INFLUENCE OF CREDIT ACCESSIBILITY ON THE GROWTH OF MICRO ENTERPRISES IN NAKURU CENTRAL BUSINESS DISTRICT, KENYA

BY

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DECLARATION
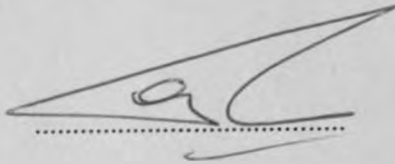
This research project is my own work and has not been presented for a degree to any other university.
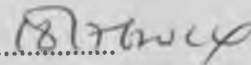
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This research project has been submitted for consideration with my approval as the university supervisor.

Signature .... Date...................

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DEDICATION

This research is dedicated to my daughter Shirleen Liz Nyambura, nephew Geofrey Thuo Ndegwa as well as my siblings for the great support, patience and inspiration that you accorded me during the study.

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ABREVIATIONS AND ACRONYMS

CBD	Central business district
ECB	European Central Bank
MEI	Micro Finance Institutions
MSEs	Micro and Small Enterprises
OECD	Organization for Economic Co-operation and Development
ROSCA	Rotating Savings and Credit Associations
SACCO	Savings and Credit Co-operative
SMEs	Small and medium enterprises

ABSTRACT

The role played by micro enterprises in Kenya is significant. Credit accessibility has a great influence on the growth of the enterprises. Despite this high supply of credit, microenterprise operators still remain confined in narrow markets where competition is high with small sales volumes and profit margins are low. The purpose of the study was to determine the influence of the accessibility of credit facilities on the growth of micro enterprises in Nakuru Municipality. The study was guided by four objectives namely influence of interest rates, demand for collateral, influence of business skills and nature of business towards the growth of micro enterprises. The target population included 300 micro enterprises. The study employed descriptive research design with a sample size of 169. Data was collected through use of questionnaires. Inferential and descriptive statistics were used as data analysis techniques with the aid of statistical package for social scientist (SPSS). The findings of the study indicated that interest rates affect the growth of micro enterprises, $p=-.019(.819 > 0.05)$. There was a negative non correlation between collateral and growth of micro enterprises, $p=.059 (487 > 0.05)$. A strong positive correlation existed between business skills and growth of micro enterprises, $p = .655$ $(0.007 < 0.05)$ and nature of business influenced the growth of micro enterprises with a chi square value of 24.967. $p= .050$. The study concludes that high interest rates affect growth of micro enterprises, use of collateral lowers on access to credit, business skills influences on the growth of micro enterprise and the nature of business influences on access to credit. The study recommends need for government to regulate interest rates by banks and other financial institutions, there should be a reduction in collateral acting as security, need to improve on business skills and generally improving the business by the micro enterprisers through investing in time resources and finances. The results of the findings formed a learning base for future growth of micro enterprises in Nakuru.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Micro and Small Enterprises (MSEs) play a significant role in the development process of Kenya (Government of Kenya, 2005). These enterprises manifest unique opportunities for wealth and employment creation. The greatest challenge faced by MSEs around the world is lack of access to credit (Tambunan, 2007). Access to formal bank credit is one of the important problems faced by South African micro entrepreneurs in the informal sector. Mel et al. (2007) confirm that missing credit markets is the main limitation for small businesses to grow.

Accesses to credit facilities determine greatly the growth of businesses nearly throughout the world. This is especially so for micro. In the European economy, micro enterprises (SMEs) play a vital role. They are a major source of entrepreneurial skills, innovation and employment. In the larger European Union of 25 countries, some 23 million SMEs provide around 75million jobs and represent 99%of all enterprises (European Commission). In Britain, SMEs are the backbone of the British economy (Rowe, 2008). In the United Kingdom (UK), the start- up loan programme provides support to young people to help them start up their own business. The scheme provides loans and mentoring support to applicants in England aged between 18 and 30 who would not normally be able to access traditional forms of finance for lack of track record or assets (Department of Business Innovation and Skills, UK, 2013).

Grameen Bank is generally considered the first modem microcredit institution founded in 1983 by Muhammad Yunus (Betaman, 2010). It provided low interest loans to the rural poor in Bangladesh. Muhammad Yusuf was awarded the Nobel Peace Prize in 2006. (The Nobel Prize Organization, 2006).

In many developing countries, SMEs have limited access to formal credit. According to the 2000 Population and Housing Census of Ghana, 80% of the working populations are found in the private informal sector. This group is characterized by lack of access to credit, which constrains the development and growth of that sector of the economy. In Kenya, there are about 2.2 million

micro, small and medium enterprises (Strategic Business Advisors (Africa) Ltd –SME Banking Sector Report, 2007), of which 88 percent are non-registered. Of this non-registered group, only 23 percent have bank accounts, and only 10 percent have ever received credit from any formal source. There is a common perception that borrowing from a formal lender will imply losing assets and property (Steadman Group Research Division, 2007).

The microenterprises play an important role in Kenyan economy. According to the economic survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005.Despite this significant role, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of statistics, 2007).Available formal sources of credit for SMEs such as street food vendors in the country are banks, microfinance and SACCOs. Informal sources are business credit, Rotating Savings and Credit Associations (ROSCA) and shylocks.

Recently the government of Kenya started laying more emphasis on youth and women affairs and started two major funds namely; Women Enterprise Fund (WEF) and Youth Enterprise Development Fund (YEDF) in 2007. These are expected to assist in creating more employment in the informal sector. Microenterprises constitute an important policy theme that need to advance further in development literature and policy (Nirathron, 2006). With the rise of urban centers and growing urban population, the enterprise is becoming more important. The enterprise allows easy entry for women and the youth as it has low start-up costs Fellows (Calice & Chando, 2012). Micro enterprises have created employment for thousands of Kenyans. Their growth remains a challenge due to lack of finances. Availability of finances can assist them to acquire basic business training that would increase their innovativeness thus improving their services or products. This will in turn increase their market and reduce competition leading to business growth.

The study was guided by four independent variables which include: Credit interest rates; most credit facilities from financial institutions are provided at very high interest rates for micro and small enterprises to afford. The interest rate charged on credit has a great impact on the cost of capital. The high interest rates may discourage MSEs from borrowing credit from financial

2

institutions. They therefore turn to ROSCAS, shylocks, credit lenders for credit which comes with even more expensive conditions.

Demand for collateral by financial institutions; financial institutions have a culture of demanding collateral as one of the requirements for MSEs to access credit. This is a constraint to the vendors most of who are women and the youth who lack property or posses no documents as proof of property ownership. This reduces their accessibility to credit.

Business skills; demonstration of basic business skills is regarded important by financial institutions before providing credit to entrepreneurs. This is indicated by the level of education, training and maintenance of business financial records

Nature of Business; the nature of business refers to the size, age and ownership of business and ways of operation. Most financial institutions prefer lending to businesses that have been in operation for a long time as opposed to young businesses. They also prefer those that are permanently located for easy access of the client. Most micro enterprises are operated by a single person or family. Their asset size is small and of low value. This reduces their access to credit

1.2 Statement of the Problem

For Kenya to achieve vision 2030 and the Millennium Development Goals (MDGs) especially goal 1 (To eradicate extreme poverty and hunger) and 3 (To promote equality and empowering women) the role of micro enterprises is very significant. This enterprise has provided employment for thousands of men, women and the youth. The income gained makes women and the youth more self-reliant, more confident and less dependent. It also gives them more status and greater say in a family, as well as improved status in the community as they get involved in decision making. The enterprise introduces women and the youth to new knowledge from interactions with different types of people, including customers, other entrepreneurs and suppliers in large urban centers. Micro enterprises in Nakuru Municipality contribute to the local and national development through payment of taxes and local municipal revenue. Despite this significant role that the enterprises play and the fact that many financial institutions have been vigorously marketing their credit, micro enterprises have challenges in accessing it. Their growth is hampered. They are confined in narrow markets where competition is stiff, with small sales

3

volumes and low profit margins. This makes them to stagnate in the micro status and many of them close up after few months or years of operation. Very few manage to graduate to small, medium or large scale enterprises.

1.3 Purpose of the Study

The purpose of this study was to determine the influence of credit accessibility on the growth of micro enterprises in Nakuru town Central Business District in terms of credit interest rates, demand for collateral by lending institutions, business skills and the nature of business.

1.4 Objectives of the Study

The study was guided by the following objectives:

i. To establish the level at which credit interest rates influence the growth of micro enterprises in Nakuru town Central Business District.

ii. To determine how demand for collateral influence the growth of micro enterprises in Nakuru town Central Business District.

iii. To establish the extent to which business skills influence the growth of micro enterprises in Nakuru town Central Business District.

iv. To determine how the nature of business influence the growth of micro enterprises in Nakuru town Central Business District.

1.5 Research Questions

This study sought to answer the following Research Questions:

i. What is the level at which credit interest rate influence the growth of micro enterprises in Nakuru Central Business District?

ii. In what ways does demand for collateral influence the growth of micro enterprises in Nakuru Central Business District?

4

iii. To what extent do business skills influence the growth of micro enterprises in Nakuru Central Business District?

iv. How does the nature of business influence the growth of micro enterprises in Nakuru Central District?

1.6 Significance of the Study

It is hoped that the findings of this study will provide useful information for future formulation of development policies by County and National governments. Other potential users of the findings as guidelines for interventions are nongovernmental organizations. The findings will also be important to the micro entrepreneurs as they seek to grow their businesses to the small, medium and finally to large enterprises. Project managers and researchers can use the results to make further investigations into this important enterprise.

1.7 Delimitation of the Study

The study focused on small enterprises in Nakuru town Central Business District because of its cosmopolitan characteristics and the fact that it is the fastest growing town in East and central Africa (Urban survey, 2010). Its population is large and varied comprising of many youth and women engaged in the micro enterprises. In the recent past, many financial institutions such as banks and micro finance institutions have been opening their branches in Nakuru town targeting micro enterprises. However the terms and conditions provided for these new credit and financial facilities is in most cases beyond the reach of most micro enterprise operators. This forces the micro entrepreneurs to turn to other informal sources of credit such as shylocks,"chamas" (merry go round), and family savings which are even more costly. This leads to slow growth, stagnation or closing of the enterprises.

1.8 Limitation of the Study

The main challenge experienced in this study was to have the participants fill the questionnaires honestly and return them. The apprehension of the respondent fearing that the researcher could be a secret informer of the municipal council is another challenge. Another limitation was low

literacy levels on the part of respondents. The respondent's fears were mitigated through proper designing of the questionnaire and assuring them that the information provided is purposely for the study and will be handled confidentially. Those with low literacy levels were assisted to indicate their responses. Another challenge was having the respondents fill the questionnaires due to time factor. This was addressed by making the questionnaire not bulky with simple clear questions which addressed all the objectives.

1.9 Assumptions of the Study

The study assumed that the respondents gave correct and truthful information that the questionnaire sought to achieve and that the population was well distributed to provide information that is consistent with the research design.

1.10 Definition of Significant Terms Used in the Study

Business skills: The technical and non-technical skills required for business success.

Credit: This is the provision of funds by financial institutions on agreed terms and conditions to a borrower who is obliged to repay the amount borrowed together with interest thereon.

Credit accessibility refers to the possibility or ease with which individuals or enterprises can access credit from formal financial institutions.

Credit Interest rate: A rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal.

