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Research Article

EFFECT OF ACCESSING BANK CREDIT FACILITIES

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ABSTRACT

Credit facilities are defined as contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date. In the past, SMEs, particularly, in developing countries, lacked access to financial products and services. The SME market was perceived by banks as risky and costly to serve. However, with the continuing advancement in information and communications technology, the cost of serving SMEs has fallen and commercial banks now perceive significant opportunities in the SME sector. Despite the opportunities of financial services and products that exist, available studies show that about 44% of Kenyans are financially excluded and do not utilize financial services and products. Research findings in Kenya have also shown that over 50% of small scale entrepreneurs continue to have deteriorating performance with three in every five small scale enterprises failing within months of establishment. The purpose of the study was to find the effect of accessing bank credit facilities in Kibuye market, Kisumu County, Kenya. Cross sectional survey research design was used in this study. The study was carried out in Kibuye market, Kisumu County; Kenya. Target population was 5000 small scale enterprises. A sample size of 356 was determined using simple random sampling technique. Data were collected using structured questionnaire. Validity of instrument was established by a team of experts in the area of the study while reliability of the instrument determined using Cronbach alpha coefficient method. Data were analyzed using descriptive statistics and inferential statistics and presented in statistical tables, bar graphs and pie charts.

INTRODUCTION

Abiola (2011) defines credit facilities as contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date. SMEs are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by financial institutions. This is because the SMEs cannot provide the necessary collateral security demanded by these formal institutions. The banks also find it difficult to recover the high cost involved dealing with small firms (Quaye, 2011). Statistically, SMEs are reported to have high failure rates making it difficult for lenders to asses accurately the viability of the enterprise. Availing financial services and products to SMEs plays an important role in influencing how they conduct their business as they need a range of enabling and sustaining financial services in order to enable them effectively utilize plentiful resources in their specific field of specialization to maximize their profit. Longeneker, Petty, Moore and Palich (2006) as cited by Kinyua (2012) stated that starting and operating a small business includes a possibility of success as well as failure.

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Improper financing and poor management coupled with lack of planning have been postulated as the main causes of failure of small entrepreneurs. Kinyua (2012) further stated that lack of credit facilities has also been identified as one of the most serious constraints facing SMEs and hindering their development. According to the findings of a study by Joeveer 2006, banks loans have a significant positive effect on most performance indicators of SMEs in the transition economies. GoK (2013) stated that SMEs have continued to face challenges related to accessing credit because commercial banks are still bargaining with the issue of collateral, therefore SMEs are greatly affected when they don't access credit facilities. Literature from the studies above stated that lack of credit facilities seriously constrains SMEs in development. Sievers and Vanderberg (2004) hold the view that accesses to financial services are important for growth and development of SMEs. Financial services provided to SMEs include financial products and services such as savings, credit, insurance and payment systems. The principal credit facility available to the SMEs is short term loan. Accessing finance has been identified as a key element for SME to succeed in their drive to build productive capacity, to compete, create jobs and contribute to the poverty alleviation in developing countries.

A report by UNCTAD (2002) holds the view that SMEs in Africa can rarely meet the conditions set by financial institutions, hence without finance SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms. Micro-entrepreneurs are asked to make complex financial decisions in form of saving decisions or in business context as small business owners. However, a growing literature shows a large portion of the Kenyan population is underprepared to make these decisions. Equity Group Foundation for example finds low levels of financial literacy in the Kenyan population. EGF estimates that there are close to seven million youth in need of finance training. In addition, eleven million people do not have access to financial services, especially the youth and those living in rural areas. Literatures from different studies have stated that lack of credit facilities seriously constrains SMEs in development and succeeding financially. However, even though these studies focused on the importance of credit facilities, they left out the effect brought about by accessing credit facilities. This study was therefore set to fill this gap by examining the effect of accessing credit facilities by SMEs in Kibuye market.

While many studies have provided documentary evidence suggesting that access to credit facilities is effective, there's little evidence to show why SMEs do not embrace the use of the available credit facilities offered by commercial banks. Although attempts have been made by Financial Deeping Sector (FDS) Kenya, to enable SMEs access financial services and products through financial knowledge in major cities like Nairobi, Kibuye open air market is exceptional for these services have not been provided to the SMEs in Kibuye market. A few SMEs in Kibuye benefit from credit facilities and have made significant profit, majority of SMES owners however are affected by the lack of credit facilities. It is for this reason that the researcher intended to carry out a research on the effect of credit facilities on the profitability of SMEs in the market. Several scholars have studied the relationship between the effects of financing on the performance of SMEs, for instance Pissaides and Svejnar (2006) looked at bank lending and performance of SMEs using evidence from Bulgaria, Georgia, Russia and Ukraine and established that the effect of loans on the performance indicators varies somewhat across countries. In Nigeria, Idowe (2012) found that the impact of finance on SMEs establishes positive contributions on their performance. Findings from a case study of SMEs in Mbarara Municipality by Akisirime (2010) revealed that there exists a positive relationship between credit terms and SMEs performance.

