

**FACTORS AFFECTING ACCESS TO CREDIT AMONG
SMALL ENTERPRISES IN SELECTED TOWNS OF
CHUKHA DISTRICT IN BHUTAN**

Tenzin Phuntsho (Author)

Associate Lecturer, Gedu College of Business Studies,
Royal University of Bhutan

Karma Yezer

Associate Lecturer, Gedu College of Business Studies, Royal University of Bhutan

Sonam Wangda

Associate Lecturer, Gedu College of Business Studies, Royal University of Bhutan

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Abstract

Small enterprises play a vital role in economic development as they can provide the economy with efficiency, innovation, competition and employment. Entrepreneurs are responsible for the success of their businesses and have to face up with definite challenges in doing so. The four factors have been pre-determined based on review of the literatures. The four factors selected for the study were: Collateral/ Security requirement, Interest rate, Literacy level, and the Credit Process. To know which factors affect access to credit among small business, survey was conducted in selected towns of Chukha district. Data was collected using structured questionnaires from 59 randomly selected respondents of Tsimasham, Chukha and Gedu towns. The statistical tools like correlation, mean and percentage were used for data analysis. Analyzed data is presented in tabular form, graph and chart.

Keywords: Access to Credit, Business Credit and Small Enterprises

The Small and Medium Enterprises (SME) is an important source of employment, innovation, and economic growth of a country. More than 95% of businesses in Bhutan are small and cottage scale. Limited access to credit is commonly identified as a key constraint to SME growth. As Bhutan is a developing country, SME is the engine for the growth of economy and for the alleviation of poverty. Accessing to credit is the most serious barrier to expansion of businesses and start-ups. The low capital intensity of investment of the SME made through financial institutions and the resultant low profit margins, high collateral, high interest rates, short repayment periods and lengthy formalities reduces the possibility of availing credit from the financial institutions and few reliable evidence show that the ability to repay the loan by the SME are relatively low than those large scale enterprises.

Access to credit for SME's is important for the national economy as well as for individual businesses. Research has been conducted on this topic in various countries. However this research has not been conducted in Bhutan. This project seeks to explore this topic in Bhutan and the literature will be applied to this context.

Access to finance means the ability that individuals or enterprises can easily access credit facilities. Business credit means any loan or line of credit to the firms or an individual for business purposes. Small enterprises refers to investment between Nu1 million and Nu10 million and having employees between 5 to 19 numbers.

Brown bridge (2002), it is noted that loan term places an important element when it comes to lending issues. The loan term affects the revenue of lending institutions (Banks), the repayment schedule of credit applicants, the financial cost of customers, and also the sustainability of the use of the finance products. It is further stated that in

most cases the loan period and the size present obstacles for accessing bank financing and the interest rate affects access to finance in some few cases.

Ackah & Vuvor (2011) have conducted a study to investigate *“The Challenges faced by Small and Medium Enterprises in Obtaining Credit in Ghana”*. The main objectives of this study is to highlight the specific challenges inhibiting SMEs in accessing credit in Ghana with a view to proposing some recommendation to help mitigate these challenges. To achieve the proposed research objective, the quantitative research method was adopted. They found that SMEs in Ghana are facing issues to access bank credit (loans) from financial institutions (banks and non-bank) to undertake various activities.

Cofie (2012) in his article *“The Challenges of Financing Small and Medium Scale Enterprise(SMEs) in the Ashanti region”*, the purpose of this study is to evaluate the challenges and the extent of financing of SMEs within the Ashanti Region of Ghana, taking cognizance of the role and contributions of Stanbic Bank Ghana Limited. He collected data from both primary and secondary and the purposive simple random sampling method was used in attaining the sample size. In the end, he concluded that SMEs were dissatisfied with the process of application of financing but were satisfied with the bank exhibiting understanding to their business needs.

Wanambisi & Bwisa (2013) have done research based on *“Effects of Microfinance Lending on Business Performance: A Survey of Micro and Small Enterprises in Kitale Municipality, Kenya”*. And their main objective of this study was to investigate the effects of microfinance institutions lending on micro and small enterprises performance within Kitale Municipality. They adopted a descriptive survey research design for accomplishment of suggested research objectives. The study found that majority of those who access loans reported that they could repay loans plus interest from business activities. So they concluded that there is strong positive significant relationship between the amount of loan and performance of MSE increase in income/sales.

Khan (2015) has conducted a study on *“Source of finance available for SME Sector in Pakistan”*. This research paper examines the sources of finance (formal and Informal) that are available for SMEs and also highlights the issues that create hindrance in effective flow of financial facilities to SMEs especially SEs (Small Enterprises). The research paper concludes that sufficient and easy availability of finance is the key to success for SMEs in Pakistan.

