International Journal of Latest Research in Humanities and Social Science (IJLRHSS)
Volume 04 - Issue 11, 2021
www.ijlrhss.com || PP. 15-20

Access of Credit and Financial Performance in Small and Micro Enterprises: Evidence of Enterprise Development Funds Strategies Used in Kenya

[1]Joseph Kipngeno Kemei, [2]Dr. Fredrick Warui
[1]*Master's Student, Kenyatta University, Kenya.*
[2]*Department of Accounting and Finance, Kenyatta University, Kenya*

Abstract: Small and Micro Enterprises (SMEs) has encountered myriads of challenges especially at early establishments. This has affected the financial performance of youth SMEs and some leading to closure. Despite the effort by government in Kenya for youth enterprise development funds their success rate is still very low. To address this issues the main objective of the paper is to establish the effect of access to credit strategy on financial performance of SMEs in Kericho County. Financial intermediation theory was utilized in the study. The study utilized a descriptive survey design where information was retrieved from SMEs in Kericho County who had access to YEDF and Uwezo funds. It targeted a population of 236 comprising of 144 employees in YEDF and 92 employees in Uwezo funded SMEs where a sample of 148 respondents were selected using stratified sampling method. Questionnaires were used in as data collection tools. The study conducted descriptive statistics where mean and standard deviation were adopted. ANOVA analysis was used to examine the relationship between the variables. The finding revealed access of credit had significant influence on financial performance. Where there was flexibility in access to loans as well as low requirement in accessing finance. It also showed that group loans strategy assisted significantly the growth of SMEs. The study recommended training and exhibition of SME products to create knowledge and market respectively for proper utilization of loan accessed.

Keywords: Access to Credit, Financial Performance, Descriptive Survey Design, Small and Medium Enterprise, Kenya.

1. Introduction

Developing countries has used Small and Micro Enterprises (SMEs)for economic development since they need less capital than convectional business models. This has raised concern in major large scale business as their target customers especially in the financial industry. Even in the developed industrial economies, the SMEs sector is the largest employer of workers (Adjei, 2012). Despite SMEs sector providing the largest source of employment and economic development in term of GDP, it faces myriads of challenges from financing, experience, skills, knowledge, capital and infrastructure among others.

Enterprise Fund Strategies is one of government initiative that was established as platform for youth to utilized entrepreneurial skills as means of creating self-employment. The government identified majority of the problems associated with youth and integrated them to improve the youth enterprises through providing low cost funds, provision of financial advisory services, provision of infrastructure through incubation and create market for their produce (YEDF, 2019). The strategies are to enable micro, Small and Micro Enterprises grow in both size, network and market size in both domestic and international markets. Therefore, it ensures that the small and micro enterprise are stable financially and perform financial.

A Kenyan government initiative to create opportunities and self-employment for the youths through enterprise development funds was create in 2006. The main aim of the enterprise development funds was to provide youth with financial support at low cost and achievable terms. Government of Kenya targeted youth enterprise that are both small and micro which needs a small capital to start by providing financial solution to the enterprises (YEDF, 2019). This was to create 500,000 jobs annually where Small and Micro Enterprises was to contributed88% in Kenya. This reveals that SMEs provides the largest job creation in Kenya and around the world. Hence, the government through the initiative are targeting the individual youth entrepreneurs, cooperative, companies, youth groups and small enterprises within Kenya.

Another similar youth enterprise initiative that target youth enterprises is the Constituency Youth Enterprise Scheme (C-YES). C-YES is another government initiative that target the youth at constituency level in Kenya. Those who are eligible are youth between the age of 18 to 35 years, therefore, a group should contain over 70% from the age bracket as well as led by youth within age bracket. The program allows the youth to borrow finance from the kitty for growing their business. Also the government through the same initiative has also developed Divisional Youth Enterprise Development Fund Committees (Divisional YEDFC). This is ease identification and recommendation of the right groups that deserve loans. The main aim of both initiative C-YES at constituency level and YEDFC at division level is to ensure loans are advance to youth groupd in the rural for sustainable future development of SMEs.

