

**FACTORS AFFECTING PERFORMANCE OF SMALL SCALE ENTERPRISES:
THE CASE OF ELDORET TOWN SECOND HAND GOODS RETAILERS**

BY:

CELESTINE CHEGE NGUGI

CM 11/011/1

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILMENT FOR THE REQUIREMENTS OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION, EGERTON UNIVERSITY.**

EGERTON UNIVERSITY LIBRARY

EGERTON UNIVERSITY

MARCH, 2003.



Eger241003

2005/65768

DECLARATION

This Management Research Project is my original Work and has never been presented for a degree in any other University.

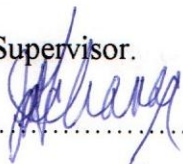
Signed 

Date 18/7/2003

Celestine Chege Ngugi

CM 11/011/01

This Management Research Project has been submitted with my approval as the University Supervisor.

Signed 

Date 22/7/2003

Mr. J.R.N. Gachara

Lecturer, Department of Agricultural-Economics

2005/65768 X

ACKNOWLEDGEMENT

Successful completion of this project would not have been possible without the assistance and inputs of many people, in various ways. I am most sincerely grateful to my supervisor Mr J . R . N . Gachara, lecturer , department of Agricultural-Economics for his dedication and valuable piece of advise through out the process of preparing this project. I am also greatly indebted to other lecturers of Egerton university who offered valuable suggestions at the inception of the project.

Special thanks goes to my employer who has agreed to give me ample time and meet 80% of the total cost for the course.

I also wish to thank my colleagues who spared their valuable time to read the project and give incisive comments that greatly contributed to the quality of the final output. More specifically Ronald Wanyama, Martin Gichango, Hanna Ojijo, Peter Ngure, Mr and Mrs Stephen Ndinguri, Mr and Mrs S. Kimani C. Ngacho and all members of staffs of Nakuru VAT office and more, so the officer incharge Mr William Akiroh for creating good environment for my studies. I wish to thank members of my church K.A.G. Eldoret Christian Centre for their contribution towards this project.

Last but not least, I thank my wife, children, mother, brother and sisters whose encouragement give me much impetus to go on even when the going get tougher. To all I say thank you very much for making my studies quite enjoyable.

To all the above mentioned people, I say thanks a lot and to the others whose names do not explicitly appear, but in one way or another helped in my studies and research, I extend a big thanks you and best wishes in a very special way.

DEDICATION

To my parents, Leah Wanjiru Ngugi and the Late Elijah Ngugi Chege, to my wife Roseline, my children Marrylin, Elijah, Leah and Dorcus.

ABBREVIATIONS AND ACRONYMS

AFC	- Agricultural Finance Corporation
CBK	- Central Bank of Kenya
CCF	- Christian Children Fund
CHIKOLA	- A group name by K-REP.
DFID	-Department of International Fund for Development
ICDC	- Industrial and Commercial Development Corporation
IFC	- International Finance Corporation
K.I.E	- Kenya Industrial Estates
KCB	- Kenya Commercial Bank
KCFC	-Kenya Commercial Finance Company
KIWAS	- A group name used by K-REP.
K-REP	- Kenya Rural Enterprise Progamme
KWFT	- Kenya Women Finance Trust
NBFI	- Non-Banking Financial Institutions
NCCK	-National Council of Churches of Kenya
NGO.	- Non Governmental Organization.
PRIDE	- Promotional of Rural Initiatives and Development Enterprises
ROSCAs	- Rotational Savings and Credit Associations
SSE	- Small Scale Enterprises.
SSBE	- Small-scale Business Enterprises
USAID	- United States Agency for International Development
WED	- Women Enterprise Development
WEDCO	- Women Enterprise Development Project.

TABLE OF CONTENTS

	<u>Page No.</u>
DECLARATION.....	i
ACKNOWLEDGEMENTS.....	ii
DEDICATION.....	iii
ABBREVIATIONS AND ACRONONYMS.....	iv
LIST OF TABLES.....	v
LIST OF GRAPHS.....	vi
ABSTRACT.....	vii
CHAPTER ONE	
BACKGROUND.....	1
1.1 Introduction.....	1
1.2 Definitions.....	4
1.3 Statement of the Problem.....	5
1.4 Objectives of the Study.....	6
1.5 Hypothesis.....	7
1.6 Significance of the Study.....	7
CHAPTER TWO	
LITERATURE REVIEW.....	8
2.1 Sources of finance for second hand shoe retail dealers.....	9
2.2 Formal Sources of Finance for Working Capital.....	9
2.3 Informal Sources of Finance for Working Capital.....	14
2.4 Sources of Long-term Finance.....	15

2.5 Small and Micro-Enterprises Lending.....	20
2.6 Other Factors.....	31

CHAPTER THREE

RESEARCH DESIGN.....	34
3.1 Population.....	34
3.2 Sampling.....	34
3.3 Data collection.....	34
3.4 Data Analysis.....	35

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND FINDINGS.....	36
4.1 Introduction.....	36
4.2 Age profile.....	37
4.3 Business ownership.....	38
4.4 Awareness of institutions offering credit facilities.....	38
4.5 Those who had borrowed.....	38
4.6 Reasons for not borrowing.....	38
4.7 Source of initial capital.....	42
4.8 Source of finance for business expansion.....	43
4.9 Amount of capital employed in the business.....	45
4.10 Capital sufficiency.....	47
4.11 Other factors.....	49
4.12 Awareness of institutions offering business training.....	50

4.13	Credit sales.....	52
4.14	Business premises.....	53
4.15	Storage facilities.....	54
4.16	Major non-financial problems facing second hand good dealers.....	56
4.17	Benefit from training.....	57

CHAPTER FIVE

CONCLUSION.....	58
------------------------	-----------

5.1 Recommendation.....	61
-------------------------	----

5.2 Suggestions for further research.....	62
---	----

REFERENCES.....	63
------------------------	-----------

APPENDIX.....	67
----------------------	-----------

LIST OF TABLES

Table 1: Age profile in business of the respondents

Table 2: Awareness of Institutions offering Credit Facilities among Respondents

Table 3: Reason for not borrowing for those aware of lending institutions

Table 4: Profile of traders about lending institutions

Table 5: Chi square result for those aware of lending institutions and those who have borrowed

Table 6: Source of initial capital

Table 7: Source finance for expanding the businesses

Table 8: Capital employed

Table 9: capital sufficiency

Table 10: One sample F test results for capital employed and expected sufficient capital

Table 11: what is considered to be sufficient capital as per respondents

Table 12: Other significant factors affecting Business Operations

Table 13: Effects of competition to respondents business

Table 14: Awareness of institutions offering training among respondents

Table 15: Training attendance

Table 16: Chi-square result for training attendance and awareness of training institution

Table 17: Bad debts

Table 18: Business premises for operations

Table 19: Storage facilities

Table 20: Non-financial problems

LIST OF GRAPHS

Graph 1: Age profile in business in years.

Graph 2: Reason for not borrowing by those aware of lending institutions

Graph 3: Profile of traders about lending financial institutions

Graph 4: Source of initial capital

Graph 5: Sources of finance for business expansion

Graph 6: Effects of competition

Graph 7: Storage facilities

Graph 8: Non financial problems

ABSTRACT

This study sought to find out the problems facing small entrepreneurs dealing in second hand goods. The goods in question are imported second hand clothes, shoes, curtains, bags etc.

The problems addressed were both financial and non-financial.

The financial areas looked into were, sources of finance, problems of raising capital, awareness and a acceptance of various credit schemes available to small scale enterprises and the level of operating capital of second hand goods retailers.

Non-financial factors looked into were issues of competitors, risk e.g bad debts, local authority involvement, awareness of training facilities and what benefits have been obtained from such training. This study was necessary because second hand goods retailers experience both financial and non-financial problems and which affect their businesses.

The objectives were achieved by collecting primary data. The data was collected from second hand goods retailers operating in Eldoret main bus stop and Eldoret West open air market. This was done through the use of questionnaires, which was addressed, to the owners of these businesses and administered by researcher.

The hypotheses were tested by applying F test and chi-squire.

Data analysis revealed that all second hand goods retailers are sole proprietors and own the businesses individually. 42 which is 70% started their business with their personal savings. 47 (78.3%) used retained earnings for the business expansion.

60 (35%) had capital employed of Kshs. 20,000/= and which was the most frequent amount. 53 (88.3%) considered the capital they had as not sufficient. 20 (33.3%) said Ksh,50,000 could be sufficient capital. 50,000/= was the mode as it appeared more frequently.

Most of the second hand goods retailers sell on cash basis. 16 (26.7%) sold on credit unfortunately they experienced cases of bad debts. 55 (91.7%) did not have business premises and they had to keep their stock after day's business in rented stores or their own houses. Only3 (5%) had received business-related training. The business related training was pegged to borrowing.

In general most of the respondents did not have sufficient capital, but they could not benefit from lending institutions because 19(31.7%) were not aware of the credit schemes available. 15 (25%)were aware of this credit schemes but the fear of losing collateral due to non payment made them not borrow. It is clear that second hand goods retailers are not benefiting from facilities offered by the lending institutions.

The study also found that the major non-financial problems are competitors. Some offer low prices due to fact they are both wholesalers and retailers.

CHAPTER ONE

BACKGROUND

1.1 Introduction

Interest in the role of small-scale enterprises in the development process continues to be in the forefront of policy debates in developing countries, Cook and Nixon, (2000). Infact, most of the large-scale enterprises start as small-scale enterprises before gradually graduating into large-scale enterprises that they are.

Small-scale enterprises have been in existence in Kenya for a long time. According to Green, Kimuyu, et al (2002, p.4), the Kenyan Small scale enterprises sector is a mixture of self-employment outlets and dynamic enterprises involved in an array of activities that are concentrated in urban areas but are also evident in rural Kenya. There are about 1.3 million establishments employing 2.3 million individuals and generating as much as 14% of the country's GDP Mullei & Bokea, (1999). A majority of these small enterprises are sole proprietorships Green, Kimuyu, et al, (2002). A study focusing on small-scale enterprises is therefore vital.

According to Armin,(1992,24) starting of small enterprises can be a sources of alternative jobs incase of lay offs ;employers' frustration and inability to find a steady job in the formal sector.

Cook and Nixon (2000, p.3) identify the advantages of small-scale enterprises. First is the encouragement of entrepreneurship. Secondly, there is greater likelihood that small-scale enterprise will utilise labour intensive technologies and thus have an immediate impact on employment generation. Thirdly, they can usually be established rapidly and put into operation to produce quick returns. Fourth, small-scale enterprise development can encourage the process of both inter- and intra-regional decentralisation. Lastly, small-scale enterprises may well become a countervailing force against the economic power of larger enterprises.

Stanley, (1985,13-14) argues that due to their small size, small-scale enterprises enjoy certain advantages over large-scale enterprises. He contends that they are adaptable and flexible unlike the large ones. He also points out that greater efficiency is achieved by being small. He further correctly notes that personal relationships of one-to-one communication, valued by many consumers, are achieved by being small rather than large. Other advantages that he cites are creativity, closeness with customers and ability to serve large-scale enterprises efficiently.

It is with such advantages in mind, that a study focusing on small-scale enterprises becomes compelling.

Small-scale enterprises engage in various business activities such as sale of, food stuffs, industrial products, second hand products, among others. By engaging in such diverse activities, small-scale enterprises do contribute, enormously, to our country's economy.

According to Stanley, (1985, 12-13), small-scale enterprises contribute products, services and jobs to a country's economy. He further contends that since small-scale enterprises must compete for customers, prices are kept down via competitive forces. All these aspects are vital ingredients in a country's economic growth.

Despite the important role played by small-scale enterprises, 90% of those started end up being a cropper. Stanley, (1985). Green, Kimuyu, et al (2002, p.1) argue that Small-scale enterprises generally suffer from a range of problems in their establishment and development. They argue that among these problems, finance is perhaps the most central. Their argument is given credence by results of a recent World Bank study, that found that about 90 per cent of small enterprises surveyed stated that credit was a major constraint to new investment. Parker, Riopelle and Steel, (1995). Other causes of failure include, incompetence, failure of others, competition, fraud, unwise credit, among others. Stanley, (1985).

Green ,Kimuyu,et al(2002-11) argues that proper bookkeeping will almost certainly improve

the chance of one being granted a loan by financial institutions. This can only be achieved through training in accounting related courses.

According to Halloran, (1990,40) regardless of your business activity, location is of paramount importance. For the retailer and service merchandiser, the more impulsive the product, the more important a convenient location is. There are many products that, if not at a more convenient location, are doomed to failure regardless of how good the management or the product.

