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Determinants Of Microfinance Credit Access for Small and Medium Enterprises in Beni, The Democratic Republic of Congo.

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Abstract
The study examined the determinant factors of microfinance credit access for small and medium enterprises (SMEs) in Beni, the Democratic Republic of Congo (DRC). The study targeted 200 small and medium enterprises in Beni DRC and drew a sample of 162 SMEs in Beni region, DRC. The research adopted a descriptive research design to effectively identify and describe patterns between the independent variables and the dependent variable. Data collection was done using semi-structured questionnaires, allowing for the gathering of structured and unstructured data. A linear multiple regression model will be developed to objectively measure the relationship between the dependent and independent variables. The findings reveal that all four factors significantly influence SMEs' access to microfinance credit, with financial literacy emerging as the strongest determinant (r = 0.5073). The regression model explains 47.08% of the variance in credit access, with all four factors showing statistically significant effects. The study concludes that a multi-faceted approach, encompassing financial education, innovative collateral solutions, economic stabilization measures, and supportive government policies, is necessary to improve microfinance credit access for SMEs in Beni.
Keywords: *Microfinance, credit, access, small and medium enterprises (SMEs), Collateral, Financial Literacy, government policy and economic environment factors.*

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I. Background of the Study

Bolton Committee (1971) define SMEs as organisations with relatively modest market share in terms of sales turnover, number of employees, ownership structures, and assets. They are usually managed in a personalised manner by owners or part owners, without relying on formalised management structures. SMEs have a significant impact on economies across the globe including both developed and developing countries. These enterprises serve as significant contributors to employment generation and the improvement of living standards for employers and employees. Moreover, SMEs are a critical source of entrepreneurial skills and innovations. As a result, entrepreneurship is increasingly recognised as an important driver of economic growth by fostering creativity, productivity, and providing career opportunities (Hisrich, 2005).

Small and Medium Enterprises (SMEs) present a huge force in the global economy and account for most businesses across various regions in the world. In many developing nations, SMEs constitute up to 90% of the private sector where they generate over 50% of the new jobs in their economies (African Union Development Agency, 2022). According to the World Bank, SMEs are the leading contributor to employment creation and economic development across the globe as they account for up to 90% of all businesses and 50% of jobs created. The World Bank estimates that there will be a need for over 600 million jobs by 2030 to absorb the growing workforce across the globe. This demonstrates the critical role of small and medium enterprises in the global economic landscape. To achieve this, these firms require access to essential resources including capital for their investments to grow and contribute to the economy. However, the World Bank report exposes a huge gap in financing for SMEs. According to the report, small and medium enterprises majorly rely on internal funds or contributions from families and friends to run their enterprises. According to the International Finance Corporation, an estimated 65 million SMEs which is about 40% of the small and medium enterprises in developing countries report unmet financial needs amounting to $5.2 trillion annually which is equivalent to 1.4 times higher than the global SME lending. The financing gap mainly affects East Asia and Pacific Asia, which accounts for up to 46% of the funding gap (International Finance Corporation).

In Sub-Saharan Africa, and medium enterprises SMEs are a key driver to the growth of the economy through the creation of jobs, income, and wealth creation as well as eradicating extreme poverty. According to the African Union, SMEs are critical players in the economy as they generate over 80% of new jobs thus facilitating income and wealth creation and reducing poverty (African Union, 2022). With this, SMEs play a critical role in promoting socio-economic inclusion and spurring growth. For the enterprises to thrive and survive, they require significant support such as access to credit services to continue creating jobs and offering benefits to the economy. However, a Nigeria Small, Micro and Medium Enterprises report (2022) found that 80% of organizations under the SME category in Africa die in under five years although the continent records the highest entrepreneurship rate (Faminu, 2022). The failure is attributed to various factors such as lack of resources and a structure in place for them to survive as well as poor business practices (Kippa, 2022). According to the Center for Strategic and International Studies, 50% of SMEs in Africa require additional funding than they access in order to thrive. However, limited access to credit remains a serious challenge for micro and medium enterprises in Sub-Saharan Africa (Quartey, Turkson, Abor, & Iddrisu, 2017). This limits the organizations from accessing reliable working capital to make the investments they need to grow thus leading to stagnation (Center for Strategic & International Studies).

