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Impact of Credit on Micro-Enterprise Growth in Third World Countries: A Case Study of Kenya 1963 – 2004

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Abstract:

World countries have initiated micro-credit programs through informal savings and credit associations or cooperative savings and credit societies. The micro enterprise sector in Kenya is also known as informal sector. The micro enterprise sector in Kenya plays an important role in the provision of employment and income to a large section of the population. However, a number of studies have identified various constraints that hinder the growth of micro enterprise sector. The constraints include lack of credit or capital, infrastructure such transport, premises and markets. The general objective of this study was to determine the impact of credit on micro-enterprise growth in Third world countries: A Case Study of Kenya 1963-2004. The specific objectives were: to determine impact of the lack of experience of borrowers with credit institutions on the growth of SMEs; to determine the impact of the reluctance by formal institutions to lend to small enterprises on the growth of SMEs; and to assess the impact of the collateral requirements, high interest rates and administrative overheads on the growth of SMEs. The study employed a descriptive approach with a correlation research design. Descriptive design was employed to explore the impact of credit on micro-enterprise growth in Third world countries. The target population was 940 registered SMEs operating in three major cities in Kenya, Nairobi, Mombasa and Kisumu. The sample size was 188 which comprised of 20% registered SMEs. The research employed interviews and a closed questionnaire. Primary data was collected through interviews with selected entrepreneurs' associations who have accessed credit from various sources, institutions that lend principally to the MSE sector such as K-Rep Bank and KIE. The questionnaire was tailored for easy use by the respondents in the study. Document review for secondary data was also used to gather data that had been recorded. Secondary data will be collected through library research from sources such as academic papers, journals, text books, newspapers, documents from Government of Kenya, Reports from Central Bank and other financial institutions, Kenya Chamber of Commerce and the World Bank reports. The respondents were allowed 3 days to fill them after which they were collected for analysis. The questionnaire was pre-tested through piloting on some of the respondents to test its reliability. The same questionnaire was administered to the same category of respondents during the study though excluding the respondents who participated during the piloting. The answers were then compared to determine similarity. The content validity of the questionnaire was ensured by supervisors' expert opinions and colleagues'. Data analysis was done using quantitative methods. The information collected from the survey was analyzed by using statistical, mathematical and data interpretation techniques which included Simple percentage method and the five-point Likert scale. The results indicated that the respondents moderately acknowledge knowledge and willingness to take credit. Results indicated that there were only moderate ratings despite efforts to enhance credit. Further interrogation revealed that access to credit was not without challenges, and this has led to low credit take-up. The procedures and qualification criteria were cited as major impediments to credit accessibility. Majority of respondents agreed that lending institutions are reluctant to lend to small enterprises at 75%. Government agencies like K.I.E and private institutions like K-rep exercised caution when lending to small enterprises. Although lending programmes exist in Third World countries there is no significant growth or development of microenterprises. The reasons advanced for the slow growth is limited access to credit. The respondents generally agreed that collateral requirements were affordable. The same moderate rating was realized on overhead costs since the entrepreneurs were the operators of businesses and some operates from their premises. However, there was a below average rating on interest rates. The respondents were taken aback by the high interest rates and therefore despite the availability of credit, entrepreneurs thought that lending institutions were reluctant to lend the result of which is to charge high lending rates to discourage small traders. It can then be concluded that the Third world countries' small entrepreneurs do not possess the requisite knowledge on credit facilities offered to them and this explains their lack of willingness to take up loans. It can also be concluded that the lack of financial services and access to mainstream lending through commercial banks is a major constraint on the part of SMEs. The high interest rates were to blame for the lack of enough credit up-take. The study recommends that proper credit regulation by third world countries should be enacted to enhance credit advancement to small businesses. Consequently, a study is recommended to determine the extent of lending regulation to small businesses in Third world countries.

Keywords: Credit, SMEs, Micro-enterprise growth

1. Introduction

World countries have initiated micro-credit programs through informal savings and credit associations or cooperative savings and credit societies. The international lending agencies have had credit programs that lend to micro enterprises in Third World countries. World Bank, United States Agency for International Development (USAID), Germany Technical cooperation (GTZ), Care International, Plan International, European Investment Bank (IEB) Department for international development (DFID) and other lending institutions have channeled funds either through governments of Third world contraries or Non-Governmental Organizations. The micro enterprise sector in Kenya is also known as informal sector. It first gained recognition in 1972 when the International Labour Organization (ILO) studied the contribution of the informal sector to the economy. The study highlighted the importance of the sector towards the creation of employment and poverty alleviation. A comparison of the trend in employment in the informal and formal sector indicated that the informal sector had the potential to employ a large number of people as compared to those employed by the formal sector.