Not understanding customer needs is a problem. Halloran, (1990,98). Customers' needs should be addressed in description of the target market. Determine whether the product is satisfying basic physiological needs (food, water), safety (shelter, protection), or more advanced human needs such as belonging, love, self esteem or self actualisation. Abraham Maslow in his theory of the hierarchy of human needs developed need levels years ago and they still hold great relevancy in marketing theory today.

Understanding price points is another important factor affecting small-scale enterprises. Halloran, (1990,103). It is important that the small-scale business owner understands the concept of price points. Price points are different plateaus of price levels that cause inhibitors to enter the minds of customers. At a certain price range, customers will be indifferent and will continue buying. But when prices are increased beyond a given price range, customers become inhibited and will stop buying.

Second hand goods retailers are not spared problems that curtail business growth. An understanding of the financial and other problems facing this category of small scale enterprises is therefore important since a big number of people are engaged in it.

1.2 Definitions

1.2.1 Financial Factors

In this study financial factors will be taken to comprise all those aspects and considerations that have a bearing to the capital structure of a firm, raising of working capital and trade credit.

One of the responsibilities of the proprietors of a second hand goods business firm is to decide on how to raise funds to enable them acquire real assets and to finance their day to day operations since internally generated funds may not suffice to finance various needs. These will comprise financial factors affecting small-scale enterprises.

1.2.2 Small-scale Enterprises

According to the statement made by United States Committee of Economics Development, small-scale enterprises have the following characteristics. Baumbach, (1988):

1. Management is done by a single person i.e. independent management.
2. Capital supply is done by the owners or small groups of owners.
3. They are relatively small in size.
4. The area of operation is local i.e. they do their operations regionally
5. Employs between 1 and 5 people.

1.2.4 Second Hand Goods Retailers

Second hand goods retailers will be defined as all those dealers that deal with the second hand imported goods like shoes, clothes, jackets, curtains, bags etc. The businessmen who indulge in this kind of business are basically small-scale entrepreneurs. Second hand goods dealers can be classified into suppliers and retailers. Second hand goods suppliers are those persons in the channel of distribution who make the second hand goods available to the

retailer. The suppliers store these second hand goods and avail them to the retailers. Once retailers need them, they place an order in bales. The second hand goods retail sellers are those people in the channel of distribution who buy from the suppliers and sell to the customers who are basically the end users.

1.2.5 Other factors

For the purpose of this study, other factors will be those non-financial factors that affect small-scale enterprises. Second hand goods retailers have to contend with other problems like competitors, risks like bad debts, harassment by local authority, lack of business premises and lack of training in book keeping and accounts, etc.

1.2.6 Performance

Performance for the purpose of this study is the ability to operate efficiently, by being able, to meet all business demands, as measured by profits (losses) generated, paying debts as they fall due, the rate of growth per period, annual turnover, among others.

1.3 Statement of the Problem

Small-scale enterprises generally suffer from a range of problems in their establishment and development with finance being the most central. However, requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and training in keeping proper books of accounts are all in some sense more fundamental to running a small enterprise than is finance. However, potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may therefore be the immediate reason for a business failing to start or to progress, even when the more

fundamental reason lies elsewhere. In this sense therefore, finance is the "glue" that holds together all the diverse aspects involved in a small business start-up and development. Therefore one should not only have funds ,but those funds should also be sufficient in order to run the business efficiently.

In general, small-scale businesses cite lack of finance as the major drawback to business growth. No studies focusing on second hand goods retailers have been done to establish the extent of financial needs that are currently not being satisfied by the existing financial system in Kenya. This exploratory study will not only try to establish the extent of the credit needs of second hand goods retailers in Eldoret town, but will also establish whether these retailers are knowledgeable about institutions with various credit schemes available to small scale businesses. The study will also establish the relevance and acceptability of these schemes to retail traders.

The study will try to establish ,whether second hand goods retailers are aware of institutions offering courses relevant to their businesses and if so attended such courses.

The study will also try to establish how significant other non-financial factors, like competitors, basic accounting knowledge, local authority involvement, among other affect second hand goods retailers.

1.4 Objectives of the Study

1. To identify the sources of finance for the second hand goods retail dealers
2. To identify problems faced by second hand goods retail dealers in raising capital.
3. To establish the level, of awareness among second hand goods retailers of institutions with available credit schemes and whether they have benefited from such schemes.
4. To establish ,the level of operating capital of second hand goods retail dealers and whether that capital is adequate.

5. To establish, the awareness of training institutions offering basic business related courses and attendance of such courses by second hand goods retailers.
6. To establish any other non-financial factors significant to the second hand goods retailers

1.5 Hypothesis.

1. There is no significance differences between capital employed and expected sufficient capital.
2. Attending training is independent of being aware of training institutions.
3. Awareness of lending institutions is independent of borrowing.

1.6 Significance of the Study

1. It will help the government in formulating financial policies regarding small-scale business enterprises such as second hand goods retail dealers.
2. It will help the lenders to know the capital requirement for these sizes of business, for financing purposes.
3. It will help the potential investors in judging the amount of capital required to start this kind of business.
4. It will help potential investors in understanding the non-financial problems facing second hand goods retailers.
5. The findings will help the scholars in doing further research in a related field.

CHAPTER TWO

LITERATURE REVIEW

Interest in the role of small-scale enterprises in the development process continues to be in the forefront of policy debates in developing countries. Cook and Nixson, (2000). As the interest continues, previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. Levy, (1993).

While a considerable amount is known about the characteristics and behaviour of small and medium-sized enterprises, this knowledge continues to be imperfect and a large number of questions remain unanswered in relation to finance and small enterprise development. Cook and Nixson, (2000). This thus calls for further research in this area to shade light to the grey areas.

According to Cook and Nixson, (2000) most surveys conducted so far have sought to capture the range of factors that inhibit the growth and development of small firms. They contend that few studies have concentrated on a particular constraint, so that finance has most often been identified as an inhibiting factor as part of a larger investigation into a wider range of variables. Accordingly, they argue that the results in terms of the significance of financing acting as a constraint to development are mixed and it is difficult to draw firm conclusions about the subject. In their opinion, interpretation is complicated because of the qualitative nature of the surveys and due to the fact that enquiries have almost exclusively been directed at firms that exist rather than following the histories of those that have eventually failed.

Information asymmetries associated with lending to small-scale borrowers have restricted the flow of finance to smaller enterprises, Cook and Nixson (2000). The Ghanaian experience best illustrates this point. Despite financial sector reform, the strengthening of banking capabilities and the introduction of numerous financial instruments, such as the

stock exchange, a venture capital company and business assistance funds, access to institutional credit for working capital and equipment continued to be a major constraint to small enterprise development, Steel and Webster, (1992).

2.1 Sources of finance for second hand goods retail dealers

Second hand goods retail dealers can obtain their funds from both informal and formal sources. The informal sources includes friends and relatives while the formal sources include the financial lending institutions like banks, non – bank financial institutions and special lending programmes.

2.2 Formal Sources of Finance for Working Capital

Working capital is the difference between current assets and the current liabilities. It is very important to businesses since the amount of funds available is limited and liquidity is crucial. Therefore small scale business entities like second hand goods retail dealers need enough capital to finance the level of their operations.

According to Parker, Torres, (1993, 33) rarely do people go back into business after closing due to shortage of working capital. This lends credence to the view that working capital is the key need of entrepreneurs who do not have economic options other than self - employment.

The recommendations by Tandon Committee, as quoted in Pandey, (2000), contends that the banker should finance only the genuine production needs of the borrower regardless of the magnitude. Another recommendation was that, working capital needs of the borrower cannot be entirely financed by the banker. Some part will be financed by the banker and the remaining part by the trader, Pandey, (2000).

The Dehejia Committee, as quoted in Pandey, (2000) concluded that the discussion of bank finance for the acquisition of fixed and other non – current asset was made possible by banker fixation on security under the cash credit lending system. This committee felt that while theoretically commercial bank lending was for short term purpose in the actual practice, it was not so. Accordingly they reported that a large part of bank lending was really long term in character and was repayable on demand only in name. The committee further concluded that it is the borrower who decides how much to borrow. The amount of credit extended is based on the amount of security available and not on the level of operations of the borrower. The security in itself does not by itself ensure safety of bank funds since all bad and sticky advances are secured advances: safety essentially lies in the efficient follow up of the industrial operations of the borrower.

Sources of short-term finance require the borrower to repay the debt within a short period usually less than one year. These funds may be used in paying the suppliers of second hand goods retailers dealers. On top of the short-term credit sources there is also internal sources generated from the business operations.

The importance of external to internal sources of finance varies from firm to firm and from level to level. The extent to which working capital funds are obtained through short –term financing from outside sources is dependant upon the original permanent financing, the stability of the business sales as well as their degree of uniformity throughout the year, the practice prevailing in the industry and the amount of internal funds available. Pandey, (2000).

2.2.1 Trade Credits

Trade credit is a short – term source of finance. It is known to be a source because it takes care of working capital. This source can only be available where there is goodwill and good

image existing between the supplier and the retailer. In this case the supplier allows a short period of time for the payment of goods supplied. This action conserves the retailer's working capital.

Trade credit is dependent on the suppliers willingness to lend to a given business entity, the type of business and basically the firms short term financial needs. This is because suppliers also try to minimize their risk by extending to their creditors certain limits of trade credit. Parris, (1986). It is with this regard that small businesses like second hand goods retail business are likely to encounter problems. The suppliers are likely to restrict credit to these business types because of their risk potentiality.

2.2.2 Retained Earnings

This is an internal source of working capital and it is affected by the retention policy of the firm. This is a good source of working capital since this type of fund is permanent in nature because it is internally generated. The use of retained earnings cannot be taken wholly to be advantageous just because of its availability. One needs to consider the opportunity cost. If he can earn higher returns by investing it elsewhere, then this policy is inadequate. Vandell, (1971).

Retained earnings, as an alternative way is easy as long as the business is continuing to make profits. This source of funds is not available for new business entities since they are beginners and have nothing to retain. A common characteristic of small-scale businesses like second hand retail goods dealers is that the management decisions are made without consultation. The business might embark on dwelling on and siphoning the retained earnings for working capital. This may retard business expansion, for it may not be sufficient for both

working capital and expansion. Hence it is important to acquire some funds from the external sources.

The importance of retained earnings has been reported even in big companies that may have collateral that lenders need. However, since internally generated funds may not suffice, other sources of long-term finance must be brought into play.

2.2.3 Commercial Banks

Commercial banks are lenders of both long and short-term loans. The commercial banks are the suppliers of credit to the private sectors. A good practice by a small business enterprise owner as soon as the business is born is to open an account with a bank. From the bank the trader, through cordial relationship, can be advised on the best methods to plan operations and as well on other important issues such as acquisition of finance.

Short-term loans from commercial banks can be obtained by providing collaterals as long as the intended use of the capital is viable. In Kenya the collaterals that have been accepted as mortgages include; Equity shares, land title deeds, vehicles logbooks, letters and guarantees. Sommerset, (1977). The small scale business like the second hand goods retail dealers indeed have very little collateral to offer and as a result of this they tend to attract less loans. Bankers do not relax their policies for these small-scale business entities. It must be understood that banks cannot sacrifice the depositor's money by taking risks that are not inherent in all lending. Bankers differ in the levels of effort in risk screening of the borrowers. According to a study done in United States of America, it was found that certain variables are important in determining the outcome of a loan application. First it was found out that managerial experience is positively correlated with loan application approval, that is, business education increases the chances for loan approval. It was also found that experience in running the business enhances chances of loan approval (Tandon committee, as quoted in

Pandey, 2000). Normally, business success depends on the person running it but not necessarily the availability of finance. Alternative studies suggest that managerial incompetence is one factor that affects the business performances. Studies done by Marris and Sommersett (1971), Kariuki, (1975), Kessio,(1977) and Wangui, (1982) confirms the latter problem. The Dehejia committee, as quoted in Pandey (2000), also found that larger equity to debt ratio was positively correlated with loans approvals. The small business like the second hand goods retailers are likely to have a major difficulty in raising the initial equity contribution as may be required by the lenders.

Short term loans from the commercial banks can be either in overdraft form or in the form of loans. In case where it is an overdraft, a business will arrange with the bank prior to the time when funds are needed. The amount given will depend on the credit worthiness of the business and the interest rate on the loans advanced.

Various banks may have different lending policies with small business like second hand goods business firms. In fact, some banks have funds available from outside sources which are geared towards promoting new indigenous businesses. This means that small businessmen should shop around to find the bank that is prepared to accommodate their needs. Some banks for example the Kenya Commercial Bank (KCB) has funds available from the International Finance Corporation (IFC) for financing small and medium scale industrial enterprises. Diamond Trust has also been the recipient of IFC funds which are available for small business. Recently, Barclays Bank, one of the leading banks in Kenya set up a Barclays Bank of Kenya Development Fund meant for financing small businesses.

