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FINANCE

INFLUENCE OF MOBILE LOAN ELIGIBILITY ON GROWTH OF SMALL AND MICRO ENTERPRISES IN NAIROBI CITY COUNTY

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ABSTRACT

Background of the study: Small and Micro enterprises are an essential fragment of many countries. In Kenya, small and micro-enterprise area accounts for more than fifty percent of new opportunities created. However, the deficiency of loans is a key inhibition to the growth of the small and micro-enterprise sector. Restrained access to proper finance because of inadequate and lack of competence to provide financial services is a constraint to the advancement and expansion of the sector.

Objective of the study: The research sought to establish the impact of mobile loan eligibility on the growth of small and micro enterprises in Nairobi City County. The research was steered by; the Technology acceptance model, credit rationing theory, and financial growth life cycle theory.

Research Methodology: The study utilized a descriptive research design and questionnaires were used as the primary research tool. The target population was a total of 1539 SMEs respondents operating within Nairobi Central Business District, hence obtaining a simple of 317 SMEs as respondents. The survey employed a stratified sampling technique where the population were split into seven strata depending on the sector the firm is operating in. The sample population units were subsequently chosen using simple random sampling.

Results and findings: The study findings revealed that mobile loan eligibility has a positive and significant effect on the growth of SMEs ($\beta = 0.582$; $p<0.05$). The study concluded that customers who have a good credit score, as well as a lack of collateral obligations, influence successful loan application. In addition, the size of loans advanced affects how the needs of the business are met, and most importantly, favorable loan facility processing fees also affect transaction costs. The study recommends that SMEs should strive to maintain good credit scores to improve their eligibility for loan applications.
Keywords: *Mobile Loan Eligibility, Growth, Small & Micro-Enterprises*.

1.1 INTRODUCTION

Promoting grassroots economic and equitable sustainable growth has been the purpose of SMEs globally (Wairimu & Mwilaria, 2017). Already grown and growing economy constantly relies on small businesses to trigger and sustain the growing economy and equitable development. The World Bank also estimates that seven out of ten formal employment opportunities are produced by SMEs (World Bank, 2019). It also estimates that by 2030 the global workforce will need 600 million jobs, making the expansion of the SME sector a preference for many governments. In Europe, SMEs are the backbone of the regional economy, where the sector provides about 67% of total jobs in the private sector (EU, 2016). The data researched shows that in South Africa, SMEs offer employment opportunities for up to 47% of the nation's working population. The sector also contributes a supplementary 20% of the state's GDP and is responsible for around 6% of total tax revenue (Liedtke, 2019).

In Kenya, micro and small businesses hold a significant part in the financials' development. Most financial institutions do not offer SMEs credits due to their catastrophic rates, which makes it difficult for lenders to assess their viability. Kenya's National Bureau of Statistics (Kenya NBS) conducted research (2017) and demonstrated that about 400,000 small, micro and medium businesses fail to survive their second year. A very small number can sustain themselves to the fifth year-leading to concerns about the sustainability in this sector. SMEs owned by youth fail to get finance because marketplaces prefer supporting reputable businesses (Mwangi and Namusonge, 2015).

In countries with low incomes, digital credit has been on an upward trend. This has been mostly in sub-Saharan Africa. In Kenya, for example, a small rate credit and savings service, M-shwari, has greatly grown since its launch in late 2012 (Cook & McKay 2015). In many countries, SME development has been negatively impacted by limited access to credit. The partial availability of credit has impacted the development of SMEs negatively in several states. The main social and economic elements that affect the expansion and viability of small businesses are increasing SMEs' access to capital and having managerial expertise (Suryadevara, 2017).

1.2 STATEMENT OF THE PROBLEM

Small and Micro enterprises are an essential fragment of many countries. In Kenya, small and micro-enterprise area accounts for more than fifty percent of new opportunities created. However, the deficiency of loans is a key inhibition to the growth of the small and micro-enterprise sector. Restrained access to proper finance because of inadequate and lack of competence to provide financial services is a constraint to the advancement and expansion of the sector

Availability of funding and lending is crucial to the sustenance of lives and improving microenterprises. Inability to access credit constantly hinders development. Microenterprises are viewed by recognized lenders as uncertain and as lacking profit. They are therefore slow to avail credit to them (Sanya, & Polly, 2017). However, a thorough examination on the influence of mobile telephone loan on the advancement of this sector in the Kenyan market is critical. In light of the gains made on digital platforms in Kenya as highlighted in the M-Pesa timeline (Helix Institute of Digital Finance, 2015) and the gains made in the micro lending partnership between CBA and Safaricom (Cook & Mckay,2015), there is a need to analyse mobile credit by SMEs. Subsequently this research sought to establish the impact of mobile loan eligibility on the growth of small and micro enterprises in Nairobi City County.

