An Evaluation of the Relationship between Access to Credit and the Performance of Micro Enterprises

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ABSTRACT
Micro enterprises (MEs) have become important players in the Zambian economy, but at the same time they continue to face constraints that limit their development. Lack of access to credit is one of the main constraints, and a number of factors have been identified to explain this problem. These include the segmented and incomplete nature of financial markets, which increases transaction costs associated with financial services. On the supply side, most formal financial institutions consider MEs not creditworthy, thus denying them credit. This study sought to find out whether there is relationship between access to credit and performance of MEs in central business centre in Kitwe.

The study employed a qualitative analysis as well as chi square analysis to analyse the data collected. The target population under study was the hardware stores in central business centre in Kitwe. Purposive sampling of MEs in the central business centre in Kitwe was done based on the streets where they were located. A sample of 60 MEs within the central business district was selected for the survey. Quantitative data was analysed with the use of statistical package for social sciences (SPSS).

Spearman correlation found that there was a weak positive relationship between access to credit and firm performance. The study recommends financial institution to have special lending structures for MEs to enable them access credit.

1.0 Introduction
Most of the government in Africa have embarked on the economic diversification to drive their economy forward and achieve higher rate of economic growth required to reduce poverty. The government of Zambia have also incorporated in its policy mechanism the aspect of prompting the activities of Micro Enterprises (MEs). The Zambian government policy framework has been around the copper industry for some time Saasa (2003). Yet, this has exposed the economy to external shocks as the performance of the copper industry is prone to various international events that are beyond the country of the government. To avert the problem of the overdependence on the copper industry, the government has put in place a policy to diversify the economy into other non-traditional exports. At the heart of this policy lies the emphasis on improving the performance of the MEs in Zambia. Many experts Alkaeli, (2007) have pointed out the importance of the MEs in the macroeconomic environment of the developing country like Zambia. As statistics show that the informal sector to which MEs belong contribute about 40% to the employment creation in Zambia Ministry of Finance Annual Report, (2012).

Prior to the trade liberalization in 1991, Zambia had a thriving clothing industry with companies such as Cereals in Luanshya, Mulungushi textile etc. These companies were supplying and meeting some of the clothing needs of the people in the country. The textile industry started facing a countless of operational problems after the trade liberalization that took effect in 1992. The problems forced the textile companies to close and as result the country had no firm producing clothes and shoes. In the after math of the foregoing, entrepreneurs opened hardware stores that started importing foreign made hardware from countries such as Italy, China, Thailand, South Africa, Malaysia and United Arab Emirates.

Microfinance institutions are widely thought of as institutions dedicated to assisting small enterprises, the poor and other households who have no access to the more conventional financial system in mobilizing savings and obtaining access to financial services. Small enterprises and most of the poor in sub-Saharan Africa have limited access to various financial services offered by its financial markets. For example, in Uganda and Tanzania, only about 5 to 6 per cent of the total population which need and can be served by financial institutions have access to the banking sector (World Bank, 2004). To meet unsatisfied demand for financial services, a variety of microfinance institutions have emerged over time in Africa. Some of these institutions concentrate only on providing credit, others are engaged in providing both credit and deposit facilities.
In Africa, as in other parts of the world, institutions offering microfinance services are diverse. These institutions include commercial banks, state owned development banks, private institutions, NGOs and postal offices. The last 20 years have seen significant advances in understanding and providing improved financial services to better advance economic development. This includes providing the financial services needed for people and small businesses to save money, access credit and start new business ventures which have the potential to enhance community development.

1.1 Problem Statement

Empirical studies done in Zambia include that done by Chanda (1995) to determine the impact of credit to MEs development. He found that clients reported improvement in their sales, profits, assets, cash flows, management practices and family welfare. New jobs and linkages with other organizations had also been created. This therefore, demonstrates that access to credit influences performance of MEs.

