THE CATHOLIC CHURCH AND MOBILIZATION OF SAVINGS FOR MICRO-ENTERPRISE CREDIT

A CASE STUDY OF RUIRU CATHOLIC CHURCH MEMBERS DEVELOPMENT FUND

BY

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C50/P/8251/01

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR THE DEGREE OF MASTERS OF ARTS IN ENTREPRENEURSHIP DEVELOPMENT, AT THE UNIVERSITY OF NAIROBI

APRIL 2005

DECLARATION

This Project is my original work and has not been submitted in any other University for a degree award.

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This Project paper has been submitted for examination with our approval as University Supervisors.

05/09/2005

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DEDICATION

I dedicate this project paper to my late father Paul Wambaria and my mother Ziporah Wambui for inculcating in me the quest for knowledge.

ACKNOWLEDGEMENT

The successful completion of this project paper is as a result of many personalities and institutions who assisted me in a big way. I would like to express my sincere and immeasurable gratitude to each one of them. In this regard therefore, I would like to thank Professor Edward. Mburugu and Professor Peter Berachesebe Kibas for their timely advice and expertise that successfully saw me through to the end of this research undertaking.

I also wish to thank the officials of the Ruiru Catholic church Members Development Fund (RCCMDF) especially Fr. Martin Njiraini (the Paish Priest) , Mr. Joseph Muragu, (chairman), Mr. Macharia (Operations Manager) and the entire staff members.

My special appreciation goes to my dear wife Mary Wachuka and to our children for their unfailing prayers, unfeigned love, encouragement and moral support that they accorded me throughout my graduate studies the research period.

I would also like to thank Mrs. Leah Njuguna who has been typing this work during her free time at no cost from the start to the end.

Lastly, I wish to extend my sincere appreciation to all my research respondents and my key informants and the members of RCCMDF.

ABSTRACT

This study was about the role of the Catholic Church in the mobilization of savings for the Development of micro-enterprise credit. The study was meant to establish the role the religious organizations can play in uplifting the living standards of the poor members of the society. The church must be in the frontline in terms of fighting poverty. In the Old Testament we are told "if one of your kinsmen in the community is in need in the land which the Lord, your God is giving you, you should not harden your heart nor close your hand to him in his need "Deut. 15:7. The presence of the poor would be against the vision of prosperity promised by God to the entire people. Therefore, the church has the cardinal duty to cater for the physical needs of the faithful. However, resources are scarce and therefore it is not possible to ditch them out for free and hence the need to facilitate the borrowing and lending of financial resources.

The study therefore attempted to establish the savings-motivating factors that attract people to save and borrow from a church based organization. The study was also meant to establish whether all people who save with the Ruiru Catholic Church Members Development Fund (RCCMDF) put into proper use the funds borrowed. Have the loans borrowed made any impact to the lives of Fund members?

The research was conducted at Ruiru Municipality about 27 Kms North of Nairobi. A sample size of 90 respondents was drawn using multi-stage cluster sampling procedure and information was obtained from respondents through the use of interview schedules. The data analysis and presentation entailed the use of tables frequencies and percentages.

Concerning the social characteristics of the respondents the study found that majority of the RCCMDF members 74.44 % were aged between 31 and 50 years. Nearly 8% out of the respondents were aged between 51 – 60 years while only 1 (2%) was over 60 years old. The study also found that 17(18.8%) had some primary education, 59(65.6%) had secondary education and 10(11.1%) had some college level of education. The same community was also benefiting from the entrepreneurs set up after getting the loans from the fund through getting the jobs created therefrom.

Most of raw materials used by the entrepreneurs were sourced from the local community.

In view of the findings the study gave the following recommendations among others.

1. Training the entrepreneurs on business management, bookkeeping and marketing skills should be introduced.

2. Proper usage of savings services in respect to providing capital reservoir for onward-lending, developing the borrowers (clients) base for the future use in areas like evaluation the credit worthiness of the borrowers among others.

3. Promotion of the micro- enterprise vertical growth through training in various business aspects.

4. The RCCMDF should be encouraged to graduate into a village bank.

5. Loan repayment and guarantee policies should be reviewed with a view of making them more friendly and in conformity with the modern loaning systems.

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LIST OF ABBREVIATIONS AND ACRONYMS

DEUT.	-	Deuteronomy
GOK	-	Government of Kenya
HIV	-	Human immunodeficiency Virus
ICDC	-	Industrial Commercial Development Corporation
I/MSE-		Micro and Small-Scale Enterprises(s)
I/SSE	-	Informal/Small Scale Enterprise
KIE	-	Kenya Industrial Estate
K-REP	-	Kenya Rural Enterprise Programmed
KShs.	-	Kenya Shilling
MFI	-	Micro-finance Institution
NCCK	-	National Council of Churches o Kenya
NGO	-	Non- Government Organization
RCCMDF	-	Ruiru Catholic Church Members Development Fund
ROSCAS	-	Rotating savings and credit Associations
SMES	-	Small and Micro-enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The studies done by Daniels et. al, (1997) in Kenya show that lack of credit, whether for fixed capital, working capital, or other type is a major constraint accounting for 32.7 per cent of firms in the small enterprise sector. Therefore most of small-scale businesses rely primarily on own savings and reinvested profits for their business finance. When one compares the Kenya National Baseline studies of 1993, 1995 and 1999 it is clear that very small improvement has taken place i.e., 9 per cent of major small enterprises accessing credit in 1993 to 10.8 per cent in 1999. Further still formal credit increased from 4 per cent to 5.7 per cent only. This is a reflection of an increase of NGOs from 46 to 130 between 1995 and 1999 (Oketch, 2000). However, many of these NGOs lack enough financial resources and also few have systems and organizational structure to support large micro and small enterprises.

Formal institutions like commercial banks perceive lending to micro-enterprises as a very risky venture. They also consider high transactions costs in lending to these enterprises as impediments. So wherever the banks have lent to small enterprises sector, they have only done so as conduits for funds externally sourced from donors and guaranteed by the government. These banks can only lend against collateral (KIPPRA, 2000) – It is against this background that the Catholic church saw the need to start the Ruiru Catholic Church Members Development Fund (RCCMDF).

The Ruiru Catholic Church Members Development Fund is a Project, which provides Micro-Financing services to its members. It is under the Catholic Church Archdiocese of Nairobi; - Pastoral Development Education Programme Self Help Programme.

Father George Bezzina in Ruiru Parish started this Project on 19th March 1995. The main aim was to assist the poor church members who would like to start up income generating projects but could not access credit from the commercial banks and other conventional financial institutions.

It started with a zero capital base but after mobilization of savings the members share capital grew to Kshs.66.5 million with a membership of 10,257. (RCCMDF Final accounts 2003). The Fund's Membership is open to all Catholic Church members and non-catholics who have been introduced by a Catholic Church out- station church committee. Non-catholic church members cannot participate or be elected in the Management or any other Committee of the Fund.

The Catholic Church has chosen by starting this development fund to be a partner with government in poverty-alleviation, which has engulfed this country since the 1980s due to economic hardships and famine among others.

The church through its membership and the trust that is bestowed on it by the faithful has managed to convince them that the solutions to their problems can be gotten from the resources available in their midst. Through individual savings and without looking upon the donors, government and non-governmental organisations (NGOs), they have managed to build a capital base of more than Kshs.66.5 million from which they can borrow. This amount is enough to help them in setting up a village bank. This institution's banking approach to rural development can only be realised "through strong local institutions, rural resident's capacity to determine and control their own affairs" Brant et al ,(1982).

In most cases than not, local level justifications for development are owned or controlled by the Governmental or by NGOs. Past studies seem to have ignored the potential and ability of religious organizations like churches in facilitating the mobilization of savings and Micro-financing without looking for potential donors whose conditions may be incompatible with the communities needs.

The potential of the religious organization cannot be underestimated. This potential ought to be utilized to the maximum "in developing countries, whose financial resources including deposits and credit facilities for Micro-financing entrepreneurs, are grossly underdeveloped (Seibel,1998). Such mobilization of savings and credit delivery has the potential of becoming the bedrock for a successful programme of credit for the poor of the poor. Institutions set this way becomes the creature, owned and controlled by their members. Thus, creation of a sense of belonging and ownership. It gives the poor, the dignity and self-confidence that poverty had denied them. This human dignity and a sense of self-reliance eventually becomes the pillar of their success.

Formal banking institutions have very little if any, programs designed to cater for the financial needs of the poor majority. "Their requirements on collateral, high transactions cost associated with lending small amounts, heavy concentrations in urban areas, have combined to deny the poor easy access to formal financial services (K-Rep Jan, 1998). The rising level of unemployment demands that we work for alternative forms of financial delivery, which will focus on, the financial needs of the poor and the Micro and Small Enterprises.

The Government of Kenya on the other hand has shown support to this sector through coming up with various policy and development papers. Examples of such papers are:-

(a) Session Paper No.2 of 1986 who's theme was "Economic Management for the Renewed Growth". This Paper recognized that this sector could help in the creation of jobs.

(b) Session Paper No.2 of 1992 "Small Enterprises and Jua Kali Development in Kenya" whose aim was the creation of an enabling environment on regulatory restriction on informal sector.

(c) Session Paper No.2 of 1996 more than anything else stressed access to credit, land and infrastructure training .

The subsidized financial programmes which are supported by the Government, Donor Community and NGOs focusing on the poor and disadvantaged have failed to create sustainable financial delivery mechanism as earlier intended. These programs seems to have the negative effect of weakening the poor man's enterprises ability to graduate from the beneficiary status to a more formal financial institutions client.

It is against this background that alternative credit delivery mechanisms is a necessity rather than a privilege. Poverty and unemployment are problems that all and sundry must employ an extra ordinary effort in combating. After all, preaching to a hungry man is useless.

Jackelen et. al, (1991) argues that when MFIs have easy access to cheap rediscount facilities and soft donor loans, mobilization of local savings is discouraged. The result of continuous support from donor community in form of grants, concessional loans and technical assistance is that several MFI's attain high level of subsidy dependence. In such a situation, the institution management systems respond to donor requirements, which may not be guided by economic principles. Such donor-guided programs may not be in the social economic interest of the recipient communities. Therefore, to avoid being over dependent on donor-aided projects us, the citizens of this country have a noble duty to create a conducive atmosphere for the development of a local social intermediation, which will result to investments in human resources and local institutions needed to help the marginalized groups in becoming self reliant. In this endeavor therefore, the religious groups and in particular the churches have played critical roles as change and development agents in the social economic, environmental and political spheres. An example of this is where the NCCK pioneered in availing loans to medium and small enterprises in 1975. It started with US$10,000 from USAID. Also in January 1987 the Kenya Rural Enterprise Program gave NCCK KShs.11,724,293 to implement credit schemes for Micro-entrepreneurs through their Nakuru, Mombasa and Kisumu branches. By 1992 the repayment of these loans had a diligent rate of 53%. The overall goal of their project was to improve the standard of living of the economically poor entrepreneurs in the informal sector Mwinaki et al,(1992)

1.2 Problem Statement

For a very long time most of the religious organizations have been taken by the society to be the sources of spiritual nourishment and a source of small handouts for survival commonly known as alms. The advent of poverty and unemployment in our country demands that, we use the alternative available forces in raising seed capital for small-scale businesses with an aim of alleviating poverty. In Kenya, like in any other country in the developing world, there is a serious shortage of seed capital and thus, this study was an attempt to understand the role the church can play in bridging this micro-finance void. Limited information presently exists on the role the churches can play in mobilization of savings for micro-enterprise credit despite the fact that churches are very big social investment.

1.3 Objective of Study

The general objective was to investigate the role played by the church in mobilizing savings for micro enterprise credit and how this had impacted on the targeted beneficiaries. The specific objectives of the study were:

1. To determine the factors that influence savings by members of the Fund
2. To determine the effective use of the credit by micro enterprises.
3. To determine the problems that hinder the growth of micro enterprises that receive loans from the Fund.
4. To determine the impact of the loan from the Fund on the enterprise.

1.4 Research Questions

In this endeavor, the study was guided by the following research questions: -

1. What factors motivate a member to save with RCCMDF?
2. How do the members utilize the loans from the fund ?
3. What are the problems that hinder the growth of micro-enterprises that receive loans from the Fund?
4. What is the impact of the loans from the fund to the members' enterprises?

1.5 Significance of the Study

The role of financial savings in capital accumulation and sustainable economic growth and development cannot be over emphasized. Kenya must therefore employ an extra ordinary effort in encouraging domestic savings in order to develop a micro-enterprise base if an economic take off is to be realized.