1.3 RESEARCH OBJECTIVES

The study sought to establish the influence of mobile loan eligibility on growth of small and micro enterprises in Nairobi City County

1.4 RESEARCH QUESTIONS

What is the influence of mobile loan eligibility on growth of small and micro enterprises in Nairobi City County?

2.1 THEORITICAL REVIEW/ FRAMEWORK

The theoretical review looks into some of the theories used by scholars in explaining the study, such as Technology acceptance model, credit rationing theory, and financial growth life cycle theory.

2.1.1 Technology Acceptance Model

This is a paradigm of information systems that depicts how consumers come to approve and use technology Davis established the technology of acceptance Model in 1989. This concept describes new technological commodities and reasons that may lead to acceptance (Khraim, Shoubaki & Khraim, 2011). Sundara &Perera, (2018) portray ease of use as a measure of whether or not the use of new technology has or did not have challenges. The new-fangled technology's ease of use, requirements for the technology to learn or train on features, and skills that may be required to use technology are some of the difficulties that may be experienced. The theories proponents suggest that technology that may be challenging to use has a high chance of not being accepted. The theory further suggests that technology that may be easy to learn may be more likely to be received by the users (Karma, Ibrahim, &Ali, 2014).

According to Deakins, North, Baldock and Whittam (2008), small firms that were starting up had a higher chance of being impacted by problems of information asymmetry. They argued that there was a limitation of information, lack of transparency, and knowledge-based assets that were exclusive to founding entrepreneurs.

2.1.2 Financial Growth Life Cycle Theory

The hypothesis of life cycle of financial development was established by Berger and Udell (1998). This theory looks at firms on a size continuum, financing options available to growing firms are also described. The financial growth Life Cycle theory includes changes in information availability and guarantees in unfolding available sources of finance to organizations over time. This theory holds that the funds need options of a business diverse as the commerce grows and get less informational deprivation. Thus the firm is likely to prosper if it's adequately financed (Coleman, 2000). This implies the complexity of the capital structure of the firm intensifies as the firm grows. Various studies conducted concur with the theory that inadequate financing was established to be the primary cause of most SME's failure (Ochanda, 2014).

Financial growth theory also predicts that the firms' growth will enable it to access venture capital (VC) source of the fund. Therefore the firm will become more transparent information wise hence gaining public equity and/or long term debts. The theory thus proposes that as the firm initiates or grows it needs adequate finance for it to be stable. This finance can be obtained from the digital platforms. The availability of the finance will enable the SMEs not only to grow but also to perform better financially (Coleman, 2000). Financial growth theory therefore implies that mobile lending has a positive bearing on the growth of firms by catering for their ever-increasing financial needs.

2.2 EMPIRICAL REVIEW

2.2.1 Loan eligibility and growth of SMEs

Loan eligibility is a significant characteristic that affects the expansion of SME'S. The ability to repay the loan and the credit record are the most essential variables that commercial banks need to analyze. In addition, the financial institutions need to analyze borrowers' historical background, ability to repay the loan, collateral for the loan, credit rationing, and credit reference report (Kisaka, 2016). Quartey, Turkson, Abor, and Iddrisu (2017) conducted a study in ECOWAS countries, the study's major focus was factors that limit SME financing. SMEs in West Africa were the major focus of the study, getting data from World Bank enterprise data set surveys. Study findings were analyzed by the use of regression and correlation analytical framework. From this research, the size of the firm, how much credit information is available, and security strength was discovered to be the main constructs. The study can, however, not be generalized as it was researched for a county though the existing study seeks county-level information.