Collateral: Security pledged for the payment of a loan. It is what is promised to be given out if one fails to repay a loan.

Microenterprise: A small business that operates with fewer than 10 people and is started with a small amount of capital. Most microenterprises specialize in providing goods or services for their local areas

6

Microenterprise growth Refers to the process of generating significant positive cash flows or earnings at significantly faster rate. It refers to increase in sales volume, profits and market expansion.

Nature of Business: Refers to type or kind of business one is doing. It refers to business size, age, mode of operation and ownership.

1.11 Organization of the Study

Chapter one contains the introduction, statement of the problem, objectives, research questions, delimitation, limitation and significance of the study. Chapter Two has the review of related literature on the impact of interest rates charged on credit, awareness and business management skills, the nature of the business and demand for security by banks on the growth of street vendor enterprises. The third chapter describes the methodology used in the study. The design, sampling procedure used, data collection, analysis and presentation are explained. The variables are also conceptualized to associate the research objectives with the methodology. Chapters four contain analysis, presentation, interpretation and discussion of the findings. Analysis was undertaken basing on the objective of the study. Both inferential and descriptive methods of analysis have been employed. Lastly is chapter five which has summary, conclusion and recommendation of the study. Areas for future research have been looked at.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature associated with credit accessibility for Micro Enterprises. The literature focuses on micro enterprises and Small and Medium Enterprises. This arises from the challenges that emanate from different countries defining the categories differently and using the terms interchangeably. It helps to review the various issues that can help the researcher to address the main aspects of credit facilities that influence the growth of the enterprises. It focuses on the development of credit facilities globally, Africa and the local levels in terms of credit accessibility, credit interest rates, demand for collateral, business skills and nature of business.

2.2 Concept of Microenterprise

A microenterprise is a small business that employs a small number of employees. A microenterprise will usually operate with fewer than 10 people and is started with a small amount of capital. Most microenterprises specialize in providing goods or services for their local areas. MSE stands for Micro and Small Enterprise. However, what exactly an MSE or Micro to Small Enterprise is, depends on who's doing the defining. Industry Canada uses the term SME to refer to businesses with fewer than 500 employees, while classifying firms with 500 or more employees as "large" businesses Breaking down the SME definition, Industry Canada defines a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business. In its ongoing research program that collects data on SMEs in Canada, Statistics Canada defines an SME as any business establishment with 0 to 499 employees and less than $50 million in gross revenues.

Different countries define MSEs differently In the EU, a similar system is used to define Small to Medium Enterprises. A business with a headcount of fewer than 250 is classified as medium-sized; a business with a headcount of fewer than 50 is classified as small, and a business with a

headcount of fewer than 10 is considered a micro business. The European system also takes into account a business's turnover rate and its balance sheet.

Though MSEs have been defined in various ways, the most commonly used criterion is the number of employees in the enterprise (Kayanula & Quartey, 2000). Definitions in many countries lack uniformity and reflect the relative development of the respective economies. However, the United Nations Conference on Trade and Development (UNCTAD) classifies firms employing 5 to 500 persons as SMEs (Neelamegham 1992). The Government of Uganda classifies SMEs as business firms employing 5-50 people [small scale] and 51-500 people [medium scale] (Okello-Obura et al, 2008). Whatever definition it takes, SMEs are important to socio-economic transformation and it is estimated that SMEs employ 22% of the adult population in developing countries (Daniels & Ngwira, 1993).

The Kenyan Government, aware of the role micro, Small and Medium Sized Enterprises (SMEs) play in the economy, has taken steps to develop a legal and regulatory framework aimed at guiding and accelerating the growth of this sector. Due to Kenya's per capita income structure, most businesses would fall into the micro, SME strata and as such any attempts by the Government to grow the economy would logically include development and sustenance of the SME sector. An SME operating in Kenya may be registered as a sole proprietorship.

While Sessional Paper No. 2 of 2005 defines a SME as an enterprise with between 1 to 50 employees, the World Bank defines an SME as one that fits to either of the following criteria that is to say: (1) A formally registered business (2) with an annual turnover of between Kenya Shillings 8 to 100 million (3) an asset base of at least Kenya Shillings 4 million and (5) employing between 5 to 150 employees. The MSME Bill 2011 has used 2 criteria to define SMEs in general that is: (a) the number of people/employees and (b) the company's annual turnover. For enterprises in the manufacturing sector, the definition takes into account the investment in plant and machinery as well as the registered capital

Table 2.1: MSE Thresholds

	Headcount (employee)	Turnover	Or
Medium-sized	<250	€=€ 50 million (in 1996:40 million)	€=€ 43 million (in 1996:27 million)
Small	<50	€=€ 10 million (in 1996:7 million)	€=€ 10 million (in 1996 : 5 million)
Micro	<10	€=€ 2 million (previously not defined)	€ = € 2 million (previously not defined)

Adapted from European Union Delegation of the European Commission (May 2003)

2.2.1 Credit Interest Rates and Micro Enterprise Growth

Business growth is predicated upon many factors among these, is the ability of the business people to access credit facilities. Ninety percent of all small and micro enterprise collapse in their first year of startup, due to lack of financial resources (Daily Nation Tuesday, 3rd Feb, 2009). A crucial factor in the development of SMEs sector is access to finance, to banking financing, given the importance of the banking sector in offering service to this segment of the economy.

Data collected by World Bank show that access to finance is perceived as one of the main obstacles to doing business (World Bank, 2008). Various studies have shown that financing is a greater obstacle for SMEs than it is for larger firms, particularly in the developing world, and that access to finance adversely affect the growth of the SME sector more than that of larger companies (Beck et al, 2005; Beck et al 2006).It is therefore not surprising that the international development community has listed SME access to finance as an important policy priority. One variable for credit constraints have been defined by the Organization for Economic Co-operation and Development(OECD,2006) as occurring when SMEs cannot obtain financing from banks, capital markets or other suppliers of finance even when they have the capacity to use those funds productively .In a situation where economically variable projects may have to be

restricted or even abandoned because of funding difficulties, this has the potential to have serious negative consequences for ongoing innovation and growth

According to a survey carried out by Organization for Economic Co-operation and Development (OECD, 2009), in all countries using the Bankers' Lending Survey method, the tightening of credit conditions by banks was clearly evident for all the banks' clients. The European Central Bank (ECB) data also confirmed the tightening. The ECB attributes the tightening to the banks' ability (or inability) to access capital, the banks' liquidity positions, and expectations regarding the recession and higher risk on collateral. Interest rate spreads have risen to unprecedented levels, thereby partially offsetting the effects of the easing of monetary policy. The main factors exacerbating the banks' attitude towards lending to SMEs are: a) the poor SME economic prospects b) stagnation in inter-bank lending and increased cost of capital; and c) the desire to rebuild bank balance sheets. In all reporting countries, banks are under pressure and are trying to preserve or strengthen their capital base. As a result, they are seeking fully collateralized transactions. In consequence, by choosing to keep only the strongest clients, banks and other financial institutions are contributing to a polarization process. For example, Korea reported that lending to blue-chip SMEs has increased whereas lending to SMEs with poorer credit ratings has deteriorated.

O liou D. and Zeller M (2001) noted that as is the case in many African countries, the majority of smallholders in Malawi are left out of the rural financial system. It has been argued that most of Malawi's smallholder farmers are too poor to be able to benefit from any kind of access to credit, and that, even if they had access to adequate credit and inputs, their land constraints are so severe that any increase in productivity would still fall short of guaranteeing their food security (Government of Malawi 1995). For these households, credit for nonfarm income-generating activities has been suggested as a policy alternative to address their food insecurity and malnutrition To gain a better understanding of the possible role of credit in improving income and household food security and in alleviating poverty in Malawi, in November 1994 the International Food Policy Research Institute (IFPRI) and the Department of Rural Development (DRD) of the Bunda College of Agriculture, University of Malawi, initiated a research program on rural financial markets and household food security in Malawi.

11

Ireland experienced an precedent credit boom in the year leading up to 2008.outstanding credit to private sector Irish resident firms grew by 194% btw 2003 the peak in march 2009,since then credit has contracted sharply, failing by 18% in two years(march 2009 and march 2011) This is a part explained by the need to reduce the size of the Irish banking sector and move out day from unsustainable loans to deposit ratios, as specified in the financial measures program.

In an effort to ensure that small and medium enterprises (SMEs) would continue to be able to access credit and annual lending target of E3bn was established for the main banks as part of recapitalization requirements however, the Credit Review Office (CRO) (2011) say it will be a challenge for this target to be met .

Access to finance is key to SMEs growth globally, Nigeria inclusive. In Nigeria, financial inclusion has been recognized as an essential tool for SMEs development. Lack of access to financial institutions also hinders the ability for entrepreneurs in Nigeria to engage in new business ventures, inhibiting economic growth and often the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustained. Idowu (2008) agrees that access to loans is one of the major problems facing SMEs in Nigeria. Diagne and Zeller (2001) also argue that insufficient access to credit by the poor may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime The idea of creating Micro Finance Institutions (MFIs) is to provide an easy accessibility of SMEs to finance/ fund particularly those which cannot access formal bank loans. Microfinance banks serve as a means to empower the poor and provide valuable tool to assist the economic development process. Kolawole (2013) is of opinion that the promotion of micro enterprises in developing countries is justified because of their abilities to foster economic development. The main objective of micro credit according to Chiyah and Forchu (2010) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal institutions.

Small firms identify lack of access to financial services as one of the key constraints to growth and investment. Micro Small and Medium Enterprises are usually more credit constrained than other segments of the economy because of high cost of credit, low level of access to information

12

on credit and complicated borrowing procedures (Mohini, 2007). If lenders do charge high interest rate, this increases the risk they are exposed to by discouraging low risk, low return borrowers from seeking loans ultimately discouraging lenders from lending to SMES altogether (Halberg, 2004). He also observes that no business can possibly exist without having access to credit. Many theories have raised the issue on the financing gap for SMEs, meaning that when given access to credit could use it profitably to grow their businesses.

2.2.2 Demand for Security by Banks and Microenterprise Growth

The greater difficulty of smaller firms in accessing credit relative to larger firms revolves around difference in risk profile and information asymmetries between the firm and lending institution Organization for Economic Co-operation and Development (OECD, 2006).

It is difficult for micro enterprises or even SMEs to convince banks' lending of the quality of their business plans and for fewer firms in particular, it can take a considerable amount of effort to build a reputation that signals that they are low risk. From the bank's point of view the cost involved in assessing and monitoring SMEs act as a larger institution, transaction lending that relies on financial statement of firms as an information service is often preferable SMEs often have less collateral that could protect creditors European Central Bank (ECB, 2007).

Bank credit is among the most useful sources of finance for business in Kenya (Government of Kenya 2005). Bank credit refers to loans and overdrafts extended to enterprises by formal banking institutions. Only 1.5 percent of MSEs receive loans from commercial banks in Kenya (International Centre for Economic Growth 1999). It is unclear, how the rest, who form the majority, meet their working and investment needs (Kimuyu & Omiti 2000). Perhaps this is not surprising in light of the magnitude of barriers that they face in accessing credit. Lack of tangible security by MSEs, the limited capacity, outreach and linkages by financial intermediaries and a hostile legal and regulatory framework for financial services are the main constraints (Government of Kenya, 2005). Yet there is little information as to how the few MSEs that access formal credit manage to do so in light of this very difficult environment.