In spite of the existence of financial institutions, "small businesses have always found it difficult to obtain credit from the existing institutions". Mwende, (1988). The major reasons

why these institutions are not used fully could be due to lack of collateral to pledge and lack of awareness of the existence of the same.

Aleke-Dondo's words as quoted by Oketch, Kioko (1993,8) "majority of jua kali firms have remained outside the mainstream of banking industry, which sees the sector as both risky costly and hence unimportant market of its credit. Small scale enterprises on the other hand sees formal credit institutions as conservative over obsessed with loan securities, and generally in accessible".

Prospects by operators of small and micro – enterprises growing in absence of external capital injections in the form of credits are low. Lack of access to credit is often mentioned as a key constraint to the growth of small-scale enterprises.

2.3 Informal Sources of Finance for Working Capital

2.3.1 Friends and Relatives

Friends and relatives are also other sources of short-term finance to certain small businesses. The process of applying for finance from lenders in the formal sector may not be applicable in the case of lenders in the informal sector, that is, friends and relatives and so on. In fact, the informal sector transactions are conducted on the basis of trust and intimate knowledge of borrowers. Abebe, (1987).

According to Dondo, (1999,2) financial arrangement between friends and relatives have along tradition in Kenya. They operate on a money basis and no interest charges hence making them non –commercial. Various studies show that credit from friends and relatives constitute an important source of start up capital for many micro enterprises in urban areas and for smallholder farmers in rural areas. The credit terms are popular as they are interest free and do not require collateral.

of informal sources of finance may arise because of the inability of formal sources to deliver credit as and when needed, without elaborate paperwork or complicated requirements. Since small business firms like second hand shoe retail businesses often do not have the necessary collateral to satisfy bankers, they may resort to informal sources of finance. At times it may be quite expensive and high. In a study conducted by the World Bank (1983), it was found that small scale industries in Korea borrowed at an interest rate of 40 percent per annum from the informal sources while the official interest rate was 17.5 percent per annum. This might also be the case with second hand goods businessmen given that they may be forced to use informal sources of finance if there is no other alternative.

At the various sources of short-term finance, the ensuing part deals basically with the use of short-term finance for expansion.

Sources of Long-term Finance

Even a successful business firm, even the successful one, cannot look to the general capital market for long-term finance. Weston and Brigham, (1983). This means that whilst typical small scale second hand goods businessmen would like to expand their businesses, they are often constrained by lack of sources of long-term finance.

Long-term finance can be grouped as either medium or long-term depending on the period over which the loan is to be repaid. There is no clear-cut demarcation of the point at which to separate medium and long-term sources of finance. In Kenya, sources of long-term finance are commercial banks and non-bank financial institutions (NBFIs) while informal sources are principally the sources of long-term finance.

2.4.1 Term Loans

Term loans are the principal form of medium term financing and most of these are made by commercial banks and NBFIs. Commercial banks' lending rarely exceed three years while NBFIs may exceed the time set by commercial banks. Indeed, it is these loans repayable after three years that are suitable for expansion, small businesses may not use them fully because of the reasons which have been highlighted.

2.4.2 Lease Finance

Small business firms can obtain equipment through leasing. This arrangement is possible provided that the businessman can raise the deposit required as down payment. The hire-purchase firm then buys the equipment on behalf of the borrower and retains the title until all the instalments have been paid. In fact second hand goods retail businessmen can benefit from this provided that they can raise the deposit unlike other forms of loans where the value of collateral pledged must be in line with the amount lent.

2.4.3 Development Financial Institutions

Development financial institutions are the principal suppliers of long term finance. In Kenya there are five development financial institutions. Most of these institutions concentrate on financing big enterprises except the Agricultural Finance Corporation (AFC) and the Industrial and Commercial Development Corporation (ICDC). AFC finances projects in agriculture while ICDC finances commercial and industrial enterprises and borrowers are "normally small and medium scale Kenyan managed enterprises (CBK, 1971).

Although ICDC finances small medium sized enterprises, it has tended to concentrate on small businesses in the formal sector hence complicating the plight of informal businessmen. However, the Kenya Industrial Estates (K.I.E.) which is ICDC's notable project is more

flexible than ICDC. Its role is to promote Kenyan participation in small and medium sized industries by building industrial estates and giving them to Kenyans. In addition to this, it also lends to small businessmen. One of the functions of capital is to act as a risk cushion against unforeseen and unexpected losses. This is why lenders are very particular about the average position of a business firm that they are contemplating to commit funds into.

2.4.4 Personal Savings

This is perhaps the major source of equity capital for all small business firms. Personal savings may be from employment, from another business, from sale of farm produce and many others. The importance of personal savings can be attributed to the fact that prospective second hand goods retailers may not have the required collateral to enable them obtain financial assistance from external sources. Abebe, (1987). Again the problem of getting enough personal savings to start second hand goods retail businesses may be aggravated by the fact that these businesses are likely to be started on an individual basis because some owners may not like the interference associated with outside equity capital and instead prefer to take all the risk and enjoy all the benefits accruing from the business. In general, personal savings is likely to be the most important source of initial capital in second hand goods retailers businesses because of the reasons stated above.

2.4.5 Small scale business Co-operatives

There are several co-operative societies in Kenya at the moment and some prospective second hand businessmen may be members of such societies. The co-operative savings and credit societies accept monthly payment for shares and grant loans of up to three times the member's shares provided that the applicant has been a member for a given period usually six months. The prospective second hand goods retail businessman who is a member of these

societies may borrow to finance their equity so as to finance the business.

2.4.6 Other Sources

Equity capital may also be raised by admitting a new partner. But this depends on the terms under which the new partner is being admitted. In the case of “dormant” partners, this type of arrangement cannot be very attractive because small businesses like second hand goods retail dealers have poor controls therefore deterring non-executive partners from equity contribution. Mwende, (1988). However, it is vital to note that a partnership if properly organised can attract equity faster because of partners’ contributions.

2.4.7 Specialized Programmes

There are quite a number of specialized programmes destined to finance small and medium sized enterprises in Kenya. It is vital for the intending businessman to check if there is such a programme suited to his needs. The problem, however, is that owners of small businesses like second hand goods retail businessmen may not be aware of some of these programmes and therefore over-rely on their own resources although collateral may be their major constraint.

For the purpose of this study, a few of these programmes will be highlighted briefly since not all of them can be covered in this study. Perhaps what is most important is to know that these programmes exist and information should be obtained for what they offer to small businessmen especially from financial institutions, which are charged with the responsibility of implementing them. For example, Kenya Commercial Bank (KCB) Group, Barclays Bank, Standard Chartered Bank and many others.

2.4.8 Kenya Commercial Finance Company (KCFC)

This is a subsidiary of the KCB, which provides long-term finance to small enterprises. It raises funds from its own sources and also implements donor agency programmes like the USAID, DFID, and IFC programmes. The last two are for financing small and medium scale industries in all parts of the country. However USAID's funds go to rural projects which increase rural employment, which have forward and backward linkage to agriculture and have the potential to save foreign exchange. It provides long-term loans at an interest rate which is 2% below the minimum commercial lending rate.

In addition to the normal financial and other banking services offered by the KCB group, the bank handles on behalf of the Government various schemes with concessionary terms to encourage growth in the informal sector as well as small scale enterprises both in urban and rural areas. In an agreement between the KCB group and the Ministry of Finance, KCB implements the small business scheme, the Credit Guarantee scheme and the Rural Private Enterprise scheme.

2.4.9 Barclays Bank of Kenya Development Fund

This fund was set up during the year 1986/87 specifically for aiding projects of a development nature which would normally be considered as acceptable banking risks. It is mainly for small scale businesses and according to the statement by the Chairman of the Bank, its fund stood at Ksh. 2.7 million at the close of 1987 and more funds are still being allocated to it.

So far, we have looked at the institutions that help in financing small businesses in Kenya. Even though there are many financial institutions and specialized lending programmes,

second hand goods retail businessmen may still not use them because of reasons that this study will try to find out.

2.5 Small and Micro-Enterprises Lending

According to Littlefeild ,(2002-1-2) micro –finance has proved to be a powerful instrument for poverty reduction that enables the poor to build asset , increase incomes, and reduce their vulnerability to economic stress. It helps close the gap created by other financial systems which serve only a tiny minority of the country's population, while the vast majority remain outside the system.

Dondo, (1999,-4) observes that micro finance range from small charitable units operating in a limited geographical area to a large institutions covering vast tracts of the country and carrying a variety of development and welfare activities .

The second hand goods retailers can benefit a lot if they make use and borrow from micro – financing institutions.

2.5.1 Care – International in Kenya

Care has been operating in Kenya since 1968. Initially, Care concentrated its efforts on construction of education facilities established by communities on a Harambee basis. The activities of Care have evolved over the years to include small-scale enterprises (SSE) development.

Care's support to groups is based on a cost sharing approach and is extended to include: technical assistance, establishment of a revolving loan fund, management training, simple accounting and record keeping and material inputs.

The target population of the Care project is still rural small holders with emphasis on individual women who must be owner/managers of small-scale enterprises. The loans which are for working capital range from Kshs. 500 to Kshs. 3,000. All loans beneficiaries have to undergo a short business training organized by the programme staff. Before a group is given a loan, it must have equity cash of 25 per cent of the total loan amount required repayable within a period of 18 months and it attracts an interest of 18 per cent. The security of the loans, are the guarantors within the groups and sometimes simple domestic security. The clients are given a grace period of up to 6 months. Dropout rate from the programme is less than 10 per cent. The organisation has no policy on what to do in case of an emergency, but what is clear is that it is the onus of the group to see best how it can help one of its members who is having problems that may hinder her from dutifully repaying the loan. The organisation does not write off loans. Esipisu, (1996, 6-7).

Second hand goods retailers might not be cohesive enough to organise themselves as a group to enjoy group guarantors.

2.5.2 Christian Children's Fund Inc (CCF)

CCF is involved in projects geared at rehabilitating invalids and improving the quality of life of destitute children and their families. In 1992 they started a credit programme for small scale enterprises.

CCF loans to people with similar business who have formed a group. Those people must be members of the CCF support programme. The group must have an account with a minimum balance of not less than Kshs. 1,500 and are willing to keep records and be trained. The programme staff assess individual business of the prospective clients in order to determine

whether they deserve the loan they have applied for. The types of businesses funded are trade, manufacturing and service.

The loan amounts range from Kshs. 1,500 (minimum) to Kshs. 10,000 (maximum) repayable within a period of six months with no grace period. The interest rate charged is 15 per cent. There is no collateral for the loans except that the group members act as the guarantors. In case of any calamity or uncertainties or risks befalling the client, the group members who guaranteed the loan are held responsible for the repayments. The organization has no insurance for its clients for any risk that a client might face. CCF does not encourage writing off debts, instead it still makes follow ups through groups and the individual loanee. Loans are only given for the already existing businesses (none for start ups). The clients are offered training in business management.

So far, CCF has not required its members to raise any equity before they can access the loans. The general view among her clients is that raising equity of upto Kshs. 25,000 would not be possible. They argue that if currently the maximum amount of loan a client can get is only Kshs. 10,000, then expecting them to start raising equity of Kshs. 25,000 may not be quite easy. Esipisu, (1996, 8-9)

Raising equity of Kshs 25000 might be a problem to second hand goods retailers .

2.5.3 Joint Loan Boards Scheme

The joint loan board scheme was established in 1954. The department of internal trade has a long history of assisting on going small scale entrepreneurs with loans and training in basic business management skills. The scheme is supposed to be run by both the Ministry of Commerce and Local Government, but over the years the responsibility has been increasingly

shouldered by the Ministry of Commerce.

According to the department of internal trade, over 30,000 enterprises have been assisted with training and loans ranging from Kshs. 2,000 to Kshs. 20,000. Interest is charged at 6.5 per cent with a maximum repayment period of five years.

The District Trade Officers appraise the loan applications on the basis of the past performance of the entrepreneurs, they also seek information on the character of the entrepreneurs from the district administration officials. They then prepare loan proposals for consideration by the District Joint Loan Board. The scheme, has to a large extent performed below expectations. Esipisu, (1996, 12-13)

This scheme looks quite appropriate for second hand goods retailers as interest rate of 6.5% is reasonably low.