Most of the studies in this sector have only targeted financial intermediations that are donor funded. Thus there was need to study a saving - mobilization based microfiannce institution with a local touch like the RCCMDF which depends on locally available financial resources. Further still the results of this study can enable the other churches, NGOs, Governmenents, donors and other funding agencies to redefine some of their objectives and identify micro-enterprises, which have the potential of proper utilization of loans.

Information on the utilization of loans and the barriers that hinder the growth of micro-enterprise can help in identifying the training needs of both the micro-finance institutions and the borrowers. The policy makers can also use this information and the formal financial sector in designing future polices on the mobilization of the domestic savings and micro enterprise credit in Kenya.

The outcome of this study was to make available empirical literature on the role that religious groups can play on savings mobilization for micro– enterprise credit. This would result into proper utilization of locally available social capital.

1.6 Definition of Terms

1. **Micro-finance:** This refers to small financial services – basically credit and savings extended to people who operate small enterprises or micro enterprises.

2. **Micro-enterprises**: These are small-scale enterprises operated by people like the hawkers, roadside sellers, small-scale shopkeepers etc.

3. **Poverty:** This is lack of access to tangible basic needs such as food, clothing, shelter, water, health and education.

4. **Age:** This is the time that a lending organization considers to be appropriate or eligible for micro finance services(s)

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers the relevant literature that relates to the mobilization of savings for the development of micro-enterprise credit. Most of these studies in this area have been done on the role the NGOs, informal and formal financial institutions, and the role government institutions play in the development of this sector. The literature on the role the religious organizations can play in this sector seems to be lacking as very little research has been done in this area.

In this sector, various works touching on this sector both in our country and abroad will be examined in line with themes and major findings. Therefore, in line with the intended study, this chapter will cover the roles of both the church and the government in mobilization of saving for micro-enterprise credit in pursuance of poverty alleviation. It will also address the importance of credit to small enterprises development, the factors that motivate people to save with financial institutions, the utilization of loans and finally the social characteristics in terms of gender status as it relates to savings and borrowing.

2.1 The Role of the Church in Poverty Alleviation

For a very long time the Catholic Church has not been in the front line in terms of fighting poverty through income generating activities as has been the case of other mainstream churches like say the Angrican Church of Kenya. Its emphasis has been on charity and giving of alms to the poor. The main sources of information that guide the Catholic church in the poverty alleviation are the Bible, the Papal teachings contained in Papal Encyclicals that give the social teachings of the Catholic Church.

The other sources of information are documents of the second Vatican council, commonly called the Vatican II.

The church (Catholic) argues that development cannot be limited to mere economic growth. They do not believe in the separating the economic from the human being or development from the civilization in which it exists. So the church looks at the faithful as people "endowed" with intelligence and freedom responsible for their fulfillment as they are for their salvation. The church has inherited from the past generations and have benefited from contemporaries and the church for this reason have obligations towards all and cannot refuse to interest itself in those who come after us (Pope Paul VI,1967). So if we can't develop today and continue to wallow in poverty then we shall have nothing to be inherited by the future generation. This would be dangerous to us today and to the future of the Church.

The church therefore believes that people should live in conditions that are more human, increased esteem for the dignity of others, the turning toward the spirit of poverty."Blessed are the poor in spirit theirs is the Kingdom of heaven" Mat.5:3

So it is everybody's duty, the church included, to alleviate poverty. The taps of aid money are running dry and therefore like every other institution the church has to change and become innovative. "Fill the earth and subdue it (Gen. 1:28). So in the first page of the Bible we are taught that the whole of " creation is for us. It is therefore our duty to develop it using the available resources in order for it to furnish each individual with the means of livelihood and instruments for growth and progress (Pope Paul VI,1967). The gap between the rich and the poor is increasing every day and the church, just like every one of us has a duty to narrow that unfortunate gap.

The Bible talks very widely about how the faithful should treat the poor who live amongst them. In the Old Testament, God is telling the Israelites that "if one of your kinsmen in the community is in need in the land which the Lord, your God is giving you, you should not harden your heart nor close your hand to him in his need" Deut 15:7. So, the presence of the poor would be against the vision of prosperity promised by God to the entire people. It is therefore the duty of the church to alleviate the physical needs.

The late Bishop Okullu argues in his book, " Church and State in Africa" that the church in Africa has been slow in giving guidance which African nations have needed in working out their national aspirations. To him the church does not claim temporal power over mankind but has a divine duty to appeal to their hearts and consciences. Therefore, the church and state are partners in the development of a healthy and viable society in the moral and material development of the people (Okullu , 1984). Mbiti,(1971) further argues that in matters of politics the church should not sit on the fence as spectators but should instead get fully involved in political development because the church has a duty in removing injustices, corruption, exploitation and bringing about reconciliation in the society (Mbiti, 1971).

However, both Okullu and Mbiti have not explained how the church can play its role in political and economic development. It is the role of the church, therefore to come up with innovative ways of doing this.

2.2 The importance of Credit to SMEs Development

In Kenya, financial problems are the main reason why relatively few I/SSE, graduate into medium and large enterprises. The rampant scarcity of finance has led to most of MSEs to rely primarily or exclusively on own savings and reinvested profits for their businesses finance (Mullei et. al,1999). The business that access credit as well as other inputs have survived longer and in addition were able to expand more than those without access (1bid:39). In particular lack, of adequate capital, mainly affects those in the manufacturing and vehicle repair, service sub-sectors who require relatively high seed capital credit. Inadequate capital may also lead to suboptimal levels of production and employment and thereby reduce incomes of those engaged in the sector and retain its place of growth and development. Ochieng in Mccormick et. al,(1994).

It is therefore, imperative to note that all enterprises require capital to enable them to expand their businesses. It is clear that adequate working capital is a major constraint to expanding the business and improving their activity (Ondiege in McCormick, 1996)

2.3 The Role of Government Policies in SME Development

At independence, the government of Kenya strategies on industrialization was to employ most of its energy on large-scale modern enterprises and the SMEs were ignored. However, in 1967 the Act establishing the ICDC came into existence. The purpose of establishing the ICDC was to provide financial and technical assistance to both industrial and commercial enterprises. In the same year, 1967, trade and licensing Act was created to open commerce to indigenous Kenyans.

In the second, National Development Plan (1970-1974) the government put allot of emphasis on the development of small-scale industries. This was part of the Kenyanization of the economy (GOK, 1970).

It was in the International Labor Organization (ILO) report on Kenya (1972) that the term informal sector was first used to describe the portion of the urban economy that is not taken into account in the formal statistics. In reaction to their report, the government came up with the sessional paper of 1973 on employment. Further still, the government gave attention to the informal sector in Its Development Plan (1974-1978), which recommended the establishment of the Kenya industrial Estates and the Rural Development Centre. The harassment by the local government Authorities was to be curbed through the review of the central government regulations to small and medium scale enterprises.

In the fourth Development Plan, (1979-1983) there was a purpose to support the small-scale manufacturers and exploitation of the potential of the informal sector. Kenya industrial estate was to be promoted such that it would serve every district in Kenya. In this plan the laws and regulations that inhibit the growth of the informal sector were to be reviewed. It (plan) also encouraged subcontracting between small manufacturers and large enterprises. Kenya External Trade Authority (KETA) was to assist the handcraft purchases to modify and adopt designs to meet export market requirements. Unfortunately, the level of implementation of this plan was very low (GOK, 1979).

In the 5th Development Plan (1984-1988) the government support was directed more towards the small modern industries. The plan distinguished, by definition, between small and cottage industries. Small industries had higher investment and employees than the cottage industries which typically had less than Kshs. 50,000 worth of investments and less than six employees. The failure in the implementation of part of the proposals was evident from the fact that the establishment of small Industries Division in the ministry of commerce and industry to monitor and coordinate the implementation of development programmes of small industries and to provide assistance to the industrial extension service was not set up. The development of typical rural small industries was to be encouraged through the KIE (GOK, 1984).

In the sixth Development Plan (1989-93) the strategy was to offer direct assistance to the sector, although efforts were made at improving the management, handling of default problems and disbursement of loans, increasing spatial coverage, and incorporating private sector participation in the provision of help to the sector.

The government in a more specific way, sought to improve the enabling environment for the sector by policy resulting an liberalization covering the pricing structure, trade regional liberalization, foreign exchange management, wages and investment policies and financial restructuring. Further, the government was to amend the rules and regulations inhibiting the development of small scale and Jua Kali enterprises (KPPRA, 2002).

In the sessional paper No.2 of 1992, the government proposed credit policies that would alleviate the problem of credit to small-scale businesses. The paper noted that banks fail to lend to small enterprises for a number of reasons including part experience with MSEs which generated a mind set in the formal financial sector about the high risk and cost of lending to the sector. There were also adverse regulations that restricted the flow of funds to the MSE sector. In order to ensure a good flow of funds to the sector more funds were to be increased (KIPPRA, 2002).

The 8th National Development Plan 1997 to 2003 Encouraged Domestic savings in order to form the driving force for rapid indoctrination. This domestic savings arises from the corporate sectors, retained earnings or household savings (GOK, 1997).

In order to enhance the rapid growth of the sector during the plan period, the ministry of finance, local Authorities and other relevant ministries were to collaborate with the private sector, NGOs and Community based organizations so as to develop and review the legal and regulatory environment for the informal sector activities, formulate development programs and finance among other things (GOK, 1997).

The implementation of this proposal has not been fully implemented. The local authorities by - laws that inhibit the growth of SMEs are still in place. Therefore, access to cheap credit from the formal financial institution is still a dream several years down the line.

Inorder to address the issues and problems in the SME sub-sector as proposed by the Development Plan, measures will be taken to create a positive legal and regulatory environment by decentralizing registration of business names to district level.

The elimination of the trade licensing at central Government level, harmonizing, rationalization and implementation of single business permit system are also in the pipeline. Other measures include reviewing labor laws, relaxing business regulations and broadening access to finance, eliminating the problem of the information dissemination on legal and regulatory issues and enacting the MSE Act (GOK, 2002) .

2.4 Mobilization of Savings and Loans

In Kenya, accessing credit from the formal financial institution is not easy. Most of the businesses are started from personal savings and loans from friends, or even family members. Access to credit is no panacea to the development of SME for credit problem in some cases may be a symptom of other problems in the business like use of appropriate technology and ma᛫keting difficulties.

On other hand the availability of formal financial resources accessible to the poor members of the society is inadequately small. This disparity may be attributed to the intrusive weaknesses embodied in the existing financial delivery systems, key among these weaknesses are:

- Lack of comprehensive policy guidelines addressing the credit needs of the poor.
- Failure of the existing formal financial systems to meet the unique financial needs of the poor.
- Failure of the other alternative financial systems to realize that expected outreach and inability to create viable financial institutions (Aleke, 1989,Oketch et al. 1995).

Most of the local informal credit organizations are tailored along the Grameen Bank Informal credit model, which has been very successful in the Asian countries. However, failure to replicate success of the Asian countries has really disappointed the informal credit programs. There is rising concern as to whether donor funded programs will attain expected sustainability and whether they will be able to "cope with dwindling external support and whether they are in a position to meet even increasing demand for financial services among the poor (Aleke , 1991).

Recent studies have shown that even the informal financial institutions have their voluntary savings even among the poor and it is therefore defects in policies rather than difficulties in the savings behavior of the poor that constraints their savings-mobilization through finance institutions – (Rahyne et al, 1991). According to Ngugi (1991) the precarious social economic conditions under which they (formal institutions) operate dictates that they should have a higher propensity to save than the rich. Ngugi (1991). So, there is no need to assume that only the rich can save. A serious MFI should know that it can also operate economically even among the poor.

It is only in recent times that savings mobilization has been recognized as a major force in microfinance. For a long time microfinance focused almost exclusively on credit and the savings were the "forgotten half" of financial intermediation. The perception was that low savings capacity and low demand for deposit facilities existed. This perception has been chattered in the last decade, as it is now generally acceptable that households will deposit their surplus capital in financial institutions if the institutions are appropriately structured and offer the client savings products that meet their specific needs. If demand-oriented deposit facilities are embedded in appropriate institutional settings, they may achieve a level of outreach and impact that credit – only facilities cannot achieve (Fiebig et al, l999).

Many microfinance institutions (MF1s) offering only credit for micro entrepreneurs face problems of inefficiency and instability. Most MF1s have not reached financial self-sufficiency in terms of being fully financed by clients savings and funds from formal financial institutions (Rhyne et. al 1992).

