



AVAILABILITY OF FINANCE, FINANCE COSTS, AND BUSINESS SUCCESS IN KENYA: FOCUS ON THE SMALL AND MICRO ENTERPRISES

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ABSTRACT

Small and Micro Enterprises usually experience retarded growth or even no growth. It is expected that during the initial stages, the business is likely to make major losses but later along its lifecycle, it achieves success. Advent of Covid 19 brought about more complications in the system. The main of this study is to assess the linkages between Availability of Finance, Finance Costs and Business success among SMEs in Kenya. The methodology used is literature review and analysis of secondary data. The findings of this study concludes that the success of business is evaluated through monitoring and evaluation for indicators such as profitability, quality of products and services, market share and business lifecycle stage. Availability and accessibility as well as the cost of business finance plays a major role in fueling business growth. Finally, the study observed that there is no significant difference between the cost of digital loans and the cost of unsecured bank loans in Kenya.

KEY WORDS— Finance availability, Cost of Finance, Business success, Project success.

I. INTRODUCTION

With the advent of mobile and digital banking, many entrepreneurs can freely access credit. According to 2019 FinAccess survey by KNBS, CBK and FSD, Kenya's financial inclusion landscape has experienced a revolution since 2006. Formal financial inclusion has increased by 56.2% (i.e., from 26.7 percent in 2006 to 82.9 percent in 2019). On the other hand, complete exclusion has decreased to 11.0 percent from 41.3 percent in 2006. The report further indicates that, disparities in financial access between "rich and poor, men and women, and rural and urban areas have also reduced tremendously". The report attributes these changes to the "growth of mobile money, government initiatives and support, and developments in information and communications technology" (Njoroge, Chege, & Ferrand, 2019). Access to short term finance in Kenya has risen to all time High in the recent past, meaning that entrepreneurs can easily access the required finance within a very short time. The next concern is on the cost of this "easy money".

Banks have adopted the TCC (Total Cost of Credit) mechanism to price their loans. The cost of credit includes both internal bank charges and external charges such as legal and insurance fees, excise and stamp duty, valuation fees, risk considerations and so on (Kenya Bankers Association, 2021). The inclusion of all these costs definitely makes the cost of accessing finance relatively high. The cost of mobile loans may be even higher compared to bank loans due to technology charges as well as the high demand for loans. For instance, mobile lending platforms are said to have been charging manipulative interest rate of 19.1 per cent instead

of the 13 per cent advised by the CBK (Wasonga, 2020). The high cost of mobile loans is triggered by lack of adequate details on pricing, lack of regulations requiring the lenders to publicly declare charges levied and increased demand for loans. Though commercial banks and savings and credit co-operative societies report to Central Bank of Kenya and SASRA respectively, the new tech (digital) lenders operate vaguely, under no regulations and are yet to publicly declare charges imposed for their easy-to-get small advances (Nation Media Group, 2018).

Business success is dependent upon a number of factors such as knowledge of the trade, capital accessibility, business and personal networks, support from family members, recognizing the client/customer needs and putting extra effort and devoting time at work. These factors can be reinforced by upholding good relations with clientele, having quality product or service, having good promotion skills and making a brand that customers can relate with comfortably (Douglas, Douglas, Muturi, & Ochieng, 2017). The main attribute of business success is profitability, with a good balance between liabilities and assets vis a vis the owners' equity. A business that maintains a steady profit trend without engaging into excessive credit can be said to be successful.

If a business is viewed as an entrepreneurial project, then project success attributes can also be used to assess business success. Project success features includes "time, cost, quality, health and safety, environmental performance, participants' satisfaction, user satisfaction, and commercial value". The combination of these factors thus affects the



project success to varying degrees (Wu, Liu, Zhao, & Zuo, 2017). Likewise, a business that matures within the right time, manages the costs effectively, deals with quality and healthy products and have been able to satisfy their customers, such businesses can be dubbed as successful. Project success and by extension business success also entails involvement of various participants and other stakeholders related to the project or business in their decision making (Lu, He, Xie, & Yang, 2017).

Patterns for the selection of project success criteria are reliant on the specific fields of applications. These factors are often not taken into account in a systematic manner (Albert, Balve, & Spang, 2017). This implies that assessment of project (business) success is unique to the field under assessment, e.g., construction industries may be assessed differently from the manufacturing and service industries. Project management maturity is substantially related to all vertices of the iron triangle (time, cost and technical performance) dimensions of success (Berssaneti & Carvalho, 2015). This study focusses on the small and medium enterprises. These SMEs are viewed as business projects which must exhibit some level of success. After all no entrepreneur who starts a business with an aim of failing.