The micro enterprise sector in Kenya plays an important role in the provision of employment and income to a large section of the population. The sector has also led to increased production of affordable goods and series in Kenya. Consequently, the Government of Kenya has recognized this sector through its National Development Plans and other official publications. The Sessional Paper No. 1 of 1986, the sixth National Development Plan 1989 – 1993, Sessional Paper No. 2 of 1992 and the National Development Plan 1997 2001 are some of the publications highlighting the importance of the micro enterprise sector. The micro enterprise sector is now considered to have a capacity to generate employment and provide the foundation for the country's industrialization. This sector will help in the achievement of development objectives such as alleviating poverty, promoting employment, facilitating transition to the market economy and promoting national and regional socio-economic development.

However, a number of studies have identified various constraints that hinder the growth of micro enterprise sector. The constraints include lack of credit or capital, infrastructure such transport, premises and markets. There is also the problem of harassment from local authorities and stringent government laws and regulations such as taxation and lack of incentives for micro enterprises. Lack of access to credit has been identified has a major constraint hindering growth of micro enterprises (Morris and Sommerset, 1971). Lack of financial services and access to mainstream lending through commercial banks has been identified as a major constraint. Although lending programmes exist in Third World countries there is no significant growth or development of microenterprises. The reasons advanced for the slow growth is limited access to credit. This will be the focus of this study.

1.1. Statement of the Problem

A variety of credit programmes have been in operation in the country since independence to assist micro and small enterprises. These were either government initiated, for example, ICDC or NGO initiated like K-REP. Though evidence points out that credit has been increasing steadily and it could be expected the MSE Sector has been able to benefit, this has not been the case. Indeed, credit accessibility has been on the decline. The various studies done on MSE have covered different aspects of financing in the MSE Sector. Some have pointed out importance of credit accessibility to MSE growth; others have identified the impediments to MSEs accessing credit. This study will demonstrate the impact of credit accessibility on MSE growth, identify impediments to credit access by MSEs and, most importantly outline strategies and policies to improve MSEs Credit accessibility. In a nutshell, it will synthesize all aspects of credit accessibility and MSEs growth.

Shortage of credit has arguably been identified as a major constraint that faces micro enterprises in Third world countries. Micro enterprises have had little or no access to credit a factor which had stifled growth of micro enterprises. A number of studies have concluded that performance of micro enterprises is expected to grow once the problem of access to micro credit is solved. This left the microenterprise sector to be served by non- banking financial institutions and other non-governmental institutions or agencies. This study intends to investigate the extent to which limited access to credit has affected MSE development.

2. Literature Review

In their study of entrepreneurship and development in Kenya, Morris and summerset(1971)identified inability of African businessmen to access financing as a major constraint in their growth. Whereas the government could aid in financing micro enterprises, it was narrowly circumscribed because when it took a strong initiative it overwhelmed the entrepreneurial drive of small business. They contended the government could improve access to capital for MSE where social barriers inhibited economic relationships.

The reluctance of private finance to support MSE arose not only from lack of information but also from doubts on their competence. They argued that MSEs could not organize their labour, keep accounts or manage technical processes hence money alone could not help them. Morris and Sommerset (1971) tend to shift the blame to the MSE for their inability to access credit while ignoring such vital factors as social structure which isolated them from mainstream financial network. Oketch (1999)contends that lack of access to credit is not just a Kenyan phenomenon. The majority of MSE rely exclusively on own savings and reinvested profits for their business finance. The study contends that available evidence demonstrates that accessibility to credit determines the success of many MSEs. Most MSE surveys in Kenya indicates that enterprises that have had access to credit as well as other inputs have survived longer and additionally were able to expand more than those without access. The studies show a positive relationship between an enterprise's access to credit and level of net income in the enterprise.

The Sessional Paper No. 2 1992 of Kenya identified a number of factors constraining access to credit by small scale clients. These include: borrowers' experience with lending institutions, reluctance by lending institutions to lend to small enterprises and regulations that limit the funds available for lending stringent collateral requirements, high interest rates and administrative overheads.

