

Regulatory Framework and Demographic Determinants of Acquisition of Financial Services by MSEs in Nairobi County, Kenya

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Abstract

Micro and Small Enterprises have been known for their crucial role in creation of employment, income generation and supplementing the provision for goods and services by large enterprises as well as eradication of poverty. They contribute to the creation of wealth and support to the development and growth of medium and large scale enterprises. The failure of MSEs to recognize the important role played by external sources of finance usually poses a serious challenge to their functions. Since MSEs regularly suffer serious financial constraints, they are yet to realize their full potential as agents of economic growth. In Kenya for example, the failure rate of MSEs is still as high as 65 percent. This paper examined the regulatory framework and demographic determinants of acquisition of financial services by MSEs in Nairobi County, Kenya. Descriptive study design was used with a target population consisting of 2,098 MSEs. Primary data was collected using semi-structured questionnaires from a sample of 250 respondents. Data was analysed using descriptive and inferential statistics. The study concluded that the majority of the businesses are owned and managed by youthful individuals with an average age of 34 years and that source of initial capital, maintenance of insurance for the business, age of the business owner/manager and need for maintenance of bank accounts are important factors in acquisition of financial services. Key words: acquisition, financial services, MSEs, Regulatory framework and demographic factors.

1.1. Background to the Study

Micro and Small Enterprises (MSEs) are not new in the history of economic development. Micro and Small businesses were there much earlier. Since their recognition as economic agents, governments and non-government agencies developed strong interest in the development and growth of MSEs by starting various schemes to support the sector activities (Akaplu, 1978). Berislav (1985) pointed out that large scale industries had their origin in small business units though recognition of small businesses activity as a determining factor of economic development came much later in the 1950s. The MSEs were recognized for their role and importance in economic development and growth of economies. Since then, there has been a growing interest in the development of small businesses worldwide. This has enabled small businesses to continue playing a critical role in the development of economies, particular, in the developing economies like Kenya. MSEs are found across all the sectors of the economies ranging from agriculture, manufacturing and trade. The MSEs are known for their role as incubators for Small and Medium Enterprises (SMEs), thus making them contributors to the economic growth (Leegwater and Show, 2008). Leegwater and Show (2008), further observed that MEs are the link in the sector-specific value chain as the supply base of SMEs. The potential of these size businesses, however, have not been realized to the fullest. The MSEs have performed fairly well in some countries while in other countries the performance of MSEs has not been good.

However, economic output of micro enterprises in South Africa is believed to be as high as 50 percent of the GDP and absorbing an estimated 60 percent of the labour force. In China, the role of the small enterprises is even more impressive. Kamitewoko (2013) found that the Chinese-Owned Businesses in Congo Brazzaville contributed significantly to the workforce in that country citing finance as key player in their success. Hepeng (2014) found that the small and medium-sized enterprises provided close to 75 percent of the town employment opportunity by the end of 2012.

Importance of Micro and Small Enterprises

Kenya's first step in the development of the small enterprise sector was by the development of Sessional Paper No. 1 of 1986. Secondly, the role played by MSEs was recognized in the 6th National Development Plan (1989 – 1993), as a primary means of strengthening Kenya's economy. In the 6th Plan, the target for new employment creation over the five-year period was 1.9 million jobs. Of those jobs, approximately 31 per cent or 587,000 jobs were expected to be created in the Small- Scale and *Jua kali* enterprise sector (Republic of Kenya, 1992). From the African economic point of view the informal sector accounted for some 60 percent of the urban labour force in low income Africa and contributed 20 percent of their GDP (UNDP, 1996). This further explained the importance of MSEs in world economies. But the survival of MSEs is surrounded by a number of challenges including lack of access to and acquisition of financial services, high cost of production, marketing, poor quality of tools and pricing. Lack of access or acquisition of financial services is often quoted as a contributor to business failure among other factors. The contribution of MSE sector for Kenya's GDP has been quite impressive increasing from 13.8 percent in 1993 to over 18 percent in 1999. The performance and competitiveness need to be increased if it has to effectively respond to the challenges of creating productive and sustainable employment opportunities, promote economic growth and poverty reduction in Kenya (Republic of Kenya, 2004). One way of improving MSE performance is by improving their access to financial services. The economic survey (Republic of Kenya, 2003) indicated that employment within the MSE sector increased from 2.4 million persons in 2000 to 5.1 million persons in 2002, accounting for 74.2 percent of the total persons engaged in 2002. This implied that with proper development strategies, the sector was capable of providing and surpassing the government's target of creating 500,000 jobs per year (Republic of Kenya, 2005). In addition, the sector contributed up to 18.4 percent of the country's Gross Domestic Product (GDP).

