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FINANCIAL PLANNING SERVICES AND ACCESS TO CREDIT BY MICRO ENTERPRISES IN THE FORMAL SECTOR IN KENYA

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ABSTRACT

The study investigated the influence of financial planning services on access to credit for micro-enterprises in the formal sector in Kenya. This was due to the lack of available credit from banks and other financial organizations, caused by the high rate of credit default based on personal judgment. Agency theory was used to hypothesize the interconnection between the variables of financial planning services and access to credit. A descriptive survey design was employed, with a sample size of 384 determined by the Cochran formula from a population of 1,215,184 micro-enterprises regulated by the government of Kenya. Sample size proportion was used to ensure proportionate representation from the eight former Administrative Regions of Kenya. The study gathered and analyzed primary data using semi-structured questionnaires. Descriptive statistics were used to compute means, frequencies, and standard deviation from grouped data obtained from the overall Likert scale while inferential statistics such as logistic regression, were applied to investigate the relationship between the study variables using advanced SPSS computer software version 23. The results of the logistic regression analysis indicated that financial planning services had a positive influence on access to credit. The findings indicated the significance of financial planning services. However, the low levels of financial planning services have hindered access to credit for financing the regulated micro-enterprises, thereby affecting the overall performance of the MSMEs sector. Based on these findings the study recommends that the government of Kenya should develop effective strategies to promote financial planning services to increase access to credit. Some of the engagements involve the licensing of more certified financial planners and the government through the Micro and Small Enterprises Authority should provide technical assistance and incentives to credit counseling and financial planning firms and professionals to ensure that credit counseling and financial planning services are provided to the micro-enterprises in the formal sector in an effective and efficient manner.

Keywords: Financial Planning Services, Access to Credit, Micro Enterprises, Formal Sector, Kenya

BACKGROUND OF THE STUDY

Access to credit is a way of empowering individuals, households, and enterprises to participate in economic development by obtaining credit. It enables people and businesses to make payments and insure against risks as well as other uncertainties. Further, it is a nutrient for enterprises because it is essential for the maintenance of investment and for growth (Sukumaran, 2015). Diagne and Zeller (2017) argue that an individual, household, or business has access to a particular source of credit if it is able to borrow from that source, although for a variety of reasons it may choose not to. This study adopted the definition of access to credit provided by Sukumaran in 2015. When funds are available from credit there is possibility to speed up economic development by investing. The final economic benefit for nations and institutions to finance businesses is poverty reduction. Poverty alleviation is one of the major UN sustainable goals and it is a dream for a country to ensure its citizens are detached from the realms of poverty by financing businesses and institution development (Economic Commission for Latin America [ECLA], 2018; Leal Filho, et al., 2022). Access to credit is good but the lenders should not insist to impose their choices of financing on the borrowers. In addition, the lenders should not influence the borrower's financing options. The type of access to credit can be chosen for adoption with the help of financial advisors. Policy framework can also facilitate the process of managing and use of the forms of access to credit (Fouejieu et al. 2020). Micro enterprises in parts of the globe are seeking the financial knowledge of financial advisors for choosing the right type of access to credit (Van Song, et al. 2022; Snider & Davies, 2018).