Another government initiative Uwezo Fund was established on February 2014. The initiative enabled person with disability, youth and women to access funds for starting enterprises with Kenya. The initiative is to increase creation of Small and Micro Enterprises that crease job for the weak in the society. These would enable sustainable development, improvement of livelihood, creation of jobs, establishment of new products and development. The Government of Kenya are using access of credit facilities, financial advisory, capacity building, capacity building and business monitoring and evaluation.

Access to credit facilities was one of the strategies used by government through the establishment of youth development funds and Uwezo funds. This programs main aim is to provide funds to persons under that age of 18 to 35 years which implied that any youth will qualify (YEDF, 2019). Their interest rates are low or none as compared with other sources of loans and credit facility. Finance provides capital solution to the youth enterprises and hence assists in self-employment. Etemesi (2017) mentioned that access to credit is contributed by collateral, high interest, long time processing duration and short repayment periods. Jerono (2017) argued that transaction cost affects the cost of borrowing which transfers the cost to the borrower. It also found that the size of the organization influences the amount of loan accessible. Credit facilities also focus on education level, gender and owners characteristics which influence accessibility of credit (Nguyen, Gan, & Hu, 2015).

Small and Micro Enterprise face numerous challenges are linked to lack of collateral, high interest rate, accounting documentation and lack of clear financial plans. Majority of the counties in the world focuses in supply and demand. Small and Micro Enterprises demand and supply forces assist them to gain financial aid from banks, financial institution as well as government funding. Therefore, commercial banks and other financial institution supply finance based on the demand of Small and Micro Enterprise (Central Bank of Mozambique, 2013). The SMEs require innovative fund, micro-finance and affordable cost of capital from commercial banks, microfinance, SACCOs and government funding initiatives. Hence the demand side enables the financial institution to provide SMEs with affordable capital and financial advisory. On the supply side, asymmetries of information between borrowers and lenders provide leverage for the choice of finance plans and lender. Therefore, relevant information assists borrowers and leaders in conducting their business.

Small and Micro enterprises in Kenya plays major role in creating of opportunities and development of economy. Despite, little efforts done for youth who face challenges in starting of business enterprises, the commercial banks, government and non-governmental organization has assisted in financing their business. There is need to change the narrative of unemployment and lack of finance in youth to improve economy by funding and supporting youth enterprises (Mutai, 2015). The Small and micro enterprises (SMEs) in Kenya are encountering numerous challenges which are constraining their effort in economic development. Financial access and cost of credit are one the major impediment to development of SMEs. This high cost of accessing credit are contributed by increased transaction cost for financial service and segmentation of financial market. Majority of financial institution considers SMEs creditworthy, thus denying them credit. According to Capital Markets Authority Report (2010), it is estimated that there are 7.5 million SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy. Due to their characteristics, SMEs in Kenya suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale.

According to MOYAs (2015) report most youth in Kericho County few accessed enterprise funds. This was because majority of the youths had insufficient information on how to excess the Uwezo funds, women fund and youth enterprise funds. It was also found that there was limited skills among the youth to start and run a business. Kericho is tea growing mainly because of existence of small scale tea farmers take their tea to factories around. Since land is becoming small with time business enterprises are the alternative as social economic benefiting activity. There is need to investigate the effect of enterprise development funds strategies on financial performance of Small and Micro Enterprises in Kericho County.

A small and micro enterprise is leading as a source of employment as well as Gross Domestic Product. Despite this support the survival rate for most enterprise is rated at 40% which is below average with 60% of them failing to grow within 3 years of starting. Some of the failures are competition and access to global market (Nduta, 2016). According to Kuddo, Robalino and Weber (2015),the inability of small business to provide performance measure has limited them from accessing finance from banks. This reduces expansion, creativity and limit competition in the small business. Poverty eradication, enabling competitive environment, creation of jobs and terms of service deliver are all enable with sufficient financial support. Despite the introduction of youth enterprise development funds which was to provide financial support. There Small and Micro Enterprises are still facing financial performance issues that affect the success rate even though the government has introduced enterprise development funds. It is then crucial to investigate the effect of government intervention through introduction of enterprise development funds strategy and establishing whether it has impact on the financial growth of youth enterprise in Kericho County. The program is facilitated by the government but does it reach the intended youths and does it bring financial growth? These are some of the question this research investigated. Therefore, paper main objective is to establish the effect of access to credit strategy on financial performance of SMEs in Kericho County.