Importance of the Financial Services

As firms grow they turn to formal financial institutions for financial needs starting with banks (Watchel, 2001). But firms do not need finance for both startups and growth. For MSEs, acquisition of financial services especially loans from banks has not been easy (Atieno, 2001). Kenya has a fairly well-developed financial system and various financial products. However, its ability to contribute effectively to the development process has been undermined by non-performing loans (Republic of Kenya, 2003). The baseline survey of 2006 on financial access in Kenya indicated that majority of Kenyans still use informal providers of financial services like ASCAs and ROSCAs (FSD Kenya, 2007). The baseline survey of 1993 (Republic of Kenya, 1993), indicated that 9 percent of MSEs had accessed credit, a small increase of 7 percent. But out of the 9 percent only 4 percent was obtained from the formal financial institutions. The baseline survey of 1999 indicated that 89.6 percent of MSEs did not access credit (Republic of Kenya, 2009). This result, indicated a higher non – involvement of credit by MSEs compared to 85 percent and 89.2 percent in 1985 and 1995 respectively. As indicated earlier by Ongile (1994), in the periods 1990, 1991 and 1992 there was a small increase in the amounts provided to 24 SMEs of Shillings 115 million, Shillings 211 million and Shillings 241 million respectively. But Oketch *et al.* (1995) portends that although the supply increased later from some 50 organizations to shillings 847 million, the increase did not significantly influence accessibility of credit by MSEs. The main commercial banks involved in SME lending and savings mobilization in Kenya are the Kenya Commercial Bank and Barclays Bank (Atieno, 2001). This an indication that there was some missing link between the demand and supply of financial services as lack of access to financial services remains an issue (Republic of Kenya, 2005).

1.2. Statement of the Problem

It is widely believed that availability of financial services especially bank loans and credit facilities could spur development and growth. Yet micro and small enterprises in Kenya have a huge gap in financing their operations as access to financial services remained a major constraint to growth of MSEs in Kenya (FSD Kenya, 2008).

Thuranira (2009); Njanja, Pelisier and Ogotu (2010); Calice *et al*, (2012); Ntakobajira (2013); Njoroge and Gathungu (2013); Kimani (2013) and Ochanda (2014) showed that access to financial services is still a big challenge to the micro and small enterprises in Kenya. Inaccessibility of financial services tends to make business operation costly as the business owner/mangers attempt to confront the challenge. Notably, micro and small enterprises have failed to recognize the importance of external sources of finance like other sectors of the economy. It is on the basis of this financing gap that this study sought to investigate the determinants of acquisition of financial services by micro and small enterprises in Langata Sub-County, Nairobi County, Kenya

1.3. Conceptual Framework

From the foregoing background literature, the study derived a number of variables which have causal relationship with acquisition of financial services, presented diagrammatically in figure 1.

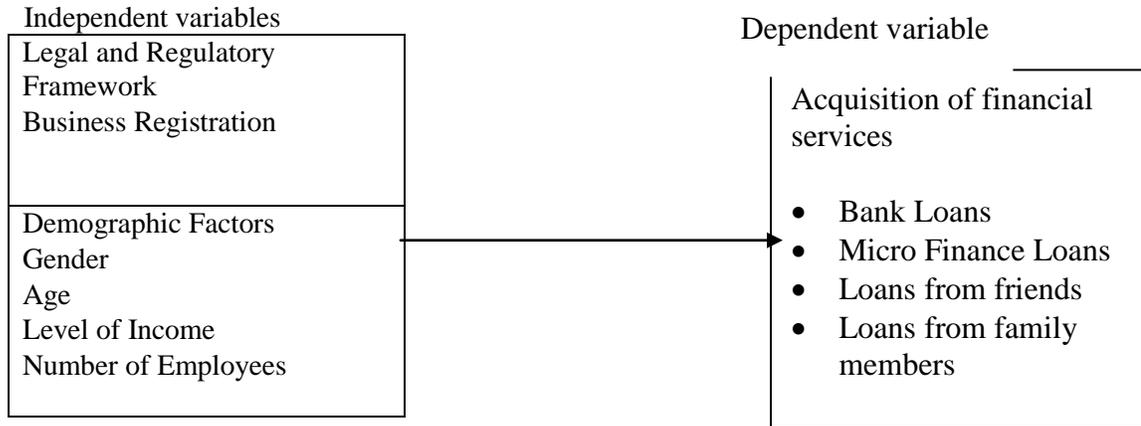


Figure 1: Conceptual framework

1.4 Research Design and Methodology

The research adopted positivism approach. Positivism philosophy is appropriate when a study is based on observable social reality (Cohen and Crabtree, 2006). This study was based on observable social reality the study then used descriptive survey design which allows the formulation of a problem for more precise investigation (Wilkinson and Bhandarkar, 1986, Kothari, 2006). This also provided for identification of general patterns as indicated by (Saunders *et al*, 2009). Consequently, the study explained the extent to which both internal and external factors affected the acquisition of financial services by micro and small enterprises in Kenya.

