

FACTORS INFLUENCING CREDIT ACCESSIBILITY AMONG OWNERS OF SMALL AND MEDIUM VEHICLE GARAGES IN ARUSHA CITY AND MOSHI MUNICIPALITY, TANZANIA

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ABSTRACT

The main objective of this study was to analyse factors that influence levels of accessibility to credit among owners of small and medium vehicle garage enterprises in Arusha city and Moshi Municipality. The study involved cross-sectional design where data were collected once while sampling procedure involved multi-stage sampling technique with two stages. The first stage was used to select geographical location while the second stage was used to select vehicle garage enterprises and the main respondents. In total, 245 vehicle garage enterprises were selected randomly from the study area while their owners were selected purposely because of their positions. In addition, 20 key informants were selected purposely to complement information given by the main respondents. Data for the study were collected using interviews and documentary reviews. It was found that accessibility to credit among owners were influenced by: size of the vehicle garages; highest levels of education possessed by owners; and location of the vehicle garage enterprises. Owners of the vehicle garage enterprises are advised to increase accessibility to credit among them. This can be done by establishing their own SACCOS that can be used to issue credit to members at reduced rates of interests; applying for land from the government in order to construct permanent garages that can be used as collaterals in financial institutions; and by formalising their vehicle garage enterprises by registering them in the government. Owners are further advised to increase performance of their vehicle garage enterprises by increasing their sizes, increasing their levels of education, establishing and managing own built vehicle garage enterprises.

Key Words: *Credit Accessibility, Factors Influencing Credit Accessibility, Owners of Small and Medium Vehicle Garages*

Introduction

Researchers and practitioners agree that SMEs are crucial contributors to job creation and economic growth both in high and low-income countries (SEAF, 2007). SMEs have created jobs worldwide (Davis et al., 1996). For example, between 1976 and 1986, SMEs created 1.3 million jobs in the American manufacturing sector. In the case of the United Kingdom (UK), it was reported that SMEs were creating the bulk of new jobs (Konings, 1995; Hughes, 1993). Between 1990 and 1994, there were 973,000 new jobs that were created in the Netherlands, whereby 44% of them came from existing establishments while 56% were from new SMEs.

In the African context, SMEs have had their own unique importance in the economy. ILO (1998) found that about 70% of the people in sub-Saharan Africa rely on SMEs and informal establishments for their livelihoods. In South Africa, SMEs contribute 56% of private sector employment and 36% of the GDP (NEPA, 2002). Furthermore, in Botswana, SMEs contribute between 30% and 45% to the nation's GDP and account for more than 60% of wage employment (Bonu, 1999). In the case of Kenya, Kibera and Kibera (1999) reported that in 1993, there were 910,000 SMEs which employed about 2,000,000 people in the country. ROK (1997) reported that in 1996 about 2,643,800 people worked in the informal sector. In the same year, the employment opportunities in this sector rose by 11.8% compared to 3.2% in the modern sector. In the case of Tanzania, the importance of SMEs in generating incomes and contributing to the economy cannot be over-emphasised. For example, according to an Informal Sector Survey (ISS) that was carried in 1991, micro enterprises that were operating in the informal sector alone consisted of 1.7 million businesses which were engaging about 3,000,000 persons that were about 20% of the Tanzanian labour force (URT, 2003). SMEs contributed more than 32% of the GDP and 33% of Return on Investment (Toroka and Wenga, 1997). Fifty seven percent (57%) of the total wage employment depended on SMEs, the majority of which were found in the informal sector (Wangwe, 1999). The World Bank, through the International Finance Corporation (IFC), estimated that there were approximately 2.7 million enterprises in the country, out of which about 60% were located in urban areas (ESRF, 2006; WB, 2005). A large majority of these (98%) employed less than five people and most of them (66%) had annual turnover of less than US \$ 2000 (Olomi, 2006).