Putman, Mzer, and Blackmon (2021) emphasize that late loan repayment histories represent riskier debtors at these loan amounts, which could be mirrored in pricing. A comprehensive risk assessment is required to maintain acceptable loan quality. As a consequence, the historical significance on ensuring the Individual loan approvals' criteria and managing loan performance remains to be important. According to Wesselink (1996), financial mobilization through savings can be a good indicator of a customer's repayment capability because it shows whether their businesses are profitable enough to repay a loan. This is because the more they save, the more likely they are to be approved for a larger loan. Customers profit immensely from possessing secure and easy facilities to save their money while also having easy access to money, as well as having strong working relationships with financial institutions.

Gichuki, Njeru&Tirimba (2014) using the demographic to be targeted of 656 SMEs with a sample of 241 in Kangemi Harambee market sought to investigate challenges that face SMEs in accessing credit facilities in Kenya capital city municipality. The researchers used a descriptive study approach to distribute questionnaires and primary data collected revealed that SMEs were hindered by collaterals with strict requirements, repayments with high costs, the unwillingness of individuals seeking credit to get guarantors, and credit facilities requiring high processing fees and short credit repayment. The research emphasized on a specific market in kangemi whereas the existing survey reviewed several businesses and markets within Nairobi City County. The study didn't utilize regression and correlation analysis, thus the current study will fill the gap.

2.3 CONCEPTUAL FRAMEWORK

A conceptual framework is used to differentiate hypotheses and arrange ideas in a visual frame. It contains different disparities and contexts of the study variables. Figure 2.1 displays the conceptual framework for the study.

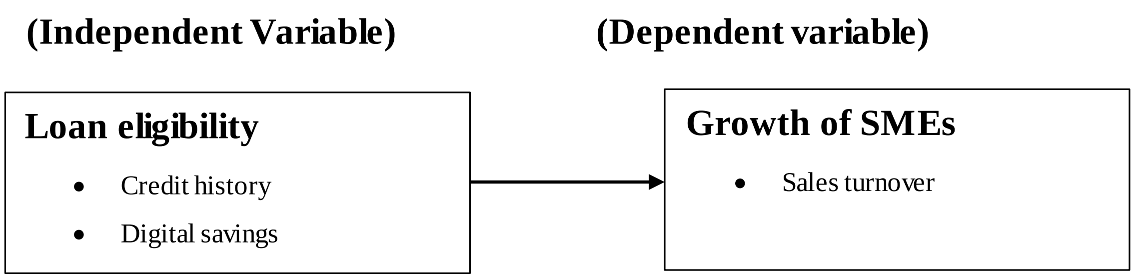

Figure 1: Conceptual Framework

3.1 RESEARCH METHODOLOGY

The current research utilized descriptive analysis as well as inferential survey design. According to Creswell and Creswell (2017) a descriptive survey is defined as correlating to facts of a specific study. The descriptive survey design was better suited to the study since it helps in providing a detailed examination of the effects of mobile credit on the growth of SMEs. The current study population memorized of SMEs operating within Nairobi City County. According to records from Nairobi City County Government there are 1539 registered SMEs found within the Nairobi Central Business District. The sample of the survey was identified using stratified sampling technique. A stratified sampling technique was adopted where seven (7) strata were identified based on the type of businesses in Nairobi Central Business District. Hence, from the calculation and selected target population of 1539 SMEs, the sample size was 317. The study utilized a questionnaire as the chief data compilation tool. In the existing study, descriptive and inferential statistics were applied in the examination of the set objectives. Pearson correlation and linear regression were utilized.

4.1 RESULTS AND DISCUSSIONS

4.2 Mobile Loan eligibility

The descriptive analysis was run to determine the influence of mobile loan eligibility on the growth of small and micro enterprises in Nairobi City County. The finding is displayed in Table 1.

Table 1: Mobile Loan eligibility

Statement	SD	D	N	A	SA	Mean	SD
Good credit history influences the chances of being considered for a loan.	3.5%	5.2%	0.4%	67.0%	23.9%	4.03	.876
The absence of collateral requirements increases the chances of being considered for a loan.	6.5%	11.7%	8.3%	70.0%	3.5%	3.52	.974
Large amounts of digital savings increase the chances of being considered for a higher amount of loan.	1.7%	6.5%	10.9%	70.9%	10.0%	3.81	.769
Early repayment of loans increases the chances of being considered for another loan.	3.0%	8.7%	8.7%	73.5%	6.1%	3.71	.829

Digital loans using mobile platforms may be a solution to expand access to finance at a lower cost. The findings showed that 90.9% affirmed that good credit history influences the chances of being considered for a loan. This view was supported by 73.5% of those who opined that the absence of collateral requirements increases the chances of being considered for a loan. This study agrees with that of Kisaka (2016) who affirmed that in assessing credit risk, commercial banks analyze the borrowers' historical background, ability to repay the loan, collateral for the loan, credit rationing, and credit reference report.