Okero and Rhyne (1994) poses that for micro enterprises to prosper they must have sufficient supply of working capital for the purchase of supplies and inventories as they must have sufficient supply of working capital for the purchase of supplies and inventories. As they expand, micro enterprises need to invest in assets such tools, equipments or improved premises. The centrality of accessibility to capital cannot be down played as lack of it makes MSE miss opportunities for business growth. They contend that main stream financial institutions cannot serve micro enterprises because they process credit at a cost. These cannot be used in micro enterprise lending. Project appraisal is too expensive and most MSEs do not keep commercial banks out of MSE lending. Given the importance of MSEs in income generation and employment creation, governments in the developing countries can aid their access to capital by making it easier for programmes offering specialized financial services to micro enterprise to become financially self-sufficient. Giving support to the efforts of Ngo based programmes to become specialized financial institutions, encouraging main stream financial institutions to develop specialized micro enterprises operations on their own, and supporting the efforts of NGO based programmes to gain access to commercial sources of funds. However, these notwithstanding the two contend with the fact that the above policies will only succeed depending on the general economic climate in which they take place

The development countries cannot be treated uniformly. For instance, according to the National Micro and Small Enterprises Baseline Survey' 1999, there are some experiencing rapid economic growth, those in stagnation while others have virtually collapsed e.g. Somalia. The Survey points out access to credit as a key problem curtailing the growth of MSEs. While credit in the banking sector has been growing steadily in past very little of this credit has reached the MSE sector. This has made a majority of Kenya's MSEs to operate without any form of credit. How to improve the accessibility of credit by MSE has remained a daunting task.

Reinforcing the centrality of credit accessibility to MSEs growth ending, Ondiege (1996) points out initial and working capital and credit accessibility as the most critical issues in the informal sector and small enterprises growth and development. Drawing from research done in Nairobi, Kisumu and Mombasa small enterprises. Ondiege concluded that inadequate working capital is the major constraint to expanding business and the important role MSEs play in Kenya's economy cannot be down-played. The MSEs contribute to poverty alleviation, employment creation and equitable distribution of income. But the shortage of capital has been noted by a number of studies as being a major impediment in the growth and development of the MSE sector.

The various studies have a shown the vital issues regarding financing are: availability, credit accessibility, and efficient use to achieve business growth. Though these studies have pointed out credit accessibility to be important few have suggested on how to surmount this problem. This study contributes by giving policy recommendations on how to improve credit access by MSEs. Ochieng (1987) carried out a study on the Effect of financial Capital (credit) on the Growth of Nairobi's Urban Informal Sector. The study investigated the impact of credit by looking at the volume of sales investment levels in the informal business, changes in innovative capacity of the entrepreneurs and changes in employment. It captured the relationship between credit and growth by looking at the size of the business before and after reception of credit, the type of business the business it is injected into, experience in business management and the nature of sales (volume) before and after the loan is injected. It found out that the injection of credit had a positive impact improving their productivity. In his view increasing capital availability through credit facilities to the sector will lead to increased employment, income and profit margin levels.

Kibas(2001) drawing from a study done about impact on credit on women – operated business in Uasin Gishu district drew attention to the necessity of drawing policies and other strategies to be developed and implemented so as to make credit available, accessible, and affordable. This requires a lot of effort by NGOs, the government and other private sector stakeholders involved in the MSEs sector Kibas eloquently demonstrated the impact of credit on small enterprises and recommended the need to come up with strategies to improve accessibility but did not give those strategies. This will be one of the key objectives of this study that is outlining policies and strategies to improve credit accessibility by MSEs.

Furness (1975) underscoring the importance of credit access for small enterprises growth contends that even in Western countries the establishment of credit institutions not only facilitated industrialization and capital accumulation but also gave a further boost to thrift and economic development on the growth of the informal sector such that incomes increased. There was also improvement in managerial skills. The study was done in Nairobi and in the pre-linearization period (before 1972). Being a city, Nairobi has a heterogeneous environment in terms of economic activities, is prone to artificial inflation and thus, data on economic activities (especially trade) may not reflect the true behavior of economic agents. He collected a sample of 30 firms which (as he admitted as a limitation) was too small for generalization purposes. The government through several Sessional Papers (Republic of Kenya, Sessional paper No. 2 of 1992) on Micro Enterprises outlined several measures aimed at boosting credit availability of Micro Enterprises. These include the promotion of credit and finance (fixed and working capital) and establishment of non-financial promotional programmes (NFPPs).