2.5.4 Kenya Rural Enterprise Programme (K-REP)

K-REP operates two credit schemes: the Juhudi and the Chikola Credit schemes. In the earlier one (Juhudi), K-REP aims at promoting small and microenterprises by providing loans to individual entrepreneurs through groups of 30 people known as KIWAs. The maximum loan size of the first time borrower is Kshs. 25,000 repayable over a period of 12 months with an interest rate of 20 per cent on a flat rate. Savings is an important component of the scheme. The Chikola credit scheme is targeted to develop existing group's merry go rounds or ROSCAs where groups have clear objectives of developing small scale enterprises of their members. The group receives a loan equal to 10 times the group's savings. The average loan per group is Kshs. 30,000 repayable within one year at 20 per cent interest. K-REP's loans are guaranteed by the KIWA and group members plus their savings.

K-REP has a loan insurance fund which takes care of a clients death. But in case of any other problem which inhibits a client from repaying the loan, K-REP expects the group members to ensure through any means that the loan is repaid. Over 60 per cent of K-REP's clients are women. K-REP probably has the most effective programme for small scale enterprises' development in Kenya. Its clients in Western Kenya are served through the Eldoret branch office. Before clients are intaken, they undergo a thorough screening exercise in order to make sure that they meet the eligibility criteria. After the loans have been disbursed the K-REP operations staff keep on visiting the clients and monitoring their businesses. The officers continuously attend group meetings and also encourage the groups to continue with their previous activities (i.e merry go-rounds) which greatly enhance the cohesiveness of the group. That is one of the ways of building a durable and functional relationship between K-REP and her clients. K-REP also carries out leaders training for the officials of its groups to ensure effective leadership. Repayment rate for K-REP's loans is about 98 per cent. It experiences a very low rate of exits, with most of those exiting citing their inability to conform to group rules. Esipisu, (1996, 18-19).

Non conformity to the group rules might also be applicable to second hand goods retailers.

2.5.5 Kenyan Women Finance Trust (KWFT)

KWFT was set up in 1981 as a member women organization to facilitate participation of Kenyan women in the economic mainstream through the provision of credit and training.

The institution was set up as an affiliate of women's world banking.

However, its performance was not satisfactory due to relatively high non-performing loans.

By 1990, operations had ceased and donor confidence had eroded. The institution was restructured with a new board of directors, management team and staff.

KWFT is a unique institution in Kenya, since it serves only women clients. Although it started its operations in the early 1980's with several donors providing grants, that support dwindled in the latter part of the decade due to poor performance. In the 1990's donor confidence has been regained and there is now collaboration with other NGO's and banks. KWFT adopted the group-based model of intermediation. Through a collaboration arrangements with Barcalys Bank of Kenya, KWFT also facilitates larger loans to individual women. Those loans are partially guaranteed by the trust.

KWFT has developed a name among Kenyan women, especially rural women, as a reliable and quick source of credit. It has empowered women through creation of additional sources of income. By bringing women together KWFT has also created long lasting relationships which contribute to solving some of the social problems in Kenyan society. It has also created credit awareness, development of business-like attitude, and reducing fear of banks and loans among her clients. Esipisu, (1996, 20-21).

The scheme discriminates against men while second hand goods retailers comprise of both men and women.

2.5.6 National Council of Churches of Kenya

The SSBE started in 1975. It aims to provide credit to the poor who are already carrying out some kind of business. Since 1990, it has disbursed over 3,500 loans amounting to Kshs. 30 million. The average loan size is about Kshs. 10,000. Savings is an integral part of the project. Group members act as the co-guarantors for the loan. In case a member defaults, his/her savings are withdrawn and in case they are not able to offset the loan, then the group members are expected to repay. In case a member any problem which cannot allow him to

repay the loan, the group is expected to be of help, because NCKK provides no other kind of help. About 60 per cent of NCKK's clients are women.

Apart from credit, SSBE offers no other services to the clients. To a large extent, the SSBE project has not been successful. It has so many drop outs and it has suspended lending in Western Kenya. Esipisu, (1996, 25).

This scheme can be of some help to the only second hand goods retailers who are already in business as that is one of the qualifications .

2.5.7 Promotion of Rural Initiatives and Development Enterprises – Pride Ltd

The main aim of the project is the provision of credit to existing small-scale enterprises, primarily in the informal sector, who are unable to obtain such services from other institutions. It began its operations in September 1989.

PRIDE carries out its activities within a radius of five kilometers, from their regional offices. It provides loans of upto Kshs. 10,000 for the first loan, Kshs. 20,000 for the second loan and Kshs. 30,000 for the third loan, which are all repayable within a period of 50 weeks (except for the third loan which is repayable within 50-65 weeks) with an interest fee of 20 per cent on a flat rate. The fourth loan amounts to Kshs. 50,000 and is repayable within a period of 100 weeks with an interest rate of 15 per cent.

The groups are the ones that approve the loans and are therefore the ones who act as guarantors. In case of any problem i.e death of a client, uncertainties like fire, theft or floods destroying the business, the group is the one that is expected to intervene and sort out the problem of how the loan should be paid. The organization allows for the restructuring of the repayment schedule if indeed a client had a genuine problem that could not allow him/her to

repay the loan as agreed. The project staff and the groups also encourage the relatives of a deceased client to continue with the business so as to have the loan repaid. The programme is also encouraging the clients to establish a death fund. Otherwise, it is the policy of the organization not to write off any loan.

Before loans are disbursed, the groups are given training on the loan policies and procedures. They are also given training and advice on book keeping, cash flow statements and on how best to improve their business. The programme staffs even visit them at their business sites and give them further advice on the ground. After the loans have been given, exchange visits are organized by the programme for some of the clients. Esipisu ,(1996, 28-29)

Apart from short credit period, the scheme looks good for the second hand goods retailers for the interest rates are at a flat rate of 20%and not cumulative.

2.5.8 Rotating Savings and Credit Associations (ROSCAs)

ROSCAs provide credit to borrowers who would unlikely be able to borrow from another source. They also mobilize savings from members and also save as a way of promoting social gathering. They are especially popular to women but not limited to them. Rural firms use ROSCAs more than urban enterprises because the latter have a relatively easier access to bank loans. ROSCAs integrate savings into their credit schemes. Loans are directly tied to the amount of savings and also savings are part of the security for the loan.

ROSCAs have highly been successful because they revolve around a group of people who have come together for varied reasons and may be giving credit is just one of them. They assist a member in case he has any problem (most of them have a disaster relief fund). Esipisu, (1996, 30-31).

The loan scheme require people asking for the loan to be organized into groups which might be a bit hard for second hand goods retailers .

2.5.9 Rural Enterprise Fund

This is a fund targeted at small entrepreneurs and women groups. The maximum loan size being Kshs. 100,000. The terms of the loans range from 2-5 years with grace period of twelve months, interest 8 per cent. The loan capital under the scheme is Kshs. 400 million. It started in 1991 by the government and was being operated by District Commissioners. Given that this loan scheme was established just before the multi party elections in Kenya in 1992, it has been viewed with suspicion since its inception (it was even rumoured from some quarters that it was meant to sway the political vote in favour of the government). Though it is early to predict whether the scheme is a success or a failure, judging from the Governments' handling of the joint loan board scheme, a lot of effort will need to be put in this one, to make it successful. Esipisu, (1996, 31-32)

If administered without political bias the scheme can be a cheap source of finance to the second hand goods retailers for the interest rate of 8% is quite reasonable.

2.5.10 Women Enterprise Development (WED)

The credit programme started in 1990. WED's target clients are individual women who must be owner/manages of small scale enterprises. The loans which are for working capital range from Kshs. 500 to Kshs. 3,000 (the first loan), repayable over a period of 10 months and attracting an interest rate of 33 per cent on a reducing rate. All loan beneficiaries have to undergo a short business training organized by WED business development officers. They are trained in marketing, book keeping, customer relations and business management. The

money is loaned to clients in groups comprising of more than 10. The group must have a minimum balance of Kshs. 2,000 in its account before the loan is disbursed and each member must continue saving Kshs. 200 to the savings account where the business development officer is one of the signatories. The entire group is expected to help their member in case he has problems in repaying the loan. WED does not expect anything whatsoever to hinder the loan repayments. It does not provide any help during emergencies.

The programme has about 450 active women clients in Kisumu. The programme staff visits the clients frequently to monitor their progress and offer them advice where need be. WED does not provide any other kind of assistance apart from credit. Esipisu, (1996, 35).

The is discriminative for it only targets women and therefore it will not benefit the men second hand goods retailers.

2.5.11 World Vision Kenya

World Vision gives group based loans to support income-generating activities. It began this programme in western Kenya in 1990. Its focus is primarily on women. The loan amounts range from Kshs. 500 to Kshs. 5,000 with an interest rate of 10 per cent. Loan repayments are made through groups and the groups also act as the co-guarantors.

World Vision does not finance business start-ups, somebody should already be in business. The loan repayment period varies between 6 months to 1 year. World Vision also expects a prospective client to raise equity cash amounting to 10 per cent of the total loan. Before a client is given a loan, she undergoes a training of 3 – 4 months on general business management practices. The client selection process is a long process where thorough screening is done to identify those who are eligible for the programme. After the loans are

given, the programme's social workers are constantly in touch with the clients giving them advice on what investment plans to make and continuously monitoring her progress.

In case a client has a problem in repaying her loan because of one problem or another, the client is given more time to recover (sort of a grace period) and eventually she is expected to continue with the repayments. The programme has no insurance for its clients in the event of any problem.

Though World Vision's clients are required to have a mandatory 10 per cent equity of the loan amount they are applying for, their ability to raise equity of about Kshs. 25,000 looks uncertain. The programme staff were of the opinion that the clients might find it to be a very big burden considering some of their income levels. Based with their present experience where the clients have to raise equity of 10 per cent the loan amount (which most of the clients have problems in raising), the programme staff were of the opinion that such a requirement would lock out most of the clients.

Other services offered by World Vision include health care, sponsoring of children's education and the provision of social services. Esipisu, (1996, 39-40)

The scheme looks good for already established second hand goods retailers, but not a good source of initial capital for one is required to have 10% equity of the loan they are applying

2.5.12 Women's Enterprise Development Project. WEDCO

The Women's Enterprise Development Project, based in Western and Nyanza Provinces of Kenya, provides credit to operators of small scale enterprises. WEDCO targets women

entrepreneurs through women's groups and revolving loan fund group. WEDCO secured a grant in January 1996 from the Department for International Development (DFID), under the British Aid to Small-Scale Enterprise programme. It was to deliver credit and savings services to at least 30 000 female participants in western Kenya. Maalu, Khayesi, Alila, et al (1999)

The scheme is good for second hand goods retailers. The only problem is that it targets women in Western and Nyanza Provinces of Kenya.

2.6 Other factors

According to Liedholm, Masperson, Chuta, (1994), some studies show that a large number of small enterprises fail because of non financial reasons. Some of these which might affect second hand second goods retailers are addressed below.

2.6.1 Location

According to Halloram, (1990, 38-44) location should be selected by putting into consideration population statistic, labour force availability; per capital income education level etc. It is also important to look at the competition in an area to avoid a saturated market.

Even if the rent is high, the business location should be near to your customers to avoid unnecessary travelling cost. This will location should fit the needs of the customers.

According to Parker, Torres (1993, 36) poor premises, high cost of rent and lack of storage space are some of the constraints related to business location.

Williams, (2001, 187- 197) argues that finding the right premises, at the right location, for the

right price, can prove extraordinary difficult, unless you have decided to reach customers only through the Internet. These probably still will depend on further development of e-commerce to provide a complete solution. For most businesses – a large part of the setting up process for a retail business will be devoted to the search for a good business location. The following should be taken into consideration:-

- a) Availability of labour force with skills required by your business. Communication access; road, rail, air, bus etc. for delivery of your products.
- b) Should choose a location in particular place, which has high population that you want to target as your customer.
- c) To reduce cost your business should be located to a place near your suppliers.

Many second hand good retailers have problems with location due to their large numbers. They would prefer to spread their wares along the road where there is high customer density.

2.6.2 Competition

As noted by Parker, Torres (1993, 36) competition results to few customers and irregular flow of customers. Many competitors affect prices. According to Pride, Hughes and Kapoor (1999, 16) business competition is essentially a rivalry among business for sales to potential customers. In free market economy competition works to ensure the efficient and effective opportunity business. Competition also ensures that a firm can survive only if it serves its customers well.

In the opinion of Williams (2001, 167) without customers, you have no business, no matter how slick your financial control, nor how good your man-management is.

Williams (2001, 175-178) contends that prices should be set by what the market can offer. Price should be established by looking at the market that you are in, and in particular how your product appeals. Price setting is influenced by the following factors, how your product is to competitive products, the life cycle of the product i.e how new or mature, how price sensitive are your customers, what price conveys to your customers, and what position your product lies in the market.

2.6.3 Risk environment

According to Parker, Torres (193, 36) it is difficult to enumerate all the risks facing a business. The risk listed by business people include, theft, civil strife, bad credit from customers.

