INFLUENCE OF SELECTED FACTORS ON PUBLIC UNIVERSITY EMPLOYEES BORROWING FROM COMMERCIAL BANKS;
(A CASE STUDY OF EGERTON UNIVERSITY)

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A Research Report Submitted to the Graduate School in Partial Fulfillment for the Requirements of the Award of Degree of Master of Business Administration

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DECLARATION AND APPROVAL

Declaration

This project is my original work and has not been presented for the award of any other degree or diploma in any university.

Signature.................................... Date 2/6/2013.....

Peter Omanwa Oira

REG. NO.: CM11/0421/08

Approval

This research project has been submitted with my approval as university supervisor.

Signature.................................... Date....3/6/2013...

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DEDICATION

To my wife Lonnex and my children Kefa and Lynn for their encouragement, support and for the long periods of my absence they endured while I was a way conducting research and preparing this research project.

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ABSTRACT

Most if not all banks, rarely ask university employees to produce assets as securities before advancing loans to them. The employee payslip and assurance from the employer about cooperation in loan recovery is considered adequate. As a result of this commercial bank loans are easily accessed by most university employees. However it has not come out clearly what factors have influenced commercial bank borrowings. This study was aimed at evaluating the factors that have influenced commercial bank borrowing by public university employees. The study was conducted at Egerton University with an aim of establishing from employees what factors influenced them to borrow from commercial banks. The general purpose of the study was to determine the factors influencing public University employee borrowing from commercial banks. The specific objectives were to determine the level of commercial bank borrowing, identify the factors that influence bank borrowings and also determine the relationship between the factors and employee borrowing. Data was collected from a sample size of 318 employees which was selected through stratified random sampling from a total population of 1889 employees of Egerton University (as at December 2010). The collected data was analysed using descriptive statistic and inferential statistics. This study found that the use of loan (especially from commercial banks and SACCOs) is a very popular way of financing activities of salaried employees. The university employees borrowing from commercial banks is mainly influenced by the length of the repayment period and lack of guarantee other than the pay slip. This study recommends that commercial banks should try to lower the interest rates, increase the period of loan repayment and make the repayment terms flexible. The move by most commercial banks to consider the provision of loan facilities to public university employees without any other form of guarantee/security (assets) except the production of a pay-slip and assurance from the employer that the applicant for the loan is an employee of the institution and that the employer will recover the loan advanced through the check off system and remit the same to the bank is highly recommendable. Some of the commercial banks which have not embraced this lack of guarantee requirement (only pay-slip) should follow suite.

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LIST OF ABBREVIATIONS

CBB	Commercial Bank Borrowing
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CIP	Collection Instruments and Procedures
CM	Capital Market
DCP	Data collection Procedures
DF	Debt Financing
EF	Equity Financing
EU	Egerton University
FoB	Facility of Borrowing
GOK	Government of Kenya
IFF	Inadequate Financial Facilities
IPAR	Institute of Policy Analysis and Research
IT	Information Technology
KCB	Kenya Commercial Bank
LIC	Life Insurance Companies
MTC	Multiple Transaction Costs
NARC	National Alliance Rainbow Coalition
NGO	Non Governmental Organisations
SACCO	Saving and Credit Cooperative
SCB	Standard Chartered Bank
SLA	Saving and Loan Associations

CHAPTER ONE
INTRODUCTION

1.1 Background of Study

Borrowing is the process where an individual can assess some funds from either a financial institution, cooperative societies, saving and credit cooperatives societies or any other organized financial institution that are able to provide finance which is refundable with an interest. Normally commercial banks provide this facilities and public universities employees are among the beneficiaries from these borrowing facilities. Commercial bank borrowing used to be out of reach for many civil servants and more so to public university employees. But of late about eight years back or so it has become so easy for public university employees, to access this facility of borrowing. This is evident as most of them walk to the bank with only a confirmation that one is an employee by producing a pay slip. Bank borrowing has assisted many employees as most of them have developed themselves through this commercial bank loans. Commercial bank borrowing is costly in terms of interest, despite central bank persuasion to commercial banks to reduce interest rate, as the monetary regulator reduces its lending rates; banks have failed to respond, keeping their rates at between 14 to 23%. This is so because the prices which commercial banks charge on their loans are left to the forces of demand and supply in the market. Despite the fact that commercial banks have failed to lower their lending interest rate borrowing from these commercial banks have kept on increasing (Hughes, 2001).

Access to formal finance is poor because of the high risk of default among employees and due to inadequate financial facilities. University employees can rarely meet the conditions set by financial institutions, which see the employees as a risk because of poor guarantees and lack of information about their ability to repay loans. The financial system in most of Africa is under-developed, and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for the employees. Non-bank financial intermediaries, such as micro-credit institutions, could be a big help in lending money to the small individuals but they do not have the resources and ability to follow up their customers when they extend credit (Kamerschen, 2002).

All commercial banks are under statutory requirement to keep cash reserve ratio with central bank to safeguard them from corrupting. At a time when the Kenyan economy is suffering from a downturn and businesses are in dire need of funding, banks have maintained high lending rates while offering low deposit rates. Borrowers pay interest charges of about 14% to 23% per cent on personal unsecured loans that have become popular with salaried workers in Kenya. Kenyan banks on their part have slowed down on lending with some executives arguing that there are inadequate outlets for the pent-up liquidity in the balance sheets of Kenyan banks. The Business Daily sought out the views of banking sector and business executives on what impact the rate cut may have on the cost of credit in the country (Loyd, 2006).

Normally commercial banks provide borrowing facilities to salaried employees and business people, where public universities employees are among the beneficiaries of these borrowing facilities. Borrowing is also referred to as credit facility, like fire, credit is a dangerous servant of humanity. Its use can be beneficial or disastrous; it must be watched and regulated, and kept with its proper bonds, by financial intermediaries and other financial regulatory bodies such as commercial banks. Due to market liberalization and competition among commercial banks, interest rates are on the declining trend which has resulted in an increase in circulation of money. All commercial banks are regulated by central banks of Kenya. It has tried to explore ways of lowing the cost of money to try to make lending to private and individual borrowers cheaper, this is aimed at making lending cheaper and is geared to addressing market inefficiency by commercial banks, despite regular persuasion to bring interest rates down, still commercial bank lending interest rates are high and also borrowing from this commercial banks remains high. Higher personal financial planning is the process of managing your money to achieve personal economic situation (Robert, 2010). This planning process allows one to control his/her financial situation. Every family has a unique financial position, and any financial activity must therefore also be unique, that is carefully planned to meet specific needs and goals. Every day we each make decision, the decision making process is a logical procedure, with the general alternative course of action, consideration of personal, social and economic factors that influence the decision, evaluation of alternative course of action and selection of the most appropriate courses and also implementation and evaluation of the courses selected along with other decisions (Yunus, 1998).

Decision making is a circular, ongoing process in which current decision will influence future choices. Creating and considering alternatives are crucial in making good decisions, from possible courses of action which usually faces the categories to expand the current life situation, exchange the current situation, continue with the same course of action and also take a new course of action. These categories may not apply to every decision, situation; however they represent possible causes of action. Creativity in decision making is vital to effective choices as this enable one to plan his resources of finances well, however in some situation it may be difficult to work with the available resources and this necessitate planning for additional funding which lands many into borrowing, borrowing is part of planning that need and require careful consideration and making careful financial decision, therefore commercial banks borrowing is one part of this personal financial planning. Banks also check long term relationship and gather information by using loan commitments to their customers. A loan commitment is a bank commitment to provide a customer with a loan up to a given amount at an interest rate that is tied to some market interest rate. The majority of these loans are made under the loan commitment arrangement. The advantage for the customers are that they have a source of credit when they need it, the advantage for the bank is that the loan committee promotes a long term relationship, which in turn facilities information collection. In addition the provision on the loan commitment agreement request that the firm continually supply the bank with information about the customers income through regular repayment, the loan committee ensures that there are less default whenever customer have borrowed from banks (Fisher, 2002).

Lending rates have taken too long to come down despite persuasion by Central Bank's which have been aimed at easing availability of liquidity in the economy. The banks are taking advantage of their customers, and are trying to squeeze even more from them all the time. If you look at the published accounts of top performing banks in the first half of the year, they are making huge profits. Despite keeping interest rates high, the banks are still lending heavily and chances of defaulting are on the declining trend. Central Bank of Kenya has been aggressively involved in pursuing a monetary policy that favors cuts in lending rates. We have seen cuts in the Central Bank Rate (CBR) and cash reserve ratios in an attempt to boost liquidity, but this alone cannot push lending rates downwards. We are still facing the risk of increased loan defaults due to the country's soft economy. As a result, banks are still putting a risk premium on their lending rates, which is one of the reasons there is hesitation to drop lending rates. K-REP Bank, Faulu Kenya and Pride of Uganda, where group lending is core, are characterized by different loan classifications. K-REP, for example, has Kati Kati loans for people in the higher income bracket with the majority of group borrowers falling under Juhudi loans. The only limiting factor with such borrowing is the fact that credit values are based on the collective wealth of the participating members. This follows that the lower the wealth the smaller the loan. Borrowing for most individuals is not an overnight decision. The Institute of Policy Analysis and Research (IPAR), says that for most people, the credit- seeking decision is a result of three stages. There is always the decision made over whether to or not to borrow. The credit source follows the credit perceptions of the borrower and the attendant costs. When Kenya's Transport Ministry moved to streamline the public transport industry, many Kenyans got a lot of drive to venture into the business of ferrying commuters and other travelers. However, raising money was an uphill task and many eyed the banks. It was possible but not as easy as many thought. Most banks asked for cash collateral of at least Kshs 300, 000. This condition locked out many borrowers. Studies have revealed that more men are likely to borrow than women. It is highly likely for women to borrow from financial institutions and Non-Governmental Organizations while men go to commercial banks (Beecham, 2001).

Among the key determinants for small business borrowing is age, where mature borrowers are able to borrow more due to experience, while younger ones borrow less. The level of education also determines how much a borrower can get due to the possibility of adopting a contemporary management style, which is unlikely to fail. The age of an enterprise is also important as older enterprises get more consideration for credit qualification than young ones. As financing sources keep pace with evolving Information Technology (IT) and economic trends, there is need for financial institutions, both formal and informal, to widen up their doors. Most rural people have no access to banks because of poor infrastructure in such areas. Rural businesses also face low incomes due to lesser concentration of people and fewer economic activities. It is thus clear that the government's role in infrastructure development would play an important role in improving credit worthiness or access to it. People involved in small-scale lending should employ the concept of the triangle of outreach, financial sustainability and impact, as they choose their target clients. The more innovative and locally adapted the project design, the better the prospects (Hudgings, 2005).

1.2 Problem Statement

Commercial banks have been of rate giving loans to public university employees with no much restriction or requirement of providing assets as securities against loans taken. Most if not all commercial banks rarely ask employees for tangible securities such as assets before advancing loans to them, they only require employees who apply for loans to provide the pay- slip from the employer as evidence that they are in employment with a guarantee that the employer will recover the loan advanced through the check off system on behalf of the bank and remit the same to the bank. As a result of this most employees are accessing commercial banks and borrowing so easily from them. Banks have also embarked on serious marketing strategies of marketing various loan products they sell to the extent that rarely will one month pass without finding these banks putting up tents at strategic points within public university premises. However it is not known exactly what factors have influenced public university employees to borrow so much from commercial banks since these loans attract very high interest rates compared to other sources of borrowings such as co-operative societies and other lending institutions. There is need therefore to establish how selected factors have influenced public university employees to borrow from these commercial banks. This study is therefore expected to substantially establish the influence of selected factors on commercial bank borrowing by university employees and also give appropriate recommendations.

1.3 General Objectives

The general purpose of the study was to analyze factors that influence public university employees borrowing from commercial banks and also give appropriate recommendations.

1.4 Specific Objectives

i) To establish the current level of commercial borrowing by Egerton University employees.

ii) To determine how selected factors influence commercial bank borrowing by Egerton University employees.

1.5 Research Question

i) What is the current level of commercial bank borrowing by the Egerton university employees?

ii) What is the influence of selected factors on current level of commercial bank borrowing by Egerton University employees?

1.6 Significance of the Study

The analysis being centered on the factors influencing public university employees borrowing from commercial banks, the management of debt may be helpful to university management and employees and commercial banks. The study will help identify the factors that have influenced the increase on bank borrowings. It may also establish the current levels of bank borrowing and also establish the relationship between the current borrowing and financial management to be determined to enhance probable measures in order to improve employee borrowing and efficient financial management.

1.7 Scope of the study

The study focused on the factors that influence public university employee to borrow from commercial. The study was carried out at Egerton University where respondents were selected using stratified random sampling.

1.8 Limitations of the Study

The limitations of the study were:

i) The results of the study are limited to Egerton University employees and generalisation to other institutions would be with a lot of caution.

ii) The study concentrated only to some selected factors that influence public university employee borrowing. This implies that all the factors that may influence commercial bank borrowing were not covered.

1.9 Definition of Terms

In this study the following concepts have been operationally defined.

Borrowing: It is the acquisition of funds from a lending institution which is refundable with interest.

Guarantee: This refers to the security of the amount borrowed from lending institutions. It is set as the condition that should be fulfilled in order to be awarded with a loan. This is normally used in the recovery of loan in case of default in repayment.

Conditions: This refers to the overall set of factors set by the lending institution that influence borrowers decision to apply for a loan.

Interest rates: This refers to the cost of money borrowed from a lending institution. It is the price that a borrower pays for the loan given.

Repayment period: This is the agreed duration of repaying back the loan given plus the interest rates thereof.

CHAPTER TWO

LITERATURE REVIEW

2.1 Historical Development of Banks

The first banks were properly the religious temples of the ancient world and were properly established in the third millennium BC. Banks probably predated the invention of money. Deposits initially consist of gain and later other goods including cattle, agriculture implements and eventually precious metals such as gold in the form of easy-to-carry compressed plates. Temples and palaces were the safest place to store gold as they were constantly attended and well built. As sacred places, temples presented an extra deterrent to would be thieves (Goldfeld, 1981).

There are extent record of loans from the 2nd century BC in Babylon that were made by temple priests/monks to merchants. By the time of Hammurabi's code dating to CA 1760 BCE banking was well enough developed to justify laws governing banks operations. Ancient Greece holds further evidence of banking Greek temples as well as private and civic entities, conducted financial transactions such as loans, deposits, currency exchange and validation of coinage. This is evidence too of credit, whereby in return for a payment from a client a money lender in one Greek port would write a credit note for the client who could cash the note in another city, saving the clients danger of carting coinage with him on his journey. Pythius who operated a merchant banker throughout Asia Minor at the beginning of the 5th century BC, is the first individual banker of whom we have records. The idea of banks began long time ago as 1800BC in those days money lenders made loans to people. In Greece and Rome banks made loans and accepted deposits. They also changed money (in the Bible Jesus famously drove the money changers out of the temple in Jerusalem). However with the collapse of the Roman Empire trade slumped and banking temporarily ended. However it began to revive again in the 12th and 13th centuries in the Italian towns of Florence and Genoa (Goldfeld, 1981).