The Sessional Paper No. 2 of 1992 proposed detailed promotional measures and programmes. These measures and programmes were in the form of structural adjustment policy of deregulations and liberalization. Investment incentives were also proposed so as to encourage entrepreneurs to start Small Scale Enterprises in the informal sector. These included investment allowances for factories established outside Nairobi and Mombasa, exemption of import duties of machinery worth not more than Kshs. 20 million for small enterprises located in the rural areas and establishment of District Development Fund in 1987 to enhance the provision of an enabling infrastructure via establishment of rural trading and production centres in some towns. A rural enterprise fund was established in 1987 to finance Jua Kali artisans and entrepreneurs through the Jua Kali fund in the ministry of Technical Training and Appropriate Technology.

Dondo (1989) noted that ministerial agencies providing credit/assistance programmes for the informal sector had been established for example, Kenya Industrial Estates (KIE), Kenya Institute of Business Training (KIBT), Small Enterprise Finance Company (SEFCO), the Industrial Commercial Development Company (ICDC), District Industrial Committees and Women Training Bureau. The

government of Kenya in 1992 outlined several measures that were aimed at easing accessibility of credit by Small Scale Enterprises. An enabling environment for the operation of small-scale enterprises finance institutions was to be provided. Banks were allowed to charge competitive rates that would give them adequate margins meant to cover the relatively high costs of loans to Small Scale Enterprises. Intensifying government efforts to obtain supplementary soft loans on Lending to public and private financial institutions that would then lend to the Small Scale Enterprises and Jua Kali Sector.

In addition, banks and Development Finance Institutions (DFTs) that provided services to their Small scale Enterprise clients before credit extension were to be allowed to charge reasonable fees for such services for sustainability purposes, and establishment of a special training fund for Small Scale enterprises and Jua Kali entrepreneurs. The central Bank of Kenya (CBK) was required to establish a consultative forum that would enable banks to continuously review various policies and regulations that hinder the flow of credit to the Small Scale Enterprises sector. It was also to initiate studies concerning the comparative risks and costs associated with lending to Micro Enterprises, so as to lay the groundwork for future policies in the banking sector. Development Finance Institutions were allowed to mobilize and accept savings deposits as a source of funds for lending to Small Scale Enterprises, the government was to reduce its domestic borrowing so as to release/facilitate availability of more funds for lending to the Small Scale Enterprises sector. Modalities of establishment of an export credit guarantee insurance scheme, and the possibility of the establishment of a Small Scale Enterprises export credit were to be explored. Regarding collateral for loans security, the CBK in collaboration with commercial banks and financial institutions was to review the procedures and regulations of lending in order to make collateral requirements flexible and responsive to the credit needs of the Small Scale Enterprises and Jua Kali sector. The government of Kenya in 2001 proposed measures in support of Micro-Enterprises as a poverty reduction strategy. In this regard, financial services and loans would be made more available and affordable. Through this a majority of Kenyan entrepreneurs would be able to invest for income generations and creation of a solid savings base for further investment. A Micro Finance Institutions' Bill was drafted by the Central Bank of Kenya in 2002 so as to regulate the organizations that support Micro Enterprises. This was an attempt to promote effectiveness in provision of credit services to Micro Finance. A survey by the government of Kenya showed that since independence, Kenya has recorded considerable growth of financial institutions, some of which have been designed especially for lending to the informal sector. According to Oketch (1991) of the 17 categories of financial institutions which were operating in the finance sector, four were active in financing micro and Small Enterprises activities. These include savings and credit co-operative association (SACCOs), Non-Government Organizations (NGOs), and informal associations like rotational savings and credit association (ROSCAs). In 1995 10.4% of Micro enterprises had access to Small Scale Enterprises credit of the 3.45% was from formal sources as compared to 4% in 1993 and 5% in 1994. The amount of credit supplied to Micro Enterprises in 1995 was Kshs. 847 million.