13

A study conducted in Kenya, Uganda and Tanzania by Calice and Chando (2012) found that the SME segment is a strategic priority for the banks in the region. SMEs are considered a profitable business prospect and provide an important opportunity for cross selling. Banks consider that the SME lending market is large, not saturated and with a very positive outlook. A number of obstacles are, however, constraining further banks' engagement with the SME segment, including SME-related factors such as the lack of adequate information and collateral as well as their largely family-owned structures

Ackah and Vuvor (2011) in their study in Ghana agree with this. I n their view the current system of land ownership and transfer regulations clearly retards and to some extent limits access to formal credit. First, due to lack of clear title to much usable land in Ghana, there is a limited amount of real property that can be put up as collateral. Second, a Government embargo on transfer of stool and family land has further restricted land availability for collateral. Finally, where title or lease is clear and alienable, transfer regulation needlessly delay the finalization of mortgages and consequently access to borrowed capital. They claimed that the availability of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in case of default. Thus collateral was required of nearly 75 percent of sample firms that need loans under a study, which they conducted on the demand on the demand supply of finance for small enterprises in Ghana. The study also indicated that 65 percent of the total sample firm had at various times applied for bank loans for their business. Nevertheless a large proportion of the firm had their application rejected by banks. For firms that put in loans applications there was almost 2:1 probability that the application would be rejected. Firms receive loans for much less than they requested for. Among firms that had their applications rejected, lack of adequate collateral (usually in the form of landed property) was the main reason given by banks.

Lack of tangible security by MSEs, the limited capacity, outreach and linkages by financial intermediaries and a hostile legal and regulatory framework for financial services are the main constraints to credit accessibility (Government of Kenya, 2005). Yet there is little information as

14

to how the few MSEs that access formal credit manage to do so in light of this very difficult environment.

2.2.3 Business Skills and Microenterprise Growth

Many small business entrepreneurs neglect the process of strategic planning because they think strategic planning only benefit large companies (Zimmerer & Scarborough, 1998). It is important to not only create strategic plans but also perform other types of planning such as marketing plans. Lack of an adequate business plan can lead to difficulties to be encountered either at the start of the business or when planning is needed for growth (Cornwall, 2005). He also stressed the need for entrepreneurs to produce a marketing plan saying that this is essential in deciding marketing strategies and customer base.

Poor financial control is mentioned by many researchers as a catalyst for business failure. Some entrepreneurs may have problems securing finance while others may simply have trouble managing their finances Cornwall (2005) argues that the securing of inadequate capital, misuse of capital and poor cost control are serious issues for many entrepreneurs. Poor cash flow management is amongst the most common internal causes of business failure according to the European Federation of accounts.

Governments invest substantial resources in stimulating training suppliers to develop competence programs to the SME sector. Such programs are based on the assumption that the provision of training in terms of developing existing or introducing new skills and/or knowledge to SMEs, will increase their business performance. It is generally assumed that training leads to improved competence. Lack of development of appropriate competence and investments in staff training has been identified as central barriers to successful e-business implementation and use, (Fillis et al, 2003). Several government initiatives in Europe have targeted the need for training and management development in small firms.

Troshano and Rao (2007) focused on the enabling factors behind e-business competitive advantage in the Australian financial services industry. After interviewing 12 companies in an exploratory study they argue that e-business technologies enable or stimulate organizational

15

competences which, in turn, explain higher levels of performance. Despite their significant importance and SME contribution to economic growth across the whole world and in S. Africa in particular are still faced with numerous challenges that inhibit entrepreneurial growth. Apart from SME funding and access to finance the global entrepreneurship monitor (GEM) Report (2001-2010) noted that S. Africa SMEs also suffer from poor management skill which is a result of lack of adequate training and education. This result in high rates of business failure. S. Africa has one of the lowest SMEs survival rates in the world.

SMEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active SMEs sector - and the effective utilization of quality business information - has been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries alike (Corps, 2005). However, in most developing countries, the SMEs sector suffers from inadequacies in the provision of business information which is only available from stand-alone institutions; is often slow and cumbersome to access; is limited in scope; and is not provided in an integrated manner (UNIDO, 2005).

A study conducted in northern Uganda by Okello-Obura et al, (2008) shows that the SMEs depend, mostly, on informal institutions as they lack an awareness of important business information provision agencies or institutions. Access to information is insufficient. This is inconsistent with the requirement for effective competition in global market. The SMEs need tailor-made information solutions - the business information services that assess, verify and apply information to a specific business problem (Okello-Obura et al, 2008).

In order to respond to the specific needs of the SMEs, business information services should create value by bringing together information from different sources - both local and international. This enables the integration of the SMEs into national and global value chains (UNIDO 2005). Okello-Obura et al (2008) argues that there is a need for collaboration between various industrial and trade organizations, professional bodies, private enterprises and government departments to provide SMEs with a comprehensive range of business information, advice and facilities. This implies that the issue of quality information becomes evident. However, this is dogged by numerous challenges.

16

In their study carried by Njoroge and Gathungu (2013) they concluded that even though an entrepreneur may be reporting an increase in sales and profits and may seem to be registering growth, lack of training on financial strategic management and marketing will mean that the SME will not grow from the first stage (existence) to other stages such as survival , success, take off and resource maturity. It will hence remain small stagnant enterprise.

2.2.4 Nature of Business and Microenterprise Growth

Credit scoring uses an applicant's business history and personal characteristics to determine loan approval. Credit scoring tries to look at the wellbeing of clients taking into account client's socioeconomic characteristic and credit record. Pepran (2012) concludes that age of business or how long clients have been in business significantly influences credit amount. Aged businesses are likely to receive bigger loan amounts from MFIs than younger businesses all things being equal. This confirms Hamadi (2010) that the age of business is one of the 'keys to credit successes that financial institutions consider in approving credit. The assumption is that old businesses have passed the test of time, owners are experienced and are also operating in the long run where supernormal profits to be reaped.

Earlier studies find that lowering constraints to external financing for SMEs contributes to economic growth, reduced income inequality and reduced poverty (Levine, 2005; World Bank, 2008). At the firm level, increasing the channels of financing can enhance entrepreneurial activity, contributing to employment, innovation and income (Paulson & Townsend, 2004; Beck et al, 2005). However, there is a widely held consensus in the literature that SMEs experience more difficulty in accessing finance compared with the larger firms and lack of access to external finance is a key obstacle hindering innovation and growth (Beck et al, 2005, 2006).

Beck et al, (2008) find that banks consider the SME segment to be highly profitable, but perceive macroeconomic instability in developing countries and competition in developed countries as the main obstacles. The authors note that compared with large firms, banks are less exposed to small enterprises, charge them higher interest rates and fees, and experience more non-performing loans from lending to them. Factors that can reduce the risk and uncertainty and improve the probability of loan success such as institutional stability and predictability are often absent in

17

emerging economies (Ahlstrom and Bruton, 2006). Undeveloped property rights, unpredictable law enforcement and insufficient business data reduce the ability of local banks to follow the standard procedures and force them to rely on different lending practices in these countries (Ngoc *et al*, 2009).

The most frequently cited factor that hinders the availability of bank financing is SMEs' 'opaqueness' (Hyytinen and Pajarinen, 2008). Opaqueness refers to the difficulty faced by banks to ascertain if the borrower has the ability and willingness to payback the extended loan. The opaque nature of SMEs undermines lending from institutions that engage in more arms-length financing that requires hard, objective and transparent information De la Torre *et al*, (2010). Banks can mitigate this information asymmetry problem by engaging in long-lasting 'relationship banking', where loan officers obtain soft information through repeated interactions with the firm. Examples of soft information include the character and reliability of the SME's owner; the credit history of the firm gathered from the past transactions; the future prospects of the SME garnered from past communications with SME's suppliers, customers or neighboring businesses (Berger & Udell, 2006).

Many earlier studies widely acknowledge several firm characteristics as important factors affecting access to finance. For example, the age of the firm can signal to the market the resilience of the business to sail through difficult times. As younger firms usually lack the financial resources necessary to withstand harsh economic conditions, they present a higher probability of failure (Bougheas *et al*, 2005). Owing to their opaque nature, it is hard and costly to obtain reliable information on SME credit quality. The analysis of Ngoc *et al* (2009) documents that young SMEs face more difficulty to access bank financing and incur higher costs, due largely to information asymmetry between the banks and the firms. The lenders use the financial information obtained from the firm's financial statements to determine the possibility of delinquency.

The choice of legal form of business can also affect the availability of external finance and the capital structure decisions of SMEs. A sole proprietorship is a business vehicle owned by one person who is liable for all of the debts and other obligations of the business. Incorporation, on the other hand, limits the liability of a corporation's shareholders to the capital they contribute.

18

From the bank's point of view, incorporation can offer benefits if it reflects the seriousness of the business activity (Storey, 1994), or serve as a strong signal to portray credibility and formality of operations if it represents an indicator of future growth potential (Cassar, 2004).

Sales volume and stability are directly related with the business risk and profitability of the SMEs. The volatility in a firm's sales and earnings stream increases the chance of default, and reduces the capacity to borrow. Firms with more volatile earnings growth may experience more situations in which cash flows are too low for debt service (Johnson, 1997). Profitable firms are more attractive to financial institutions as lending prospects as they may be in a position to employ and service more debt easily and on time (Ooi, 1999). Furthermore, involvement in international trade can make SMEs less vulnerable to fluctuations in domestic demand, improving the export-oriented firm's financial soundness and profitability.

2.3 Theoretical Framework

A theoretical framework is a set of assumptions about the nature of phenomena. It refers to a set of terms within which the issue or situation under investigation is addressed for a solution to be found. The following theory of entrepreneurship and entrepreneurial motivation guide this study.

2.3.1 Entrepreneurship Innovation Theory

This theory was proposed by Schumpeter (1934) who believed that entrepreneur helps the process of development in an economy. He says that an entrepreneur is the one who is innovative, creative and has a foresight. According to him, innovation occurs when the entrepreneur introduces a new product Introduces a new production method, opens up a new market finds out a new source of raw material supply and introduces new organization in any industry.

Many contemporary researchers trace the origins of modern thought in entrepreneurship back to Joseph Schumpeter's work (1934; 1963).Schumpeter's theories of the economic system and the role of entrepreneurship within it have been widely discussed Shionoya,(1992; 1997). His principle contribution can be found in his book 'The Theory of Economic Development'. Schumpeter introduced a concept of entrepreneurship which is quite different from others.

19

The function of the entrepreneur in this new theory was the person who innovates or makes 'new combinations' of production possible. The concept of 'new combinations' covered some potential cases such as the introduction of a new good or a new quality of a good and the introduction of a new method of production. Economic incentives include taxation policy, industrial policy, sources of finance and raw material, infrastructure availability, investment and marketing opportunities, access to information about market conditions, technology etc

The above theory is important in the study since micro enterprises require a lot of innovation as they compete against established large businesses in Nakuru town. They have to strive to satisfy their customers by improving their services and present their products in an attractive manner. Since the enterprise contributes greatly to economic development of the region and the country especially through creation of employment, the government and financial institutions need to create a conducive economic environment for these microenterprises. When provided with economic incentives, such as tax and local council levies reduction, they can increase their sales and profits and become motivated by their growth. In the modern world of twitter, face book and mobile phones it is easy to notify and serve one's customers and suppliers about new products quickly and contently.