Furthermore, Olomi (2006) reported that these SMEs were labour intensive in nature and had been established using informal sources of credit (savings or grants from family members and friends). SMEs are critical for supporting livelihoods as well as overall prosperity and progress. They create employment at relatively low levels of investment per job. Furthermore, they utilise and add value to local resources, foster equitable income distribution, and are better positioned to meet local needs in small markets. The technologies used by them are easier to acquire, transfer and adopt, even by people with low level of education and training. They have the potential to complement large enterprises through partnership and subcontracting relationships. SMEs also

serve as a training ground for entrepreneurship and managerial development (Olomi, 2006; URT, 2003).

The importance of SMEs in generating income, creating jobs, and economic growth in Tanzania continue to be appreciated, especially after the decline in wage employment in the formal sector in the country. Wage employment has continued to decline in the country, both in public and formal private sectors since the 1990s as a result of Structural Adjustment Programme (SAP) that was implemented in the major economic sectors (Wangwe, 1999). The rate of unemployment in the country has continued to increase, and it was estimated to be 12.7% (NBS, 2009). In addition, estimates show that by 2003 there were about 700,000 new entrants that were entering into the labour market in the country every year while the public sector was employing only about 40,000 leaving about 660,000 to join SMEs (ESRF, 2006; URT, 2005; URT, 2003). Out of those who were entering the labour market, 500,000 were school leavers with very low marketable skills (URT, 2003). Despite the concern vested on SMEs by the government and other stakeholders, little consideration has been directed towards establishing factors that influence accessibility to credit among their owners. As an attempt to fill this knowledge gap, the aim of this study, therefore, was to assess factors which influence accessibility to credit among owners of SMEs with special emphasis to garages in Arusha city and Moshi Municipality.

In so doing, the paper was guided by the following specific objectives: to analyse the influence of sizes of vehicle garages enterprises on credit accessibility, to evaluate influence of highest levels of education possessed by owners of the vehicle garages enterprises on credit accessibility, to examine the influence of levels of financial management skills possessed by owners on credit accessibility; and to determine the influence of locations of vehicle garage enterprises on accessibility to credit among owners of small and medium vehicle garage enterprises. Furthermore, the paper was guided by the following hypothesis:

H1: Each of the hypothesized influencing factors has no significant effect on accessibility to credit among owners of small and medium vehicle garage enterprises in Arusha city and Moshi Municipality.

Literature Review

According to the World Bank (2008), financial inclusion, or broad access to credit services, is defined as an absence of price and non-price barriers in the use of financial services. Improving access, then, means improving the degree to which financial services are available to all at a fair price. It is easier to measure the use of financial services since data in the use can be observed, but use is not always the same as access. Access essentially refers to the supply of services, whereas use is determined by demand as well as supply. Users of financial services can be distinguished from non users, and there are important distinctions among non users. On the one

hand, are those who do not use financial services for cultural or religious reasons or because they do not see any need. The non users have access, but they choose not to use financial services. From a policy maker's viewpoint, non users do not really constitute a problem because their lack of demand drives their non use of financial services. On the other hand, are the involuntarily excluded who, despite demanding financial services, do not have access to them.

Theoretically, a problem of access to credit for firms exists when a project that would be internally financed if resources were available, does not get external financing. This happens because there is a wedge between the expected internal rate of return of the project and the rate of return that external investors require to finance it. This wedge is mainly introduced by two well-known constraints that hamper the ability to write and enforce financial contracts, namely, principal-agent problems and transaction costs (Hellmann and Stiglitz, 2000).

The role of credit is to bridge the gap between enterprises owner's financial assets and the required financial assets of the enterprise. Due to the persistence of this imbalance, enterprises are forced to demand credit. According to Aryeetey et al. (1994) demand for credit can be categorised into perceived, potential and revealed demand. Perceived demand is represented by a situation where enterprises that assume to be in need of cash, mention finance as a constraint. Potential demand is characterised by a desire for credit which is not actualised due to market imperfections and institutional barriers. Revealed demand is characterised as written application for financial support at a given rate of interest. For the purpose of this study, the above categorisation of demand for credit is adopted. However, in the case of revealed demand definition which is of cardinal importance to both lenders and borrowers, a further distinction needs to be underscored because the application for credit, even if backed by a bankable project, may not necessarily be translated into effective demand. Gale (1991) defined effective demand as the amount of loan that lending institutions are prepared to release to borrowers. We concur with the interpretation given by Gale, but in addition, our interpretation of effective demand is the actual amount released to the borrowers.