1.5 The Model Specification

In this study, it was assumed that a firm is faced with two options; either to acquire financial services from formal financial institutions or the other alternatives. The general function f(.) was in the form of a linear, logistics or multiplicative function. The logistic cumulative distributions function estimated the probabilities as follows: Taking P(Y = i), i = 1, 2, 3.....n, where i represents the various firms acquiring financial services, and e is a natural number. This was summarized as:

$$\ln \left[\frac{p_r(y = i)}{p_r(y = 1)} \right] = \alpha_0 + \alpha_1 \text{Gen} + \alpha_2 \text{Ag} + \alpha_3 \text{Ed} + \alpha_4 \text{Tr} + \alpha_5 \text{Ca} + \alpha_6 \text{In} + \alpha_7 \text{Size} + \alpha_9 \text{Leg} + \alpha_{10} \text{acc} + \alpha_{11} \text{Cos} + \alpha_{12} \text{Col} + \alpha_{13} \text{Garr} + \alpha_{14} \text{Pro} + \epsilon; \text{ Where } \alpha_i = (\beta_{ji} - \beta_{j1})$$

1.6 Target Population and Sample size determination

The target population for this study was 2,098 MSEs. The population was organized on the basis of sectors. Stratified random sampling technique was used to determine representative sample. Strata were identified based on sector with a wide range of economic sectors including: retail outlets, manufacturers, distributors, caterers, motor vehicle repairs, import and export services, commission agents, wholesalers, educational institutions and others.

Adopting proportional allocation, the sample size for each stratum was obtained using the equation: $n = \frac{P_i}{N}(s)$

Where n= sample size of each stratum, P_i = the proportion of the population included in the i th stratum and N = total population as shown below

Table 1. Sample Size determination

Code	Sector/Strata	Target population (P)	Sample size (n)
1	Retailers	1215	145
2	Manufacturers	31	3
3	Distributors	37	5
4	Caterers	195	22
5	Motor Vehicle Repairers	117	14
6	Import and Export	1	1
7	Commission Agents	419	50
8	Wholesalers	1	0
9	Educational Institutions	58	7
10	Others*	25	3
	Total	2098	250

* Agricultural products processing, mining and natural resources, health, communication and entertainment facilities firms. Semi-structured questionnaires were used to collect primary data. Cronbach's alpha coefficient measurement after the pilot result showed a value of 0.713 which confirmed the reliability of the instrument. Descriptive statistics and inferential statistics were used to analyze the data.

2.1 Results and Findings

The response rate from the questionnaires was 92.4 percent. The high rate of response was attributed to the personal involvement of the researcher and the efforts by the research assistants.

Legal and Regulatory Framework and Acquisition of Financial Services

The first objective of the study was to determine the relationship between legal and regulatory framework and acquisition of financial services. The results are presented using descriptive statistics, chi-square tests and multinomial logistic regression. The influence of legal and regulatory framework on acquisition of financial services was analysed with respect to business registration, source of initial capital, maintenance of bank accounts and maintenance of insurance for the business.

Table 4.3: Relationship between Business registration and loan application

Registration status		Have you ever applied for a bank loan again		
		Yes	No	Total
Registered	F	12	20	32
	%	37.5	62.5	100%
Not registered	F	17	33	50
	%	34.0	66.0	100%
Chi-value	0.105			
P-value	0.815			

* P-Value measured at 0.05

The chi-square result was; $\chi^2 = 0.105$, $P = 0.815$. The result indicated that business registration had no association with acquisition of financial services. The study tested the hypothesis that there is no relationship between business registration and acquisition of financial services. Since the chi-square result indicated a p-value > 0.05 , the hypothesis could not be rejected. Table 4.3 provides the chi-square results for the status of business registration and its relationship with acquisition of financial services at the initial stage and subsequent loan application. Previous studies indicated that there is relationship between business registration and debt-financing.

Banks consider business registration as a good sign of firm credibility (Cassar, 2004). The result of this study showed that 62.5 percent of the firms were not registered explaining why only a small number of firms had applied for loan. Most of the small enterprises do not seek business incorporation or obtain trading licenses. The finding is therefore inconsistent with the finding of Fatoki and Assah (2011) that business incorporation positively impacts on access to credit.

Source of Initial Capital

The value of Startup capital is the initial indicator of the ability of businesses to sustain its planned levels of activities. In this study, capital is discussed in terms of source and value. Table 4.4 shows the various sources of capital used by the entrepreneurs to obtain their initial capital.

Table 4.4 Respondents sources of initial capital

Sources of initial capital	frequency	%
Own saving	162	70.1
Bank loan	28	12.1
Loan from friends	13	5.6
Loan from credit associations	4	1.7
Others	24	10.4
Total	231	100

Source: Researcher 2012

The result showed that majority of the respondents 70.1 percent (n=162) indicated they used their own savings. 12.1 percent (n=28) obtained loan from bank and other financial institutions, 5.6 percent (n=13) received loan from friends, while 1.7 percent (n=4) were loaned by credit associations and 10.4 percent (n= 24) did not indicate their source of capital. Startup capital is a critical variable as an indicator of ability to sustain a planned level of activities.