Microfinance institutions have been viewed as important players in bridging the gap in access to mainstream capital for SMEs. According to Africa Housing Finance Yearbook (2020), access to credit financing for SMEs through microfinance institutions remains a major challenge in many countries across Sub-Saharan Africa including the Democratic Republic of Congo. The challenge has been exacerbated by the poor economy and recurring conflicts that have marred some regions, especially in Beni Region of the Democratic Republic of Congo (DRC). The current study seeks to analyze the entrepreneurial factors that affect Congolese entrepreneurs in access to microfinance credit in conflict-hit regions using a case study of SMEs situated in Beni region, DRC. Most SMEs in Sub-Saharan Africa experience challenges in access to finance (Quartey et al., 2017). In their study, Runde, Savoy, & Staguhn (2021) highlighted affordability and access as the major financing challenges facing SMEs in Sub-Saharan Africa. Runde, Savoy, & Staguhn (2021) observe that most SMEs in Sub-Saharan Africa are informal in the sense that they are not duly registered, making it difficult for these firms to access financing. This is a major challenge as it limits investment and growth (Quartey et al., 2017). According to the Center for Strategic and International Studies only between one-third to one-fifth of SMEs in Sub-Saharan Africa have access to credit while about 28.3% are credit constrained. In a report by the World Bank, it was established that only 2% of small and medium entrepreneurs in DRC have successfully borrowed capital and started, operated, and grown their businesses (Beck, Demirgüç-Kunt, & Maksimovic, 2018). This case is similar in Beni where access to credit has been scarce (Katuka, Kagwaini, & Waweru, 2019). The increased credit refusal or rejection rates in the Democratic Republic of Congo (DRC), particularly among micro, small, and medium enterprises (MSMEs), is a major issue within the financial landscape. According to Schwars (2011), the extent of credit denial can reach a significant threshold of up to 50%. Furthermore, in specific geographical regions of the country, such as the South-Kivu province, Woldie, Mwangasa, & Thomas (2018) observed an alarming trend characterized by high loan application rejections surpassing approvals. Despite the presence of numerous banking institutions operating in the city of Beni, SMEs regularly grapple with challenges in fulfilling the requisite criteria stipulated by financial intermediaries (Katuka, Kagwaini, & Waweru, 2019). This trend characterized by high loan rejections signifies an urgent need to identify and address underlying entrepreneurial factors that contribute to the high credit refusal and challenges in access to microfinance credit services among small and medium enterprises in DRC using a case study of SMEs in Beni.

Theory and Hypothesis

Stiglitz and Weiss proposed the theory of credit rationing as a model for understanding how information asymmetry between borrowers and lenders can lead to inefficiencies in credit markets (Stiglits, & Weiss, 1981). The theory holds that borrowers have more information about their own creditworthiness than lenders. The information asymmetry therefore makes it difficult for lenders to distinguishing between good and bad borrowers, creating an adverse selection (Bester, & Hellwig, 1987). This is where borrowers with higher risk of defaulting seek for loans while low risk borrowers may be less interested in credit making it hard for lenders to identify and advance credit to the most creditworthy borrowers. In this model, credit rationing arises as a solution to the adverse selection and moral hazard problems. According to Jaffee & Stiglits (1990), lenders may ration credit by offering loans at interest rates higher than the equilibrium rate that would prevail in a perfectly competitive market. By rationing credit or charging higher interest rates, lenders can mitigate the adverse selection problem by discouraging riskier borrowers from applying for loans (Jaffee, & Stiglits, 1990). This theory underpinned this study by examining factors such as the availability of collateral, credit history, and availability of transparent financial information, which can help reduce information asymmetry and improve SMEs' access to microfinance credit.

