The Impact of Credit on Small Enterprises Growth in Kenya

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Abstract

Economic hardship in Kenya led to many reforms and the focus of government policy is now on poverty eradication. Micro and small-scale enterprises is seen as the major area of job creation and elimination of the trend of poverty. Majority of the unemployment consist of women and rural urban migrators who are mostly men. According to National Baseline Survey of 1999 more men than women are employed in Micro and Small-scale enterprises. Micro finance (the funds to finance small businesses) is vital for these firms' growth. Expansion and growth of these firms will lead to more employment, higher standards of living and elimination of social evils. It is therefore imperative that funds are availed to the MSE sector for this objective to be realized.

Keywords

MSEs	-	Micro and Small Scale Enterprise
NBFI	-	Non-Bank Financial Institutions
CBK	-	Central Bank of Kenya
CMA	-	Capital Market Authority
NSSF	-	National Social Security Fund

I. Introduction

Small –scale enterprises are the seedbed of the future industrial development, which economists contend is the engine of economic growth and development. By 1979, the problem of unemployment in Kenya began to be felt and the main objective of the fourth national-development plan (1987-93) was creation of employment opportunities and the major step to be taken was to promote the rural and informal sector enterprises. The sixth national development plan; 1989/93 under the theme "participation for progress" puts equal great emphasis on the need to take specific measures to ensure that the role attributed to the MSEs shall indeed be realized.

The paper examines three broad areas in which change will need to be made to induce an acceleration of small-scale enterprise growth. These areas are enabling environment, investment and finance and non-financial promotional programs. The same is emphasized in other development plans. According to sessional paper no.2 of 1996 on "industrial transformation to the 2002", near full employment can only be achieved during the period 1997-2020 if growth in employment averaged 4.3% annually.

The paper states that the phase one in development of core industrial sector is promotion of micro, small and medium scale industries, utilizing and adding value to local raw materials and acquiring relatively modest capital investment.

There is generally no accepted definition of small-scale enterprises. Some people use the asset base as the defining rod, some use turnover levels, some use the number of employees while others use some combination of the three criteria.

For the purposes of this paper however the small-scale enterprises will be defined as comprising all businesses employing between zero and fifty workers (Charmes 1997, ILO 1993). The Sector is highly heterogeneous in nature and conspicuously active both in the rural and urban areas of the economy. Similar activities tend to cluster together presumably taking advantage of agglomeration economies.In Kenya, such enterprises are engaged in trade, commerce, distribution, transport agrobusiness manufacturing and repairs and maintenance. They are mostly unregistered, and unrecorded in Official statistics and tend to have no access to organized markets and credit institutions or to many public services and amenities. They are not recognized, supported or acquired by government.

MSEs are typically found throughout the country while large firms tend to congregate in urban areas where services are best. Thus MSEs can help entrepreneurial base flourish among diverse ethnic groups and regions and among relatively low-income people in both urban and rural areas (Liedholm and Mead 1987,world bank 1996) Kenya has over 1,289,012 micro and small enterprises nationwide employing nearly 2.5 million people, or 16% of the population of working age as shown in table 1.

Table 1: Total Number of MSEs and their employment.

Stratum	% of Nat'l Population	MSEs Number	%	Workers No.	%	Mean
Nairobi and Mombasa	9.7	204,280	15.8	394,838	16.9	2.1
Other Major Towns	6.2	157,533	12.2	279,133	11.8	1.8
Rural Towns	2.1	81,320	6.3	135,349	5.6	1.6
Rural Areas	82.0	845,879	65.6	1,551,930	65.7	1.8
Total	100.0	1,289.012	100.0	2,361,250	100.0	1.8

Source: National MSE Baseline survey 1999(CBS, K-rep, and ICEG)

About 34% of the Kenya's MSEs are in the urban strata (Consisting) e.g. the first three strata of the table I. Although Nairobi and Mombasa accounts for about 10% of the population they account for about 16% of the total number of MSEs and 17% at their total employment. While the density of MSEs is higher in the urban areas, the aggregate or relative number of MSEs is higher in the rural areas. The total number of workers in the table refers to the full time as well as part time workers in the MSEs Sector. This consists of the owner or owners and family members, hired persons and apprentices.

The number for both part-time and casual workers have been normalized so that they reflect full-time equivalent labor units.

A. Sources of Credit to MSEs

Kenya currently has about 150 organizations with credit programs for MSEs; these organizations serve all regions of the country although there are more in the urban areas. The diversified financial system comprises the Central Bank (CBK), 23 Non bank financial institutions (NBFI), a post office savings bank, 5 building Societies 39 insurance companies, 3 reinsurance companies, 10 development Financial institutions capital market (CMA) 20 security and equity brokerage firms and Stock Exchange Market, 2 advisory firms, 57 hire purchase companies, many pension funds, a social security fund (NSSF), 13 foreign Exchange bureau and 270 savings and Co-operative societies .

(National Development plan 1997-2002 Page 36 to 46).

Despite this range of financial institutions, financialiation of savings in Kenya is low.

The share of domestic savings held as financial as-sets is estimated at about 30 per cent which is the same as in the mid 1970s.Financial assets as a share of GDP are about 6 percent, which is higher than elsewhere in sub-Saharan Africa but much lower than the average level for developing countries. The ratio of broad money (M2) which is used as a measure of monetization of transactions is also relatively low (at 29 per cent). When the government instituted a credit squeeze in 1985-6 the fragile nature of these institutions was exposed. Four indigenous financial groups collapsed and this led to panic withdrawal from the other new institutions. By 1987, liquidity and insolvency was endemic within the NBFI subsector

The government's response to this crisis was to strengthen the regulatory framework.

Some of the key reforms introduced were;

A. A deposit protection fund (to cover deposits up to Ksh. 100,000);

B. An increase in the minimum paid up- capital from ksh. 2 million and Ksh. 10 million to Ksh. 15 million and Ksh150 million for locally and for-eign incorporated banks respectively;

C. Limiting deposit mobilization capacity of any deposit taking institution to a maximum of $13\frac{1}{2}$ times paid up capital and unimpaired reserves.

D. Mandatory provision for bad and doubtful debts to be made annually before approximating the year's profits

E. Restriction of the shareholding of an individual to no more than 25percent of the equity capital more than 25percent of the equity capital more than 25percent of the equity capital

F. Making it mandatory for every loan to be adequately covered by collateral and where collateral cover is inadequate making the directors of the institutions personally liable for any bad debts arising from the loan.

