

AN EXPLORATORY STUDY ON MICRO AND SMALL BUSINESS ENTERPRISE CHARACTERISTICS WHICH INFLUENCE ACCESS TO BUSINESS LOANS

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Abstract

The development of any economy requires financial services especially credit services. Saving facilities are also key in the generation of a start capital for small business. Many financial institutions have tried to bring the money lending business and services closer to the customers but the rate of taking loans among the micro and small enterprises owners has not been as per the expectation with many business owners preferring the informal money lending institutions than the convectional banks or microfinance institutions. The study explored the Micro and Small business Characteristics which influenced the access to loans by the enterprise owners form money lending institutions. The study was guided by the following study objective; - To determine the Micro and Small enterprise characteristics which influence business loans access in a case study of Gikomba Market. The study was carried out in Nairobi biggest open market Gikomba. The study used descriptive research design and a sample size of 370 business owners since the market has over 10,000 business owners. The target population was divided into strata of wholesalers, retailers, service delivery and restaurants. The sampled respondents were selected randomly from each strata giving all the participants equal opportunity of participation. Data collection was done through questionnaire and interview guides. The gathered data was analyzed and presented in pie charts and frequency distribution tables and conclusion and recommendations were made based on the analyzed data.

Key Words: Loan, Lending Institutions, Micro-financing institutions, Financial Interests,

Introduction

Small and medium size enterprises in Kenya have attracted a lot of interest in relation to their importance in the economic growth and development of the Kenyan economy. In Kenya classification of enterprises is based on the number of employees engaged in the enterprise and the firm's annual turnover. One of these business enterprises is the micro and small business enterprise (MSEs) which are business organizations having 1-50 employees. These business are owned by sole proprietors or are partnership. Many of this type of business are found in the largest open market in Kenya known as Gikomba Market in outskirts of the Kenyan Capital city Nairobi whose origin is traced back to 1952.

Background of the Study

Economic growth of any country is dependent on the country's ability to engage the citizens in profit making businesses. This has led to many countries focusing attention to Micro and small enterprises (MSEs) to boost economic growth and development and also for the creation of jobs as explained by Mwaniki (2009). MSEs as they are commonly known have their origin back in 1976 when Mohammed Yunus started a small microfinance scheme as an experiment in the rural areas of Bangladesh and this saw the origin of Grameen Bank and this business idea spread to the rest of the world and especially to the developing countries (Claessens, 2005). SMES have provided employment in many countries accounting for 17% - 30% of the working population (Roy, 2009). According to John (2011) any factor which threatens the existence of MSEs like of capital to run the business can affect the economic growth of a country.

Anyanwo (2004) avers that many studies have established that inadequate access to credit and other financial services impede the growth and development of MSEs and this in turn leads to increase in poverty levels in a society. The loans access limitations is caused by the formal financial institutions lending policies which are too demanding. Such limitations include prescription of minimum loan amounts, complicated loan application procedure and also restrictions on credit for specific purposes asserts Littlefield and Rosenberg (2004). Most of the MSEs prefer reliable access to short term loans and small amounts of credit. The scholar further argues that the institutional financial policy often determine loan accessibility an observation made by Mkaza (2007).

Bryaruhanga (2008) explains that factors like credit duration, provision of supplementary services, terms of payment, required security fail to meet the qualification of the money borrowers however, the borrowers often apply for these loans and when denied access to the loans it becomes a demotivation to seek for more loans in the future. According to (Mwaniki 2009) some conditions imposed by money lending institutions should not stand in the way of small business owners, because if effective procedures can be established for the disbursement, supervision and repayment. According to Kenya Economic Survey of 2009 the money lending institutions are reaching just a small fraction of the estimated demand for financial services. Forgoing this study focuses on MSEs Characteristics which determine the access to loans by MSEs operators. This is made to separate the business enterprises and the owners of the enterprises. The MSEs characteristics are gender, education level, attitude towards work, and level of technological know-how and mobility of the business operators (Coleman, 2012).

Statement of the Problem

Credit services are key in the provision of capital to business as explained by Mwaniki (2009). Despite the efforts by many money lending institution like the banks and micro financing institutions the Kenya Economic Survey of 2018 shows a reduction in the number of business owners who are accessing loans to run their business with the majority of the business operators preferring loans from Microfinancing institutions more than the conventional formal financing system of the bank (Akinyi, 2009). The lack of access to credit facilities to run the business threatens the growth and development of the MSEs and hence the economic growth of the county.