The reason as to why many MF1s experience low levels of savings mobilization may be attributable to the fact that many of them began their operations as channels for external funds from the governments and/or donors. They were not supposed to act or develop into formal financial intermediaries for micro entrepreneurs, offering deposits and other financial services (Fiebig et. al l999).

MF1s mobilization savings are likely to have a better governance structure than credit – only MF1s because their leadership is not required to answer to a long chain of government officials, development parishioners and donors; but and answers directly to their clients, depositors and borrowers. The regulatory and supervisory frameworks of deposit-taking MF1s are very strict with requirements that necessitate that they (deposit-taking MF1s) adopt additional and higher management capabilities than exclusively lending institutions. Such strong legal requirements to protect the public savings and therefore ensures high management standards. Ibid: 35.

2.4.1 Involuntary and Voluntary Savings

Involuntary or forced savings perceives savings as an integral part of credit;where savers learn financial displine and quality for credit by a convincing savings record. Voluntary savings mechanism assumes that savings and credit are an integral component of financial inter-mediation and that savers already know why and how to save (Robinson ,l996).

In forced savings, part of the credit disbursed is withheld and transferred to a deposit account in the MF1.The reason for encouraging forced savings is based on the belief that the process of small, regular payments will contribute to the repayment performance. Such savings programmers restrict opportunities to withdraw them and utilize them as collateral substitutes (Hupi et al, 1990).

As these compulsory savings grow, clients become eligible for larger loans.
The weaknesses of involuntary savings are:

- Involuntary savings have not developed that intended investment culture among the poor.

- Money mobilization from the poor are deposited in commercial banks whose programs do not focus on the credit needs for the poor,

- Programs outreach is limited and has not been able to meet the growing demand for credit among the poor (Okech et al. (1995): Aleke.(1991).

The shortage of credit has been identified as one of the most serious constraints that are hindering the development of the SME in Kenya.

2.4.2 The Factors that influence Savings

The savings profiles of the poor can be based on six cardinal factors that influence the poor peoples decisions on savings:-

- Close proximity service provider to the operation area of the poor.

- The cost of the service (interest rate) should be affordable,

- The ability of the service provider to provide short-term loans.

- Flexibility in loan security requirements.

- Be non- discriminatory in service delivery.

- Be simple in design and user friendly both in verbal and written communication etc (Hamish, 1996).

An organization, which operates on the above mentioned principles is likely to be viewed as customer friendly. The poor members of the society will look at it as an organization that is interested in helping them solve their social and economic problems.

The studies done by Ngugi ,(1991), (Reyne Otero,(1991), Robinson ,(1992) among others indicate that the one of the reasons why poor people save is for emergencies that may arise at any one time. This is because the poor have no insurance to cater for such eventualities. They also save for consumption during the period or season when no income is forthcoming. Households can also save in order to invest in various ventures including education for their children. Further still, they can also save for retirement or even for social or religious festivals. Other scholars like Robinson (1994) seem to agree with the above-mentioned scholars to a certain extent. Robinson (1994) gives the possible decisive motives of savings as:-

- Insurance against disabilit;, disease, retirement, sudden income losses and other contingencies;

- Safeguards against uneven income due to seasons variations (savings during high income periods are used to finance consumption expenditures during low-income periods)

- Wealth accumulation to finance a households long term goals

So, one would correctly argue that in this era of money economy, nobody, the poor included, can afford to ignore savings in whichever form. Most of the social and economic problems are unforeseeable and hence the need to save for that so called the "rainy day". Money being the most highly used measure and storage of value in our society today would then play a big role towards this end. There is therefore need to encourage people to save either for future usage or for micro finance credit development among others.

2.5 The requirements of Accessing Credit from MFIs

The shortage of credit has been identified as one of the most serious constraints that is hindering the development of the SME in Kenya Oketch et al, (1995),(Kirui,1991). Therefore, accessibility of loans is very important to any person in business. The seed capital, as earlier argued may not be the panacea to all problems but its, role in business development cannot be over emphasized. Past researches have ranked it as the most important factor in enterprise development.

In most MFIs there is a requirement that a member saves first before accessing a loan from them. Graham Wright: (2000) talks of "Hot Vs. cold money." Cold" money in this case is the money provided by outside agencies while 'hot' money is the one that is provided by oneself and immediate friends and neighbors. Wright continues to argue that borrowers are much more likely to be committed and conscientious about lending "hot money". According to him many of the large financial service organizations in India (credit Unions) are not willing to accept 'cold' money for fear of reducing the discipline within their members Wright (2000). So in the case of RCCMDF the mobilized savings for micro -finance credit can be correctly referred to as 'hot' money, which members would consider as theirs and hence see the need to faithfully, expedite loan repayments. The RCCMDF members save first before accessing loans.

According to Meyer (1988) emphasis on mobilizing savings can reduce the overall level of outside capital needed by the micro finance institution – thus allowing development funds to be spread further and permitting the institution more flexibility in its working methods. In other words, they (lending institutions) can develop lending programs and practices more appropriate to the needs and capabilities of the local customers. Jackelen et al, (19991) argues that when, a project like this is donor funded, the institution management systems are likely to respond to donor requirement guided by good social economic interests of the recipient communities.

So, going by the above arguments one can argue that when the members of MFIs are socialized to believe in their ability to save and thus develop themselves through borrowing from the same collective savings, they gain a lot of self-confidence and develop a sense of ownership of the institution in question .This sense of ownership will in return guarantee the sustainability and stability of the financial institution for the common good, of members

After saving the MFI must then ensure that loans borrowed are repaid in time as the credit side of the MF's activities are its source of income, and therefore of particular importance. Before a member gets a loan guaranteeship is mandatory. The guarantee-ship could be from self or from a guarantee group. International experience has shown that loans given on an individual basis are more easily collected. This is due to several reasons. First the group may be dominated and run by one individual within the group. There may also be disputes within the group on who has what responsibility in the group. The second problem is that the group guarantee principle is based on individual members of the group pressurizing one another or supporting one another to repay their individual loan Wright (2000). The loan can also be guaranteed by the Guarantee Group(s). This mechanism is the one used by MFI to lend to group members without stringent loan collateral requirements. In this case, the group members commit themselves to repay the loan in case the borrower defaults. This approach makes use of both peer pressure and peer support to bring about strict credit discipline in the group. So in case a member of the group defaults in his/her loan obligation, then the MFI can lien the assets of the group or the personal assets of the group's members including their individual share capital Ibid: 2000. In such circumstances social bonds that hold the society together are created and sustained for the common good.

2.6 Utilization of Loans by Members

The credit projects all over the world are faced by the problem of loan diversion. Loan diversion in this case means borrowers using the loans not for the purposes given the loan application form(s) or prescribed by the project; but for another pressing purpose (Wright, 2000).

According to Kibas (1995) loan utilization can be reinvestment in the business, diversion into existing domestic use or purchase of fixed assets. So loans borrowed in good faith end up being diverted for non-productive purposes to meet emergencies like medical or education expenses. Loans can also be diverted because the borrower sees another more viable or lucrative opportunity. So the MFIs must understand the complex household economies so that it can address other needs and opportunities that are the root cause of loan diversion. To tie loans to specific uses without addressing other needs and opportunities is being naive at best (Kibas, 1995). So, due to the foregoing most successful MFIs world-wide do not tie their loans to specific types of projects, and where their policies insist on providing their general loans only for "productive purposes, almost invariably have a mechanism to provide credit facilities to meet providential needs, or simply turn a blind – eye (Wright 2000).

The most interesting thing based on gender is that experience all over the world indicates that women are very reliable micro finance clients in that they are more disciplined both in savings and loan repayments. (Goetz et. al 1996). Therefore an adequate supply of micro savings facilities will supply much – needed services to women, especially considering the fact that those women are the poorest part of the society. This mobilization of savings also enables women to enter the financial system by building their own financial security. This also strengthens womens' economic and social independence. In any society anywhere in the world it is recognized that funds managed by women have a greater effect on the welfare of the entire family. Fiebig et al, (2000). This research therefore will establish whether the fund (RCCMDF) services have benefited members without any discrimination based on gender.

People of different sexes at times go into business with different goals in mind. Women for example may go into business to feed the family and educate their children, (Downing 1991) while men generally undertake business risks in pursuit of profits. Going by this, one can see that both sexes have different credit needs. But according to the 1999 National baselines survey even where women manage the business the men still control the finances. This has a bearing when it comes to accessing credit by women. The lenders will always fear that the spouse may misappropriate the funds and hence inhibit the loan repayment. The other reason why women find it hard to access credit is lack of collateral as the resources such as land that can serve as collateral are owned and controlled by men. The other problem, which is still related to this, is the society's negative attitude that perceives women as uncreditworthy.

2.7 The Constraints that Inhibit the Growth of Borrowing Enterprises

The constraints to the growth of micro-enterprises in Kenya can be classified as those that are external to the enterprises and those that are internal. External constraints affect the demand of the some products while the external (constraints) impeded the supply of such products. The biggest external impediments are the domestic - policy environment. A combination of macro – economic instability, distorted incentives and weak institutions are the ones that create a different external environment. On the other hand internal constraints include among others limited access to credit, low management skills, poor infrastructure, limited access to markets and market information, low technological skills and adoption, as well as some gender issues (KIPRA, 2002).

According to Kibas (1995) the major constraints that affect the growth of micro-enterprises in Kenya are shortages of capital, domestic problems, bad debtors, economic uncertainty, shortage of raw materials, lack of adequate demand for the products, lack of suitable premises and lack of business management skills. Virtually every research conducted in Kenya and the world as a whole has identified lack of capital as the biggest constraints to business growth and sustenance. According to the National Baseline survey (1999), lack of credit was identified as the most constraining factors to business operations and hence contributing to 33 per cent of business closures. But still one is left wondering whether shortage or lack of credit could be the primary or the secondary cause of all these closures. Some scholars have identified other serious constraints that could be the primary problems. Rukunga (1999) indicates that most micro-enterprises do not keep proper records and most of the entrepreneurs do not pay themselves salaries which leads to cash withdrawals from the business as need arises. Such withdrawals can exceed the earned income and hence lead to reduction of working capital

2.8 Summary

From the foregoing literature review several issues arise. The businesses that require high seed capital are affected more by lack of capital. Examples of such business are those in manufacturing and motor vehicle repair sectors. It is also clear that the government has a role to play in the creation an enabling business growth environment. This can be done through coming up with policies that favor business growth .From the same literature it has come out clearly that the church has a big role to play in the development of micro-enterprise credit. This will promote business development that will go along way in the poverty alleviation. It has also come out clearly that MF'S that involve themselves in both savings and credit services are likely to do better than the ones which involves themselves exclusively on credit services only.

It is also clear from the literature that people save for different reasons. Examples of such reasons are insurance against unforeseeable eventualities, wealth accumulation, safeguards against uneven income among others. On loan utilization it is clean from this literature that not all loans borrowed from the lending institutions are properly utilized. Some are diverted to other uses and hence the need for them (MFIs) to understand the complex household economies so that they can address other needs and opportunities that are the roost cause of loan diversion.

It is also very clear that for the survival of any MFI there is need to ensure all loans are secured in one-way or another. The potential loan recipients must also save before accessing credit. The Major constraints that affect the growth of Micro – enterprises in Kenya are shortage of capital, domestic problems bad debtors, economic uncertainty among others.

From the foregoing, it is clear that very little research has been done on the role religious organization can play on the development of micro enterprise credit despite the fact that they are a big social investment. If the society can use the religious organizations` network how much can the society gain in terms of poverty alleviation? A lot by any standards.

2.9 Theoretical Framework

Kerlinger (1988) defines a theory as a set of interrelated concepts, definitions and propositions that pursue a systematic view of phenomena by specifying relationships among variables, with the purpose of explaining a phenomenon. It is therefore imperative to note that a good social research must be grounded or informed by a relevant theory or theories. This study therefore, was informed by two theories namely, the exchange theory and the rational choice theory.

Hormans (1961) exchange theory argues that individuals enter into exchange relationship in which social rewards and costs play a role in determining their choices. This means that social interactions are likely to continue when there is exchange of rewards. (Blau, 1964) further argues that it is important for a person to impress others that he or she is someone with whom it will be rewarding to associate with. This way, people operate under the principle of reciprocating what others had done to them. After the actors or the group members receive the rewards that they expected the group becomes cohesive. This can further explain how and why groups like RCCMDF come into existence. They always expect that those who receive loans to reciprocate by repaying in time so that others can also borrow. The fund also must meet its obligation by ensuring that members get loans as and when they apply for them.