On the other side, the theory of Imperfect Information examines situations where one party involved in a transaction has more or better information than the other party. The information asymmetry can lead to inefficiencies in markets and affect the outcomes of economic interactions (Robinson, 2011). Akerlof's seminal work on the Market for Lemons highlights how asymmetric information in the used car market results in adverse selection whereby sellers with low-quality cars are likely to sell thus filling the market with poor-quality products and higher prices. The imperfect information theory supported the study by evaluating access to information and how it influences the entrepreneurs' access to microfinance credit services. Entrepreneurs seeking credit may possess more information about their businesses, their creditworthiness, and their potential for repayment than the microfinance institutions offering credit. This information asymmetry can lead to adverse selection, where microfinance institutions may be reluctant to lend to entrepreneurs due to uncertainty about the quality of their projects or their ability to repay the loans (Löfgren, Persson, & Weibull, 2002). The imperfect information theory demonstrates the importance of examining factors such as access to information, financial literacy, and mechanisms for assessing creditworthiness, as these can help mitigate information asymmetry and improve access to microfinance credit services.

Finally, the pecking order theory holds that firms follow some firm hierarchy when seeking funding sources can be internal or external. According to the model, firms give a high preference for internal funds and only consider external funding sources after exploiting the internal funds. For the organizations to source for external funding, the funds should be safe, necessary, and have few restrictions. Therefore, entrepreneurs tend to prefer debt finances that require no collaterals or debt covenants. The pecking order theory underpins the thus study by examining factors such as profitability, cash flow, and the availability of internal funds, as these can influence Congolese entrepreneurs' decisions to seek microfinance credit. Additionally, the theory highlights the need to consider policy factors that affects the terms and conditions of debt financing, such as interest rates, collateral requirements, and regulatory policies.

The current study was underpinned by various theories and models. The modern portfolio theory argues that excellent organizational performance is achieved when the responsiveness of its strategy matches the turbulence within its environment and the aggressiveness of its strategy should align with its capabilities. The model the current study on the financial management aspect and management practices aspect. This theory asserts that an optimal portfolio is one that balances the lowest level of risk for a given amount of return, as well as the highest return for the most logical level of risk (Beyhaghi & Hawley, 2013). The contingency management theory holds that different group situations call for different leadership styles. Fielder studied the different characteristics and personalities of leaders and concluded that, effective leadership is contingent on matching the leader's style to the right setting (Uta et al., 2021). This is a key leadership theory underpinning popular leadership training and management systems and therefore school managers should put it into consideration especially when handling group relationships and outcomes. In order to enhance productivity and improve employee morale, managers need to understand why the contingency management theory is important and what its positive implications are (Uta et al., 2021). The information systems theory argues that available information from the environment is processed by a series of processing systems, which transform or alter the information in systematic ways. There is also an assumption that information processing in humans resembles the one in computers (Zwass, 2022). The behaviorism learning theory suggests that learning is based on a system of routines that drill information into student's memory bank as well as positive feedback from teacher's and education institution itself. According to this theory, it is important for students to receive positive reinforcement such as recognition, and positive feedback, whenever they achieve excellence performance. Through such reinforcement, the students emulate this positive behavior from time to time. Schoolteachers and school managers should borrow from this theory, by implementing programs and various modes of teaching that encourage timely feedback, recognition of excellent performance among students and reinforcement of good behavior. Finally, Herzberg's two factor motivation theory argues that motivation factors increase job satisfaction while the presence of hygiene factors prevent job dissatisfaction. The two-factor motivation theory continues to influence popular management theory and the methodology of studies in many parts of the world (Nickerson, 2023). This theory is relevant to this study, particularly on the effective management of school human resources, who include both teachers and non-teaching staff. Private school managers can borrow from this theory by making improvements in their institutions in various ways such as increasing professional recognition, rewarding achievements and ensuring that there is conducive working environment so as to increase job satisfaction among the staff. On the other hand, having bad working conditions in the school may cause dissatisfaction among the employees, something that may lead to poor performance or even high turnover rates.

II. Methodology

The study adopted a descriptive research design since the study sought to identify opinions on the various determinants of microfinance credit access in Beni region, the Democratic Republic of Congo. According to the Office of the Petit et Moyenne entreprise in BENI (PMEs), there are over five hundred (500) SMEs in Beni but only approximately two hundred (200) small and medium enterprises are formally registered to operate. Ther target population of the study included 200 small and medium enterprises registered in Beni. A sample of 162 SMEs in Beni were The target population for this study included 320 teaching and non-teaching staff across the ten selected private schools. The researcher determined the sample size of 178 using Slovin's formula.

n = N / (1+Ne2).

