# EFFECT OF CONVENTIONAL COLLATERAL REQUIREMENTS ON BORROWERS ACCESS TO FINANCE

A survey of selected Borrowers in Kerugoya Town



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**Thesis Submitted To School of Business and Management in Partial Fulfillment of the Requirement for the Award of Master of Business Administration (Finance) of Kenya Methodist University**

**July, 2011**

## ABSTRACT

Credit is considered a very important aspect of modern economy in Kenyan economy; however the relationship between lenders and small business borrowers is inherently risky. Lenders insist on collateral to mitigate against risk of default. The process of collateralization is lengthy, bureaucratic, costly and unpredictable, the lenders also insist on convectional collateral mostly land movable assets among others It takes long to access a loan until what was initially an emergency is not solved in good time. The objective of this study is to establish effect of conventional collateral requirement on access to finance by the businesses. The study concentrates on borrowers selected from Equity Bank and Kirinyaga District Farmers SACCO. The study seeks to assist the government to legislation relating to collateral process as well as lenders who use conventional collateral as security on loans. This descriptive research design is carried out on a sample of 104 or 10% respondents selected form a population of 1037 from two institutions. Data has been collected by use of questionnaires. The researcher also interviewed credit and operation staff in the two institutions to obtain the lenders point of view on the collateral processing. Results were analyzed using statistical package for social sciences and presented in tables and charts. Chi-square was used to test hypothesis. The findings from the study is Conventional collateral processing in Kerugoya is lengthy, costly and has a severe impact on small business access to financing; the process fails to protect the lender and also convey little benefit to the borrower. The study recommends a unified and automated registry that shares information as well as harmonizing the laws relating to land transaction and tenure