In Kenya, a case study of village bank model in Bomet District by Langat (2009) established that income of credit participants was higher than that of none-participants. Nabuitu (2013) observed the factors affecting the performance of SMEs traders at the City Park Hawkers Market in Nairobi County Kenya and concluded that access to financial services affected the performance of the business to a great extent. According to Kimenyi and Ndung'u (2009), a large body of evidence shows that access to financial services and that indeed overall financial development is crucial to economic growth and poverty reduction. They further stated that Kenyan households did not have bank accounts and relied on informal sources of finance. This inaccessibility to financial services including credit facilities has made SMEs vulnerable to economic loss thereby making them economically unproductive. A crucial element in the development of SME sector is the access to finance, particularly to bank financing. Studies done by World Bank reveal that access to finance are perceived as one of the main obstacles in doing business (World Bank2008). A number of studies have also shown that financing is a great obstacle for SME than it is for large firms, particularly in the developing world, and that access to finance adversely affect the growth of SME sector (Schiffer and Weder, 2001; Beck *et al*, 2005; Beck *et al*, 2006). George (2008) states that when clients borrow multiple sources, for instance, Micro Finance Institutions (MFIs) and other formal and informal providers, juggling repayment schedules and making sure that the credit is used to its best advantage adds to a level of complexity that can be very challenging to manage. Under such circumstances, forward looking strategies are necessary, and these require specific knowledge, skills and attitudes about financial management. Anticipated outcomes include changes in client behaviors and practices in money management such as saving regularly making a budget and working towards a financial goal. Kimenyi and Ndung'u (2009) in their findings, give evidence that shows that access to financial services is crucial to economic growth. While other scholars have also emphasized that credit facilities impact positively on the performance of SMEs, what remains unclear is the effect brought about by accessing bank credit facilities. This study therefore sought to fill this gap by examining the effect of accessing bank credit facilities in Kibuye market.

RESEARCH METHODOLOGY

Research Design

This study adopted a cross-sectional survey research design. This design was selected because it provides a numeric description of the fraction of the population – the sample - through data collection process, using a questionnaire and observation guide at one point in time, with the findings being generalized to a population (Creswell, 2009).

Study Area

Kibuye is located on Kisumu Kakamega road approximately 4 km from Kisumu city on coordinates 0.5'34"N 345°46'6"E. It borders Kondele and Shaurimoyo estate. Traders as far as Uganda, Tanzania and other parts of Kenya converge in Kibuye market to take part in business activities. Kibuye market, also known as melting pot of Kisumu attracts approximately 5000 traders and 100,000 customers on Sundays. (Omulo, *2012*). Kibuye market is the main retail outlet for all the agricultural produce that flows from the entire Nyanza region and beyond (*ibid*). This made it a good area for this study

Target Population

The population comprised of 5000 men and women with small size enterprises in Kibuye market, aged between 18 and 45 years. These were residents within the area of study.

Sample Size Estimation

A sample size of 356 was determined using Kotharis's formula denoted by:

$$n = \frac{Z^2 pq.N}{e2\,(N-1) + Z^2\,.p.q}$$

Where n= Sample

Z= Standard variate at a given confidence level

P= Sample proportion of success, q = 1- p

q= Proportion sample that has desired characteristics.

N= Size of the population

e= Accepted error

$$n = \frac{(1.96)^2\,(0.5)\,(5000)}{(0.05)^2\,(5000 - 1) + 1.96^2\,(0.5)\,(0.5)}$$

$$= \frac{4802}{13.4579}$$

n= 356

Simple random sampling was then to extract the sample from the population. This sampling technique allows all the individuals in the defined population to have an equal and independent chance of being selected as a member of the sample (Kombo and Tromp, 2006). Gender parity was observed while drawing up the list of respondents.

Data Collection Procedure

The researcher issued questionnaires prepared for the respondents. Questionnaires were used to collect information according to objectives and research questions. Before data collection, the researcher sought permission from the relevant authorities to collect data; the researcher then visited the County commissioner office and sought permission to visit the respondents within the area of study. The researcher then contacted the respondents, explained to them the reason for the study for the research and familiarized himself with the area of study. He then personally issued questionnaires to the respondents which were collected after two weeks. The questionnaires were constructed to enable the researcher to collect information on the SMEs owner/managers basic knowledge credit facilities and the performance of their enterprises among others. On the collection days, the researcher checked the incomplete question items with the respondents.

