

**FACTORS INFLUENCING INTERNATIONAL FINANCIERS IN
SUPPORTING STARTUP FIRMS AND ENTREPRENEURIAL
IDEAS IN KENYA**

BY

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DECLARATION

This research project is my original work and it has not been presented for examination in any other university.

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ABSTRACT

In order to reduce unemployment rate of 42% and create wealth to reduce poverty, there has been concerted efforts by upcoming and enterprising individuals towards establishing startup businesses which has increase over time but are faced with a major challenge of a seed capital. To the extent that nearly three out of four startup enterprises stagnate or even contract. A number of startup enterprises does require financial support for operation and expansion. The main source for such financing is the financial institutions who have provisions for loans. However, it has not been easy for the startup firms to access loans from the banks in spite of the fact that the same banks are willing to give loans. The study intends to find out the reasons or considerations for financing business ideas and startup firms in Kenya from international financial institutions' perspective.

The objective of this study was to determine the factors influencing international financiers in supporting start-up businesses and entrepreneurial ideas in Kenya. This study is significant to current and potential entrepreneurs, government policy makers, researchers, and learning institutions. All will benefit from a wealth of information collected, analyzed and documented based on the economic, political and social factors which influence international financiers in supporting startup firms and entrepreneurial ideas in Kenya.

The study adopted a descriptive survey design that focused on both quantitative as well as qualitative statistics to investigate the factors influencing international financiers in supporting startup firms in Kenya. The target population of study comprised of all the 16 international financial institutions operating in Kenya and had credit managers as the unit of survey. The main

data collection instrument was a structured questionnaire and the data collected was coded and analyzed by descriptive statistics then presented in percentages, tabulations and means.

The results of this study provided an empirical evidence confirming that there is a significant relationship between the predictor variables combining availability of collateral, availability of business plan, government policy and business formality and international financiers support to startup firms and entrepreneurial ideas in Kenya.

In as so far as recommendations are concerned, they are within the precincts of government policies on business entrepreneurship development to the extent of encouraging and consolidating business registration process including patenting and reasonable fees. As well as ensuring that learning institutions does provide training on entrepreneurship and having partnership arrangements with such institutions to develop good and attractive business plans from business ideas by upcoming entrepreneurs. The publics or individuals should be facilitated to register and patent their business ideas. Currently, Kenya is experiencing a declining trend in patenting which has a clear indication of decreased entrepreneurship or reduced knowledge on the importance of patenting. When such government policy guidelines are adopted, then financing by international banks will be realized.

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LIST OF ABBREVIATIONS AND ACRONMYS

- SME** : Small and Medium Enterprises
- IMF** : International Monetary Fund
- WB** : World Bank
- IFC** : International Finance Corporation
- IFIs** : International Financial Institutions
- EU** : European Union
- GOK** : Government of Kenya
- PRSP** : Poverty Reduction Strategy Paper
- ERSEEC**: Economic Recovery Strategy for Wealth and Employment Creation ILO
- GDP** : Gross Domestic Product
- SPSS** : Statistical Package for Social Sciences
- SBDC** : Small Business Development Centre
- EDA** : Economic Development Administration
- PNGO** : Palestinian Non Governmental Organization

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Interest in the role of startup firms in the development process continues to be in the forefront of policy debates in developing countries. The advantages claimed for startup firms are various, including: the encouragement of entrepreneurship; the greater likelihood that startup firms will utilize labour intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; Startup firms can encourage the process of both inter- and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises. More generally, the startup firms are seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Campbell and Allen, 2007).

Business incubators stimulate and support creation and growth of new small businesses while providing support that decreases the chances of business failure. The most common goals of incubation programs are “creating jobs in a community, enhancing a community’s entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local economies (Hallberg, 2001). Evaluation research has suggested that incubators have been successful in stabilizing small businesses, creating limited job generation, and increasing sales among incubated firms for relatively small investment.

International financiers has had enormous investment in the development of wealth creation amongst nations and enterprises with a view of spurring economic development. In Kenya, international financial institutions have been in operation and are growing in their numbers and countrywide presence in pursuit of providing financial services to both the government and the public. So that by the year 2012, the total international financiers had reached 13 (Kenya Economic Survey 2012). The number of financial seekers have equally and significantly grown with an intensive and extensive search for affordable initial as well as subsequent credit to finance and expand their business adventures. Financial institutions certainly have a criterion that comprises the factors to be considered for financial support.

1.1.1 Concept of International Business

International business consists of participants who carry out some activities within a given environment. Global businesses actively participate in at least one national market outside its own. An international firm has its headquarters in a single country it calls home. Firms operating in a global arena were once small and developed over period of time to expand operations outside the domestic market into regional and global markets (Longenecker, Petty, Moore & Palich 2006). Successful firms have had resource assistance from financial institutions, most of which are international by scope. Competition has been a key thriving force behind globalization. Entrepreneurs, firms, financial institutions and governments have made significant investment of capital with a view of achieving long term pay-offs (Kurt & Lutgart, 2004).

1.1.2 Concept of International Financiers

International financiers are financial institutions with operations in one or more foreign markets and does offer financial services to their clientele. Although international banks remain the most significant source of external finance for formal small firms (IFC 2010), international bank finance is generally only available to those businesses that can offer collateral or a strong record of generating profit. This leaves out a sizeable proportion of the startup population, including those in the informal sector, and on the other end of the scale, those with high growth ambitions and mostly intangible assets in need of large investments. Rightly, much effort is invested in encouraging banks to reach out to the startup businesses and to provide more suitable financial products to their existing clients, but alternatives to bank lending need to generate similar attention and investment in order to build more complete financing markets for the startup businesses. Incubator institutions have come in aid of startup firms in nurturing and developing them in to sustainable business. Examples of incubators include World vision, Syngenta east Africa and Amiran Kenya limited.

The microfinance sector is offering a promising solution by tapping into social networks on the ground for the information and (social) collateral that banks are missing (ACCA 2011a), but the extent to which it helps the startup business needs to be better understood at a macro level, especially where experiences from a number of markets can be shared. The opportunities to obtain equity finance also need to be increased, not only by building on existing supply and

demand levels, but also by extending such finance to non-technology sectors where it is currently concentrated (Kurt & Lutgart, 2004).

The role of international finance has been viewed as a critical element for the development of start up firms to large scale businesses. Previous studies have highlighted the limited access to financial resources available to startup enterprises compared to larger organizations and the consequences for their growth and development (Levy, 1993). Typically, startup enterprises face higher transactions costs than larger enterprises in obtaining credit (Saito and Villanueva, 1981). Insufficient funding has been made available to finance working capital (Peel and Wilson, 1996). Poor management and accounting practices have hampered the ability of startup enterprises to raise finance. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to startup enterprises. In spite of these claims however, some studies show a large number of startup enterprises fail because of non-financial reasons (Liedholm, MacPherson and Chuta, 1994).

The World Bank Review on Small Business Activities establishes the commitment of the World Bank Group to the development of the startup enterprise sector as a core element in its strategy to foster economic growth, employment and poverty alleviation. In the year 2004 alone, the World Bank Group has approved roughly \$2.8 billion in support of startup enterprises. There is also a growing recognition of the role that startup enterprises play in sustained global and regional economic recovery. However, there is little systematic research in this area backing the various policies in support of startup firms, primarily because of the lack of data. Hallberg (2001) actually suggests that scale-based enterprise promotion is driven by social and political considerations rather than by economic reasoning.

