Effect of Credit Awareness on the Performance of Micro and Small Enterprises in Isiolo County

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Abstract

The limited access to informal and formal credit by entrepreneurs has been identified as a major constraint to growth of micro and small enterprises in Isiolo County. The County is also characterized by high level of unemployment, particularly among the youths, nomadic life and low educational levels and all these can be attributed to limited access to credit. The study sought to establish the influence of credit awareness on performance of micro and small enterprises in Isiolo North Sub-County. Descriptive survey research design was adopted. The unit of analysis was 120 micro and small enterprises within Isiolo Town. The unit of observation was owners or managers of the businesses. Data was collected through structured questionnaires. Data was analyzed using descriptive and inferential statistics. The findings revealed that credit awareness had a positive and significant effect on performance of micro and small enterprises. The study concluded credit awareness significantly contributed to the performance of micro and small enterprises. The study recommended the need for financial institutions to strengthen aspects related credit awareness. They should specifically enhance visit to business premises by credit officers, organize seminars and provide timely and accurate information about credit micro and small enterprises' owners.

Keywords: *Credit awareness, Performance, Micro and Small Enterprises, Isiolo County*

1.0 Introduction

Different meanings of Micro and Small Enterprises (MSEs) exist. These meanings vary from nation to nation, or even from continent to continent (Mezgebo, Ymesel & Tegegne, 2017). The concept of MSE in the Kenyan sense is focused on the number of workers. A micro business has 1-9 staff and a small business has 10-49 staff. MSEs are listed in Kenya using two major criteria: the number of people / employees and the average turnover of the company (Kivinda, 2018). For companies in the manufacturing sector, investment in plants and equipment as well as reported capital is taken into account in the description. The change to various degrees of the economies of many nations worldwide is attributed to MSEs (World Bank, 2015). MSEs, which make up 95 percent of all firms, are a dominant feature of the global business scene, according to the Edinburg Community (2013). In addition, these entrepreneurial projects account for about 60 percent of private sector job opportunities.

According to the World Bank Report (2015) on the status of MSE in European countries, as they have realized the transformative position of MSEs, governments, development banks and central banks need to invest tremendously in this market. The European Commission (2016) considers micro and small-sized enterprises (MSEs) as the bedrock of Europe's economy, representing 99% of the continent's entrepreneurial transactions. Since 2011, around 85 per cent of all new jobs have been generated by MSE. In the production and growth of Micro and small Enterprises in Europe (MSE Europe), an organization that seeks to control EU policy in a way that benefits MSEs, the focus on MSEs as motors of the European economy is obvious (MSE Europe, 2016).

Small enterprises account for nearly 99.3 percent of private sector companies by January 2015, with 99.9 percent of these companies being MSEs, according to the United Kingdom Department of Innovation and Skills (2015). Moreover, 15.6 million workers are hired by micro and small-sized businesses, about 60 percent of the total private sector work force in Britain. 95 per cent of businesses are MSEs in Azerbaijan, Moldova, Armenia, Georgia, Ukraine and Belarus (EBRD, 2016). The Edinburg Group (2013) reported that 95% of businesses are MSEs in OECD countries and contribute about 55% to national GDPs.

The economic development of Africa is also driven to a large degree by MSEs. 90 percent of all firms are MSEs in Sub-Saharan Africa (IFC, 2016). For instance, MSEs account for 91% and 92% of all enterprises in South Africa and Ghana, and contribute more than half of their national GDPs, respectively. 93% of all manufacturing companies in Morocco include those types of businesses (The Edinburg Group, 2013). Citing the case of Angola, Sousa dos Santos (2010) claims that MSEs in African countries are pivotal to economic development. In Nigeria, MSEs have a problem with credit accessibility (Eneh, 2017). The author argued that MSEs were not customer-friendly in lending procedures and that the credit system was poor in screening loan eligible borrowers, leaving potential borrowers unable to access credit.