Where;

n = sample size
N=320'
Margin of error (e) at 95% confidence level=0.05
=320/ (1+200*0.05^2)
=200/1.5
181
Therefore, the sample size included 181 small and medium enterprises in Beni region, DRC. The target of 181 respondents who included business owners and managers were selected through stratified sampling technique based on the profiles and their industry of operations. The data is presented in the table below'

Table 3.1 Sample size

Industry	Population	Sample Sise
Retail	54	48
Services	34	32
Manufacturing	36	34
Construction	15	14
Agriculture	61	53
Total	**200**	**181**

Source : *Office of the Petit et Moyenne entreprise in BENI (PMEs).*

Study Results

This section covers the key findings of the study based on the analysis of the relationship between the dependent and the independent variables. It also presents the findings of the inferential statistics and results from regression model to objectively estimate the nature of the correlation and the relationship between the determinants examined and access to microfinance credit. The key determinants include financial literacy, availability of collateral, government policy intervention and economic conditions.

Correlation Analysis

	Financial Literacy	Access to Collateral	Economic Policies	Government Policy	Access to Micro finance credit
Financial Literacy	1				
Access to Collateral	0.055249	1			
Economic Policies	0.181587	0.160386	1		
Government Policy	0.209905	0.095625	0.063029	1	
Access to Microcredit	0.5073	0.345659	0.311839	0.391392	1

Source: Katya (2024)

The findings above reveal a moderate relationship between financial literacy and access to microfinance credit (r= 0. 5073). The relationship was however less strong for access to collateral (= 0.345659), economic policies (= 0.311839) and government policies (0.391392). These results collectively confirm that each of the independent variable has a positive relationship with the dependent variable.

Analysis of Variance (ANOVA)
Regression Analysis
Output Summary

Regression Statistics	
Multiple R	0.686148279
R Square	0.470799461
Adjusted R Square	0.457230216
Standard Error	0.428935277
Observations	162

Source: Katya (2024)

Table 4.18 above indicates the model summary of the findings from the regression analysis to illustrate the extent to which each of the four determinant factors influence access to microfinance credit my small and medium enterprises. The results above show that financial literacy, access to collateral, economic factors and government policy factors collective account for 47.08% (R Squared= 0.4708). This demonstrates that 52.92% is influenced by other factors not covered in the current study.

Coefficients Table

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.171475	0.307778	0.55714	0.57823	-0.43647	0.779426	-0.43647	0.779426
Financial Literacy	0.352849	0.050328	7.010983	6.73E-11	0.253437	0.452262	0.253437	0.452262
Collateral Assets	0.211328	0.046069	4.587194	9.17E-06	0.120328	0.302328	0.120328	0.302328
Economic Factors	0.227125	0.073303	3.098418	0.002308	0.082329	0.37192	0.082329	0.37192
Government Policy	0.216301	0.052725	4.102434	6.57E-05	0.112154	0.320448	0.112154	0.320448

Source: Katya (2024)

The coefficient data in Table 4.20 above shows the extent to which each of the independent variables affects access to microfinance credit among SMEs in Beni. The results confirm that each of the determinants including financial literacy, access to collateral, economic policies and government policy has a significant effect on access to microfinance credit (p value ≤0.05). Based on the Beta coefficients, the following multiple regression model was developed; the prediction equation is $Y= 0.1714+ 0.3528X1 + 0.2113X2 + 0.2271X3 +0.2163X4+ \varepsilon$. From the results in the regression analysis, all four variables including financial literacy, access to collateral, economic policies and government policy have a significant effect on the access to microfinance credit services among SMEs in Beni (p values of 6.73151E-11, 9.17155E-06, 0.0023 and 6.56647E-05 respectively and thus (p value ≤0.05). variable.