Globalization is presenting the World Bank and the IMF with new challenges by imposing a rethinking of the nature of development and a reassessment of the appropriateness of current lending policies to startup firms. The International Financial Institutions (IFIs) have responded by redefining their international roles, their priorities and their forms of intervention. In particular, they have made the achievement of poverty reduction and other Millennium Development Goals their overriding objective. In addition, they have redefined their role as that of providing support for locally owned pro-poor reform programmes.

In the face of the increasing importance of private sources of finance, it goes often unnoticed that the loans from the International Financial Institutions (IFIs) have in fact been the fastest growing source of debt for the startup firms in recent years. Recognizing this, one might convincingly argue that an association of academics and practitioners sharing expertise and concerns in the area of development studies should always be reflecting about the role of the IMF and the World Bank and about the effects of their assistance on startup firms in developing countries. However, these parallel sessions at the DSA conference were not an instance of such routine evaluations. The reason is that the Bretton Woods institutions are currently reviewing in a radical redefinition for both the IMF and the World Bank of their international roles, their priorities, and their forms of intervention.

A good example of an incubator supported by World Bank is the Palestinian Non Governmental Organization (PNGO) project. The rationale for the establishment of the PNGO Project in the mid-1990s was that the World Bank was already developing a framework for working more directly with incubators. The World Bank sees an important role for incubators in helping achieve each of its three main objectives i.e. promoting equitable economic growth, reducing poverty, and protecting the environment. Incubator firms can help improve the quality of people's lives through project work and by representing the interest of the poor. In fact, their programmes are often more effective in reaching the poor in remote areas than those managed by the public sector. However, the bank will still rarely extend funding to incubators directly.

Rather, incubators usually received Bank support indirectly, from World Bank loans and credits that a borrowing government has channeled to them. In the first intifada (1987–93), PNGO played an important role in delivering economic and social services in the West Bank and Gaza Strip and experimenting in self governance in Palestinian civil society. PNGO was a lead player in the internal resistance to Israeli occupation. This history meant that in the post-Oslo period, it was a significant player in Palestinian society on the ground, to some degree rivaling the PA, which drew significantly on the previously exiled PLO leadership.

1.1.3 Start-up Firms and Entrepreneurial Ideas in Kenya

The Kenya government has made various attempts to enhance the success of the startup enterprises in Kenya by providing policies and a regulatory framework that is supportive of the enterprises. While several factors have been identified as the success variables to startup enterprises amongst which is access to credit, management style, competition, infrastructure (GoK 2002), the Kenyan government prepared a poverty reduction strategy paper (PRSP) that outlined key policies and strategies for poverty reduction. The main objectives of the PRSP were to identify national development objectives, link policy planning and budgeting, ensure rational public expenditure, harmonize the financing system, and establish an effective monitoring and evaluation system.

The PRSP was based on five key principles: giving a voice to the poor, participation and ownership, transparency, openness and accountability and equitable distribution of national resources and development initiatives. The PRSP developed strategies for the revitalization of the following sectors: Agriculture and rural development, human resource development, physical infrastructure, trade including tourism, public safety, law and order and information and communication technologies.

The PRSP was developed through a participatory process that started at the district level and was scaled up to the national level. At the district level, initial stakeholder discussions were organized with political, administrative, religious, private sector, and social and civil society leaders. The leaders identified the key causes of poverty in their respective districts and prioritized their development needs, as well as appropriate poverty reduction strategies. At the end of the district consultations, a national stakeholder conference was convened during which the results from each district were verified and combined to form the national poverty reduction strategy. According to the World Bank, the PRSP provided a sound basis for IMF concessional assistance. However, this PRSP was not implemented owing to the 2002 elections, which ushered in a new government.

In 2003, the new government, elected on a platform of reform, developed its own Economic Recovery Strategy for Wealth and Employment Creation (ERS) drawing heavily on the PRSP developed by the previous administration, but also reflecting its own priorities. Unlike the PRSP, the ERS is based on a strong reform agenda in all the key sectors as well as articulating strategies

aimed at tackling corruption and strengthening political and economic governance. In his first address to Parliament, President Mwai Kibaki said: "startup enterprises are expected to play a crucial role in the creation of jobs in Kenya. However, we recognize that the sector's growth potential is inhibited by several constraints. These include: poor access to markets, lack of credit and a poor policy environment. My government will soon be presenting to the House, a sessional paper on the development of startup enterprises for poverty reduction and employment creation".

In Kenya there has been numerous supportive initiatives such as development fund for the youth, women and the disabled, top 100 SMEs and consultants, where similar results have been reported (Maina, 2010; Murigi, 2010). However, there has been challenges to do with process, context, internal and external issues, entrepreneurial burnout, corruption, reliance on past experience, inability to cope with the environment, poor strategic choices and responses, resource constraints, poor feedback, high mortality, inability to lobby on sector issues and inability to compete with similar firms abroad (Ndambuki, 2010; Enkai, 2010; Longenecker *et al.*, 2006; Muraguri, 2011). In addition they get caught in the survival game, confuse temporary momentum for long term success and are unable to exploit global opportunities (Mbatha, 2010; Munyaka 2010; Kwamboka, 2010; Njogu 2010; Kinyua, 2010).

There is a need to investigate the factors behind these results as it will enable SMEs to become sustainable, resilient, highly competitive and valuable investments to their owners, strive for total solutions, initiate total customer experience programs, build meaningful business relationships and networks in the market, boost their differentiation, establish powerful value propositions, leverage on their core competencies, improve on key performance indicators, leverage on social media, exploit both national and global emerging opportunities and adapt to rapidly changing markets (Mbogo, 2011, Ndambuki, 2010, Moore and Manning, 2009).

1.1.4 Context of International Financiers in Kenya

International financiers incorporates financial institutions such as world bank, IMF, and IFC which were created on the basis of political agreements as well as financial institutions that are

global entrepreneurial entities like Standard chartered bank, Barclays bank, UBA Kenya bank limited and Ecobank Kenya limited. In general, and according to Kenya economic survey, there are about 16 international financial institutions with operations in Kenya, as shown in Table 1.1

Table 1.1 International Financiers in Kenya (2010-2012) and Supported Start up Firms;

| | International financiers | 2010 | 2011 | 2012 |
|----|---------------------------------|-------------|-------------|-------------|
| 1 | Barclays Bank of Kenya Ltd | 3,022 | 3,998 | 4,212 |
| 2 | Standard Chartered Bank Ltd | 2,344 | 2650 | 3243 |
| 3 | Diamond Trust Bank Ltd | 1,985 | 2431 | 3211 |
| 4 | Bank of Africa Kenya Ltd | 4,567 | 4,835 | 6,432 |
| 5 | Bank of India | 3,765 | 4,532 | 5,234 |
| 6 | Ecobank Ltd | 4,342 | 4,908 | 6,234 |
| 7 | Consolidated Bank of Kenya Ltd | 2,967 | 2,890 | 3,453 |
| 8 | Gulf African Bank Ltd | 1,200 | 1,342 | 1,892 |
| 9 | Development Bank of Kenya Ltd | 5,200 | 5,453 | 6,234 |
| 10 | Paramount Universal Bank Ltd | 3,234 | 2,897 | 4,964 |
| 11 | Middle East Bank (K) Ltd | 2,896 | 3,023 | 3, 478 |
| 12 | UBA Kenya Bank Ltd | 2,444 | 3,298 | 4,120 |
| 13 | Dubai Bank Kenya Ltd | 6,234 | 7,100 | 6,322 |
| 14 | World Bank | - | - | - |
| 15 | IFIs | - | - | - |
| 16 | IMF | - | - | - |
| | | | | |

Source (Kenya economic survey, 2012)

International financial institutions continue to offer financial support to startups in Kenya through credit facilities. As shown in the Kenya economic survey (2012), there have been continued rise in the number of startups supported from 2010-2012. However, the analysis of the report shows that this is still low as majority of startups have not benefited from international banks as this only stands at 31.25% as compared to countries like India, Dubai and Japan where international financiers support to local startups stands at 52%, 51% and 53% respectively.