Blau's, (1964) rational choice theory on the other hand is interested in how the structure of the organization is sustained by the actors engaging in exchanges between themselves based on rewards and risks. So to Blau's Rational exchange theory refers to a form of social activity that gives rise to different forms of associations and different organizations forms. Therefore, Rational Choice Theorists believe that individuals or group members must be able to anticipate the outcomes of alternative courses of action and choose that which will be best for them. Therefore, a rational individual(s) will always choose the alternative that gives the greatest rewards and satisfaction (Frank, (2000).

The two theories are relevant in our study because they explain how the members of the fund (RCCMDF) enters into relationships with one another because of their perceived 'gains or benefits' and these relationships have over time evolved into a big micro finance Institutions. The benefits are in form of loans and other financial services like savings and business advisory services. Exchange among rational individuals has led to the formation of loan guarantee groups or one to one loan guaranteeship.

Blau's (1964) argument on how the structure of the organization is sustained by actors engaged in exchanges between themselves based on rewards and risk helped in the understanding of what holds the fund membership together. The aim of the members collective network is to reduce risks and cost and maximize the rewards for the members in form of good micro finance services.

So, these two theories therefore increased our understanding of why organizations like micro finance institutions come into being with the objective of improving and accumulating social capital. Frank (2000) define social capital as that which is created when the relationship among persons change in ways that facilitate action. The funds members in this case have formed partnerships among themselves through the formation of loan guarantee groups, which facilitates social interactions. These groups further assist members in guaranteeship of loans, which helps them in their social and economic development.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter will cover the research design and methodology. It will describe the site, the sampling techniques, the sampling methodology, methods of data collection and analysis.

3.1 The Site Description

The study used the primary data collected from Ruiru Parish of the Catholic Church, Nairobi Arch Dioceses that covers Ruiru Municipality. Ruiru Municipality is in Thika District, Central Province. This Municipality is about 30 KMS North of Nairobi City and has both rural and urban conditions. The town has industries that manufacture various goods like nails, mattresses, chemicals etc. It has coffee plantations and small-scale peasant farmers. In the main town in the rural set-up, it has both small and medium enterprises. It is these and small and medium enterprises together with the small-scale farmers that borrow from the RCCMDF.

The Municipality also has a population that lives below the poverty line. Most of them are part of colonial coffee and sisal labor force that was and has remained poor since those colonial days. Some of the members pocess small pieces of land (at least one acre on average) which they use for small scale farming. Some do zero- grazing and poultry farming. It is also these poor members of the society that the starting of RCCMDF was targeting in its endeavor of alleviating their poverty. Poverty has also been created by the poor economic conditions currently prevailing in the country.

3.2 Research Design

According to Singleton et al (1988) research design is the arrangement of conditions for data collection and analysis of data in a manner that aim to combine relevance to the research purpose with economy in procedure. This study used survey research as its design. This is because its main features are those of a survey design, namely the use of large number of respondents chosen through probability sampling procedure to represent the target population. The study also analyzed data from the members of the fund.

3.3 Population

The population covered by the study consisted of 10,257 members of the RCCMDF. Most of these people reside in Ruiru Munciparity. These people save with and borrow loans from the fund, which they later use to start or develop their enterprises. They also use the loan and savings to meet their personal obligations.

3.4 Sampling

To collect representative data with acceptable accuracy within the shortest time and a limited budget, the study used multi-stage cluster and purposive sampling of loan guarantee groups.

In this study, the first stage sampling involved purposive selection of loan guarantee groups. For the sampled loan guarantee groups, second stage sampling was employed on members who have benefited from the Fund's loans and then interviewed two ordinary members and one official in each group. A total of 30 respondents were interviewed by the study representing loan guarantee groups, which had directly benefited from various loans borrowed from the Fund.

Purposive sampling was employed to identify 60 of the individuals who were not members of any loan guarantee group but had used their own methods to get loan guarantors in order to get loans. In addition, purposive sampling was employed to identify key informant repondents. Key informant respondents included the Fund Chairman and the Fund Operations Manager.

3.4.1 Sample Frame

The sampling was done from the sample frame shown here below. This sample frame was an extract from the member's register of the Fund. There are no details on the types of business or economic activities on which the loans were utilized. Therefore, this study has come up with such details.

Guarantor Group/Individuals	**No. of members**	**Desired Sample**
Guarantor Group Members	373	30
Individual (Not members of any guarantee group)	9,884	70
Total	10,257	100

3.50 Techniques of Data Collection

The study utilized primary and secondary data. Secondary data was mainly used to inform the study on the nature of the research problem in Kenya and other developing countries. This secondary data is the one that is maintained by the fund in their offices like membership registers and other relevant information that they had. The other source of the secondary data came from books, research periodicals, theses and dissertations, newspapers and government offices.

3.5.1 Questionnaires

The questionnaires were the major instruments of data collection for the study. The interviews were conducted to explore and describe characteristic of a large population of micro enterprises, which could not be investigated directly (Babbie 1988).

The research used face to face interviews. The reason why the researcher had chosen to use this approach of face to face interviews was because he wanted to minimize such weaknesses as low return rates misinterpretation of questions and other problems inherent in mailed survey questionnaires. There was also the advantage of obtaining immediate and direct feedback from the interviews.

The interview schedule was divided into Par I to Part V. Part I has questions on the members background information ,vision ,
objectives and membership.

Questions in Part II were on business background information. While Part III was on business financing, part IV was on the impact of the loan to the members while Part V was be on barriers to enterprise's growth.

3.5.2 Key Informant Interviews

Key informant interviews were used to collect information from the selected officials. Interview guides was used to guide the interviews enabling this researcher to probe and gain an in-depth information of how the Diocese, the Parish and the Fund work on matters pertaining to mobilizations savings and in giving micro-enterprise credit.

3.5.3 Observation

This entailed observing phenomenon of the business as it unfolded in its natural environment. A good example was to observe whether the business building structure(s) was permanent, semi-permanent or temporarily. The researcher also observed other business inhibitions like infrastructure (e.g. roads, electricity etc.). Observation as a tool for data collection was always going to be used along side interview schedules and key informant interviews in order to save time.

3.5.4. Method of Data Analysis

Statistics facilitates the organization, summarization, presentation and analysis of the data collection in order to draw valid conclusions and make reasonable conclusions on the basis of the analysis. The responses to specific questions were summarized, coded and categorized using the common themes and phrases that were relevant to the research questions. The researcher entered the data into the computer for analysis using the statistical package for the Social Science (SPSS) Programme.

Descriptive statistics were used to present the study findings without drawing any conclusions or generalizing. The mean, tables graphs and percentages were used to describe research data.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This section uses descriptive statistics to present the research findings. These will include the use of the tables, the mean and percentage to describe the characteristics of the respondents, and activities undertaken by the members of the Ruiru Catholic Church members Development Fund (RCCMDF).

4.1.0 The Characteristics of the respondents

A total of ninety (90) respondents who were members of the Ruiru Catholic Church members development Fund (RCCMDF) were interviewed. These are members who had benefited from the services of the Fund in one way or another.

The study gained an-in-depth understanding of the members of the fund (RCCMDF) in respect to their gender, age, marital status and level of education. Out of the 90 respondents interviewed by the researcher 46 (52%) of them were male and 44 (48%) were females.

4.1.1 Age of the Respondents

The study used class frequencies in the presentation of the respondent's age. Table I below shows the age groups of these respondents. Majority of the respondents were men aged between 31 – 50 years. Seven (7.8%) out of ninety respondents were between 51 – 60 years age bracket while only 1 (1.8%) was 61 years and above.

Age is an important attribute for economic productivity in any given population. In most demographic studies 18 – 45 age bracket is identified as the most productive in any population. The findings of this study show that majority of the respondents (74.5%) belonged to the 31-40 and 41-50 age brackets. It is therefore prudent to conclude that this is a potentially productive population and hence the need to assist them in proper utilization the loans borrowed from the RCCMDF.

Table 1: Distribution of respondents according to age

Age Group	Frequency	Percentage (%)
21 – 30	15	16.6
31 – 40	42	46.7
41 – 50	25	27.8
51 – 60	7	7.8
61 and above	1	1.1
Total	**90**	**100**

4.1.2 Marital Status

In the selected sample of ninety respondents, 76 (84.4%) were married, 8 (8.9%), were single while the rest 6 (6.7%) were separated, divorced or widowed. The marital status of any member did not seem to influence ones membership in the fund. There was no discrimination whatsoever based on either gender or marital status.

4.1.3 Education and Training

On the respondents' education, the study found that 14 (15.5%) had some primary education, 59 (65.6%) had secondary education, while 10 (11.1%) had attended Diploma and teachers training colleges. Out of 90 respondents only 7 (7.8%) had University Education. (See table 2 here below).

Education is a very important socio-economic development indicator. The education trends revealed by this study reflect a high level of literacy rate with about 65.6% having attained secondary level of education. The level of education a member has, is assumed to result to either low or high level of production and sales, or good or poor business decision making. The study sought to know whether the respondents acquired any further education and training after their formal education.

The study found 26 (34.2%) of the respondents had training on the job. 32 (42.18%) had technical training, while 12 (15.8%) had vocational training. Only six (7.9%) had some training in business management. (See table 2 below)

Table2: Distribution of respondents according to level of education

Education level	Frequency	Percentage %
Not Completed Primary	3	3.3
Completed Primary Education	11	12.2
Secondary	59	65.6
Dip / Cert. College	10	11.1
University	7	7.8
Total	**90**	**100**

4.2 Factors that influence savings with Ruiru Catholic Church Members Development Fund (RCCMDF)

The study found that most of the respondents had different reasons for joining the fund. Some of the reasons were:- the financial institution charges for services were fair and reasonable, saving for future investment(s), easy conditions of getting loans, trust for a church based institution among others. Seventy two (80.9%) of the respondents felt that they joined because the fund (RCCMDF) was near their area of business area of operation or residential area. The financial institution physical proximity (i.e. the distance from the customers' homes or places of work) assisted in determining whether they could save with the fund or not. The factor determined the ease and cost of getting there.

Thirty nine (43.5%) of the respondent indicated their reason of joining as because the institutions charges for service were affordable to them. In other words, opening and minimum balances, fees and other direct transaction costs served as a good reason of saving with the fund. The other reason that the 12 (13 .1 %) of the respondents gave for joining the fund was in order to save for unforeseen eventuality. So, most of the respondents that have low-finance which they get irregularly save during the periods of high income and then utilize these savings during periods of low income in case an unforeseen eventuallity occurs.

The other reason given by the respondents for joining the fund was to save for future investment 31 (34.8%). Most of them indicated that out of such savings they would be able at a future date to finance profitable investment projects. The income generated from such investments they indicated, would be ploughed back into the business for expansion and business growth. Such savings can also help them to take advantage of an abrupt business opportunity.

The fact that one can get a loan just after getting a guarantor made 32.6 % of the respondents to join. Some felt that the guarantee group can help them to get loans and hence sail out of the sea of poverty.

The banking services offered by the fund motivated six (12.8%) to join the fund. They expressed the fact that the "trust factor" due to the fact that it was a church based institution played a significant role. They therefore did not expect a church based institution to mismanage or misappropriate their money. Only 2.1 % joined because they wanted the institution to be handling their salaries at the end of the month. The fund offered such services at a reasonable fee.

4.3.0 Loan Utilization and repayments

The loan utilization by the borrowers from the Fund is summarized in table 3 below.

The responses to the questions on how the recipients spend the loan money varied from one member to another. About eleven (21.2%) bought assets using the loan given. These assets were land where they have an interest to build homes or business premises. They also bought motor vehicles for personal and business use, computers etc.

Eighteen (34.6 %) utilized the loan received on the business activities like purchases and other business activities while (36.6 %) diverted the loan from the intended purpose(s) to other family activities. Some even gave part of the loan to their spouses for their personal use. Almost 2% utilized the loans on other activities like drinking, donating to relatives while need arises, funeral expenses, lending to friends among others.

Table 3: Loan Utilization

Use	Frequency	Percentage %
Bought assets	11	21.2
On Business purchases and expenses	18	34.6
Used on other family activities	19	36.6
Gave part to spouse for personal use	1	1.9
Paid business outstanding debts	2	3.8
Others	1	1.9
Total	**52**	**100**

4.3.1 Loan Diversion

About 36.6% of the 52 respondents who borrowed loans diverted the loans to other uses. Most of the loans were diverted into household expenses, purchase of family land, giving spouses for personal use, standing new business among others.