These regulations had the potential of reducing lending to MSEs or making such lending more expensive than it would otherwise have been.

For instance the introduction of a deposit protection fund paid for by the financial institutions means that, the costs of these institutions has to rise. They in turn will attempt to recoup all or part of it from the borrowers and lenders. Since some of the borrowers are MSEs they will bear part of this higher cost. The extent to which the financial institutions are able to shift these costs to other parties will depend on the relative price elasticity. An increase in the minimum paid-up capital of a financial institution restricts entry into the industry and leads to grater consecration. As the concentration ratio in Kenya's financial sector is already high the four largest institutions control the bulk e.g. deposits over 60 per cent. This increased concentration leads to an Oligopoly situation. When small financial institutions are allowed MSEs benefit because they can deal with firms of their size. Now they have to deal with very large financial firms and they face the danger of being marginalized.

Limiting the deposit mobilization capacity is another form of entry discrimination against small financial institutions and, by extension, against MSEs.

Restricting the shareholders of an individual financial institution may not be a restriction on entry in countries where there are very many wealthy or near wealthy individuals.

However, in an economy like that of Kenya where the savings potential of the majority of people is very low, restricting shareholders is another form of limitation of entry into the financial sector. It is likely therefore, to have the same adverse effects on MSEs as the other forms of restrictions mentioned above. Making collateral lending the only legal form of lending affects MSEs very adversely because many of them lack collateral and are therefore automatically excluded from the formal credit markets.

B. Informal financial Institutions

It has been argued that informal and formal modes of credit are not distinct spheres but interlocking parts of large and more complex networks of borrowing and lending (Charmes 1983). Merchants, traders, shopkeepers/Kiosks owners sell goods on credit to be paid later. Sometimes they sell goods off system for those with formal employment. Rotating savings and credit associations are groups of people who agree to make regular contribution to a fund, which is given in whole or in part to each con-tributor in rotation usually neighbors, friends, relatives or people working together. These organizations are also referred to as merry-go-round arising from turns taken in receiving the contributions until a complete round is reached by all members. They are remarkable for their wide distributions, variety of forms, functions and durability situations both of financial insecurity and of prospering industrialization: Those who participate in ROSCAS range from important source of in-formal credit. This can be in cash or kind. Commercial moneylenders are people who lend money at very high interest rates for a short period ranging from a day to one year. Most loans are for less than one month. In some countries like Ghana they are registered while in others they are not. In Kenya they are considered as illegal.

C. Demand and Supply of Credit

Several studies on the MSEs in Kenya have identified access to credit as a major problem affecting the growth of MSEs. Other studies concluded that while credit in the banking sector grew steadily in the past, a little of this credit reached the MSE sector (Kiiru 1992, Tomecko and Aleke Dondo 1992, Parker and Torres 1993, Daniel's et al. 1995, Oketch et al.1995. The 1993 Baseline survey showed that only 9% of the MSEs had accessed credit and that only 4% of this credit was obtained from financial institutions (NGOs), com-mercial banks, SACCOS etc).

The survey noted that the bulk of MSE credit came from informal savings and credit associations (ROSCAS), friends and relatives.

The 1995 baseline survey showed that 10.8% of the MSEs had accessed credit; of these only 3.4% received credit from formal sources.

Although Kenya has numerous organizations with credit programs for MSEs, it is difficult to determine precise figure on credit extended to MSEs legal obligation to report them while some micro finance NGOs are reluctant to reveal their portfolios.

Lack of this information is a serious handicap in the esti-mation of credit supply.

However, various attempts have been made to estimate the volume of credit to MSEs. In 1991, it was estimated that between 1983 and 1990 organizations offering credit to MSEs had provided loans worth 2 billion (Aleke Don-do 1991).

More recent estimates of the volume or credit provided to 24MSEs (Aleke Dondo and Ongile 1994) indicate that the amounts in 1990, 1991, 1992 were Ksh. 115 million, Ksh.211 million and Ksh. 241 million respectively. More recent estimates of the volume or credit provided to 24MSEs (Aleke Dondo and Ongile 1994) indicate that the amounts in 1990, 1991, 1992 were Ksh. 115 million, Ksh.211 million and Ksh. 241 million respectively.

Tomecko and Aleke Dondo (1992) estimated that the outstanding portfolio of organizations providing credit to MSEs in July 1992 was Ksh. 1.05 billion. Oketch et al. (1995) estimated the supply of credit from 5 organizations in 1995 to be Ksh.847 million. Although not indicating all organizations providing credit to MSEs, these estimates reveal that the credit volume to the sector has been increasing over time.

Table 2 shows that only 10.4% of MSEs have ever received credit from various resources. Overall, 89.6% of the MSE operators stated that they had never received credit, 2.8% reported having received loans from NGOs, 2.5% from ROSCAS 1.5% from commercial banks. It is clear from the data that Majority of Kenya's MSE, s operates without any form of credit.

Table 2 : Source of Credit to MSEs (%)

Source	1993	1995	1999
None (no credit received)	85	89.2	89.6
Formal credit institutions including	4	3.4	5.7
NGOs			
Cooperatives	-	-	1.2
NGOs	-	-	2.8
Commercial Banks	-	-1.5	-
Government	-	-	0.2
Informal Institutions	5	7.4	4.7
ROSCAS	-	5	2.5
Family and Friends	-	2	1.5
Money lenders	-	0.1	0.1
Trade Credit Supplies	-	-	0.6
Total	-	100	100

Source: National MSE Baseline Survey 1999(CBS,K-Rep, and ICEG)

D. Statement of the problem

Small enterprise development is constrained by factors such as inappropriate environment particularly inadequate infrastructure, inappropriate technology, inadequate capital, limited market and credit accessibility. Since entrepreneurs of the informal sector are unlikely to belong to high income households and may have low savings to use as start-off capital, studies have observed that most of these entrepreneurs use their own savings as startup capital (Syagga, Gatabaki, Ondiege 1989's; Aleke-Dondo, 1989; Mutua and Aleke-Dondo 1990; Ondiege 1992).

This has led to the establishment of micro-finance credit institutions such as the K-rep bank, **FAULU KENYA, KWFT** etc. Despite the constraints in Economic performance and high interest rates occasioned by the liberalized financial markets, the impact of credit is clearly evident in increased levels of employment, sales, profits and savings.