2.4 Conceptual Framework

Independent variables

Interest rates charged

- Repayment duration
- Affordability
- Variation in rates

Demand for security

- Types of security
- Value of security
- Unsecured loans

Business skills

Business training

Level of education

Business records management

Nature of Business

- Size (No. Of employees)
- Age
- Ownership

Moderating Variable

Government Policy

Dependent Variable

Microenterprise growth.

Increase in;

- Sales volume
- Profit margins
- Market expansion

Attitude

Intervening Variable

Figure 1: The relationship between the independent and dependent variable

2.4.1 Relationship between Independent and Dependent Variables

There are four independent variables and one dependent variables in the conceptual framework

The independent variables include credit interest rates, demand for collateral business skill and nature of business. The dependent variable is the growth of micro enterprises. Their expected relationship is as follows

Interest rates charged on credit are expected to influence the growth of micro enterprises. The repayment duration, affordability of the loan and variation of interest rates from time owing to inflation and the central bank regulations determine accessibility of credit for the enterprises. This in turn influences the sales volume profit margin and market expansion for the enterprises.

Demand for collateral (security) is expected to play a significant role in the growth of the micro enterprises owing to the type of collateral required, the value of security and collateral required the value of security and the availability of unsecured loans will influence accessibility of credit to the micro enterprises. Enterprises that are unable to credit facilities are expected to have the sales volumes remain stagnant o reduce, profit margins will be low and, they are likely to be restricted to a narrow market.

Business skills are expected to influence accessibility to credit, most micro financing institution prefer to lend money to an entrepreneur who possess business skill as this influence the management of the business. Most micro entrepreneurs don't lay emphasis on business skills such as planning creativity, innovation and record keeping as they assume this is only necessary for large enterprises. Training, level of education of the entrepreneur and record management are indicators to creditor of the possibility of an entrepreneur being able to manage the business in order to repay debt especially loans.

Most credit lending institution considers the nature of business before they can provide a loan to a micro enterprise. The size, age and ownership of the business have a great influence on the growth of the business. Micro finance institutions prefer lending to enterprises which have been in operation for a longer period of time since such have stood the test of time.

22

There is an expected linear relationship between the independent variables and the dependent variables. This means that changes in the independent variables cause changes in the dependent variables

2.5 Knowledge Gaps

Most studies on enterprises focus on Small and medium enterprises and ignore the micro enterprise sector. Little or no attempt has been made to analyze how credit accessibility or lack of it influences the growth and performance of this particular enterprise especially in Nakuru town where the enterprise is very popular. It has employed hundreds of people, men women and the youth. With insufficient financing, the enterprise may not achieve growth and hence their great contribution to the nation's economic growth will be hampered. More research therefore is necessary in the aspect of credit accessibility. Though many banks and micro financial institutions have opened branches in Nakuru town, microenterprises are not able to access it owing to its high interest rates, demand for collateral, lack of proper business skills and the nature of the enterprises which this study attempted to look at and fill the existing gaps that had not been initially looked at by past studies.

2.6 Summary of Reviewed Literature

This chapter reviewed literature on influence of credit accessibility on the growth of microenterprises. The literature was divided basing on the variables of the study which included credit interest, demand for collateral, business skills, nature of business and growth of micro enterprises. The foregoing literature has managed to show that micro and small enterprises are significant drivers of economic development in the whole world and especially in the developing countries. The studies have also revealed that access to finance constitutes a critical factor constraining the growth of the SME sector. It is true credit alone does not guarantee the successful growth of any business, but this remains a critical issue in business growth. The literature discussions also show that micro enterprises and SMEs credit accessibility remain an important area of focus for policy makers.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methods and procedures that were used in carrying out the study. These includes research design, sample selection and sampling techniques research instruments, validity and reliability, procedure of data collection and analysis

3.2 Research Design

Research refers to a plan for collecting and utilizing data so that desired information is obtained with sufficient precision or so that research question can be tested properly (Henon, 1998). The research design adopted in this study is description survey. Since this study aimed at determining how credit accessibility influence the growth of micro enterprises in terms of market expansion, increases in volumes and profit margins. The descriptive survey fits the study. The design is preferred because the nature of the study required self-report by the respondent so that both quantitative and qualitative data can be provided. The design enabled the researcher to collect data from a large number of respondents, conducting personal interviews helping the study to be inexpensive.

3.3 Target Population

Target population refers to the members of real or hypothetical set of people, event or objects a researcher wishes to generalize the results of his or her study (Mugenda & Mugenda, 2003). The target population for this study was the micro enterprises operating within the four main shopping malls Nakuru town CBD. Since there is no accurate existing data base approximately 300 micro enterprises operate in the CBD according to the Nakuru municipal licensing office. The shopping malls entrepreneurs will be considered because of their heterogeneous nature in terms of their background, level of education, mode of operation of the business and age. Micro enterprises found in the malls reflect the face of the enterprises in the whole CBD.

24

3.4 Sample Size and Sampling Procedure

Sampling is the process of selecting persons to be used in the study from the population. It gives the researcher the possibility of better administration of questionnaires to get better data, better supervision and better processing than it is with complete coverage. Therefore the sampling size and sampling procedure was done as follows.

3.4.1 Sample size

The sample size was 169 micro enterprises drawn from the entire population of 300 micro entrepreneurs. Sampling was done based on Krejcie and Morgan 1970 table as shown in Appendix 4. The population was drawn from four shopping malls namely: Biashara Center, Shoppers Paradise, Sokoni Plaza and Highway Towers. The sample was drawn from these areas as shown in the table below.

Table 3.1: Sample Size

Shopping Mall	Category	Target population	Sample size
Biashara Center	Product	50	30
	Service	25	13
Shoppers Paradise	Product	50	30
	Service	25	12
Sokoni Plaza	Product	50	30
	Service	25	12
Highway Towers			
	Product	50	30
	Service	25	12
Total		300	169

25

3.4.2 Sampling Procedure

Stratified sampling was used in selecting the study sample. This is due to their location in specific malls as most of them are permanently based. The sample population was divided into two groups i.e. those micro enterprises that sell products and those who provide service.

3.5 Data Collection Methods

Data was collected using closed ended questionnaires to give adequate insight into the study. It had six parts. Part A had demographic details, B contained information on business growth, C effects of credit interest rates, D had information on security (collateral) matters, had business skills and F the influence of nature of business.

3.5.1 Data Collection procedure

The respondents completed the questionnaires themselves. The researcher established the convenient time for the respondents to fill the questionnaires by identifying their business 'off peak' hours. The researcher explained any questions that may not be well understood. All this was done under the close supervision of the researcher. The completed questionnaires were collected by the researcher for data analysis. The researcher took two days in each zone as shown in the table of sample size. One day was set aside for a focus group interview. Data collection was therefore done in nine days.

3.5.2 Pilot Testing of the Questionnaire

20 questionnaires were pretested at uchumi complex; this was chosen as it had similar dynamics to the other selected shopping malls. This further ensured that those who formed part of the pretest did not comprise of respondents in the final study. A reliability statistics was carried out on the pretested questions. Table 3.3 shows the results. A result of 0.7 and above was considered reliable.

Table 3.2: Reliability Statistics

Variable	Cronbach Alpha	No. of Items
Interest Rate	0.705	10
Demand for Collateral	0.783	9
Business Skills	0.823	8
Nature of Business	0.968	12
Growth of Microenterprises	0.873	8

3.6 Validity of the Instrument

To ensure that the instrument measures the variables the study intends to measure, during the designing of the questionnaire, care was taken to ensure that the content is in line with the objectives of the study. The researcher then sought the help of the supervisor as an expert to validate the instrument.

3.7 Reliability of the Instrument

Measure of the degree to which the instrument used in the study gives consistent results after repeated administration will be determined by administering the instrument twice to the 40 micro entrepreneurs who operate within the four main locations. A break of two weeks between the tests was provided. A Reliability coefficient of 0.7 was realized.

3.8 Methods of Data Analysis

The completed Questionnaires aided in data analysis. They were serialized at the stage of data collection. The information collected for every question was coded to allow ordinal and nominal measurement. Descriptive statistics was used to interpret data using frequency tables, measures of central tendencies and percentages. The relationship between independent and dependent variables for each question was determined by use of Spearman's correlation tests, where the

first three objectives of the study were subjected to this test. A chi squire test was used to test association between the dependent and independent variable in the last objective of the study

3.9 Operational Definition of Variables

Table 3.3: Operational Definition of Variables

RESEARCH OBJECTIVES	VARIABLE	INDICATORS	MEASUREMENT SCALE	DATA COLLECTION	TYPE OF ANALYSIS
	Dependent Growth of business	Profitability Increase in sales volumes Expansion of markets	Nominal and ordinal scales.	Questionnaire.	Descriptive statistics.
To establish the level to which credit interest rates influence the growth of micro enterprises in Nakuru town C.B.D	**Independent** Interest rates.	Frequency of loans taken	Nominal scales.	Questionnaire.	Descriptive statistics.
To establish how demand for collateral influence the growth of micro enterprises in Nakuru town C B D	**Independent** Collateral.	Value of collateral. Type of collateral.	Nominal scale.	Questionnaire.	Descriptive statistics.
To determine the extent to which business skills influence the growth of micro enterprises in Nakuru town C B D	**Independent** Business skills.	-seminars attended. -Financial records keeping. -level of education.	-Ordinal scale. -Nominal scale.	Questionnaire.	Descriptive statistics.
To determine how the nature of business influence the growth of micro enterprises in Nakuru C B D	**Independent** Nature of business.	-Number of years of operation. -Type of ownership.	-Nominal scale. -Ordinal scale.	Questionnaire.	Descriptive statistics.

3.10 Ethical Considerations

Every research requires the researcher to carefully observe ethical issues To do this, the researcher obtained research permit. The researcher presented a copy of the final proposal, two passports –size photographs and a duly completed form to the office of the president through the Nakuru County commissioner and ministry of Trade through the municipal council of Nakuru. The researcher was then issued with a certificate bearing their name, photograph and the title of the research when the approval is completed.

Confidentiality and privacy for the respondents was assured. The questionnaire explained at the introduction that the respondents should not indicate their names on it.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter presents findings of the study. The chapter is presented under subheadings which Include Back ground information, credit interest rate, and demand for collateral, business skills and nature of business. The study was able to interview 140 respondents. The sections below present the study findings in accordance to the study objectives. The findings have been presented in tables and interpretation of the findings done in this section.

4.2 Response Rate

A total of 169 questionnaires were issued to respondents, out of this 140 were filled and returned bringing a response rate of 82% which was considered adequate enough by the researcher. According to Bailey (2008) a response rate of 50 and above is considered to give responses that are reliable.

Table 4.1: Response Rate

Number of questionnaires Distributed	Number of questionnaires Returned	Return rate
169	140	82%

4.3 Back Ground Information

Findings on the general characteristics of the respondents are as given in these sections below.

4.3.1 Gender of the Respondents

The response for the gender characteristics of the respondents is as given in Table 4.2

Table 4.2: Gender of Respondents

	Frequency	Percent
Male	70	50.0
Female	66	47.1
Missing	4	2.9
Total	140	100.0

The study established that 50% were males while 47.1% were females. This showed that there was a balance in gender when it comes to micro enterprises in Nakuru.