For Finland, micro businesses choice of access to credit mostly involved the use of venture capital and external business partner framework. The venture capitalist's strategy allows external financing for a percentage of ownership of the firm. This is an alternative financing approach. Alternative finance is good and has so many types like blended financing, crowdfunding, and among others sources of funds. The external business partner option begins with engaging your neighbors to invest by providing funds. These are people in your country. This access to credit strategy also allows entrepreneurs to engage people outside their borders for the business to access the international markets for the firm products to be marketed in other countries. Licensed firms in Finland mostly have this opportunity and are very successful. Two of the most successful MSMEs are Finish Born International and Born Global Gabrielsson, et al., (2014). In Kenya, the main type of credit for micro enterprises is bank lending. Majority of the firms in this category are financed by loans mostly from commercial banks in the country. Using only one source of access to credit posed threats to many of them. About five percent used other sources of financing like personal, equity and informal financing such as trade credit. In addition, some seek mobile credit but due to limited financial literacy, they have little success from the mobile loans. In fact, mobile credit is negatively related to the financial performance of micro enterprises (Alumasa & Muathe, 2021). Another type of credit access surfaced in the financial market for micro-enterprises, individuals, and households is termed as fuliza. This type of credit, which is overdraft ranges from 100-70,000 shillings. Repayment of the overdraft is between 1-30 days. The average interest is 1.083% but increases per day for default. Those who borrow more worry a lot about default as the interest will increase. In addition, the lender cannot allow another overdraft when the borrower has outstanding liability from previous overdraft. The fund is intended to buttress the effort of those with insufficient cash balance at the time of purchase to enable them complete the transaction (Alumasa & Muathe, 2020). Micro enterprises took the overdrafts and invested in them but were constrained by the daily repayment, which affected their operations like bank loans. These challenging sources of credit increased the debt burden of firms and resulted in the closure of some. The government intervene to remedy the situation but the intervention is still at a slow pace. The government drafted a policy to enable micro-enterprises to participate in the government procurement process that will allow owners to get funds to invest in their financial distress firms (Alumasa & Muathe, 2020; Central Bank of Kenya [CBK], 2021; Financial Sector Deepening [FSD], 2015; Muturi & Njeru, 2019).

STATEMENT OF THE PROBLEM

Business enterprises having full knowledge of the variety of loans offered by the lenders and full knowledge for their selection is an important issue to SMEs because the way credits are selected has an influence on the success and failure of the enterprise due to the associated risks to the borrowers since resources are limited. Lenders usually offer various types of loan products with the cost of borrowing for debtors to decide on a choice from the available options. The decision in choosing a suitable kind of loans rests on whether the borrower is financially literate or seeks financial advice from the lender providing the product or advice from financial consultants outside the lending institution (Pozzolo, 2020). Seeking monetary advice directly from the creditors in borrowing arrangements could indicate a conflict of interest since the lenders have inside information of the borrowers, they will ensure to protect their investment to avoid losses from default, and therefore, focus on the enterprise credit risk management strategies of the organization as a basis for lending. Such strategy does not fully protect the interest of the borrowers. Evidence is insufficient on how borrowers' credit risks are fully managed by lenders for their benefit. What is available is the financial institutions' credit risk management techniques to avoid borrowers' default. This implies that the debtor is not fully protected as the lender prays that the borrower should default to lose the collateral, which exceeds the value of the loans (Kaaya & Pastory, 2018; Shan, et al., 2019).

This has been experienced in Kenya as more than 50% of the over 65% of SMEs who borrowed from financial firms faced credit default difficulties and some resulted in closing down operations. For instance, in 2017/2018, financial year 435 enterprises closed down. Further, 992, 1,255 and 2,540 shut down in 2018/2019, 2019/2020 and 2020/2021 respectively The MSMEs affected were estimated at 75%, 84%, 91% and 96% (CBK, 2021; Faria, 2022; Mungai, 2016). Seeking financial advisory services to understand the types of loans offered by lenders and suitable ways for their selection by micro-enterprises and other SMEs to finance their investment might have been ignored in Kenya, and it could be the solution to the many credit risk challenges being experienced by micro-enterprises resulting to the closure of 70% in the first three years of operations in the various regions of the Country (Douglas et al., 2017; Packalen & Dyer, 2021).

However, no specific study has endeavored to probe the influence of financial advisory services on access to credit by micro-enterprises in the formal sector in Kenya. Studies carried out focused on other areas. For instance, Mbiti, et al. (2019) examined the benefits of financial access on enterprise advancement and its application being limited to loans of women-owned SMEs in the hinterland of Kenya. Additionally, Mutinda, (2020) evaluated the significance of factors that affect financial access in Kenya with its applicability being restricted to loan collateral requirements, cost of credit, and monetary information asymmetry to SMEs. These observations clearly showed that there exists a contextual and conceptual knowledge gap from a country and variable perspective and justifies the need for further research. Therefore, the focus of this study is to determine the influence of financial advisory services on access to credit by micro-enterprises in the government-regulated sector in the administrative regions of Kenya.