Credit beneficiaries have been able to expand their capital base and possibly market area due to increased capital value base and are therefore capable of makinsignificant progress. There is therefore need for increasing credit accessibility and mobilization of savingto avail more capital to MSEfor faster growth andevelopment. Survey studies carried out in Nairobi, Mombasa and Kisumu (Ondiege, and Aleke- Dondo,1991) proved that those enterprises that successfully applied for optimal financial resource allocation informal financial institutions and markets need to bgiven necessary consideration in policy design.

It is inevitable that we assess the impact of credit on the SMEs and scrutinize the determinants of credit accessibility on the growth

of this sector especially ithe urban set-up where infrastructure is developed.

E. Objectives of the study

The main objective of this study is to assess the impact of credit on the small enterprise growth. Specifically the study will

1. Identify the source of Credit to MSE
2. Formulate and estimate a growth model based on firm performance data.
3. On the basis of (1) to (3) make conclusions and policy recommendations regarding small-scale enterprises credit and the determination of their success

F. Significance of the Study

For sustainable economic growth the provision of credit has been regarded as an important tool for raising the incomes of the urban poor, mainly by mobilizing resources to more productive uses. The generation of self-employment in non-farm activities requires investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income, can help the poor to accumulate their own capital and invest in employment generating activities (Hussein, 1998). Thus by looking at the impact of credit on MSEs, it will help policy makers to improve on their decision making and establish the extent to which this sector can help generate employment opportunities to the country.

A 1995 survey of small and micro enterprises found that up to 32.7% of the entrepreneurs surveyed mentioned lack of capital as their principal problem, while only about 10% had ever received credit (Daniel et al., 1995). Nonetheless formal financial institutions have created the myth that the poor are not bankable since they can't afford the required collateral and are considered uncredit worthy (Adera, 1995). Hence despite efforts to overcome the widespread lack of financial services, especially among small holders in developing countries, and the expansion of credit in the urban areas of these countries, the majority still have only limited access to bank services to support their private initiatives.

The study will increase empirical on credit mobilization in Kenya's informal sector. Previous studies have focused on national, private or household savings (Massel et al, 1969, Lillydhal, 1976, Ngui, 1991, Oshi-koyo, 1992 and Mwega et,al,1990). The study is different in that other studies have focused on FFS (Formal Financial Savings) while this study is on IFC (Informal Financial Credit).

Experience from informal finance shows that the rural poor especially women, often have greater access to informal credit than to formal source (Hassain, 1988; Schrieder and Cuevas, 1992; Adams, 1992). The same case has also been reported by surveys of credit markets in Kenya (Raikes 1989; Alila, 1991; Daniels et all, 1995). However, there has been lack of an empirical analysis on the relationship between lending policies and the problem of access to credit. This study is aimed to fill this gap.

II. Literature Review

The literature review on this study focuses on studies done both in developed and developing countries on small and micro-enterprises. This study aims at analyzing the effect of credit on firm growth along side other determinants.

Daniels, Mead and Musinga (1995) in their study of Kenya found that only small minority MSEs have benefited from any form of credit or non-financial assistance. They found that most enterprises primarily rely on own savings and reinvested profits to finance their enterprises. This is consistent with the study of House (1977,1981,1984) whose study of Nairobi's informal sector found that the performance of MSEs in Nairobi is influenced by the amount of capital growth since business opened, the number of sub-contracts, number of workers, ratio of capital employed to annual output, ratio of capital employed to workers, amount of loan, number of hours worked per day and whether business is retailing or not. The results from this study found that these factors explain 33% of the variation in net income of the businesses. However, he found that age, education and experience are not significant. But in this study we expect them to be significant.

Several informal sector studies stress the need for improved informal sector financing. By implication they accept the existence of a desired level of capital: Abuodha (1989). This implies that informal sector entrepreneurs cannot finance investments with their respective firms. Credit is needed to finance the difference between actual savings and desired level of savings. Both the Rural informal sector as well as the urban informal sector finances most of their investments from agricultural incomes (Ngethe N., Wahome J, and Ndua G; 1987 pg 75) Accepted sources of financing investments by most papers in the informal sector area) financing from profits, b) financing from agricultural profits c) gifts and loans from spouses and relatives d) to a limited level loans from agencies.

Most studies concur that profits and savings are the main source of financing business investments. (Abuodha, 1989 pg 37)

However, analysis undertaken by researchers using the RPED data look at access to finance across different ethnic groups in Kenya (Biggs and Raturi, 1997; Raturi and Swamy 1997; Fafchamps, 1996). Biggs and Raturi find that belonging to an ethnic minority in Kenya does not affect access to formal sources of credit like over-draft facilities, but does affect access to supplier credit.

They conclude that the flow of information and contractual enforcement mechanisms explain greater access to credit by members of ethnic minority groups.

A large and growing number of recipients of micro enterprise credit are women. (Inter-American Development Bank, 1997). For example, female entrepreneurs comprise 93% of the Grameen Bank's current portfolio of 1.3 million borrowers, an increase from 39% in the early 1980s. In Canada for example, the number of female entrepreneurs tripled during 1976-1994 (Cohen, 1996). Such that today women account for one in three entrepreneurs in the Canadian economy. Other studies confirm the increasing "feminization" of self- employed informal sector. Berger (1989) estimates that women own and operate roughly one third of all informal sector businesses.

Goetz & Gutpa, 1995 argue that the rising proportion of female borrowers in credit program is due to issues of economic growth. They argue that the NGO-dominated micro enterprises credit has often specifically sought to address issues of women's empowerment in developing countries.

Recent studies have shown that access to credit degenerate a form of economic empowerment, which can greatly enhance a woman's self- esteem and status within the family.

In addition, many NGOs and other development institutions prefer to direct credit toward women since credit given to women has greater impact on household welfare than credit directed toward male borrowers.

Jiggins (1989) for example potrays the female enterprise as an institution whose primary purpose is to ensure subsistence

consumption for members of the household in contrast to male enterprises, in which reforms are often higher, but more risky.

Little (1987) found education of the entrepreneur to be of value in explaining profitability and growth. Page (1979) also considered formal Education attainment as a factor in explaining entrepreneurial success. Other studies however find no such relationships.

Studies relating formal education and business success have consistently found weak and negative relationships (Harris 1971, child 1977, Kilby 1969). At the same time functional literacy has been found to be positively correlated with profitability of small scale firms (Aryee 1976, Olkanpo 1968). Little, Mazumdar and page (1987) sug-gest that the explanation of this weakness might be that formal education is competitive with learning on the job, particularly for Africa. Their results of an Indian study showed that, Education beyond functional level was a significant positive factor for growth and profitability.