4.3.2 Age of Respondents

The respondents were asked of their ages, the findings were then tabulated as follows.
Table 4.3: Age of Respondents

	Frequency	Percent
Under 20 years	7	5.0
21-35years	83	59.3
36-50years	39	27.9
above 50years	11	7.9
Total	140	100.0

The findings on Table 4.3 show respondents between 21-35 years had 59.3% which was the highest percentage. This was followed by 27.9% who were between the ages of 36-50 years. 5% were under the age of 20 years while 7.9% were above 50 years. It was concluded that the young between 21-35 years had small scale enterprises. The ages of the respondents imply that the young between 21-35 years and middle between 36-50 years mostly own micro enterprises in Nakuru in the four selected malls.

4.3.3 Marital Status

The responses on marital status of the respondents is shown on Table 4.4

Table 4.4: Marital Status

	Frequency	Percent
Married	67	47.9
Single	66	47.1
Widowed	7	5.0
Total	140	100.0

From the findings of the study 49.9% were married, 47.1 were single while 5% were widowed.

4.3.4 Level of Education

The study sought to establish the levels of education of different respondents. The responses obtained were then presented on Table 4.5.

Table 4.5: Levels of Education of Respondents

	Frequency	Percent
No education	4	2.9
Primary school	17	12.1
Secondary school	64	45.7
College/University	55	39.3
Total	140	100.0

On level of education, it was established that 45.7% had attained secondary education, 39.3 had college or university education, 12.1% had primary education while 2.9% with a frequency of 4 did not have any education. From their level of education, the researcher was confident that the respondents were able to fill in the question as needed by reading and giving responses. For those who could not entirely read or had challenges in reading the elements in the questionnaire she interpreted for the respondent. Levels of education further showed their ability to run the micro enterprises and explained why some respondents are not able to access credit.

4.3.5 Other forms of Employment

The study sought to establish whether the respondents were in any employment before starting the business they are currently involved in. Table 4.6 presents the results.

Table 4.6: Other Employment

	Frequency	Percent
Yes	63	45.0
No	67	47.9
Missing	10	7.1
Total	140	100.0

The findings show that 45% were engaged in other forms of employment while 47.9% had never been employed before. This shows the dynamics in access to credit as a result of either being employed or not.

4.4 Business Growth

Business growth is a very important factor when trying to understand accessibility of credit facilities. The source of money used to start the different micro enterprises was sought. Table 4.7 shows the findings.

4.4.1 Source of Startup Capital

Table 4.7: Sources of Money used to start a Business

	Frequency	Percent
Personal saving	64	45.7
Friends and relatives	25	17.9
Group lending (chama)	31	22.1
bank loan	17	12.1
trade credit	3	2.1
Total	140	100.0

Table 4.7 shows that with a highest percentage, 45.7% started their micro enterprises through personal savings. 22.1% through group leading which is commonly known as chama. 17.9%

34

obtained capital from friends and relatives while 12.1% through bank loans. 2.1% obtained capital through trade credit. From the findings, it is implied that many individuals use personal savings unlike other sources probably because of ease and convenience of the process. It also shows that micro enterprise owners are much disciplined in terms of personal savings thus their business is likely to grow without financial debt as a result of having enough savings to be used in their business startups, growth and expansion.

4.4.2 Investment Worthiness

The study sought to establish how much the micro enterprises owners invested in before the start of their business. This is tabulated on 4.8.

Table 4.8: Amount of Money Invested

	Frequency	Percent
500-2000	15	10.7
3000-5000	34	24.3
6000-10000	33	23.6
11000-20000	26	18.6
21000-50000	10	7.1
above 50000	22	15.7
Total	140	100.0

The findings indicate 24.3% started with an investment of between Ksh 3,000- 5,000. This was followed closely with 23.6% that invested in their business between Ksh 6,000-10000. 18.6% had between Ksh 11,000-20,000. Those who had invested above 50,000 were 15.7% while those between Ksh 21,000- 50,000 business determines how were 7.1%. The amount in which a person invests in a business determines the business growth. If there is enough finances for meeting both operational and fixed costs then it means with efforts from the entrepreneur the business is likely to grow.

35

4.4.3 Source of Money and Capital Invested

Table 4.9: Cross Tabulation between Source of Money and Capital Invested

			Source of money for business start					Total
			Personal saving	Friends and relatives	Group lending (chama)	bank loan	trade credit	
Money invest in business when starting		500-2000	5	4	5	0	1	15
		3000-5000	13	6	10	4	1	34
		6000-10000	22	3	6	1	1	33
		11000-20000	15	6	3	2	0	26
		21000-50000	3	1	3	3	0	10
		above 50000	6	5	4	7	0	22
Total			64	25	31	17	3	140

From the findings, those who had invested more than Ksh 50,000 had obtained money through access to bank loans followed by personal savings. The majority of micro entrepreneurs had invested between 6,000- 10,000. With a frequency of 33, twenty two individuals used their personal savings and only one person had borrowed money from a bank, 6ix people had started their business from money obtained from chamas. 3 individuals obtained money from friends and relatives. The trend was almost similar for those who had started business using 20,000 and below. This was interpreted to mean, as individuals invest in high sums of money a loan from the bank is usually the first option followed by group lending. With small amount of startups, the micro entrepreneurs are able to save money thus use personal savings to start business. Small amounts of money also attract individuals to borrow from friends and relatives since reaching an agreement is usually easy and there is no interest rates that would otherwise be incurred from banking and other financial institutions.

For business to grow, it is important to establish source of money and the amount of capital used for the business. Micro entrepreneurs borrow money from banks and financial institutions if the amount required for the business is high. Amounts lower than twenty thousand could easily be

obtained from personal savings and borrowing from friends and relatives as this money does not attract any interest rate

4.4.4 Capital Investment and Current Capital of Business

To establish whether the money invested at the start of the business had accumulated as current capital that could be used for expansion or reinvestment, a cross tabulation was done between how much money was invested at the start of the business and the current capital of the business.

Table 4.10: Cross Tabulation between Start up investment and Current Capital

		Startup investment						Total
		500-2000	3000-5000	6000-10000	11000-20000	21000-50000	above 50000	
	below 5000	8	8	1	1	0	0	18
	6000-10000	6	12	15	3	0	0	36
Current	10000-30000	1	11	15	4	2	0	33
capital	31000-50000	0	1	1	8	5	1	16
	50000-100000	0	0	1	9	2	8	20
	above 100000	0	2	0	1	1	13	17
Total		15	34	33	26	10	22	140

The findings on Table 4.10 indicate that high capital investments translated to high current capital. Entrepreneurs who had invested above Ksh 50,000, one had current capital of between 31,000 and 50,000 indicating that probably the business was being able to meet operational costs even though it was not making profits. Eight individuals who had invested Ksh 50,000 had between 50,000- 100,000 while thirteen individuals had above 100,000 as their current capital which showed the business was doing well. Good capital margins of investments of between 21,000 and 50,000 were reported thus the business was able to generate additional capital. There was a discrepancy from the trend when it comes to those who had invested of between 11,000 and 20,000 where 4 entrepreneurs had current capital below 10,000 which indicated a loss. From the findings, startup capital mostly reflected the current capital; those who had invested a relatively large amount of money were able to increase on their capital by almost double. Although those who had lower capital investments were also able to increase on their current capital, there were limits in which they could not surpass. Business dynamics can be used to

37

explain why some business would be able to have higher current capital while others stagnated to the point of making loses

4.4.5 Access to Financial Institutions

Table 4.11: Access to Financial Institutions

	Frequency	Percent
very easy access	4	2.9
easy access	41	29.3
difficult access	31	22.1
very difficult access	19	13.6
no access	41	29.3
Missing	4	2.9
Total	140	100.0

On being asked to rate their access to bank loans 29.3% were of the view that it was easy to access, 2.9% were of the opinion that it was very easy to access bank loan, thus those who though it was easy and very easy respectively were 32.2%. Those who were of the opinion that it was difficult to access credit were 22.1% while 13.6% thought it was very difficult to access. This totaled to 35.7%. There were others who opined that they did not have access credit at all, represented by 29.3%.

Access to credit remains a challenge, 35.7% view that it is difficult to access credit while 29% revealed that they do not have access at all. The findings support the accretion by World Bank (2008) that access to finance is perceived as one of the main obstacles to doing business. Beck et al, 2005 further asserts that financing is a greater obstacle for SMEs than it is for larger firms, particularly in the developing world.

4.4.6 Challenges when Taking Loan

While in the process of borrowing loans from financial institutions, most micro finances face a number of challenges thus the study sought to establish these challenges.

Table 4.12: Challenges while Accessing Loans

	Frequency	Percent
interest rates	40	28.6
issues of collateral	31	22.1
business skills	2	1.4
nature of your business	16	11.4
All of the above	51	36.4
Total	140	100.0

Tables 4.12 indicate that, 28.6% are faced with challenges based on interest rates. Issues of collateral was yet another challenge experienced by 22.1%, while 11.4% faced challenges related to their nature of business only .1.4% faced access challenges as a result of business skills. With the highest majority, 36.4 % faced all the challenges listed above and this included challenges brought as a result of interest rates, issues of collateral, business skills and nature of business.

On matter of challenges faced when trying to access credit, the study established that 36% faced all listed challenges which included result of interest rates, issues of collateral, business skills and nature of business. This implied that the challenges were multifaceted hence one could not single handedly point on one. However interest rates post the greatest challenge when it come analyzing the challenges on a case to case basis. This was followed by challenges as a result of collateral

The findings of this study thus resonate well with the study conducted by Idowu (2001). According to him, access to loans is one of the major problems facing SMEs in Nigeria. To him lack of access to financial institutions hinder the ability of entrepreneurs to engage in new business ventures, inhibiting economic growth and often the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustained. Diagne and Zeller (2001) also argued that insufficient access to credit by the poor may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime.

4.4.7 Other Micro Enterprise Branches

Business growth can have different indicators. One of such indicators is coming up with different branches. The study thus sought to establish whether the micro enterprises have other branches. The findings were then tabulated on 4.13 as shown.

Table 4.13: Other Micro Branches

	Frequency	Percent
yes	13	9.3
No	127	90.7
Total	140	100.0

Table 4.13; show that, 90.7% did not have other micro branches while 9.3% represented by a frequency of 13 had other micro branches. The findings of the study indicate that majority of the micro enterprises have not expanded in terms of opening up of new branches.

4.4.8 Startup Capital and Number of Employees during Startup

Table 4.14: Cross Tabulation between Startup capital and Employees during Startup.

		Number of employees during business start up						Total
		0	1-2	3-4	4-5	6-10	above 10	
	500-2000	15	0	0	0	0	0	15
	3000-5000	27	5	0	2	0	0	34
Startup	6000-10000	20	9	2	2	0	0	33
investment	11000-20000	16	4	4	2	0	0	26
	21000-50000	7	1	0	0	1	1	10
	above 50000	2	13	7	0	0	0	22
Total		87	32	13	6	1	1	140

Table 4.14 shows the number of employees during the start of the business. Out of 140 respondents, 87 entrepreneurs operated as single handed, 32 had between 1-2 2mployees, 13 had between 3-4 employees, 6 had 4-5 employees while 6-10 and above 10had one employee respectively. Due to the micro nature of these businesses, majority of entrepreneurs had small numbers of employees or operated solo to reduce on the business operational costs while starting up

40

Due to the micro nature of these businesses, majority of entrepreneurs had small numbers of employees or operated solo to reduce on the business operational costs while starting up.