OBJECTIVE OF THE STUDY

The primary aim of the research was to analyze the influence of financial planning services on access to credit by micro-enterprises in the formal sector in Kenya.

THEORETICAL LITERATURE REVIEW

Agency theory was proposed by Ross and Mitnick in 1973 and expounded by Jensen and Meckling (1976). Because of the scholar's separate views on the theory development; it is also termed the economic theory of agency and institutional theory of agency (Mitnick, 2019). Nevertheless, most researchers simply called it agency theory. Intellectual Jensen and Meckling (1976) narratives of the preposition is from the finance perspective focusing on the ownership structure of an enterprise and how it can effectively be used to resolve crisis between the owner and the caretaker or the manager. The theory is mentioned to elaborate on the interconnection between financial planning services and access to credit of micro firms. Financial planning improves organizations and is essential to avoid conflict of interest. It is an instrument used by agents or managers to achieve the enterprise owner's objectives. Managers' financial decisions are based on financial planning as the pillar for better operating, investing, and financing of micro enterprises. It is called a financial blueprint and is dynamic; serves as a cornerstone for investing, and involves constant and systematic analysis, review, and actions (Hani- Bani, 2021). Planning financially is very helpful in choosing suitable types of credits in the firm financial access. Financing comes in two forms; debt and equity—personal cash. According to Beniwal (2019) factors to consider in access to credit includes the repayment terms, the total cost of capital, and the requirements of the lender. Micro businesses financial plan is an essential strategy for fulfilling the needs and desires of the enterprise. Among the focus of financial plan are business development for growth and expansion, meeting the customers' satisfaction, making a profit, increasing the owner's wealth, and undertaking social responsibility to help improve the economy and society (Kapadia, 2020). Numerous academics have adopted this theory in resolving challenging in the organizations and among them are Mishra (2004) who used the preposition and explicated the appropriate governance procedure in the delivery of quality services. Zsidisin and Ellram (2013) established the connection between the sources of risk in supply management and techniques in managing the ris

CONCEPTUAL FRAMEWORK

Financial Planning Services

- Financial decision-making
- Money management
- Investment planning

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Access to Credit

- Commercial bank lending
- Alternative financing
- Cooperative society lending

Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

EMPIRICAL LITERATURE REVIEW

Globally, surveys had been conducted to explain the significance of financial planning and this includes Kaiyuni (2017) who investigation in Kenya found financial planning services as an enabler of MSMEs' profit margin from access to credit, the firm asset, and risk management. The study outcomes were derived from the raw data gathered from a sample of 48 SMEs and descriptively analyzed and presented using pie and bar charts. In Kenya, Omboga and Okibo (2016) reported that making use of financial planning services enables MSMEs to achieve access to credit and control objectives. The study aims to examine how the aspect of credit access including cash control, payment, and budgeting influenced the development of MSMEs, specifically the manufacturing companies in Kenya. The findings were presented from a sample of 142 manufacturing MSMEs analyzed using measures of dispersion and Pearson correlation. In addition, Awang, et al. (2019) in Malaysia found a connection between MSMEs' financial planning services and Islamic finance and that such a relationship significantly contributed to the growth in demand and supply of Halal goods and services in Muslim countries since credit access using Islamic principles excludes the payment of interest and other forms of gains for lenders. The outcomes of the study was derived using a sample of 200 SMEs and correlation analysis. The investigators concluded that hosting workshops, seminars, and conferences for training are important to provide a better understanding to SMEs in the Halal industry for the holistic practice of Islamic financial planning.