In England banking developed in the 17th century. Sometimes people deposited their money with Goldsmiths for safety. The goldsmiths issued a note promising to pay the bearer a certain sum demanded. In that time people began to exchange these notes instead of coins because it was easier and safer. Goldsmiths began to lend the money deposited with them in return for high rate of interest to people who deposited money in order to attract their savings (Goldfeld, 1981).

However it is not only individuals borrowed. Governments also needed to borrow especially in wartime. The government borrowed money from wealthy individuals and later repaid them with interest from taxation. However at the end of the 17th century the cost of fighting a war with France was colossal. So in 1994 the bank of England was founded to provide loans to the government. The bank of England is sometimes called the Old Lady of Thread needle Street" in fact it moved to Street in 1793. In 1708 a law forbade banks with more than 6 parties to issue their own notes (although small banks could still do so). However the bank of England mostly confined its operations to London. In the late 18th century many small banks were founded in the provincial towns. However banking crisis is nothing new. In 1793 in 1814-1816 and 1825 there were "runs" on banks when people lost confidence and tried to withdraw their money. The result each time was a wave of bank failures. In 1826 the law was changed to allow large banks with many shareholders many of the small banks merged with large banks. Modern banking began with the bank charter of 1844. The Act split the bank of England into two departments, a banking department and issuing department. From then the bank of England could only issue notes if they were backed up by gold or government securities. At the end of the 19th century and beginning of the 20th century many banks merged, in the 20th century banking industry is dominated by the four big major banks, Barclays, standard, Midland and National West Minster. In Kenya several banks have come up all of which are under the control of Central Bank. The use of cheques for drawing money and settling accounts has become more common as they have become a major media of exchange. Of late so many banks have emerged to their current state (Loyd, 2006).

2.1.1 Commercial Banks

Banks are institutions that accept various types of deposits and use the funds primarily to grant loans. We use the term "banks" generally have to encompass not only the commercial banks where most people maintain checking accounts but other depository institutions such as saving and loans association with mutual savings banks and credit unions as well. Formally commercial banks were distinct from other depository institutions in their activities and functions, and differences still persists. However as a result of deregulatory financial legislations in the 1980s the distinctions have diminished the depository institutions are today more homogeneous in nature, a key source of our interest rate in the behavior of banks flow from their intimate role in the money supply process. Banks extend new loans, money is created in the form of new checking accounts, and whenever banks reduce loans, the money supply decline. Commercial banks are the largest most important of all financial intermediaries. Compared to other intermediaries, banks have historically been the most diversified in their activities. The liabilities are predominantly demand deposits, saving accounts and time deposits. Their assets are fairly evenly spread among mortgages, government securities, business loans, consumer loans and other items. In recent years the share of commercial bank assets constituted by mortgage has increased while the shares allocated to consumer and business loans has fallen as banks customers have turned to other sources of funds (Loyd, 2006).

2.1.2 Bank Loans

Loans are the largest source of income for banks providing nearly 50 percent of total bank revenue. Unlike securities, most bank loans involve a personal relationship between banker and borrowers. There are several types of bank loans, including in order of current magnitude, real estate loans, business loans and consumer loans. From the viewpoint of banks, loans are less liquid than other assets unlike securities a loan cannot be cashed before it comes due. Loans also have a higher default risk than other assets do, in compensation for their lower liquidity and high risk, loans yield a high interest rate of return among bank assets, when economical activities strengthen, the ratio of bank loans to total bank assets increases and bank profits rise. Banks grant loans to individuals commonly known as consumer loans, through several arrangements. Many consumer loans are durables goods automobile, others are general purpose loans. From the banks point of view, consumer loans are generally more liquid than other type of loans. They tend to be short term, and may be amortized that is, part of each regular payment goes to reduce the principal (Drury, 2001).

2.1.3 Borrowing

Borrowing is the second most important sources of funds. Borrowing has become increasingly important over the past quarter century. Today borrowing accounts for over 20 percent of bank liability. Banks borrow and lend in a number of ways. More often banks borrow from other banks, individual also borrow from banks, that is banks with excess reserve will lend their surplus funds to banks or individuals that need them through interbank market called "federal fund markets". Loans made in the federal bank market are unsecured they lack collateral so the lending bank must trust the borrowing bank or individuals (Fisher, 2002).

2.2 The Cost of Borrowing Money

Interest and fees charged on a loan have the effect of increasing the cost of an object or service purchased with credit. Various methods which are used to calculate interest rates can mislead a borrower about the actual cost of a loan. The interest rate that you pay to borrow money is influenced by numerous factors relating to the type of loan that you choose. The length of time over which a loan is to be repaid, the collateral, your credit history, and the lender that you select are all important aspects of the interest rate that you'll be charged. However, rates are also influenced by factors outside the control of both the borrower and lender and unrelated to the specifics of a particular loan. Economic conditions have an important influence on overall interest rates. Rates tend to increase during periods of strong economic activity when the demand for credit is high. A vital and healthy economy causes businesses to borrow funds in order to expand their output. At the same time, high employment rates and wage increases which accompany economic expansion usually make consumers more optimistic, leading them to buy more goods and services on credit. This increased demand for credit results in higher prices paid, in the form of interest rates, for that credit (Hussein, 1999).

On the other hand, a weak economy does little to stimulate demand for credit by businesses or consumers. Industries operating at less-than-capacity along with rising unemployment cause cautiousness and cutbacks in spending and borrowing. The light demand for credit during these periods tends to drive interest rates downward. The inflationary expectations of consumers and businesses can have a major impact on interest rates. Lenders who foresee rising prices for goods and services will charge higher interest rates in order to compensate for the likelihood that their loans will be repaid with devalued dollars. At the same time potential borrowers, who are also anticipating rising inflation rates, are more likely to accept higher-interest loans because they expect to be able to pay them back with devalued dollars. The anticipation of rising inflation also stimulates consumers and businesses to buy as soon as possible in order to beat the expected price increases, placing more of a demand on credit which, in turn, drives interest rates upward. Policies and actions of the federal government can also be a major influence on interest rates. Large federal deficits that occur when expenditures exceed tax revenues require the government to annually borrow tens or hundreds of billions of dollars, which causes tremendous strains on the credit markets by taking lendable funds away from businesses and consumers. This increases the demand for credit and exerts upward pressure on interest rates. A loan's term, or maturity length, generally affects the rate of interest that will be charged. Loans with longer maturities typically have higher interest rates. A thirty-year home mortgage loan is likely to have a higher interest rate than a fifteen-year loan on the same property for the same amount. And a five-year car loan will carry a higher rate than a three-year loan. In short, a longer repayment period places the lender at greater risk. A borrower's collateral can have a major impact on the interest rate charged by a lender. Collateral places the lender in a more secure financial position. In the event that the borrower doesn't repay the loan, the lender can force the sale of the collateral in order to recoup any losses incurred. This lessens the risk to the lender, which should result in a reduced interest rate (Yunus, 1998).

2.2.1 Interest Rates

Lenders have been despised for most of history. They make borrowers pay for loans, while just sitting around doing nothing. No wonder people have been vilified for charging interest. No wonder that for centuries, clerics pointed to biblical damning interest. Even philosophers like Aristotle weighed in against the practice, calling the "breeding of money from money" unnatural. After scorning lenders for millennia, today we recognize their service as a fundamental building block of civilization. Credit is one of the critical mechanisms were have for allocating resources. Without it, our market-based economy would grind to a halt. Even the simplest financial transaction, like saving some of your paycheck each month to buy a car, would be difficult, if not impossible. And corporations, most of which survive from day to day by borrowing to finance their activities, would not be able to function. Credit is so basic that we can find records of people lending grain and metal from 5,000 years ago. Credit probably existed before common measures of value, and it predates coinage by 2,000 years. Despite its early existence and its central role in economic transactions, credit was hard to come by until the Protestant Reformation. By the 16th century, views had changed, and interest payments were tolerated if not encouraged, so long as the rate charged was thought to be reasonable. Some historians even point to this shift as a key to the development of capitalism and its institutions. Protestant European countries did develop faster than Catholic ones, first. Since then, credit has exploded, facilitating extraordinary increases in general economic well-being. Yet even so, most people still take a dim view of the fact that lenders charge interest. Why? The main reason for the enduring unpopularity of interest comes from the failure to appreciate the fact that lending has an opportunity cost. Think of it from the point of view of the lender. People who offer credit don't need to make loans. They have alternatives, and extending a loan means giving them up. While lenders can eventually recoup the sum they lend, neither the time that the loan was outstanding nor the opportunities missed during that time can be gotten back. So interest isn't really "the breeding of money from money" as Aristotle put it; it's more like a rental fee that borrowers must pay lenders to compensate them for lost opportunities. It's no surprise that in today's world, interest rates are of enormous importance to virtually everyone –individuals, businesses, and governments. Quoted as a percentage of the amount borrowed, interest rates link the present to the future, allowing us to compare payments made on different dates. Interest rates also tell us the future reward for lending today, as well as the cost of borrowing now and repaying later. To make sound financial decisions, we must learn how to calculate and compare different rates on various financial instruments (Cecehett, 2009).

2.2.2 Interest Rate and Exchange Rate Stability

Most central banks do their best to keep interest rates and exchange rates from fluctuating too much. They want to eliminate abrupt changes. But if you press them further, they will tell you that those goals are secondary to those of low inflation, stable growth and financial stability. The reason for this hierarchy is that interest rate stability and exchange-rate stability are means of achieving the ultimate goal of stabilizing the economy; they are not ends unto themselves. It is easy to see why interest-rate volatility is a problem. The first, most people respond to low interest rates by borrowing and spending more. Individuals take out loans to purchase cars, new appliances and the like, while corporations issue more bonds and use the proceeds to enlarge their operations. Conversely, when interest rate rises, people borrow and spend less. So by raising expenditure when interest rate are low and reducing expenditure when interest rates are high, interest-rate volatility means high risk and a higher risk premium-on long term bonds. Risk makes financial decisions more difficult, lowering productivity and making the economy less efficient. Since central bankers control short term interest rates, they are in a position to control this risk and stabilize the economy. Stabilizing exchange rates is the last item on the list of central bank objectives, the value of a country's currency affects the cost of imports to domestic consumers and the cost of exports to foreign buyers. When the exchange rate is stable, the dollar price of a car produced, in German or Japan is predictable, making life easier for the foreign automobile manufactures, the domestic retailer and the American car buyer. Planning a head is easier for everyone. Different countries have different priorities while the Federal Reserve and the European central bank may not care much about exchange rate stability, the heads of central bank in small, less developed, trade oriented countries do. In emerging markets countries where exports and imports are central to the structure of the economy, officials might reasonably argue that good overall macroeconomics performance follows from a stable exchange rate (Howard, 1999).

2.2.3 Interest Rate and Information Content

Risk and term structure of interest rates contain useful information about overall economic conditions. These indicators are helpful in evaluating both the present health of the economy and its likely future course. Risk spreads provide one type of information, the term structure another. When the overall growth rate of the economy shows or returns negative, it strains private business, increasing the risk that corporations will be unable to meet their financial obligations. The immediate impact of an impending recession then is to raise the risk premium on privately assured bonds. Importantly, though an economic showdown on recession does not affect the risk of holding government bonds. The increased risk of default is not the same for all firms. The impact of recession on companies with high bond rating is usually small. But for issuers whose finances were precarious prior to the downturn, the effect is quite different. Those borrowers who were least likely to meet their payment obligations when times were good are even less likely to meet them when times turn bad. There is real chance that they will fail to make interest payments. Of course firms for whom even the slightest negative development might mean disaster are the ones that issue low grade bonds. The lower the initial grade of the bond, the more the default risk premium rises as a general economic condition deteriorate (Hudgins, 2005).

2.2.4 Interest Rate Spread

On October 5 1998 William Mc Donough president of the Federal Reserve Bank of New York, declared "I believe that we are in the most serious financial crisis since World War II" when the Russian government had defaulted on some of its bonds. Deteriorating investor confidence had increased voluntarily in the financial markets. Bond market were the hardest hit, as lenders re-evaluate the relative risk of holding different bonds ,some price plummeted while others soared. this simultaneous increase in some interest rates and decline on others was a clear sign to Mc Donough that substantial stress the financial market were experiencing could easily spread to the wider economy affecting everyone (Gecchetti, 2009).

Changes in bond price and the association in interest rates can have a pronounce affect on borrowing coast, corporations face; the experience of Ford and General Motor (GM) the American automobile manufacturers ,provide an instructive examples, like virtually every large company the two car makers borrow to maintain and expand their business and the amount are very large. At the end of 2005 fords borrowing exceeded &150 million while general motors' was nearly twice that. The two companies produced more than half of the cars and trucks Americans buy and they buy quite a few over 15 million in 2005. But for years the fortunes of US automakers have been declining. Sales have been shrinking, and profitably have been deteriorating so badly that by 2005 the two companies were both experiencing losses of billions of dollars per year. The result was an increase in the perceived riskiness of ford; GMs bonds leading to a decline in the price investors are willing to pay them. A fall in bond prices means an increase in interest rates and a corresponding rise in the cost of automobiles companies have to pay to borrow (Stephen, 2009). These examples highlight the need to understand the difference among the many types of bonds that are sold and traded in financial markets and the impact they have on borrowing as this will influence the interest rates on borrowing (Cecchetti, 2009).

2.3 Employment Income

Income is the flow shillings per unit of time. Income is made up of payment in the form of wages and salaries, dividends, rent, profits and transfer payments. Because income is paid in shillings an individual money balances may roughly equal the pay check –period income for a brief period, when the paycheck is first deposited in the bank. However, at other times, most individuals hold only a small portion of their income in the form of currency, coins and demand deposits. The amount of money an individual holds is a matter of individual discretion and can be varied at will within the constraints of one's assets or wealth. The decision as to what portion of one's wealth to hold in the form of money depends on the rate of return expected from non-money assets as well as on other factors. An individual may hold a very small stock of money at any given time if he or she earns millions of shillings a year. In fact it is possible for a blue collar worker to have more money than a white collar worker. An important and intriguing aspect of money is that while an individual may increase money holdings (with the limits of his or her wealth) at the total supply of money is controlled not only by individuals but by the Federal Reserve System of central bank (Yunks, 1998).

2.4 Attitude Towards Risk

The risk inherent to financial instruments is derived from the possibility of not recovering the full value of funds originally invested e.g. default risk. Default risk refers to the possibility of not receiving the contractual interest payments or, not recovering the principal amount rent due to insolvency and other economic factors, as a result of this there is need to avoid risk. One result of this desire to avoid risk is that investors require compensation for taking risk. That is the flip side of buying insurance. When we buy insurance, we pay someone else to take our risk, so it makes sense that if someone wants us to take on a risk; we need to be paid to do it. We take insurance premiums to avoid risk because most of us are risk averse, a risk adverse investor will always prefer an investment with a certain return than one with uncertain expected return (Beecham, 2001).