Cartes Berry and Ishaq (1987) found that the success of the firm as defined by benefit-cost ratio was significantly related to Education and skills. They argued that university educated entrepreneurs employ a wide range of techniques whereas entrepreneurs with only elementary education tend to choose the simplest techniques. This can certainly have an effect on performance and growth.

Other studies agree on the fact that education is rare among the small-scale entrepreneurs (Nzomo 1986, Leidholm and Mead 1989). This may act as a constraint to the success of the entrepreneurs as it isolates him. Although there is actual evidence on the relationship between the level of Education and successful management of small scale enterprises the reaction on this issue is mixed (Chuta, 1989). Despite this most studies have found positive, though weak relationships. In Kenya Education may not be a major factor given that it has been established that most of the entrepreneurs are primary school leavers whose level of education may not have a great impact on the profits (Wahome and Ngethe 1987). Majorities of these entrepreneurs are apprentices whose level of education is very low and yet are successful. This implies that it is the training that one gets and not his education that has an effect on firm performance.

Capital shortages are yet another factor given prominence by studies.

ILO (1972) and Nzomo (1986) identifies capital shortages as a major constraint.

Availability of capital can be closely related to the availability of credit facilities. This is cited by Marris and Somerset (1971) as a major difficulty faced be entrepreneurs in starting businesses. The same view is held by Cortes, Berry and Ishaq (1987).

They argue that access to a particular source of finance is probably as much a consequence as a cause of a small enterprise success. Kilby (1982) also agrees with the latter by citing lack of cash and working capital as some of the major handicaps in small scale enterprises and argues that capital labor ratio is a good yard stick for factor intensity and a determinant of economic efficiency.

Morris and Somerset (1971) agrees with the rest that some of the problems that Africans face in entering business are capital, working capital and lack of knowledge and training in business management.

Macormick (1988) treats capital accumulation as profits ploughed back into the enterprise and connects this with the success of business. This is supported by Chuta in his 1974 survey in Siera Leone when he argues that firms enter business to make profits and cites shortages of capital and lack of demand as problems facing

small scale enterprises, in addition to poor management and poor quality skills. We can conclude that capital be it working capital, initial capital, credit facilities or cash contribute to explain the business profits and growth.

Problems of access to raw materials is a bottleneck to the growth of small producers and is particularly emphasized by Gerry (1974, 1978) in his work on the petty production in Dakar, Senegal. He found that in the shoe production the small producers had to switch from the use of leather to synthetic materials since a multinational shoe company was able to achieve a virtual monopoly in the purchase of fine (imported?) leather and had received considerable government protection. The main importer of synthetic materials then tried to "re-organize" the small producers using his own capital and marketing outlets, albeit without success. Child (1973) in an empirical study of small-scale enterprises identified lack of raw materials at affordable prices as an important determinant of good performance. Also important is the quality of raw materials. Poor quality may lead to poor products that may lack markets. This is a vital input into the enterprise without which the enterprise may not operate.

House Kabagambe and Green (1973) suggest that small enterprises serve low-income earners. This implies that their products are inferior goods. For that matter their location is in low-income areas indicating their market orientation. They further suggest that formal sector incomes determine the extent of the market. Child (1973) has similar view that the market for small scale manufactured products is limited to domestic low -income earners in Kenya let alone elsewhere. According to him these products are 'simply designed, crudely constructed and roughly finished' thus offending the aesthetic values of high-income consumers and rendering them inferior goods. are of poor quality. He adds that intermediate goods would provide the greatest scope for increased demand.

In a later study on the role of the intermediate sector Page(1979) has used the age of the enterprise to capture employment technology and growth, Child (1976) the experience of the owner.

states that the allocation of scarce budgetary resources The same has been done by Mcormick (1988) where she to small-scale industry can best be measured by the found that in general higher rates of profitability are demand response. He agrees with Harper and observed for older firms. Chuta and Liedholm (1985) in Aboagaye that small enterprises are in dire need of an theirmodel used experience as an explanatory variable. effective marketing strategy. The view that low- They argue that entrepreneurs with greater experience income earners are the major consumers of products would be expected to earn higher economic profits than from small-scale enterprises is supported by the results those with fewer years of experience. In their findings of Ng'ethe and Ndua's study (1984). They found that experience had a positive and significant coefficient at in total the low- income group constituted 52.61% of 5% level. They concluded that years of experience has a the clients, middle income group 30.64% and the high-very important bearing on the entrepreneurial success income group 16.75%. Child (1973) in an empirical study of small-scale enter- Leys (1973) also implies that informal sector products prises found lack of experience to be a major constraint are inferior goods. He attributes this to the influence among other factors he considered. Prior occupation of on consumer tastes by conspicuous consumption of the the owner and experience are treated by HO (1980) as rich and advertising. He consequently

notes that any factors affecting performance and firm growth. Harris substantial increase in the income of the lowly paid (1969) goes further to include ethnic group membership ("working poor") would increase demand for formal and political involvement as factors affecting rofitabilrather than in the formal sectority in addition to others cited above. Though this is not Contrary to some of the above suggestions Lee (1975) the case for the Kenyan MSEs. states that only a small proportion of goods purchased Several informal sector studies stress the need for im-by low income earners are from the informal sector. proved informal sector financing. By implication they He concludes that low income earners cannot provide accept the existence of a desired level of capital Abuan expanded market for the informal sector. He proodha, (1989). This implies that informal sector entreprepoxes that high income groups should be the target for neurs cannot finance investments with their earnings expanding the market on condition that the quality is from their respective firms. Credit is needed to finance improved. Lee therefore implies that these products the difference between actual savings and desired level of savings. Both the Rural informal sector as well as the urban informal sector finances most of their investments from agricultural incomes (Nge'the N, Wahome J and Ndua G; 1987 pg 75). Accepted sources of financing investments by most papers in the informal sector area) financing form profits, b) financing from agricultural profits c) gifts and loans from spouses and relatives d) to a limited level loans from agencies. Most studies concur that profits and savings are the main source of financing business investments (Abuodha, 1989 pg 37)

Leff, 1979 argues that minority entrepreneurs are better placed as they have a lot of influence on firm perfor-mance. This is confirmed by the study of Kenyan capitalists which provides interesting anecdotal evidence particularly regarding entrepreneurs of Asian descent (Himbara, 1994). Himbara argues that Asian entrepre-neurs in Kenya gradually built an extensive network of large enterprises in several different industries that fueled the growth of the private sector throughout the twentieth century.