As explained by Bwisa and John (2011) the growth and development of many MSEs in developing countries is inhibited by access to finance, high cost of inputs, managerial skills and lack of training opportunities to train on business management skills and competencies. In order to counter the access to finances challenges many government of developing countries have put interventions to credit the MSEs however the market needs are beyond government satisfaction for financial aid (Mwangi, 2011). This has left the MSEs in the mercy of money lending institutions who charge high rates for of interest for monies given. The high bank credit rates has been the key demotivation for many MSEs for decades and this has posed a challenge to a rapid growth of many economies especially the developing countries. .

Perterson and Kirui (2009) observed that some MSEs were depending on informal forms of lending services to finance their operations and hence reducing the number of traders who accessed loans through the formal channels. The MSEs operators also felt that their credit needs were more satisfied informally although the informal money lending individuals could not service the market needs due to limited resources for lending. According to Makokha (2006) many MSEs owners have not been accessing lending from formal institutions and the few who have acquired the loans are finding it expensive and unmanageable to repay the loans. Forgoing, the study seeks to establish the MSEs characteristics which influences choice to take loans among the operators of MSEs owners in Gikomba market Kenya. .

Objective of the study

The general objective of the study was to establish the MSEs characteristics which influence the access to loans among the MSEs owners in a case study of Gikomba Market in Kenya. The study also sought to determine whether the MSEs Characteristics had a significant influence on the access to loans by MSEs Owners in Gikomba Market.

Research Methodology

This study adopted the descriptive research design to answer the research questions. Descriptive research design is a method of collecting data by interviewing or administering a questionnaire to a sample of individuals which can be used when collecting information about peoples' attitudes, opinions, habits or any other social issues (Mugenda & Mugenda, 2009). Using descriptive research design was advantageous to the researchers since it was possible to understand the characteristics of the various groups in the study and assists in systematic thinking about the various aspects of the study (Kothari, 2011). Descriptive research design was appropriate because it assisted in understanding the determinant on choice to take loans by Micro and Small Enterprises owners. The sample size of the study was 370 business owners. The target

population was divided into strata of wholesalers, retailers, service delivery and restaurants. The sampled respondents were selected randomly from each strata giving all the participants equal opportunity of participation. Data collection was done through questionnaire and interview guides. The gathered data was analyzed and presented in pie charts and frequency distribution tables and conclusion and recommendations were made based on the analyzed data.

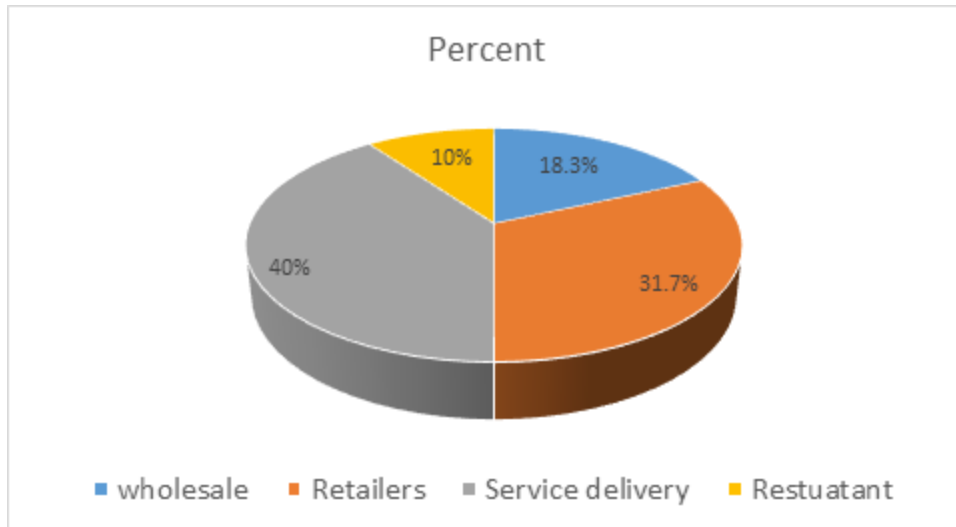
Findings and Interpretation

The data analysis of age of respondents in Gikomba market showed that 8.3% were below the age of 30 years, 45.0% as between the age of 30 years and 40 years, 33.3 % between 41 years and 50 years and 13.3% were above 50 years. The analysis further showed that majority of the small and medium business owners were between the ages of 30-40 years with the least. Age is a key characteristics of MSEs as observed by Mwangi (2011) who explains that due to lack of employment many youth have turned to doing business although the majority of the youth do not do business due to lack of capital or the desire for formal employment. The level of education data analysis showed 50% of the SMEs owners had tertiary education while those who had secondary school education were 33.3% with those who had primary education having 16.7%. The analysis reflects a similar trend of observation of a study by Liedholm and Mead which also observed that the MSEs Owners are below 40 year bracket of age. The majority of the respondents were female at 52% and the male at 48%.