Additionally, the survey indicates that although the role played by financial institutions such as World bank, IMF and IFIs is tremendous in economic growth, the number of startups is not clear as their support is indirect through support to government economic policies. There is therefore the need to establish and understand the gap between the financiers and the financial seekers

from international financiers perspective in order to understand their considerations towards financial support to start up businesses and entrepreneurial ideas in Kenya.

1.2 Research Problem

Startup enterprises in developing countries experience stunted growth especially during their first year of operation (Karekezi and Mjoro, 2002). Surveys of over 28,000 start up firms in Africa and Latin America reveal that less than three percent of these firms expand by four or more employees after startup period (Liedholm, 2002). Instead, nearly three out of four startup enterprises stagnate or even contract. Yet there are also remarkable examples of startup growth across the developing world. A small subset of startup enterprises known as “gazelles” in the US literature (Birch, 1987; Boston and Boston,2007) demonstrates impressive growth rates that eclipse those of even highly performing larger firms.

Although some limited studies have been done on startup enterprises in Kenya on particular sectors of the economy to find out the factors the determine their growth, no study has been across the board encompassing various sectors of the economy in general (Ng’ang’a 2004). Past studies on startup enterprises in Kenya include (Mwangi, 2005) on the Effect of Training on startup enterprises in the Mount Kenya region and (Ng’ang’a, 2004) on the factors that affect the growth of startup enterprises in the dairy industry in Kenya. (Mwangi,2005) found that training of staff of startup enterprises enhances their performance and profit growth positively because training increases their competitive edge and facilitates customer satisfaction due to quality improvement of their products(Mwangi,2005).

Ng’ang’a on the hand concluded that although the startup entrepreneurs in the dairy industry in Nairobi were well educated and exposed with a highly competitive spirit, most of them did not have business plans. Added to this, infrastructural facilities such as roads and electricity let them down with the local authorities harassing them even with their single business permits.

None of these studies however focused on the factors that influence international financiers in supporting startup firms and entrepreneurial ideas in Kenya. The researcher intends to answer the question “What are the factors influencing international financiers in supporting start up firms

and entrepreneurial ideas in Kenya?”.

1.3 Research Objective

The objective of this study was to determine the factors influencing international financiers in supporting start-up businesses and entrepreneurial ideas in Kenya.

1.4 Value of the Study

This study is significant to current and potential entrepreneurs who will benefit from a wealth of information collected, analyzed and documented on the economic, political and social factors which influence international financiers in supporting startup firms and entrepreneurial ideas in Kenya.

The results of the study will also be useful to the government and other decision makers to formulate policies that will facilitate international financiers in supporting startup firms and entrepreneurial ideas in Kenya. This will enable the government achieve the vision 2030 goals.

The study will excite more interest in the study of entrepreneurship and expose areas that need more research and exploration. Future research students may fill up the gap in the areas not covered and thereby contribute to the frontiers of knowledge in this area of entrepreneurship development.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter discusses literature review exploring the factors which influence international financiers in supporting startup firms and entrepreneurs ideas in Kenya including empirical review of similar studies in the past, explore on the identified factors as well as provide a summary of the main issues and research gaps.

2.2 Theoretical Basis

The following theories provided a guide on the literature on the startup firms and international financiers.

2.2.1 Stakeholder Theory

Stakeholders place certain demands on a firm. Hence, attempts to understand, reconcile, prioritise and incorporate their interests may influence a firm's management style (Smith, 2011; Mustapha and Ahmad, 2011). This could affect the accessibility to credit facilities. This study shall investigate whether start up management style and government regulations affect the decision by international financiers to support start up firms in Kenya.

2.2.2 Resource Based View Theory

It suggests that a firm's strategic advantage is based on its distinct combination of assets, skills, capabilities by utilizing core competencies and resources (Andersén, 2012; Abu Bakar and Ahmad, 2010). It asserts that resources are more valuable when they are critical to serving customers, scarce, contribute to profit and are durable (Pearce et al, 2011; McAdam and Reid, 2001). In this paper this theory shall underpin the fact that access to credit facilities is dynamic and capabilities are necessary for a competitive advantage. Therefore resource adequacy and efficient allocation could affect the growth of start up firms in Kenya.

2.2.3 Change Management Theory

The external environment is turbulent and in order to survive firms have to change continually from start up stage to established stage (Johnson, 2004; Atherton, 2008). Kurt Lewin's, ADKAR

and Kotter's 8 Step Change Models acknowledge that change is a process and not an event (Johnson et al, 2008). In this paper change models propose that change is driven by organisational actors dissatisfied with existing routines. Growth of start up enterprises involves change arising from diagnosing existing situations, establishing change levers, issues, styles, roles and programs (Konstantopoulos et al, 2009). This would involve time and resources implying that management practices, resource base, organisation structures, business models and government regulations may affect the growth of start up enterprises in Kenya.

2.3 The Concept of Micro and Small Enterprises

Small and micro enterprises play an important role across the world. Following previous studies, we define MSEs as firms with up to 20 workers, which engage in non-primary activities and sell at least half of their output. In both developing and developed countries, the vast majority of firms are MSEs. For example, approximately 97 percent of firms in Mexico and Thailand are MSEs (Kantis, Angellini, and Koenig, 2004; Simmons, 2004). In the U.S over 96 percent of businesses similarly have fewer than 50 employees (US Small Business Administration and Census Bureau, 2004). Official statistics frequently underestimate the number of micro and small enterprises, leading some researchers to argue that actual figures may be twice as high as what is reported (Mead and Liedholm, 1998).

The MSE sector generates substantial employment and economic output in many countries. Their share of overall employment tends to be higher in developing countries, which are typically more focused on small-scale production (Tybout, 2000). Studies in five African countries (Botswana , Kenya , Malawi , Swaziland , and Zimbabwe) found that MSEs generate nearly twice the level of employment as registered, large-scale enterprises and the public sector (Mead and Liedholm, 1998).

It is argued that very little is known about the growth of micro and small enterprises. Research suggests that even in the United States, high-growth companies rarely begin with a "winning product idea" that catapults the lone entrepreneur from garage to swanky boardroom (Collins and Porras, 1994). And if the above scenario is unlikely when the garage in question is located in Palo Alto, California , it becomes downright implausible if the start-up is based in a place like La

Paz , Bolivia ; Nairobi , Kenya ; or Dhaka , Bangladesh.

Similarly, another rigorous study in Mexico found that in a given year just 12 percent of owner-only firms expand, and that larger microenterprises have a higher probability of contracting than expanding (Fajnzylber, Maloney and Rojas, 2006). Thus, impressive aggregate growth rates of the SME sector are fueled by a narrow group of firms. These “gazelles” vastly outperform their peers and drive aggregate employment growth for the small business sector.