2. Literature Review

Theoretical Review

Financial intermediation theory pioneered by Leland and Pyle in 1977. The theory was postulated to explain how financial institution are able to give credit facilities to units that has deficit. Therefore, financial institution take finance from portfolios that had sufficient finance and lend those who require loan for generation of additional finances. First concept is source of fixed sum which are not associated with any portfolio in the financial institution is the deposits or liabilities. This provide funds that can reused in for other portfolios and lending in the organization. The third concept is that the pool of liabilities forms has monetary equivalent. Finally, large proportion of assets and liabilities that are non-transferable. Hence, funds supply from one portfolio can be move to another unit that has deficit. There is need to ensure that organization or enterprises that are in need of funds should have sufficient information before seeking finance through credit. The theory is significant to the enterprises seeking to grow and leverage on the low financial source for their development.

Empirical Literature

Youth enterprise face challenges of limited access of finance based on low financial ability as oppose to the large scale business (Wanjohi, 2010). This has affected negative the growth of Small and Micro Enterprises (Naidu & Chand, 2012). Mwangi (2011) argued that finance is one of the major challenges to SMEs. Some of the issue in access to finance included collateral requirements, unfavourable financial policies. The research found out that access to finance had a weak relationship between and performance of SMEs.

Nguyen, Gan, & Hu (2015) did an empirical analysis of credit accessibility of SMEs in Vietnam. In Vietnam the SMEs account for 98% of total number of enterprises which contributed 77% of labor force, 20% of exports and 48% GDP. Nguyen *et al* (2015) found that gender, education level, owner characteristics contributed to access of credit. SMEs relationship between banks and customers also influence SMEs. Loan interest were not related with owner characteristics. Private money lender had expensive source of finance followed by commercial banks and microfinance.

Etemesi (2017)investigated on access of credit which is the major contraint to SMEs sector. The researcher adapted descriptive survey design, targeting a population of 838 SMEs and a sample of 225 in Nairobi. Primary data extracted using questionnaires showed the data extracted indicated that collateral requirement affected negatively becoming an inderance of accessing credit facilities. Most SMEs were not able to raise enough collateral requirement so as to access loan.SMEs encountered problems of raising equity to start or grow the business.Leading to most SMEs looking for there own methods of raising finance to support there financial investment in the business. Another challenge in Etemesi's (2017) findings was high interest rates,long processing duration and short repayment periods.Despite the capping of interest the SMEs based loans have reduced returns on savings as well as affect the quality and quantity of financial investment since banks are lending with strigent measures so as to reduce credit default risk.

3. Research Methodology

Descriptive survey design was deemed to be the most appropriate for this study based on it ability of acquiring data from different regions. The study targeted 236 respondents who had sourced funds from YEDF and Uwezo funds comprising of 144 and 92 SMEs respectively within Kericho County. Stratified sampling technique was used to extract data from the population. Where a portion of 90 and 58 were obtained using simple random sampling technique from the target population. Primary and secondary data were used. Primary data collection was the main source of data for the investigation where data were obtained using questionnaires. Data collected were coded and then analysis. Descriptive statistics were used where mean and standard deviation were utilized. Inferential data analysis was obtained using ANOVA analysis.

4. Results, Interpretations and Discussions

Descriptive analysis for;access to credit, financial advisory services, capacity building, business monitoring and evaluation as well as financial performance were done using mean and standard deviation. These were obtained from a Likert scale of 1 represented strongly disagrees and 5 represent strongly agree.