Williams (2001, 264 – 265) argues that insurance can be taken to safeguard against lost profits, if your business is disrupted by fire or some other insured peril, insurance against theft, credit insurance against your customers failing to pay.

Most second hand goods retailers may not be aware of this types of insurance policies. Some might consider insurance payment to be unnecessary expense.

2.6.4. Training

According to Liedholm, Macphhrson ,Chuta, (1994) poor management and accounting practices have hampered the ability of small scale enterprises to raise finance .

However, Green, Kimuyu. Manos ,Murinde , (2002-11) are of the view that proper book keeping will almost certainly improve the chances of the owner being able to borrow and is a necessity when dealing with financial institution as it shows a sense of transparency. Most second hand goods retailers might not have such training.

CHAPTER THREE

METHODOLOGY

RESEARCH DESIGN

3.1 Population

To conduct this study, the population was drawn from second hand goods retail dealers in Eldoret Municipality. This entailed looking at all the second hand goods retail dealers in the entire Eldoret Municipality wherever they are located.

3.2 Sampling Plan

The important locations for second hand goods retailers were identified. The population was then clustered according to the markets locations. The main market locations for second hand goods dealers in Eldoret Municipality are West of Eldoret and Eldoret main bus stop. From these cluster areas, judgmental sampling of traders was done.

Judgmental sampling was used for the sake of enabling the researcher to include in the study all major second hand goods retailers, unlike probabilistic sampling. A total of sixty samples was taken.

Eldoret West is located in the West of Eldoret town. It is an area, which harbours a common open market whose largest population of participants are second hand goods retail dealers. The bus stop is chosen as a sample cluster because there are a lot of people doing businesses in this area and the majority of them are second hand dealers who control three quarters of this market at the bus stop.

3.3 Data Collection

Both quantitative and qualitative data was collected using a questionnaire (see the appendix). Personal interview method was employed. The questionnaire was administered to the owners

of business to enable the study objectives be achieved.

3.4 Data Analysis.

Both quantitative and qualitative tools of data analysis were used.

Under the quantitative analysis, description statistic such as the mean, mode, and were used.

Qualitative methods entailed use of narratives in describing the data collected.

Bar charts ,frequency distribution tables and percentage proportion were used for data presentation.

F tests was used to determine the significance difference at 95% confidence

Chi square was also used to test the hypothesis.

CHAPTER FOUR

DATA ANALYSIS RESULTS AND FINDINGS

4.1 Introduction

The objective of this study was to identify the source of finance and problems faced by second hand goods retail dealers. The study also sought to establish the level of awareness among second hand goods retailers about available credit schemes: establish the level of operating capital by second hand good retailers. Establish whether there are any other non-financial problems facing the second hand goods retailer. These problems are, business related training, storage, premises etc. The essence of this section is to present and analysis the data collected in the survey. From the questionnaires, percentages, proportions, frequency distribution, mode and mean are used to determine what most of the respondents felt on a particular issue.

The section is divided into two parts:

Part One represents questionnaires relating to finance. Part two represents questionnaires relating to other factors than finances. Under each part, all responses relating to the part are presented and analyzed.

Out of the sixty second hand goods retailers that were approached by the researchers all agreed to be interviewed and responded. Therefore 100% response rate was achieved.

4.2 Age profile

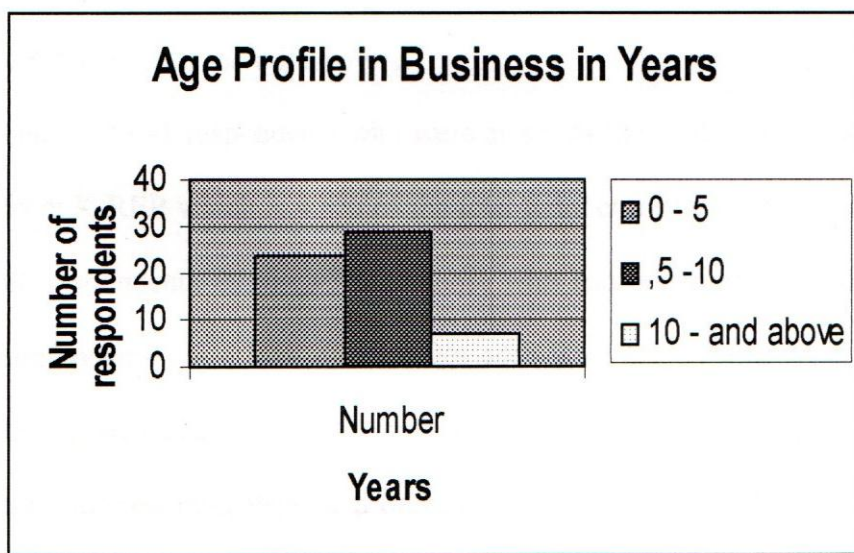
Out of the sixty second hand goods retailers the age profile in business was as follows:-

Table 1:Age profile in business of the respondents

Age in Years	Number	Percentages
0-5	24	40%
5 - 10	29	48.3%
10 and above	7	11.7%
TOTAL	60	100%

Source: Research Data

Graph 1: Age profile in business in years.



Source: Research data.

Therefore most of respondents were in business between 5 and 10 years.

4.3 Business ownership

All sixty respondents operated the business as sole proprietors, which was 100%.

4.4 Awareness of Institutions Offering Credit Facilities

Out of the 60 respondents 41 were aware of the existence of the institution offering credit facilities to their type of business, which is 68.3%. 19 were not aware which is 31.7%.

Table 2: Awareness of Institutions offering Credit Facilities among Respondents

	Number	Percentage
Aware	41	68.3
Not aware	19	31.7
Total	60	100

Source: Research Data

4.5 Those who have borrowed

Out of the 41 respondents who were aware of the lending institution only two had borrowed from K-REP which is 4.8% of the total number aware of the lending institution. Out of the 60 respondents this is 3.3% of those who had benefited from these institutions. The two respondents got a loan of 20,000/= each both respondents were ladies and were spreading their goods adjacent to one another. Both of them were satisfied with the loan terms because their interest rates depended on how fast they could be able to repay the loan. If you take short duration the lower is the interest that you have to pay.

4.6 Reasons for not borrowing

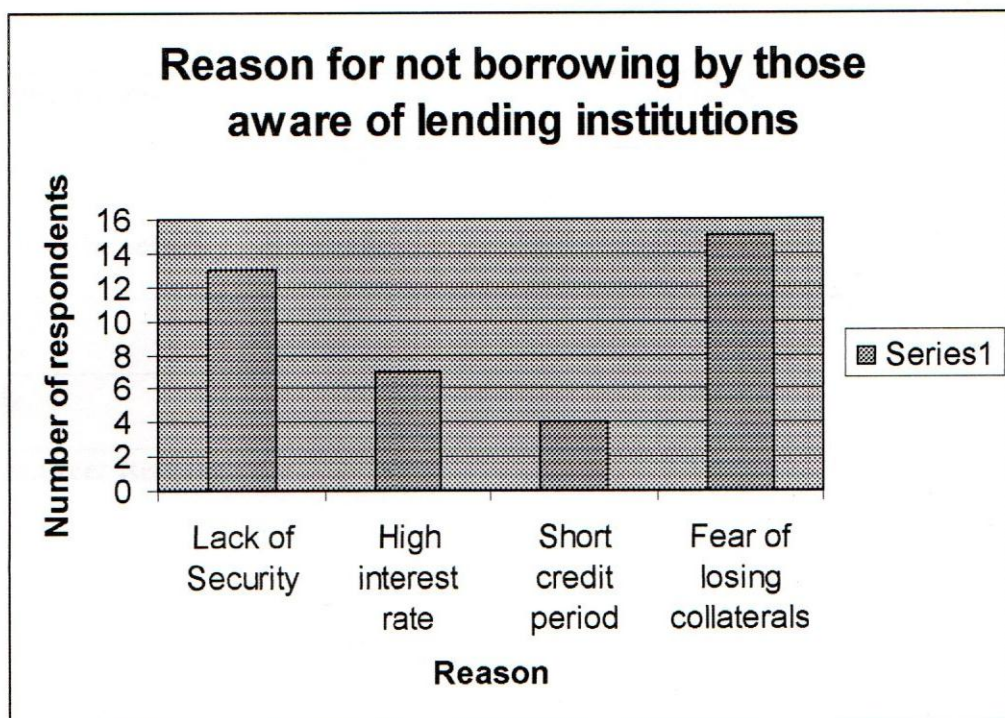
Out of the 41 respondents who were aware of the lending institutions only two had borrowed. The 39 who had not borrowed gave the following reasons for not borrowing;

Table 3: Reason for not borrowing for those aware of lending institutions

Reason	Number	Percentage(%)
Lack of security	13	33.3
High interest rate	7	17.9
Short credit period	4	10.2
Fear of losing collateral due to non payment	15	38.6
TOTAL	39	100

Source: Research data

Graph 2: Reason for not borrowing by those aware of lending institutions



Source: Research data

For those who are aware of lending institutions 15, which is 38.6%, had not borrowed for fear of losing collateral due to non-payment. The next most significant factor advanced by respondents for not borrowing was the lack of security, where 13 respondents (33.3%) held this factor. The third reason was high interest rate charged by lending institutions. Short

credit period allowed by lending institutions was the least most significant factor that was advanced by respondents, for not borrowing. Accordingly, 4(10.2%) of the respondents felt the credit period was too short. These respondents are those whose borrowing needs are for long term.

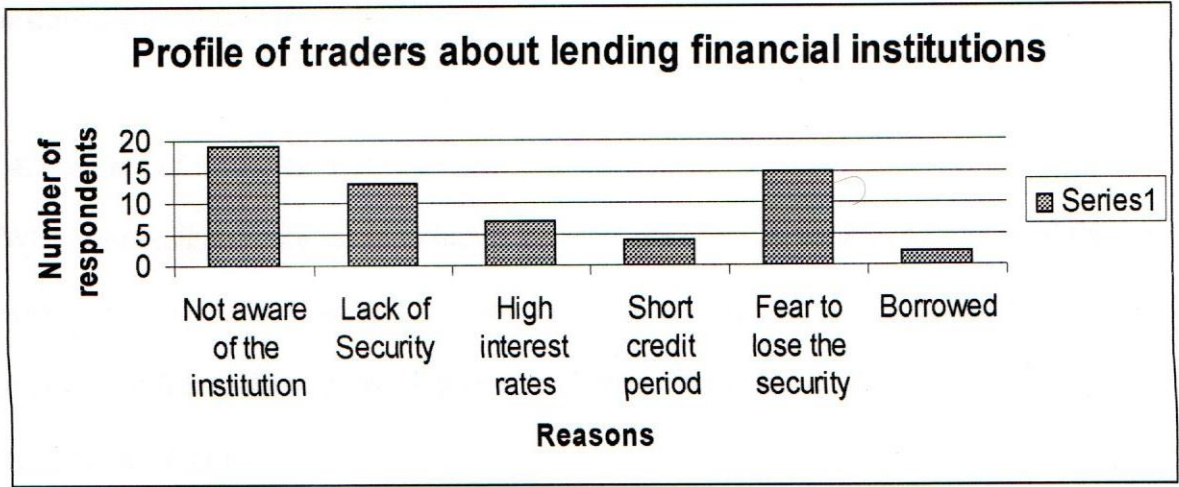
The profile taking the whole sample of 60 respondents can be presented as follows:-

Table 4: Profile of traders about lending institutions

Reason	No	%
Not aware of the institution	19	31.7%
Lack of security	13	21.7%
High interest rates	7	11.7%
Short credit period	4	6.6%
Fear to loss the security	15	25%
Borrowed	2	3.3%
TOTAL	60	100%

Source: Research data

Graph 3: Profile of traders about lending financial institutions



Source: Research data.

From the above it is clear that most of the respondents surveyed (19 out of 60, 31.7%) are not aware of available lending institutions and have thus not borrowed funds to support their business operations.

Table 5: Chi square result for those aware of lending institutions and those who have borrowed

	<u>value</u>	<u>Df</u>	<u>asymp . sig (2-sided)</u>
<u>Pearson chi-square</u>	<u>0.959</u>	<u>1</u>	<u>0.327</u>
<u>likelihood ratio</u>	<u>1.55</u>	<u>1</u>	<u>0.212</u>
<u>linear by linear</u>	<u>0.943</u>	<u>1</u>	<u>0.332</u>
<u>N of valid cases</u>	<u>60</u>		

Note: this test was done at 0.05 level of significance

According to the chi square result computed $\chi = 0.959$ and the critical $\chi = 5.02$. Statistical

decision is to fail to reject the hypotheses. This implies therefore that awareness of lending institution is independent of borrowing.

