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SMALL AND MEDIUM ENTERPRISES' (SMEs) AND COMMERCIAL LOAN ACCESSIBILITY DEBATE: KIGALI CITY VOICES

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ABSTRACT

Financial accessibility to small and medium size enterprises (SMEs) debate has received substantial conceptual and empirical attention, yet represents an area where a cumulative body of knowledge is needed in Rwanda. This work reviews and evaluates to deepen knowledge on the challenges confronting SMEs with reference to commercial loan accessibility. Adopting a perceptual assessment, the work explores factors confronting SMEs and the particular sector affected in order to demystify the public narrative. Analyses of 400 samples of SMEs from Kigali City indicated that raw material shortage was the prime challenge before access to finance and that merchandizing and services were most disadvantage in availing finance. Internal weakness was identified as orchestrating factors compared to agriculture and handicrafts. Recommendations were generated for SMEs, commercial banks, and the government to ensure that the financially excluded are mainstreamed through strategic partnership.

KEYWORDS

financial accessibility, SMEs, loan, challenges, Kigali city

INTRODUCTION

Small and medium size enterprises' (SMEs) financial accessibility debate in Kigali hangs on a delicate balance between the court of public opinion and market supremacy; demand vis-a-vis supply complexity. It's a public- market power mix; whether voluntary exchange is primarily a clandestine activity that flourish due to human command rigidities, or whether voluntary exchange is the dominant principle of the market system. In addition, the subject has attracted intensive research¹ along relationship lending², business analysis³, and concern within the corridors of policy-makers. This creates an abroad polarization between banks and business owners, hence challenges banks' practices and roles in Rwandan economy and their interdependency.

Globally, empirical literature on access to finance by SMEs are geographically vast, divergent, inconclusive and intriguing (Curran & Blackman, 2001; Greene, Mole, & Storey, 2008; Berger and Udell, 2006; Jovanovic Rousseau, 2001; Storey, 2005). These reflect the academic importance attached to commercial loans, financial systems, market liberalization, construct polarization in loan-risk analysis, context differentials, and architectural structure of polemic debates. Further, the polarization unravels the difficulty of designing universal SMEs access to finance barometer: SMEs' worth, volume of loan, data on rejected SMEs' loan applications, and default data, and tailor-made risk assessment criteria.

Banks are financial accelerators to SMEs. Nevertheless, commercial loan to SMEs depends on credit market, lender's judgment on guarantee (security), level of indebtedness or credit-worthiness, collateral, and risk of default⁴ which technically broaden inconclusive lending decision. While security becomes incentive to lend, lack of it becomes an impediment to SMEs, despite the instrumental roles of SMEs in transforming families' social-economic welfare and nation's economic growth and development (Aminul-Islam, Keawchana & Dayang, 2010). In light of identified SMEs' roles, Hamilton (2000) demonstrates that SMEs' intermediary activities form the backbone of any economy, but high transaction cost and loan default associated with SMEs have ripple-effect especially in emerging economies. Hence, orchestrated a perception error attached and utilized in the judgment of SMEs' loan applications.

Despite the divergence in scholar's approaches, social construct theorist (Piercy, 2004, Pfeffer, 1998), ecology-discourse⁵, technology diffusion (Quinn, 1992; Rieley, 2001), strategy-thinkers (Fred, 2008; Stacey, 2003; Lynch, 2000), and competition (Porter, 1985 & 1990), a denominator is identified: loan is not a social service. A loan is a financial obligation that exposes the lender and borrowing entities to reputational and financial risk in case of default. Drucker⁶ illustrates how businesses are confronted with complexity and that many are thriving on chaos within national turmoil and economic anxiety which amplify default possibility. The complexity and laxity/ineptness in management power could trigger a tragedy of less profit, sales and returns which are common features of SMEs. This was reinforced by SMEs' loan heterogeneity⁷, risk-averseness, the iron cage⁸, lack of secondary market participation which make SMEs obsolete with reference to their search-cost, functionality, and financial inclusiveness.

However, the challenges confronting SMEs vary⁹ in scope and context due to economic realities (Fred, 2009), technology and innovation (Drucker, 1985 & Dannels, 2002), infrastructural (Hisrich, 2004), institutional legitimacy (DiMaggio and Powell, 1983), customers (Shepherd & Zackarakis, 2003), density dependency¹⁰, social

¹ Black, S. E. and Strahan, P. E. (2002). Entrepreneurship and Bank Credit Availability. *Journal of Finance*, 57

² Berger, A. and Udell, G. (2002). Small Firm Credit Availability and Relationship Lending: The Importance of Banks Organizational Structure. *Economic Journal*, 2002

³ Biz2Credit (2014). Small Business Lending Index. April, 2014.

⁴ Bloomberg Business Week (2014). *How Much is Too Much to Pay for a Business Loan?*, May 16, 2014

⁵ Hannan, M.T and Freeman, J. (1989). *Organizational Ecology*. Harvard University Press, Massachusetts, USA.

⁶ Drucker, P. (1985). *Innovation and Entrepreneurship*. NY: Harper and Row.

⁷ Du, J. A. and Gima, S. B. (2012). Firm size, Sourcing finance, and Growth: Evidence from China. *International Journal of Economics and Business*, 19: 397-419

⁸ DiMaggio, P. and Powell, W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48: 147-160.

⁹ World Bank. (2013). *Doing Business in The East Africa Community: Smarter regulations for Small and Medium-Size enterprises*. 1818 H Street, NW. Washington DC.

¹⁰ Kourdi, J. (2009). *Business Strategy: A guide to taking your Business Forward*. Profile Books Ltd. London, UK.