Why do some MSEs expand rapidly, while others stagnate? What factors account for the wide variation observed in MSE growth rates? Some of the factors discussed are individual entrepreneur characteristics, the firm characteristics, social networks, value chains, inter-firm cooperation, and macro economic factors.

2.4 Factors Influencing International Financiers in Supporting Startup Firms

Certain firm characteristics may correlate positively or negatively with access to credit facilities from international financiers. This section explores the relationship between international financiers support and four widely studied firm-level factors: formality (or informality), collateral, government policy and access to finance.

2.4.1 Availability of Collateral and International Financiers in Supporting Startup Firms

For various reasons ranging from a lack of collateral to bias against small firms, start up firms tend to face greater financial constraints than do larger firms. An IFC study of 10,000 firms across 80 countries found that credit is mentioned more frequently by startup firms as a constraint on growth (Schiffer and Weder, 2001). Startup firms in developing countries apply for and receive formal bank loans relatively infrequently, and thus typically rely on other types of credit such as trade credit, overdrafts, savings, and informal loans (Bigsten et al, 2003). Microfinance institutions also provide important sources of financing for startup firms, but their outreach is typically more limited than that of traders, suppliers, middlemen, and/or buyers who frequently provide working capital in cash or kind, especially in rural areas (Von Pischke, 1991; Swinnen, 2005).

Across the world, entrepreneurs typically start firms primarily through their own savings because of limited access to startup capital (Mason, 1998). For example, a study of over 14,000 micro enterprises in Mexico found that owners mostly used their own resources and savings (61 percent) or those of their family and friends (14 percent) to launch their firms (Hernandez-Trillo, Pagan and Paxton, 2005). Even after MSEs overcome the start-up hurdle, a lack of credit frequently hinders their growth during earlier years, because younger firms tend to find financing even more difficult than older firms (Schiffer and Weder, 2001). Over the life of the firm, growth also can be hindered by credit constraints that curb investments for maintaining or improving technology. In some contexts, evidence suggests that micro enterprises funded through external sources (e.g., bank loans and credit from buyers or suppliers) are more efficient, but it remains unclear whether this finding simply reflects *ex ante* screening by selective creditors (Hernandez-Trillo, Pagan and Paxton, 2005).

2.4.2 Formality (or Informality) of the Business and International Financiers in Supporting Startup Firms

As is well known, informality is rife in many world regions, the ILO (2004) reports that the share of the informal economy in the non-agricultural workforce reaches 55 percent in Latin America, 45 to 85 percent in Asia, and nearly 80 percent in Africa . For the purposes of this study, informality refers to businesses that are unregistered at their startup stages. In terms of sheer quantity, the number of informal firms often dwarfs the number of officially registered enterprises. Not only does informality in itself reduce the chances for access to credit from international financiers, but it is also associated with several other characteristics that make access to credit difficult.

Although small informal startup firms may be able to circumvent government regulations and taxation, as they grow they risk becoming more visible, creating disincentives to expand beyond a certain size therefore convincing international financiers for their credit facilities becomes difficult (Snodgrass and Biggs, 1996). Informal firms may therefore need to “keep their heads down,” ruling out access to credit facilities for their expansion and rapid growth, as well as close relations with formal firms (winter, 1995). Contracts with international or government buyers, for example, may be off limits for many informal firms because they require legal documentation

that these informal startups lack. And while many firms in developing countries have problems accessing financial and legal systems, informal enterprises face even greater difficulties in obtaining formal credit and assistance from law enforcement agencies and courts.

For these and other reasons, informal startup firms tend to grow more slowly than do their formal counterparts. An econometric study in Côte d'Ivoire found that formal status has a positive effect on firm growth and access to credit facilities, even when using instrumental variables and controlling for efficiency, size and age of firms (Sleuwaegen and Goedhuys, 2002). Analysts at McKinsey and co. argue that informal companies tend to be subscale, sub invested and sub skilled, and that they also tend to produce substandard products and services due to insufficient capital (Capp, Elstroid and Jones Jr., 2005). While such an assessment may be overly pessimistic, the Côte d'Ivoire study suggests that formal firms are more efficient for two reasons: formal firms enjoy a larger range of production factors and broader choice of input suppliers due to their ability to access credit facilities from both domestic and international financiers (Sleuwaegen and Goedhuys, 2002).

2.4.3 Business Plans and International Financiers in Supporting Startup Firms

Business planning is a continuous and systematic process where decisions on intended future outcomes, their accomplishment, measurement and evaluation are made. It includes goal setting and resource allocation (Stonehouse & Pemberton 2002; O'Regan & Ghobadian 2004; Dogan, Alphan, Elci and Aren, 2009) that stimulates pro-activity, performance improvement, long term thinking, communication, strategic issues, gaps, priorities and choices (Evans, 2011; Modern, 2007; Hunger and Wheeler, 2007).

A business plan is a step by step guide that map show an organisation will reach its goals in pursuit of its vision. Most financiers both domestic and international require a business plan to offer credit facilities to a business. As a management tool it answers questions on vision and mission, capabilities, business, customers, competitors, image, target market, size, product range, development needs, philosophy, ethics, social responsibility and values (Grinyer and Norburn, 1975; Kudla, 1980; Pearce, Freeman and Robinson, 1987; O'Regan and Ghobadian, 2007). It can be prepared at start up, on preparation for a major venture or periodically. Its benefits include

direction, strategies, controls, resourcing from both domestic and international financiers, efficiency and effectiveness, synchrony with the environment, change management (Greenley, 1986; Boyd, 1991; Kraus and Harms, 2006), consensus, teamwork, strategic action, performance management, communication, productivity and problem solving (Wilson and Eilertsen, 2010).

2.4.4 Government Policies and International Financiers in Supporting Startup Firms

Government policies regularize, harmonize, order or govern activities so as to conform them to certain ideas or principles through legal prescriptions supported by a threat of sanction (Barnock, Davis, Trott and Uncles, 2002). This may be through preventing undesirable outcomes or direct intervention after proven misconduct (Mahmoudi, Haghsetan, & Maleki, 2011). Although Porter's diamond outlines the role of government in business, the situation is different in developing countries as the government is at times a player, competitor, customer, supplier or a regulator. The pro-activity or reactivity of government policies along with the role of government could affect international financiers in supporting the startup firms (Hilletoft, 2010; Chaiprasit and Swierczek, 2011; Abdullah, 2011). Therefore, this study seeks to investigate whether government policies affect international financiers support on startup firms in Kenya.

2.5 Empirical Review and Previous Research

Studies in five African countries (Botswana , Kenya , Malawi , Swaziland , and Zimbabwe) found that SMEs generate nearly twice the level of employment as registered, large-scale enterprises and the public sector (Mead and Liedholm, 1998). In many Latin American countries, micro and small enterprises employ over half the working population. An ILO study (2003) examining firms with fewer than 10 workers found that they generated 58 percent of total employment in Paraguay , 54 percent in Mexico, and 53 percent in Bolivia. With respect to economic output, the contribution of the SMEs sector varies considerably across countries. SMEs contribute approximately 31 percent of overall GDP in the Dominican Republic, 13 percent in Kenya , and 11 percent in Pakistan (IDB, 1998; Daniels, 1999; SMEDA, 2002). Official statistics may underestimate SMEs contribution to GDP, for example, some experts argue that Kenyan SMEs actually generate 40 percent of GDP, not 13 percent (Daniels, 1999; Gamsler, 2003).