A number of studies have been done in this area, among the studies done include Banda, (2000) studied influence of credit rationing on the operation of MEs Mwango (2003). Muzyamba (2006) studied the responses of micro finance institutions in Zambia to the turbulent business environment. Mutoti (2009) studied risk management strategies adapted by commercial banks in lending MEs. None of the foregone studies have undertaken to determine the relationship between access to credit and the performance of MEs central business centre of Kitwe. In this study therefore the researcher seek to fill this gap by carrying out a survey to find out the performance of MEs as a result of credit access.

1.2 RESEARCH OBJECTIVES

1.2.1 General objective

- To establish the relationship between access to credit and performance of Micro Enterprises in Kitwe.

1.2.2 Specific Objectives

1. To verify the relationship between access to credit and the performance of Micro Enterprises.
2. To identify factors that affect performance of Micro Enterprises.
3. To evaluate whether Micro Enterprises have adequate access to microfinance

1.3 Hypotheses

From the background literature and the problem statement presented in this chapter, the researcher test the hypothesis aimed at establishing the relationship between access to credit and the performance of micro enterprises such as hardware stores in central business centre of Kitwe. The research study tests the following hypotheses:

“There is a relationship between independent and depend variables”

LITERATURE REVIEW

2.1 Significance of SMEs in Zambia

SMEs are sometimes referred to as engine of every nation’s economy as they occupy a prominent position in the development of many countries in the world be it least developed, developing and developed. SME are primary driver for job creation and Gross Domestic product (GDP) growth and can contribute to the economic diversification and social stability of a country, they also play an important role for private sector development, (Mulikelela 2014). Innovative and technological based SMEs can provide an interesting platform for expanding out outside of domestic borders, and entering intra-regional and international. Empirical studies have shown that SMEs contribute over 55% of gross domestic product (GDP) and over 65% of total employment in high-income countries. Contributions of SMEs can be noted in different aspects including labour absorption, creation of entrepreneurial spirit and innovation, promotion of linkages and complementary role to large companies, wealth creation, among others. In “The theory of Economic Development” (Schumpeter 1912) emphasized the role of entrepreneur, as a prime cause of economic development, being this development achieved through innovation. Therefore, it is evident that SMEs have been considered to be very vital in any society as early as the beginning of the 20th century. At the local level, SMEs seem to be perfect and an important piece for local development since they have a greater flexibility and ability to change and to respond quickly to changing market demand and supply situations, (Chisala 2008).

METHODOLOGY

3.1 Research Design

The study used a quantitative survey design. A quantitative survey design was appropriate for this study since the study involved primary data that was collected specifically for this particular study.
3.2 Population

The target population for this research were the hardware store stores or businesses operating within the central business centre of Kitwe. The population of the hardware stores in the main business area of Kitwe was 92 that cover a considerable perimeter.

3.3 Sample

The researcher selected 60 hardware stores in central business centre of Kitwe. The selection of the MEs participants was done by the use of random sampling. According to Saunders et al (2009), random sampling is a probability sampling procedure in which the all items have equal chances of being selected.

3.4 Data Collection Method

The study used cross sectional data through the use of both secondary and primary data.

3.5 Data Analysis

Qualitative was collected through the questionnaires and interviews. The quantitative data was analysed using the Statistical Package for Social Sciences (SPSS). Chi square analysis and spearman’s correlation was used to assess the strength of the relationship between the independent variables on the dependent variable.

3.6 Model Specifications

The study made use of the chi-square analysis as a precise measure of the relationship between performance and access to credit. The use of the chi-square was motivated by the fact that it is the most popular technique in modelling relationship involving variables that are not normal.

RESEARCH RESULTS

4.1 Analysis

Figure 1: Size of the business

The size of the business as regard to annual sales volume shows that 26 respondents had between K40 000 and K80 000 annual sales covering about 52% of the sample while 3 respondents had below K5000 which was represented by 6% of the sample.
It was observed from the figure that the start-up capital for most of the hardware stores studied were less than K5000 which was represented by 72% of the sample followed by 7 respondents who were able to secure capital between K5000 and K10 000 representing 14% of the sample. It also shows that only 2% of respondents had start-up capital between K10 000 and K20 000.