Table 4.5: Relationship between source of initial capital and acquisition of financial services

Loan application		Source of initial capital				
		Own savings	Loan from bank	Loan from friends	From credit associations	Total
Yes	F	13	16	0	0	29
	%	44.8	55.2	0.00	0.00	100%
No	F	41	9	1	1	52
	%	78.8	17.3	1.9	1.9	100%
Chi-value	12.995					
P-value	0.005					

Source: Researcher (2012) * P-Value measured at 0.05

The chi-square was 12.995 with a p-value of 0.005. Based on the result it is observed that majority of the firms, 52.2 percent which applied for subsequent loans had used bank loan as the source of initial capital while 44.8 percent (n=13) of the respondents who had applied for the subsequent loan had used own savings as initial capital. Majority, 78.8% (n=41) of the firms which used their own savings as initial capital did not apply for loan compared to 17.3% (n=9) of those who started with loan from bank and did not apply for another loan.

Table 4.6: Startup capital used by the respondents

Startup capital	frequency	%
Below 10000	34	14.7
10,001 – 20,000	45	19.5
20,001 – 30,000	29	12.6
Above 30,000	93	40.3
None committal	30	13.0
Total	231	100

Source: Researcher 2012

Table 4.6 indicates that majority of the respondents used less than sh.30, 000 as startup capital. The respondents who used more than sh.30, 000 were 40.3 percent (n= 93). This was an indication of a weak financial capital base for most of the MSEs. Fairlie and Alicia (2003) indicated that less successful businesses were associated with lower levels of startup capital. In the absence of external sources which are small business oriented such as venture capital, MSEs resorted to internal financing particularly own savings. Bessant, Laming, Noke, and Phillips (2005) noted that in Europe for example, lack of venture capital has been a particular barrier to small firms. Because of the weak financial base, the businesses are likely to face liquidity problems. As observed by Peng and Bewley (2010), financial capital is a key part of the resource base of any firm. Lack of financial capital may lead to liquidity constraints. Liquidity constraints do limit the survival of small firms (Fairlie and Robb, 2007a and Saridakis, Mole, and Storey, 2008). The financial risk involved in the investment decision has a decisive influence on the rate and direction of the firm's growth.

Table 4.7: Startup capital and the current assets of the business

Startup capital (Ksh.)	Assets (Ksh.)				Total
	Below 50,000	51,000-100,000	101,000-200,000	Above 201,000	
Below 10,000	18(56.3%)	11 (34.4%)	1 (3.1%)	2 (6.3%)	32(100%)
10,001- 20,000	11 (26.8%)	16 (39.0%)	10 (24.4%)	4 (9.8%)	41(100%)
20,001 -30,000	2 (8.0%)	12 (48.0%)	6 (24.0%)	5 (20.0%)	25(100%)
Above 30,000	4 (4.9%)	11 (13.4%)	28 (34.1%)	39 (47.6%)	82 (100%)

$r = 0.205$

$P = 0.005$

Source: Researcher 2012 *P-value at 0.05

The finding indicated that correlation coefficient was 0.205 while p-value was 0.005 indicating a strong relationship between startup capital and asset value. Table 4.7 shows the result. The asset value is an indicator of the growth pattern of a firm. The asset value of majority of the firms, 56.3 percent (n =18) of the firms whose startup capital were below sh.10, 000 have not grown above sh.50, 000. 34.4 percent (n =11) fell between sh.51, 000 and sh. 100,000, 3.1 percent (n =1) reached sh.200.000 while only 6.3 percent (n=2) increased beyond sh. 200,000. Firms whose startup capital were in excess of sh. 30,000 were 4.9 percent (n=4) with asset value of less than sh. 10,000 while 47.6 percent (n=39) of the firms with capital in excess of sh.30, 000 had grown beyond the amount of sh. 200,000. Current business asset value of the businesses was related ($r = 0.205$, $P = 0.005$) to the amount of startup capital of the businesses. Businesses that had startup capital of below Ksh.10,000 currently reported asset value of below Ksh.50,000 while those business which had higher amount above Ksh.30,000 had asset value of above Ksh.201,000 The higher the startup capital the higher the MSEs reported asset value. Blanchflower and Oswald (1998); and Dunn and Douglas (2000), indicated that asset levels play an important role in determining who enters into or exits from self-employment. Entrepreneurs in Kenya are self-employed and struggling to stay in the employment.

Table 4.9: Relationship between maintenance of insurance and acquisition of financial services

Loan application		Maintenance of insurance		Total
		Yes	No	
Yes	F	16	12	28
	%	57.1	42.9	100%
No	F	17	35	53
	%	32.7	67.3	100%
χ^2		4.490		
P		0.034		

* P-Value measured at 0.05

57.1% (n=16) of those who maintained insurance, applied for loan compared to 32.7% who had insurance but did not apply. The result indicated existence of relationship between maintenance of insurance and acquisition of financial services since the p-value was < 0.05. The hypothesis that there was no relationship between maintenance of insurance and acquisition of financial services was therefore rejected.