He argues that collective efforts through industrial associations such as the federation of Indian chambers of commerce of Eastern Africa and the Association for the promotion of industries in East Africa headed by prominent industrialists of Asian descent were instrumental in formulating policies that helped to generate growth in the private sector.

A. Overview of the literature

The literature reviewed above focuses on studies assessing how different factors affect firm growth as measured by change in employment in both developed and developing countries. Several informal sector studies stress the need for improved MSE financing and by implication they accept the existence of a desired level of capital (Abuodha, 1989). This implies that informal sector entrepreneurs cannot finance investments with their earnings from their respective firms. Credit is needed to finance the difference between actual savings and desired level of savings. While some studies e.g Kilby (1982); Maris and Somerset (1971) agree that capital is a yardstick for firm growth, other studies stress the importance of other determinants such as Education, raw material, sex of the entrepreneur, market for final goods, good management practices, age of the firm, minority entrepreneurship and previous experience of the entrepreneur. The over riding fact in the literature is the fact that credit is an important determinant of MSEs growth. It can influence performance positively or negatively depending

on usage, amount, and environmental factors surrounding the MSEs. In our study credit is used to establish in crease in growth and employment. Our study differs from other studies in the sense that firm growth will be measured using employment as well as initial firm size as dependent variables. Previous studies have used profit that may not be very realistic as most entrepreneurs give estimates that are far below realities. Previous studies do not meas-ure firm growth. Instead they explain how different factors affect firm's growth.

Methodology

1. Introduction

This chapter presents the model specification dependent variables and the estimation procedures used. Data source and limitation of the study have also been indicated.

Many surveys on formal and informal credit in Kenya have been qualitative in nature (Raikes, 1989; Alila, 1991; Aleke Dondo 1994; Daniels et al, 1995). Our study will use both qualitative and quantitative literature.

2. Model Specification

The study will use a model developed by Vijaya and Manju (2001) in a survey of firm growth in seven African Countries; Ghana, Kenya, Zimbabwe, Tanzania, Zambia, Cameroon and Cote d'Ivore. The model tries to capture the relationship between firms. Our study however, will use the model to establish whether credit is a significant determinant of firm growth.

Just like vijaya and Manju our model includes credit alongside other entrepreneurial variables such as education level. Manju and Vijaya found that non-African firms enjoy a higher rate of firm growth due to the advantages of being minority, such as access to informal networks credit and informal contractual mechanisms. We shall use the approach and try to investigate why firms that have access to credit tend to grow faster than their counterparts and establish the change in employment levels of such firms due to provision of credit.

Growth is calculated using employment rather than turnover data as it has been in other studies. This can be more reliable since most firms are able to provide recall employment data but not sales due to fear of victimization of sales tax.

The learning mechanisms that we control for includes whether the entrepreneur has education or not and previous experience of the entrepreneur. We include two variables that are somewhat indirect learning mechanisms whether the entrepreneurs family is in the same business and whether the entrepreneur owns another business concurrently.

The first sets of regressions are run with the pooled sample. We then disaggregate the sample into enterprises run by male and female entrepreneurs in order to test for determinants of firms growth across these two types of firms. Finally, employment as well initial firms size as dependent variables. The basic econometric model is described below.

$$Y=\beta_0 +\beta_1 X_1 + \beta_2 X_2 +\ldots+\beta_n X_n + \varepsilon$$

Where: Y=change in employment= $\underline{\text{(Ln (Lc)-Ln(Li)}}$
(a)

and

Lc   =   Current employment

Li   =   Initial employment

a	=	age of the firm
X_1 to X_3	=	Sector dummies
X_4 to X_5	=	Experience of the entrepreneur (dummies)
X_6 to X_7	=	Education dummies
X_8 to X_9	=	Concurrent business ownership
X_{10}	=	Credit amount

In regressions estimating the determinants of initial firm size, a measure of assets owned by the entrepreneur is included to test the hypothesis that the wealth of the entrepreneur is positively correlated with the size of the firm established by the entrepreneur.

3. Explanatory Variables

AGEFI = age of the firm
CREMO= Credit amount
CALARA   = Capital Labour Ratio
REX   = Relevant experience dummy, where;
REX 1 = Experienced entrepreneur,
REX 0 = not experienced
ED   = Education dummy- where
ED 0   = No education
ED1   =   educated
COBE   =Concurrent business ownership dummy—where
COBE 0 = No concurrent business owned,
COBE 1 = Concurrent Business owned
SEEN   =Sex of the entrepreneur dummy where
SEEN 0 = Female
SEEN 1 =   Male
ENTER =   Type of Enterprise Dummy where
ENTER 1 = Trade Industry,
\ENTER 2= Service Industry,
ENTER 3 = Manufacturing   industry

$Ln(Li)$ = Natural log of initial employment
$Ln(Lc)$ = Natural log of current employment.

In estimating the model, we use the interaction terms whereby, the model common slope co-efficient and common intercept and one of the dummies is dropped from each category to avoid the problem of linear dependency Hence in interpretation of the results, we interpret the dummy variable effects in relation to the dummy variable that was dropped in each category.

The dummies dropped include: REX 0 = No experience dummy ED 0 = No education dummy-COBE0 = No concurrent business dummy
SEEN 0 = Female dummy ENTER 1 = Trade industry dummy.

$$Y = \beta_0 + \beta_{1LC} + \beta_{2a} + b_3 \textbf{CREMO} + b_4 \textbf{CLARA} + b_5 \textbf{REX1} + b_6 \textbf{ED1} + b_7 \textbf{COBE1} + b_8 \textbf{SEEN 1} + b_9 \textbf{ENTER2} + b_{10}$$

$$\textbf{ENTER}_3 + \varepsilon$$

Where e~**N(0,d2)** i.e. assumed to be normally distributed with zero mean and constant variance.

4. Hypothesis

The expected signs of coefficients of the independent variables based on findings of studies in the literature review are shown below.