A survey by Amankwah (2019) established that financial planning enhanced the monetary literacy of SME entrepreneurs for understanding family savings, equity, overdraft, and debt sources of financing in Ghana. The results was based on data collected from 94 entrepreneurs and analyzed descriptively. The study concluded that more training was required to understand other aspects of credit access. Likewise, Ismanto et al. (2022) in Indonesia found that financial innovation in SME firms in Indonesia was not influenced by financial planning services but by the education of the entrepreneurs. The study was carried out to examine whether credit access, individual competencies, and financial planning could provide a better explanation for innovativeness in MSMEs. The basis of the investigation outcomes was regression analysis from raw data gathered from a sample of 285 of 8,695 SMEs. Research by Pardo et al. (2018) found that limited utilization of financial planning practices affected the training of SME owners and managers in understanding financial concepts for the effective management of SMEs in the Indian city of Barranquilla. The study sought to establish whether monetary planning services as a financial tool for performance could influence the level of SMEs' sustainability. Arithmetic mean was applied to obtain the outcomes reported from data analyzed from a sample of 40 entrepreneurs. Biwott (2017) established that growth in SME operations in Kenya was strengthened by the adoption of financial planning methods that positively influenced cash flow management, credit, and debt analysis, savings and investment analysis, and sourcing of finance for expansion. The survey aims to analyze how strategies in financial planning services can improve SMEs' activities for growth. The outcomes was based on multivariate regression using a sample of 70 MSMEs respondents. Outcomes of the study by Ariyo, et al., (2020) showed that the use of financial planning services had limited influence on the management of risk and monetary performance of SMEs in Ekiti State, Nigeria. Additionally, credit access components of savings, cash budget, payments, and cash control had a positive effect on SMEs' performance using financial planning. The Measures of dispersion, correlation, and regression were adopted to analyze data gathered from 150 employees of 15 SMEs using the investigators-developed questionnaires for results reported. The findings of the study by Vera-Colina, et al. (2019) in Colombia found the link between financial planning characteristics and access to credit levels to be weak in SME firms with low, average, and medium-high credit access from the suppliers of goods and services. The results was obtained from a sample of 67 firms and descriptive and correlation analyses were accepted and applied to the raw data.

RESEARCH METHODOLOGY

The study adopted the positivism philosophy because it gives assurance that once the right procedures are followed during the research process the facts will be found and reported. This study adopted the correlation research design. The design incorporates characteristics of descriptive, experiment, and case study research methodologies to support an association between the predictor and response variables. The estimated number of micro-enterprises in the formal sector is 1,215,184. This number represents the target population of this study. The population is drawn from the eight administrative regions of the Republic of Kenya. Cochran's (1977) formulated equation was employed for the computation of the representative sample of 384 regulated micro-enterprises. The sample size proportion was used to portion the sample size according to the eight administrative regions. Only primary data was collected using questionnaires. The respondents were owners and managers of formal sector micro-businesses.

Table 1

Descriptive Results for Financial Planning Services

	Obs.	Mean	Standard Deviation
I am aware of how to budget for my expenses.	270	3.27	1.02
I am aware of how to save from my business profits.	270	3.07	1.01
I am aware of how to make other types of investments from my business profits.	270	3.19	0.95
I always have my stock in terms of what my customers need.	270	2.96	0.91
I am aware of challenges in seeking financial planning education.	270	2.37	1.08
I am aware that financial planning services can help to improve the micro-enterprises.	270	3.71	0.97
Overall mean		3.16	

The findings in table 1 suggest that the lack of financial planning services affected credit uptake or access as seen from the results of the entrepreneurs' limited knowledge of budgeting, savings, and investment diversification and stocking of inventory to meet the customers' needs. This can be seen from the overall mean for financial planning services which is 3.16 implying that the provision of such services in the financial market for the regulated micro-businesses was low. This finding was consistent with the conclusions of Windle and Lippman (2018), who observed that financial planning services for small businesses and micro-enterprises were scarce in both developed and developing economies. Moreover, Dowling and Gibson (2019) suggested that this was due to the lack of access to financial professionals who had the knowledge and experience to provide comprehensive financial planning services. Reardon and Iannarino (2019) and Galindo and Iglesias (2020) further noted that inadequate awareness and the scarcity of qualified financial advisors contributed to the provision of low financial planning services for businesses in the economy. In Kenya, this could be attributed to the fact that there are no established financial planning institutions, or those that exist are limited in the financial market of the East African.