Savings mobilization is usually thought to be a good sign of a client's repayment capabilities, resulting in a higher loan application rate. From the study, it was recognized that 80.9% of participants agreed that large amounts of digital savings increase the chances of being considered for a higher amount of loan. The issue of repayment is one of the most pressing concerns among all stakeholders in microfinance institutions. The findings established that 79.6% believed that early repayment of loans increases the chances of being considered for another loan. This means that consumers who hardly save may only be eligible for a little amount of credit. This finding concurs with those of Putman, Mzer, and Blackmon (2021) who assert that late loan repayment histories represent riskier debtors at these loan amounts, which could be mirrored in pricing. A comprehensive risk assessment is required to maintain acceptable loan quality.

4.3 Correlation Analysis

The correlational measurement is a numerical method for estimating the connection between the two values and determining how strong that relationship is. In this study, the Pearson correlation analysis was run. This is a metric for how strong a linear relationship between two indicators is. The variables were analyzed at a 0.05 alpha level (2-tailed-test) and described in Table 2.

Table 2: Pearson Correlations

		Growth of SMEs
Mobile Loan Eligibility	Pearson Correlation	.678**
	Sig. (2-tailed)	.000
	N	230

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

The findings in Table 2 indicate that there exists a statistically positive correlation between Mobile loan eligibility and the growth of SMEs ($r=0.678^{**}; p<0.01$). This suggests that credit history and digital savings are critical in determining clients' eligibility to obtain a loan. An excellent credit history, as well as timely loan repayment, improves your chances of getting another loan. As a result, this has a favorable impact on SMEs' growth.

4.4 Regression Analysis

Regression analysis is the study of how one or more predictors influence a response variable. In the current analysis, a multiple linear regression model was applied. The findings are presented in summary tables, ANOVA, and coefficient Tables.

Table 3: Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.523[a]	.273	.270	.59346

a. Predictors: (Constant), Mobile Loan eligibility

The model summary indicates that 27% in variation of Growth of SMEs can be explained by the mobile loan eligibility, with a standard error of the estimate being 0.66. This suggests that 73% remains as to be explained by other factors.

4.5 ANOVA

ANOVA is a set of statistics that give evidence concerning the levels of variation within a regression model and serve as a foundation for significance tests. It demonstrates the robustness of the model in predicting the outcome variable. The finding is displayed in Table 4.

Table 4: ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	30.224	1	30.224	85.815	.000[b]
Residual	80.301	228	.352		
Total	110.524	229			

a. Dependent Variable: Growth of SMEs
b. Predictors: (Constant), Mobile Loan eligibility

In a regression analysis, the ANOVA statistic is applied to measure the effect of independent factors on the dependent variable. The finding shows that the model is statistically significant at 0.05 alpha level, R2= 0.273, F(1,228)= 85.815. The finding suggests that the independent variable was significant in determining the growth of SMEs.

4.6 Coefficients

During regular regression analysis, the association between each predictor variable and the response is denoted by coefficients. The coefficient value represents the mean change in response when the predictor is increased by one unit. The finding is presented in Table 5.

Table 5: Coefficients

Model	**Unstandardized Coefficients**		t	Sig.
	B	Std. Error		
(Constant)	2.320	.190	12.216	.000
Mobile Loan eligibility	.469	.051	9.264	.000

a. Dependent Variable: Growth of SMEs

Centered on unstandardized coefficients, the results indicate that mobile loan eligibility has a positive and significant effect on the growth of SMEs (β= 0.582; $p<0.05$).

5.1 CONCLUSION

The study concluded that customers who have a good credit score, as well as cases where there are no collateral obligations, influences successful loan application. In addition, savings mobilization and early repayment of loans increase the chances of obtaining a high amount of loans.

6.1 RECOMMENDATION

The study recommends that SMEs should strive to maintain good credit scores to improve their eligibility for loan applications.

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