2.5 Empirical Studies

Commercial banks are of late giving loans to public university employees with easy access to this loan, banks no longer ask for securities before advancing this loan. The production of the pay-slip and assurance from the employer that the applicant of the loan is earn employee and the employer will recover the loan advanced to the employee on behave of the bank and remit the to the bank is enough evidence for the bank to advance the loan as a result of this borrowing from commercial bank is on the increase. However it has not come out clearly what factors have influenced the increase in commercial bank borrowing. A question therefore arises as to what factors have influenced this high borrowing from commercial banks. Various scholar shave conducted similar research in various parts of the world. Njuguna (2003) conducted a similar research at Egerton University on effects of credit information dissemination on from the point of view of commercial bank. He found that the rate 0f customer default on loans credit access and lending targets, a case study of credit lending institution in Nakuru District.

Lepose (2006) conducted similar research Egerton University on an assessment of the factors influencing client's satisfaction with micro finance institutions loan and, found out that the interest rate repayment duration, access and delivery process are critical factors in client satisfaction nor dissatisfaction with microfinance institutions loans Microfinance institutions need to pay special attention to these factors in the design and delivery process of the loan product. Moreover a regular client feedback tracking mechanism need to be embedded into the loan access and delivery processes in order to create and maintain client's loyalty to the product and organization. These findings pointed to the real possibilities of design loan product with the best mix of attributes, access and delivery process.

Mbwire (2006) similarly research on the impact of micro-credit or small enterprises growth. The general objective of the study was to study the impact of micro-credit on small enterprises growth. He found out that the age and a minimal level of education is necessary to be able to run small enterprises. The small enterprises are more stable if run by owners who are married. In conclusion the result shows that there is more business when the small enterprise is located in a central business area.

Al-Smadi and Ahmad (2009) student's college of Business studies, university of Utara Malaysia similarly conducted a similar on factors affecting banks credit risk in 2008. Their findings the revealed that the Jordanian banks face a high level of credit risks, the average non-performing ratio during 1995-2008 was 12 percentages, while the international limit of such ratio was 2%. They contributed by identifying the significance bank specific variables as one lag non-performing loans, loans growth, loans concentration and size. While microeconomic variables are aggregate economic activity, inflation and interest market rates, the bankers and policy makers should seriously adopt a base and risk management framework in order to curb risk associated with banking operations.

Zendu (2009) of graduate school of business leadership university of South Africa also conducted a similar research on impact of reducing loans by Ethiopian banks on their own performance. Based on the respondent's perception it is evident that, most likely factors that affect lending in Ethiopia are liquidity of banks, monetary and fiscal policies economic conditions and bank health, perception, for some reasons if banks reduce or limit lending, loan rationing to better borrowers and decrease profit or increased losses were major impact in Ethiopia banking industry. Bank management should address the problem and look up other users of fund like purchasing securities or treasury bills.

Ahmad and Ahmad (2004) of faculty of banking and finance university of Malaysia also carried a similar research on key factors influencing credit risk of Islamic bank. By examining closely the relationship between bank specific factors and credit risk of Islamic banking and conventional banks, their research aimed to contribute to the existing literature in several ways. Their first paper provided a prescriptive statistic about Islamic and set selected conventional banks risk characteristics. Second it used regression analysis to analyze to determine the underlying factors influencing risk of Islamic banking and that of major six anchor bank on interest based banking system. This was done by carefully identifying and examining for each year, each risk predictor of bank of Islam Malaysia and the Islamic window of 6 anchor banks (for Islamic banking) as well as risk predictor of the 6 anchor banks from their conventional banking performance (for conventional banking). The analysis shed lights as to what factors critical to influencing credit risk in Islamic banking in Malaysia. The identification of these factors provide information that the bank management and regulation should pay attention to in order to improve risk management in Islamic banking, the credit risk of Islamic banking followed closely the trend of the industry and that of the conventional banking.

2.6 Conceptual Framework

Commercial banks indirectly bring together those people who have not spent all of their income with those who wish to spend more than their incomes, in financial markets adequate information is critical and the absence of such information limits considerably the scope of the market, increasing the risk attached to trading there in to overcome their problem, inequality in income financial institutions have developed that collect analyze, and disseminate information relevant to the market. The existence of developed and efficient financial market facilitates the transfer of savings to those wishing to make investment expenditures. The above illustration simplifies the model of transmission process. Those willing and able to take advantage of potentially profitable investment opportunities are often not the same individuals who generate current savings.

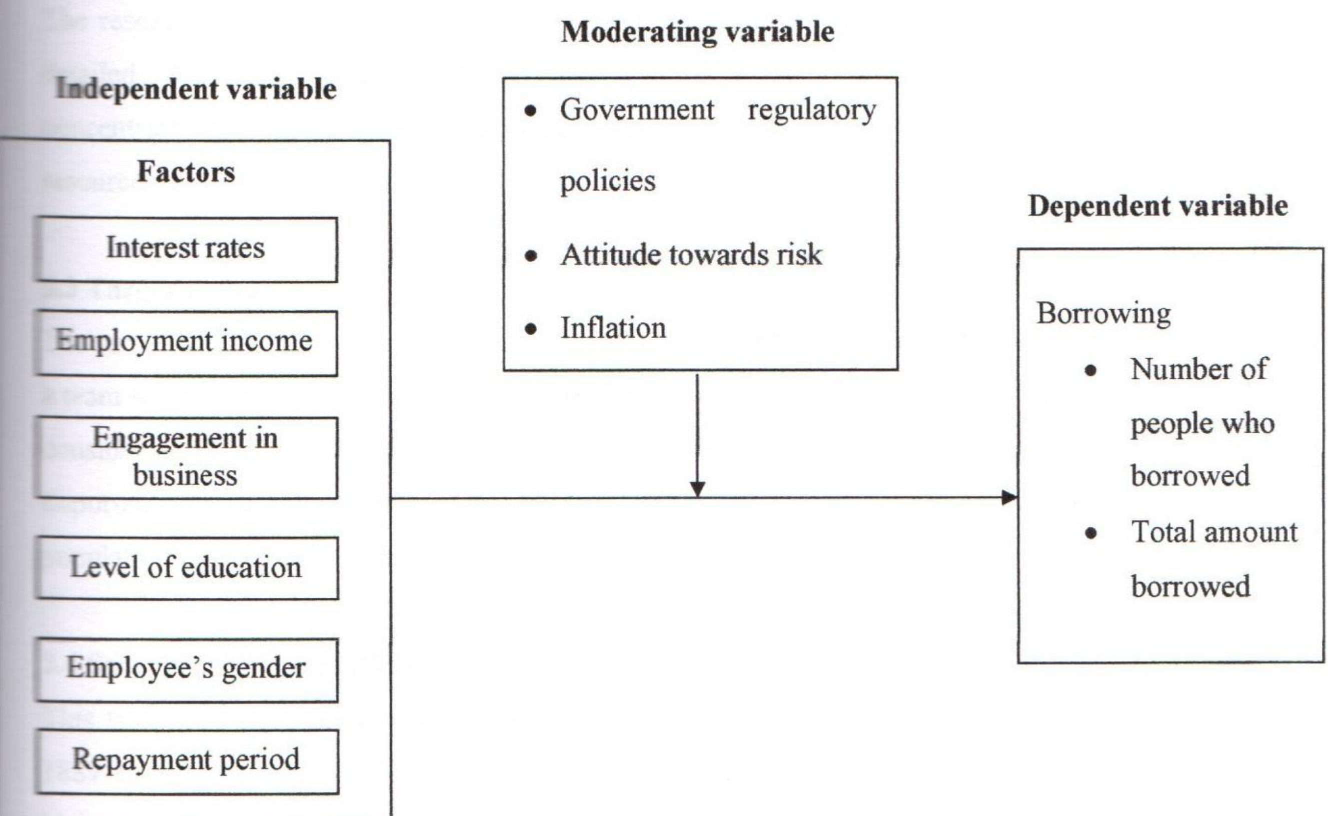


Figure 1: Conceptual Framework

Source (Own Conceptualisation)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter starts by addressing the research design of the study. It then went on to discuss the population, sample size and design. The research procedures were discussed. Under the research procedures, the chapter reviewed the method of pre-testing adopted. The chapter further discusses the data collection and data analysis methods used.

3.2 Research Design

The research design was a case study. Case study refers to the collection and presentation of detailed information about a particular participant or small group, this enable the research to concentrate in detail on a particular area to represent the whole population due to scarcity of resources and limitation of time

3.3 Target Population

The target population in this research study was staff and Management of Egerton University as a team for the period 2006 to 2010. The distribution of the population was an important factor to consider as from it the sample to use in this proposal was obtained. This target population was important because it covered all departments and section of the whole organization, the total population of Egerton University was 1889 staff as reflected in appendix 2.

3.4 Sampling Design and Procedures

This study was conducted using employees of Egerton University. The institution consisted of 1889 employees. A Sample of 318 respondents representing the members of staff of Egerton University was used for this study. The respondents were selected from management and employees. The sample of respondents were selected through systematic stratified random sampling where the below formula was used in determining the sample size.

$$\mathbf{n} = \frac{Z^2 pqN}{e^2 (N-1) + z^2 pq}$$

Where

n = Sample size

N = Population

p = 0.5 (Proportion of elements of interest in population)

q = 0.5 (1-p)

z = 1.96 (Critical value at 95% confidence level)

e^2 = 0.05 (Error level accepted)

Hence;

$$n = \frac{1.96^2 \times 0.5 \times 0.5 \times 1889}{0.05^2\,(1889-1) + 1.96^2 \times 0.5 \times 0.5}$$

$$n = \frac{1814.2}{5.6804.05}$$

$$n = 318$$

Source (Sharma, 1983)

3.5 Data Collection Instrument and Procedures

3.5.1 Data Collection Instruments

The study used questionnaires as the main tool of data collection. The use of questionnaires is justified because they afford an effective way of collecting information from a large sample in a short period of time and at a reduced cost. The questionnaires also facilitate easier coding and analysis of data collected. The questionnaires were both closed ended questions. The closed ended questions ensured the respondents were restricted to certain categories in their responses. The first section of the questionnaire dealt with the introductory and personal detail of the respondent. The second section was aimed at obtaining information about loan borrowing from commercial banks and the factors that influence the borrowing

3.5.2 Validity and Reliability

In order to eliminate bias in the results, the research instruments were systematically evaluated to ensure their validity and reliability. Validity refers to how well an instrument measures what is intended to measure (Abouserie, 1992). On the other hand reliability refers to how consistent an instrument will produce similar results if used with the same or similar respondents on different occasions (Babbie, 1998). Borg and Gall (1989) supports a pre-test (pilot study) of research instruments before they are used in research. In their study, similar question were administered on the two constituent colleges of Egerton University (Laikipia and Kisii). The reliability coefficient was calculated using Cronbach alpha. In the words of Wallen and Fraenkel (2000) reliability should be at least 0.7 and preferably higher. In the study therefore the necessary amendments was made on the research instruments until the required threshold level was attained. The reliability coefficient of the instrument used in this study was finally computed as 0.83 which the study considered as good.

3.5.3 Data Collection Procedures

The questionnaire was personally administered through a drop and pick after one day. This method of administration is justified as it results in a higher response rate. Further, personal administration of questionnaires helped in carrying out data cleaning while on the field ensuring that data collected was adequate for the research.

3.6 Data Analysis

Data obtained were cleaned, organized, coded and analyzed with the help of Statistical Package for Social Sciences (SPSS). The results are presented through descriptive statistics such as tables, pie charts, and bar graphs to describe the findings related to independent and moderating variables. The Pearson chi-square and logistic regression analysis were used to determine the nature and extent of influence between pairs of variables in the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings and discussion on the analysis. This study sought to analyse the factors that influence public university employees borrowing from commercial banks, establish whether the loans have improved their standard of living and also give appropriate recommendations. The data collected from respondents was analyzed using Statistical Package for Social Sciences (SPSS) Version 17.0 for windows.

4.2 Descriptive Results

The descriptive statistics presented in this section comprises of demographic characteristics, employment related and financial borrowing information. Demographic characteristics comprises of gender and education level of the respondent. The employment related information comprises of the number of years worked and employment grade in the university. Financial borrowing information comprises of business venture owned and means of financing the business venture.

4.2.1 Demographic Profile of the Sampled Respondents

4.2.1.1 Gender Distribution of Respondents

This study made use of both male and female university employees. The gender distribution of employees' respondents who participated in this study was as shown in figure 2.

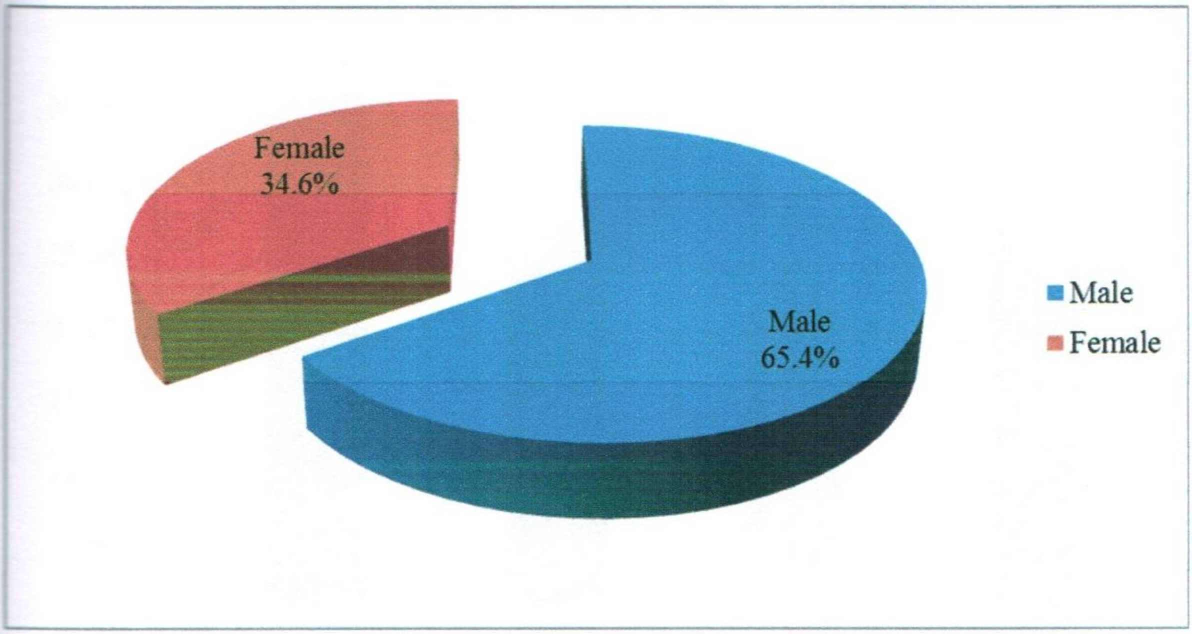


Figure 2: Employees' gender distribution

Source (Research Data, 2012)

Figure 2 shows that there was significant gender parity among the respondents with 65.4% of them being male and only 34.6% female. These results imply that the number of female employees in the learning institution is significantly lower than that of male. This implies that adequate gender empowerment and promotion of girl child education still need to be propagated in the country. This also signifies the importance of establishing a gender-responsive employment structures as proposed by Raghavan and Chemba (2009). It is thus expected that the levels of borrowing by male employees may be significantly higher than that of females considering that the most common form of loan guarantee among university employees is the payslip. Cater (2000) noted that women in Kenya face numerous constraints in accessing affordable finance for small business primarily because of problems of access to collateral.