Variable	Expected sign
Credit amount	Positive
Age	Positive
Education	Positive
Ownership status (1=own and 0 otherwise)	Positive or negative
Relevant experience	Positive
Sex	Positive or negative
Labour- Capital ratio	positive

TABLE 3 Expected signs of the estimated coefficients

Based on the literature reviewed, it is hypothesized that those enterprises with loans are bound to perform better than enterprises without loans. Performance also improves as the number of loans increase.

We also expect age of the entrepreneur to be positively related to profitability. This is because older entrepreneurs may possess more business experience leading to higher profits. In our study, education is taken to be the number of years of formal education. The more years of formal education the more educated a person. Studies show that profitability is positively related to education. Relevant experience is measured by the number of years an enterprise owner has been in the present business. It is expected that business run by entrepreneurs with more years of experience are more profitable. It is hypothesized that entrepreneurs who have good business management practices, just as outlined in the literature, are likely to be successful than those who don't. The literature does not clearly show how the types of of enterprise affect the performance of an enterprise. Hence it is our task to determine the sign.

4. Data Sources

Primary data was collected through stratified sampling of 240 MSEs in Nairobi. This was distributed to manufacturing, trade and service sector. The region was divided into eight smaller administrative zones or trading blocks. These were Embakasi, Kasarani, Starehe, Dagoreti, Makadara, Westlands, Langata, and Pumuani divisions. 10M-SEs were selected by writing 30 names of MSEs in each division in a piece of paper and randomly selecting one after every three

5. Limitations of the study

Some of the important determinants in growth of MSEs may not be included such as political and environmental policies. Loan received may not be entirely used for intended purpose and instead diverted to other uses. This may reduce the effects of credit on the growth of the enterprises. Time was too short to cover the area of study. The constant reallocation and demolition of SME business structures also contributed to poor performance of the enterprises.

Results Of The Study

Table 4: DESCRIPTIVE STATISTICS

	Minimum	Maximum	Mean		Std. Deviation
Variable	Statistic	Statistic	Statistic	Std. Error	Statistic
Y	-0.2877	1.099	0.11	0.02	0.22
In-Ic	1	21	6.23	0.57	5.08
a	0	2.485	0.88	0.07	0.58
CLARA	1342	6532	3409.78	145.61	1302.34
CREMO	25000	650000	347280.00	19000.28	169943.64
COBE 1	0	1	0.16	0.04	0.37
ED1	0	1	0.89	0.04	0.32
ENTER 2	0	1	0.38	0.05	0.49
ENTER 3	0	2	0.24	0.05	0.43
REX 1	0	1	0.46	0.06	0.50
SEEN 1	0	1	0.49	0.06	0.50

From the statistics, we get the means and standard derivations of the variables of estimation. Y shows a minimum value of a negative showing that some of the firms have reduced rather than grown over the periods while the highest growth is found to be 1.099. Capital labor ratio has a mean standard error of 146 while credit has a mean standard error of 19000.

Table 5: AGE CLASSIFICATION

Age of the firm	Frequency	Percent	Cumulative
	Y		percent
1-3	32	40	40
4-7	23	28.75	68.75
8-11	11	13.75	82.5
12-15	8	10	92.5
16-19	4	5	97.5
20-23	2	2.5	100
TOTAL	80	100	

Most of the firms (about 40% have operated for 1-3 years while 29% for 4-7 years. This implies that many MSEs have been in operation for 7 years or less. Only 2.5% of the sampled 80 firms have operated for over 20 years. As age of the firm directly determine the amount of credit, only 25% were expected to record highest growth.

Table 6: CAPITAL LABOR RATIO CLASSIFICATION

Capital range	Frequency	Percent	Cumulative percent
<=1500	2	2.5	2.5
1501-3000	35	43.75	46.25
3001-4500	27	33.75	80
>=4501	16	20	100
Total	80	100	

Shows the distribution capital- Labor (K-L) ratio for the sample. Most of the firms, about 35% have a K-L ratio of between 1501 to 3000, 27% have between 3000 to 4500. Only 16% of the firms have a K-L ratio of more than 4500 while 2% have 1500 or less

Table 7: CLASSIFICATION OF CREDIT AMOUNT

Credit amount	Frequency	Percent	Cumulative Per-
<250000	25	31.25	31.25
250001-400000	26	32.5	63.75
400001-550000	22	27.5	91.25
550000+	7	8.75	100
Total	80	100	

On credit distribution, 32.5% have a credit base of 25,000/= to 400,000/= while 31.24% have a credit base of less than 250000/= these comprise of over 60% of the firms. 27.5% of the firms have credit of 400, 001= to 550000/= while only 8.75% of the sample firms have a credit of over 550,000/=. These amounts consisted of the totals for all the duration of firm operation meaning that many firms had very little credit base to operate with.

Table 8: THE DISTRIBUTION OF EMPLOYMENT IN VARIOUS SECTORS OF THE MSEs

Number Employed	Trade industry	Service indus try	Manufacturing industry	Total
1	8	3	3	14
2-3	22	14	11	47
4-5	1	9	2	12
6-7	0	2	1	3
8-9	0	1	0	1
10-11	0	0	2	2
12+	0	1	0	1
Total	31	30	19	80

From the table, employment in trade and service sectors does not vary much. 8 firms in trade

employ 1 person while 3 firms in both manufacturing and service employ that number. Most of the MSE employ between 2-3 people (i.e 47 of them) with the highest number of firms coming from trade i.e 22. 12 firms employ between 4-5 people with the distribution being 1, 9, and 2 in trade, service and manufacturing respectively. Only 1 firm that is in the service sector has 12 employees or more, while only 2 manufacturing firms have between 10 and 11 employees . This implies that most MSEs are a one-person business with the assistance of family members and close acquaintances. Most MSEs also engage in trade activities as capital required to start these business are small compared to manufacturing and service sectors. Beauraucratic procedures involved also hinder growth of these firms.

Table 9: THE RELATIONSHIP BETWEEN THE AGE OF THE FIRM AND CREDIT ACQUIRED

Age of the firm	<250000	250001- 400000	400001-550000	550000+	Total
1-3	22	8	2	0	32
4-7	3	11	8	1	23
8-11	0	4	4	3	11
12-15	0	2	5	1	8
16-19	0	1	2	1	4
20-23	0	0	1	1	2
Total	25	26	22	7	80

Out of the 80 firms, most of them, over 50% received credits of less than 400,000/ while only 7 received credits of over 550,000/ Most of the firms that received credits of 250,000/= or less have operated for 1-3 years. They accounted for 22 out of 35 firms. The distribution of credits of higher amounts was evenly distributed for firms that had operated for more than three years.