The MSE in Kenya are characterized as businesses in the formal and informal sectors, categorized into agricultural and non-farm categories, employing 1-49 employees. MSEs are estimated to contribute approximately 45% of Kenya's GDP and constitute 90% of all enterprises. In addition, these corporations are critical to the achievement of the targets of Vision 2030 (Muriithi, 2017). Syekei and Opijah (2015) argue that Kenya's government recognizes the value of this sector by enacting many MSE support laws, including the 2011 MMSE Act. It is in this context that MSE need coordinated public and private stakeholder attention. In order to create reliable, pragmatic and remedial strategies for greater viability and sustainability of MSEs, such a vital factor in economic growth requires in-depth empirical studies to draw up acceptable constraints. Given their unambiguous and vital contribution to national and global economic growth, micro and small-sized enterprises are constrained by multiple challenges, the primary one being the lack of or insufficient support. Financing is perceived to be a big impediment to MSE success in Europe by the European Commission (2016). CNBC Africa (2014) believes that for South Africa's MSE development, access to credit is crucial.

Isiolo County is emerging as a hub for entrepreneurial opportunities following the county's growth in the recent years. Some of the notable development include Isiolo International airport. The town is also described as the gateway to the Northern Frontier, and with the construction of the Isiolo-Moyale road, the vision 2030 resort city plan, the LAPSETT corridor among others (Mwenda, 2018). If hurdles to funding were eased in Isiolo County, a thriving MSE sector could contribute more to national economic growth (Gichuki, Njeru & Tirimba, 2014).

1.1 Statement of the Problem

Globally, MSE business is regarded as a critical economic development pillar. In Kenya, it is estimated that over 80% of employment opportunities are provided by the MSE sector (KNBS, 2019). According to sessional paper no. 10 of 2012, Isiolo County has been identified as a gateway for development of Northern parts of Kenya. Consequently, the county is emerging as a hub for entrepreneurial opportunities and has attracted businesses of all kinds (Muriithi, 2017). Nonetheless, businesses in Isiolo County still face serious challenges that impede their performance.

Entrepreneurs have established restricted access to informal and formal credit as a major constraint to the growth of MSEs in Isiolo County (Karanja, Mwangi & Nyakarimi, 2016). The County is also characterized by high level of unemployment, particularly among the youths, nomadic life and low educational levels (Were, 2017), and all these can be attributed to limited access to credit. A report by USAID (2018) revealed that the poverty rate in Isiolo County was 72.6%. The high poverty level is indication that the MSE businesses in this County are not doing well. If they were performing well, then the poverty rate and unemployment levels ought to be declining. There is need therefore to determine the role of credit accessibility in influencing success of MSE businesses in Isiolo County. The decline in credit accessibility among businesses has been linked to several factors such as lack of collateral, high cost of credit, information asymmetry and lack of financial literacy (Kangala, 2016). This study evaluated the impact of credit awareness on MSE business success in Isiolo North Sub County by testing the hypothesis (H_{01}) that; there is no significant relationship between credit awareness and performance of MSE's business in Isiolo North Sub-County.

2.0 Theoretical Framework

The theory guiding this study is the Asymmetry Theory. Akerlof, Spence and Stiglitz (2001) developed the idea that knowledge asymmetry occurs in a lending market when a borrower who takes out a loan typically has greater information on the possible costs and returns associated with investment projects for which the funds are distributed. In the other hand, the lender does not have sufficient borrower-related information, as assumed information asymmetry poses two issues for financial institutions, moral hazard and adverse selection. MFIs find it difficult to solve these challenges because, as in the case of MFI loans, it is not feasible to dedicate energy to determining and recording where lending is for small sums.

This is because information is needed for the processing of applications and the tracking of borrowers is not readily accessible when and when it is necessary by financial institutions before lending to their customers. Therefore, when reviewing lending demands, MFIs face a condition of information asymmetry (Binks & Ennew, 2004). Derban, Binner and Mullineux (2011) proposed that borrowers should be screened in the form of credit tests, in particular by banking institutions. In achieving efficient screening, as demonstrated by asymmetric information theory, the gathering of accurate information from prospective borrowers becomes crucial. In evaluating the borrowers, qualitative and quantitative approaches may be used, but their subjective aspect is one of the key difficulties in using qualitative models.

However, according to Derban et al. (2011), volumes using qualitative calculations for the sum of the properties relative to a threshold can be attributed to borrowers' characteristics. This strategy lowers material costs, lowers individual decisions and implicit biases. If it suggests improvements in the anticipated amount of credit loan defaults, the rating systems would be significant.

The theory is imperative in the current study since it explains the idea of information asymmetry in the debt market. In the case of information asymmetry, one party either the lender or the borrower lacks awareness about some crucial information that is likely to affect their credit decisions. This study focuses on credit awareness as a determinant of credit access by MSE. The theoretical prediction is that credit awareness determines credit accessibility, which may influence MSE success. The current analysis finding confirms Asymmetry Theory prediction that credit awareness determines credit accessibility, which may influence performance of MSE. Credit awareness had a significantly positive impact on performance of MSE.