III. Discussion of Study Findings

Financial Literacy and Access to Microfinance Credit

The study sought to evaluate the determinants of microfinance credit access in Beni region, the DRC. Financial literacy evaluates the ability of individuals to apply financial skills such as business planning, financial management and budgeting. These skills are essential for organizations including micro and medium enterprises to secure funding to run and sustain their business operations (Korutaro Nkundabanyanga et al., 2014). The researcher sought to specifically examine the effect of financial literacy on access to microfinance credit in Beni, DRC. There was a general consensus from 59% of the respondents (Mean=4.1975) who indicated that financial literacy affects their ability to secure credit facilities. At least 56.79% of the participants also indicated that they have received training in entrepreneurship. The correlation analysis also showed a moderately strong positive relationship between financial literacy and access to microfinance credit services (r=0.5073). Furthermore, the regression analysis results confirmed that financial literacy is the most dominant factor with a statistically significant effect on access to microfinance services in Beni (B=0.352849, p=0.05). The findings are consistent with Lusimbo, (2022) who in his study on the effect of financial literacy on growth and performance of SMEs in Nairobi Kenya established that managers with high financial literacy were effective in managing their organizations' finances effectively and overseeing their growth. The results also agree with findings by Waithaka (2016) who observed a positive relationship between financial literacy and access to financial services among SME entrepreneurs in Nyandarua County. The findings however contrast with Eniola & Entebang (2017) who examined the link between SMEs managers' financial literacy and performance of their firms. The researchers argued that financial knowledge and awareness among entrepreneurs are not prerequisites for performance of SMEs. Instead, the study argues that organizational performance of SMEs is influenced by the entrepreneurial characteristics in decision-making and relationship to financial attitude as these compare with financial literacy.

Availability of Collateral and Access to Microfinance Credit

Secondly, the study sought to examine the extent to which availability of affects collateral and access to microfinance credit. The findings point to a moderate effect between collateral and access to microfinance credit services in Beni (Mean= 3.4151). 58% of the participants indicated that they have used assets as collateral to access credit. Out of these, conventional assets like land titles, plant & equipment, and inventory were the most common among the participants. A correlational analyses reveals a moderate relationship between collateral and access to microfinance credit services (r=0.3457). Furthermore, the regression analysis established a significant relationship between collateral assets and access to microfinance credit (B= 0.2113, P=0.000). The findings agree with Osano & Languitone (2016) who observed a positive relationship collateral requirement and access to finance by SMEs. However, their study reported a higher percentage of SMEs (75%) which cited lack of collateral as a major obstacle when seeking credit. Waithaka (2016) also cited collateral requirement as a huge barrier for SMEs seeking for credit facilities for their business. Similarly, Berger, & Udell (2006) emphasized the importance of collateral in lending relationships. Their study however focused more on the role of collateral in developed financial markets unlike the current study that is based in underdeveloped financial market in DRC. Similarly, Agyapong, Agyapong, & Darfor (2011) established that collateral is a significant determinant of credit access for SMEs. Their study however reported that personal guarantees were more commonly used compared to physical assets as observed in the current study.

Economic Policies and Access to Microfinance Credit

The researcher also assessed how economic factors access to microfinance credit services among SMEs with a focus on Beni, DRC. The study focused on economic aspects such as interest rates, inflation and economic growth. Most SMEs in Beni (81%) consider interest rates when seeking funding from financial institutions. However, the findings revealed that over 50% of the respondents consider the prevailing interest rates as extremely high. There was a moderate effect of economic policies on access to microfinance credit services among SMEs in Beni (grand mean= 3.375). Respondents cited factors such as ineffective fiscal policies, high inflation rates, high interest rates and low economic growth as the leading economic factors that affect access to microfinance credit in Beni. A correlation analysis showed a moderately strong relationship between economic policies and access to microfinance credit services (r=0.3118). Similarly, the regression analysis revealed a statistically significant relationship between the economic policies examined and access to microfinance credit (B=0.2271, P=0.002). In his study, Apere (2016) observed that high inflation and poor economic growth limits SMEs from accessing the essential credit services. The study also observed a statistically significant relationship between microfinance bank credit, investment and economic growth in Nigeria and thus recommended the need for banks to ensure they advance credit facilities to only credible and viable enterprises (Apere, 2016). Similarly, Quartey, Turkson, Abor, & Iddrisu (2017) established that macroeconomic factors significantly influence SMEs' access to finance. However, the study differs from the current research as it reported variations in the impact of economic factors across different countries Quartey et al., 2017). In their study, Ahiawodzi, & Adade (2012) found that high interest rates negatively affect access to credit among SMEs. However, their study emphasized the role of fluctuations in exchange rates, which was not prominently examined in this study. Furthermore, the findings are supported by Fowowe, (2017) who confirmed that macroeconomic instability affects firms' access to finance. The research however observed a larger a more significant effect on large established corporations than SMEs.