4.2.1.2 Education Level of Respondents

The employees who participated in this study had varying levels of education. Figure 3 summarizes their level of education.

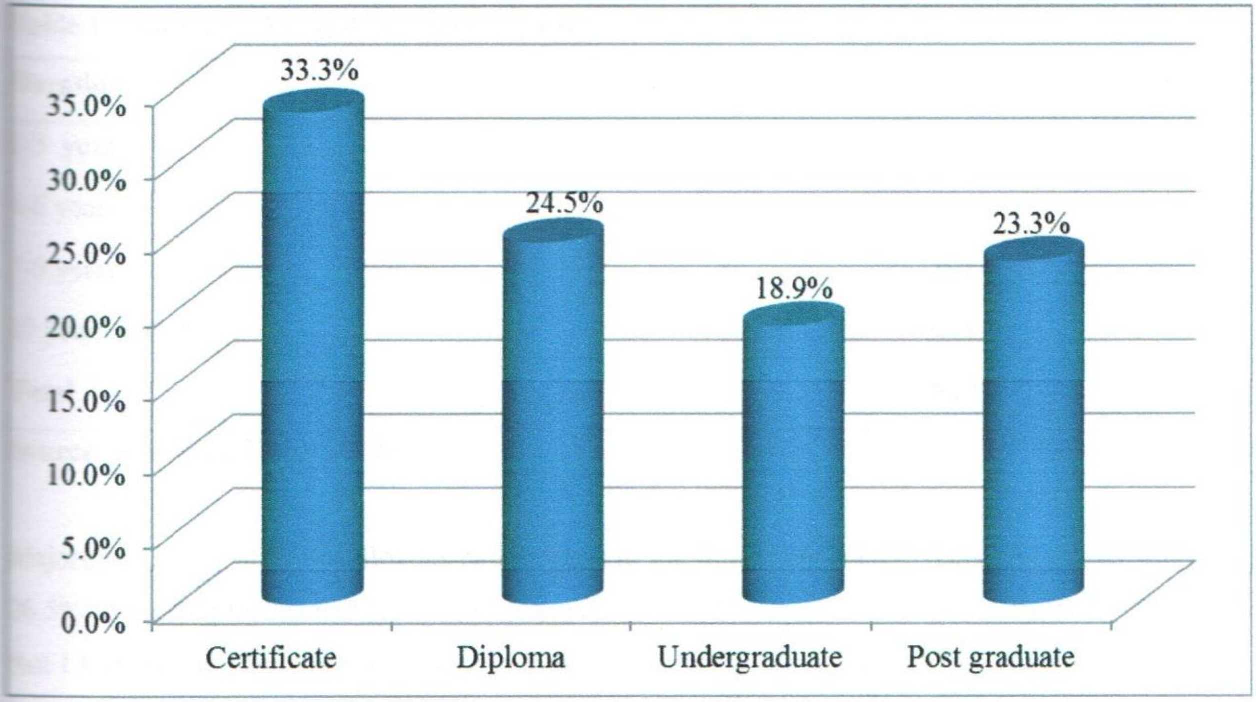


Figure 3: Level of Education of the Respondents

Source (Research Data, 2012)

Figure 3 shows that most (33.3%) of the employees have certificate levels of education. Employees possessing diploma level of training comprised 24.5% of the entire sample while those with undergraduate level of education were 18.9%. About 23.3% of the full sample had postgraduate level of education. This indicates that it is not only expected that some of the employees be in higher job groups and consequently earning more in their salaries but also some to be with medium and low income levels of earnings.

4.2.2 Employment Related Information of the Sampled Respondents

4.2.2.1 Respondents Duration Worked in Egerton University

Employees working in Egerton University who formed part of the sample size used in this study had worked for a varying range of duration in the institution. This is as indicated in table 1.

Table 1: Duration Worked in Egerton University

Duration	Frequency	Percent	Ranks
1-3 year	35	26.5	2
4-6 years	18	13.6	3
7-9 years	8	6.1	4
10 years and above	71	53.8	1
Total	**132**	**100.0**	

Source (Research Data, 2012)

Majority (53.8%) of the employees had worked in the university for 10 years and above. About 26.5% of the employees had served in the university for 1 – 3 years. The results further indicated that 13.5% of the employees had worked in the university for 4 – 6 years. It was only 6.1% of the employees who had worked in the university for between 7 - 9 years. There is a possible correlation between the duration worked in the university and the cumulative amount of loan acquired by the employee during their employment period because majority of university employee loans from commercial bank are normally taken with the payslip acting as the guarantee.

4.2.2.2 Respondents Employment Grade

Respondents who took part in this study were from varying employment grades. This implies that their level of gross pay should also be different. The figure below shows the distribution of respondent employment grade.

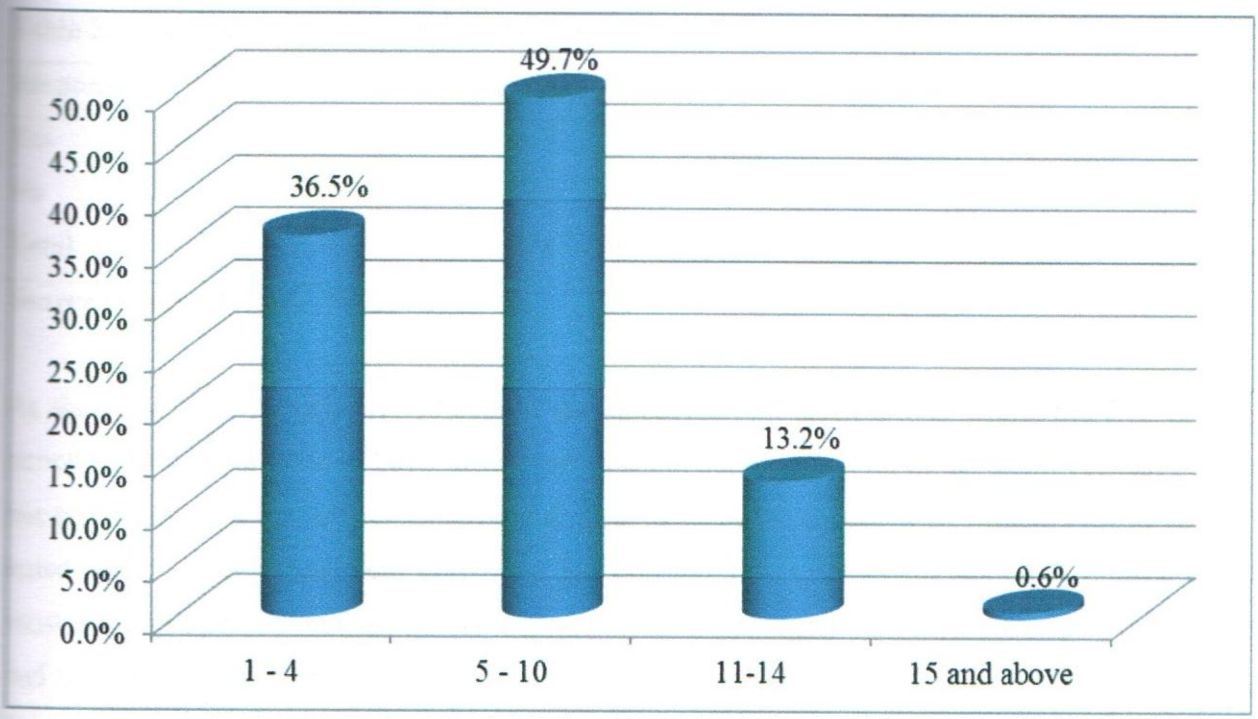


Figure 4: Respondent Employment Grade in the University
Source (Research Data, 2012)

The above figure shows that 49.7% of the total respondents were in grade 5 – 10 while 36.5% were in grade 1 – 4. Only 13.2% and 0.6% were in grade 11 – 14 and 15 and above respectively. The grades of university employees was expected to serve as an indication of the employees level of gross pay since some employees may have had some problems when disclosing their gross pay.

4.3 Current Level of Commercial Bank Borrowing by the Egerton University Employees.

4.3.1 Loan Taking by the University Employees for a Five Year Period (2006 to 2010)

This study was interested in knowing the proportion of employee respondent who have ever taken a loan for a five years period from the year 2006 to 2010. Below is a table showing this information.

Table 2: Loan Taking by the University Employee

Response	Frequency	Percent	Ranks
Yes	247	77.7	1
No	71	22.3	2
Total	**318**	**100.0**	

Source (Research Data, 2012)

As shown in table 2, majority (77.7%) of the employee had taken a loan within the five year period from the year 2006 to 2010. It was only a small portion (22.3%) of the employee that had not taken any loan within the same period. This observation agrees with Fishers (2002) who noted that over the recent past, borrowing has become a very important source of finance by most employed persons in their efforts to finance their expenditures. Most of the employees who had not taken any loan for a period of five years from the 2006 to 2010 were female. On the contrary, majority of those who had taken loan were male. This is as indicated in the table below.

Table 3: Gender Distribution of the Respondent who had Taken Loan or Otherwise

Respondent taking of loan	Gender	Frequency	Percent	Ranks
Have ever taken	Male	176	71.3	1
	Female	71	28.7	2
	Total	**247**	**100.0**	
Have never taken	Male	32	45.1	2
	Female	39	54.9	1
	Total	**71**	**100.0**	

Source (Research Data, 2012)

Table 3 shows that 71.3% of the male university employee respondents had ever taken a loan from various sources such as commercial banks, SACCOs, employer, welfare organizations and microfinance institutions within a five year period (2006 – 2010). This is as opposed to only 28.7% of the female university employees who had taken loan for the same period. On the opposite, majority (54.9%) of female university employees had not taken any loan and it was only 45.1% of male who had actually never taken any loan.

4.3.2 Gender Distribution of the Respondents who had Borrowed from Commercial Banks

The gender composition of university employees who had borrowed from commercial bank for a period of five years between the year 2006 and 2010 is as shown in table 4.

Table 4: Loan Taking from Commercial Banks by University Employees

Gender	Frequency	Percentage	Ranks
Male	80	71.4%	1
Female	32	28.6%	2
Total	**112**	**100.0%**	

Source (Research Data, 2012)

Majority (71.4%) of university employees who had utilized commercial bank loans in accomplishing different projects were male. The composition of female employees who were beneficiaries of commercial bank loans was 28.6%. This implies that women university employees may face more problems than their male counterparts in their acquisition of loan financing. This agrees with Vania *et al.*, (2012) who observed that women are less likely than men to seek external finance and existence of gender differences in access to finance and thus affecting adversely their transition into self-employment. Access to financial resources is often identified as one of the most important constraints reported by women entrepreneurs when starting their business.

4.3.3 University Employees who Took Loan From Commercial Banks

There were different sources of loan explored by the sampled university employee in order to facilitate their acquisition of extra finance to finance their activities. Figure 5 shows the number of the employee who took loans from commercial banks as compared to other sources.

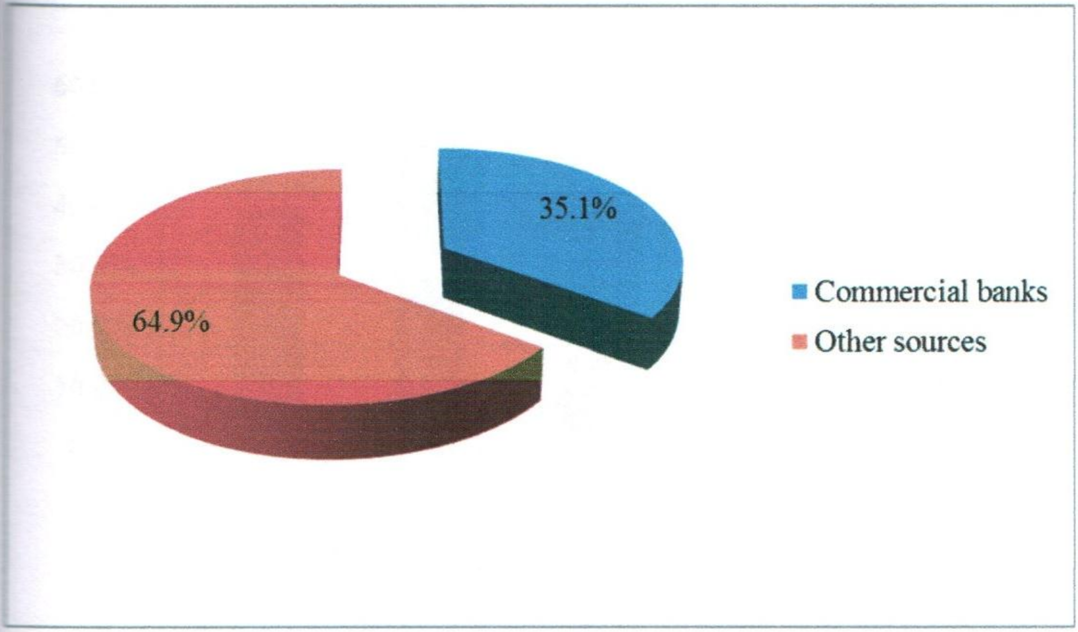


Figure 5: Borrowing from commercial banks in comparison with other sources

Source (Research Data, 2012)

The above figure shows that about 35.1% of all the university employees who had borrowed loan from various sources did so from commercial banks. Other sources of loan accounted for 64.9%. Commercial banks were in fact the second most popular source of loan borrowing after savings and credit co-operative societies as shown in the figure below.

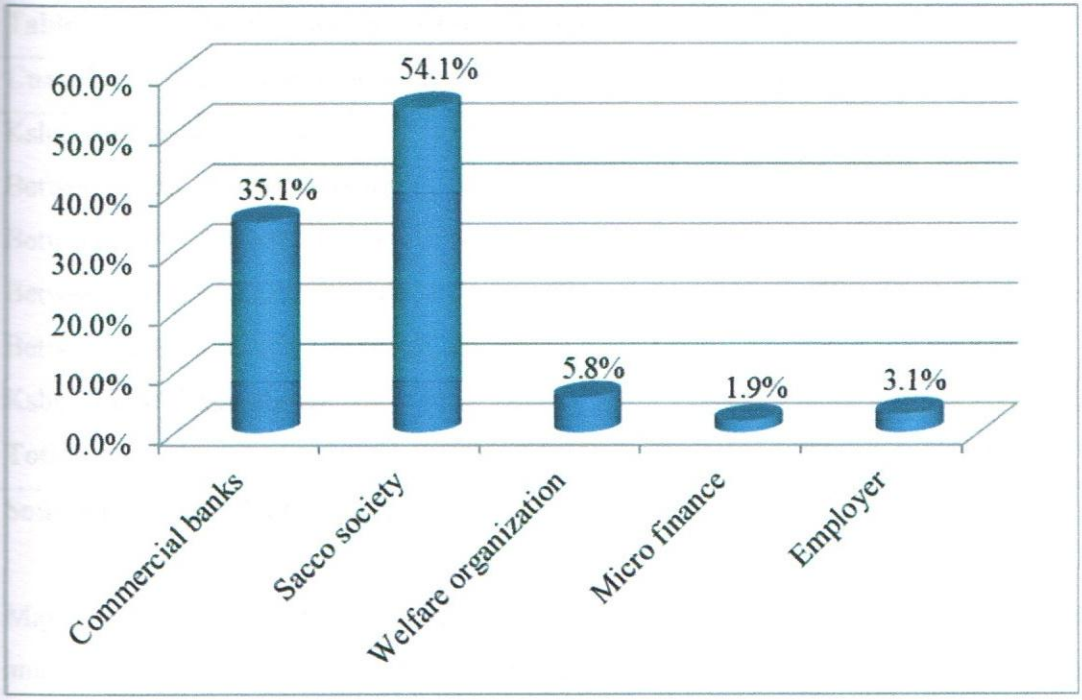


Figure 6: The main Source of Loan Taken

Source (Research Data, 2012)

The most popular source of loan to university employees was noted to be SACCOs which contribute about 54.1% of all the loan sources. This was closely followed by commercial banks which contribute about 35.1% of the loan sources. Other sources of loan were welfare organizations (5.8%), employer (3.1%) and microfinance institutions (1.9%).