The loan diversion was mentioned as one of the major factors that encourage loan defaultion. When the loan money is diverted to other uses other than the ones that it was intended, loan repayment is endangered since the expected source for repayment which is the profit from the business is not realised.

4.3.2 Training and advice related to loan usage

Most of the respondents (57.5%) indicated that they did not receive any technical advice or training on how to utilize the loan. The advise given to the members was mostly by the operations manager or the credit committee who advised 20% of the respondents on mode and terms of loan repayments. They also advised 15% on wise usage of loans and advised 10% of the respondents to expand their business where possible. Fifteen percent were advised to use the loan for the intended purpose. However, most of the respondents, felt that training was necessary as it provided knowledge and skills on business management and loan utilization. General advice on the loan utilization won't do. Such general advice which is not very specific to provide meaningful guidance can't have much impact.

4.3.3 Loan Guaranteeship

Out of 52 respondents who borrowed loans from the fund thirty one (59.1 %) their were loans guaranteed by the individuals who did not belong to any loan guarantor group. Seventeen (32.7 %) had their loans guaranteed by their loan guarantor-groups that they belonged to. Four (8.1 %) of the respondents indicated that they used their own share capital saved with the fund to guarantee themselves their loans. Table 4 gives a summary of the findings on loan guaranteeship All loans being given out by the RCCMDF must be guaranteed by the other members through their share capital held by the Fund.

Table 4: Sources of security for Loans.

Source	Frequency	Percentage (%)
Through individual members	31	59.1
Through Loan Guarantor Group	17	32.7
Others/self	4	8.2
Total	52	100

The research found that more than two thirds of the respondents do not belong to any loan guarantee group. Most of the respondents gave more than one reason for not joining any loan guarantor group. Such reasons were varied from one loanee to another. Thirty (35.4%) of the respondents indicated lack of trust for one another in guaranteeing loans as the major reason for not belonging to any group. The reasons given by the respondents on the cause of the mistrust, were :-

Lack policy on the screening of members to know and test their trustworthness before the formation or joining any guarantee group, non-repayment of loans by some members. Many residents of Ruiru Town and its environs are tenants and hence very temporary to be trusted with anybody's money; retrenchment of workers by companies like Nalin Company Limited, Kenya Coffee Research Institute was the other reason.. Almost one third of the members were not aware that such guarantee groups existed. This reflects very poor means of communication by the Fund. Lack of co-operation by potential members of such groups was sighted by almost 19% of the respondents while 12.5 % sighted lack of legal backing to enforce such contracts on guaranteeship in case of loan default. This is based on the legal standing of the Fund. Many members do not know whether the Fund can sue errant members. They (members) don't know the status of ownership of the Fund. They wondered whether it is registered as MFI or operates under the umbrella of the church. They felt that if the fund is independently registered then it can sue or be sued.

The other reasons given by the respondents for not joining guarantor groups are unemployment which denies the members a reliable income. In such circumstances the other members felt that such a member is very likely to default on loan repayment. The other reason sighted by 6.3% is unnecessary bureaucratic procedures when processing the loan(s) by such groups. Such procedures delay getting the loan. The past history on the failure and mismanagement of such groups discourage the formation of new ones.

Lack of guarantors was cited by (17.4%) of the respondents as a reason for not applying for a loan yet most of them were not ready to join the guarantor group due to the above given reasons. Despite all the above mentioned problems one third of the respondents use loan guarantee groups to get loan guaranteeship when borrowing from the Fund. While almost 60% use individual guaranteeship to get loans from the Fund. The research also found that most of the pioneer loan guarantee groups had collapsed due to the reasons given here above for not joining loan guarantee groups: namely lack of trust, lack of legal framework to follow up the defaulters, migration of members without any trace among others.

Table 5: Reasons for not joining guarantor groups

	Frequency	Percentage (%)
Lack of trust	28	35.4
Not aware they exist	23	29.2
Lack of co-cooperation	15	18.8
No legal backing against loan defaulters	10	12.5
Retrenchment / unemployed	7	8.3
Bureaucracy / red tape in G. group	5	6.3
Failure of similar groups in the past	2	2.1
Guarantee group mismanagement	2	2.1

The loan guarantee group policy under which the Fund operates drew some comments from six (7.1%) respondents. These members felt strongly that the guarantor policy should be reviewed. Such a review should be done with the aim of bringing in personal guarantors for the larger loans. The respondents indicated that members should be treated as individuals as lack of trust among members inhibits the formation of loan guarantee groups. The issue affecting the loan guarantee group policy was the question of defaulting members and how their cases were treated by the Fund. Most of these members were of the opinion the loan guarantor policy should be reviewed so that members should not be forced that to pay loans for defaulting members. There were also some members who feared guaranteeing large loans because they thought they would be over burdened should the loanee's default.

4.3.4 Problems before getting the loans

The research found that out of 90 respondents only twenty-five (27%) experienced problems before getting the Loan. Most of these respondents gave more than one problem. Table 6 below is a summary of the problems that the respondents encountered before getting the loans. Lack of guarantor was cited as the biggest problem by about 85% of the twenty-five respondents with problems. Lack of enough shares to enable members to apply for a loan was pointed out by 42.4% as a problem. In most cases quite a number of these members were using the fund's saving services and were not keen to put their savings in form of shares. Most of them felt hat their income was not permanent and thus could not sustain a loan repayment. The research found that only 12.1% felt that the loan processing time was a problem. None of the respondents sighted corruption as a problem. This was recommendable more so when we consider the high level of corruption in on country.

Table 6: Problems experienced before getting the loan (N=25)

Problem	Frequency	Percentage (%)
Lack of guarantors	28	84.8
Lack of enough shares	14	42.4
Long loan processing time	4	12.1
Others	1	3.0

4.3.5 Loan amounts

Twenty six (50%) of the 52 respondents who applied and were advanced the loans from the fund felt that the amount of each loan is not adequate to facilitate a good business start-up or its sustenance. They suggested that the amount of each loan should be increased to cater adequately to the needs of the clients. Twenty (38.4) indicated that the loan amounts were not adequate. Therefore there is a (need) to increase the Loan amounts. Most of the respondents in the service industry who requires expensive fixed assets to facilitate the service delivery of service stated that they required bigger loans in order to purchase these assets. Therefore the fund loan guarantor policy should be changed to allow fund members to borrow using these assets as collateral. They can hold the documents on assets ownership until the loan is fully paid.

Some of the respondents found the loan inadequate because after taking it they found the items (stock) more expensive than earlier anticipated. This was due to poor planning on their part or abrupt change of prices, scarcity of the products among others.

4.3.6 Loan prepayment and reasons for defaulting

The study found out that forty-nine (94.2%) of the fifty two respondents who received loans from the fund repays the same on monthly basis while two (3.8%) pay fortnightly. Only one (1.9%) repay annually. The reasons given by this majority were varied from one respondent to another. Some felt repaying fortnightly would be very stressful while others wanted to trade with the money before repayment. The other reasons given were that after diverting the loan to other uses one must look for other sources of money in order to repay the loan. Interestingly the one who pays annually was not aware whether late repayment attracts penalty or not. This ignorance has cost him a lot in form of interest on loan and penalty.

4.3.7 Source of money used in Loans. repayments

The majority of the fifty-two respondents who borrowed money from the fund twenty-one (40.4%) indicated that they use their own savings while fifteen (28.8%) use salaries earned outside the business, financed by the loan to repay their loans. Only thirteen (25%) of the respondents indicated that they use the money generated from the business to repay their loans. Interestingly three (5.8%) said that they borrow from other sources in order to repay the loans. The table below is a summary of the sources of the money used by the respondents to repay the loans advanced by the fund to them.

The reasons given by most of the respondents for not using funds generated from the business varied from one respondent another. Some of these reason were that they did not have business plans before taking the loan, lack of business knowledge in their area of operation, over financing of the business, did not make a profit from the business, attended to household problems, did not give loan repayment the serious attention that it deserved among other reasons.

Table 7: sources of money used to repay the loan(s)

Source	**Frequency**	**Percentage (%)**
Own savings	21	40.4
Salary from another employment	15	28.8
Profits generated from business	13	25.0
Borrowed from other sources	3	5.8
Total	**52**	**100**

4.3.8 The Reasons for Defaulting in Loan Repayment

The research found that sixteen (31.0%) out of the fifty two respondents who borrowed loans from the fund defaulted on the repayment of the same. Out of these seven (43.8%) gave the reason for defaulting on loan repayment as not making any profit to facilitate loan repayment. Six (37.5%) diverted the loan meant for business financing to other uses. Such uses were purchase of land, other assets, paying school fees for their children, household expenses among others. Two (12.5%) did not priotise loan repayment even though they had money to repay the loan from their businesses. The later two above mentioned categories complained that they were poorly oriented into the fund membership on the principles, rules and regulations on matters pertaining to their expectations after taking the loan. The Management accepted that the loan repayment monitoring by the fund is left to the guarantors. This is because the fund will loose nothing, as it will recover the loan from the guarantor without making an effort to follow up the defaulter. There was only one (6.2%) whose reason for defaulting was that the money belonged to the church and thus did not require repayment. The church should "donate not lend" he asserted.

The table below gives a summary of the reasons given by the respondents for defaulting on loan repayment.

Table 8:- Reasons for defaulting in loan repayment (N=16)

Reason	Frequency	Percentage %
Did not make profit	7	43.8
Spent money on other things	6	37.5
Loan repayment priority	2	12.5
Money belongs to church	1	6.2
Total	**16**	**100**

4.4.0 Constraints and Solutions to Enterprises Growth

The barriers that hinder growth of micro enterprises that receive RCCMDF loans included: shortage of capital, business competition, shortage of raw material and lack of suitable premises and managerial skills among others. The respondents suggested solutions varied from one sector to the other.

4.4.1 Shortage of Working capital

The study found that over 68 (75%) of the respondents indicated shortage of capital as a major barrier to business growth. The manufacturing sector with 30 (44%) respondents led the other sectors closely followed by the trade sector with 20 (30%) and the service sector with 18 (26%) respondents indicate lack of working capital as a serious constraint. This constraint limited the amount of stock to be purchased, salaries payable to employees and to the business proprietors, and the type and quality of the fixed assets to be acquired. Others sighted lack money to purchase raw materials which influences the time taken in the production of goods. This slow or absence of production will lead to businessmen failing to supply the goods in time and may lead to him/her loosing the business orders or even lead to legal litigations.

4.4.2 Shortage and high cost of raw materials

The shortage of raw materials was noted by 57 (63.3%) of the respondents to be a major constraint in business growth. The cost of transport determined the amount of raw materials to be purchased. For example those in welding business complained of high cost of purchasing and transporting raw materials particularly when they have a big business order.

4.4.3 Lack of demand

Forty percent of the respondents indicated that they lacked adequate demand for their products. Most of the respondents blamed the seasonal nature of income and behaviour. For example the businesses that deals in water harvesting products have a good business during the rain season and vice versa during the dry season. So the respondents in such seasonal business indicated that during pick periods incomes are high and vice versa when in the low-income season.

4.4.4 Lack of suitable premises

Fifty two percent of respondents in the manufacturing sector thirty per cent in the trade sector and eighteen in the service sector indicated that lack of suitable premises affected there business as they had to shift form time to time. In this state of affairs they lost reliable customers, incurred shifting expenses among others. This shifting was caused among other things by the very temporary nature of their premises. Such temporary premises were built using iron sheets, timer, polythene papers e.t.c. Some of the business were also built on the road reserves and hence were declared illegal structures. Others shifted because the owners were to demolish the old building in order to put up another one.

4.4.5 Lack of management skills

Fourteen percent of the respondents cited lack of relevant management skills as a serious constraint that inhibited the growth of their enterprises. Eight per cent were from the manufacturing sector and six per cent were from the trade sector the respondents indicated that they had no management and business skills before starting the business. This inhibited the proper growth and stability of their businesses.

4.4.6 Solution to Constraints

The responses on how to over come the barriers varied from one sector to another. For example some the manufacturing sector handled the customer who defaulted on loan by threatening or even actual seizure of equipment until the culprit pays the loan. At times that brought about quarrels and disagreements in the guarantor groups, others screened potential guarantee group members to establish their trustworthiness. The trade sector had some of the respondents using this method with similar problem and success. The service sector overcome the problem of lack of market by diversifying business activities, getting into new business lines and assisting hiring part time workers. In the trade sector the strategy used to overcome the lack of market constrain was also by diversifying business activities and venturing into new products and better marketing methods through personal selling and use of customers referrals during the period of low demand. Despite the availability of credit from the fund many respondents, as earlier indicated in this study, sighted lack of capital as the biggest business constrain. Since the capital borrowed was not adequate almost all the respondents indicated that in such situations they borrowed further from friends and at times from other financial institutions. Others utilized their personal savings or even subcontracting their personal services in order to earn money for their businesses. The other strategies involved moving to saver premises and sites, adopting door to door selling and selling in cash bases in order to avoid bad debts.