The data, however, do not hold up as strongly as these arguments suggest. Although smaller firms are widely recognized as contributing to growth in many developed economies (including the U.S. , Italy , Japan , and the East Asian “tigers”), the presence of large numbers of SMEs in developing economies often carries a stigma, especially when the firms are informal and concentrated in markets with low barriers to entry. A recent McKinsey study defends the proposition that informal firms are far less productive than formal enterprises (Capp, Elstrolde and Jones Jr., 2005). In addition, evidence from various sectors suggests that small firms (both formal and informal) are neither more efficient nor more likely to create jobs than larger firms (Hallberg, 2000). With respect to economic output, recent analyses suggest that a higher contribution by smaller enterprises is associated with, but not a cause of, higher GDP growth (Beck, Demirguc-Kunt and Levine, 2005).

The strongest arguments for providing support to small firms may well focus less on efficiency, employment growth or GDP growth, but rather on a more nuanced understanding of their role in developing economies. For example, small firms may have a competitive advantage in particular sectors (Steen, Magnani and Goldmark, 2005), offering a flexible and low-cost production platform for specific products that target niche markets. In addition, the smallest firms in developing countries often provide an important social safety net, offering temporary employment to vulnerable segments of the population (Lustig, 2001).

At an aggregate level, SMEs demonstrate impressive growth, especially when compared with larger firms. Based on the 28,000 MSE surveys mentioned above, Mead and Liedholm (1998) found that aggregate employment growth in the SMEs sector averaged nearly 17 percent annually, generally at least double the overall rate of GDP growth in each country. Yet their analysis of individual SMEs reveals a remarkably different picture, with most firms stagnating or contracting (Mead and Liedholm, 1998; Liedholm, 2002).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter comprised of the research design, the study locale, target population, data collection instruments and procedure, sampling, and analysis.

3.2 Research Design

The study adopted a descriptive survey design to investigate the factors influencing international financiers in supporting startup firms and entrepreneurial ideas in Kenya. Descriptive survey designs are used in preliminary and exploratory studies (Luck and Ruben, 1992). This is to allow researchers to gather information, summarize, present and interpret for the purpose of clarification (Orodho, 2002). Borg and Gall (1989) noted that descriptive survey research is intended to produce statistical information about entrepreneurship in Kenya.

3.3 Target Population

The target population of study comprised of all the 16 financial institutions operating in Kenya. The researcher intends to contact a survey and collate data from the credit managers in all the financial institutions. The managers are expected to have first hand information about the lending to start up enterprises. In a descriptive survey study, informed specialist categories of respondents are crucial (Luck and Ruben, 1992). The managers are expected to have information at their finger tips concerning their lending to startup and SMEs in Kenya. All the 16 credit managers were selected to participate in the study because according to Orodho, (2002) when the population is small, the whole population is taken as the sample.

3.4 Data Collection

The main data collection instrument was a questionnaire. It was distributed to the credit managers in the respective financial institutions because they are expected to have information concerning their banks credit levels. The researcher chooses this method because it is cheap to administer since it does not require a trained researcher to distribute and collect the questionnaire. Secondly, it eliminates interaction between the interviewer and the respondents which reduces biases. Moreover, the person filling the questionnaire is anonymous and therefore

may be willing to give information especially over sensitive issues. It is a useful method, particularly when the questions are straightforward enough to be comprehended without verbal explanation. In addition, if the questionnaire is self-administered, the researcher can probe for further information, and cant control who fills the questionnaire and the response rates will be high.

3.5 Data Analysis

The data that was collected using the questionnaire was analyzed by descriptive statistics. In explaining processes studies have shown that both quantitative and qualitative data are suitable especially for circumstances relating to changes over time. The researcher used Statistical Package for Social Sciences (SPSS). This is computer software used to analyze quantitative data. The relationship between variables was correlated using the Karl Pearson's coefficient of correlation. If they are few they may be ignored during the analysis as missing values. The data was analyzed by frequencies and percentages to establish the significance of the responses.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter is a presentation of results and findings obtained from field responses and data, broken into two parts. The first section deals with the background information of the organizations, while the other five sections present findings of the analysis, based on the objectives of the study where both descriptive and inferential statistics have been employed in this analysis and discuss the issues in the best way possible.

4.2 Response Rate

From the data collected, out of the 16 questionnaires distributed and administered, 13 were filled and/or returned. This represented 81.25% response rate, which is considered satisfactory to make conclusions for the study. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% is good while above 70% is rated very good. This also collaborates Bailey (2000) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. Based on the above assertions, it implies that at 81.25% response rate under this survey is indeed very good, as shown in Figure 4.1.

This high response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential participants of the intended survey and the flexibility in the use of self administered as well as distributed questionnaires. Where self administered questionnaires were completed thereon and distributed questionnaires were picked shortly after.

Table 4.1 Response Rate

| | | |
|---|--|------------|
| Total Questionnaires administered/distributed | Questionnaires filled/completed & returned | Percentage |
| 16 | 13 | 81.25 |

Source; Research Findings 2013

4.3 Pilot Test Results

To establish validity, the research instrument was given to experts who were experienced in international financiers to evaluate the relevance of each item in the instrument in relation to the objectives. The same were rated on the scale of 1 (very relevant) to 4 (not very relevant). The questionnaires used had likert scale items that were to be responded to. For reliability analysis Cronbach's alpha was calculated by application of SPSS. The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous (that is, questions with two possible answers) and/or multi-point formatted questionnaires or scales (i.e., rating scale: 1 = poor, 5 = excellent). A higher value shows a more reliable generated scale. Cooper & Schindler (2008) indicated 0.7 to be an acceptable reliability coefficient. The study involved questionnaires from 13 respondents. Since, the alpha coefficients were all greater than 0.7, a conclusion was drawn that the instrument had an acceptable reliability coefficient and was appropriate for the study, as evident from Table 4.2.

Table 4.2: Reliability Results

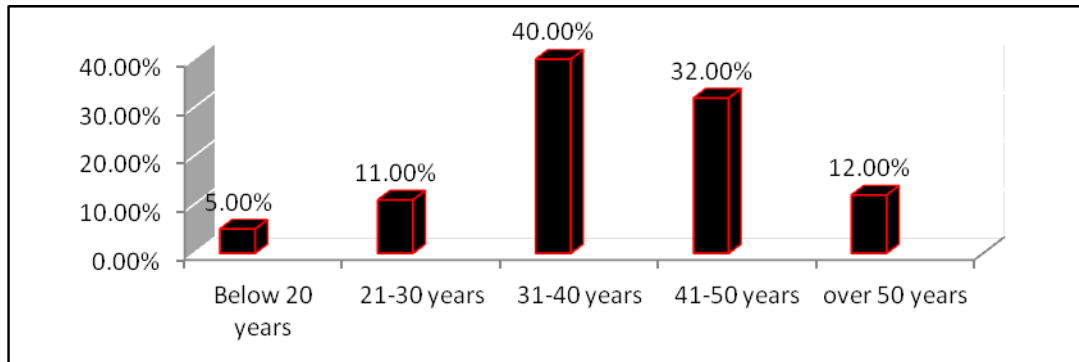
| Variable | Cronbach's Alpha | Items |
|--------------------|------------------|-------|
| Collateral | 0.89 | 9 |
| Business plan | 0.87 | 7 |
| Government policy | 0.77 | 5 |
| Business formality | 0.79 | 5 |

Source: Research Findings 2013

4.4 Number of Years the Company has been in Operation in Kenya

The study established the number of year's distribution that the IFIs has been in operation in Kenya. From the findings in Figure 4.1, 40% indicated that they had been in operation in Kenya for a period ranging between 31-40 years, followed by 32% who indicated that they had been operating in Kenya between 41-50 years. Yet another 12% indicating that they had been operating in Kenya above 50 years. Those between 21-30 years range and under 20 years of operation were 11% and 5% respectively. This implies that majority of the international financial organizations had been operating in Kenya for long time and therefore are in position to understand the entrepreneurship environment in Kenya.