2.1. Conceptual Framework

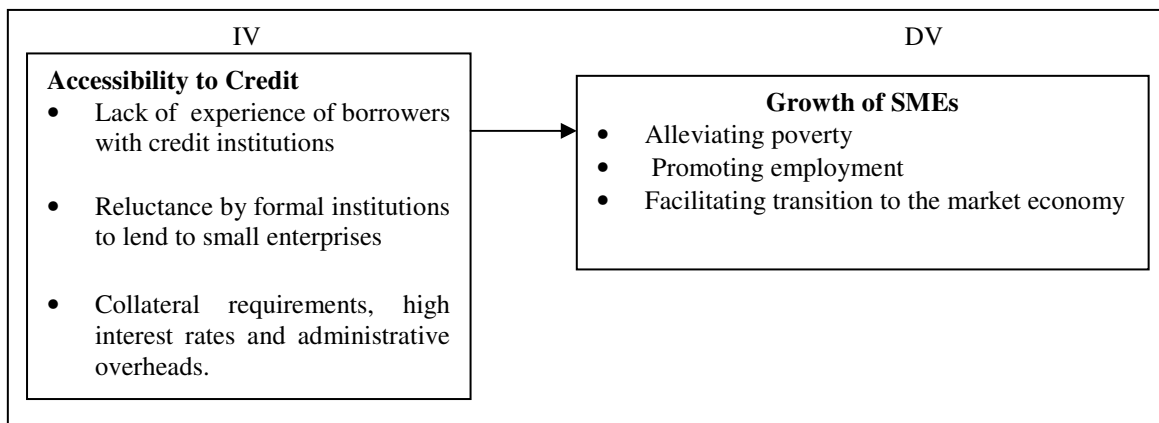


Figure 1: Conceptual Framework

Growth of SMEs due to availability of credit in third world countries can be measured using SME contributions to the economy. Growth of SWMEs in Third world countries is not much expressed in terms of expansion and per-capita income as the contributions they make to the economy. Entrepreneurs are not keen on expansion but improving their well-being using the proceeds from SME activities. Consequently, the conceptual framework demonstrates the important role of credit on alleviating poverty, promoting employment and facilitating transition to the market economy due to the growth of SMEs.

3. Research Methodology

Saunders et.al (2003) postulate that combining different designs in one study enhances the validity of the findings. The study employed a descriptive approach with a correlation research design. According to Trochim (2006), a descriptive research design was best suited for this kind of research where studies are conducted to demonstrate relationships between things or interactions between groups of people. Descriptive design was employed to explore the impact of credit on micro-enterprise growth in Third world countries. Its important to note that descriptive research designs do not signify causation relationships (Saunders et. el., 2003) and as such, a cause-effect design was used to determine the causal relationship between credit and performance of SMEs. The study therefore used regression analysis research design to show the relationship between independent and dependent variables.

The target population was 940 registered SMEs operating in three major cities in Kenya, Nairobi, Mombasa and Kisumu. The sample size was 188 which comprised of 20% registered SMEs. Mugenda (2004) argued that 20% of the total target population is representative enough and therefore recommended for this study. Random sampling was used in selecting the motorcycle business operators interviewed. This sampling method was recommended because it was best suit this kind of study (Mugenda, 2004). The research employed interviews and a closed questionnaire. Primary data was collected through interviews with selected entrepreneur's associations who have accessed credit from various sources, institutions that lend principally to the MSE sector such as K-Rep Bank and KIE. The questionnaire was tailored for easy use by the respondents in the study. Document review for secondary data was also used to gather data that had been recorded. Secondary data will be collected through library research from sources such as academic papers, journals, text books, newspapers, documents from Government of Kenya, Reports from Central Bank and other financial institutions, Kenya Chamber of Commerce and the World Bank reports. An authorization letter was obtained from the university and attached to the questionnaire so as to help in improving the response rate. The questionnaires were self-administered by the researcher to the respondents. The respondents were allowed 3 days to fill them after which they were collected for analysis. The questionnaire was pre-tested through piloting on some of the respondents to test its reliability. The same questionnaire was administered to the same category of respondents during the study though excluding the respondents who participated during the piloting. The answers were then compared to determine similarity. The content validity of the questionnaire was ensured by supervisors' expert opinions and colleagues'. Data analysis was done using quantitative methods. The information collected from the survey was analyzed by using statistical, mathematical and data interpretation techniques which included Simple percentage method and the five-point Likert scale. In the Weighted Average score method, specific weights were predetermined on the basis of the ranks given by respondents. The quantitative data from the questionnaire was cleaned of any inconsistent responses and/or incomplete responses. The descriptive data was then analyzed so as to obtain the statistic values for the measures of central tendency such as the mean in addition to weighted averages. Weighted averages are given by $\frac{\sum f_i w_i}{\sum f_i}$ where f_i = frequency, w_i = weights and i = number of columns.