Figure 3: number of customers

The research shows that majority of hardware store owners were able to attend to customers between 40 and 100 in a week which was represented by the frequency of 16 represented by 32% of the sample. Only 10 respondents were able to attend to less than 10 customers in a week represented by 20% of the sample.
On the assessment of the cost of the loan, the results in the figure above reveal that 7 respondents had their loan cost below K1000 representing 14% of the sample. Only 4 respondents had their loan cost between K5000 and K20000, represented by 8% of those who had access to credit.

From the study, the general observation was that among the 16 individuals who were able to access credit, only 4 had loan size between K10 000 and K20 000 representing 8% of those that had access to credit.

Access to credit was defined in terms of the availability of credit whereby entrepreneurs can take loan if they wish to expand or enhance production. However the figure above reveals that” about 68% of the hardware store owners did not have access to credit and only 32% of the sample was able to access the credit.
4.2 Chi-square Results Estimation

Table 13: Chi-square test of dependent (performance) and independent variables which includes access to credit and other variables

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>CHI-SQUARE</th>
<th>P-VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>8.990</td>
<td>0.014</td>
</tr>
<tr>
<td>Age</td>
<td>5.111</td>
<td>0.112</td>
</tr>
<tr>
<td>Gender</td>
<td>13.398</td>
<td>0.009</td>
</tr>
<tr>
<td>Capital</td>
<td>18.583</td>
<td>0.291</td>
</tr>
<tr>
<td>Employees</td>
<td>15.311</td>
<td>0.225</td>
</tr>
<tr>
<td>Experience</td>
<td>14.721</td>
<td>0.065</td>
</tr>
<tr>
<td>Cost</td>
<td>1.899</td>
<td>0.118</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>50.707</td>
<td>0.886</td>
</tr>
<tr>
<td>Size of the loan</td>
<td>11.396</td>
<td>0.935</td>
</tr>
<tr>
<td>Cost of the loan</td>
<td>10.852</td>
<td>0.542</td>
</tr>
<tr>
<td>Training</td>
<td>5.739</td>
<td>0.220</td>
</tr>
<tr>
<td>Wage bill</td>
<td>89.176</td>
<td>0.970</td>
</tr>
<tr>
<td>Number of customers</td>
<td>12.048</td>
<td>0.442</td>
</tr>
</tbody>
</table>

Source: Author’s computation from 2015 Access to credit of MEs in Kitwe a survey data

4.2.1 EDUCATION AND PERFORMANCE

A chi square test value of 8.990 with a P value of 0.014 suggests that a statistical significant relationship exist between performance and education levels since 0.014 is less than 0.1 level of significance. Therefore, the hypothesis stating that there is a relationship between education and the performance of micro enterprises is not rejected. Educated owners are more likely to obtain credit which would help to enhance the sales; this is as the result of their knowledge in the loan application process and their knowledge in financial management.

4.2.2 AGE OF AN ENTREPRENEUR AND PERFORMANCE

A chi square test value of 3.741 with a P value 0.291 which is greater than 0.1 level of significance suggests that there is no evidence to prove that there is a significance relationship between age of an entrepreneur and the performance of the MEs. Therefore, we reject the hypothesis that state that age of an entrepreneur has effect on performance of MEs.

4.2.3 GENDER AND PERFORMANCE

The Pearson chi square statistic of 13.398 with a significance value of 0.009 shows a statistical significant relationship between performance and gender of an entrepreneur. This is due to the fact that 0.009<0.1, therefore the hypothesis stating that there is a relationship between gender and performance is accepted.

4.2.4 CAPITAL AND PERFORMANCE

A chi square test value of 18.583 with a significance value of 0.291 (0.291>0.1) level of significance indicates that a significance association between capital and performance does not exist. Therefore we reject the hypothesis.