Non-availability of credit to SMEs prevents them from engaging in productive enterprises or expanding their business. Limited access to bank can be attributed to bureaucracy and high interest rate which is in line with the first school of thought's assertion. This means that the high interest rates constrain the demand for credit (Boon, 1989). Evidence on the impact of financial sector liberalisation on SMEs shows that financial liberalisation did not improve access to borrowing by SMEs (Nissanke and Aryeetey, 1995; Aryeetey et al. 1994; Steel and Webster, 1992).

Firm size is one of the most important variables related to credit accessibility. This is true both for developed as well as developing countries. Numerous studies (Beck and Demirguc-Kunt, 2006; Berger and Udell 1995; Calomiris and Hubbard, 1990) reported that SMEs are more constrained by lack of credit than large firms. Even within the SMEs there are variations in terms

of size and hence accessibility to credit. Previous other studies (Malhotra et al., 2006; Berger and Udell, 1995) found number of factors that cause small firms to be constrained by lack of credit. One of these factors is information opacity. Most of small enterprises are owned by entrepreneur who may not be able to prepare financial reports of their enterprises. Even if the reports are prepared, they may not be audited due to a number of reasons. This is a barrier in making application for credit from financial institutions. Second reason that makes small firms not to access credit is lack of collateral. In order to reduce the anticipated risk and moral hazards associated with lending, banks use collateral as one of the instruments. Berger and Udell (1995) for example, found that smaller firms face higher cost of financing and they are required to offer collateral. The third reason is that smaller firms are considered risk by financial institutions because they have high failure rate compared with large firms. Schiffer and Weder (2001) conducted a cross countries study and found that there was a negative relationship between size of the business enterprises and chance of incurring risk by the owner.

Spatial variation exists in both the cost and availability to credit, especially for small firms. There are various reasons that contribute to these variations. Business conducted in permanent constructed premises for example, are likely to access credit because they have fixed assets that can be used as collaterals. On the other hand, businesses conducted in open places where there are no constructed structures and fixed assets for example street garages will find it difficult to access credit. There are mixed results concerning accessibility to credit among owners of small firms in rural and urban areas. Some authors found that owners of SMEs in the rural areas were more constrained to credit than their counterpart in the urban areas (Drabenstott and Henderson, 2006; O'Farrell, 1990; Keeble, 1990). On the other hand, a number of studies (Tucker and Lean, 2001; Westhead, 1995; Mason and Harrison, 1993; Perry, 1988) did not find any evidence to show that SMEs which were located in the rural areas were more constrained by finance than their counterpart from the urban areas.

Past studies found a positive relationship between higher educational qualifications and business growth (Kezan et al., 2006). Education affects entrepreneur's motivation (Smallbone and Wyer, 2000). Furthermore, education helps to enhance the exploratory skills, improves communication abilities and foresight (Dobbs and Hamilton, 2007). These enhanced skills are positively related to present a plausible case for a loan to a banker at time of preparing a loan proposal convincing the banker during the client interview. Previous studies (Kumar and Francisco, 2005), have explained how managerial education facilitates accessibility to credit. Irwin and Scott (2010) carried a study of 400 SMEs in the UK and found that graduates had the least difficulties in accessing credit from banks.

This result has given the following interpretations: (i) that more educated owners have ability to present positive financial information and strong business plans and have the ability to maintain a better relationship with financial institutions compared with less educated entrepreneurs (ii) The educated owners have skills to manage the other functions of the business such as finance,

marketing, human resources and skills result to high performance of the business which helps those firms to access finance without any difficulty (iii) bankers value higher education level of owners in the credit approval process as important criterion. Contrary to the above findings, Johnson (2010) found that entrepreneurs with undergraduate degrees were more likely to be financially constrained than those without formal education background. He believes that better educated entrepreneurs normally own and manage large businesses which are likely to be constrained by finance. Another argument is that educated individuals were more likely to discard the traditional concept of a loan as risky and they would have a higher probability of borrowing from formal financial institutions.