4.3.4 Cumulative Amount of Loan Taken by the Sampled University Employees

Employees who took part in this study had taken varying amounts of loan within the five years period of the study (2006 – 2010). This is illustrated in table 5.

Table 5: Cumulative Amount of Loan Taken

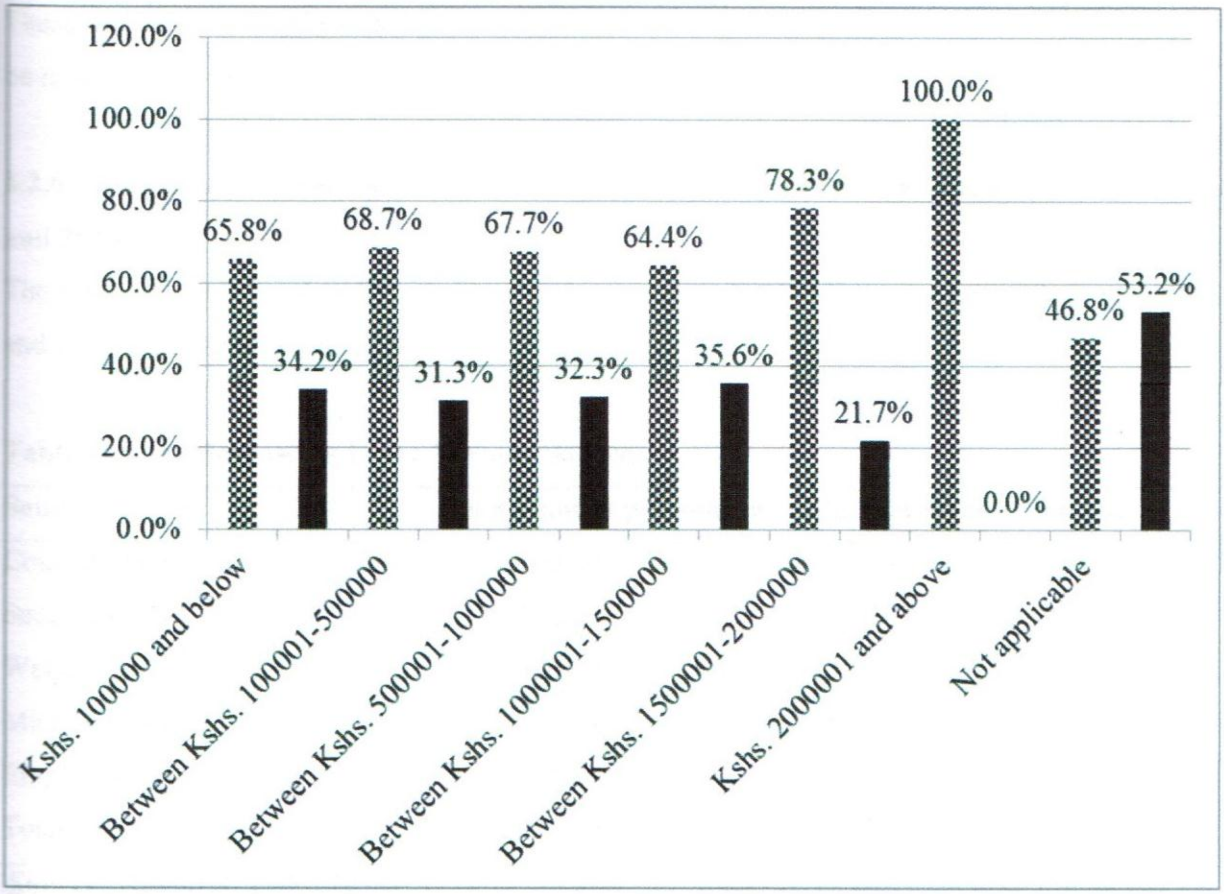
Cumulative amount of loan taken	Frequency	Percent	Ranks
Kshs. 100000 and below	38	14.0%	4
Between Kshs. 100001-500000	83	30.6%	1
Between Kshs. 500001-1000000	62	22.9%	2
Between Kshs. 1000001-1500000	59	21.8%	3
Between Kshs. 1500001-2000000	23	8.5%	5
Kshs. 2000001 and above	6	2.2%	6
Total	**271**	**100.0%**	

Source (Research Data, 2012)

Majority (30.6%) of the university employees were noted to have taken a cumulative loan amount of between Kshs. 100,001 and 500,000. This was closely followed by cumulative loan amount of between Kshs. 500,001 and 1,000,000 which contributed 22.9% of the total loan and between Kshs. 1,000,001 and 1,500,000 which contributed about 21.8%. About 14.0% of the total university employees who were respondents to this study had borrowed between Kshs. 100,000 and below. Heavy borrowing was noted not be so popular among the university employees since only 8.5% and 2.2% had borrowed between Kshs. 1,500,001 and 2,000,000 and Kshs. 2,000,0001 and above respectively.

4.3.5 Gender Distribution of the Employees who had Taken Loan for a Five Year Period (2006-2010)

Majority (65.8%) of university employees who had a cumulative loan amount of Kshs. 100,000 and below were male and only 34.2% were female.



Key:

Male

Female

Figure 7: Gender Distribution of the Employees who had Taken Loan

Source (Research Data, 2012)

The distribution of university employees in other various cumulative loan bracket was as follows: between Kshs. 100,001 and 500,000 (68.7% male and 31.3% female, between Kshs. 500,001 and 1,000,000 (67.7% male and 32.3% female), between Kshs. 1,000,001 and 1,500,000 (64.4% male and 35.6% female), between Kshs. 1,500,001 and 2,000,000 (78.3% male and 21.7% female) and for Kshs. 2,000,001 and above (100.0% male and 0.0% female). Majority of the university employees who had not taken any loan for the five years period (2006 to 2010) were female (53.2%). The male university employees who had not taken any loan comprised 46.8%. These results do not indicate that there is any gender that borrows more than the other.

These results differ with Vania *et al.*, (2012) who noted that heavy borrowers were more likely to be male.

4.3.6 Cumulative Borrowing From Various Sources for the Five Year Period Between 2006 and 2010

The total loan borrowed in figures from various sources for the five year period between 2006 and 2010 is as shown in the table below.

Table 6: Loan Borrowing From Various Sources

Source of loan	Loan amount per source	Std. Deviation	Percent
Commercial banks	72,100,000.00	6,171.47	36.9%
Sacco society	99,750,000.00	5,180.62	51.1%
Welfare organization	15,600,000.00	4,371.04	8.0%
Micro finance	1,500,000.00	2,632.92	0.8%
Employer	6,400,000.00	1,196.78	3.3%
Total	195,350,000.00	4,538.43	100.0%

Source (Research Data, 2012)

The table above shows that the source of loan that contributed to the highest amount of loan borrowed for the five year period between 2006 and 2010 was Savings and Credit Cooperative Societies which was represented by 51.1%. This was closely followed by commercial banks which contributed 36.9% of the total loan borrowed by the university employees. Other loan sources along with the percentage amount contributed to the university employees were welfare organizations (8.0%), employer (3.3%) and microfinance (0.8%)

The centre of this study was the borrowing from commercial banks. As noted earlier in figure 6, university employees who borrowed from commercial bank as compared to other sources comprised 35.1%. Among the university employees who borrowed from commercial banks, majority (a cumulative of 81.32%) were noted to borrow between Kshs. 100,001 and 1,500,000. This is as shown in table 7.

Table 7: Cumulative Borrowing from Commercial Banks

Cumulatively Borrowing	Frequency	Percent
Kshs. 100000 and below	7	7.69%
Between Kshs. 100001-500000	25	27.47%
Between Kshs. 500001-1000000	30	32.97%
Between Kshs. 1000001-1500000	19	20.88%
Between Kshs. 1500001-2000000	8	8.79%
Kshs. 2000001 and above	2	2.20%
Total	**91**	**100.00%**

Source (Research Data, 2012)

As shown above, majority (32.97%) of commercial bank university employee loan borrowers had a cumulative borrowing of between Kshs. 500,001 and 1,000,000 for a five year period between 2006 and 2010. This was closely followed by university employees who borrowed between Kshs. 100,001 and 500,000 who comprised 27.47%. Likewise, a cumulative loan borrowing of between Kshs. 1,000,001 and 1,500,000 from commercial banks comprised 20.88%. A borrowing level of between Kshs. 1,500.001 and 2,000,000 constituted 8.79% while borrowing of Kshs. 100,000 and below constituted 7.69%. Heavy borrowing from commercial banks of Kshs. 2,000,001 and above was not very popular since only 2.20% of the studied university employees borrowed from this bracket.

4.3.7 Employee Ownership of Business Venture that Help Generate Extra Income

Majority of the Egerton University employees have some business ventures that help them generate extra income. Table 8 below shows the frequency distribution respondents involvement in income generating business ventures.

Table 8: Employee Ownership of Any Business Venture that Help Generate Extra Income

Response	Frequency	Percent
Yes	220	69.2
No	98	30.8
Total	**318**	**100.0**

Source (Research Data, 2012)

The table above shows that about 69.2% of the employees who participated in this study had some business ventures that helped them generate some extra income in addition to that received from their main employment. However, about 30.8% of the employees had no business ventures that could have been used in the generating of extra incomes. According to Fisher (2002), loan borrowing is not only popular to persons who have some business ventures since it can be used to boost the business capital, but also to persons who do not since it can be used to help undertake life projects that require huge amount of money such as purchase of assets and payment of school fees. However, employed persons have best chances of acquiring loans since there is limited guarantee required.

4.3.8 Methods of Financing the Business Ventures Owned by the Employees

The businesses that were owned by the university employees were noted to be financed through a variety of sources as shown in figure 8.

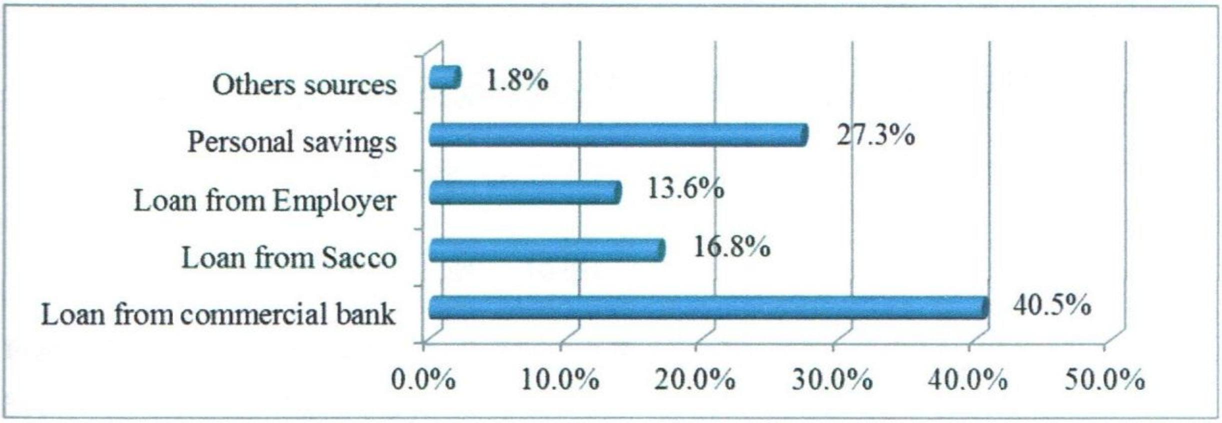


Figure 8: Methods of Financing the Business Ventures Owned by the Employees

Source (Research Data, 2012)

As shown above, majority of the persons who reported to have business ventures indicated to finance it through loans from commercial banks. This was as represented by 40.5% of the total respondents. However, about 27.3% of the university employees indicated to be using personal savings in the financing of their business ventures. This was closely followed by employees who were using loans from SACCOs and the employer as represented by 16.8% and 13.6% respectively. Other sources accounted for 1.8% of the total source of loan cited above. Despite the high interest rates on loans, commercial banks loans are often convenient for business ventures that area doing well since the ability to repay back the amount and cost of money is somehow enhanced (Cecchetti, 2009).

4.3.9 Reasons for Borrowing

There are a variety of reasons why most university employees borrow from financial institutions. These reasons are summarized in figure 9.

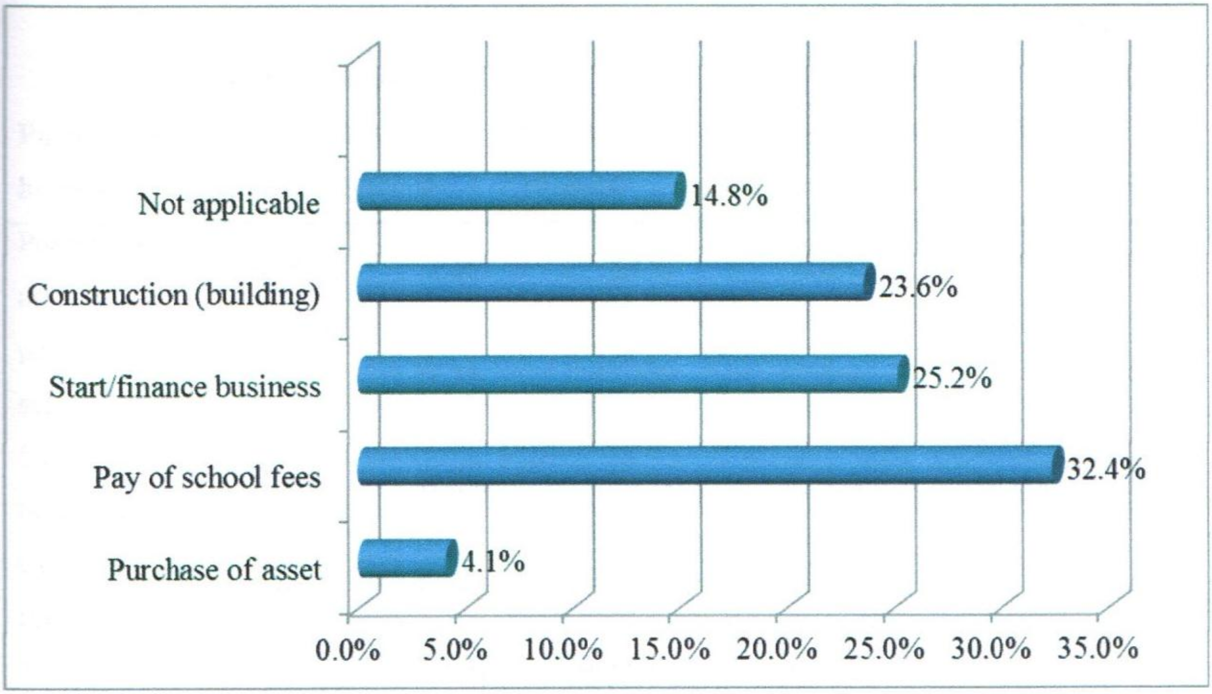


Figure 9: Reasons why University Employees Borrow From Financial Institutions
Source (Research Data, 2012)

Majority (32.4%) of the employees borrow money from lending institutions for the purpose of paying of school fees. This is closely followed by employees who borrow for the purpose of either starting a new business or financing an existing business as represented by 25.2% of the respondents. About 23.6% of the employees argued that they acquire loan for the purpose of building (construction) of structures such as rental and residential houses. About 4.1% of the reasons for borrowing was attributed to purchase of assets. These results agree with Loyd (2006) who noted that the most important reasons for borrowing is the financing of certain undertaking that require huge amount of money that occasionally, the borrower may not be in its possession.