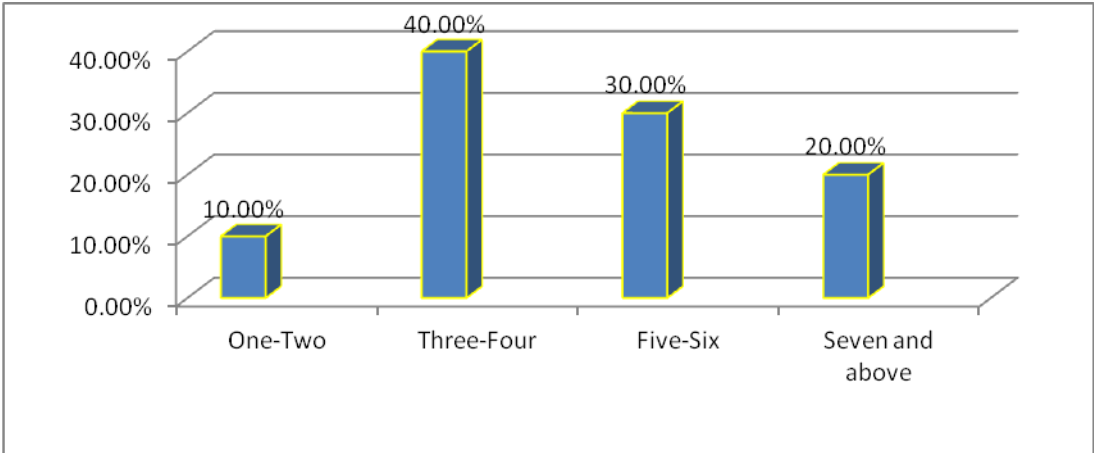
Figure 4.1 Number of Years in Kenya



4.5 Number of Continents the IFIs have Presence

The study sought to determine the number of continents the companies have presence; this was to ascertain the extent of their market growth in international perspective. From the study findings as indicated in Figure 4.2, indicates that 40% of the respondents had their companies presence in 3-4 continents while 30% of the respondents had presence in 5-6 continents and 20% indicating that their companies had presence in over 7 continents as well as a 10% of the respondents having presence in only 1-2 continents. This meant that they would invest time and effort in market coverage to make sure they succeed. The study therefore observes that the majority of the companies cover large market worldwide hence are big in size. Market for the business therefore becomes a trait that ensures continuity and perpetuation of the vision of an organization (Larsen, 2012).

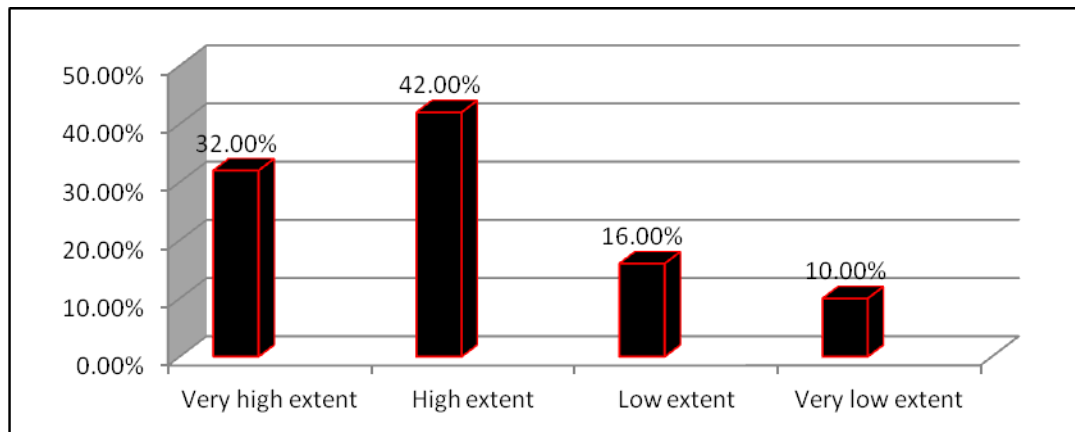
Figure 4.2 Continents the IFIs have Presence



4.6 Availability of Collateral

The study found it necessary to determine the influence of availability of collateral in financing of startup firms and entrepreneurial ideas in Kenya. First is the extent to which availability of collateral influences international financiers in supporting the startup firms. The findings were as indicated in Figure 4.3. Where 42% indicated that availability of collateral influences international financiers in supporting startup firms to a high extent followed by 32% who indicated very high extent with only few 16% and 10% indicating low extent and very low extent respectively. This can be depicted to mean that collateral is the major determinant in accessing credit facilities from international financial institutions.

Figure 4.3 The Extent Availability of Collateral Influences International Financiers in Supporting the Startup Firms



4.6.1 Statement Related to Availability of Collateral and International Financiers in Supporting the Startup Firms

The study sought to determine the influence of availability of collateral based on certain related statements. The findings were as indicated in Table 4.3. From the study findings majority were neutral that in their institution, most of the startup firms acquire credit using substantial collateral as indicated by a mean of 3.23. Majority further agreed that the loans acquired by startup firms are strictly associated with how much their collateral can raise to repay the loan in case of default as indicated by a mean of 3.82. Finally majority agreed that lack of collateral discourages their institution from lending credit to startup firms as indicated by a mean of 3.91. This implies that availability of collateral is very crucial and therefore startup firms should consider what collateral they require before seeking credit facilities from international financiers. According to Sacerdoti (2005) in a study on access to bank credit in Sub-Saharan Africa (SSA), there is a wide concern that bank spreads are too high in Africa. Analysis conducted in a number of studies indicated that the causes of the spreads in most SSA banking system are high operating costs, difficulties in obtaining and using collateral, and the absence of efficient judicial procedures to facilitate loan recovery.

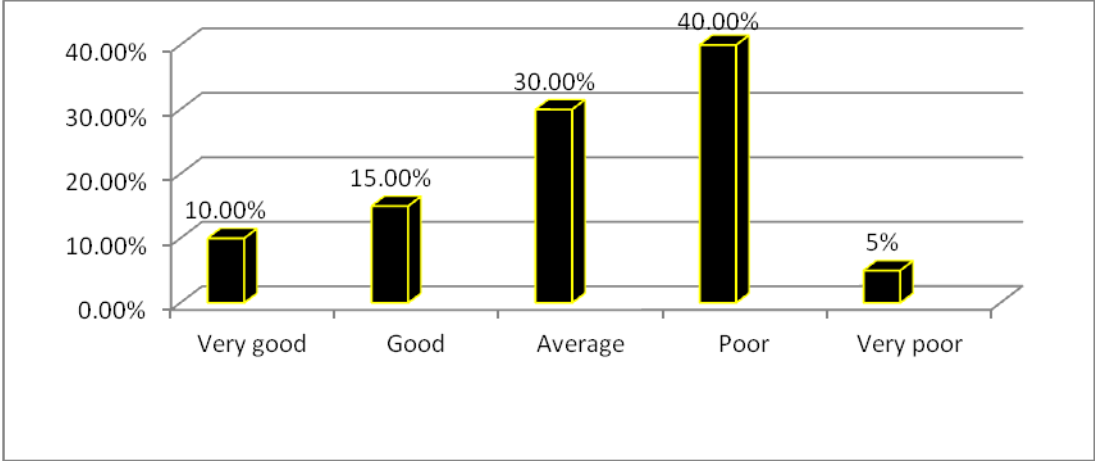
Table 4.3 Statement Related to Availability of Collateral and Accessibility of Credit from International Financiers

| Statement | Mean | Standard deviation |
|---|-------------|---------------------------|
| In my institution, most of the startup firms acquire credit using substantial collateral | 3.23 | 1.961 |
| The loans acquired by startup firms are strictly associated with how much their collateral can raise to repay the loan in case of default | 3.82 | 0.627 |
| Lack of collateral discourages my institution from lending credit to startup firms | 3.91 | 0.678 |