RESEARCH FINDINGS AND DISCUSSIONS

The study comprised one group of respondents, the owners or managers of registered micro enterprises across the country. 384 questionnaires were distributed to respondents, 270 were retrieved with answers, representing a 70.3% response rate. Holtom, et al. (2022) acknowledge the existence of fluctuation in the overall return rate varies in social science research, and therefore, a response rate of between 50-68% is adequate for statistical analysis. The study adopted Cronbach's Alpha to evaluate the reliability of the scale adopted to measure the selected variables as its purposes are considered fit in academic research by Taber (2018). The statistics of the measuring scale reliability were computed by use of Cronbach alpha and the results were presented in Table 2 respectively.

Table 2

Summary of Reliability Statistics Test

Variable	Cronbach's Alpha	N of Items	Remarks
Financial Planning Services	0.815	6	Scale Reliable

The findings in table 2 revealed that the measuring scales were dependable and satisfactory as they exceeded the minimum Cronbach’s alpha value of 0.7 as noted by Nawi, et al. (2020). The Financial planning services with Cronbach's Alpha of 0.815 were measured using 6 constructs. The semi-structured questionnaire developed by the researcher was suitable and, hence used for the data gathering. To ensure the measuring tool was properly implemented and measured the intended attribute, a test of validity was designed and administered. Factor analysis was applied to assess the content and construct validities according to their constructs. Mustafa (2020) argued that the validity of this approach was unique, as indicated by the indicators of the credit risk education variable in the following EFA tables below which exceeded the minimum threshold of 0.40. This indicated a significant factor loading.

Table 3

Explanatory Factor Analysis for Financial Planning Services

Variables	**Factor Loadings Range**	**No. of Items**
Financial Planning Services	0.467 – 0.729	6

Extraction Method: Principal Component Analysis.

The six constructs used to measure financial planning services had factor loadings that were greater than 0.40 but less than 0.730.

Diagnostic Test Result

A diagnostic test was carried out to help identify issues with the model like outliers and the presence of influential observations. The test can also help identify whether the model is over or under-fitting the data and whether the data has been correctly specified. It can also identify if the model is correctly capturing the relationships between the explanatory variable and the response variable, and provide insights into which variable is most important for prediction (Etzioni, 2016). The diagnostic test was conducted for the logistic regression model adopted.

Test of Multicollinearity

The study used the Tolerance and Variance inflation factor (VIF) to inspect for multicollinearity. The general-principle of thumb during this test indicated that VIF should be beneath 10, while tolerance should be down from 1 to conclude that there is no multicollinearity between the predictor variables (Akinwande, et al., 2015). The analysis in table 5 showed that the credit risk education variable had VIF smaller than 10 in the study. The research result, therefore, affirmed that there was no threat of multicollinearity for this explanatory variable.

Table 4

Test of Multicollinearity

	Collinearity Statistics	
	Tolerance	VIF
Financial Planning Services	0.876	1.141

Source: Survey data (2022)

Hypothesis Testing

After confirming that the data met the necessary assumptions, regression analysis was performed on the hypothesis.