Table 1: Access to Credit

	N	Minimum	Maximum	Mean	Std. Deviation
Credit access requirement used by youth enterprise development funds can be accessible.	124	2.00	5.00	3.9194	.61943
Youth enterprise development funds business evaluation for loans has been made flexible in Small and Micro Enterprise.	124	2.00	5.00	3.8710	.58390
Group loans have encouraged financial growth through the youth enterprise development funds.	124	2.00	5.00	4.0565	1.03831
The asset funding is available and have assist youth enterprises to obtain enough finance.	124	1.00	5.00	3.2500	.85183
Due to access of funds in youth enterprise development funds the net profit margin has increased.	124	2.00	4.00	3.8065	.45402

Table 1 represent mean and standard deviation results from responses for questions relating access of credit among youth enterprises in Kericho County. The result indicated that the credit access requirement used by youth enterprise development funds were moderately accessible (mean of 3.9194).The results also showed a low variation on accessibility of youth enterprise development funds (standard deviation of .61943). This implies that the requirement to credit access has been relax to assist accessibility by youth to some extent.

According to the results youth enterprise development funds business evaluation for loans were somewhat flexible for Small and Micro Enterprise (mean of 3.8710). A low variation of youth enterprise development funds business evaluation on flexibility (standard deviation of .58390). Therefore, youth are able to access the loan based on flexibility of the youth enterprise.

Group loans had greatly encouraged financial growth through the youth enterprise development funds (mean of 4.0565). The results showed moderately low variation on encouraging growth (standard deviation of 1.03831).Growth loans has significantly ensured interdependent of youth enterprises in growing their financial ability.

The asset funding was available and had assisted youth enterprises to obtain enough finance to a small extent (mean of 3.2500). There was low variation on enough finance (standard deviation of .85183).Asset funding somehow low as compared with group loan but accessible by youth enterprises.

Due to access of funds in youth enterprise development funds the net profit margin has increased to some extent (mean of 3.8065). While its variation was low on net profit margin (standard deviation of 0.45402). It implies that youth enterprises develop accessibility has significantly affect youth enterprise profitability.

On the contrary Etemesi (2017) revealed that due to collateral most of the youth were not able to access loan. In the current the terms were flexible to allow group borrowing of youth enterprise funds and hence increase accessibility without the use of collateral security.

Table 2: Financial Performance

	N	Minimum	Maximum	Mean	Std. Deviation
Access to credit facilities has enabled the youth Small and Micro Enterprises to net profit ratio in the business invested.	124	2.00	5.00	4.2903	.63469
Financial advisory service has enabled the youth Small and Micro Enterprises utilized there resources increasing the net profit ratio in the business invested.	124	1.00	4.00	3.4194	.73359
Capacity building has played a role in providing human resource development increasing return on asset of Small and Micro Enterprises.	124	1.00	4.00	2.8468	.68722
Monitoring and evaluation of business has given Small and Micro Enterprises youth to increase the net profit ratio in the businesses.	124	2.00	5.00	3.7339	.67606
Youth development strategies utilized has affected the financial performance of the Small Medium Enterprises.	124	2.00	5.00	3.7581	.60312

Table 2relates to financial performance response. The results of, access to credit facilities indicates that it has great effect on youth SMEs' net profit ratio in the business invested (mean of 4.2903). Its variation on net profit ration is low (standard deviation of .63469). It implies that access to credit had significant implication in the youth enterprise profitability.

According to the results the financial advisory service had enabled the youth Small and Micro Enterprises to utilized their resources to moderate level affecting improving somehow the net profit ratio in the business invested (mean of 3.4194). Financial advisory had low variation on net profit ration (standard deviation of .73359). This implies that financial advisory service has assisted to some extent in resource utilize and improvement of profitability in youth enterprise.

The results further reveals capacity building had not played a major role in providing human resource development increasing return on asset of Small and Micro Enterprises (mean of 2.8468). The variation of capacity building was low (standard deviation of .68722). Therefore, the government should improve in capacity building since it contributes low effect on return on asset in SMEs.