4.2.5 NUMBER OF EMPLOYEES AND PERFORMANCE

A chi square test value of 15.311 with a significance value of 0.225 shows that there is no significant relationship between performance and number of employees since 0.225>0.1 level of significance, this means that we reject the hypothesis.
4.2.6 EXPERIENCE AND PERFORMANCE

A chi square test value of 14.721 with a significance value of 0.065. This suggests that there is a statistical relationship between entrepreneurial experience and performance since 0.065<0.1 level of significance. This means that firms owned by entrepreneurs who have been in business for many years are more likely to perform better than those with fewer years of experience. Therefore we accept the hypothesis at 10% level of significance.

4.2.7 COST OF RUNNING THE BUSINESS AND PERFORMANCE

The statistical test results shown in the table above indicate that a chi square test value of 1.899 with a P value of 0.118 suggest that there is no significant relationship between performance and the cost of running the business. This is because the P value is greater than 0.1 level of significance; therefore we reject the hypothesis.

4.2.8 INFRUSTRUCTURE AND PERFORMANCE

The Pearson chi square statistic of 50.707 with the p value of 0.886 reveals that a significant relationship between performance and infrastructure does not exist (0.886>0.1). Hypothesis therefore, is rejected because there is no enough evidence at 10% level of significance to conclude that infrastructure influenced the sales of the firm.

4.2.9 SIZE OF THE LOAN AND PERFORMANCE

The above figure shows that the value of chi square (11.396) with the P value of 0.935 supports that there is no statistical significant relationship between performance and the size of the loan since 0.935<0.1 level of significance. Therefore the hypothesis is rejected.

4.2.10 COST OF THE LOAN AND PERFORMANCE

A chi square test value of 10.852 with the P value of 0.542 reveals that there is a significant relationship between performance and cost of the loan since 0.542<0.1 significance level. Hence the hypothesis is rejected.

4.2.11 TRAINING AND PERFORMANCE

A chi square test value of 5.739 with the p value of 0.220 shows that, there is no significance relationship between performance and training. Therefore, the hypothesis is rejected.

4.2.12 WAGE BILL OF WORKERS AND PERFORMANCE

The above figure with the chi square of 89.176 and p value of 0.970 shows that, there is no significant relationship between performance and wage bill of the workers. This is so because p value of 0.143>0.05, therefore we reject the hypothesis.

4.2.13 NUMBER OF CUSTOMERS AND PERFORMANCE

The Pearson chi square statistic of 12.048 with a significance value of 0.442, the results shows that a statistical significant relationship between performance and the number of customers does not exist. Therefore hypothesis is rejected since 0.096>0.1 level of significance.

4.2.14 PERFORMANCE AND ACCESS TO CREDIT

A spearman correlation test value of 0.057 with a p-value value of 0.696 shows that, there is a weak positive significant relationship that exist between access to credit and firm performance. This is so because p value of 0.696> 0.1 therefore we reject the hypothesis of relationship between access to credit and the performance of MEs in Kitwe. The results suggest that the MEs performance in Kitwe is not explained by access to credit. This could mean that firms with positive sales growth are less likely to use bank credit, possibly because their earnings were sufficient to increase the firm’s performance and capital requirements.

4.3 A discussion of the findings

The empirical results were drawn from the analysis based on primary data that was collected using the questionnaires. The sample was based on 60 respondents and precisely 50 completed questionnaires were successfully returned. The study made use of the chi-square analysis as a precise measure of the relationship between