II. PROBLEM STATEMENT

Outbreak of COVID-19 brought about Social and economic disruptions not only in Kenya but also across the world. Since the pandemic struck, about two million more persons in Kenya have fallen below the poverty line and one in every three household-run businesses have slowed down or completely not operational. The Central Bank of Kenya cautioned that 75% of business organizations faces the risk closure due to the deficiency of emergency funds and crisis in terms of liquidity (Singh, Siddiqui, & Shukla, 2020). Lack of adequate funding is one of the factors that may lead to business closure. Lack of access to credit has been cited as one of the major constraints constraining the progress of SMEs sector in Kenya. Some of the determinants of SMEs acquisition of financial services include “lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs” (Omondi & Jagongo, 2018). On the other hand, unregulated mobile loans are easily accessible to Kenyans and such funds can be utilized prudently so as to boost business finance. The only challenge is that some Kenyans have formed a habit of borrowing beyond their ability to repay hence ruining their lives and livelihoods (Wasonga, 2020). This study will conduct a literature review and secondary data analysis to assess the linkage between accessibility of Finance, Cost of Finance and business (Project) success, with a more focus on Small and Micro enterprises.

III. DISCUSSION

Business (Project) Success

Monitoring and evaluation of the business, and budget allocation for M&E activities have statistically significant influence on the business (project) success. Therefore, M&E approach and budget allocation for M&E activities in a project to influence the success of project success (Mbithi, 2020). Monitoring of business activities is very critical in determining whether the business is making progress or not. Through M & E activities, negative deviations can be observed and corrective action instigated so as to avoid business failure.

Businesses owners are always hopeful that their enterprises will not only be a going concern, but also successful. Project success analysis may be presented through definition of critical success factors, key performance indicators and performance-measuring process (Todorović, Petrovića, Mihića, Obradovića, & Bushuyev, 2015). The positive increment of turnover, labour, profit and assets by the business can be attributed to virtuous financial management (Ronald, 2017). The key business success factors as derived from the literature includes; increased financial stability as evidenced by profitability, efficiency in business processes and operations as evidenced by quality of products and services; increase in market share which is a sign of customer satisfaction and good customer relations; and quality of human resources maintained by the business and indicator of which could be low labor turnover.

Businesses also undergoes through a number of stages in a lifecycle similar to the project lifecycle. Project life cycle has four stages which include: project initiation, planning, execution, and closing the project; and the project activities are dependent on the specific stages (Kamau & Mohamed, 2015). The business life cycle is the development of a business in phases over time and is most usually subdivided into five stages: launch, growth, shake-out, maturity, and decline (Sonnemann & Margni, 2015). This business lifecycle cannot be overlooked when assessing business success since businesses develop in line with the various stages of the cycle.

Availability of Finance

Finance accessibility has been spotted as one of the key socio-economic factors affecting the performance of businesses in Kenya. The other key factors that were found to affect performance of micro and small enterprises in Kenya positively are: “access to business information, government policy and regulations and access to infrastructure” (Kamunge, Njeru, & Tirimba, 2014). Just like the blood supplies life to the whole of the human body, so is the business finance in the life of an enterprise. A business may not achieve much success without availability of funds either generated from operations or from external financing. Long term finance is necessary for long term growth of a



business while short term finance will be critical for the short-term sustainability of the business.

Efficient apportionment of resources assists administrators to bring together more industrious and effective project crews and workgroups. It also empowers them to evaluate their schedules and easily guesstimate resource availability almost instantaneously (Ahmed & Kinoti, 2018). Increasing access to mobile money services and expanding its usage are prominent in the (digital) financial inclusion agenda in developing countries (Kipchumba & Sulaiman, 2021). Online digital and mobile banking have played a key role in improving the accessibility of credit facilities to households and SMEs. These digital loans provide easy access to short term finance at reasonable costs. The main challenge with these digital loans is the limitation in terms of the amount of funds. This restriction on the loan amount is instigated by high level of default risk. If the digital facilities are handled professionally, they can be a very useful source of business finance that will lead to business success.

Other than digital finance, small business has a variety of other funding opportunities like; self-funding, bank loans, loans from private entities, friends, disposal of assets, credit cards, venture capital and grants from the government (Ronald, 2017). These sources can be categorized into internally generated and externally sourced funds. Internal sources of funds tend to be cheaper as compared to the externally sourced funds, however in terms of the volume or amount of accessible funds, externally generated funds are more.