Monitoring and evaluation of business had moderately effect on Small and Micro Enterprises youths' net profit ratio in the businesses (mean of 3.7339). There was low variation on monitoring and evaluation of the business (standard deviation of .67606). This implied that monitoring played some important role in improving the net profit ration of youth enterprises.

According to the results youth development strategies utilized had moderately affected the financial performance of the Small Medium Enterprises (mean of 3.7581). Its variation on financial performance was low (standard deviation of .60312). Its implies that youth enterprise strategies assisted to some significant extent the financial performance of SMEs.

ANOVA analysis tested the significance test for the hypotheses based 5%.

Table 3: ANOVA for Access to Credit and Financial Performance

			Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Financial Performance * Access to Credit	Between Groups	(Combined)	30.318	9	3.369	40.041	.000
	Within Groups		9.591	114	.084		
	Total		39.908	123			

Table 3 represented ANOVA results for access to credit and financial performance. According to the findings there was significant relationship between access to credit and financial performance (F = 40.041, P =.000<.05). This implies that a change in access to credit through enterprise development funds strategies enable the SMEs to change their financial performance.

Conclusions

The study concluded that access to credit had positive significant effect on financial performance of SMEs. This contribution was highly contributed by group loan strategy used by SMEs in accessing funds. Group lending enables the youth to share payment and increase responsibilities among the group members. The access of credit was contributed by attainable credit access requirements and flexible in evaluation of SMEs when accessing credit facilities. However, there is need to improve the access to asset funding to ensure improvement of SME financial performance.

Recommendations

The study recommended to youth enterprise funds stakeholder to continue in improving flexibility and accessibility credit requirement of group loans based on its performance as oppose to asset funding. Through group lending the stakeholders can use guarantors of other members to access funds. These also have showed that it also promotes other group growth through combined knowledge. Other group loan access strategies can be developed to enable a larger number of youth involved with different business activities. The loan programmes should reach many groups for employment as well as growth purposes.

References

[1]. Adjei, D. (2012). *Micro, Small and Medium Scale Enterprises in Ghana: Challenges and Prospects: A case study of Sekondi-Takoradi Metropolis.* Ghana: Unpublished Paper.

[2]. Central Bank of Mozambique. (2013). *The Banks of Mozambique.* Mozambique: Annual Report.

[3]. Etemesi, E. (2017). *Credit Access from Commercial Banks and Growth of Small and Micro Enterprises in Nairobi Central Business District.* Nairobi, Kenya: United States International University Africa.

[4]. Jerono, S. (2017). *Determinants of Financial Accessibility by Small and Medium Enterprises in Eldama Ravine Sub-County, Kenya.* Nairobi: Unpublished JKUAT Report.

[5]. Kuddo, A., Robalino, D., & Weber, M. (2015). *"Balancing Regulations to Promote Jobs. From Employment Contracts to Unemployment Benefits": Working Paper.* Washington, DC: World Bank.

[6]. Mutai, D. (2015). *Factors influencing accessibility to finance by small scale women enterprises in Sotik Sub County, Bomet County.* Nairobi: Unpublished University of Nairobi Report.

[7]. Mwangi, P. (2011). *Access to finance and performance of small and medium enterprises.* Uganda: Unpublished Makerere University Report.

[8]. Nduta, K. (2016). *Influence of entrepreneurial training on business growth of small and medium enterprises among youth driven initiatives in Nairobi County, Kenya.* Nairobi, Kenya: University of Nairobi.

[9]. Nguyen, T., Gan, C., & Hu, B. (2015). An empirical analysis of credit accessibility of small and medium sized enterprises in Vietnam. *Munich Personal RePEc Archive*, Paper No.: 81911.

[10]. Wanjohi, M. (2012). *Challenges facing SMEs in Kenya and the efforts in progress.* Nairobi: Acts Press.

[11]. YEDF. (2019, 17 4th). *YEDF Status report 2011*. Retrieved from Youth Funds: http://www.youthfund.go.ke