Table 4. 15: Cross Tabulation between Employees during Startup and Current Employees

		Current Employees						Total
		0	1-2	3-4	4-5	6-10	above 10	
		60	23	4	0	0	0	87
	1-2	1	17	12	2	0	0	32
Employees when started	3-4	0	2	6	4	1	0	13
	4-5	0	0	0	4	0	2	6
	6-10	0	1	0	0	0	0	1
	above 10	0	1	0	0	0	0	1
Total		61	44	22	10	1	2	140

From Table 4.15, it could be deduced that during start up 87 individuals operated solo, however this has reduced to 61 who still do not have any employees. 32 individuals had between 1-2 employees but this has increased to 44. During start up 13 entrepreneurs had between 3-4 employees however this has increased to 22. Six employees had 4-5 employees during startup but the number had increased to 10. Those who had more than ten employees increased from 1 to currently two employees. From the findings it was evident that most entrepreneurs had increased the number of employees from how they started up. This could be deduced to imply that the business had grown thus needed extra personnel to ensure business is a success.

4.4.9 Profitability of Business

Table 4. 16: Profitability of Business

	Frequency	Percent
Increased	78	55.7
Decreased	41	29.3
Remained constant	20	14.3
Missing	1	.7
Total	140	100.0

It was established that 55.7% had increased profitability, 29.3% were of the opinion that there profitability had decreased. 14.3% thought that their profitability had remained constant. It was then deduced that profitability by micro enterprises had increased from the time the business was started, this shows that there is growth in the business.

4.5 Interest Rates

The study sought to establish how often micro entrepreneurs take loans. The results are shown in Table 4.17 as follows.

Table 4.17: Rate of Taking Loans

	Frequency	Percent
quite often	20	14.3
Rarely	50	35.7
very rarely	21	15.0
Never	48	34.3
Missing	1	.7
Total	140	100.0

From the findings, 35.7% rarely took loans, 34.3% said they never took loans while 15% very rarely took loans. Only 14.3% took loans quite often. It was then deduced that most micro entrepreneurs did not take loans hence their access to loans was interpreted as very low

Further the study established how interest rates influences on individuals taking loans. Table 4 17 show that 47.9% were most highly influenced by interest rates, this was closely followed by 22 1% who were of the view that interest rates very highly influences on borrowing of loans.

42

Those who were highly influenced by interest rates were 15%. Low and lowest influence had 3.6% and 2.1% respectively. Thus it is true to say interest rates influences on individual borrowing a loan from the bank. According to the daily Nation (2009), ability for business people to access credit facilities predicts on business growth. However, ninety percent of SMEs collapse in their first year of startup due to lack of financial resources majorly attributed to the challenge in high interest rates.

Table 4. 18: Influence of Interest Rate on Borrowing

	Frequency	Percent
Most highly	67	47.9
Very highly	31	22.1
Highly	21	15.0
Low	5	3.6
Lowest	3	2.1
Missing	13	9.3
Total	140	100.0

The study then sought to establish whether the businesses being operated are able to meet the current rates on loans. The results are shown in Table 4.19

Table 4.19: Ability to Meet Interest Rates

	Frequency	Percent
Yes	57	40.7
No	82	58.6
Missing	1	.7
Total	140	100.0

It was established that 40.7% of businesses were able to meet the current interest rates while 58.6 were not able to meet these interest rates. It was then deduced that although some businesses were able to meet the current interest rates, majority were not able. Not being able to meet current interest rates depicts on challenges to access of credit facilities. OECD (2006) opined that funding difficulties lead to restriction or abandoning of economically viable project. Not being able to meet current loan interest rates poses as a challenge to obtaining needed finances thus is considered as one of the serious negative consequences for ongoing investments.

Table 4.20: Descriptive Statistics for Interest Rates

	N	Minimum	Maximum	Mean	Std. Deviation
prevailing interest rates	140	1	5	2.86	11.652
amount of loanable funds	140	1	5	3.15	11.614
repayment periods	140	1	5	3.27	11.633
changes of the interest rates after one has borrowed	140	1	5	4.48	16.300
Valid N	140				

Table 4.19 established that changes of interest rates after one have borrowed highly influences on borrowing by individuals with a mean of (4.48). This was followed by the repayment periods (mean 3.27). Amount of loanable funds had a mean of (3.15) while prevailing interest rates had a mean of (2.86). The findings implied that many micro entrepreneurs would prefer borrowing money that will not have fluctuation interest rates. This helps in budgeting and planning for their finances. When interest rates keep on fluctuating then this implies that some individuals may fail to pay. Repayment period was yet another important element. Knowing with certainty the period one is supposed to pay will also increase on financial discipline.

To establish the influence of interest rates on the growth of micro enterprises, a correlation analysis was undertaken and results presented in Table 4.21

Table 4.21: Correlation between Interest Rates and Growth of Micro Finance

		Growth of Micro enterprise	Interest Rates
Growth of Micro Enterprise	Pearson Correlation	1	-.019
	Sig. (2-tailed)		.819
	N	140	140
Interest Rates	Pearson Correlation	-.019	1
	Sig. (2-tailed)	.819	
	N	140	140

The findings as indicated in Table 4.20 show that r = -.019 showing a negative non correlation between growth of micro finance enterprise and interest rates. The significance value = .819 which is > 0.05 hence there was no significant relationship between growth of micro enterprise and interest rates. The study indicates that there was a negative non correlation with no significant relationship thus as the interest rates decreases micro enterprises are bound to grow. This showed that interest rates really affect on growth of micro enterprises. The interest rates set are very high thus micro entrepreneurs borrowing and accessing credit is affected. The findings of the study resonates with the works by O liou and Zeller (2001) who noted that in African counties and Malawi in particular, majority of small holders left out of the rural financial systems as a result of poverty that keeps them from benefiting from any kind access to credit.

4.6 Demand for Collateral

The second objective of the study sought to establish how demand for collateral influences on the growth of micro enterprises.

Table 4. 22: The Value of Collateral

	Frequency	Percent
Strongly agree	100	71.4
agree	29	20.7
disagree	4	2.9
strongly disagree	2	1.4
neutral	3	2.1
Missing	2	1.4
Total	140	100.0

The findings in Table 4.22 indicate that 71.4% agreed that the value of collateral influences their business to access loans. 20.7% agreed to the same notion, thus those who affirmed that the value of collateral influences weather they access loans was 92.1%. It was then concluded that the value of collateral was very important while trying to access loan from the bank. According to Ackah and Vuvor (2011) firms receive loans for much less than they requested for due to lack of adequate collateral. Most of this collateral is usually inform of landed property

45

Table 4.23: The Type of Collateral Needed

	Frequency	Percent
Strongly agree	78	55.7
Agree	39	27.9
disagree	17	12.1
strongly disagree	2	1.4
neutral	2	1.4
Missing	2	1.4
Total	140	100.0

On type of collateral needed, Table 4.24 show that 55.7% strongly agreed that access to business loans depends on the type of collateral. This was followed by 27.9% who agreed, this summed to 83.6% who affirmed that type of collateral influences on their business access to loans.12.1% disagreed while 1.4 strongly disagreed. It was then deduced that type of collateral meant that there were other types of loan security that were considered more valued than others. The findings of the study resonates with ECB,(2007) assertion that SMEs have less collateral that could protect creditors and it is hard for them to convince banks basing on their quality of business plans

Table 4.24: Ownership of Collateral

	Frequency	Percent
Strongly agree	73	52.1
agree	40	28.6
disagree	8	5.7
strongly disagree	7	5.0
neutral	8	5.7
Missing	4	2.9
Total	140	100.0

Table 4.23 indicated that 52.1% strongly agreed that ownership of collateral plays a major role while trying to access a bank loan. This was followed by 28.6% that agreed to this assertion. Upon summing this up it was established that 80.7% affirmed that ownership of collateral influences on weather their business qualifies for a loan or not. Much as availability of collateral plays a significant role in the readiness of banks to meet the demand of the private sector,

ownership of that particular collateral at times dictates weather one is given a loan or not. With ownership it implies background checks have to be performed to validate the credit worthiness of the person under whose name the collateral appears. Ackah and Vuvor (2011) further reasoned that the current system of land ownership and transfer regulations clearly retards and to some extent limits access to formal credit. This was due to ownership of collateral, due to this transfer regulation delay the finalization of mortgages and consequently access to borrowed capital

Table 4. 25: Collateral Valuation Fee

	Frequency	Percent
Strongly agree	42	30.0
Agree	67	47.9
Disagree	13	9.3
strongly disagree	8	5.7
Neutral	8	5.7
Missing	2	1.4
Total	140	100.0

From Table 4.24, 30% agreed that collateral valuation fee influences their business access to loans.47.9% agreed to this assertion thus 77.9% affirmed that collateral valuation fee plays a role when accessing credit.9.3% disagreed while 5.7% were neutral and some strongly disagreed respectively. Comparing other element of collateral, valuation fee could be ranked as the list important factor when put together with other factors such as value of collateral, type of collateral and ownership of collateral. This implied that when the value of collateral is acceptable by the bank and ownership arrangement sorted then valuation fee does not become an issue because either way the micro entrepreneur will have to ensure this fee is paid

Table 4. 26: Correlation between Demand for Collateral and Growth of Micro Enterprise

		Demand for collateral	Growth of Micro enterprise
Demand for collateral	Pearson Correlation	1	-.059
	Sig. (2-tailed)		.487
	N	140	140
Growth of Micro Enterprise	Pearson Correlation	-.059	1
	Sig. (2-tailed)	.487	
	N	140	140

A correlation analysis was undertaken to establish the relationship between demand for collateral and growth of micro enterprise. Table 4.25; indicate the correlation between the two variables as – 059 implying a negative non correlation. The p value =. 487> 0.05 hence the relationship is not significant. With an increase in demand for collateral micro enterprises growth is hindered as some cannot access credit for their businesses. According to Ackah and Vuvor (2011) the availability of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses without which the banks are usually reluctant to offer credit facilities to business persons. Micro enterprises on the other hand are usually small scale and most of them do not have the required collateral by the banks hence this further locks them from accessing credit thus a disadvantage to growth and expansion

1.7 Influence of Business Skills

In respect to the third objective, the study sought to establish the extent to which business skills influence the growth of micro enterprises.

Table 4.27: Financial Business Records

	Frequency	Percent
Yes	91	65.0
No	42	30.0
Missing	7	5.0
Total	140	100.0

Upon being asked whether micro entrepreneurs keep any financial business records, 65% said they keep financial records while 30% were contrary on keeping financial records. From the findings, it was then concluded that most Micro enterprises kept financial record. According to Cornwall (2005) Poor financial control is mentioned by many researchers as a catalyst for business failure. Zimmerer and Scarborough (1998) further asserts that many small business entrepreneurs neglect the process of strategic planning because they think strategic planning only benefit large companies. Keeping financial records is one of the process in strategic planning thus the results of this study contrasts to the study by Zimmerer and Scarborough.

The study then sought to establish elements influencing use of loans by micro enterprises. The results are presented in the following subsequent tables.