4. Research Findings and Analysis

The study sought to determine the impact of credit on micro-enterprise growth in third world countries. The researcher sought to find out the impact of the lack of experience of borrowers with credit institutions on the growth of SMEs. The respondents were asked to state the extent of agreement to the impact of a lack of experience of borrowers with credit institutions on growth of SMEs. Data obtained from the findings were analyzed and presented in the table below, where the score of 5 is given to those who strongly agree, 4 to those who agree, 3 to those who reluctantly agree, 2 to those who disagree, and 1 to those who strongly disagree. Table 1: Lack of experience of borrowers with credit institutions

S. No	Category	Ranks					Weighted Averages
		5	4	3	2	1	
1.	Knowledge of Borrowers	52	46	42	37	10	3.47
2.	Credit Eligibility Criteria Understood	50	45	39	44	10	3.43
3.	Willingness to take Credit	54	50	40	40	4	3.59

Table 1

The results indicated that the respondents moderately acknowledge knowledge and willingness to take credit. According to the findings, there was a moderate rating on knowledge of borrowers on credit at a rating on 3.47, fairly understood credit eligibility criteria a rating on 3.43 and that they were moderately willing to take credit. Results indicated that there were only moderate ratings despite efforts to enhance credit. Further interrogation revealed that access to credit was not without challenges, and this has led to low credit take-up. The procedures and qualification criteria were cited as major impediments to credit accessibility. The central Bank of Kenya (CBK) was required to establish a consultative forum that would enable banks to continuously review various policies and regulations that hinder the flow of credit to the Small Scale Enterprises sector.

Drawing from research done in Nairobi, Kisumu and Mombasa small enterprises. Ondiego (1996) concluded that inadequate working capital is the major constraint to expanding business and the important role MSEs play in Kenya's economy cannot be down-played. The MSEs contribute to poverty alleviation, employment creation and equitable distribution of income. But the shortage of capital has been noted by a number of studies as being a major impediment in the growth and development of the MSE sector. Access to small loans to enhance working capital is therefore an area of concern that must be looked into in third world countries. Entrepreneurs concentrate on assets and fail to consider working capital as a result SMEs end up collapsing.

Further, respondents were asked to rate the reluctance by formal institutions to lend to small enterprises. Data obtained from the findings were analyzed and presented in the figure below.