4.6.2 Rating of the Acquisition of Credit by the Startup Firms in Relation to Collateral

The rate of the acquisition of credit by the startup firms in relation to collateral was also very crucial for the study. The findings were as indicated in Figure 4.4. Where 40% indicated that acquisition of credit by the startup firms in relation to collateral is poor, with 30% the respondents who indicated as average, and 15% indicated good. While 10% and 5% indicating very good and very poor respectively. This implies that availability of collateral will boost startup financing by international financiers.

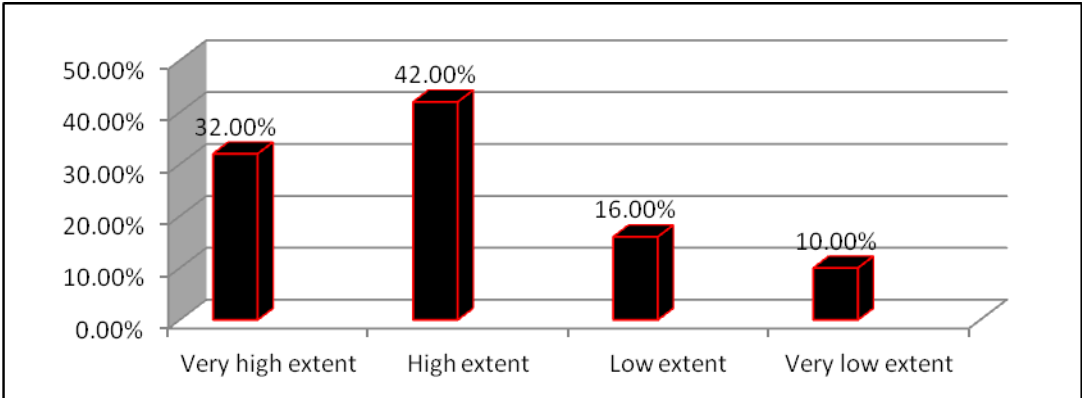
Figure 4.4 Rating of the Acquisition of Credit by Startup Firms in Relation to Availability of Collateral



4.7 Availability of Business Plan

The study also found it of great importance to determine to what extent availability of business plan influence international financiers in lending to startup firms and entrepreneurial ideas in Kenya. The findings were as indicated in Figure 4.5. Notably, 42% agreed that availability of business plan does influence international financiers in financial support to startup firms to high extent and 32% indicated that the influence is to a very high extent, while 16% and 10% provided for low extent and very low extent respectively.

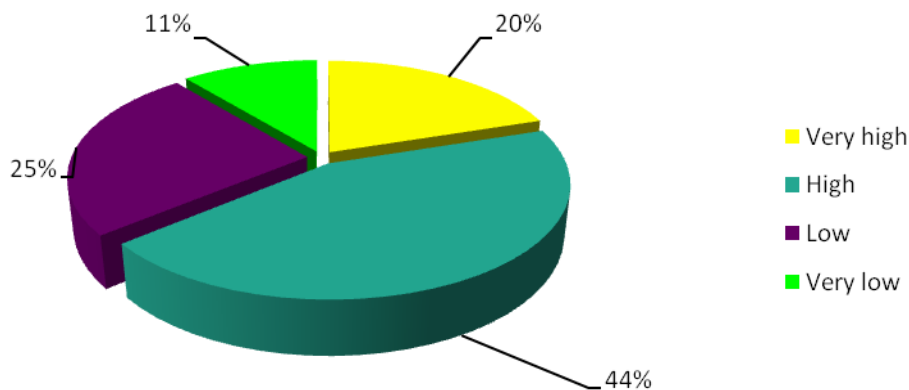
Figure 4.5 Availability of Business Plan



4.7.1 Rating Institutions Lending to Startup Firms in Relation to Availability of Business Plans

It was also very crucial for the study to rate the institutions lending to startup firms in relation to availability of business plans. The findings were as indicated in Figure 4.6. From the study findings 44% rated the institutions lending to startup firms in relation to availability of business plans as high, 25% indicated the lending to startup firms in relation to availability of business plans as low, 20% indicated the lending to startup firms in relation to availability of business plans as very high with only 11% rating lending to startup firms in relation to availability of business plans as very low. This can be taken to mean that business plans shows the level clarity in purpose and operations in startup firms and therefore very crucial in determining the international financiers ability to advance credit facilities to them.

Figure 4.6 Rating Influence of Availability of Business Plans in Supporting Startup Firms



4.7.2 Statements Related to Availability of Business Plans in Supporting Startup Firms

The study then evaluated the statements related to business plans in financial support to startup firms. The findings were as indicated in Table 4.4 whose findings indicated that majority agreed that availability of business plans does attract the attention of international financiers as indicated by a mean of 3.45. Also, the majority agreed that poor business plans make lending unacceptable as indicated by a mean of 3.66. Further, majority pointed out that good business plans increases the borrowers capacity to acquire finance from international banks as indicated by a mean of

3.89. Similarly, there was an agreement that good business plans reflects the ability of startup firms to utilize the credit as indicated by a mean of 3.67. Respondents did agree that poor business plans shows how poor the startup firms can manage the credit as indicated by a mean of 3.86.

Table 4.4 Statements Related to Business Plans and Financing from International Financiers

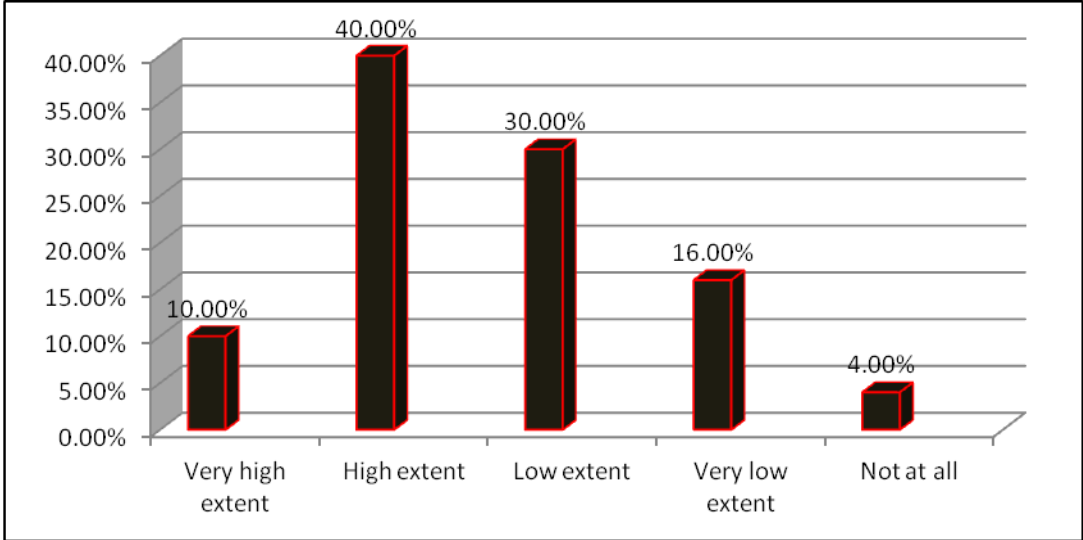
| Statement | Mean | Standard deviation |
|--|-------------|---------------------------|
| Availability of business plans attract the attention of international financiers | 3.45 | 0.461 |
| Poor business plans make lending unacceptable | 3.66 | 0.390 |
| Good business plans increases the borrowers capacity to acquire finance from international banks | 3.89 | 0.378 |
| Good business plans reflects the ability of startup firms to utilize the credit | 3.67 | 0.389 |
| Poor business plans shows how poor the startup can manage the credit | 3.86 | 0.377 |