Table 5

Logistic Regression Estimation Results

Logistic Regression			Number of Observation = 270
			LR $chi^2(4)$ = 63.820
Prob >chi^2 = 0.00			
2Log likelihood = -22.4213			Pseudo R^2= 0.6729
Variables	**Odd Ratios**	**P>|z|**	**Marginal effects (dy/dx)**
Financial Planning Services	3.2518	0.0005**	0.3684
Constant	0.2215	0.0000**	1.352

Source: Survey data (2022) **significant at 0.05 level of significance

Table 6 revealed the approximated results for the binary logistic regression with the odds ratios, p-values, and the marginal effects of the credit risk education variable. The Pseudo R2 (0.6729) implied that the model accounts for 67.29% of variations in access to credit while the remaining 32.71% are accounted for by other factors beyond the scope of the model. The general significance of the model in predicting the relationship between the independent variables and access to credit is also confirmed by its goodness of fit as given by the p-value < 0.05. The results further indicate that the variable is significant in prognosticating access to credit and one of the influential variables in improving access to credit is financial planning services (3.2518, $p<0.05$). This, therefore, means that holding all other factors affecting access to credit constant, an improvement in financial planning services measurement will result in greater improvement in access to credit of regulated micro-enterprises.

Testing Financial Planning Hypothesis

$H0_1$: Financial planning services do not influence access to credit by micro-enterprises in the formal sector in Kenya.

The p-value for financial planning services was found to be statistically significant at a 5% level, which allowed us to reject the null hypothesis and determine that there is a meaningful connection between financial planning services and the access to credit of government control micro-enterprises. It appears that when other variables that may influence access to credit are kept the same, micro-enterprises in the formal sector that make use of financial planning services are 3.25 times more likely to have improved access to credit when compared to those that do not utilize these services. The marginal effect of 0.3684 shows that, with all other elements influencing access to credit being equal, the use of financial planning services will improve access to credit for regulated micro-businesses by 36.84 percent. The findings of this study substantiate Yadav, et al. (2018), who determined that micro-enterprises that make use of financial planning services gain better access to credit, evidenced by larger loan amounts and reduced interest rates. Additionally, the results point to the positive impact of financial planning services on the creditworthiness of micro-enterprises, as illustrated by improved repayment rates and credit scores. This analysis implies that financial planning services can be an effective way to enhance access to credit for micro-enterprises. Kaur et al. (2018) investigated the impact of financial planning services on access to credit for micro-enterprises in India. It was found that those who received the services had significantly better access to credit than those who did not. Additionally, the study revealed that the availability of formal credit sources was contingent upon the size, sector, and location of the micro-enterprise. The research concluded that micro-enterprises in India are more likely to find credit if they receive financial planning services.

CONCLUSION

It is clear from the research that financial planning services have a significant impact on access to credit for micro-enterprises in the formal sector in Kenya. These businesses lack the skills in financial advisory services that are necessary for money management, investment planning, and financial decision-making. This, in turn, creates challenges in budgeting activities, investing diversification, meeting customers' needs in a timely manner, and low-saving behaviors. As such, it is clear that access to credit for micro-enterprises in the formal sector of Kenya is dependent on the availability of financial planning services as an element of financial advisory services. Furthermore, the survey concluded that these services are essential for the promotion of access to credit for micro-enterprises. This is because they provide the necessary skills and knowledge for micro-enterprises to engage in effective financial planning and budgeting, which are essential for accessing credit. Without these services, micro-enterprises would continue to struggle to obtain the credit they need to grow and expand their businesses.

RECOMMENDATIONS

The findings of this study suggest that the government should implement measures to increase awareness and demand for financial planning services among micro-enterprises in the formal sector of Kenya. This could include providing incentives for financial planning professionals to operate and offer services in areas where micro-enterprises are located. Additionally, the government should establish a national policy that requires all micro-enterprises to have a financial plan in place and back this up with regular reviews and audits. The findings of this study also recommend that financial institutions should increase their outreach to micro-enterprises, in order to provide them with better financial access. This could include providing lower interest rates or granting more generous repayment terms. Additionally, financial institutions should provide training and workshops on budgeting, managing profits, and diversifying investments in micro-enterprises in order to help them better understand and manage their finances. Further research should be conducted to identify the most effective methods of providing financial education to micro-enterprises in the formal sector of Kenya. This research could include examining the effectiveness of existing credit policies and regulations, and the availability of financial literacy resources for regulated micro-enterprises.

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