Objective of the study

The objective of the research was to study the factors affecting the accessibility of credit for Small Enterprises in selected town of Chukha District. The four factors have been pre-determined based on review of the literatures. The four factors selected for the study were: Collateral/Security requirement, Interest rate, Literacy level, and the Credit Process.

Research Design

The article is based on the information provided by 59 respondents (of Tsimasham, Chukha and Gedu towns) under Chukha district. The Quantitative Approach of the research was employed in the present study. The structured survey questionnaire was framed as a main data collection tool. In the field, the convenient sampling method was adopted for the data collection. Both primary and secondary data is collected for the purpose of analyses and interpretation. The statistical tools like correlation, mean

and percentage were used for data analysis. Analyzed data is presented in tabular form. Wherever required, data is presented through graph and charts.

Reliability of the Data

Prior to the analysis of the data, reliability test was conducted. The overall reliability based on 13 likert items stand at Conbrah's alpha value of 0.687. The statements which were divided into four factors as 'Collateral/ Security, Interest rate, Literacy Level, and Credit Process' have the alpha value of 0.609, 0.624, 0.596 and 0.699 respectively. Thus, the data was reliable. Hence, the further analysis of data was proceeded based on this reliability result.

Analysis and Interpretation

1. Demographic and Business Profile of respondents: There were 59 respondents for the study. In terms of sex segregation of the respondents, 39% represent males while 61% were females. The majority of the small business operators reflected that they were 36 years of age or more. Considering the marital status, 91% expressed that they are married while at least 3.4% have indicated that they are divorced.

2. Business Background: Almost all the Small enterprise owners operate the business as Sole Proprietor. Only 1.7% respondents operate business as partnership or joint venture. In specific terms, 98.3% of the businesses fall under sole proprietorship. And 96.6% of the owners invested Nu. 1-2 million as a start-up capital, while only 3.4% of the business operators spent between Nu. 3-5 million as an initial investment. Taking the business operation into account, the percentages vary as 35.6, 16.9, 13.6, 13.6, and 20.3 for operation years of 1-5, 6-10, 11-15, 16-20, and more than 20 years respectively. Majority of the business employ less than 5 employees which represent 91.5% followed by 6.8% of enterprise employing 6-10 employees and only 1.7% of the enterprise could give employment to more than 11 people. Among the small business enterprises, 35.6% earned profit of less than 30 thousand in a year, 27.1% earned between 31-60 thousand, 10.2% could draw profit amount of 61-99 thousand, and a little more than 22% earned more than 100 thousand as a profit per annum. However, there were at least 5.1% of the enterprises operating in loss. With regard to education background, majority of the respondents have completed at least High school, while less than 48% have education qualification under "other" category. The details are given as follows in the table.

		Type of Business		Total
		Sole Proprietor	Partnership / Joint Venture	
Education	Bachelor's Degree	10 (16.9%)	0	10
	Diploma	4 (6.8%)	0	4
	High School	16 (27.1%)	1 (1.7%)	17
	Other	28 (47.5%)	0	28
Total		58	1	59

3. Credit Accessibility: The information is provided in the following tables

Applied for credit in the past from any Financial Institutions?				
		Availed Credit		Total
		Yes	No	
Applied for Credit	Yes	59		59
Total		59		59

All the respondents applied for credit or loan from the financial institutions and all of them have availed the loan for the business. This fact indicates that access to credit is

not really a problem. Thus, it can be concluded that business owners have the accessibility to the credit facilities.

Amount Availed (Credit)				
	N	Minimum Amount availed (Nu)	Maximum Amount availed (Nu)	Average Amount availed (Nu)
Amount Availed (Nu)	59	100000	10000000	792881.36

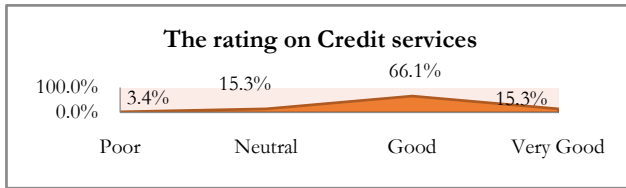
Once the fact of credit accessibility was established, the amount availed by the respondents was analysed. The least and the maximum amount availed were found to be Nu.100000 (Hundred Thousands only) and Nu. 10000000 (Ten Millions only). However, the average amount of credit availed stand at around Nu. 800000 (actual average amount is Nu. 792881.36 only)