Theoretical Framework

Finance theorists' view of access to credit (referred to as rationing) exist due to adverse selection, moral hazard and contract enforcement problems. The adverse selection theory of credit markets originates with the paper by Hellmann and Stiglitz (2000) in which they explained why the interest rate could not equate the supply and demand in the credit market. As discussed by Hellmann and Stiglitz (2000), borrowers have 'inside information' about the nature of the project they want to finance and may reap substantial rewards from 'talking up' their projects. Moreover, while the lender gains if the loan is repaid with interest, it is not a beneficiary of any upside gain in the firm's performance; it is, however, a victim of any downside losses in the case of default. Lenders like banks therefore face difficulties in discriminating between good and bad credit risks and simply increasing the price of credit to all potential borrowers can lead to adverse selection; rather than driving potential non payers out of the market, there may be systematic reasons why some of the highest risk firms are those willing to pay high interest rates (Pollard, 2003).

Research Methodology

Study Areas, Research Design and Sampling Procedures

Arusha city and Moshi Municipality were selected purposely for the study because they have large number of vehicle garage enterprises that modify imported spare parts and also make few new spare parts. The study used a cross-sectional design in which data were collected once because factors that influenced accessibility to credit were not expected to change within a short period. The design was further selected because: it uses data from a large number of subjects; and it can include data on attitudes and behaviours of the respondents (Saunders et al., 2000). Sampling procedures in this study involved multi-stage sampling technique with two stages. The first stage involved selection of geographical location while the second stage involved selection of vehicle garage enterprises and the main respondents. A total of 245 garage enterprises were selected whereby 93 were from Arusha city while 152 were from Moshi Municipality In total

there were 265 interviewees whereby 245 were owners of the vehicle garage enterprises and 20 were key informant interviewees.

Methods of Data Collection, Management and analysis

Structured and unstructured interviews were conducted with owners of the vehicle garage enterprises. The aims of the interviews were: to solicit information concerning levels of accessibility to credit among owners and to establish factors that influenced accessibility to credit among owners of the vehicle garage enterprises in the study area. List of questions were also compiled and asked to the key informants of the vehicle garage enterprises. The aim of the interview questions was to clarify and complement information given by owners of the vehicle garage enterprises. In this case, the key informants were asked to give their general opinions about factors that influence accessibility to credit among owners of the vehicle garage enterprises. Documentary review was used to collect secondary data from different sources. Data collected from owners of the vehicle garage enterprises were first coded and then entered in the Statistical Package for Social Sciences (SPSS) software and were analysed by using different statistical tools and methods.

Measurement of factors which influenced accessibility to credit

Influence of accessibility to credit on performance of the vehicle garage enterprises and factors that influenced accessibility to credit were analysed by using cross-tabulations. Thereafter, factors that were being tested were cross-tabulated with levels of accessibility to credit in order to establish whether they had any influence on accessibility to credit. Any association found was tested for significance using Pearson Chi-square test. On the other hand, any correlation found was tested for significance by using Pearson correlation coefficient r .

Different statistical tools were used to test significance of different associations and relationships. These tools were: correlation coefficient r ; Chi-Square tests; and samples t -tests. When variables being tested were nominal or categorical, then Chi-Square tests were used to measure significance of the associations. On the other hand, when variables being tested were ratio, then correlation coefficient r was used to measure significance of the associations. In addition, samples t -tests were used to measure significance of differences of certain variables between Arusha city and Moshi Municipality. When value of probability for associations and relationships that were being tested were found to be less than 0.05, then the associations were said to be significant, otherwise if the probability were found to be greater than 0.05 then the associations or relationships were said to be insignificant.