4.7 Source of initial capital

When respondents were asked to indicate the source of initial capital, 42 indicated the source was from the personal savings, 11 indicated it from loans from friends and relatives and 7 indicated it from sale of personal property. It was clear that none had got assistance from the lending institutions.

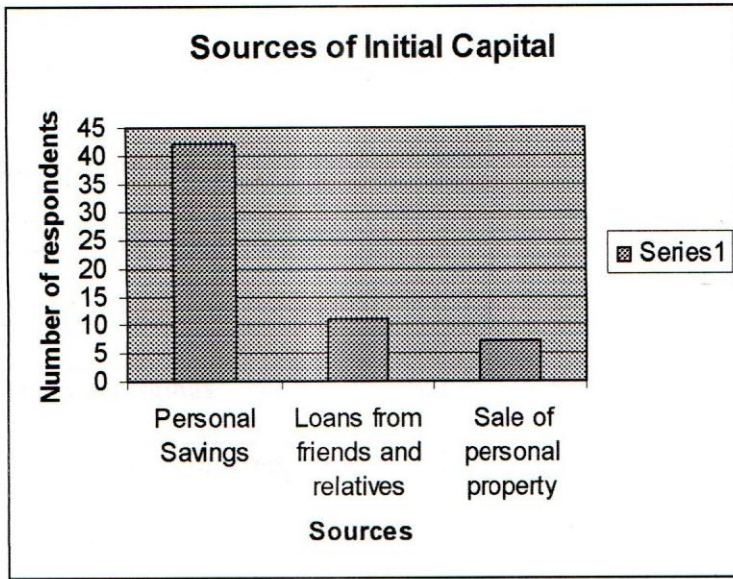
Therefore personal savings with 42 respondents becomes the mode as it appears more frequently.

Table 6: Source of initial capital

SOURCE	Number	Percentage
Personal savings	42	70
Loans from friends and relatives	11	18.3
Sale of personal property	7	11.7
TOTAL	60	100

Source: Research data

Graph 4: Source of initial capital



Source: Research data

4.8 Source of finance for business expansion

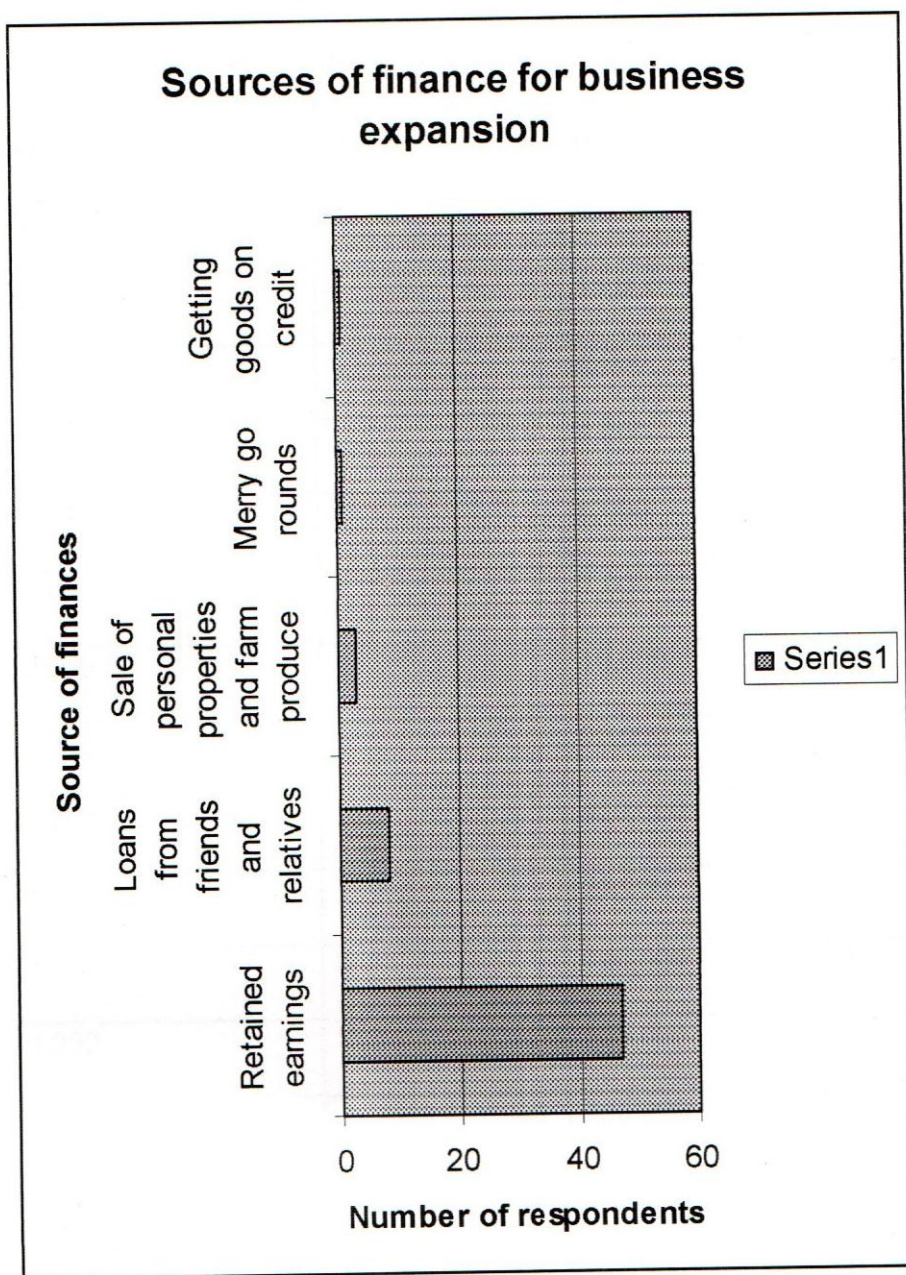
When respondents were asked to indicate the source of finance to expand their businesses, 47 (78.3%) indicated retained earnings, 8(13.3%) loans from friends and relatives, 3(5%) sale of personal property and farm produce, 1 (1.7%) enjoyed good credit facilities from his suppliers and 1(1.7%) made use of merry go rounds which they organize among themselves, as sources of finance for business expansion.

Table 7: Source finance for expanding the businesses

SOURCE	NUMBER	%
Retained earnings	47	78.3%
Loans from friends ad relatives	8	13.3%
Sale of personal property and farm produce	3	5%
Merry go rounds	1	1.7%
Getting goods on credit	1	1.7%
TOTAL	60	100%

Source: Research data

Graph 5: Sources of finance for business expansion



Source: Research data

47 respondents which is 78.3% retained earnings formed the major source of business expansion and this should be the mode. This shows that the traders depend on retained earnings to expand their business.

4.9 Amount of capital employed in the business

The sixty respondents were asked to indicate the capital employed in their business. The

respondents were as per the table below:-

Table 8: Capital employed

Amount money (x)	Number (f)	Amount (fx)	%
2,000	2	4,000	3.3
3,000	5	15,000	8.3
4,000	1	4,000	1.7
5,000	1	5,000	1.7
6,000	1	6,000	1.7
7,000	1	7,000	1.7
10,000	1	10,000	1.7
15,000	6	90,000	10
20,000	21	420,000	35
25,000	1	25,000	1.7
30,000	4	120,000	6.7
40,000	8	320,000	13.3
50,000	7	350,000	11
60,000	1	60,000	1.7
	$\Sigma f = 60$	Σfx 1,436,000	100%

Source: Research data

$$\text{Mean} = \frac{\Sigma fx}{\Sigma f} = \frac{1,436,000}{60} = 23,933/=$$

The mode is 20,000 which appears 21 times making it the most frequent. Kshs. 20,000/= forms 35% of all the 60 respondents. The rest are as indicated in the table number 8.

4.10 Capital sufficiency

Out of the 60 respondents 7 which is 11.7% considered the capital employed to be sufficient. The other 53 which is 88.3% said that capital was not sufficient. The reason for saying that the capital was not sufficient is they would like to have a variety of goods e.g children goods, adult goods, curtains, jackets etc in equal proportion; each bale contains only one variety. They therefore needed more money to be able to buy more bales with different varieties.

Table 9: capital sufficiency

	Number	Percentage
Not sufficient	53	88.3
Sufficient	7	11.7
Total	60	100

Source: Research Data

Table 10: ANOVA results for capital employed and expected sufficient capital

Variance	Df	F
Between groups	13	50.947
Within groups	46	
Total	59	

Note: The test was done at 0.05 significance level.

From the F test results the critical $F=2.0$ and the calculated $F=50.947$. Statistical decision is

therefore to reject the hypotheses. This implies that there is a significant difference between capital employed and expected sufficient capital.

Table 11: what is considered to be sufficient capital as per respondents is given below

Amount money (x)	Number (f)	(fx)	%
5,000	1	5,000	1.7
10,000	1	10,000	1.7
15,000	1	15,000	1.7
20,000	9	180,000	15
25,000	1	25,000	1.7
30,000	7	210,000	11.6
40,000	5	200,000	8.3
50,000	20	1,000,000	33.3
60,000	2	120,000	3.3
100,000	13	1,300,000	21.7
	Σf 60	Σfx3,065,000	100%

Source: Research data

$$\text{Mean } \frac{\Sigma fx}{\Sigma f} = \frac{3,065,000}{60} = 51,083$$

Kshs. 50,000 is the mode for it appears 20 times out of 60, which is 33.3% and which is the most frequent. From the above observation, the second hand goods dealers would be more

comfortable to operate with a capital of Kshs. 50,000/=

4.11 Other factors

Out of the 60 respondents 59 that is 98.3% indicated competition was a significant factor which affected business operation, 1 which is 1.7%, indicated that competition was not significant. Going by this competition is quite a significant factor. The effects of competition to respondents business are as indicated in the table below.

Table 12: Other significant factors affecting Business Operations

Reason	Number	Percentage
Competition	59	98.3
Other factors	1	1.7
Total	60	100

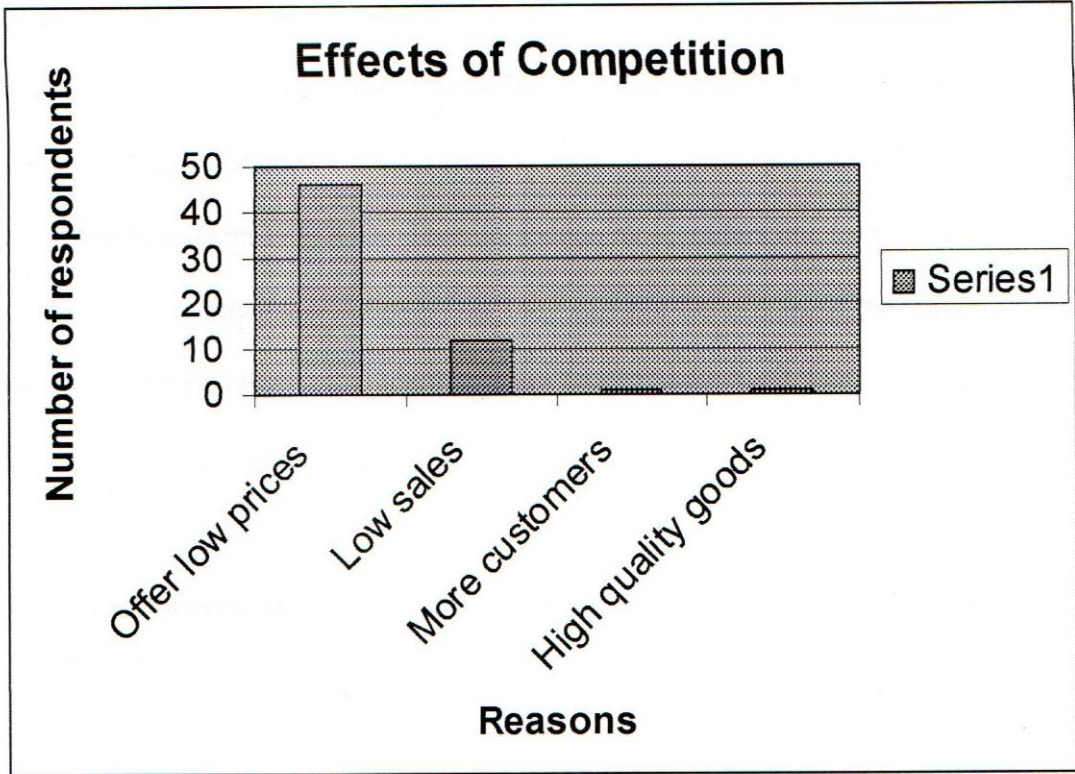
Source: Research Data

Table 13: Effects of competition to respondents business

Reason	Number	%
Offer low price	46	76.6
Low rates <i>Salary</i>	12	20
More customers	1	1.7
High quality goods	1	1.7
TOTAL	60	100

Source: Research data

Graph 6: Effects of competition



Source: Research data

The reason for competition is offering low prices and with a frequency of 46 respondents which becomes the mode and which forms 76.6% of the total 60 respondents. Most of the respondents cited various reasons for offering low prices as follows;

Some retailers are also wholesalers and hence can afford to offer low prices and still break even. Some businessmen can afford to travel all the way to Nairobi to collect their goods where they are cheaper and hence can afford big discounts to their customers.