4.5.0 Impact of the Loan

Most of the respondents who had borrowed loans from the fund concurred that the loans did help their business reach their current status. They agreed that they had benefited from the loans that they received from the fund. The major changes that were identified by the respondents in this study are:- employment creation, change of enterprises financial status, management practices, participation in other organisations among others.

4.5.1 Employment creation

Twenty nine full time jobs were created after getting and proper utilization of the loans as opposed to fifteen before the loan. The manufacturing sector appeared to have more growth – oriented firms than the other sectors as noted by the large number of jobs created by the micro enterprises in this sector. The sector had shown prominent changes in sales, assets and high number of employees. Most of the permanent jobs created were in this sector than in the other sectors. These jobs involved skill acquisition and development. This sector, unlike in the trade sector, was found to play a big role in informal training. For example sixteen apprentices were engaged in this sector as compared to only four from in the other sectors.

4.5.2 Changes in financial status and management practices

Out of the 52 respondents who had taken loan in manufacturing sector indicated that there was a big improvement in getting more customers and in being able to meet their business transaction. On the other hand the service sector indicated that there was a general improvement in their financial status, organising, planning, co-ordinating and monitoring the enterprise activities. This study found that in the trade sector there was some position change in their financial position as a direct result of the RCCMDF credit.

The service sector indicated positive changes in profits. This sector led the other sectors in profit improvement as 21 (40.4%) out of the 52 respondents had experienced growth profits ranging from one third to over four times. Fifteen (71.4%) of the 21 respondents in the trade sector recorded increase in profits of between two to over three times, whereas 11 (61%) of the 18 in the manufacturing sector made an average increase in profit of two times over the loan period.

Most of the respondents in different sectors indicated a big improvement in their cash flows for instance 10(47.6%) in the trade sector stated that they had experienced improvement in their cash flows. The manufacturers has 9 (50%) and the service sector had 6 (46.2%) who indicated that they had a cash flow improvement. These changes has a positive impact on the businesses as it was confirmed by the respondents. This cash flow improvement enabled the traders to meet their loan repayment requirements and meet their daily recurrent expenditure.

4.5.3 How the credit facilities Help the Community

Slightly under a half (47.8%) of the members consider that the fund's credit and other financial services have bought about a lot of benefits to the local community. These benefit include:- businesses employing local labour (39.5 %) offering cheap materials for further use in other business sectors (31%) buying raw materials from the local sources (23.2%) among others (7.1%) . Majority (88.1%) of the members businesses source their materials from the local community. Table 9 gives a summary of what the borrowers consider to be benefits drawn from the credit and other financial services from the fund.

Table 9:- How the fund services have helped the local community

Help	Frequency	Percentage %
Employed local labour	17	39.5
Offering cheap commodities	13	31.0
Buying raw materials	10	23.2
Others	3	6.3
Total	**43**	**100**

4.5.4 Relationship after proper utilization of the loans

Majority (87.5%) of the respondents indicated that their relationship among them and their suppliers, customers, creditors and banks had improved since borrowing from the fund. Only 5.9% had their relationship deteriorated with creditors after utilization of the loan. This deterioration came in mostly as a result of these members failing to honour the payment business debts. After getting the loan majority of the 5.9% stated to avoid the suppliers who earlier on used to advance them trade credit. So some of these suppliers instituted legal proceedings against them. This led to a bad relationship between the entrepreneur and the supplier. A good number (68.8%) of the respondents had their relationship with the banks improved because some of the businessmen were able to repay their loans in time out of an improvement in their cash flow. They also improved on their credit worthiness. Slightly more than a third (31.3%) 31.3 % of the respondents indicated that their relationship with banks remained the same. This is because some of the respondents trimmed down their transaction with the banks after getting the same or better services with the RCCMDF.

4.5.5 Future plans for the micro enterprises

The most common responses in order of their preferences were: to expand their business 24 (46.1%), build own business premises 11 (21.2%), build a home 6 (11.6%), increase stock and sales 5 (9.6%) introduce new products/service to the market and become a wholesaler 1 (1.6%).

4.5.5.1 Expand the business

Twenty Four (46.1%) of the 52 respondents who had received loans from the RCCMDF stated that they would like to expand their businesses further. This comprised eleven respondents from the manufacturing sector eight from the service sector and five from the trade sector. The areas of expansion would be increasing space for operation increasing/production looking for new customers and creasing the number of employees.

4.5.5.2 Increase sales

Five (9.6%) respondents stated that they expected to increase their future sales. One respondent, a garment dealer stated that " I want to expand my market in Ruiru and if possible get into export market". Another respondent, operating a hotel wants to increase sales by offering better services and products.

Table 10:-Members' future plans

Plans	Frequency	Percentage %
Expand in other areas	24	46.1
Build own premises in accommodate business	11	21.2
Building a home	6	11.6
Increasing stock and sales	5	9.6
Introduce new products / service to market	5	9.6
Become a wholesaler	1	1.6
Total	**52**	**100**

4.5.5.3 Increase Assets

Twenty two (42.3%) of the 52 respondents indicated that they planned to increase both their current and fixed assets. This included 10 firms in the manufacturing sector, 8 from the trade sector and 4 from the service sector. Among the assets to be acquired were machines, equipments, business premises, photocopies and other assorted tools. One businessman in a metal welding business stated. "My future plan is to acquire a heavy duty metal welding machine, heavy duty grinder and a metal drill Machine"

4.5.6 Advice to other entrepreneurs about loan program

The study found that most of the respondents were willing to give the potential borrowers advice based on their own experiences with the fund. The table below gives a summary of their advices.

Table 11: advice to potential loanees (N=90)

Advice	Frequency	Percentage %
Use the loan wisely	68	75.6
Join the loan guarantee group	10	11.1
Be in business before taking the loan	4	4.4
No advice	8	8.9
Total	**90**	**100**

Out of ninety respondents eighty two gave their advice. The entrepreneurs were advised to use the loan wisely by sixty eight (75.6%) of the ninety respondents, while ten (11.1) advice entrepreneurs to join the loan guarantee groups while four (4.4%) advised that one should be in business before borrowing the loan. Eight (8.9%) did not offer any advice.

4.5.7 Respondents suggestions to the Ruiru Catholic Church Members Development Fund.

The study found that most of the respondents had a lot of ideas on how the fund's operations can be improved. The table below is a summary of the respondents' suggestions to the fund. Most of the respondents gave more than one suggestion.

Table 12: Suggestions to RCCMDF

Advice	Frequency	Percentage (%)
Reduce Interest rate	15	17.6
Prolong grace period	29	34.1
Increase repayment period	42	49.4
Consider start –up people for loans without guarantor ship	6	7.1
More cashiers at counters	6	7.1
Open more branches	19	22.4
Diversify loan types	13	15.3
Better & friendly services	4	4.7
Take legal action against defaulters	3	3.5
Relax guarantors rules	6	7.1
Provide cheque books	2	2.4
Computerize services	5	5.9

The respondents suggestions to RCCMDF varied from sector to sector. The areas that were frequently mentioned were; reduce interest rates 15 (17.5%) prolong grace period 29 (34.1%) increase loan repayment period 42 (49.4%), consider start-up people for loans without security 6 (7.1%), increase cashiers, at the service counters 6 (7.1%) Open more branches 19 (22.4%), diversify loan types 13 (15.3%) among others.

4.5.7.1 Loan Repayment period

Forty Two (49.4%) out of the ninety respondents suggested that the loan repayment period should be increased beyond the current twenty four months. The manufacturing sector led in making this suggestions,17 (40%) of respondents giving this advice to RCCMDF. 13 (31%) in the trade sector and 8 (19%) also sharing this opinion. The major reason of giving this suggestion is that some businesses had business activities that vary seasonally. So it takes them longer to complete the business cycle.

4.5.7.2 Grace period

Twenty nine (34.1%) of the ninety respondents suggested that a grace period ranging from one to two months be introduced. This would assist the entrepreneurs to utilize the loan money in their businesses to generate enough income, which would be used in making the repayments. The grace period should differ from one business to another. For example those in the manufacturing sector were of the opinion that they need at least two months grace period in order to have time to produce and sell their goods.

4.5.7.3 Guarantor policy

Nineteen (22.4%) were of the opinion that the guarantor rules should be reviewed. The manufacturing sector led on this suggestion (i.e. 10%) followed by the trade sector, in which 9% were of this opinion. Six (7 %) of the respondents in the service sector stated that this review is important. This review will bring in personal guarantors for larger loans. So most of the respondents suggested that other form of loan security should be introduced. For example, if one gets a loan to buy a matatu, then the matatu documents of ownership should be used as a collateral for the loan until the loan is repaid.

4.5.7.4 Interest rates and loan diversification

Fifteen (17.6%) suggested that the fund should reduce the interest rates from the current 12% p.a to at least 10% p.a while thirteen (15.3%) of the respondents suggested that the fund should diversely the loan products in order to reach out as many clients' needs as possible. Top on their list was an emergency loan for unforeseen occurrences like funeral expenses, hospitalization among others. Such a loan would reduce business loan diversion from their intended purpose(s) to such emergencies. The repayment terms for such an emergency. The repayment terms of this loan should be very attractive in order for them to serve its purpose.

4.5.7.5 Other suggestions

The other suggestions given by the respondents were: increase the number of serving cashiers (7.1%) open more branches (7.1%) in order to reach out as many clients as possible, give better and quality service (4.7%) , take legal action on loan defaulters (3.5%) instead of leaving the burden of defaulters on the loanees. Introduce cheque books (2.4%) and computer the services (5.9%). The computerization will improve the quality of services, save time and costs among other benefits.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0. Introduction

This chapter has three parts. The first part summarises the study's findings, while conclusions will be in the second part while part three focuses on issues that emerged from the study and makes recommendations on what needs to be done.

5.1.0 Summary of Findings

The purpose of this study was to determine the role the Catholic Church can play in mobilization of savings for micro enterprise credit. It therefore looked at the mobilization of savings, loans utilization and their impact on the lives of the fund members. The study also identified barriers perceived to be hindering growth of these micro enterprise despite availability and accessibility to credit facilities. This study's findings will help in filling the knowledge gap with respect the role the church and other religious organisations can play in availing money for micro enterprise credit through mobilization of savings without going for the donors' money for the same.

The findings will further have implications for training on the efficient use of loans for the growth, sustainability and expansion of the micro enterprises.

5.2 Reasons for Joining the Fund

The Respondents gave different reasons that motivated them to join RCCMDF. Some of the reasons given were to save for an unforeseen eventuality or as an insurance against disease, retirement, disability and sudden income loss. There are also some respondents who gave their reason for joining the fund as being attracted by the institutions low transaction costs incurred on savings with an option of withdrawing the same with ease. Low costs on loan (12%p.a.) also attracted many respondents to join the fund while others joined so that they could accumulate enough money that can facilitate investments. Low-income earners respondents with irregular income streams were found to save in periods of high income and then consume such savings during low-income periods. Such liquid deposits facilities offered by the RCCMDF or the credit facilities provided sufficient margins for decisions on the timing of savings, consumptions and investment.

5.3 Loan Utilization and Repayment

Twenty six (57.8%) of the fifty two respondents who took the loan stated that the loan(s) were adequate while 19 or (42.2%) indicated that the loans were not adequate. For loans to be effectively utilized, it appears that the amounts must be adequate and advanced in time. Loan diversion was clear in this study. Interestingly, the money diverted into households use was spent on items, which were said to be necessary for the basic needs of the respondents` family. Most of them indicated they treated such diversions as paying themselves salaries. These findings confirm earlier studies, which indicated that the entrepreneurs divert loans taken in good faith and thus it is not good to tie loans to specific uses without addressing other needs and opportunities is being naïve at best (Kibas, l995). This diversion of funds underscores the view that small businesses and micro enterprises are said to be more of an extension of the owners' personalities and household units. It therefore appears that there is minimum gap between small scale entrepreneurs and their businesses as money used in the business may be mixed with personal money.