4.3.10 Influence of Purpose of Borrowing on Loan Taken

Majority of the university employees who were noted to borrow heavily did so because their purpose of borrowing required a lot of money. This is as depicted in the table below.

Table 9: Influence of Purpose of Borrowing on Loan Taken

	Cumulatively amount of loan taken for five year (2006 to 2010)						
Purpose of borrowing	**Kshs. 100000 and below**	**Between Kshs. 100001-500000**	**Between Kshs. 500001-1000000**	**Between Kshs. 1000001-1500000**	**Between Kshs. 1500001-2000000**	**Kshs. 2000001 and above**	**Total**
Purchase of asset	0.0%	2.4%	8.1%	6.8%	8.7%	0.0%	4.8%
pay of school fees	39.5%	31.3%	37.1%	50.8%	26.1%	50.0%	38.0%
Start/finance business	60.5%	31.3%	19.4%	16.9%	39.1%	0.0%	29.5%
Construction (building)	0.0%	34.9%	35.5%	25.4%	26.1%	50.0%	27.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Pearson Chi-Square = 45.307, Degrees of freedom = 15, P-value = 0.000

Source (Research Data, 2012)

The above table shows that none (0.0%) of the university employees who indicated to have a cumulative loan amount of Kshs.100, 000 and below did so for the purpose of purchase of assets or construction (building). However, 60.5% of these university employees wanted to start or finance a business while 39.5% did so for the purpose of paying of school fees.

Majority (34.9%) of the university employees who borrowed between Kshs. 100,001 and 500,000 did so because they wanted to carry out construction (building) project. This was closely followed by those who borrowed for the purpose of starting or financing a business and paying of school fees who comprised 31.3% both in equal proportions. Only 2.4% of the employees who borrowed in this category wanted to purchase some assets.

Majority (37.1%) of the university employees who borrowed between 500,001 and 1,000,000 did so because they wanted to pay school fees. This was closely followed by employees who wanted to carry out a construction project (35.5%). About 19.4% of the employees in this category had intention of start or finance a business while 8.1% had intention of purchasing some assets.

Majority (50.8%) of the university employees who borrowed between 1,000,001 and 1,500,000 did so because they wanted to pay school fees. This was closely followed by employees who wanted to carry out a construction project (25.4%) and start or finance a business (16.9%). About 6.8% of these employees wanted to finance the purchase of assets.

Majority (39.1%) of the university employees who borrowed between 1,500,001 and 2,000,000 did so because they wanted to start/finance a business. This was closely followed by employees who wanted to purchase some assets (26.1%) whose number was similar to that of employees with intention of constructing or building some structures. About 8.7% wanted to purchase some assets.

The results further shows that none (0.0%) of the university employees who indicated to have a cumulative loan amount of Kshs.2,000, 001 and above did so for the purpose of purchase of assets or starting/financing a business. However, 50.0% of these university employees wanted to start and another half (50.0%) wanted finance the paying of school fees.

The Pearson's chi-square of 45.307 computed at 15 degrees of freedom (significant at 1% level) imply that certain reasons for borrowing attract less loan while others attract heavy loan. Paying of school fees and construction (building) was found to require huge loans while starting/financing a business mostly requires low and moderate loan financing. These results agree with Pietro (2012) who observed that starting of SMEs requires some level of financing for it to be a profitable venture. The results further agrees with those of Loyd (2006) and Hughes

(2001) who noted that huge investments such as construction/building and paying of school fees are best achieved when aided by commercial bank loans or other sources of loan.

4.3.11 Influence of Gross Pay (Salary Income) on Loan Taken

Majority of those who borrow heavily from commercial banks were found to have higher gross salary. This is depicted in the table below.

Table 10: Influence of Gross Pay (Salary Income) on Loan Taken

	Gross Pay				
Cumulative amount of loan	**Less than Kshs. 36645**	**Kshs. 36646 - 83002**	**Kshs. 105657 – 183220**	**Above Kshs. 190090**	**Total**
Kshs. 100000 and below	19.4%	0.0%	0.0%	0.0%	7.7%
Between Kshs. 100001-500000	38.9%	28.2%	0.0%	0.0%	27.5%
Between Kshs. 500001-1000000	27.8%	43.6%	16.7%	25.0%	33.0%
Between Kshs. 1000001-1500000	13.9%	17.9%	41.7%	50.0%	20.9%
Between Kshs. 1500001-2000000	0.0%	5.1%	41.7%	25.0%	8.8%
Kshs. 2000001 and above	0.0%	5.1%	0.0%	0.0%	2.2%
Total	**100.0%**	**100.0**	**100.0%**	**100.0%**	**100.0%**

Source (Research Data, 2012)

The above table shows that majority (38.9%) of those who had gross salary of less than Kshs. 36645 had borrowed between Kshs. 100,001 and 500,000. In the bracket of those who had gross salary of less than 366645, 27.8% had borrowed between Kshs. 500,001 and 1,000,000 while 19.4% had borrowed Kshs. 100,000 and below. Those who borrowed between 1,000,001 and 1,500,000 in the income bracket of less than 36645 comprised 13.9%.

Most university employees (43.6%) of those who had gross salary of between Kshs. 36646 and 83,002 had borrowed between Kshs. 500,001 and 1,000,000. In the same bracket, 28.2% had cumulative amount of loan of between Kshs. 100,001 and 500,000. About 17.9% had borrowed between Kshs. 1,000,001 and 1,500,000. Those who borrowed between 1,500,001 and 2,000,000 were 5.1% while those who had borrowed Kshs. 2,000,001 comprised 5.1%.

Majority (41.7%) of those who had gross salary of Kshs. 105657 - 183220 had borrowed Kshs. 1,000,001 - 1, 500,000 and Kshs. 1,500,001 – 2,000,000. In the bracket, those who had borrowed Kshs. 500,001 - 1,000,000 were 16.7%. There was none who had borrowed Kshs. 100,000 and below, Kshs. 100,001 – 500,000 and Kshs 2,000,000 and above.

Most university employees (50.0%) of those who had gross salary of above Kshs. 190090 had borrowed Kshs. 1,000,001 - 1,500,000. This was closely followed by those who had cumulative amount of loan of Kshs. 500,001 - 1,000,000 and Kshs. 1,500,000 – 2,000,000 who constituted 25.0%. There was none in this bracket who had borrowed Kshs. 100,000 and below, Kshs. 100,001 – 500,000 and Kshs 2,000,000 and above.

4.4 Selected Factors that Influence Egerton University Employee to Borrow from Commercial Banks

There are a number of factors that influence the level of borrowing by Egerton university employees from commercial banks. This is as shown in table 11.

Table 11: Selected Factors that Influence Borrowing Level from Commercial Banks

Factors	Frequency	Percent	Ranks
Long repayment period	92	28.9	1
Lack of guarantee	73	23.0	2
Low interest rates	44	13.8	3
Gross employment income	43	13.5	4
Flexible repayment period	31	9.7	5
Convinced by bank employee	23	7.2	6
Others reasons	12	3.8	7
Total	**318**	**100.0**	

Source (Research Data, 2012)

The above table shows that long repayment period is the most important factor that influences the borrowing levels from commercial banks. The results indicate that 28.9% of the university employees believed that their borrowing levels to be influenced by the length of the repayment period. It was further observed that 23.0% of the university employees determine the amount of loan they prefer to borrow due to lack of guarantee other that the payslip. The number of employees who indicated to determine their level of borrowing through the extent of interest rates charged to the loan was 13.8%. This was closely followed by those who determine their level of borrowing as guided by their gross employment income who comprised about 13.5%. Some of the university employees however indicated that flexibility of the repayment period highly determine their levels of loan borrowing (9.7%) while 7.2% of the university employees determine their loan borrowing levels from commercial banks as convinced by the bank employees. Other reasons that influence Egerton university employees borrowing levels from commercial banks comprised about 3.8%.

4.4.1 How Interest Rates Influence University Employee Borrowing From Commercial Banks

Interest rate is one of the major factors that were reported by university employees as to influence their borrowing from commercial banks. The reported extent at which the loan interest rates influence employee borrowing is shown in table 12.

Table 12: How Interest Rate Influence Borrowing From Commercial Banks

Extent of Influence	Frequency	Percent
Very high	65	20.4
High	71	22.3
Moderate	117	36.8
Low	34	10.7
Very low	31	9.7
Total	**318**	**100.0**

Source (Research Data, 2012)

The above table shows that majority (36.8%) of the employees were of the opinion that interest rates moderately influence the employee borrowing from commercial banks. Among the employees who participated in this study, 22.3% felt that interest rates highly influence them in borrowing from commercial banks while 20.4% felt that interest rates very highly influence them in borrowing from commercial banks. However, 10.7% of the respondents argued that the influence of in interest rates on commercial bank borrowing by university employees was low while 9.7% argued that the influence of interest rates on commercial bank borrowing was very low.

4.4.2 How Gross Salary Income Influence University Employee Borrowing From Commercial Banks

Gross salary income was reported as one of the factors that influenced university employees in borrowing from commercial banks. The table shows the extent at which gross salary income influence employee borrowing.

Table 13: How Salary Gross Income Influence Borrowing From Commercial Banks

Extent of Influence	**Frequency**	**Percent**
Very high	25	7.9
High	65	20.4
Moderate	81	25.5
Low	104	32.7
Very low	43	13.5
Total	**318**	**100.0**

Source (Research Data, 2012)

Majority (32.7%) of the employees were of the opinion that gross salary income lowly influence the employee borrowing from commercial banks. Some (25.5%) of the employees who participated in this study, felt that gross salary income moderately influence them in borrowing from commercial banks while 20.4% felt that gross salary income highly influence them in borrowing from commercial banks. Respondents who argued that the influence of gross salary income on commercial bank borrowing was very low comprised 13.5%. It was only 7.9% of the respondents who argued that the influence of gross salary income on commercial bank borrowing by university employees was very high.

4.5 Influence of Selected Factors on Employee Borrowing

4.5.1 Influence of Level of Education on Loan Taken

Education is one of the main factors that influence employee borrowing from commercial banks. In order to study the relationship between current levels of borrowing and the level of education, chi-square test was used. The cross tabulated data that was used is shown in table 14.

Table 14: Influence of Education on Loan Taken

	Cumulative Loan Taken for a Period of Five Year (2006 to 2010)							
Highest level of education	**Kshs. 100000 and below**	**Between Kshs. 100001-500000**	**Between Kshs. 500001-1000000**	**Between Kshs. 1000001-1500000**	**Between Kshs. 1500001-2000000**	**Kshs. 2000001 and above**	**Not applicable**	**Total**
Certificate	60.5%	45.8%	29.0%	16.9%	17.4%	0.0%	27.7%	33.3%
Diploma	21.1%	22.9%	29.0%	23.7%	21.7%	0.0%	29.8%	24.5%
Undergraduate	10.5%	15.7%	17.7%	28.8%	26.1%	16.7%	17.0%	18.9%
Post graduate	7.9%	15.7%	24.2%	30.5%	34.8%	83.3%	25.5%	23.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Pearson Chi-Square = 48.187, Degrees of freedom = 18, P – value = 0.000

Source (Research Data, 2012)

The above results shows that majority (60.5%) of the employees who had taken a cumulative loan of Kshs. 100,000 and below were certificate holder. The employees who borrowed Kshs. 100,000 and below and had diploma level of education comprised 21.1% while those that had undergraduate level of education comprised 10.5%. It was only 7.9% of the employees who borrowed Kshs. 100,000 and below had post graduate level of education.

The results further indicated that majority (45.8%) of the employees who had taken a cumulative loan of between Kshs. 100,001 and 500,000 were certificate holder. This was closely followed by employees who had diploma level of education who comprised 22.9% of the employees who borrowed between Kshs. 100,001 and 500,000. About15.7% of the employees who borrowed between Kshs. 100,001 and 500,000 had undergraduate level of education while an equal proportion had post graduate level of education.

Majority (29.0%) of the employees who had taken a cumulative loan of Kshs. 500,001 and 1,000,000 were certificate holder and diploma holders with equal representation for each. This was closely followed by employees who had post graduate level of education (24.2%) and undergraduate level of education (17.7%).

Majority (30.5%) of the employees who had a cumulative borrowing of between Kshs. 1,000,001 and 1,500,00 had post graduate level of education. This was closely followed by employees who had undergraduate level of education comprising 28.8%. About 23.7% of the total employees who had a cumulative borrowing of between 1,000,001 and 1,500,000 had diploma level of education while16.9% had certificate level of education.

Majority (34.8%) of the employees who had a cumulative borrowing of between Kshs. 1,500,001 and 2,000,00 had post graduate level of education. This was closely followed by employees who had undergraduate level of education comprising 26.1%. About 21.7% of the total employees had diploma level of education while 17.4% had certificate level of education.

Majority (83.3%) of the respondents who had borrowed Kshs. 2,000,001 and above had post graduate level of education. About 16.7% of the respondents who had borrowed Kshs. 2,000,001 and above had undergraduate level of education. None of the employees who participated in this study with a cumulative borrowing of Kshs. 2,000,001 and above had certificate or diploma level of education.

The Pearson's chi-square value of 48.187 (significant at 1% level) implies that there is a significant relationship between level of education and the level of borrowing by university employees from commercial banks. A closer look at the data reveals that the higher the level of education, the higher the cumulative level of borrowing.

4.5.2 Influence of Gender on Loan Taken

This study aimed in determining the relationship between current levels of borrowing and gender of employee. Table 15 gives a summary of the compiled in the study of this relationship.