4.12 Awareness of institutions offering business training

Out of the 60 respondents 33, which is 55% were not aware of the institution offering business related trainings. 27 which is 45% were aware, out of the 27 that were aware of business related training only 3 had attended such courses. Therefore out of 60 respondents 57 which is 95% had no business related training only 3 which is 5% had some training.

The reason for not getting trained is that these courses are offered to people who are interested in getting loans from micro-financial institutions. Among the 3 trained are the two ladies who had obtained the loan from K-Rep. The other person had applied and was about to get the loan from WEDCO. Therefore since most traders due to one reason or the other are not keen in borrowing it follows that they can not benefit from the training. All the three trained said they benefited since they were taught basic, book keeping, how to manage funds by not deviating it to other uses which in return will make their business grow.

Table 14: Awareness of institutions offering training among respondents

	Number	Percentage
Not aware	33	55
Aware	27	45
Total	60	100

Source: Research Data

Table 15: Training attendance

	Number	Percentage
Not attended	57	95
Attended	3	5
Total	60	100

Source: Research Data

Table 16: Chi-square result for training attendance and awareness of training

institution

	Value	df	asyp.sig(2-sided)
Pearson chi-square	3.860	1	0.049
Likelihood ratio	4.985	1	0.026
Linear by linear association	3.795	1	0.051
N of valid cases	60		

Note: The test was performed at 0.05 level of significance

Chi-square result indicates that the critical chi = 5.02 and the calculated chi =3.860. Statistical decision is to fail to reject the hypotheses since the calculated chi is less than the critical chi. This implies therefore that there is independence between attending training and being aware of the training institution.

4.13 Credit sales

Out of the 60 respondents 16 which is 26.7% offered credit to their customers, 44 respondents which is 73.3% sold on cash basis. It is therefore clear that most sales are on cash basis. All the traders that sold on credit, experienced bad debts of different magnitude as given in the table below;

Table 17: Bad debts

AMOUNT	NUMBER
500	1
1,000	1
2,000	1
2,500	1
4,000	1
5,000	4
6,000	2
10,000	4
15,000	1
TOTAL	16

Source: Research data

Most of the bad debts is as a result of giving hawkers credit facilities. In second hand goods dealers' language is known as "Kunyaka". These hawkers are the people you find in public places like bars moving around selling their wares. When they start they make sure they pay for what they have taken on credit as their suppliers. Once they gain confidence of their suppliers, they ask for goods with higher monetary value and never come back to pay resulting in bad debts. Bad debts experience by 16 out of 60 respondents forms 26.7% of the total.

4.14 Business premises

Out of the 60 respondents 5 which is 8.3% had business premises from where they were operating from. 55 which is 91.7% were operating from open air spaces. The ones who had

business premises were located at Eldoret main bus stop where the municipal council had allocated them space to construct locker-ups. Out of the 5 with locker-ups 4 owned them that is they constructed them. One was renting at a monthly rent of Kshs. 10,000, even the ones who owned the locker-up had to pay 1,600/= to the Eldoret Municipal Council. The respondents considered this to be high since they had actually constructed the locker-ups themselves. The rent of Kshs. 10,000/= by the respondent who did not own the locker-up was said to be high.

The respondents who were operating from the open air space, complained of their goods deteriorating due to weather. Direct sunlight during the dry season made their goods fade and during the wet season their goods got spoiled by water.

During the rainy season, they do not operate at full capacity since they have to cover their wares to protect it from rain and still no customer will buy from an open space without shelter when raining.

Table 18: Business premises for operations

	Number	Percentage
With business premises	5	8.3
Open air space	55	91.7
Total	60	100

Source: Research Data

4.15 Storage facilities

Out of 60 respondents only 5 which is 8.3% had business premises. 55 respondents who is

91.7% did not have business premises. In one way or the other they had to find a way of storing their goods. 47 respondents which is 78.3% out of 60 were using rented stores, 7 respondents which is 11.7% out of 60 took their goods in their own houses. 1 respondent which is 1.7% had his own store.

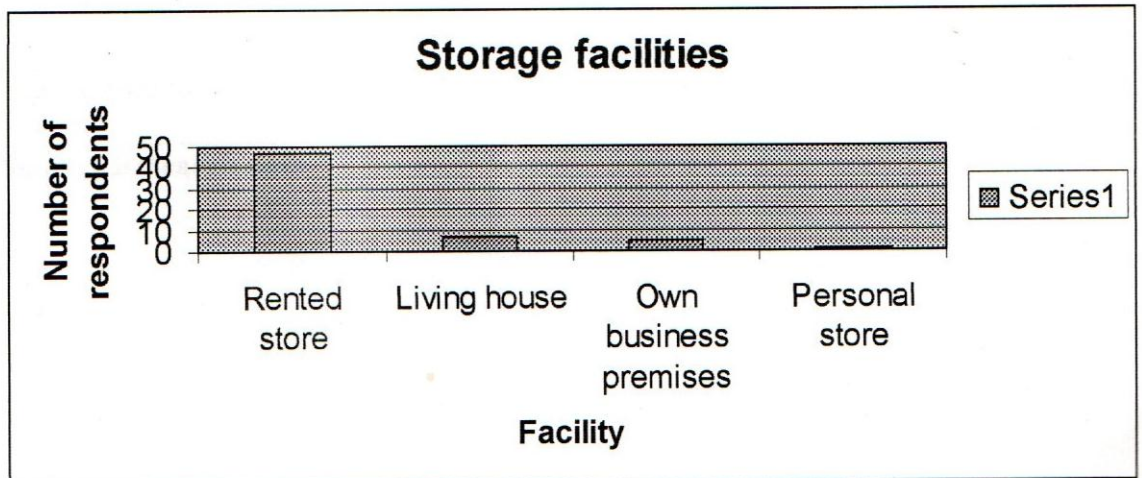
The frequency distribution as per the table below;

Table 19: Storage facilities

Type of facility	No	%
Rented store	47	78.3
Living house	7	11.7
Own business premises	5	8.3
Personal store	1	1.7
TOTAL	60	100%

Source: Research data

Graph 7: Storage facilities



Source: Research data

47 respondents used rented stores and thus making it more frequent and hence the mode. 37 respondents which is 61.6% out of 60 who used rented stores, said the security was good. 10 respondents which is 16.6% out of 60 who were using rented stores said the security was bad. The reason being that at one time they had lost some goods while in the store.

All the respondents who used said that the rent was favourable as each bale is Kshs. 10 per day. Therefore if you have only one bale per day, it amounts Kshs. 300 per month.

4.16 Major non-financial problems facing second hand good dealers.

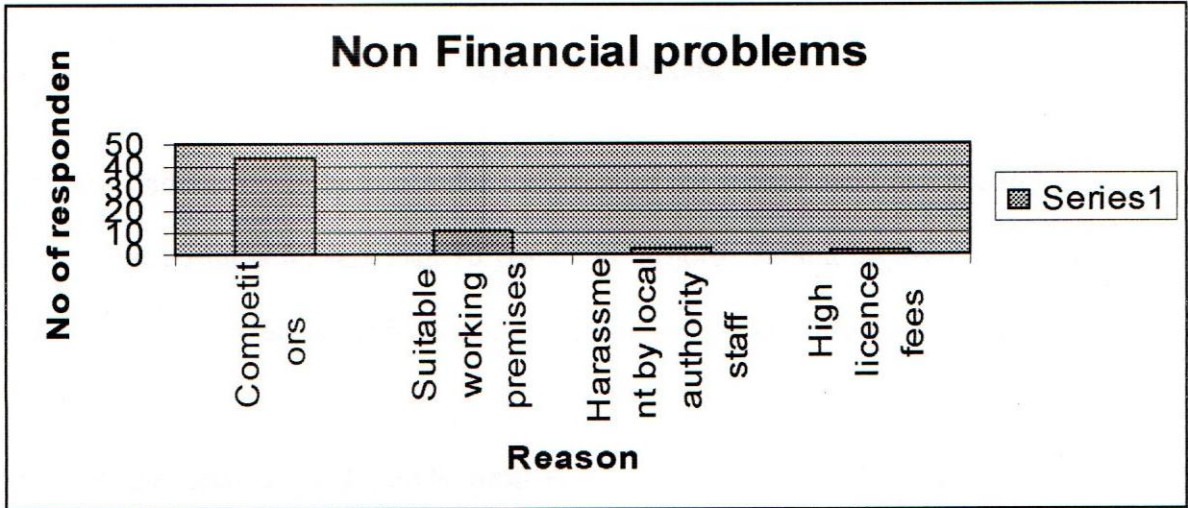
Out of 60 respondents 44 which is 73.3% sited competitors as the major problem, 11 which is 18.3% sited suitable working premises, 3 which is 5% sited harassment by local authority staff and 2 which is 3.3% sited high licence fees. (See table below).

Table 20: Non-financial problems

Problem	Number	%
Competitors	44	73.3%
Harassment by local authority staff	11	18.3%
Suitable working premises	3	5%
High licence fees	2	3.3%

Source: Research data

Graph 8: Non financial problems



Source: Research data

Competitors with 44 respondents is the most frequent and hence the mode. Therefore the major problem of second hand goods retailers can be said to be competitors.

4.17 Benefit from training

Only 3 out of 60 respondents had attend any business related training. This is only 5% of the total 60 traders. Those who attended said they benefited as they were taught basic, bookkeeping and accounts.

CHAPTER FIVE

CONCLUSION

From the findings it can be concluded that most of the second hand retailers in Eldoret have been in that business for less than 10 years with majority falling between 5-10 years, which was 48.3% of the total respondents and 7% having been in business for more than 10 years.

Most of the second hand goods retailers are sole proprietors with 100% of the total respondents being sole proprietors. Making use of available credit facilities by the second hand goods retailers can be concluded to be very low. Out of the 60 respondents 41 which is 68.3% were aware of the credit facilities. 19 which is 31.7% were not aware. However inspite of that 68.3% being aware of the available credit schemes only 2 out of 60 which is 3.3% had actually borrowed. This therefore implies that awareness of lending institutions is independent of borrowing.

For those who were aware of lending institutions the underlying factor for not borrowing can be concluded to be fear of losing their collaterals due to non-payment of the loans. Out of the 41 who aware, 2 had borrowed, 13 said they could not borrow due to lack of security and 15 said they could not borrow as a result of fearing to losing the collateral due to non payment.

It can be concluded that the initial capital of the second hand goods retailers was from personal savings. Out of the 60 respondents, 42, which represent 70%, the initial capital, were from personal savings. 47 that is 78.3% out of 60 respondents, indicated that they relied on retained earnings for their business expansion. It can therefore be concluded that second hand goods retailers utilize internal generated resources inform of retained earnings to expand

ir business.

which is 35% out of 60 respondents said the level of capital employed is 20,000/= and which was the most frequent and hence the mode. The two respondents who had applied and obtained the loan from K-REP had each been given Ksh. 20,000/=. The mean for the 60 respondents was Kshs. 23933.

From the above observation and findings it can be concluded that most of the second hand goods retailers operate with a capital level of Kshs. 20,000/=. 53 out of 60 respondents which is 88.3% said the capital they had was not sufficient. It can be concluded that most of the second hand goods businesses are under capitalized.

This is a fact as most of them said they would like to have a variety of goods like clothes, shoes, etc which come in different bales. Most of them were only dealing in one type of variety due to lack of funds to buy more different bales of the commodities.

20 which is 33.3% out of 60 respondents indicated Kshs. 50,000 was sufficient capital. This was the mode for it was the most frequent. The mean for 60 respondents worked to be Kshs. 51,083. Therefore it can be concluded that Kshs. 50,000 can be an ideal capital for the second hand goods retailers. This confirms the stated hypothesis that there is no significant difference between capital employed and expected sufficient capital.

51 respondents out of 60 which is 98.3% said competition was significant factor to their business operation. It can be therefore concluded that competition really affects second hand goods retailers. 46 out of 60 respondents which 76.6% said the main reason for competition

was offer of low prices. The reason for low prices was that some wholesaler also act as retailers. Some traders can afford to travel to Nairobi and get their goods from source without going through the middlemen who bring their goods to Eldoret using lorries. In both cases they can afford to give big discounts therefore it can be concluded the main contribution of competition is the offer of low prices.