5.3.1 The Loan Process

The maximum loan repayment period for all types of loans is 24 months according to the fund's new constitution. However, the study found that Management Committee has proposed to the Bishop that the fund be allowed to continue with the old 30 months loan repayment period. They felt that the new short loan repayment period will lead to more money remaining unborrowed. Currently the fund has invested over shs.70m in treasury bills which would have otherwise been availed to the would be borrowers. This figure according to the Management Committee is likely to rise because shorter period of loan repayment will discourage more borrowing. This can be attested by the fact that out of 90 respondents 42 (49.4%) were recommending extension of the loan repayment period.

5.3.2 Loan Repayment Period

This study found that forty-two (49.4%) suggested that the current loan repayment period should be increased beyond the current twenty-four months. Twenty three (34.1%) proposed the introduction of a grace period. These requests for changes both of the repayment period and grace period are an indication that the current terms of loan repayment is puttinq pressure on the entrepreneurs. The business seasonality seemed to be affecting micro enterprises during the loan period as the repayment is required on a regular basis but the business incomes are seasonal. A good example is one trader who sells sodas. His income is high during the dry season than during the rainy or cold season. During the cold or rainy season he finds it difficult to service the loan as the sales are low than in the dry season. Such a pattern was found to be more frequent in the trade sector than in other sectors.

The various respondents gave different suggestion that can improve loan repayment. These were; reduce interest rates (17.6%), the fund must take legal actions against loan defaulters to discourage future defaulters among others.

The findings of this study showed various sources of money used in loan repayment. Out of the 52 respondents who took loans from the RCCMDF twenty one (40.4%) were using personal savings while fifteen (28.8%) were using the salaries that they earn from other formal employment to repay their loans. There were still three (5.8%) who borrowed from other sources to repay their loans. Only three (25%) used income from their business activities to repay the loans.
These findings reflect a clear diversion of loans or lack of profit from the business activities to repay the loans. As indicated elsewhere in this study to 41.2% of the loanees and 35.2% spent the loan on other family matters.There is an urgent need for the fund to address this problem to avoid this loan diversion. This will assist in reducing loan defaultion.

5.3.3 Loan Guarantees Policy

The study found that the fund could only give out loans when they are fully secured. In this case, one has to look for a guarantor before getting the loan. Such guarantorship can come either from individuals members or a loan guarantee group. The study found that only 25 members out of 90 respondents belonged to a loan guarantee group. The rest always look for individual guarantors to guarantee their loans.

The respondents gave the following reasons as to why they have not joined any loan guarantee group:- lack of trust was cited by a lot of members as a major reason for not joining any loan guarantee group. This lack of trust is based on the fact that the fund does not have any screening process or training process on how best to form such groups. It is also attributed to the fact that some members have defaulted on loan repayment and the burden of loan repayment is left on the loan guarantee group members.

The study found the burden of this extra loan repayment to be worse where loans involved were big. This fear or reluctance to join any guarantee group was further attributed to lack of co-operation among members (18.8%) and lack of any legal action on loan defaulters (12.5%). 2.1% felt that since similar groups have failed in the past joining a new group would be futile. 3.5% of the respondents suggested that legal action should be taken to loan defaulters as a deterrent measure. 22.4% suggested that the loan guarantor rules should be relaxed and bring in other collaterals like land and buildings, assets bought using the loan should jointly accrued with the fund; introduction of a loan guarantee fund that can act as a collateral to those poor members who cannot guarantee. In bringing on personal/individual loan security for the large loans the beneficiaries will bear most of the rules in case of default.

5.3.4 Advisory Services Before taking loan

Twenty three (57.5%) indicated that there was no advice or business counseling before taking the loan. Even those who said they received advice from the fund indicated that it was too informal and not directed specifically to any technical matter like book-keeping, marketing or even management practices. They were in modes of loan repayments (15%) and business expansion (10%). These advices were verbal and not formally directed or disseminated. Most respondents felt that field extension services were needed for better performance. Such officers would advice on how and where to use the loans and earnings. Such services could be provided at a small fee. These field officers will provide timely advices to the entrepreneurs regarding business operations. Vocational training institutions can provide specialized training and business counseling at a reasonable fee.

5.4.0 Constraints to Business Growth

Even though there was the availability of credit to the micro enterprises, the study found that other types of constraints still persisted. This confirms the findings of another study part study in Kenya by Rukenga (1999) that indicated that apart from lack of credit record keeping is a big constraint to micro enterprises growth. This study found out that 75% of the respondents cited lack of capital as a constraint to their business growth. They felt that lack of enough working capital inhibited their business growth and stability. Even if most of the respondents were affected by lack of enough working capital, the sector that was highly affected was the manufacturing sector. This was because most of their inputs are expensive as compared to the other sectors. According to the National Baseline Survey, 1999, lack of capital contributes 37 per cent of business closures. These findings would then mean more finance is required in this sector to ensure stability and business growth.

Economic and social political issues was also cited as a constraint by 5% during the loan period. Most of the uncertainty was associated with cost of transport of goods and raw materials which was further blamed on unpredictable petrol prices. The other cause of uncertainty that was cited was lack of clear government policy, on SMES development.

Lack of suitable premises for healthy business operation was citied during this study by 2%. The other constrain cited by the respondent was shortage of raw materials, lack of appropriate equipments, domestic problems etc. Lack of markets, low technological skills and their adoption and gender related problems etc. were cited. The problems were beyond the control of the individuals respondents and therefore they had a lot of problems overcoming them. These inhibitions played a big role in slowing or completely destroyed the business growth. It is advisable for the entrepreneurs to adapt business operation methods that minimises costs. A cost benefit analysis must be done before embarking on any business venture.

5.4.1 Overcoming the Business Constraints

The findings of this study indicate that the respondents have come up with various solution to the business constraints that they have encountered on the shortage of capital as a constraints. Most of the respondents indicated that they do a lot personal savings in order to raise capital. The other source of working capital is where the respondents borrow from ROSCAS formed by groups of businessmen/women. The other sources of capital are other business that they own elsewhere, selling their personal property like animals, renting tools and among others.

Twenty four per cent of the respondents suggested that more additional loans should be given to those who can afford to pay using other sources like salaries. Others suggested that the loan repayment period should be lengthened in order to give more time for an entrepreneur to reorganise and stabilise his/her business.

5.5..0 Impact of Loans

All the respondents agreed that they had benefited from the loans usage. Going through the advice given by the respondents to other entrepreneurs, it was evident that the members had developed positive attitudes towards the scheme. The examples of such advices were: "use the loan wisely" (68%) and "join loan guarantee group (10%). These examples suggest that the respondents were satisfied with the credit scheme. The findings of this study confirm earlier studies that credit to micro enterprises had an over all impact on the lives of the beneficiaries.. (Mwaraania I993; USAID ,1990).

The findings of this study give a number of indicators that can tell how the borrowers business has changed since getting the loan. These indicators represented the potential areas of growth for the micro enterprises. Examples of such indicators are; employment creation, improvement of management practices, improvement of family welfare among others.

5.5.1 Employment Creation

The employment creation is the biggest contribution expected from this sector (GOK,1986). This study found that twenty nine full time jobs were created after taking loans as opposed to fifteen before the loan. The manufacturing sector appeared to have more growth oriented firms than the other sectors as indicated by the number of jobs created in this sector. The micro enterprise in this sector had shown growth in sales, assets and high numbers of employees. A large number of new businesses were started in this sector. Most of the jobs created in this sector were a full time by nature as compared to other sectors. Informal training was also found to be taking place in this sector more than in the other sectors.

5.5.2 Changes in Management Practices

The respondents in various sector indicated that they had become better organizers, planners, managers of time and co-coordinators of their businesses. Such improvements in management practices were attributed largely to the personal discipline developed out of the necessity to utilize the loan money prudently in order to meet its (loan) repayment on time. The pressure exerted by the credit on the recipient was found to force them to work extra hard resulting to better management practices.

The experience gained out of the successful acquisition and repayment of the loan from the fund has acted as a catalyst in the improvement of their business activities co-ordination, delegation and business supervision than before the loan period. The entrepreneurs meetings in loan guarantee-group has given the loan borrowers a chance to interact and socialize with the other entrepreneurs in similar fields. The entrepreneurs participating in these meetings offer free advice on business matters to their colleagues. Through such interactions, friendship and networking develops. So, from this study, one can see that to compete effectively good time management appeared to be an essential factor worth considering. The strict requirement to repay loans on a specific date, failure to which a penalty is imposed, seemed to have imposed self-discipline on the respondents concerning keeping to deadlines. The loans also appeared to have imposed on the respondents an impetus on generating new ideas on how to make profits before loan repayments. Eighteen members out of the fifty two respondents who received loans, indicated that the loan acted as a driving force in looking for new business ideas and ventures which could facilitate both making of profit and loan repayment.

5.5.3 Creation of Enterprises

The findings of this study indicated that at least 12 respondents started new businesses and developed new products and services, which were closely related to the original businesses. So they avoided high risks in going for purely new businesses which would have required new skills and experiences. So most of the entrepreneurs were moderate risk takers. It is interesting to note none of the micro entrepreneurs involved in the study graduated to the next stage of business development.

5.5.4 Changes in the Family Welfare

This study found that nineteen respondents used the loan to on family activities. Some of these were family debts, construction and finishing of family homes, purchase of family land, and pay other family associated expenses. So improvement of family welfare meant poverty reduction and improvement of the family's standard of living. The study found out that the sectors that had brought about major changes in the family welfare were manufacturing and trade. These results confirm parts studies by Chuta and Liedholm (1979), which showed that access to credit can improve the living standards of the entrepreneurs.

5.5.5 Changes in Business Networking and other Relationships

This study found that most of the businesses had networked and developed many linkages. They had also improved relations with the suppliers, customers and creditors and banks. During the loan period, they had also improved on their participation in formal and informal business organizations. Through their meeting in guarantor groups informal and formal linkages developed.

Such businesses network and linkages help the businesses to survive in the tricky business world. These linkages with suppliers, customers creditors and banks were bound to increase business activities and services.

5.6.0 Conclusion

The information provided by the study confirms that the church has a big role to play in the mobilization of savings for micro enterprise credit. Based on the findings and discussions on this study, the following conclusions were reached:

The credit advanced to micro enterprise and individuals for personal use by the RCCMDF appeared to have met the credit needs of the borrowers. The loans were easily accessible to them and to most of the respondents and the terms and conditions of the loans were suitable to a majority of the respondents. Most of the respondents stated that they had benefited from the fund. They also indicated that the project was a success. However, despite this success, the micro enterprises still faced a lot of constraints which included lack of working capital, lack of management and technical skills, lack of proper premises, customers and lack of equipments.

Despite all the above barriers, the RCCMDF succeeded in playing a big role in job creations, increase of sales and profits to businesses that borrowed from it (RCCMDF). New assets were acquired, the family welfare improved as a result of loan utilization.

The RCCMDF also has a high level of liquidity as it has invested over seventy million shillings in Treasury Bills as at December, 2004. This money should have been advanced as loans to the members from whom such savings were mobilized. Most of the pro-poor financial institutions lack funds to lend to the poor while RCCMDF suffers from high level of liquidity. Something must be wrong somewhere. In this study many reasons for not borrowing from the fund were given out by the respondents ranging from -: lack of guarantors, lack of legal frame work to deal with loan defaulters among others. The fund must address this as a matter of urgency in order for it to realize its main objective.

However, despite all these successes in this new role, the church needs to review and analyse its strengths and weaknesses in delivery of microfinance services. The church should try and separate the secular role in the delivery of microfinance services and its spiritual role. In so doing, the consumers of the later services will view saving and loan taking with a sense of ownership and responsibility.

5.7.0 Recommendations

Based on the study findings the following recommendations can be made:-

5.7.1 The importance of education and training to the micro entrepreneurs

Throughout the research, the respondents stressed on the urgent need of education and training on business matters. To them, this is the pre-requisite for the success of their businesses. For efficient and effective utilization of loans, training and advisory services are necessary. Such training of loan recipients should be developed in areas such as: Financial and cash management in order for the entrepreneurs to keep the right records on recurrent expenses and be able to make the right investment decisions. Business and technical skill development, improvement of workmanship in order to ensure production of quality goods and services. Personal marketing and time management, skills in group formation and loan appraisal and leadership for the group leaders and New business creation and enterprise identification among other skills.

It is therefore recommended that the entrepreneurs should be given training on how to invest the loan money effectively before he/she obtains a loan. The training on business expansion and its complexity should be offered at least once after every two months during the second and third loans or any other time deemed necessary.