Table 15: Influence of Gender on Loan Taken

	Cumulative Loan Amount Taken in Five Year Period (2006 to 2010)							
Gender	**Kshs. 100000 and below**	**Between Kshs. 100001-500000**	**Between Kshs. 500001-1000000**	**Between Kshs. 1000001-1500000**	**Between Kshs. 1500001-2000000**	**Kshs. 2000001 and above**	**Not applicable**	**Total**
Male	65.8%	68.7%	67.7%	64.4%	78.3%	100.0%	55.3%	66.7%
Female	34.2%	31.3%	32.3%	35.6%	21.7%	0.0%	44.7%	33.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Pearson Chi-Square = 7.446, Degrees of freedom = 6, P –value = 0.282

Source (Research Data, 2012)

Among the employees who had borrowed Kshs. 100,000 and below, 65.8% were male while 34.2% were female. Likewise, among the employees who had borrowed between Kshs. 100,001 and 500,000, 68.7% were male while 31.3% were female. From among the employees among the employees who had borrowed between Kshs. 500,001 and 1,000,000, 67.7% were male while 32.3% were female. Employees who had borrowed between Kshs. 1,000,001 and 1,500,000, 64.4% were male while 35.6% were female. Among the employees who had borrowed between Kshs. 1,500,001 and 2,000,000, 78.3% were male while 21.7% were female. Among the employees who had borrowed between Kshs. 2,000,001 and above, 100.0% were male while none of them were female.

Following the analysis of dependency of employees' cumulative levels of borrowing and gender, a Pearson's chi-square value of 7.446 was calculated at 6 degrees of freedom. This chi-square value is not significant implying that there is no significant relationship between current levels of borrowing and the gender of the employee.

4.5.3 Influence of Gross Pay on Loan Taken

There was intension of knowing the relationship between the employee gross pay and the level of borrowing from commercial banks. The below table shows a cross tabulation of the data used to show how the employee current level of borrowing differed with level of gross pay.

Table 16: Influence of Gross Pay on Loan Taken

	Cumulatively loan taken for the five year (2006 to 2010)							
Gross Pay	**Kshs. 100000 and below**	**Kshs. 100001-500000**	**Kshs. 500001-1000000**	**Kshs. 1000001-1500000**	**Kshs. 1500001-2000000**	**Kshs. 2000001 and above**	**N/A**	**Total**
Less than kshs. 36645	76.3%	56.6%	29.0%	22.0%	60.9%	16.7%	46.8%	45.3%
Kshs. 36646 to 83002	21.1%	37.3%	59.7%	61.0%	13.0%	33.3%	48.9%	44.0%
Kshs. 105657 to 183220	2.6%	6.0%	9.7%	13.6%	21.7%	50.0%	4.3%	9.4%
Above Kshs. 190090	0.0%	0.0%	1.6%	3.4%	4.3%	0.0%	0.0%	1.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Pearson Chi-Square = 67.161(a), Degrees of freedom = 18, P –value = 0.000

Source (Research Data, 2012)

Most of the employees who had acquired Kshs. 100,000 and below as loan from commercial banks had low gross pay. Majority (76.3%) of the employees in this category had less than Kshs. 36,645 gross pay. This was closely followed by employees with between Kshs. 36,646 and 83,002 who comprised 21.1%. About 2.6% of the employees had between Kshs. 105,657 and 183,220 gross income. In this category, none of the employee had above Kshs. 190,090 gross income.

Most of the employees who had acquired between Kshs. 100,001 and 500,000 as loan from commercial banks had low gross pay. About 56.6% of the employees in this category had less than Kshs. 36,645 gross pay. This was closely followed by employees with between Kshs. 36,646 and 83,002 who comprised 37.3%. About 6.0% of the employees had between Kshs.

105,657 and 183,220 gross income while in this category, none of the employee had above Kshs. 190,090 gross income.

Most of the employees who had acquired between Kshs. 500,001 and 1,00,000 as loan from commercial banks had moderate gross pay. About 59.7% of the employees in this category had between Kshs. 36,646 and 83,002 gross pay. This was closely followed by employees with less than Kshs. 36,645 gross pay who comprised about 29.0%. Those who had between Kshs.105,657 and 183,220 gross income comprised 9.7% while employee in this category who had above Kshs. 190,090 comprised only 1.6%.

The employee respondent who had a cumulative loan amount of Kshs. 1,000,001 and 1,500,000 were distributed as follows: About 61.0% had a gross salary of between Kshs. 36,646 and 83,002, 22.0% had a gross income of less than Kshs. 36,645, 13.6% had gross salary of between Kshs. 105,657 and 183,220. About 3.4% of the employee had gross salary of above Kshs. 190,090.

The employee respondent who had a cumulative loan amount of Kshs. 1,000,001 and 1,500,000 were distributed as follows: About 61.0% had a gross salary of between Kshs. 36,646 and 83,002, 22.0% had a gross income of less than Kshs. 36,645, 13.6% had gross salary of between Kshs. 105,657 and 183,220. About 3.4% of the employee had gross salary of above Kshs. 190,090.

The employee respondent who had a cumulative loan amount of between Kshs.1,500,001 and 2,000,000 were distributed as follows: About 60.9% had a gross salary of less than Kshs. 36,645, 21.7% had gross salary of between 105,657 and 183,220, 13.0% had a gross income of Kshs. 36,646 and 83,002 while 4.3% of the employee had above Kshs. 190,090.

A total of 48.9% of the university employees who participated in this study had not taken any loan from commercial banks for a period of five years between the year 2006 and 2010. Among the people who had not taken any loan for the same period were those in the income bracket of less than Kshs. 36,645 who comprised 46.8% and between Kshs. 105,657 and 183,220 who comprised 4.3%. None of the interviewed employee who were in the gross salary bracket of above 190,090 had not acquired a loan from commercial bank for the five years period between the year 2006 and 2010.

4.5.4 Influence of Selected Factors on Borrowing From Commercial Banks

Table 17 gives a summary of how the selected factors influence of borrowing from commercial banks.

Table 17: Influence of Selected Factors on Borrowing From Commercial Banks

	Extent of Influence							
Factors	**Very high**	**High**	**Mode-rate**	**Low**	**Very low**	**Total**	χ^2	**P-value**
Interest rates	20.4%	22.3%	36.8%	8.2%	12.3%	100.0%	77.47	0.001
Gross salary income	7.9%	20.4%	25.5%	32.7%	13.5%	100.0%	60.55	0.001
Business start- up finance	11.3%	18.2%	23.9%	19.2%	27.4%	100.0%	23.60	0.001
Level of education	9.4%	21.1%	35.5%	19.2%	14.8%	100.0%	60.74	0.001
Employee gender	8.5%	17.9%	32.4%	7.2%	34.0%	100.0%	103.07	0.001

Source (Research Data, 2012)

The above table shows that majority of the employees viewed the influence of interest rate on loan borrowing from commercial banks as moderate as represented by 36.8% of the respondents. About 22.3% of the employees felt that the influence of interest rates on loan borrowing was high while 20.4% of the employees considered the influence of interest rate on loan borrowing as very high. It was only 12.3% and 8.2% of the employees that argued that the influence of interest rate on loan borrowing was very low and low respectively.

Majority of the employees viewed the influence of gross salary income on loan borrowing from commercial banks as low as represented by 32.7% of the respondents. About 25.5% of the employees felt that the influence of gross salary income on loan borrowing was moderate while 20.4% of the employees were of the opinion that the influence of gross salary on loan borrowing was high. About 13.5% of the employees indicated that gross salary income has very low influence on loan borrowing from commercial banks. It was only 7.9% of the employees who argued that the influence of interest rate on loan borrowing was very high.

Employees who participated in this study indicated that the quest for a reasonable business start-up finance contributes to the borrowing of loans from commercial banks in the following manner: very low influence (27.4%), moderate influence (23.9%), low influence (19.2%), high influence (18.2%) and very high influence (11.3%).

The influence of level of education on employee borrowing from commercial banks was reported as moderate by majority (35.5%) of the respondents. Other responses were high (21.1%), low (19.2%), very low (14.8%) and very high (9.4%). Employee gender was reported by majority (34..0%) to have very low influence on borrowing from commercial banks. Other responses was observed as moderate (32.4%), high (17.9%), very high (8.5%) and low (7.2%).

4.5.5 Influence of Selected Factors on Employee Borrowing From Financial Institutions

This study noted that there are a variety of factors that influence Egerton university employees in borrowing from financial institutions. These factors include conviction by bank employee or employer, gross employment income, lack of guarantee, flexible repayment terms, long repayment period, low interest rates and other reasons. This is as shown in table 18 below.

Table 18: Influence of Selected Factors on Employee Borrowing From Different Sources

	Commercial banks	**SACCOs**	**Welfare organisation**	**MFIs**	**Employer**
Low interest rates	13.8%	36.2%	12.4%	8.5%	10.7%
Gross employment income	13.5%	16.4%	24.1%	19.4%	24.3%
Long repayment period	28.9%	15.3%	11.6%	11.9%	11.7%
Lack of guarantee	23.0%	18.1%	20.7%	14.9%	17.5%
Convinced by bank employee	7.2%	6.3%	25.3%	28.9%	16.5%
Flexible repayment terms	9.7%	6.3%	5.0%	14.4%	15.5%
Other reasons	3.8%	1.4%	0.8%	2.0%	3.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source (Research Data, 2012)

Majority (28.9%) of the employees indicated that long repayment period as what influence them most in borrowing from commercial banks. The results further shows that 23.0% of the employees indicated that lack of guarantee influence them from borrowing from commercial banks. This was closely followed by respondents who felt that low interest rates (13.8%), gross employment income (13.5%), flexible repayment terms (9.7%), conviction by bank employee (7.2%) and other reasons as the most important factors that influence employee borrowing from commercial banks.

Borrowing from savings and credit co-operative societies (SACCOS) is influenced by a number of factors. Majority (36.2%) of the employees borrow from savings and credit co-operative societies because of their low interest rates. Other factors that influence borrowing from SACCOS are lack of guarantee (18.1%), gross employment income (16.4%), long repayment period (15.3%), conviction by bank employees (6.3%) and flexible repayment periods (6.3%). Other factors contributed 1.4%.

Acquisition of loan from welfare organizations is mostly influenced by bank employees conviction as observed by 25.3% of the employee respondents. Other factors that influence borrowing from welfare organizations are gross employment income (24.1%), lack of guarantee (20.7%), low interest rates (12.4%), long repayment period (11.6%), flexible repayment terms (5.0%) and other reasons (0.8%).

Borrowing from microfinance institutions is mostly influenced by conviction by bank employees as cited by majority (28.9%) of the employees. Other factors that influence borrowing from microfinance institutions are gross employment income (19.4%), lack of guarantee (14.9%), flexible repayment terms (14.4%), long repayment period (11.9%), low interest rates (8.5%) and other reasons (2.0%).

Employee borrowing from employer is mostly influenced by gross employment income as cited by majority (24.3%) of the employees. Other factors that influence borrowing from the employer were noted as lack of guarantee (17.5%), conviction by the employer (16.5%), flexible repayment terms (15.5%), low interest rates (10.7%), and other reasons (3.9%).

4.5.6 Regression Analysis for the Relationship Between Employees Borrowing From Commercial Banks and Selected Factors

Before determining the major factors that influence Egerton University employees to borrow from commercial banks using binary logistic regression analysis, diagnostic tests were first conducted to check the presence of any multicolinearity between the independent/explanatory variables. The presence of multicollinearity was tested by use of Variance Inflation Factor (VIF) to test association among continuous variables (Gujarati, 2004). The problem of multicollinearity increases with larger values of VIF. Generally, if a VIF of a variable exceeds 10, the variable is said to be highly collinear. In this study, VIF values for all continuous variables ranged between 1.03 and 4.18. On the other hand, the values of mean of the factors (1/VIF) were between 0.12 and 0.56 inclusive. This means that multicollinearity was not a problem among the continuous variables.

As far as the dummy variables was concerned, contingency coefficients test was employed. For dummy variables if the value of contingency coefficients is greater than 0.75 the variable is said to be collinear. The, values of the contingency coefficients ranged between 0.001 and 0.382 that indicates there is no evidence for strong correlation between the dummy variables. Consequently, all the explanatory variables were entered and the equation fitting the Logit Regression Model was estimated.

In analyzing the factors that influence Egerton University employees to borrow from commercial banks, the variables relating to interest rates, gross salary income, repayment period, flexibility of repayment terms and lack of guarantee were found to be significant at 10% implying that these variables are the important factors that influence Egerton University employees borrowing from commercial banks. These results are presented in Table 19.

Table 19: Logistic Regression Estimates of Variables Influencing Commercial Bank Borrowing

Explanatory variables	Coefficient	Std. Errors	P - values
Interest rates	-0.001***	0.001	0.001
Gross salary income	0.038*	0.022	0.084
Business start-up finance	0.051	0.087	0.59
Level of education	0.043	0.087	0.49
Employee gender	-0.140	0.093	1.51
Repayment period	0.058*	0.031	0.063
Flexibility of repayment terms	0.002*	.001	0.079
Lack of guarantee	-0.017*	0.010	0.085
Conviction by bank employees	0.022	.0261	0.395
Constant	0.649	0.243	0.009
Log likelihood	**-19.871**		
Pseudo R^2	**0.794**		

***, ** and * represent level of significance at 1%, 5% and 10% respectively

Source (Research Data, 2012)

The coefficient for business start-up finance, level of education, employee gender, lack of guarantee and conviction by bank employees were not significant indicating that they were not important factors in influencing employees borrowing from commercial banks.

The coefficient for interest rates was negative and significant at 1% level, suggesting that borrowing from commercial banks was greatly hampered by their high interest rates. This is the probable reason why much borrowing was reported to come from savings and credit cooperative societies (SACCOS) and not from commercial banks since the later normally provide low interest loans to their clients. This observation agrees with Cecchetti (2009) who argued most commercial banks could serve even more customers if they could be able to reduce their interest rates.

The coefficient for gross salary income was positive and significant at 10% level, suggesting that borrowing from commercial banks increased with the increase in employees' gross salary income. Normally, most commercial banks are comfortable to approve a loan of a certain amount depending on the borrower's ability to pay as may be indicated from, among other methods, the salary income. This observation agrees with Fishers (2002) who noted that over the recent past, borrowing has become a very important source of finance by most employed persons in their efforts to finance their expenditures.

The coefficient for repayment period was positive and significant at 5% level, suggesting that borrowing from commercial banks increased with the increase in the repayment periods. This implies that most university employees preferred loan from sources that offer them long as opposed to short repayment periods. This agrees with Antony and Marva (2006) who noted that the repayment periods as one of the important factors that influence borrowing from financial institutions.

The coefficient for flexibility of repayment terms was positive and significant at 10% level implying that most university employees preferred loan sources that had flexible repayment terms. Antony and Marva (2006) noted the need for flexible repayment terms in order to enable financial institutions in their efforts to serve their customers and further argued that it assist in making more loan borrowers to repay their loans.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the main findings, conclusions and recommendations of the study. The study analyzed the factors that influence public university employees borrowing from commercial banks.

