge. The information provided will be kept confidential and only used for academic purposes.

INSTRUCTIONS

Please tick appropriately in the space provided.

PART A

BACKGROUND INFORMATION

1. Please indicate your gender.

(a) Male 1

(b) Female 0

2. Select your age bracket.

(a) 15-18 years 1

(b) 19-30 years 2

(c) 31-40 years 3

(d) Over 40 years 4

3. Indicate the highest institution of learning reached?

a) Primary Education Level 1

b) Youth Polytechnic Level 2

c) Secondary Education Level 3

d) College Education Level 4

e) University Education Level 5

f) Others (Specify) _____

4. Do you have any salaried or wage employment?

(a) Yes 1

(b) No 0

5. If the answer is Yes, how many hours / week do you spend in your business?

- a) Less than 6 1
- b) 6 - 10 2
- c) 11 - 15 3
- d) 16 - 20 4
- e) More than 20 5

PART B: GENERAL INFORMATION

6. How old is your business? —

- a) Below 1 year 1
- b) 2 - 3 years 2
- c) 4 - 5 years 3
- d) 6 and above 4

7. Do you have any asset?

Yes 1

No 0

8. If Yes what kind of Assets?

Land 1

Machines 2

Building 3

Stock 4

Other (specify)

9. What is the Principal activity(s) of your business?

(i) Carpentry 1

(ii) Blacksmith 2

(iii) Other Specify _____

10. Do you have a permanent location where you operate your business from?

(i) Yes 1

(ii) No 0

11. If Yes, do you own the premise from where you are operating?

(i) Yes 1

(ii) No 0

12. If No, who owns the premises?

(i) The Municipal Council 1

(ii) Individual Land Lord 2

(iii) Government 3

(iv) Others (specify) _____

13. How many workers have you employed in your business currently?

a. None 1

b. 1 – 2 employees 2

c. 3 – 4 employees 3

d. 5 – 6 employees 4

e. 7 – 8 employees 5

f. 9 – 10 employees 6

g. Others specify _____

14. What was the starting capital for your business? In Kshs.

(a) Below 1000 1

(b) 1001 – 5000 2

(c) 5001 – 10,000 3

(d) Above 10,000 4

15. What is the source of your initial capital?

(a) Friends & relatives 1

(b) Personal savings 2

(c) Merry go round 3

(d) Credit from money lenders 4

(e) Commercial banks 5

(f) Micro finance Institutions 6

(g) Others

Specify _____

16.. Have you ever applied for a loan from formal financial institutions?

(i) Yes 1

(ii) No 0

17. If no, please indicate the reasons why you have never applied for credit.

- a) Not aware of credit lending institutions 1
- b) Have no need for credit 2
- c) Fear for your properties of being auctioned 3
- d) Other (specify) _____

18. If yes how much did you apply for? In Kshs.

- (i) Below 5000 1
- (ii) 5001 – 10,000 2
- (iii) 10,001 – 20,000 3
- (iv) Above 20,000 4

19. Did you get any amount?

- a) Yes 1
- b) No 0

20. If yes did you get the amount of loan you applied for?

(i) Yes 1

(ii) No. 0

21. If No, please give information on:

Amount Required

Amount Received

- | | | | |
|--------------------|----------------------------|--------------------|----------------------------|
| a) Less than 5,000 | <input type="checkbox"/> 1 | a) Less than 5000 | <input type="checkbox"/> 1 |
| b) 5001 - 10,000 | <input type="checkbox"/> 2 | b) 5001 - 10,000 | <input type="checkbox"/> 2 |
| c) 10,001 - 15,000 | <input type="checkbox"/> 3 | c) 10,001 - 15,000 | <input type="checkbox"/> 3 |
| d) 15,001 - 20,000 | <input type="checkbox"/> 4 | d) 15,001 - 20,000 | <input type="checkbox"/> 4 |
| e) Above 20,000 | <input type="checkbox"/> 5 | e) Above 20,000 | <input type="checkbox"/> 5 |

22. How are you paying the loan you received?

(i) Weekly 1

(ii) Monthly 2

(iii) Others (specify) _____

23. Indicate any knowledge you have acquired in managing your business.

24. Please indicate your sales per week in Kshs.

- a) Less than 1000 1
- b) 1001 – 2000 2
- c) 2001 – 3000 3
- d) Above 3000 4

25. From which Institution did you acquire your loan?

- (a) KWFT 1
- (b) Faulu Kenya 2
- (c) Pride Kenya 3
- (d) NCCK 4
- (e) Commercial Bank 5
- (f) K-REP 6
- (g) Other (specify) _____

26. Rate the following factors in order of their importance in influencing credit accessibility.

Not Important 1, Fairly Important 2, Important 3, Very Important 4

Factors	Very Important	Important	Fairly Important	Not Important
i.) Education Level				
ii.) Collateral				
iii.) Gender				
iv.) Managerial Skills				
v.) Size of business				
vi.) Age of business				
vii.) Type of business				
viii) Cash flow				

ix) Others (specify) _____

27. Do you belong to any savings group?

Yes 1

No 2

28. Who determines the person to get a loan in your group?

(i) Individual member of the group 1

(ii) Members of the group. 2

(iii) Field Officers 3

(iv) Others specify _____

29. What do you think can be done to make small-scale entrepreneurs to have access to credit?