Sources of Data

The researcher used both primary and secondary information. Primary information was obtained using questionnaires, while secondary information was from internet, journals and books.

Instrument for Data Collection

Data was collected using questionnaires. Questionnaire was constructed in both open ended and close ended questions. Open ended questions enabled the researcher to collect data on any emerging themes. The questionnaire was used to collect data on the relevance of credit management skills and finance management skills. The questionnaire consisted of structured questions and the questions were organized according to objectives.

Reliability Test for Data Collection Instrument

Reliability of the instrument was determined using Cronbach's alpha coefficient method. This was carried out on 10 people of the population and the reliability coefficient of 0.838 was attained, the instrument was considered reliable (Umbach 2005).

Validity for Data Instruments

Validity of the instrument was established by giving the instrument to two experts in the area of study for scrutiny. They determined that the instrument measured what they purported to measure. The results after reliability and validity were factored into reconstruction of objectives and research questions.

Data Analysis and Presentation

Data analysis and interpretation are the central steps in the research process. The aim of analyzing data is to summarize the collected data in such a way that they provide answers to the question that motivated the research. Interpretation on the other hand is the search for the broader meaning of the research findings (Gwako, 2012). In this case, the questionnaires were modified for the purposes of checking completeness, clarity and consistency in answering the objective of the research. The analyzed data were presented by way of tables and frequency distributions and bar graphs and pie charts.

RESULTS AND DISCUSSSION

The effect of accessibility of credit facilities on Small Scale Enterprises

Table above gives the statistics on the effects of access to financial services upon profitability. With regards to the kind of financial support the respondents get from the bank, most of them indicated that they get loans. On the effect of the financial support on their businesses; the respondents cited little effect though it is positive. On the condition that has a greater effect on the accessibility to financial services, competition, taxation and high compliance all had little effect, corruption had a great effect while other costs not captured by the questionnaires had moderate effects.

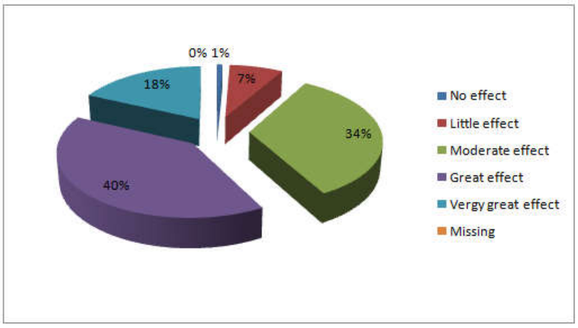
Table 1. Statistics on the Effects of Financial Services on Profitability

	Support	Support effect	Effect finance	Competition	Taxation	Corruption	High Comp	Any other	Cond effect	Kind effect
Mean	1.33									
Mode	1	4	4	4	4	2[a]	4	3	4	1
Std. Deviation	.796	1.274	.580	1.137	1.011	1.116	1.078	.922	.885	.239
Skewness	2.747	-.832	3..61	-.328	-.253	.045	-.256	.187	-.227	3.742
Std. Error of Skewness	.233	.209	.212	.212	.212	.212	.212	.279	.210	.210

a.Multiple modes exist.
The smallest value is shown

With regard to the effect of financial support of the business, the responses were captured on the pie chart below: -

From the figure above, majority of the respondents indicated that access to financial services has a great effect on their businesses. This stood at 37.86%. Response on moderate effect was at 32.14%, very great effect was at 17.14%, little effect was at 7.14%, no effect was at 0.72%.



Pie Chart 1. Effect of Financial Services on profitability

These findings lend support to the findings of Joeveer (2006) who stated that bank loans have a significant positive effect on the performance on SMEs. These findings also confirms the work of Sievers and Vanderberg (2004) who argued that access to financial services are important for growth and development of SMEs. Regression model indicates that the effect of financial support is also very significant in the determination of profitability at 5% level of significance. They are positively related and an increases of financial access by a unit leads to an increase in profitability increases by 9.6%.

Summary and Recommendation

Summary

The objective of the study sought to examine the effect of accessing credit facilities on the SMEs. The findings revealed that access of credit facilities have a positive and significant influence on the profitability determination. This implies that as SMEs access credit facilities, their profits also increase. A unit increase of credit facilities leads to an increase in profit by 9.6%

Conclusion

From the findings of the objective of the study, there exists a positive and significant influence between access of credit facilities and profitability, it can be concluded that access to credit facilities contribute positively to the profits of SMEs

Recommendation

Based on the conclusion of the objective, that there exists a positive influence between accessing credit facilities and profitability, the study recommends that SMEs take the advantage of accessing and utilize affordable credit facilities to achieve financial performance.

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