5.2 Summary of Findings

In the last few years, borrowing from a variety of souces such such as banks and SACCOs by university employees has gained increasing attention as a useful tool to finance life projects such as paying of school fees, starting/financing a business and purchase of assets. Borrowing from commercial banks has made a signficant stride in popularity among the university employees with the source being regarded by many as advantageous over other sources of loan as far as their conditions is concerned because of frexible and long repayment terms and lack of guarantee (except the payslip).It is generally easy for any university employee, provided he has a payslip to acquire a loan from financial institution. On the other hand, other sources of loan (SACCOs, welfare organisation and employer) still offer attractive advantages, especially the low interest rates that still guarantee them some level of popularity with the end result being that majority of the university employees rely on loan from more than one source. Some studies have argued that borrowing from commercial bank has a potential for increasing the standard of living of the beneficiary in many ways. Howerver, there is still little empirical evidence on the factors influencing the level of borrowing from commercial banks and its effects on the borrowers' financial status.

Using a sample of 318 university employees from Egerton University, the current level of commercial bank borrowing, factors that influence Egerton University employee to borrow from commercial banks and the relationship between the current level of borrowing and the factors that influence employee borrowing was identified. The study provides evidence that commercial bank borrowing has a great potentiall for employees development in aspects that require huge financing. Although the results of the study concentrated on employees from Egetonuniversity, the results of this study could be adopted in the understanding of factors that influence salaried employee borrowing from commcerial banks. In particular, the following findings were noted:

The first objective of this study was to determine the current level of commercial bank borrowing by the Egerton university employees. Based on the findings of this study it was established that majority (77.7%) of the employee had taken a loan within the five year period from the year 2006 to 2010. It was only a small portion (22.3%) of the employee that had not taken any loan within the same period. There were different sources of loan explored by the sampled university employee in order to facilitate their acquisition of extra finance to finance their activities. The most popular source of loan to university employees was noted to be SACCOs which contribute about 54.1% of all the loan sources. This was closely followed by commercial banks which contribute about 35.1% of the loan sources. Majority (32.4%) of the employees borrow money from lending institutions for the purpose of paying of school fees. This is closely followed by employees who borrow for the purpose of either starting a new business or financing an existing business as represented by 25.2% of the respondents.

The second objective of this study was to determine the factors that influence Egerton university employee to borrow from commercial banks. Based on the findings of this study it was established that long repayment period is the most important factor that influences the borrowing levels from commercial banks. The university employees borrowing levels is also influenced by the length of the repayment period and lack of guarantee other than the pay slip. Interest rates were reported to have a moderate influence while gross salary incomes lowly influence the employee borrowing from commercial banks.

The third objective of this study was to determine the relationship between the current level of borrowing and the factors that influence employee borrowing. Based on the findings of this study it was established that there was a significant relationship between level of education and the level of borrowing by university employees from commercial banks. It was observed that the higher the level of education, the higher the cumulative level of borrowing. There was a significant relationship between current levels of borrowing and the gender of the employee with majority of the borrowers being male. Likewise high interest rates significantly reduce the borrowing from commercial banks while high gross salary income increases the borrowing from commercial banks. The need for a business start-up finance significantly influence the borrowing from commercial banks causing persons with such a need to borrow more.

5.3 Conclusions

The use of loan (especially from commercial banks and SACCOs) is a very popular way of financing activities of salaried employees. Majority of the employees with pay slips embark on their preferred projects with loan financing. These projects include starting/establishing a business venture, construction/building, purchase of assets and paying of school fees. There were different sources of loan explored by the sampled university employee in order to facilitate their acquisition of extra finance to finance their activities. The most popular source of loan to university employees was noted to be SACCOs and commercial banks. Other sources of loan were welfare organizations, employer and microfinance institutions.

In the recent past, commercial banks have become one of the best options in loan financing among the salaried persons such as university employees. This study established that long repayment period is the most important factor that influences the borrowing levels from commercial banks. The university employees borrowing levels is also influenced by the length of the repayment period and lack of guarantee other than the pay slip.

This study observed that there are a number of factors that influence the current level of borrowing by the university employee. The level of education influence the borrowing levels from commercial banks with the higher the level of education contributing to the higher the cumulative level of borrowing. Male employees were more likely to borrow than female as observed in this study. High interest rates significantly reduce the borrowing from commercial banks while high gross salary income and need for business start-up finance increases the borrowing from commercial banks.

5.4 Recommendations

Commercial banks should try to lower the interest rates that they charge to their customers on loan. Currently the levels of commercial banks interest rates are too high for most loan seekers despite constant efforts by the central bank to contain this situation. Interest rates is one of the main hindrance to loan financing by public university employees.

The lending institutions should consider to increase the period of loan repayment subjected to most of their clients. The loan repayment period is one of the greatest factors that influence loan borrowing from commercial banks. This is mainly attributed to the fact that a long repayment term enables a loan beneficiary to complete the loan without necessarily collapsing financially.

Commercial banks should make the repayment terms as flexible as possible to their customers who are repaying loans. This factor was cited a major factor that influence loan borrowing. The financial ability of the loan beneficiaries is normally bound to change with time. Additionally, the economic situations revolving around the borrowing period may equally change and warrant a need to reconsider the repayment terms appropriately.

The move by most commercial banks to consider the provision of loan facilities to public university employees without any other form of guarantee/security (assets) except the production of a payslip and assurance from the employer that the applicant for the loan is an employee of the institution and that the employer will recover the loan advanced through the check off system and remit the same to the bank is highly recommendable. Some of the commercial banks which have not embraced this lack of guarantee requirement (only pay-slip) should follow suite.

Commercial banks should invest on appropriate research to enable them understand the needs and circumstances of different income class of employees. Loan borrowing is highly influenced by the gross salary income which implies that efforts to understand the situation of the commercial bank loan customers with reference to their income may help boost their borrowing accordingly through proper design of repayment schedules and terms.

5.5 Recommendation for Further Research

There were certain issues that came into light in the course of this study that may warrant further research. The following related areas can be researched on to add up to the knowledge of what this study has achieved.

i) The influence of commercial bank borrowing on the standards of living of the university employees.
ii) The current level of commercial bank borrowing by their customers who are not engaged in formal employment.

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APPENDICES

APPENDIX 1: RESEARCH QUESTIONAIRE

Introduction

I am a Master of Business Administration student (Egerton University) pursuing a study on factors that influence public university employees borrowing from commercial banks, a case study of Egerton University, Kenya. You have been identified as a useful informant to assist us (Egerton University) to achieve this mission. Your participation is voluntary and you are assured that the information you provide will be treated with confidentiality and used for the sole purpose of research. Kindly respond to the queries below.

PETER .O. OIRA

Reg. No: CM11/0421/08

Mobile: 0722 27 27 16

Instructions:

Answer all questions Serial No______

Section A: Respondents Profile

1. a) Gender of respondent: Male [ ] Female [ ]

b) What is your highest level of your education (please tick using the scale below)

1	2	3	4
[ ]	[ ]	[ ]	[ ]
1. Certificate	2. Diploma	3. Under graduate	4. Post graduate

2. How long have you worked in Egerton University?(please tick in the appropriate category)

i) 1 – 3 years [ ]

ii) 4 – 6 years [ ]

iii) 7 – 9 years [ ]

iv) 10 years and above [ ]

3. What is your employment grade in the university (please tick in the appropriate category)

i) 1 – 4 [ ]

ii) 5 – 10 [ ]

iii) 11 – 14 [ ]

iv) 15 and above [ ]

4. What is your gross pay (please tick the appropriate range)

i) Less than Khs. 36,645 [ ]

ii) Between Khs 36,646 and 83002 [ ]

iii) Between Khs 105657.00 and 183,220.00 [ ]

iv) Above Khs.190090 [ ]

5. (a) Do you own any business venture(s) that help you generate extra income?

Yes [ ] No [ ]

b) If yes in (a) above how did you finance it (please tick)

i) Loan from commercial bank [ ]

ii) Loan from Sacco society [ ]

iii) Loan from employer [ ]

iv) Personal saving [ ]

v) Others(specify)________________________________

Section B: Loan Information

6. a) Have you ever taken a loan during the period 2006 to 2010

Yes [ ] No [ ]

b) If yes in (a) above, from which source (please tick)

i) Commercial banks [ ]

ii) Sacco society [ ]

iii) Welfare organization [ ]

iv) Microfinance institutions [ ]

v) Employer [ ]

vi) Others (specify)________________________________

c) How much was the loan you took cumulatively for the five year 2006 to 2010? (Please tick in the appropriate range)

	Loan amount (cumulatively)	
i	Khs 100,000 and below	[ ]
ii	Between Khs 100,001 and 500,000	[ ]
iii	Between Khs 500,001 and 1,000,000	[ ]
iv	Between Khs 1,000,001 and 1,500,000	[ ]
v	Between Khs 1,500,001 and 2,000,000	[ ]
vi	Khs 2,000,001 and above	[ ]

7. What was the purpose of borrowing (indicate tick)

	Project	[ ]
i.	Purchase of asset	[ ]
ii.	Pay school fees	[ ]
iii.	Start/finance business	[ ]
iv.	Construction (building)	[ ]

Others (specify)____

8. Which of the following factors influenced you most to borrow?

Source	Low interest rates	Gross Employment income	Long repayment period	Lack of guarantee	Convinced by bank employer	Flexible repayment terms	Others (specify)
Commercial banks							
Sacco society							
Welfare organization							
Microfinance institutions							
Employer							

Others specify ______________________________

9. How did your financial status change after taking the loan (please tick using the scale below)

1	2	3	4	5
[ ]	[ ]	[ ]	[ ]	[ ]

1. Very good 2. Good 3 Not sure 4. Bad 5.Worse

10. a) Was the loan you obtained utilized for the purpose intended? Yes [ ] No [ ]

b) Rate how the following factors influenced your borrowing from commercial banks

	Magnitude of influence				
FACTORS	Very high	high	moderate	Low	Very low
a. Interest rates	[ ]	[ ]	[ ]	[ ]	[ ]
b. Salary gross income	[ ]	[ ]	[ ]	[ ]	[ ]
c. Start/Finance business	[ ]	[ ]	[ ]	[ ]	[ ]
d. level of education	[ ]	[ ]	[ ]	[ ]	[ ]
e. Gender	[ ]	[ ]	[ ]	[ ]	[ ]

Thank you for your sincere responses

APPENDIX 2: EGERTON UNIVERSITY LIST OF STAFF

DEPARTMENT	NO. OF STAFF
E002: OFFICE OF VICE-CHANCELLOR	10
E003: SECURITY DEPARTMENT	137
E004: AUDIT DEPARTMENT	10
E005: QUALITY ASSURANCE DEPT.	5
E020: OFFICE OF THE D.V.C.(A and F)	9
E021: TRANSPORT DEPARTMENT	63
E022: REGISTRAR ADMINISTRATION	44
E023: CATERING	98
E024: WATER AND SEWERAGE	31
E025: HALLS(ACCOMMODATION)	82
E026: ESTATES(MAINTENANCE) DEPARTMENT	76
E027: DEPT. OF KNITTING AND TAILORING	4
E028: FINANCE DEPARTMENT	73
E029: PURCHASING, PROCUREMENT AND SUPPLIES	38
E030: MEDICAL DEPARTMENT	89
E032: CORRUPTION PREVENTION COMMITTEE DEPT	3
E060: OFFICE OF THE D.V.C.(A A)	6
E061: DIRECTOR EXAM & TIME TABLING	12
E062: REGISTRAR (ACADEMIC AFFAIRS)	24
E063: DEAN OF STUDENTS DEPARTMENT	15
E065: GRADUATE SCHOOL	10
E066: BOARD OF UNDERGRADUATE	6
E067: UNIVERSITY LIBRARY	61
E069: GAMES DEPARTMENT	12
E071: GENDER DEPARTMENT	7
E072: NAKURU TOWN CAMPUS	35

E100: OFFICE OF THE DVC (R. And E.)	20
E102: DEPT OF INFORMATION COMM. TECH (ICT)	19
E105: CHEMERON FIELD STATION	7
E122: AGRICULTURAL RESOURCES CENTRE	43
E123: UNIVERSITY BOOKSHOP	4
E125: TATTON DEMONSTRATION UNIT(T.D.U)	14
E150: FACULTY OF AGRICULTURE(DEAN'S OFFICE)	9
E1 51 : DEPT. OF ANIMAL SCIENCE	53
E1 52: DEPT OF CROPS, HORT AND SOILS	59
E153: DEPT. OF AGRIC.ECON & AGRI/BUS	23
E154: DEPT. OF DAIRY .FOOD SCIENCE AND TECH	34
E170: FACULTY OF ENV. SCIENCE & NATURAL RES.	4
E171: NATURAL RESOURCES	28
E172: DEPT OF ENVIRONMENTAL SCIENCE	17
E173: DEPT. OF GEOGRAPHY	10
E190: F.A.S.S (DEAN'S OFFICE)	8
E191: DEPT. OF PEACE SECURITY AND SOCIAL STUD	12
E192: DEPT OF PHILO, HIST AND RELIGIOUS STUDIES	22
E193: DEPT. OF LANGUAGES, LIT AND LINGUISTICS	30
E194: DEPARTMENT OF ECONOMICS	15
E210: FACULTY OF EDUCATION(DEAN'S OFFICE)	12
E211: DEPT. OF CURR. INSTRUCTION & EDU MGT	30
E212: DEPT OF APPLIED COMMUNITY DEV. STUDIES	21
E213: DEPT. OF AGRIC EDUC. AND EXT.	18
E214: DEPT. OF PSYCHOLOGY AND COUNSEL	19
E220: FACULTY OF ENGINEERING AND TECHNOLOGY	8
E221: DEPT. OF INDUSTRIAL AND ENERGY ENG	15
E222: DEPT. OF INSTR. AND CONTROL ENG.	21
E223: DEPT. OF CIVIL & ENVIRON ENGINEERING	15
E224: DEPT. OF AGRICULTURAL ENGINEERING	33

E240: FACULTY OF SCIENCE(DEAN'S OFFICE)		8
E241: DEPT. OF COMPUTER SCIENCE		28
E242: DEPT. OF CHEMISTRY		35
E243: DEPT. OF MATHEMATICS		24
E244: DEPT. OF BIOLOGICAL SCIENCES		55
E245: DEPT. OF BIOCHEMISTRY & MOLECULAR BIO		31
E246: DEPT. OF PHYSICS		20
E260: FACULTY OF HEALTH SCIENCES		7
E261 : DEPT OF CLINICAL MEDICINE& SURGERY		24
E263: DEPT. OF HUMAN NUTRITION		12
E264: DEPT OF HUMAN ANATOMY		8
E265: DEPT OF MEDICAL PHYSIOLOGY		7
E280: COLLEGE OF OPEN & DISTANCE LEARNING		7
E281: TEACHER EDUCATION (SSP)		6
E300: FACULTY OF COMMERCE (DEAN'S OFFICE)		9
E701: DIRECTORATE PLANNING & DEV		4
E958: DIRECTOR INSTITUTIONAL ADVANCEMENT		6
EGERTON UNIVERSITY PRESS		9
INTERNATIONAL LINKAGES PROGRAMME		3
ISO SECRETARIAT		3
TOTAL		**1889**

SOURCE: Human Resource Department (Egerton University) 2010