Table 4.10; Relationship between Legal and Regulatory Factors and Acquisition of Financial Services

Predictor variables	B	Std. Error	Wald	Sig.	Exp(B)	95% Confidence Interval for Exp(B)	
						Lower Bound	Upper bound
Source of initial capital	16.889*	0.538	985.087	0.000	21626467.3	75324489.5	62091568.8
Maintenance of insurance	0.767	0.518	2.191	0.139	2.153	0.780	5.947

Source: Researcher 2012. * Indicate that the coefficient is significant at 5% level.

The findings, indicated that the model fit for the two variables was significant at 95 percent level of confidence (The R-squared was 0.223). This implied that the source of initial capital explain 22.3 percent of the variation in the acquisition of financial services. The result indicated that source of initial capital had significant positive relationship with acquisition of financial services at 95 percent level of confidence. The coefficient (β) was 16.889 with a $p=0.001$ that is less than 5 percent implying that the coefficient is statistically significant. Therefore, source of initial capital explains the acquisition of financial services. However, the coefficient of the maintenance of insurance was 0.767 with a $p=0.139$ that is >0.05 . This indicated that maintenance of insurance does not influence acquisition of financial services by micro and small enterprises. The result implied that the overall result on maintenance of insurance was influenced mainly by source of initial capital. Wald's chi-square results were positive, indicating a positive relationship between legal and regulatory framework and acquisition of financial services.

Table 4.11 Education level of the respondents

Education Level	frequency	%
Primary	8	3.5
Secondary	50	21.6
College	108	46.8
University	60	26.0
Non- committal	5	2.2
Total	231	100

Source: Researcher 2012

Majority of the respondents 46.8 percent (n=108) were college graduates and 26 percent (n=60) are university graduates with only 3.5 percent being primary education and 21.6 percent secondary school graduates as indicated by table 4.11. This is an indication of a well-educated work force particularly in the urban set ups. In terms of gender, the distribution of the level of education of the entrepreneurs is given by table 4.12.

Table: 4.12 Entrepreneurs Level of Education based on Gender

Gender	Entrepreneurs level of education				Total
	Primary	Secondary	College	University	
Males	6 (4.3%)	20(14.2%)	71(50.4)	44(31.2%)	141(100%)
Female	2(2.4%)	30(35.3%)	37(43.5%)	16(18.8%)	16 (100%)

As indicated by table 4.12, 31.2 percent (n=44) male respondents had university education while 50.4 percent (n =71) had college education compared to only 18.8 percent of the females with university education and 43.5 percent of the females having College education.

To determine the relationship between level of education and acquisition of financial services, respondents were asked to indicate if they had applied for financial services from financial institutions after their initial capital. Table 4.13 shows the distribution of the firms which had applied and those which had not applied.

Table 4.13 Relationship between Level of Education and Acquisition of Financial Services

Education levels	Application for financial services after start up		Total
	Applied for loan	Did not apply for loan	
Primary	0 (0%)	1 (100%)	1 (100%)
Secondary	4 (28.6%)	10 (71.4%)	14 (100%)
College	13 (33.3%)	26 (66.7%)	39 (100%)
University	12 (41.4%)	17 (58.6%)	29 (100%)
Total	29 (34.9%)	54(65.1%)	83 (100%)
$\chi^2 = 1.360$			
P = 0.715			

Source: Researcher (2012)

The results indicated that none of the owner/managers with primary education had applied for financial services. Only 28.6 percent (n=4) of those with secondary education had applied while 71.4 percent (n=10) had not applied. For owner/managers with college education, 33.3 percent (n=13) had applied but 66.7 percent (n=26) did not apply. Firm owner/managers with university qualification had the highest number of applicants for financial services with 41.4 percent (n=12) and those who did not apply being 58.6 percent (n=17). It can be observed that the number of owner/managers applying for financial services increases with the level of education. The chi-square results indicated that the level of education was and application for financial services were independent ($\chi^2 = 1.360$, P = 0.715). Since the p-value was > 0.05 it implied that the hypothesis that there was no relationship between level of education and acquisition of financial services should not be rejected. Based on the result it is noted that any business owner/manager could apply for and acquire financial services from any financial institution. The finding of this study supports the finding of (Thapa *et al.*, 2008) that level of education had only a moderate positive relationship with the success of the business. And the finding fits well with Kenya since Kenya has a vast pool of well-educated population which needs no classification for success of business. The trend is likely to continue given that Kenya has continued to improve on the education system and education policies. Kenya under the Vision 2030, aimed at expanding access to education, improve transition rate from primary to secondary and raise the quality and relevance of education (Republic of Kenya, 2007). This finding, however, is inconsistent with the finding of Fairlie and Robb (2003) who found that success of business is linked with level of education of the owner. The finding differs also with the finding of Wozniak (2006) who noted that business owner/managers need education to be able to acquire and use information appropriately. Another inconsistency is with Thapa (2007) who had observed that level of education has a positive effect on entrepreneurial success. The finding is inconsistent also with the finding of Doms, Lewis, and, Robb (2010) who indicated that the level of education of entrepreneurs is strongly related to positive outcomes especially for college graduates compared to those with less than a four year degree. Wanigasekara and Surangi (2010) further agreed that owner/ managers with higher education experience better results. The study tested also for any relationship between level of education of owner/managers and start up capital. Table 4.14 presents the results.