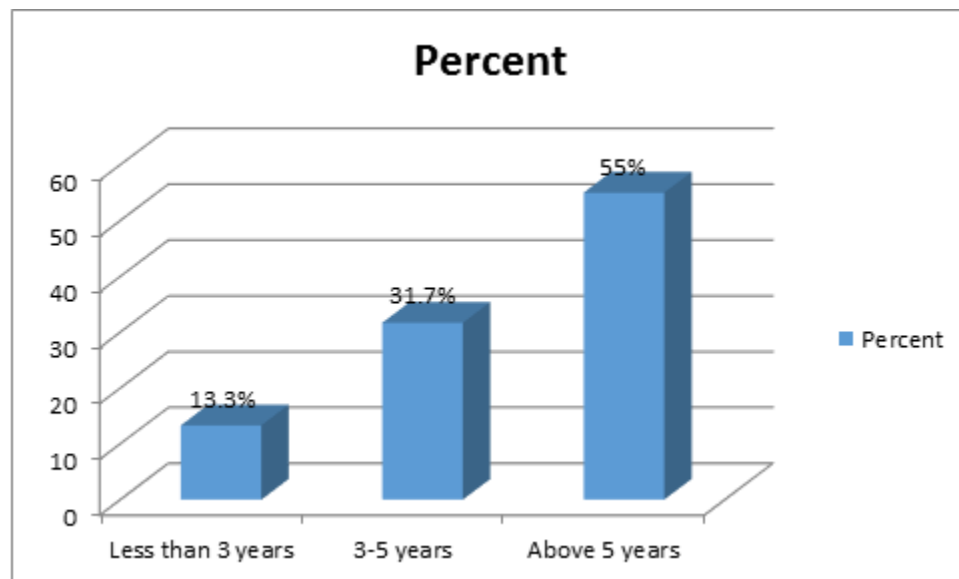
Respondents Demographics

Age in years	Frequency	%	Level of Education	of%	Gender	Frequency	%
Below 30	30	8.3	No education	0.0	Male	178	48
30-40	167	45.0	Primary	16.7	Female	192	52
41-50	123	33.3	Secondary	33.3			
Above 50	50	13.3	Tertiary	50			
Total	370	100				370	100

Based on the strata formed for the data collection the analysis of the data on type of business showed that 18.3% of the SMEs owners operated wholesale type of business, 31.7% were retail businesses, 40% was service delivery and 10% restaurants. Majority of the business were service delivery with the least of the operators having restaurants.



Data analysis on the length of operations for the business was also analyzed and results showed that 55% of the business were in operation for more than 5 years while 31.7% showed that the business were in operations for 3-5 years and with 13.3% being in operations for less than 3 years. Majority had operated for mora than 5 years. This analysis also shows that the market was also growing since there were business which were in operation for less than 3 years.



The study sought to establish whether the MSEs Owners were applying for loans to run their business. The data analyzed showed that only 41.7% of them had assessed loans to run their business while the majority 58.3% had not assessed any loans. The findings are corroborated by a research of Akinyi (2009) which established that many SMEs owners had limited accessibility to loans due the institutional polices of commercial banks. The interviewed respondents felt that it was easier to get loans informally or from microfinance institutions than getting a loan from the bank. This is finding is supported by Mwangi (2011) who explains that organizational policies on

money lending is a key determinant of loan accessibility. This analyzed data showed that less than half of the business owners had access to formal loans from money lending institutions.

Loan Access

Access to MFI loan	Frequency	Percentage
Business owner ever assessed loan	155	41.7
Business owner never assessed loan	215	58.3
Total	370	100.0

The analyzed qualitative data showed that the informal loaning institutions gave instant loans with no collaterals and was based on mutual trust. The business operators also voiced that the informal lenders had customer friendly rates, were more flexible on repayment of the loans and there was limited paper work to get the loans. Group savings were also used to boost business by giving loans. More than 50% of the respondents belonged to groups which had informal table banking services. The money from the table banking provided small short loans for the business operators.