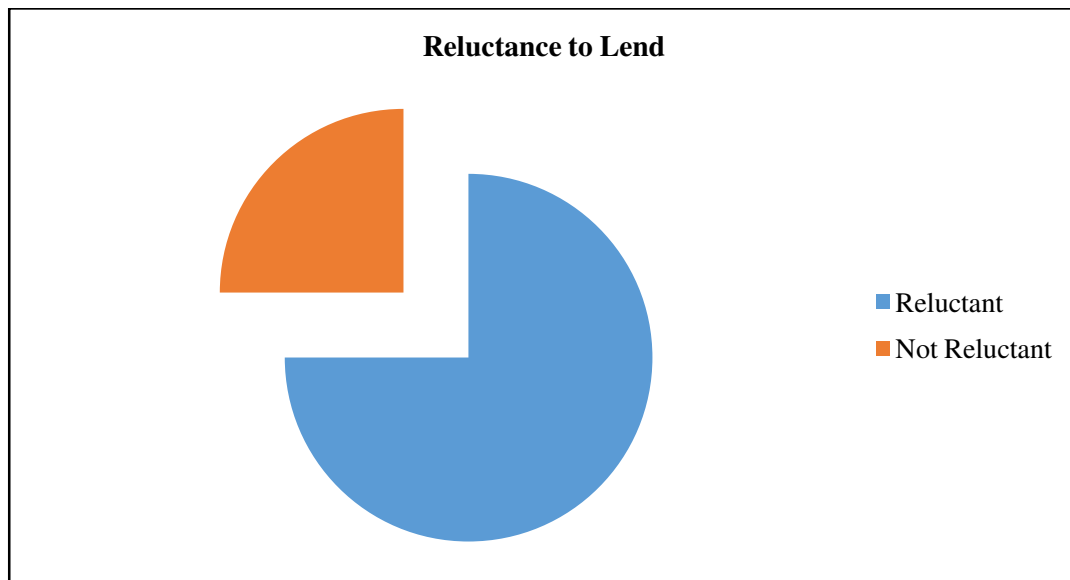


Figure 2: Reluctance to Lend by Lending Institutions

From figure 5, majority of respondents agreed that lending institutions are reluctant to lend to small enterprises at 75%. Government agencies like K.I.E and private institutions like K-rep exercised caution when lending to small enterprises. The risk associated with small and sometimes informal enterprises scares away lending institutions that only advance small loans. Morris and Sommerset (1971) postulated that lack of financial services and access to mainstream lending through commercial banks has been identified as a major constraint. Although lending programmes exist in Third World countries there is no significant growth or development of microenterprises. The reasons advanced for the slow growth is limited access to credit.

Further, the third research objective sought to determine the impact of collateral requirements, high interest rates and administrative overheads on the growth of SMEs. The score of 5 was given to those respondents whose level of agreement was to a very large extent, 4 to those with a large extent, 3 to a moderate extent, 2 to a small extent, and 1 to a very small extent. On the basis of this, weighted average is employed,

$$\text{Weighted average} = \sum f(n) / N$$

S. No	Category	Ranks					Weighted Averages
		Level of Agreement					
		5	4	3	2	1	
1.	Affordable Collateral	32	48	60	28	20	3.18
2.	Reasonable Interest Rates	20	30	78	42	18	2.96
3.	Reasonable Overhead Costs	33	40	47	57	11	3.14

Table 2: Collateral, High interest rates and Administrative Overheads on SME Growth

According to findings, the respondents generally agreed that collateral requirements were affordable at a moderate rating of 3.18. Upon further interview, it was discovered that group security guarantee made it easy to negotiate collateral requirements. The same moderate rating was realized on overhead costs since the entrepreneurs were the operators of businesses and some operates from their premises. However, there was a below average rating on interest rates. The respondents were taken aback by the high interest rates and therefore despite the availability of credit, entrepreneurs thought that lending institutions were reluctant to lend the result of which is to charge high lending rates to discourage small traders.

A survey by the government of Kenya showed that since independence, Kenya has recorded considerable growth of financial institutions, some of which have been designed especially for lending to the informal sector. According to Oketch (1991) of the 17 categories of financial institutions which were operating in the finance sector, four were active in financing micro and Small Enterprises activities. Despite the efforts, traders are reluctant to go for credit due to high interest rates.

5. Conclusions and Recommendations

The first research objective was to establish the impact of the lack of experience of borrowers with credit institutions on the growth of SMEs.

The results indicated that the respondents moderately had knowledge and were willing to take credit. There were only moderate ratings on willingness and knowledge on credit despite efforts to enhance credit. It can then be concluded that the Third world countries' small entrepreneurs do not possess the requisite knowledge on credit facilities offered to them and this explains their lack of willingness to take up loans.

The second research objective was to determine rate the reluctance by formal institutions to lend to small enterprises. From the findings, it was discovered that lending institutions were reluctant to lend to small enterprises. It was worth noting that even Government agencies like K.I.E and NGO-sponsored institutions like K-rep exercised caution when lending to small enterprises. The risk associated with small and sometimes informal enterprises scared away lending institutions. It can then be concluded that the lack of financial services and access to mainstream lending through commercial banks is a major constraint on the part of SMEs. Although lending programmes exist in Third World countries there is no significant growth or development of microenterprises. The reasons advanced for the slow growth is limited access to credit.

The third research objective was to assess the impact of collateral requirements, high interest rates and administrative overheads on the growth of SMEs

According to findings, the respondents generally agreed that collateral requirements were affordable. This was so because group security guarantee made it easy to negotiate collateral requirements. The same moderate rating was realized on overhead costs since the entrepreneurs were the operators of businesses and some operates from their premises. However, there was a below average rating on interest rates. The high interest rates were to blame for the lack of enough credit up-take.

6. Recommendations and Areas for Further Research

From the conclusions made, based on the objectives of the study, the researcher came up with the following recommendations: The study recommends that proper credit regulation by third world countries should be enacted to enhance credit advancement to small businesses. Consequently, a study is recommended to determine the extent of lending regulation to small businesses in Third world countries.

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