Table 4.14: Relationship between Level of Education and startup capital

Education levels	Startup capital				Total
	Below 10,000	10,001 – 20,000	20,001-30,000	Above 30,000	
Primary	7 (87.5%)	1(12.5%)	0 (0%)	0(0%)	8 (100%)
Secondary	8 (18.6%)	14 (32.6%)	4 (9.3%)	17(39.5%)	43 (100%)
College	7 (7.4%)	22 (23.4%)	18 (19.1%)	47 (50%)	94 (100%)
University	10 (18.9%)	7 (13.2%)	7 (13.2%)	29 (54.7%)	60 (100%)
Total	32 (16.2%)	44(22.2%)	29 (14.6%)	93 (47.0%)	198 (100%)
χ^2	42.933				
P-Value	0.001				

Source: Researcher 2012.

Majority of the respondents, 87.5 percent with primary education had startup capital of up to sh. 10,000 only. Majority of those with secondary education, 39.5 percent started with more than sh.30, 000 while 50 percent of those with college education started with more than sh. 30,000. 54.7 percent of those with university education started with capital of more than sh. 30,000. This was an indication of a dependence between level of education and value of capital used ($\chi^2 = 42.923$, $P = 0.001$). Based on this finding, it can be concluded that when one with a higher level of education is able to access high values of capital.

Table 4.18: Relationship between acquisition of entrepreneurial training and acquisition of external financial services

Undertaken Entrepreneurial training	Application for external financial services after start up		Total
	Applied for loan	Did not apply for loan	
Yes	24(85.7%)	36 (67.9%)	60 (74.1%)
No	4 (14.3)	17(32.1%)	21 (25.9%)
Total	28 (100%)	53(100%)	81 (100%)
$\chi^2 = 3.019$			
$P = 0.068$			

Source: Researcher (2012)

The result of the analysis indicated that there was a weak relationship between entrepreneurial training and acquisition of financial services. Consequently regression analysis was not necessary. The hypothesis that there is no relation between entrepreneurial training and acquisition of financial services was therefore not rejected. The finding is inconsistent with the popular belief that there is a relationship between entrepreneurial training and entrepreneurial success. Richard (2006) as cited in Fatoki and Asah (2011) had pointed out that when assessing requests for funding, the investors look out for managerial competence and characteristics of the entrepreneur which indicate investment readiness. Business owners/managers need therefore to be fully equipped and prepared for the business needs. Another differing view is by Thurairaja (2009) who observed that low level of literacy, prevent business owners/managers from accessing publications and advertisements for financial services and therefore fear applying for loans for lack of understanding. Entrepreneurial success can be positively associated with access to financial services. The finding of the study also differs with the finding by Fatoki and Asah (2011), who found that to access debt financing, business owner/managers, should be investment ready by among other things attending seminars and training programmes to improve on their managerial competence. The finding differs also with that of Njoroge and Gathungu (2013). Commercial banks and other financial institutions also look beyond the need for the funding when assessing requests for funding.

Table 4.23: Relationship between the gender and loan acquisition

Gender	Loan application		Total
	Yes	No	
Male	17 (34.0%)	33(66.0%)	50 (100%)
Female	12(35.3%)	22 (64.7%)	34(100%)
χ^2 -value	0.015		
P-value	0.903		

Source: Researcher (2012)

The result showed that the act of applying for a loan and gender of business owner/manager are not related since the p-value was >0.05 . The hypothesis that there was no relationship between gender and acquisition of financial services was not rejected. This finding is inconsistent with the findings of previous studies. Renzulli *et al.* (2000) found that women have fewer networks among the faculty which limits their ability to access business resources and finance. The banks in evaluating loan requests go deeper even to the socialization process (Carter *et al.*, 2007). The social forces make it difficult for women to access some business services.

Murray (2004) observed that one avenue by which people get involved in commercial activity is through social networks. Olsen and Cox (2001) and Fehr- Duda *et al.* (2004) explained that gender gap exist because of fear of risk by women, and women professionals and their attitude towards money.

Table 4.24: Level of Business Annual Income

Annual income (Sh.)	frequency	%
Below 100,000	59	25.5
100,000 – 200,000	56	24.2
201, 000 – 300,000	37	16.0
Above 300,000	48	20.8
Non –committal	31	13.4
Total	231	100

Source: Researcher (2012)

From table 4.24 it is observed that majority of the respondents 25.5 percent (n=59) had annual income of less than sh.100, 000; 24.2 percent (n=56) were at between sh.100, 000-200,000. The others were 16.0 percent (n=37) were at between sh. 200,001-300,000 while 20.8 percent had annual income of above sh. 300,000. Others who were non-committal were at 13.4 percent (n=31). As a general practice, financial institutions require applicants for loans to provide evidence of their ability to service the facilities requested. Level of business income is one of the factors that banks for example ask the applicants to provide. The study sought to find out if there was any relationship between level of business income and acquisition of financial services. The findings are provided by Table 4.25.