Table 4.28: Seminars and workshops

	Frequency	Percent
Strongly agree	34	24.3
Agree	29	20.7
Disagree	17	12.1
strongly disagree	21	15.0
Neutral	21	15.0
Missing	18	12.9
Total	140	100.0

49

Table 4.29 show that 24.3% strongly agree that seminars and workshops influence their use of loans, 20.7% further agreed to this bring a total of 45%. 12% disagreed, 15 strongly disagreed and the other 15% were neutral. From the findings, much as seminar and workshop influences micro entrepreneurs on how to use their loans their influence could not be categorized to be on a large scale.

Table 4.29: Education and Training

	Frequency	Percent
Strongly agree	41	29.3
Agree	36	25.7
Disagree	19	13.6
strongly disagree	20	14.3
Neutral	5	3.6
Missing	19	13.6
Total	140	100.0

The findings of the study indicated that 29.3% strongly agreed that education and training influences how they use loans in businesses. This was closely followed by 25.7% who agreed to the same. All those who agreed thus were 55%. 13.6% disagreed while 14.3% strongly disagreed. Through education and training, individuals are influenced on how to use loans in their businesses. Thus the governments have invested substantial resources in stimulating training suppliers to develop competence programs to the SME sector basing on the understanding of importance of training and education. It is generally assumed that training leads to improved competence, this is agreeable with Fillis et al (2003) who reasoned that lack of development of appropriate competence and investments in staff training has been identified as central barriers to successful e-business implementation and use. Due to this importance several governments' initiatives in Europe have targeted the need for training and management development in small firms (Troshano & Rao, 2007).

Table 4.30: Awareness on Type of Loan

	Frequency	Percent
Strongly agree	63	45.0
Agree	31	22.1
Disagree	16	11.4
strongly disagree	6	4.3
Neutral	5	3.6
Missing	19	13.6
Total	140	100.0

The findings on table 4.31 reveal that 45% strongly agreed that awareness on the type of loan influences on how they use their loans, this was followed by 22.1% who agreed thus all those who affirmed by either agreeing or strongly agreeing were 67.1%. 11.4% disagreed while 4.3 strongly disagreed. The results were then concluded that awareness of a type of loan was very important as individuals are aware on how they want to use their loans basing on the rate of interest, repayment period and other important conditions that are tied with the loan.

Table 4. 31: Financial Management Skills

	Frequency	Percent
Strongly agree	71	50.7
Agree	33	23.6
Disagree	14	10.0
strongly disagree	9	6.4
Neutral	2	1.4
Missing	11	7.9
Total	140	100.0

Lastly on financial management, it was established that 50% were influenced by their financial management skills, this was through them strongly agreeing. 33% agreed that financial skills influences on how they used their business loans. This totaled to 74.2% hence it could be concluded that financial management skills highly influences on how a person uses business credit. This further implies that with financial management skills micro entrepreneurs will know how to use the availed resources. In order for businesses to grow then financial management skills are very important. Wangeci and Njoroge (2008) through their study help to further support the findings of this study by asserting the importance of financial management skills.

They concluded by reporting that even though an entrepreneur may be reporting an increase in sales and profits and may seem to be registering growth, lack of training on financial strategic management and marketing will mean that the SME will not grow from the first stage (existence) to other stages such as survival, success, take off and resource maturity remaining into a small stagnant enterprise

Table 4.32: Correlation between Business Skills and Growth of Micro Enterprises

		Business skills	Growth of Micro Enterprises
Business Skills	Pearson Correlation	1	.655**
	Sig. (2-tailed)		.007
	N	140	140
Growth of Micro Enterprises	Pearson Correlation	.655**	1
	Sig. (2-tailed)	.007	
	N	140	140
** Correlation is significant at the 0.01 level (2-tailed).			

The findings of the study reveal that r = .655 thus there is a strong positive correlation between business skills and growth of micro enterprises. P (0.007) <0.05 thus the relationship is significant. This implied that with increase in business skills then micro enterprises also grow. Business skills are looked at in terms of professionalism, financial management, and staffing and customer relation skills. It was then deduced that to a larger extent business skills influences on growth of micro enterprises in the four selected malls in Nakuru CBD

4.8 Nature of Business

In a bid to determine how the nature of business influences the growth of micro enterprises, it was imperative to establish the form of ownership of the different businesses surveyed by the study.

Table 4.33: Form of Ownership of Business

	Frequency	Percent
sole proprietorship	115	82.1
Partnership	12	8.6
Family	13	9.3
Total	140	100.0

From the responses as shown in Table 4.34 majority of the respondents (82.1%) were sole proprietors. This was followed by 9.3% who ran family businesses and 8.6% were into partnership. It was then concluded that most micro enterprises in the four selected malls at Nakuru CBD were solely owned. Most micro enterprises are business done at a very small scale with the owner running them personally thus their nature of being micro explains why most of them were sole proprietorship.

Table 4.34: Years in Business

	Frequency	Percent
less than 1 year	27	19.3
1-5 years	77	55.0
6-10 years	25	17.9
more than 10 years	11	7.9
Total	140	100.0

The study established that 55% had been in business between 1-5 years. This was followed by 19.3% who had operated on less than one year. 17.9% had been in business 6-10 years and 7.9% had more than 10 years' experience. Majority of micro entrepreneurs had been in business between 1-5 years hence this depicted an element of permanency. Many bank institutions willing avail loans and credits to business that operated within long time duration. The findings of the study resonates well with Pepran (2011) that the age of business or how long clients have been in business significantly influences credit amount. Hamdani (2010) further asserts that age of business is one of the 'keys to credit successes that financial institutions consider in approving credit It is assumed that old businesses have passed the test of time, owners are experienced and are also operating in the long run where supernormal profits to be reaped.

53

Table 4.35: Nature of Business Influencing Access to Loans

	Frequency	Percent
Yes	85	60.7
No	53	37.9
Missing	2	1.4
Total	140	100.0

Table 4.36 show that nature of business (60.7%) influences on access to loans while 37.9% does not influence.

Of the 60% who were of the opinion that nature of business influences access to loans, they were to indicate the aspects of their business that influences on this access. This is represented in Table 4.36.

Table 4. 36: Aspects of Business Affecting Access to loans

	Frequency	Percent
permanency of business	34	24.3
age of business	11	7.9
Ownership	15	10.7
all the above	35	25.0
none of the above	21	15.0
Missing	24	17.1
Total	140	100.0

It was established that the different aspects that affect access include permanency of business, age of business and ownership of business. On top of this list was permanency of business which had 24.3%.

Lastly to establish the association between nature of business and growth of micro enterprise person chi square test was conducted using the null hypotheses

H_{o1} The nature of business does not influence the growth of micro enterprises

54

Table 4. 37: Chi Square Test for Nature of Business

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	24.967[a]	15	.050
Likelihood Ratio	25.161	15	.048
Linear-by-Linear Association	.225	1	.635
N of Valid Cases	140		

a 0 cells (0.0%) have expected count less than 5. The minimum expected count is15 .50

The chi square value is 24.967. p= .050 which is equal to 0.05 thus the hypotheses is rejected and conclusions are made that the nature of business influences the growth of micro enterprises. The aspects of business such as ownership, permanency and age of business greatly influence on access to loans

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter comprises summary of the findings of the study, conclusions, and recommendations and made to the study. Suggestions for further study have also been indicated. The study sought to establish the influence of the accessibility of credit facilities on the growth of micro enterprises in Nakuru municipality. The chapter has been divided into different subthemes.

5.2 Summary of the Findings

Out of the 169 questionnaires that were distributed, 140 were returned hence the response rate for the study was 82%. Male respondents were 50% while female were 47.1%. The majority of the respondents were between 21-35 years old. 47.9% were married while 47.1% were single. Majority of the respondents had secondary education (45.7%) followed by college/ university education which had 39.3%.

On business growth, majority of micro entrepreneurs started their business through personal savings. When it comes to borrowing the entrepreneurs preferred borrowing money from their chamas as opposed to banks due to the fear of having financial debts. Amount invested in business determines growth of the business thus large amounts of investments translated to growth of businesses as operational costs could be met. Those with high investment were likely to borrow money from the bank unlike from friends and relatives. Small amount for startup attracted capital from personal savings, friends and relatives as this did not attract high interest rates Startup capital reflects current capital, high investments translated to high yields and returns although there were instances where those with low start up capitals were able to break even and make abnormal profits. Access to credit is still a major challenge while 29% of respondents revealing they could not access credit at all. Challenges faced while accessing credit included higher and unaffordable interest rates, issues of collateral, business skills and nature of business. The challenges were mutually reinforcing. Lack of access to financial institutions hinders ability of entrepreneurs to engage in new business ventures thus inhibiting growth of

56

micro enterprises. Many businesses had not opened other branches implying there was no expansion which is one of the indicators of growth. Majority of entrepreneurs had small numbers of employees or operated single handedly because of the nature of the business. With time some entrepreneurs had increased on the number of employees from what they had during startups. On profitability there was an increase thus this indicated growth.

There was low uptake of loans with most micro entrepreneurs never taking loans while others rarely took loans. Interest rates highly influenced on individuals taking loans. 58.6% of businesses could not meet the current interest rates thus further challenges in obtaining needed finances. Borrowing money that does not have fluctuating interest helps in budgeting and planning thus meant entrepreneurs were of the opinion that changes in interest rates highly influences on their borrowing. A negative weak correlation between interest rate and growth of micro enterprise implied that interest rates really affect growth of micro enterprises. Increase in interest rates led to a decrease in the business .

From the study, the value of collateral highly influences on the business loans individuals access. This was followed by the type of collateral implying that there are other types of securities that are considered valuable than others, for instance land appreciates with time while plant and machinery depreciates. Ownership of collateral also played a major role, ownership of collateral dictates whether individuals can access credit or not. Ownership requires a thorough check before credit is disbursed to entrepreneurs. Valuation fee was ranked as the list important compared to other elements. There was a negative non correlation which was not significant which implied that demand for collateral by banks lowers on the growth of micro financial enterprises.

The findings revealed that majority of the respondents keep financial business records, this was represented by 65% On the elements influencing use of loans by micro finances, it was determined that financial management skills highly influences use of loan, this was followed by awareness on the type of loan, education and training and lastly through seminars and workshops. Business skills thus are important when accessing loans. Financial management skill is part of the business skills that highly influences on how a person uses credit. The findings of

57

the study revealed a positive strong correlation between business skills and growth of micro enterprises, with increase in business skills micro enterprises are bound to grow.

Majority of the respondents were sole proprietors (82.1%), followed by those who ran family business and lastly partnerships as forms of ownership. Majority of micro entrepreneurs had been in business between 1-5 years hence an element of permanency was depicted. Most financial institutions readily avail credit to micro enterprises that have operated for a long time. It was established that the nature of business influences access to loan, aspects such as permanency and age of business were the major reasons for either accessing loans or not. A chi square test revealed an association between nature of business and growth of micro enterprise, it was established that indeed the nature of business does influence the growth of micro enterprises

5.3 Conclusion

Based on the findings of the study, it was concluded that majority of the micro enterprises started their business using personal savings as they could not access credit. Bank loans attracted very high interest rate. There has been growth of most micro enterprises, the amount invested determined the growth of business. High investments guaranteed borrowing money from the bank. Further the start-up capital reflected the current capital hence money invested determined the growth rate of the business. Much as there was growth of some enterprises, challenges related to access of credit were still felt. The challenges included higher and unaffordable interest rates, issues of collateral, business skills and nature of business.