		No of years of Business Operations					Total
		1-5 years	6-10 years	11-15 years	16-20 years	More than 20 years	
Credit Amount Availed (Nu)	100000	2	0	0	1	0	3
	150000	1	1	0	0	1	3
	200000	5	0	1	1	2	9
	250000	1	0	0	0	0	1
	300000	1	3	1	1	2	8
	350000	3	0	0	0	0	3
	400000	1	2	0	0	1	4
	500000	3	2	4	2	1	12
	600000	1	0	0	1	0	2
	700000	0	0	1	0	0	1
	1000000	1	1	0	1	2	5
	1300000	1	0	0	0	0	1
	1500000	0	0	0	0	1	1
	1800000	0	0	1	0	0	1
	2330000	1	0	0	0	0	1
2600000	0	0	0	1	0	1	
3000000	0	0	0	0	1	1	
3500000	0	1	0	0	0	1	
10000000	0	0	0	0	1	1	
Total	21	10	8	8	12	59	

The table above reflects the pattern of availing credit from the financial institutions. The credits are availed at the initial years of the business. This is because the number of loans sought is highest during the first five years of business operation with 21 of the 59 business owners. There were 8 each who availed loan and have been operating for 11-15 years and 16-20 years. 12 of the respondents have availed loan and have been in operation for more than last 20 years. In terms of the credit amount, Nu. 500000 (Five Hundred Thousand only) is the most frequently sought after amount followed by the loan amount of Nu 200000 (Two Hundred Thousand only).

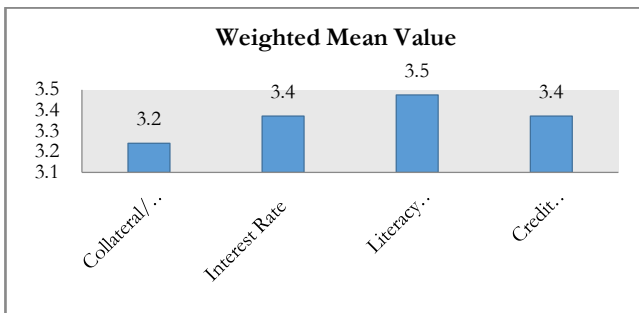
4. Opinion on Credit services: The respondents were asked to rate their opinion on the credit services rendered by financial institutions, and more than 80% indicated that they were satisfied (66.1% rated the services Good, and 15.3% rated Very Good). Only a few which translates to 3.4% of the owners seemed to be unsatisfied by the credit services offered by the financial institutions. However, at least 15.5% expressed that the services were neither poor nor good. In general, it can be deduced that business owners as customers are satisfied with the credit services provided by the

banks or financial institutions. The details of the rating on the credit services are given in the graph below:



5. Factors Affecting Credit Access: The graph below shows the weighted mean value of factors which affect credit access to small business. Out of four factors, 'literacy level' has maximum mean value of 3.5. However, it should be understood that having high literacy rate and awareness has the more probability of securing the credit based on the self-initiative. The high score on literacy rate does not necessarily mean that financial institutions favour customers with high literacy rate on disbursing the credit. This factor only means that those with more literacy and awareness on credit processing have the higher chance of securing the grant.

The rest of the factors which are 'Collateral/Security' requirement, 'interest rate', and 'Credit Process' scored at 3.2, 3.4 and 3.4 respectively.



6. Is the Credit Amount availed dependent on Security/Collateral requirement?: The aim of the present research was to study the factors affecting the access to credit. And it was established based on the data that credit is accessible to the business owners. Every respondent had availed the credit from the financial institutions. Hence, the Pearson Product moment correlation was conducted to ascertain if the 'availed credit amount' has any relationship with 'security or collateral' requirement. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity.

There was no correlation between the two variables: 'availed credit amount' and the 'security or collateral requirement' [$r=.026$, $n=59$, $p>.0005$].

	Correlations	Credit Amount Availed	Security Collateral
Credit Amount Availed	Pearson Correlation	1	.026
	Sig. (2-tailed)		.844
	N	59	59
Security/ Collateral	Pearson Correlation	.026	1
	Sig. (2-tailed)	.844	
	N	59	59

Also, to test if the availed credit amount is related to the 'interest rate' factor, the Pearson correlation was performed. Even these two variables do not correlate [$r=.126$, $n=59$, $p>.0005$]. The output of the correlation analysis is given in the table below.

Correlations		Credit Amount Availed	Interest Rate
Credit Amount Availed	Pearson Correlation	1	.126
	Sig. (2-tailed)		.342
	N	59	59
Interest Rate	Pearson Correlation	.126	1
	Sig. (2-tailed)	.342	
	N	59	59

Conclusion

The study concludes that access to credit is not a problem as every respondent has taken loan from the financial institutions. There was no correlation between 'availed credit amount' with the 'security or collateral requirement' and interest rate. The credit services provided by financial institutions are rated good. It means all the respondents are satisfied for the availed services. Having high literacy rate and awareness has the more probability of securing the credit based on the self-initiative. Small business support services should be provided to further improve access to finance and more financial schemes is suggested as the rational way forward.

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