<table>
<thead>
<tr>
<th>Spearman Correlation</th>
<th>P-Value</th>
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<tr>
<td>0.057</td>
<td>0.696</td>
</tr>
</tbody>
</table>
entrepreneurial intentions that would in turn result in supporting entrepreneurialship. The results of practicing entrepreneurial ship. The results support the findings of Carr and Sequeira (2007) who observed that work experience influenced entrepreneurial intentions that would in turn result in better managing of enterprises and better returns. The study also looked at experience and training of the entrepreneur. The findings on the influence of entrepreneurial experience on the performance of MEs revealed that entrepreneurial experience was a significant factor that influenced positive changes in the sales of the MEs. This could be explained by the fact that 64% of the hardware store owners had at least college level of education, the results of chi square also revealed that the education level of the respondents was a significant factor that influenced changes in the sales of the firm. This implied that for the micro business (MEs) to record better performance in the sales, it was necessary for entrepreneurs to have acquired standard education levels to manage the enterprise. A study by Washhum and Paul (2010) carried out in Addis Ababa Ethiopia reported that to some extent, entrepreneurs with higher education levels are able to make wise and rational decisions on management of enterprises. Gikonyo et al. (2006) further pointed out that, entrepreneurs with a higher level of formal education are poised to have better chances of success. This is attributable to having visionary strategies, capacity to employ technical entrepreneurial skills, access to stock of information and willingness to take risk. This suggests that it is an area that the policy makers should look at in an effort to promote education among MEs. In particular, the government could support the education and training of micro enterprises operators to make them better qualified for financing and to assist them in responding to markets. The study further revealed that the majority of hardware store owners had no access to credit of which in most cases they relied on personal savings. Lack of sufficient collateral excludes them from obtaining finance because loan application usually include a request for a viable piece of collateral in order to complete the transaction and receive funding. Therefore it becomes difficult for financial institution like the banks to grant a loan to such businesses that are unable to provide collateral as it is a risk on their part. With regards to training, the study showed that only 16% of the hardware store owners had undergone any form of formal business training. This shows that training is not a factor that significantly influenced positive changes in the sales of the MEs.

The main purpose of the study was to establish the relationship between performance of micro scale enterprises and access to credit. This study took the hardware stores in Kitwe as subjects of study, exploring the relationships between performance of
MEs and access to credit. Specifically the study aimed at measuring the performance of MEs for those business units (hardware stores) that were sampled and relate this performance to a host of other independent variables.

A priori reasoning, and an overview of the literature, suggested a number of factors that are likely to be associated with firm performance. The factors identified were size of the firm, Experience, education level, access to credit, training, capital, wage bill, number of customers, infrastructure, cost of the business, age of an entrepreneur and gender.

The first objective of the research was to verify the relationship between access to credit and performance of micro enterprises, such as hardware stores in CBC in Kitwe. The spearman correlation results revealed that, there is a weak positive relationship that exists between access to credit and firm performance of MEs. This implies that, a lot of hardware store owners are credit constrained. The reason behind this could be that, the majority of the hardware stores owners are women and numerous studies have discussed that women are in most cases constrained from accessing loans. This is because most financial institutions especially the banks are hesitant about lending money to MEs owned by women, for they display poor qualities such as low productivity levels, lack of collateral, poor record keeping etc. that exclude them from accessing credit.

The second objective of the study was to identify factors that affect performance. The study found that among all the independent variables that were mentioned in the study, only three variables influenced performance of the hardware stores. These variables include education, age of the firm and gender of an entrepreneur.

The third objective of the study was to evaluate whether Micro Enterprises have adequate access to microfinance. The study revealed that small scale businesses had no access to Micro Credit as evidenced by figure 10 that 68% of the respondents had no access to credit.

5.2 RECOMMENDATIONS

The practice of giving out loans by financial institutions using interest rates has locked out most MEs as only large scale borrowers who expect higher returns can bear the high cost of borrowing, the researcher recommends that financial institutions to have special lending structures for this category of customers such as MEs. The government should also come to the aid of MEs by regulating how financial institutions in order to encourage them to lend to MEs. This will not only help the government to improve on its economic activities as a result of easy access to credit by MEs but will also improve on the livelihood of most individuals who are owners and employees of the MEs enterprises based in the Kitwe. It can be recommended from the study findings that financial institutions should also consider come up with special lending facilities for women as they are the majority owners of hardware stores.

5.3 Suggestions for Further Study.

This study focused on MEs in Kitwe and therefore generalization cannot adequately extend to other MEs outside Kitwe. Based on this fact among others, it is therefore, recommended that a broad based study covering all MEs countrywide be done to find out the effect of access to credit on performance of MEs. Secondly it is important to carry out similar study among large enterprises in order to find out the effect of credit access on the performance of these firms. It is also suggested that future research should focus on the different aspects of micro financing on the performance of MEs. It is also important to carry out another research to find out why there are more women hardware store owners than men.

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