Government Policy and Access to Microfinance Credit

Finally, government intervention plays a significant role in supporting the growth of small and medium enterprises. Similarly, the study sought to assess the influence of government policy interventions on SMEs access to credit services. Government policy was the lowest-ranked factor influencing credit access (mean 2.8179). 67.78% feel that their government has not done enough to support SMEs in accessing credit. The regulation of microfinance is important as it helps to promote transparency and accountability by the institutions thus promoting public trust. However, Only 24.69% of the participants perceived the government regulation of microfinance in Beni as strict and very strict. This points to a lack of trust in the microfinance sector in the region. A correlation analysis showed a fairly strong positive relationship between government policy and access to microfinance credit services. This coincides with Abdulsaleh, & Worthington (2017) who in their study emphasized the importance of government policies in SME financing. The study however observed a more positive perception among respondents on government interventions in some countries examined. Similarly, Harvie, Narjoko, & Oum (2013) highlighted the role of government policies in facilitating SMEs' access to finance. Their study however found more diverse and targeted government interventions across different countries. The results are also consistent with Gbandi, & Amissah (2014) who inadequate government support as a major challenge for SME financing. The study also the need for on government-led microfinance initiatives to support SMEs in accessing funding for their businesses.

IV. Conclusion

This study sought to examine the determinants of microfinance credit access among small and medium enterprises (SMEs) in Beni, DRC. The research was driven by four specific objectives; to examine the effect of financial literacy, collateral availability, investigating economic factors, and evaluate the influence of government policies on microfinance credit access. The findings indicate that all four factors have a significant effect on access to credit for SMEs. Of all four factors examined, financial literacy emerged as the most influential determinant. The study also observed a strong positive correlation between financial literacy and credit access. Tus demonstrates that financial education and skills for SME owners is important in enabling them to access microfinance credit. However, majority of the respondents lack formal training in key financial management areas such as business planning and budgeting. This highlights the need for capacity building for SME owners in DRC to improve their ability to manage their enterprises prudently and secure financing to run their business.

Collateral availability also plays an important role in credit access. However, many SMEs in Beni struggle to provide traditional collateral such as land titles and machinery. This limits them from securing loans, even when their businesses may be viable. Economic factors, especially high interest rates and economic instability, were identified as the major barriers to credit access. This affects the willingness and ability of SMEs owners' to seek financing for their business. Finally, government policies reported the least effect on access to credit among the four determinants examined. However, the policies have a significant role in shaping the operations of microfinance institutions. The majority of respondents felt that current government efforts to support SME access to microfinance are inadequate. This study therefore concludes that all the four factors including financial literacy, economic factors, access to collateral and government policy.

V. Recommendations

The Government of DRC in partnership with development partners should develop and implement a comprehensive financial literacy program targeting SME owners, focusing on key competencies such as financial management, accounting, and business planning. Majority of the SMEs owners have attained secondary school education level. Therefore, the DRC Government through the ministry of education should collaborate with microfinance institutions and tertiary educational institutions to advance financial training for SME clients. Additionally, the government should develop and strengthen the existing regulatory framework to promote transparency and ethical operations of microfinance institutions. This will help to improve trust among SME borrowers. Furthermore, the DRC Government should offer targeted subsidies such as lower taxation for MFIs to reduce the risk for microfinance institutions lending to SMEs while lowering interest rates. Finally, the government should introduce incentives for SMEs that successfully borrow and repay microfinance loans to encourage responsible borrowing and growth.

Microfinance institutions should introduce collateral forms such as group lending to overcome the lack of traditional collateral. They should also embrace a lending model based on cash flows for SMEs with strong business performance but have limited fixed assets. Furthermore, microfinance institutions should offer flexible credit terms and interest rates that account for economic fluctuations and challenges affecting specific sectors such as agriculture, which may be affected by seasonality. SMEs and owners should put in place strong financial record-keeping practices with accounting software like spreadsheets to ensure accurate and timely records when needed to access credit. Owners should also maintain clear separation between personal and business finances to improve transparency and creditworthiness of their business. Entrepreneurs should also create and regularly update detailed business plan with accurate and realistic financial estimates.

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