The respondents cited different reasons why they were not accessing loans to run their business. The Responses showed that 15.3% of the traders were servicing other loans and hence the reason why they were not taking more loans. Majority of which through interviews said they had loans from informal lending groups or setups. While 53.2% had applied for loans and were not successful in getting them from the formal institution. While the ones who felt that the loans application procedure was long and tiresome were 22.9%. Availability of other money lender apart from the banks and micro finance institutions had 8.6%. The findings are similar to the findings by Murinde (2017) who observed that many MSEs were unable to get loans from banks because of lack of collateral to guarantee loans. The business owners also lacked fixed assets and never kept proper records show business progress.

Reasons for not accessing loans

Reasons for not accessing loans	Frequency	Percentage
Trader was servicing other loans	57	15.3
Loan application was not successful	197	53.2
Long procedure of loan application	85	22.9
Availability of other money lenders	31	8.6
Total	370	100.0

From the table below there are some key determinants of accessibility to loans for MSEs. Business management and period of operations was significantly related to accessibility of loans by business owners. Below 30 years of age 88.9% had accessed loans and those who did not was 11.1%. Above 50 years of age 81.2% did not access the loans compared to 18.8% that accessed. This showed that age was a determinant of loan accessibility with below 30 years of age having the highest business operators having accessed loans. On gender basis the male business operators who accessed loans 42.3% and the female who accessed loans were 41.2%. The difference in percentage was insignificant and this showed that gender was not a key determinant of accessing loans. The level of education and accessibility of loans showed that the operators who had tertiary education accessed loans more at 51.7% while those who had basic education were

only 38.9%. Type of business data analyzed indicated that most of those who accessed loans were in the restaurant industry 71.4% with the least of those who accessed loans being in the service industry at 34.2%. Under business data analysis majority of those who accessed loans were under partnership form of business. Those who had operations under 3 years only 7.1% accessed loans with the majority of the business operators of between 3-5 years having a 52.8% access to loans.

MSE characteristics and accessibility of loans

Characteristic	Access in %		χ^2	P-value
	Yes %	No %		
Age (years)				
Below 30	88.9	11.1	12.296	0.005
30-40	37.7	62.3		
41-50	47.1	52.9		
Above 50	18.8	81.2		
Gender				
Male	42.3	57.7	0.016	0.901
Female	41.2	58.8		
Education				
Primary	38.9	61.1	5.489	0.064
Secondary	28.6	71.4		
Tertiary	51.7	48.3		
Type of Business				
Wholesale	40.7	59.3	6.099	0.107
Retail	39	61		
Service delivery	34.2	65.8		
Restaurant	71.4	28.6		
Business Management				
Owner	32.1	67.9	14.509	0.002
Manager	56.5	43.5		
Partners	83.3	16.7		
Duration in operation (years)				
Below 3			8.735	0.013
3-5	7.1	92.9		
Above 5	52.8	47.2		
	42.9	57.1		

Inferential statistics

In order to establish whether MSEs characteristics has a significant influence on the choice of access to loans. The study carried out inferential statistics and the inferential statistics showed that owner age had a p value of 0.005, business management a P value of 0.002 while duration of operation had a p value of 0.013 were significantly related to access of loans since there p value was less than 0.05. While Gender (p = 0.901), Level of education (p = 0.064), type of business (p = 0.107) statistics were not significantly in determining the access to loans since there P value was greater than 0.05.

Bwisa and John (2011) had a centrally opinion when they observed that level of education influence business operations and management skills of business. Coleman (2012) Observed that although majority of the business were owned by women they had their own set of challenges, which included limited prospects for profitability and were not able to provide collaterals to access loans and also many of the women were unwilling to take risks and were also constrained in skills to run business. The analysis and the collaboration of the MSEs showed mixed results and this call for more research to establish the MSEs characteristics which influence the choice of Loans by MSEs owners.

Conclusion and Recommendations

The study indicated that majority of those who engaged in business were below the age of 40 years and that both gender, male and female equally participated in running of business. More than half of the respondents and secondary education and even higher level of education with majority of the business operating in the service provision industry. Many of the business were operated by the owners and had been in operation for more than 5 years. The inferential statistics in order of strength of significance age of the business operators, the type of business management and years of operations were statistically significant in determining accessibility of loans.

Based on the analyzed and interpreted data, the study highly recommends that money lending institutions should reduce ton the bureaucracy followed in accessing loans and that there was need to focus more on reaching out to youth because majority were willing to get loans to run their business. The business operators also embrace the partnership form of business since the money lending institutions policies favored partnership more in providing loans than sole proprietorship.

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