33 which is 25% of the 60 respondents were not aware of institutions offering business related training. It can be concluded that slightly over half of second hand good retailers are not aware of institutions offering business related training. Out of the 60 respondents 27 which is 45% which was aware of the institutions offering business related training, only 3 had attended such trainings. Therefore 57 out of the 60 respondents which is 95% had not attended such a training. It can therefore be concluded that formal training in business related courses is very low among the second hand goods retailers.

2 among the 3 trained are the two ladies who had obtained loans from K-REP. The other one was a potential candidate for a loan for he was about to get a loan from WEDCO. Therefore it can be concluded that this training by lending institution is offered to people to be given the loans.

44 which is 73.3% out of the 60 respondents made their sales on cash basis. Therefore it can be concluded that sales by most second hand goods retailers was on cash basis. 16 which is 26.7% out of 60 respondents offered credit sales to their customers. In all the 16 cases each experienced an element of bad debt. It can be concluded that default rate is very high among the debtors of second hand retailers.

Out of 60 respondents 5 which is 8.3% were operating from business premises. 55 which is 91.7% were operating from open air market. Therefore it can be concluded that most of the second hand goods retailers operates from open air market. 47 which is 78.3% out of 60 respondents were using rented stores for storage of their stock. It can be therefore concluded that rented stores is the most used facility to store stocks.

Taking non-financial problems, 44 out of 60 respondents which is 73.3% said competition was the major problem, 11 which is 18.3% said suitable working premises was the major problem, 3 which is 5% said harassment by the local authority was the major problem and while 2 which is 3.3% saw high licence problem as a major problem. It can therefore be concluded that the major problem of second hand goods retailers is competition.

3 out of 60 respondents, which is 5% benefited from the training by being taught bookkeeping and accounts. It can be concluded the training mostly relates to accounts.

5.1 Recommendations

Inspite of the fact second hand goods retailers not having sufficient capital, fear of loss of collateral due to non-payment and lack of those collaterals makes them not borrow from lending institutions.

It is my recommendation that second hand goods retailers organize themselves and form cooperative, savings and credit societies whose rules do not require collaterals but guaranteed from their members. They should also approach those lending institutions which do not require collaterals but group guarantors for their lending. Such institutions include CIPRA International, PRIDE Ltd, etc.

It is also my recommendation that the traders stop being risk averse and approach financial institutions for lending so that they fill the capital requirement gap. The fear they have might not be justified because the two respondents who had taken the loan from K-REP had not experienced any problems.

Training is now pegged to the interest of acquiring a loan. Therefore very few people are trained. It is my recommendation that the training be extended to all. The lending institution can use this training to market their product apart from training the traders.

5.2 Suggestions for further research.

It might be necessary to carry out a study on the default rate on loan repayment and find out from the defaulters how many actually lost their collaterals. This will put more light as to whether the fear of losing collaterals is justified.

It might be necessary to carry out a study on how successful has been micro-financing in Kenya and if necessary how best it can be improved.

REFERENCES

1. Abebe, A: *Savings and Development* No.1 Milan 1987 pg 58
2. Armin, S. *Kenya's informal sector entrepreneurs: an examination of some characteristics and constraints of micro- entrepreneurship*, K-REP Research paper, 1992.
3. Cook, P. and Nixson, F., 2000, "Finance and Small and Medium-Sized Enterprise Development", *Finance and Development Research Programme Working Paper*, No. 14, April.
4. C.M, Baumbach, *How to Organise & Operate Small Business*, Englewood Cliffs, New Jersey, 1988
5. Central Bank of Kenya: Money and Banking in Kenya , Govt. Printer 1971 page 22
6. Dondo ,A,C , ,The status of micro finance in Kenya, K-REP Research Papers, 1999.
7., Kenya Rural Enterprise Programme (K-REP), K-REP Research Papers, 1994
8. Esipisu, E , An In Inventory of Micro Finance Institutions and their experiences with lending, K-REP Research Papers, 1996 .
9. Green, C, Kimuyu, P, Manos, R and Murinde, V, , "How Do Small Firms in Developing Countries Raise Capital?", Evidence from a large-scale survey of Kenyan Micro and Small Scale Enterprises (MSEs), *Finance and Development Research Programme Working Paper*, No. 47, May 2002.
10. Halloran ,J,W , Why entrepreneurs fail. Avoid the 20 Fatal Pitfalls of Running Your Business, 1990.

11. IM Pandey” Financial management”8th editon, Vikas Publishing House PVT LTD, 2000.
12. Levy B (1993). ‘Obstacles to Developing Indigenous Small and Medium-Scale Enterprises: an Empirical Assessment’ The World Bank Economic Review, 7 (1), pp.65-83
13. Liedholm, Macphhrson ,Chuta, (1994). ‘Small Enterprise Employment Growth in Rural Africa’, American Journal of Agricultural Economics, Vol. 76, pp.1177-1182.
14. Littlefield ,E ,L, World Bank Annual report ,Consultant group to assist the poor , 2002.
15. Maalu ,J , Khayesi ,M, Alila ,P , Chitere,P, Kibas,P, Karega,R, Bowen,M, and Onjala,J, Impact Assesment of the WEDCO Enterprises Development Project, 1999.
16. Meyer R.L.; “Financing Rural non-farm enterprises”. Rural Financial Markets in Developing Countries: Their use and abuse. Edited by Von Pischke, J.D. Adams, D.W. & Donald, G. John Hopkins Press 1983 page 113
17. Morris, P & Sommerset, A., African Businessman, East African Publishing House, Nairobi 1971.
18. Mullei,A, & Bokea,C, National Micro and Small Enterprises Baseline Survey, Central Bureau of Statistics, (1999).
19. Mwenda, T “Finding funds for small businesses” The Accountant , Journal of the Institute of Certified Public Accountants of Kenya, Vol. 1X No. 1 / 4 Jan / March 1988 p. 27.

20. Nadler, P. S., "Compensating balances and the prime at twilight", Harvard Business Review. Jan-Feb. 1972.
21. Oketch, H, and Kioko, K, A profile of K-REP's Chikolo groups, K-REP Research Papers, 1993.
22. Parker. J.C and Torres.T.R. Micro and small business enterprise in Kenya of the 1993 National Baseline Survey, K-REP Research Papers, 1994.
23. Parker, R., Riopelle, R. and Steel, W. "Small Enterprises Adjusting to Liberalisation in Five African Countries", *World Bank Discussion Paper*, No 271, African Technical Department Series, The World Bank, Washington DC, 1995.
24. Parris, A.W., The small business administration, Praeger, New York 1986
25. Pride W.M, Hughes R.J and Kapoor J.R, Business, 6th edition, 1999.
26. Polakoff, E. M., Financial institutions and markets, McGraw Hill, 1970.
26. Srinivasan, V. & Kim, V.H.," Credit granting A comparative analysis of classification procedures", Journal of Finance, Vol. 42 No. 3, July 1987.
27. Stanley R.Sondeno "*Small Business Management Principles*"; Business Publication, Inc.Texas,1985
28. Stapleton, R.C., The theory of Corporate Finance, George Harrap & Company, London, 1970.
29. Steel W F and Webster L M . 'How Small Enterprises in Ghana have responded to Adjustment', The World Bank Economic Review, 6 (3), 1992, pp.423-438
30. Turnbull, S. M., "Debt Capapcity", Journal of Finance, Vol. 14 Sept 1979.
31. Van Horne, J. C., Financial market rates and flows, Prentice Hall, 1978.

32. Vandell, R. F. & Pennell, R. M., "Tight money financing", *Harvard Business Review*, Sept. – Oct. 1971.
33. Vidger, L. P., Borrowing and lending on residential property, Lexington books. 1970.
34. Von Pischke, J. D., Adams, D.W and Donald, G., Rural Financial Markets in Developing Countries: Their use and abuse. John Hopkiins Press 1983.
35. Weston & Brigham: Managerial Finance. 7th Edition Dryden Press 1981
36. Weston & Copeland, Managerial Finance, 8th Edition, Dryden Press 1 984.
37. Williams, S. *Small Business Guide*, Lloyds TSB, 14th edition, 2001.

APPENDIX

QUESTIONNAIRE

(A) FINANCIAL FACTORS.

Q1. For how long have you been in this business? Tick where appropriate.

- (a) Less than one year
- (b) one to five years
- (c) Five to ten years.
- (d) Over ten years.

Q2. How is the ownership of your business? Tick where appropriate

- (a) Sole proprietor.
- (b) Family partnership.
- (c) Non family partnership.
- (d) Other (specify) _____

Q3. Are you aware of any institutions offering credit facilities to your type of business?

- (a) YES
- (b) NO

If the answer is "YES" then go to Q4.

Q4. Have you ever borrowed from these institutions?

- (a) Yes
- (b) No

If yes, answer questions 5, 6, & 7.

If No answer question 8 & 9

Q5. What was the amount that was granted? Ksh.....

Q6. What conditions were attached to this loan? Please specify

Q7. Were the conditions favourable.?

Yes ()

No ()

If No, answer question 8.

Q8. Give reasons as to why these condition were not favourable

Q9. What were the reasons for not borrowing from those institutions that you are aware of? Tick where appropriate.

(a) Lack of security. ()

(b) High interest rates. ()

(c) Short credit period. ()

(d) complicated paperwork by lenders ()

(e) others (specify) _____

Q10. What was the source of your initial capital? Tick where appropriate.

(a) Personal Savings. ()

(b) Loans from friends and relatives ()

(c) Sale of personal property. ()

(d) Commercial banks ()

(e) Non-financial institutions ()

(f) Partners. ()

(h) any other sources.(specify) ()

Q11. Which source of finance did you use while expanding your business.?

(a) Retained earnings. ()

(b) Loans from friends. ()

(c) Loans from commercial banks. ()

(d) If others, specify

Q12(a) What are the major sources of your business finance?

Friend and relatives (1)

Commercial banks (2)

Non governmental organisations (3)

Credits and saving societies (4)

Others (specify).....

Q12(b) What are the major problems that you face in raising funds for the day-to-day operations of your business?

.....

.....

.....

.....

.....

.....

.....

Q13. what is the amount of capital employed in your business? Ksh

Q14. Is the capital sufficient?

Yes ()

No

()

If no how much do you consider to be sufficient? Ksh.....

(B) OTHER FACTORS.

Q15. Do you have any competitors.

Q22 Do Yes (1)

No (2)

If yes answer question 2.

If no answer question 3.

3 what's this

Q16. How do they affect your operation.

Offer low prices (1)

Low sales (2)

Has more customers (3)

Other (specify) (4)

Q17. Are you aware of any institutions offering training /seminars on how to run your type of business. (tick where appropriate.)

Yes (1)

No (2)

If yes answer question 18&19.

Q18. Have you attended a course / seminar in any institution.

Yes (1)

No (2)

Q19. Did you find the course/seminar beneficial. (tick where appropriate.)

Q24 Do you Yes (1)

No (2)

Q20. Please specify the benefits. _____

Q21. Do you sell on credit. (Tick where appropriate)

Yes (1)

No (2)

If yes answer question 22.

Q22. Do you experience bad debts.(Tick where appropriate)

Yes (1)

No (2)

If yes go to question 23.

Q23. How much is the total outstanding debt in ksh.....

Q24. What are the effects of these bad debts to your business?

Bad (1)

Worse (2)

Worst (3)

Q25. Do you have business premises.(Ticks where appropriate)

Yes (1)

No (2)

If yes go to question 26

If no go to question 27

Q26. Is premise self owned. (tick where appropriate)

Yes (1)

No (2)

Q27 what is the monthly rent in ksh.....

Q28. Do you consider the rent favourable.(specify)

Yes (1)

No (2)

If no go to question 29.

Q29 why do you consider the rent not favourable.(please specify).....

.....

Q30. In case of no business premises where do you store your stock in trade?

Rented store ()

Other (specify)

Q31. How is the security of the store?

Good (1)

Bad (2)

If bad go to question 32

Q32. Please specify why it is bad.....

Q33. Do you consider the storage rent favourable.?

Yes (1)

No (2)

If no go to question no 34

Q34. Please specify

Q35. What is the major problem facing your business ?

Transport ()

Lack of stores. ()

Suitable working premises . ()

High license fee / High taxes ()

Competitors. ()

Harassment by local authority. ()

Others (specify).....

Q36. What major benefit did you get by attending seminars/course?

Proper planning ()

Bookkeeping and accounts ()

Staff management ()

Salesmanship skills ()

Proper debt management ()

Others (specify).....

EGERTON UNIVERSITY LIBRARY