On the first research question, it was concluded that there was low uptake of loans due to the high interest rates. Many businesses cannot meet the current interest rates and this was further worsened by the fluctuating interest rates upon borrowing money. Increase in interest rates led to decrease in performance of the micro enterprises as there was hindrance in acquisition of finance to enable growth of micro enterprises.

On the second research question, it was concluded that collateral indeed play a major role in accessing credit by micro enterprisers. The value of collateral was the most important aspect looked at by banks followed by the type of collateral and lastly ownership of the collateral. Most

micro enterprises are locked out from accessing credit because of the challenges they face due to lack of collateral or being in possession collateral that is viewed as not worthy by the banks. With high demands for collateral by the banks, micro enterprises are locked out of accessing business credits.

On influence of business skills, financial management skill was given priority by most micro enterprisers; this was through keeping of financial business records. However, important to note is that financial management skill is not the only business skill that influences on access to credit, with increase in business skills the growth of micro enterprises is guaranteed.

On the forth research question, it was concluded that the nature of the business influences the growth of micro enterprises. Most of the business being sole proprietors, meant that their capital was small compared to partnerships hence with small capitals loans from the banks were also restricted. Permanency of and age of business were very crucial in accessing loans.

5.4 Recommendation

Following the findings, the study gave the following recommendations.

I. The government should regulate on how banks and other financial institutions set up their interest rates. A devolved fund should be set up to cater for the needs of micro enterprises. This fund should have similar dynamics as other devolved fund such as the youth enterprise development fund, women fund and Uwezo fund. However unlike the previous development kitty, the element of group borrowing should not be inclusive as micro enterprises operate sole enterprises.

II. There should be a reduction in security needed by the bank. This will enable many micro enterprisers borrow money. Individual micro entrepreneurs should act as their own securities in which failure to repay should attract detention and sentencing by the court of law. This will ensure that the enterprisers pay promptly and also encourage them to borrow as they will act as their own collateral.

III. There is need to improve on business skills by the micro enterprises. Emphasis should not only be placed on financial management skills but also on other skills such as customer care relations, sales and marketing, communication and interpersonal skills and other

skills that aim towards improving on the overall business skills. The skills can be acquired through training and capacity building.

IV. Micro enterprisers should strive to improve on their business through investing their time, resources and finances in order to make it look like a serious entity. Enterprisers should be encouraged to register their businesses and make the business legal entities that can qualify for loans. For businesses to stand the test of time, there should be continuity and perseverance by the micro enterprisers which can guarantee growth.

5.6 Suggestions for Future Studies

The study gave the following suggestions:

1. A study to be undertaken to examine the influence of market opportunities on growth of micro finance institutions in Nakuru.

2. A study to be undertaken on influences of competition on the expansion of micro enterprises in Nakuru Town.

5.7 Contributions to the Body of Knowledge

Table 5.1: Contributions to the body of Knowledge

No	Objective	Contributions to Knowledge
1	To establish the level to which credit interest rates influence the growth of micro enterprises in Nakuru town CBD	• Women learn to make investments, borrow money basing on the market rate hence can make informed choices and decisions when to comes to finances
2	To determine how demand for collateral (security) influence the growth of micro enterprises in Nakuru CBD.	• Collateral determines whether women borrow money or not. With this knowledge women learn to come up with ways that can ensure they are not locked out from accessing credit due to collateral issues. This can be through lobbying with policy makers and negotiating with banks. Helps other micro enterprisers learn to looks for ways to access loans when faced with the challenge of collateral.
3	To establish the extent to which business skills influence the growth of micro enterprises in Nakuru town CBD	• Business skills highly influence on growth of micro enterprise institutions. With relevant skills enterprisers make use of each opportunity presented to them. Business skills can be learnt through training, mentorship and experience. Growth of micro enterprise serves as a learning grounds for other upcoming business owner who face start
4	To determine how the nature of business influence the growth of micro enterprises in Nakuru CBD	• Helps individuals learn the intricacies of business that prevail thus align their business in a nature that ensures growth.

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64

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APPENDIXES

Appendix 1: Questionnaire

For researcher's use only.

Respondent No...................

Enterprise type: Product ☐   Service ☐

This questionnaire is designed to obtain information for a study on the influence of credit accessibility on the growth of micro enterprises in Nakuru town Central Business District(CBD)Your opinion as expressed in this questionnaire is important and useful for this study. Utmost care will be taken to safeguard it and remain confidential. Kindly fill the questionnaire as freely and honestly as possible.

INSTRUCTIONS

Please respond to all questions in all the sections. If there are any questions you do not understand or is not clear, please feel free to ask.

Please tick (√) the appropriate answer in the boxes provided and write down the appropriate answer in the space provided, Do not write your name on this questionnaire

PART A; Background information

1. Indicate your gender, male ☐   Female ☐

2. In what age bracket are you?
   Under 20 years ☐   2☐5yrs   ☐-50   above ☐
   50years

3. Indicate your marital status
   Married ☐   single ☐   windowed ☐   others
   (specify)_____

4. What is your level of education

66

No education ☐   Primary scho☐l   secondary s☐l
        college\university☐

5. Were you in any   other employment before starting this business?☐   ☐ No
PART B: Business Growth

6. What was the source of money you used to start this business?

       Personal saving   ☐

       Friends and relatives   ☐

       Group lending (Chama)   ☐

       Bank loan   ☐

       Trade credit   ☐

       Others (specify) _____

7. How much did you invest in this business when you started?

    500 – 2000   ☐

    3000-5000   ☐

    6000-10,000   ☐

    11,000-20,000   ☐

    21,000-50,000 ☐

    Above -50,000 ☐

8 What is the current capital of your business?

    Below-5000   ☐

6000-10,000 ☐

1000-30,000 ☐

31000-50,000 ☐

50,000-100,000 ☐
Above 100,000 ☐

9 How would you rate your access to financial institutional credit (Bank-Loans)

Very easy access ☐

Easy access ☐

Difficult access ☐

Very difficult access ☐

No access ☐

10 When you consider taking a loan which of the following poses the greatest challenge for you?

Interest rates ☐

Issues of Collateral ☐

Business skills ☐

Nature of your business ☐

All of the above ☐

11. Do you have other branches of your enterprise?

Yes ☐

No ☐

12. Other than yourself, how many employees did you have when you started your business?

0 ☐   1-2 ☐   3-4 ☐   ☐

6-10 ☐   above 10 ☐

13. How many employees does your business have now?

0 ☐   1-2 ☐   3-4 ☐   ☐

6-10 ☐   above 10 ☐

14. Comparing the profitability of your business, have your profits increased, decreased or remained constant?

Increased

Decreased   ☐

Remained constant   ☐

PART C: Interest rates

15. How often do you take a loan?

Quite often   ☐

Rarely   ☐

Very rarely   ☐

Never   ☐

69

16. How does loan interest rate influences your taking of a loan?

Most highly ☐   Very highly ☐   Highly ☐   Low ☐   Lowest ☐

17. Is your business able to meet the current interest rates on loans?

Yes   ☐

No   ☐

Use the following key to answer the questions that follow. Tick only one box under the number

KEY

1. Strongly Agree
2. Agree
3. Neutral
4. Disagree
5. Strongly Disagree

18. The following influence my borrowing ability

	1	2	3	4	5
Prevailing interest rates					
Amount of loanable funds					
Repayment periods					
Changes of the interest rates after one has borrowed					

PART D: Information on collateral

Tick appropriately in the correct box.

70

19. The following influences my business' access to loans

	1	2	3	4	5
The value of collateral					
The type of collateral needed					
Collateral valuation fee					
Ownership of collateral					

PART E: Information on business skills
Tick appropriately in the correct box.

20. Do you keep any financial business records?

Yes ☐   No ☐

21. The following influences the use of loans in my business

	1	2	3	4	5
Seminars and workshops					
Education and training					
Awareness on type of loans one can take					
Financial management skills					

PART F: Nature of business

Tick appropriately in the correct box.

22. What form of ownership is your business?

Sole proprietorship ☐
Partnership ☐
Family ☐
Any other specify _____

23. For how many years have you owned this business?

Less than I year ☐

1-5 years ☐

6-10 years ☐

More than 10 years ☐

24 The nature of my business influences my access to loans

YES ☐
NO ☐

b) If YES in (a) above which aspect of your business influences your access of a loan?

Permanency of business ☐

Age of business ☐

Ownership ☐

All the above ☐

None of the above ☐

Appendix 2: Letter of Transmittal

MIRIAM. N. THUO

P.O BOX 236,

NAKURU.

15TH JUNE 2014

THE COUNTY COMMISSIONER,

NAKURU COUNTY,

P.O BOX 81-20100,

NAKURU.

Dear Sir/Madam,

RE: REQUEST OF CARRY OUT RESEARCH WITHIN NAKURU TOWN CBD

I am a post graduate student in the University Of Nairobi Reg. No L50/66469/2013. Currently I am taking a course in project planning and management. I am doing a research on "the influence of credit accessibility on micro enterprises growth in Nakuru CBD". This research is for academic purpose only, however the result of the study may be made public after the completion of the study for future researchers and other relevant stakeholders to guide them in their work.

Every care will be taken in the data collection procedure to ensure that it is within ethical limits.

Yours Faithfully,

Miriam Njeri Thuo

L50/66469/2013.

Appendix 3: Authorization Letter

OFFICE OF THE PRESIDENT
Ministry of Interior and Coordination of
National Government

Telegram: "DISTRICTER" Nakuru
Telephone: Nakuru 051-2212515
When replying please quote

SUB COUNTY COMMISSIONER
NAKURU SUB COUNTY
P.O. BOX 81
NAKURU

Ref No. ED.12/10 Vol.V11/81   1ˢᵗ July 2014

TO WHOM IT MAY CONCERN

RE;- RESEARCH AUTHORIZATION
MIRIAM NJERI THUO – L50/66469/2011

The above named is a student of the University of Nairobi at Nakuru Extra-Mural Centre pursuing a Masters Degree in Project Planning and Management.

She has been authorized to carry out a research on " *the influence of credit accessibility on the growth of micro enterprises* " in Nakuru CBD.

Please accord her all the necessary assistance.

I. M. MUSAU
FOR DEPUTY COUNTY COMMISSIONER
NAKURU SUB COUNTY

74

**NATIONAL COMMISSION FOR SCIENCE,
TECHNOLOGY AND INNOVATION**

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When replying please quote

9° Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI, KENYA

Ref No:

Date:
16ᵗʰ July, 2014

NACOSTI/P/14/8213/2296

Miriam Njeri Thuo
University of Nairobi
P.O.Box 30197-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on "*The
influence of credit accessibility on the growth of Micro Enterprises in
Nakuru CBD, Kenya.*" I am pleased to inform you that you have been
authorized to undertake research in Nakuru County for a period ending 31ˢᵗ
August, 2014.

You are advised to report to the Managers of selected Micro Enterprises,
the County Commissioner and the County Director of Education, Nakuru
County before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies**
and one soft copy in pdf of the research report thesis to our office.

SAID HUSSEIN
FOR: SECRETARY/CEO

Copy to:

The Managers
Selected Micro Enterprises.

The County Commissioner
The County Director of Education
Nakuru County.

National Commission for Science, Technology and Innovation is ISO 9001: 2008 Certified

75

Appendix 4: Krejcie and Morgan 1970 Table of Sample Size

Table for Determining Sample Size for a Given Population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note   "N" is population size
           "S" is sample size

Source Krejcie & Morgan, 1970