2.1 Empirical Review

The effect of financial literacy on the success of micro and small enterprises in Sri Lanka was investigated by Menike (2018). The analysis examined the financial literacy of MSE members, namely their financial behaviour, financial impact, financial attitude and financial awareness of their business results. The findings indicate that micro and small-sized firms' financial knowledge, financial implications, and financial conduct have a positive impact on their corporate success, while financial practices have no statistically significant relationship with MSEs' results. It also shows that they are aware of the importance of financial statements and are more likely to follow their background, history, and what they have seen on paper, mainly for the benefit of their companies' performance. The study is relevant to the current research since it focused on financial awareness. However, a contextual gap exists since the study was carried out in Sri Lanka and not Kenya.

The study by Bello and Isola (2016) concentrated on factors influencing access to finance by MSEs in Mozambique. Findings indicated that the level of awareness by the borrower about monetary credit can prompt low or high credit availability of budgetary credit by little and miniaturized scale undertaking. The study concluded that information flow in financial markets is important to both the lender and borrower. Similarly, Osano and Languitone (2016) established that MSE access to credit facilities was significantly related to awareness about funding. The studies are relevant since they focused on credit awareness. However, they did not focus on performance of MSEs, thus presenting a conceptual gap.

A study by Mapunda (2016) on the role of formal financial institutions and development finance intervention in Tanzania established that lack of financial awareness among players in the MSEs sector works against the sector growth. The study used descriptive research design and revealed that with limited business knowledge, MSEs have very few associations that represent them in the region. Low credit awareness is one of the main reasons why MSE sector cannot lobby for better priced credit facilities. There is asymmetrical flow of information among various actors in the sector. Illiteracy and lack of organizations that can promote sharing of information curtail access of MSEs to credit facilities. The study focused on credit awareness; however, it did not investigate performance of MSEs in Kenya.

The paper by Jagongo and Kerage (2015) analyzed how the distribution of credit information sharing has influenced commercial banks' performance in Kenya. Census surveys of all commercial banks were adopted by the report. The research spans a five-year period from 2008 to 2012 and success is assessed to draw conclusions by financial ratios. The results revealed that the exchange of credit information contributed to better financial success for commercial banks in Kenya. However, the analysis concentrated on the results of banks and not MSE.

3.0 Research Methodology

The study adopted a descriptive survey research design. The unit of analysis was 120 micro and small enterprises within Isiolo town. The unit of observation was owners or managers of the businesses. Because of the small size of target population, the study did not conduct sampling but adopted a census sample design. Data was collected through structured questionnaires. Data was analyzed using descriptive statistics in order to ascertain the extent of practice of the variables. Pearson's correlation was used to establish whether there exists any relationship between credit awareness and performance of MSE enterprise businesses.

4.0 Results and Discussion

The analysis involved descriptive statistics and correlation analysis.

4.1 Descriptive Statistics on Credit Awareness

The participants were asked to state whether they agree or disagree with assertions on credit awareness. Table 1 shows the outcome.

Table 1: Descriptive Statistics on Credit Awareness

Statements	1	2	3	4	5	M
The credit officers visit the business premises to inform us about loan products	2(2.1%)	10(10.3%)	2(2.1%)	36(37.1%)	47(48.5%)	4.2
I regularly attend seminars providing education on credit accessibility	4(4.1%)	19(19.6%)	1(1%)	40(41.2%)	33(34%)	3.8
I receive information about credit products from financial institutions on time and therefore am able to make decisions on whether to apply for the loan	6(6.2%)	11(11.3%)	2(2.1%)	45(46.4%)	33(34%)	3.9
Financial institutions provide accurate information about credit and therefore it's easier to make a decision on whether to borrow or not	5(5.2%)	24(24.7%)	0(0%)	48(39.2%)	30(30.9%)	3.7

1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree

The findings in Table 1 reveal that most of the participants agreed with the following claims on credit awareness: the credit officers visit the business premises to inform us about loan products (85.6%, m=4.2), they regularly attend seminars providing education on credit accessibility (75.2%, m=3.8), they receive information about credit products from financial institutions on time and therefore am able to make decisions on whether to apply for the loan (80.4%, m=3.9), and   financial institutions provide accurate information about credit and therefore it's easier to make a decision on whether to borrow or not (70.1%, m=3.7). This implies that credit awareness is a critical element for enhancing credit accessibility among micro and small enterprises. Based on the respondents' views, the following aspects are essential in promoting credit awareness: visit to business premises by credit officers, seminars, timely and accurate information about credit. This confirmed Jagongo and Kerage (2015) findings that the exchange of credit data contributed to better business financial efficiency.