Results and Discussion

In order to establish whether there were any relationship between sizes of the vehicle garage enterprises and levels of credit accessed by their owners, a cross tabulation was produced (Table 1). The assumption made at the beginning of this section was that owners of relatively large vehicle garage enterprises would access higher levels of credit compared with owners who were managing small sizes of the vehicle garage enterprises because they had more capital investments that could be used as collaterals in financial institutions. Results of the cross tabulation revealed that 195 of the vehicle garage enterprises were of small size while 50 were of medium size. Furthermore, there were no vehicle garage enterprises which had large sizes.

Table 1: Distribution of owners (n = 245) respondents on sizes of vehicle garage enterprises and levels of credit

Levels of credit accessed	Sizes of vehicle garages		All (n = 245)
	Small enterprises (n =195)	Medium enterprises (n = 50)	
Low levels of credit	96.4	70.0	91.0
High levels of credit	3.6	30.0	9.0
Pearson's correlation coefficient (r)	Value 0.372		Approx. Sig. 0.0005

Further analysis shows that, 30% owners of medium vehicle garage enterprises accessed high levels of credit compared with 3.6% owners of small sizes vehicle garage enterprises who accessed high level of credit. On the other hand, 70.0% owners of medium size vehicle garage enterprises accessed low levels of credit compared with 96.4% owners of small size vehicle garage enterprises who accessed low levels of credit. From this analysis, it can be seen that as sizes of the vehicle garage enterprises increased, high levels of credit accessed by their owners increased also. It can further be noted that, as sizes of the vehicle garage enterprises decreased, levels of credit that were accessed by their owners decreased also. In short, the analysis suggests that there was a direct correlation between sizes of the vehicle garage enterprises and levels of credit accessed by their owners. This relationship was tested using Pearson correlation coefficient which gave $r = 0.372$ and a probability ($p = 0.0005$) which was highly significant. It can therefore be said that at 5% level of confidence there was a significant positive correlation between sizes of the vehicle garage enterprises and levels of credit accessed by their owners. This finding was consistent with other previous studies (Ozturk and Mrkaic, 2014; Beck et al.,

2006; Beck, et al., 2005) which had established positive associations between sizes of the SMEs and accessibility to finance. From this result, it can be said that vehicle garage enterprises which were growing had better chances of accessing higher levels of credit. This implies that, owners who were re-investing money into their vehicle garages had better chances of accessing higher levels of credit as their enterprises would increase in sizes compared with those who were using all the money generated from their vehicle garage enterprises for their family matters.

Table 2: Owners (n = 245) according to levels of education and credit accessed

Maximum level of education	Levels of credit available to each garage in (%)		
	Low level (n = 223)	High level (n = 22)	All (n = 245)
No formal education	5.4	0.0	4.9
Primary school level	58.3	13.6	54.3
O'level of sec school	22.0	0.0	20.0
A'level of sec school	4.0	22.7	5.7
Certificate level	1.8	4.5	2.0
Diploma level	5.4	22.7	6.9
Adv diploma/Bachelor degree	3.1	36.4	6.1
Pearson's correlation coefficient r	0.349	Asymp std Error 0.068	Approx. sig 0.0005

Another factor that was tested is education possessed by owners. In this case a cross tabulation of levels of education possessed by the owners against levels of credit that they accessed was produced (Table 2). Results of cross tabulation shows that owners who had the lowest level (e.g. those who had no formal education) of education did not access any high level of credit. On the other hand, owners who possessed the highest level of education (advanced diploma/bachelors degree) accessed high level of credit (36.4%). Furthermore, owners who possessed low levels of education accessed low level of credit with the exception of owners who had no formal education. These results suggest that there was a positive correlation between levels of education possessed by the owners and levels of credit that they accessed. This correlation was tested using Pearson correlation coefficient that gave value of $r = 0.349$ and probability ($p = 0.0005$) which

was highly significant. It can therefore be said that at 5% level of confidence there was significant correlation between levels of education possessed by owners and levels of credit that they accessed.