3. Table 10: THE RELATIONSHIP BETWEEN THE AGE OF THE FIRM AND THE CAPITAL- LABOUR RATIO

Age of the firm	<=1500	1501-3000	3001-4500	>=4501	Total
1-3	2	11	11	8	32
4-7	0	10	9	4	23
8-11	0	6	3	2	11
12-15	0	3	3	2	8
16-19	0	3	1	0	4
20-23	0	2	0	0	2
Total	2	35	27	16	80

Source: Own survey

Most firms have a capital Labour (K-L) ratio of between 1500 and 4500. This range of K-L ratio presents most of the firm's distribution that had been there for 4-7 years. 10 out of 23 have a K-L ratio of 1501-3000, while 6 of the firms that have operated for 8-11 years have K-L ratio range of 3000 to 4500.

Correlation matrix

The table below represents the correlation matrix of the dependent and the explanatory variables. From the correlation matrix, we find no serious problem of multicollinearity of the independent variables and amongst themselves or with the dependent variable. From this table, age of the firm is highly positively correlated with the credit amount. This may be due to the fact the older firms must have acquired more credit.

		Y	In_Ic	A	CLARA	CREMO	COBE1	ED1	ENTER2	ENTER3	REX1	SEEN1
Pearson Correlation	Y	1.000	-0.012	-0.275	0.091	-0.368	-0.259	0.139	-0.037	0.079	-0.069	-0.078
Pearson Correlation	In_Ic	-0.012	1.000	0.455	-0.101	0.247	0.567	0.117	0.261	0.094	0.139	0.010
Pearson Correlation	A	-0.275	0.455	1.000	-0.203	0.706	0.330	0.181	0.099	-0.037	0.143	-0.133
Pearson Correlation	CLARA	0.091	-0.101	-0.203	1.000	-0.056	-0.247	0.072	-0.225	0.257	0.000	0.052
Pearson Correlation	CREMO	-0.368	0.247	0.706	-0.056	1.000	0.105	0.107	-0.032	0.060	0.147	-0.081
Pearson Correlation	COBE1	-0.259	0.567	0.330	-0.247	0.105	1.000	0.050	0.149	-0.007	-0.069	0.045
Pearson Correlation	ED1	0.139	0.117	0.181	0.072	0.107	0.050	1.000	0.194	-0.266	-0.066	0.189
Pearson Correlation	ENTER2	-0.037	0.261	0.099	-0.225	-0.032	0.149	0.194	1.000	-0.432	0.006	0.174
Pearson Correlation	ENTER3	0.079	0.094	-0.037	0.257	0.060	-0.007	-0.266	-0.432	1.000	0.013	-0.074
Pearson Correlation	REX1	-0.069	0.139	0.143	0.000	0.147	-0.069	-0.066	0.006	0.013	1.000	0.098
Pearson Correlation	SEEN1	-0.078	0.010	-0.133	0.052	-0.081	0.045	0.189	0.174	-0.074	0.098	1.000
Sig.tailed (1-	Y	.	0.457	0.007	0.212	0.000	0.010	0.109	0.373	0.244	0.271	0.245
Sig.tailed (1-	In_Ic	0.457	.	0.000	0.186	0.014	0.000	0.150	0.010	0.204	0.109	0.466
Sig.tailed (1-	A	0.007	0.000	.	0.035	0.000	0.001	0.054	0.192	0.374	0.104	0.120
Sig.tailed (1-	CLARA	0.212	0.186	0.035	.	0.310	0.014	0.264	0.022	0.011	0.499	0.324
Sig.tailed (1-	CREMO	0.000	0.014	0.000	0.310	.	0.177	0.173	0.387	0.299	0.097	0.238
Sig.tailed (1-	COBE1	0.010	0.000	0.001	0.014	0.177	.	O.331	0.094	0.476	0.272	0.346
Sig.tailed (1-	ED1	0.109	0.150	0.054	0.264	0.173	0.331	.	0.042	0.009	0.279	0.047
Sig.tailed (1-	ENTER2	0.373	0.010	0.192	0.022	0.387	0.094	0.042	.	0.000	0.477	0.061
Sig.tailed (1-	ENTER3	0.244	0.204	0.374	0.011	0.299	0.476	0.009	0.000	.	0.456	0.257
Sig.tailed (1-	REX1	0.271	0.109	0.104	0.499	0.097	0.272	0.279	0.477	0.456	.	0.193
Sig.tailed (1-	SEEN1	0.245	0.466	0.120	0.324	0.238	0.346	0.047	0.061	0.257	0.193	.

Correlation is significant at the 0.01 Level (1-tailed).
Correlation is significant at the 0.05 Level (1-tailed).

The growth of firms is also positively correlated with the capital-labor ratio. This may be due to the fact that capital-intensive operations lead to higher output and less wastage therefore increasing the growth levels. The credit amount is found to have a positive correlation with the growth of the firm. This can be explained by the fact that as a firm acquires more credit it becomes highly capitalized and therefore is capable of expanding and engaging more labor. The correlation matrix can be used to check for the existence of multicolinearity in a model. Multicollinearity exists when there is high correlation between the explanatory variables though this cannot be inferred to be the case where the variables move as explained by theory.

Model Summary

The model in this study is estimated using 10 explanatory variables. To capture the effects of qualitative variables in the model, we estimated the model by dropping one dummy variable from each category of dummy variables by using interaction terms and including a common intercept to avoid the problem of linear dependency.

From the estimation, we find R^2 to be 0.314 and the standard error of the estimation as 0.191. Since the study is cross-sectional in nature, the value of R^2 does not need much interpretation as a measure of the extent to which the dependent variable is explained by the explanatory variables. The value of the adjusted R^2 is found to be 0.214.

R	R Square	Adj.R Square	S.E of the Estimate
0.56019	0.313809	0.214361	0.1938902

TABLE 12: ANOVA TABLE

	Sum of Squares	Degrees of freedom	Mean Square	F	Sig
Regression	1.186262	10	0.118626	3.155505	0.0022308
Residual	2.593946	69	0.037593		
Total	3.780208	79			

a) **Dependent Variable**: Change in employment
b) **Independent Variables:** (Constant), male, natural log of current employment, capital-labor ratio, experience, has education, credit amount, service industry, manufacturing industry, concurrent business, age of the firm

From the ANOVA table we get the estimated sum of square to be 1.186262 and the residual sum of squares to be 2.593946 with degrees of freedom 10 and 69 respectively.