The participants were requested to rate their satisfaction with credit awareness and the performance of their business.
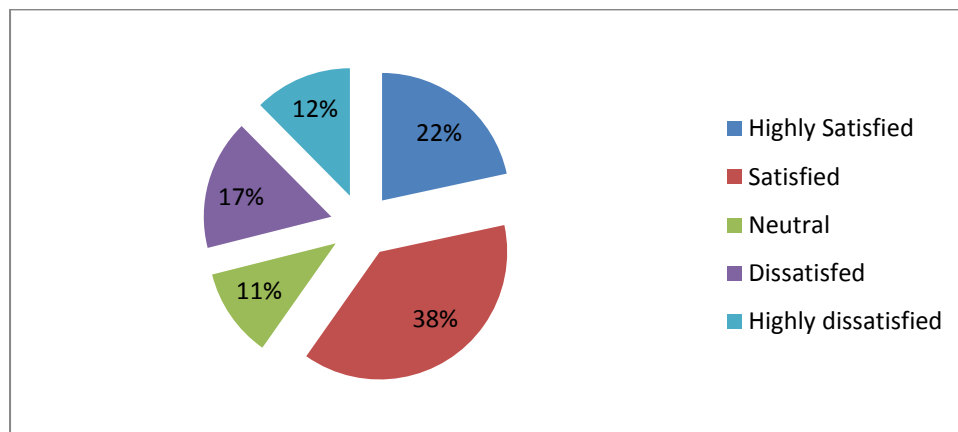
Figure 1: Satisfaction with Credit Awareness

The findings in Figure 1 reveal that 38% of the participants were satisfied with the credit awareness, 22% were highly satisfied while 17% were dissatisfied. The findings confirm the respondents' views in Table 1 that credit awareness is a fundamental component in enhancing credit accessibility among MSE.

4.2 Descriptive Statistics on Performance of MSEs

The participants were asked to state whether they agree or disagree with assertions on performance of MSE. The outcomes are indicated in Table 2.

Table 2: Descriptive Statistics on Performance of MSEs

Statements	1	2	3	4	5	M
I have increased the number of products/services since the start of the business.	4(4.1%)	8(8.2%)	2(2.1%)	36(37.1%)	47(48.5%)	4.18
My sales volumes have increased since the start of the business.	2(2.1%)	11(11.3%)	3(3.1%)	41(42.3%)	40(41.2%)	4.09
My business profits have increased since the start of the business.	6(6.2%)	11(11.3%)	2(2.1%)	41(42.3%)	37(38.1%)	3.95
The number of customers has increased since the start of the business.	8(8.2%)	14(14.4%)	0(0%)	36(37.1%)	39(40.2%)	3.87
My business market presence has expanded since the start of the business.	2(2.1%)	11(11.3%)	2(2.1%)	48(49.5%)	34(35.1%)	4.04
My business returns from investment have increased since the start of the business.	3(3.1%)	17(17.5%)	4(4.1%)	32(33%)	41(42.3%)	3.94

1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree

The findings in Table 2 reveal that most of the participants agreed with the following statements on performance of MSE: they have increased the number of products/services since the start of the business (85.6%, m=4.18), their sales volumes have increased since the start of the business (83.5%, m=4.09), their business profits have increased since the start of the business (80.4%, m=3.95), the number of customers has increased since the start of the business (77.3%, m=3.87), their business market presence has expanded since the start of the business (84.6%, m=4.04), and their business returns from investment have increased since the start of the business (75.3%, m=3.94). This implies that products/services, sales volumes, business profits, number of customers, business market presence and business returns from investment are key indicators of business performance. The improvement in performance of the MSEs can be attributed to credit accessibility components.

The participants were asked to rate the extent to which their business performance has improved in the last five years in line with the stated performance constructs. The outcomes are illustrated in Table 3.