Results of this section were consistent with findings of other previous studies (Pandula, 2011; Irwin and Scott, 2010; Kumar and Francisco, 2005) which found a strong positive relationship between higher education qualifications of entrepreneurs and access to bank loans. Another factor that was considered to influence level of accessibility to credit among owners of the vehicle garage enterprises in the study area is levels of financial management possessed by the owners. This is because owners with high levels of financial management skills were considered to be able to write and keep financial records of their enterprises and present them in financial institutions when applying for credit. In order to establish this association a cross tabulation of levels of financial management skills against levels of credit accessed by owners was produced (Table 3).

Table 3: Owners (n=245) according to levels of financial management skills and credit accessed

Level of financial mgt skills possessed by owners	Levels of credit in accessed to owners in (%)		
	Low levels (n =223)	High levels (n = 22)	All (n = 245)
low level of fin mgt skills	38.1	50.0	39.2
Medium level of fin mgt skills	55.6	50.0	55.1
High level of fin. mgt skills	6.3	0.0	5.7
Pearson Chi-Square	value	df	Asymp. Sig(2-sided)
	2.217	2	0.330

Results of the cross tabulation shows that, while owners who possessed the highest levels of financial management skills did not get any high level of credit. On the other hand those who possessed low levels of financial management skills got the maximum percentage (50%) of high level of credit. This result suggests that there was an inverse relationship between levels of financial management skills possessed by the owners and levels of credit that they accessed. However, when this relationship was tested using Pearson Chi-Square, it gave value = 2.217 with 2 degrees of freedom and probability (p = 0.330) which was not significant. From this result it

can be said that at 5% level of confidence there was no significant association between levels of financial management skills possessed by the owners and levels of credit that they accessed.

Another factor that was considered to influence accessibility to credit among owners was location of the vehicle garage enterprises. In order to establish whether there were any association between location of the vehicle garage enterprises and accessibility to credit a cross tabulation of location of the vehicle garage against levels of credit available to their owners was produced (Table 4). Results of the cross tabulation shows that owners who were managing own built garages accessed the highest levels of credit while those who were managing street garages accessed the lowest percentage of high level of credit.

Table4: Owners (n = 245) according location of garages and levels of credit accessed

Location of garages	Levels of credit available to each garage in (%)		
	Low level (n =223)	High level (n =22)	All (n = 245)
street garages	51.1	18.2	48.2
garages in rented premises	37.7	40.9	38.0
own built garages	11.2	40.9	13.9
Pearson Chi-Square	value	df	245
	17.293	2	0.0005

That is, 40.9% for owners of own built garages compared with 18.2% for owners of street garages. On the other hand, owners of street garages accessed the maximum percentage of low levels of credit while owners of own built garages accessed the minimum percentage of low levels of credit. That is, 51.1% for owners of street garages compared with 11.2% for owners of own built garages. These results were tested using Pearson Chi-Square test and found to have value = 17.293 with 2 degrees of freedom and a probability ($p = 0.0005$) which was highly significant. From this information it can be said that at 5% degree of freedom there was a significant association between location of the vehicle garage enterprises and levels of credit accessed by their owners. That is, owners of own built garages accessed the highest levels of credit followed by garages in rented premises and that street garages accessed the lowest levels of credit. It is possible that owners of own built garages accessed higher levels of credit because they had permanent places and fixed assets that could be used as collateral in financial institutions. On the other hand, street garages had no permanent places and fixed assets. In

addition, most of them were not registered with government authorities; hence they were not credit worthy in the eyes of most financial. This section has proved the null hypothesis which stated that the factors had no influence on credit accessibility among owners of small and medium vehicle garage enterprises in Arusha and Moshi Municipality to be false.

Conclusions

Following factors were found to have significant influence on credit accessibility among owners of the vehicle garages enterprises: sizes of the vehicle garage enterprises; highest levels of education possessed by owners; and location of the vehicle garage enterprises. On the other hand, there was no association between levels of financial management skills possessed by the owners and levels of credit that they accessed.

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