Cost of Finance

The cost of capital is a phrase used in financial investment discipline to refer to the cost of a corporation's funds (both debt and equity), or, from a stockholder's perspective as the required rate of return on a portfolio of all the company's existing investments. In finance calculations, cost of finance is critical in evaluation of new projects of a business since it is the minimum rate of return that stockholders anticipate for investing their capital to the business concern. Internal sources of finance are more desirable to a business since they are usually be cheaper and possibly easier to access at short notice (Kalui & Njenga, 2018). Cost of finance is related to the particular sources. When the cost of finance is high, the business is likely to push such costs to its customers through pricing. This will have a direct effect on the demand for goods and services of the business. Other than the sources of finance, its cost can be influenced by the availability where funds that are easily accessible being cheaper; security whereby secured loans are cheaper than the unsecured ones; credit rating whereby the lenders with a higher credit rating may obtain finance cheaply; and timing where short term funds are more expensive than the long-term funds.

The cost of mobile and other loans has been observed to be higher than the normal bank and SACCO loans. The high cost is attributable to the fact that mobile loan lenders are not recognized as financial institutions, which are usually supervised by CBK under the Banking Act. This means that the mobile loan providers operate without of regulation, including tax obligations, hence they tend to exploit their clients (Wasonga, 2020). An analysis of the cost of selected digital loans as compared to selected unsecured bank loans are shown in the table below.

Table 1: Estimated Annual Interest rates

Mobile Funds			Unsecured Bank Loans	
Type	Provider	Interest	Type	Interest
Tala	Tala	15.00%	KCB	13%
Timiza	Barclays NCBA	13.00%	Co-op Bank National Bank	13.50%
Stawi	Bank Zawadi	13.70%		13%
Zawadi	Kenya	19.00%	NCBA	13%
Saida		14.50%		
KCB Mpesa	KCB	12.00%		
Mshwari	Safaricom	7.50%		
Mean		13.53%		13.13%
Standard Deviation		0.03465		0.0025

*The interest rates do not include the transaction and processing charges

Table 1 above shows that the mobile loans are marginally more expensive than the ordinary banks unsecured loans. The data was subjected to inferential analysis. Calculation of T test for difference between two independent means gives an observed T score of 0.227 and P value of 0.8255. This means that there is no significant difference between the two groups of loans since the observed T is less than the Critical T ($0.227 < 2.262$) and the observed P value is greater than the level of significance ($0.8255 > 0.05$). This means that there is no significant difference between the cost of digital loans and the unsecured bank loans. This is contrary to the perception by the general public as observed by Wasonga (2020). This small difference could have been as a result of competition and the state of economic conditions during Covid 19 era.

IV. CONCLUSION

Small and micro enterprises have various forms of linkages amongst themselves, and with providers of finance which helps them in mobilizing resources. These linkages offer advantages to the business enterprises which are replicated in their performance (Atieno, 2009). A better performing business can be viewed as successful. The

success of business is assessed through monitoring and evaluation of that business over a period of time. Some of the indicators of business success includes profitability, quality of products and services, market share and business lifecycle stage. Increase in profitability, product quality and market share from the perspective of the business lifecycle stage could mean that the business is achieving success and growth. Availability and accessibility of business finance plays a major role in fueling business growth. Businesses require finance to support their activities, such finance can be obtained from internal or external sources through digital or traditional means. The funds sources can be long-term or short term in nature depending on the loan amounts and repayment periods. Cost of finance is also significant in encouraging business success. The cost of capital is dictated by the source of funds, security attached and credit rating. The summary of relationship between availability of Finance, cost of Finance and Business success is illustrated in figure 1 below.

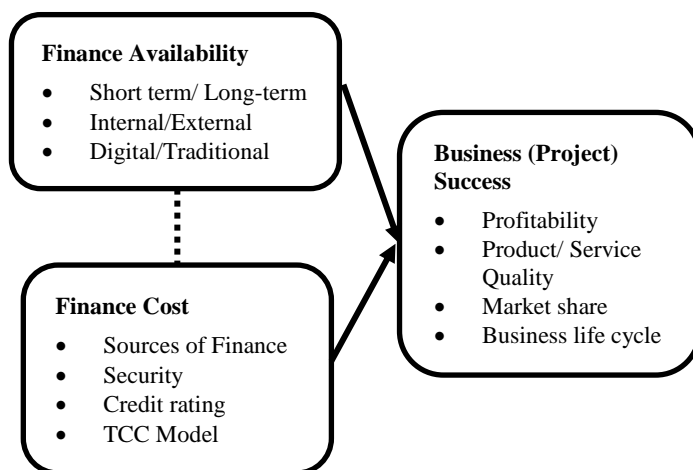


Figure 1: Relationship Among Finance availability, Cost and business success

Fig.1. System Architecture of Personality Assessment Tool

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