Table 4.25: Relationship between Level of Business Annual Income and Acquisition of Financial Services.

Application for loan	Level of annual Income (Ksh)			
	Below 100000	100001 – 200000	200001-300000	Above 300000
Yes	2	6	10	11
	(14.3%)	(26.1%)	(55.6%)	(45.8%)
No	12	17	8	13
	(85.7%)	(73.9%)	(44.4%)	(54.2%)
χ^2 -value	7.759			
P-value	0.051			

Source: Researcher (2012).

From the findings in table 4.25, it was observed that at 5 percent level of significance, there was a weak relationship between business income and acquisition of financial services since p-value was >0.05. The hypothesis that there was no relationship between level of business income and acquisition of financial services was therefore not rejected at 5 percent level of significance.

Table 4.28: A Spearman ranks correlation table for the MSE accessibility to bank loans and their annual income

Accessibility of loan rating	Level of income (Ksh.)			
	Below 100000	100000-200000	200001-300000	Above 300000
Excellent	1 (2.9%)	2(4.4%)	1 (2.9%)	4 (9.1%)
Good	14(34.1%)	15(33.3%)	19(55.9%)	21(47.7%)
Fair	19(46.3%)	15(33.3%)	14(41.2%)	13(29.5%)
Poor	7(17.1%)	13(28.9%)	0(0.0%)	6(13.6%)
Total	41(100%)	45(100%)	34(100%)	44(100%)
r = -0.194				
P = 0.013				

Source: Researcher (2012)

On level of income and application of bank loans, the result showed a weak relationship. The chi-square test result was $\chi^2 = 7.113$, with a P-value of 0.068. The number of firms applying for bank loans after the startup capital appeared to increase with increase in level of business income as shown in table 4.28. The study also analysed the relationship between level of income and other economic factors of need for bank account, collateral, guarantee, profitability and rate of interest as captured in Table 4.29.

Table 4.29 Correlation between level of business income and factors influencing acquisition of financial services by MSEs

	Need for bank account	influenced by collateral	influenced by guarantee	influenced by profitability	influenced by interest rate
indicate the level of your income annually in shillings	r = -0.086	r = -0.062	r = -.027	r = 0.109	r = 0.020
Spearman's rho	P = 0.327	P = 0.478	P = 0.755	P = 0.214	P = 0.817
	N = 132	N = 133	N = 131	N = 131	N = 131

Source: Researcher (2012)

Table 4.29 shows that respondents in businesses which had lower annual income, lowly ranked (5) influence of loan application by need for a bank account (r = -0.086, P= 0.327), influence by collateral (r = -0.62, P = 0.478), influence by guarantee (r = - 0.027, P = 0.755), influence by profitability (r = -0.109, P = 0.214) and influence by interest rates (r = -0.020, P = 0.817). This implied that relatively, MSEs which had smaller levels of annual income were not influenced by these factors. Businesses which had higher annual income indicated their loan applications were influenced by all the tested factors. Correlation results indicated that businesses with higher annual income rated accessibility to loans as good. Since the p-value of each factor was > 0.05, all the factors were found to be independent of annual income of micro and small enterprises.

Table 4.31 Relationship between firm size and acquisition of financial services

Loan Application	Number of Employees			Total
	1-9	10-50	Over 50	
Yes	17 (26.6%)	12(60.0%)	0(00.0%)	29 (100%)
No	47 (73.4%)	8(40.0%)	0 (00.0%)	55 (100%)
Total	64 (100.0%)	20(40.0%)	0(00.0%)	84 (100%)
$\chi^2 = 7.537$				
P = 0.061				

Source: Researcher (2012)

Table 4.31 shows that only 26.6 percent (n=17) of businesses with between 1 employee and 9 employees had applied for loans while 73.4 percent had not applied for loans. For firms with between 10 and 50 employees including the owner, majority 60 percent (n=12) had applied for the loans while 40 percent (n=8) had not applied for the loans. Based on chi-square results it is observed that acquisition of financial services was independent of the firm size. Since the p-value was > 0.05, the hypothesis that there was no relationship between firm size and acquisition of financial services was not rejected.

Table 4.32: Relationship between Firm Sizes on Acquisition of Financial Services

Spearman's rho	Existence of bank account	Influenced your loan application by collateral	Influenced your loan application by guaranty	Influenced your loan application by profitability	Influenced your loan application by interest rates
Number of employees the business have	r = -0.008	r = 0.023	r = 0.089	r = 0.054	r = -0.002
	P = 0.936	P = 0.815	P = 0.357	P = 0.579	P = 0.982
	N = 111	N = 110	N = 109	N = 109	N = 110

Source: Researcher (2012)

The findings showed that businesses which had higher number of employees highly ranked influence of need for bank accounts ($r = 0.008$, $P = 0.936$) and interest rates ($r = 0.002$, $P = 0.982$) than those which had lower number of employees. On the other hand, businesses which had lower number of employees highly ranked collateral number 1 ($r = 0.023$, $P = 0.815$) followed by guarantee ($r = 0.089$, $P = 0.357$) and profitability ($r = 0.054$, $P = 0.579$) than those business that had more employees. Since in the cases the p-values were > 0.05 at 95 percent level of significance, the hypothesis that there was no relationship between firm size and acquisition of financial services was therefore accepted. The finding is inconsistent with the finding of Fatoki and Asah (2011) who found a positive relationship between the size of the SME and access to debt from commercial banks. Micro and small enterprises are small both in terms of number of employees and value of assets. They are therefore unlikely to access debt from commercial banks.