The ANOVA table allowed us to test the hypothesis that all slope parameters were equal to zero. From the table, F -calculated is 3.156 and it's significant at this level.

Table13: COEFFICIENTS

	Unstandardized Coefficients		Standardized Coefficients	t-values	Sig.
	B	Std. Error	Beta		
(Constant)	0.16243	0.10113		1.606155	0.112807
a	-0.00272	0.00708	-0.063034	-0.38376	0.07023362
CLARA	-1E-05	1.9E-05	-0.062297	-0.56114	0.5765212
CREMO	-5.2E-07	1.9E-07	-0.401501	-2.75703	0.0074575
COBE 1	-0.22902	0.07612	-0.388675	-3.00857	0.0036619
ED1	0.166958	0.07627	0.242691	2.189146	0.031972
ENTER2	-0.02533	0.05425	-0.056423	-0.46698	0.6419846
ENTER 3	0.059202	0.06181	0.115898	0.957816	0.3414995
In_Ic	0.117224	0.05262	0.31249	2.22772	0.0291626
REX1	-0.0192	0.04587	-0.044039	-0.41856	0.676837
SEEN 1	-0.05419	0.04632	-0.124596	-1.16988	0.2460735

From the estimation result we get the variables for the credit amount **(CREMO)**, concurrent business ownership**. (COBEI)**, Education **(EDI)**, current employment (In -Ic) to be significant at the 5% level.

CREMO is significant at 5% level implying that credit deter mines the growth of the firm. Most coefficients do not show or depict the expected signs. Credit amount shows a negative sign. This may be due to the fact that, at high credit levels, firms are indebted and therefore use most of their earnings to settle the loans.

Also with poor economic conditions coupled with demolitions of illegal market structures where most MSEs operate, it was difficult for the MSEs to realize substantial growth. ED1 has a positive sign as expected. This implies that enterprises run by educated entrepreneurs grow faster.

CLARA has a negative sign. This implies High Capi-tal-Labor ratios are not beneficial to MSE growth since most of the MSE's are

not capital intensive

The type of enterprise operated are not significant at either 5% or 10% level though manufacturing enterprises (ENTER 3-) grow faster than trade enterprises (ENTER 1), while the service enterprises grow slowly than trade enterprises.

Most of the MSEs studied show a positive growth rate. This is seen in the positive increase in the number of workers or the capital labor ratio. At the very initial stage, practically all the firms start with very few workers with the intention of increasing the number soon after. Except for a few most of the firms had a positive growth.

Financial liberalization and the existence of an SME Credit have constraints on lending to SMEs. Monetary policies on lending to SMEs lending. In order to accelerate this process, institutional development among banks and non-bank intermediaries should be aimed at building their capacity to reach and assess liable SMEs. Better integration between formal segments of the financial agents with the best information on their operations.

Substantial training efforts will also be needed in the coming years before banks develop SME Units as specialized profit centers.

Lenders have placed increasing emphasis on better project appraisal to reduce the risk of unreliable projects. This needs to be matched by improved capability of SME applicant to provide information and documentation required. Institution building efforts are also needed to improve the flow information between financial institutions.

Problems, Constraints and Conclusions

Most of the entrepreneurs cited the problems of competition, lack of market, lack of product publicity and knowledge about what customers want. Accessibility to credit and collateral was also reported by the entrepreneurs. Lack of transport costs and poor road conditions was reported. Some entrepreneurs indicated harassment problems in obtaining business license.

As outlined in National MSE Baseline Survey, 1999 (pg 70). Access to markets for MSE products as well as access to finance constituted the most dominant and severe problem facing MSEs in Nairobi. More than one-third of the sampled population cited difficulties arising from market saturation or low demand for products. The second most severe constraint related to difficulties in accessing credit due to collaterals.

Most MSEs operate closely with households; thus, any crisis in the households becomes a challenge to their survival. MSEs operated by women were severely affected as business operation relied on stability of their families. Since women constituted many of the SMEs most of the credit was not wholly utilized for the intended business purpose. This contributed to the negative impact of credit on growth.

About two-thirds of the total numbers of MSEs are in the trade group (wholesale and retail). About 72% of them are one-person enterprise unit's i.e there is only one person working in the enterprise. Hence, about 72% of the total employment in MSEs are accounted for by owners working in the enterprises.

In conclusion and from facts extracted from the study, it should be noted that special consideration is needed regarding the following issues:

Expansion of credit of MSEs: Loans have led to improve-ment of the living standards of the beneficiaries especially women who are the majority. They are able to pay school fees for children and from the profit they get they feed their families, afford proper living houses and better health care.

Expansion of credit of MSEs: Loans have led to improvement of the living standards of the beneficiaries especially women who are the majority. They are able to pay school fees for children and from the profit they feed their families, afford proper living houses and better health care.

The MSEs studied show a positive growth rate: This is seen in the positive increase in the number of workers or the capital labor ratio. At the very initial stage, practically all the firms start with very few workers with the intention of increasing the number soon after. Except for the one-man owner business most of the firms had financial liberation and the existence of an SME credit: This positive growth has not been sufficient to overcome constraints on lending to MSEs in Nairobi. There has been lack of formal monetary policies on lending. In order to accelerate this process, institutional development among banks and non-bank intermediaries should be aimed at building their capacity to reach and assess reliable MSEs. Better integration between formal and informal segments of the financial system is needed to expand the flow of credit to MSES through those financial agents with the best information on their operations.

Substantial training efforts will also be needed in the coming years before banks develop MSEs as specialized profit centers.

Lenders have placed increasing emphasis on better project appraisal to reduce the risk of unreliable projects. This needs to be matched by improved capability of MSE applicants to provide information and documentation required. Institution building efforts are also needed to improve the flow of information between financial institutions.

Raw materials are specific to the activity being undertaken. Availability of raw materials at affordable prices was another constraint to MSE growth. Some raw materials are seasonally produced or got from far locations. This reduces the profitability of the firms as they have to raise prices, which repulse customer.

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Author's Profile

Substantial training efforts will also be needed in the coming years before banks develop SME Units as specialized profit centers. Lenders have placed increasing emphasis on better project appraisal to reduce the risk of unreliable pro-jects. This needs to be matched by improved capabil-ity of SME applicant to provide information and doc-umentation required. Institution building efforts are also needed to improve the flow information be-tween financial institutions.