5.7.2 Proper usage of savings services

Many MFIs have a tendency to ignore the additional benefits of offering saving services. In addition to providing capital reservoir for on-lending, saving services can also help the MFI in:-

Developing the borrowers (clients) base for the future use by the fund. Facilitate the credit worthiness of the borrowers through the information obtained during the opening of accounts. This information can be used to know the borrowers ability to save and (by implication his/her ability to repay the loan(s). Using the current income obtained through savings, the fund can facilitate in consultation with the account holder, the repayment of the outstanding loans. So in a nut shell the use of saving facilities cannot be ignored by any M.FI. that wants to succeed.

5.7.3 Encouraging Credit to Micro-enterprises

The loans to micro-enterprises should be encouraged as they have a big potential in promoting the economic development of a nation. The micro-enterprises are easily affected by an increased microeconomic instability characterised by inflation rate and policy uncertainty. The reasons as to why they are more hurt than the other enterprises is because of their small size and because they have fewer options ride over instabilities as compared to medium and large scale businesses. Due to the foregoing, it is prudent that loans to SMES should be encouraged, supported and strategically used to empower and promote self-reliance and economic viability among the individuals who show potential of succeeding in business. This could be done by:- Putting in place incentives geared towards promoting competiveness, in the world markets, providing some protection for local infant industries and encouraging indigenous capabilities and also the introduction of intensive screening to identify potentially viable enterprises and entrepreneurs before the extension of credit.

5.7.4 Promotion of Vertical Growth of Micro enterprises

The findings in this study did not indicate a serious vertical growth of the assisted enterprises. This lack of graduation from one stage of business growth to another is caused by both external and internal business environment. This business environment is caused by poor domestic business policy environment that encompasses the microeconomic environment, lack of proper business inventive policies and i

nstitutions. A combination of these factors create a difficult external environment for SMES. The internal constraints that inhibit this business graduation are the ones that tend to discourage the supply of goods and services from the SME sector. These constraints include access to enough finance, loan management skills, limited access to produce market information, low technological skills and their adoption, poor infrastructure and sometimes gender based aspects.

In order to encourage this needed business vertical growth, this study recommends an establishment of comprehensive government training programs for enterprises growth within the following institutions: Vocational Training Institutes, Technical Training Institutes and in Polytechnics. Such institutions in collaboration with the financial institutions advancing credit should offer training that relates to business counselling programs that cover all major aspects of business growth. Due to the foregoing, this study also recommends that the RCCMDF establishes small a unit on a pilot basis to co-ordinate training of entrepreneurs and also to collaborate with the other public and private institutions involved in training in similar areas. To minimise costs to the fund the recipient of the service should pay a small fee.

5.7.5 The graduation of the fund into a Bank

The fund has gained a lot of experience during the time it has operated as a financial institution. It also has a share capital of more than Kshs.70 M and a network that reaches up to the grass root level. This study recommends that it should start preparing the ground for its graduation into a village bank which will cater specifically for micro enterprises and small scale businesses in its area of operation.

5.7.6 Loan Repayment

5.7.6.1 Flexible loan Categories

Most of the respondents in this study felt that the fund is unnecessarily overly concerned with timely loan repayment irrespective of any inhibition that may facilitate otherwise. They noted that in unique circumstances such as seasonality of business, it becomes very difficult for the respondents to repay the loan (s) in time. It was also a common complain that the loan repayment period of 24 months in the recently implemented constitution is too short. It is against this background that this study recommends that the fund should review and also find ways of making repayment schedules more flexible where there is such a need. It is also further recommended that in order to encourage business growth the fund should establish different categories of loans that would cater for the diverse needs of microentreprises. The following are examples of such categories:-Long-term loans for the purchase of fixed assets that require a reasonable amount of money. The repayment of such loans should take at least 36 – 48 months. A short-term loan for working capital would alleviate the problem of business liquidity and could assist in meeting recurrent expenditure.

A general purpose loan that would cater for any contingencies that a member of the fund may encounter. Such contingencies could be death of a close relative that can easily lead to a diversion of money from the business to such new and unavoidable contingencies. Such an eventuality can lead to business failure or default on loan repayment.

5.7.6.2 Discipline on Loan Repayment

This study also recommends that after the repayment of the group or individual guaranteed loan, all the subsequent loans should also be based on ones discipline in the repayment of the first loan rather than just the guaranteeship. This would discourage the loans defaulters who migrate from one individual guarantor or loan guarantee groups to another. Such characters will know that their savings and loan repayment discipline matter a lot. This will instill discipline on loan repayment and savings.

5.7.6.3 Loan Guaranteeship based on Sectoral Lines

For the formation of the loan guarantee group (s) this study recommends that such exercises be encouraged along sectoral lines. For instance, entrepreneurs in sectors like manufacturing who could be in common trade like metal welding should be encouraged to form their own loan guarantee groups. This approach would ensure less default on loan repayment as the members of such a group know each others' character and where they can find each other in case of default on loan repayment. It also makes it easy for such group members to exchange relevant business information that would help members to grow. They can also guarantee each other large loans. The loan dispersed should be based on specific needs of the entrepreneurs unlike now when the fund does not follow up to see whether there is loan diversion which is one of the causes of loan repayment default.

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Appendix I

PART I – BACKGROUND INFORMATION

A – Demographic Information

1. What is your Sex?

Male ☐

Female ☐

2. What is your age? ....

3. What is your Marital Status?

Married ☐

Single ☐

Others(Specify)..

4. Education level

(a) Primary ☐
(b) Secondary ☐
(c) University ☐

Others (specify)..

5. What formal training have you had?

a) On the job ☐

b) Technical ☐

c) Vocation ☐

d) Management ☐

6. Are you employed?.

(a) Yes ☐

(b) No ☐

7. What is type of a job?

(i) Works in this business ☐

(ii) Works in another family business ☐

(iii) Have full time employment outside this business ☐

(iv) Has part time employment outside this business ☐

(v) Others (specify)..

8. Are there other persons who depend on you for support

(a) Yes ☐

(b) No ☐

9. If so how many dependants? .... In what way?

....

....

PART II: Enterprises Data

1. What type of business are you in?

   (a) Food trade ☐

   (b) Clothes trade ☐

   (c) Manufacturing ☐

   (d) Other (specify) ....

2 What type of business ownership do you operate?

   (i) Sole proprietorship ☐

   (ii) Partnership ☐

   (iii) Company Limited ☐

   (iv) Others (specify)...

PART III: Loan information

1. When did you become a member? Year...........Month...........
2. What motivated you to join the fund? (Trick the reasons given here below that apply to you or even add others in the space provided)

   (a) Was near my area of operation /resident ☐
   (b) It's charges for services given are affordable as compared to other financial institutions ☐
   (c) Provides low interest rates on loans ☐
   (d) Flexible loan security requirements ☐
   (e) To save for the financing of household investments ☐
   (f) To get banking services without hard conditions like those given by other financial institutions. ☐
   (g) Other reason
   ....
   ....
   ....

3. Do you belong to any loan guarantee group? If so which one (give name and church zone ....

4. If the answer is No, in 2 above give reason why you are not a member of any given group
   ....
   ....
   ....

5. Have you ever applied for a loan?

(a) Yes ☐

(b) No ☐

6. If No., in 4 above give reasons

....

....

....

7. How do you get security for your loan?

(a) Through loan guarantee groups ☐

(b) Through individual members ☐

(d) Others (specify) ☐

8. When did you get your first loan? Year........................ Amount applied for sh.......... and received sh ....

9. Did you experience any problem(s) before getting the loan?

(a) Yes ☐

(b) No ☐

10. If yes in 9 above what problem(s)

(i) Lack of guarantors ☐

(ii) Lack of enough shares ☐

(iii) Loan processing took a long time ☐

(iv) Asked to bribe the officials ☐

(v) Asked to bribe the staff ☐

(vi) Others (specify)..

11. Was the loan adequate?

(a) Yes ☐

(b) No ☐

12. If No in 5 above? Give reasons

(i) Too little ☐

(ii) Items were more expensive ☐

(iii) Too many things to purchase ☐

13. How did you utilize the loan?

a) Bought assets ☐

b) Hired new employees ☐

c) On business purchases and expenses ☐

d) Used on other family activities ☐

☐

e) Gave part to spouse for personal use

f) Paid business outstanding debts

g) Others (specify)...

14. What training or technical advice did you receive related to the use of loan(s)? ....
....
....

15. What is the frequency of loan repayment?

Daily payments

(i) Weekly payments

(ii) Fortnightly payments

(iii) Monthly payments

(iv) Yearly payments

(v) Other (specify)..

16. What was the source of money used to repay the loan?

(i) Sales

(ii) Borrowed money from other sources

(iii) Own savings ....

(iv) Others (specify)..

17. Have you ever defaulted on any loan repayment?

(a) Yes ☐

(b) No ☐

18. If yes in 11 above what was the reason for the default?

(i) Did not make profit ☐

(ii) Spent all the money on other things ☐

(iii) Did not give loan repayment priority ☐

(iv) Other (specify)...

19. Were you penalized for the default

(a) Yes ☐

(b) No ☐

(c) Not applicable ☐

20. If yes in 19 above how much was the penalty?

Kshs.................................

PART IV: Impact of the Loan

1 What type of records do you maintain?

NO.	RECORDS	BEFORE LOAN	AFTER LOAN
1.	Cash books		
2.	Ledgers		
3.	Assets records		
4.	Invoices/receipts		
5.	Financial statements		
6.	Others (specify)		

2. Indicate your employment creation before and after taking loan.

TYPE OF EMPLOYMENT	BEFORE LOAN	AFTER LOAN
Part – time		
Full – time		

3. How has each of the following items related to your enterprise changed since you received the loan from the Fund?

a) Your financial status (profits,sales,cash)..

b) Your management practices (the way you run your business).. ....

c) Your participation in the following organizations :- (self-help/business/trade.

4. Which is the source of Raw Materials/product that you use in your business ?

Local ☐

Foreign ☐

5. Has your business helped the community around you?

Yes ☐

No ☐

6. If yes in 5 above how has it (business) helped?

(i) Offering cheap commodities ☐

(ii) Buying their raw materials ☐

(iii) Employing local lobour ☐

(iv) Other (specify)...

7. How is your relationship between you and the following after taking and proper utilization of loan

8.

Relationship (factor)	Improved	Same	Deteriorated
Suppliers			
Customers			
Creditors			
Banks			

9. What future plans do you have

(i) Build own premises in accommodate business ☐

(ii) Expand in other areas ☐

(iii) Building a home ☐

☐

(iv) Become a wholesaler

(v) Increasing stock and sales

(vi) Introduce new products/service to the market

(vii) Other (specify)..

10. From what you have experienced with loan that you received from Ruiru Catholic Members Development Fund what advice would you give to:

(i) **Potential loanees**

(a) Use the loan wisely

(b) Must be in business before taking loan

(c) Join a loan guarantee group

(d) Others (specify)..

(ii) **The organization that gives loan (R.C.C.M.D.F)**

(a) Reduce interest rate

(b) Prolong grace period

(c) Increase repayment period

(d) Consider start – up people for a loan

(e) Others (specify)...

PART V: Barriers to Enterprises Growth

1. What are the major constraints/problems that you have experienced in your business?

NO.	CONSTRAINTS/PROBLEMS	CURRENTLY	1 YEAR AGO	2 YEARS AGO
1.	Competitors			
2.	Shortage of raw materials			
3.	Lack of working capital			
4.	Lack of qualified staff			
5.	Markets			
6.	Other (specify)			

2. What solutions can you offer to 1 above? ....
....

3. In your own opinion is the project a failure or success?

(a) Yes ☐
(b) No. ☐

4. If No, in 3 above give reasons
....
....
....

THANK YOU and GOD BLESS

Appendix II

INTERVIEW GUIDE FOR KEY INFORMANTS

INTRODUCTION

PART I: BACKGROUND INFORMATION

a. When was the organization formed?

....

b. Is the group registered? If so how ....

....

3. What is the organization vision?

....

....

4. What were the organizations objectives? ....

....

....

5. Who qualifies to be a member of the organization?

....

....

6. What programs or projects are your organizations involved in?

....

....

8. What are the requirements for a member to access loan(s) from your organization?

....

....

9 Do the members utilize the loans on the purposes given in the loan application forms?

....

....

10. If not in 9 above in which other areas do they utilize their loans?

....

....

11. In your opinion who are the most reliable on loan repayment based on gender? ....

12. How would you rate the success of this program in meeting its objectives (very satisfactory, fairly satisfactory and not satisfactory). Give reasons for your answer.

13. Do you train the members on how to utilize the loan or business management before giving out the loan? ....

14. In your opinion, what are the strengths and weaknesses of the RCCMDF?

....

....