Table 3: Improvement in Business Performance

		0-20%	21-40%	41-60%	61-80%
Sales	2015	39.2%	30.9%	29.9%	0.0%
	2016	29.9%	37.1%	33.0%	0.0%
	2017	35.1%	32.0%	33.0%	0.0%
	2018	32.0%	30.9%	37.1%	0.0%
	2019	32.0%	35.1%	33.0%	0.0%
Profits	2015	37.1%	20.6%	14.4%	27.8%
	2016	21.6%	24.7%	25.8%	27.8%
	2017	20.6%	33.0%	24.7%	21.6%
	2018	27.8%	14.4%	29.9%	27.8%
	2019	23.7%	34.0%	21.6%	20.6%
Number of Customers	2015	27.8%	35.1%	37.1%	0.0%
	2016	25.8%	40.2%	34.0%	0.0%
	2017	33.0%	39.2%	27.8%	0.0%
	2018	35.1%	25.8%	39.2%	0.0%
	2019	37.1%	35.1%	27.8%	0.0%
Products/ services	2015	30.9%	40.2%	28.9%	0.0%
	2016	36.1%	33.0%	30.9%	0.0%
	2017	41.2%	28.9%	29.9%	0.0%
	2018	26.8%	41.2%	32.0%	0.0%
	2019	32.0%	35.1%	33.0%	0.0%

The results indicate that 39.2% of the respondents noted that their sales improved by 0-20% in 2015, 37.1% noted that the sales improved by 21-40% in 2016, 35.1% noted that the sales improved by 0-20% in 2017, 37.1% noted that the sales improved by 41-60% in 2018 and in 2019, 35.1% of the respondents observed that the sales improved by 21-40%.

The findings also reveal that 37.1% of the respondents noted that their profits improved by 0-20% in 2015, 27.8% noted that the profits improved by 61-80% in 2016, 33% noted that the profits improved by 21-40% in 2017, 29.9% noted that the profits improved by 41-60% in 2018 and in 2019, 34% of the respondents observed that the profits improved by 21-40%.

The results further indicate that 37.1% of the respondents noted that their customers improved by 41-60% in 2015, 40.2% noted that the number of customers improved by 21-40% in 2016, 39.2% noted that the number of customers improved by 21-40% in 2017, 39.2% noted that the number of customers improved by 41-60% in 2018 and in 2019, 37.1% of the respondents observed that the number of customers improved by 0-20%.

Additionally, the results reveal that 40.2% of the participants noted that their products/services improved by 21-40% in 2015, 36.1% noted that the products/services improved by 0-20% in 2016, 41.2% noted that the products/services improved by 0-20% in 2017, 41.2% noted that the products/services improved by 21-40% in 2018 and in 2019, 35.1% of the respondents observed that the products/services improved by 21-40%.

4.3 Correlation Analysis

This section provides findings on the correlation between credit awareness and performance of MSEs.

Table 4: Correlation Matrix

		MSE Performance	Credit Awareness
MSE Performance	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Credit Awareness	Pearson Correlation	.792**	1.000
	Sig. (2-tailed)	.000	

** Correlation is significant at the 0.01 level (2-tailed).

The outcome also show that credit awareness (r =.792**, P = .000), had a strong positive and significant association with the performance of MSE. The null hypothesis (H_{01}) predicted that there was no positive relationship between credit awareness and performance of MSE. The computed *P*-value was 0.000 at 95% confidence level implying that credit awareness had a positive and significant association (r= .792) with performance of MSE. The null hypothesis was therefore rejected and settled that there was a noteworthy connection between credit knowledge and MSE output in Isiolo North Sub-County. The results imply that credit awareness significantly contribute towards performance of MSE. The findings concur with Menike (2018) assertion that financial knowledge impact positively on firm performance.

5.0 Conclusion

The research concluded that credit awareness has a statistically important and direct connection with the success of MSEs in Isiolo North Sub-County. Moreover, when combined with other variables, credit awareness had a significant predictive ability to influence performance of MSE's business. A number of credit awareness related aspects were identified. These are: visit to business premises by credit officers, seminars, timely and accurate information about credit. These aspects are essential in enhancing credit accessibility for improved MSE business performance.

6.0 Recommendations

Credit awareness had a statistically significant and positive relationship with performance of MSE's business in Isiolo North Sub-County. The study recommends the need for financial institutions to strengthen aspects related credit awareness. They should specifically enhance visit to business premises by credit officers, organize seminars and provide timely and accurate information about credit to MSE owners.

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