Table 4.38 Relationship between age of the firm and acquisition of financial services

Loan Application	Age of respondents				Total
	0-5	6-10	11-15	Over 15	
Yes	7 (17.5%)	16(53.3%)	4(50 %)	4(33.3%)	31 (100%)
No	33 (82.5%)	14 (46.7%)	4 (50%)	2 (67.7 %)	53 (100%)
Total	40 (100%)	30 (100%)	8(100)	6 (100%)	84 (100%)
$\chi^2 = 10.675$					
P = 0.014					

Source: Researcher (2012)

Table 4.38 shows that majority of the firms which had operated upto 5 years, 82.5 percent ($n=33$) did not seek financial services as only 17.5 percent applied. For the firms ranging between 6 years to 10 years, majority, 53.3 percent ($n=16$) had applied compared to 46.7 percent ($n=14$) that had not applied for financial services. With firms of age between 11 years and 15 years, equal number 50 percent ($n=4$), had applied while the other 50 percent did not apply. For the rest of firms, 33.3 percent ($n=4$) applied and the rest 66.7 percent did not apply. The chi-square result was; ($\chi^2 = 10.675$, P- value = 0.014). This implied that the act of applying for a loan and age of the firm are dependent at 95 percent level of significance. This finding is consistent with the general practice. The finding is in support of the finding that there is a positive relationship between the age of the firm and access to debt finance from commercial banks (Fatoki and Asah, 2011).

3.1 Conclusions

Firstly, the study concluded that source of initial capital has effect on the demand for bank loans and credit from other financial institutions. There was evidence that a business owner or manager whose start-up capital was from bank loan is more likely to request for a subsequent loan than the business owner or manager who used other sources of finance to finance their business start-up. It can therefore be hypothesized that there is a positive relationship between source of start-up capital and access to credits from banks and the other financial institutions. Secondly, the study concluded that majority of the micro and small enterprises in Lang'ata –Sub County of Nairobi County were owned and managed by the youths. There was evidence of ownership by the youths as majority of the owner/managers were in the age bracket of 29 years and 49 years.

Thirdly, the study concluded that the average age of the business owners/managers was 34 years. The fourth conclusion of the study was that age of the business owner/manager has a relationship with demand for credit from banks and other financial institutions. It is thus, hypothesized that age of the business owner/manager has effect on acquisition of credit or loan from a bank or a financial institution. The study finally concluded that maintenance of bank account has effect on the demand for or other financial institutions. Based on the findings, there was evidence of accessing credit or bank loan or financial resources from other institutions by those who maintain bank accounts than those without bank accounts. In processing requests for credits or loans, banks consider potential risk of the loan and therefore evaluate customers on the basis of character.

3.2 Policy Implications

The Government in collaboration with the relevant financial institutions needs to establish a scheme with a specific role of providing start up loans to the owners/managers of micro and small enterprises. The study found that source of initial capital had a positive significant coefficient with acquisition of financial services by micro and small enterprises. This will most likely encourage the business owners/managers to apply and take loans. This implies that the burden of using own savings to finance the businesses will shifted elsewhere.

The Central Bank of Kenya in consultation with the commercial banks and other financial institutions review the banking policy to allow for opening and operating bank accounts by increasing bank networks. The study finding showed that need for bank account had a positive significant coefficient with acquisition of financial services by micro and small enterprises in Kenya. This implied that banks and other financial institutions are willing to lend to those who have bank accounts. Maintaining a bank account for customers enable information sharing whenever one applies for loan as provided for by the Finance Act 2013. Maintenance of bank account also would improve credit worthiness of the business owners/managers. The banking Act and the finance Act be reviewed to allow for establishment of more banks with special emphasize on micro and small enterprises start-ups. A move in this direction would encourage more development of micro and small enterprises. As these businesses grow their financial demands will grow and they will turn to the formal financial sector.

As regards to age business owners/managers commercial banks and other financial institutions need to could have as part of their banking policy lending products developed specifically for different age groups. The study findings indicated that age had a significant coefficient with acquisition of financial services. Micro and small enterprises are largely started and run by people of different age groups. It is clear that government agencies such as Youth Development Funds (YDF) and Uweso Fund (UF) lend to youths and women but it is not clear whether they categorise age groups. Availability of such specialized financial services would encourage people in these age groups to engage more in business instead of seeking formal employment. This move could reduce the problem of both unemployment and under employment since majority of these persons are the youths. By extension even poverty would be reduced once the businesses become successful.

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