4.8 Government Policy

The study also found it necessary to determine the influence of government policy on entrepreneurship to international financiers support. The findings were as indicated in Figure 4.7. From the findings 40% indicated that government policy and systems does influence the international financiers to support policies on startup firms to high extent, 30% indicated low

extent, 16% indicated very low extent with only few 10% and 4% indicating very high extent and not at all respectively.

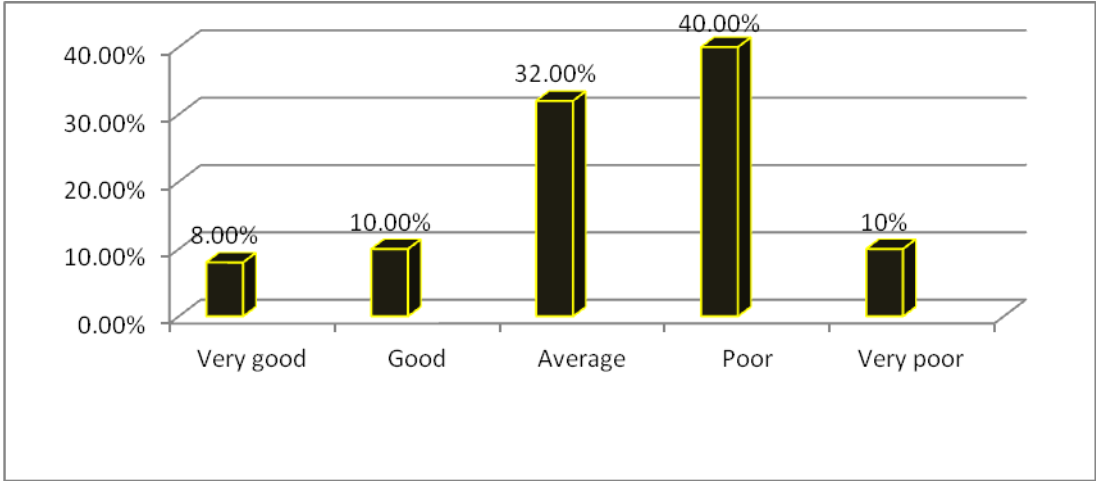
Figure 4.7. The Influence of Government Policy on Startup Firms on International Financiers to Extent Support to such Policies



4.8.1 Rating the Acquisition of Loans from International Financiers by the Government in Relation to Startup Firms and Entrepreneurial Ideas in Kenya

The study further rated the acquisition of loans by government from international financiers in relation to startup firms in Kenya. The findings were as indicated in Figure 4.8. The study findings indicates that 40% indicated the acquisition of loans from international financiers in relation to startup firms in Kenya as poor, 32% indicated as average with as few as 10% indicating for both as good and as very poor and 8% for very good. This implies that government policies on startup firms and entrepreneurial ideas play a major role in encouraging international financiers in lending financial support to government entities.

Figure 4.8 Rating the Acquisition of Loans from International Financiers by the Government in Relation to Startup Firms in Kenya



4.8.2 Statements Related to Government Policies and Financing of Startup Firms by International Financiers

The study further determined the influence of government policies on startup firms to international financial institutions. The findings were as indicated in Table 4.5. These findings indicated that majority agreed that poor systems and government policy on startup firms hinders international financiers on supporting startup firms as indicated by a mean of 3.95. Majority also agreed that bureaucracy in obtaining information hinders international financiers from supporting startup firms as indicated by a mean of 3.88. The study further indicated that the majority of respondents agreed that good loan repayment record by the government does influence international financiers to lend as indicated by a mean of 3.77.

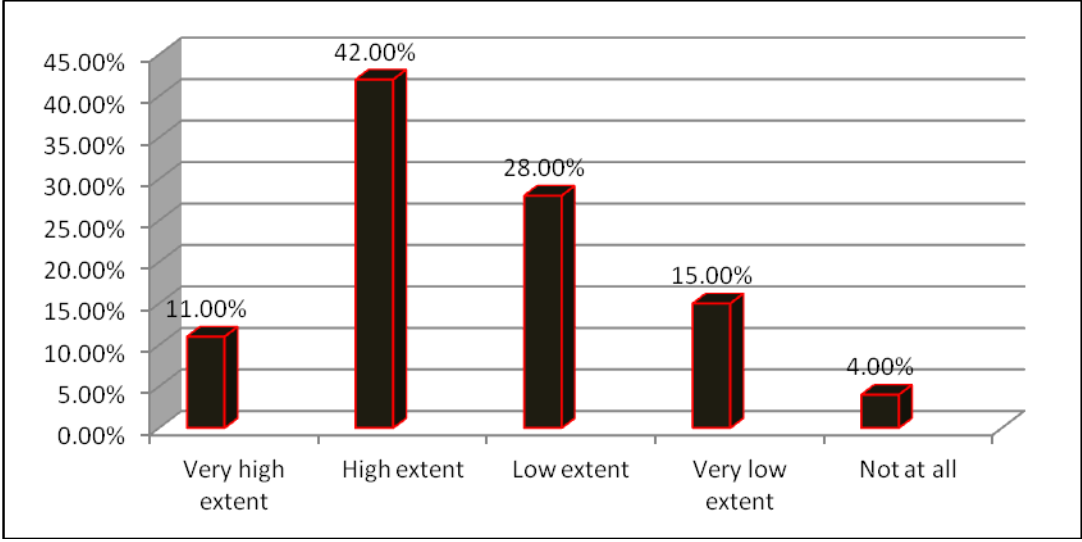
Table 4.5 Statements Related to Government Policies and Financing of Startup Firms by International Financiers

| Statement | Mean | Standard deviation |
|--|-------------|---------------------------|
| poor system of government policy on startup hinders international financiers on supporting startup firms | 3.95 | 0.781 |
| Bureaucracy in obtaining information hinders international financiers from supporting startup firms | 3.88 | 0.792 |
| Good loan repayment record by the government does influence international financiers to lend | 3.77 | 0.832 |
| Poor implementation of policies and corruption within government discourages support from international financial institutions | 3.81 | 0.723 |

4.9 Business Formality

Business formality was also important for the study. First the study sought to determine the influence of business formality on international financiers support to startup firms. The findings were as indicated in Figure 4.9. From the findings 42% indicated that business formality influence international financiers in supporting startups firms to high extent, 28% indicated low extent, 15% indicated low extent with only few 11% and 4% indicating very high extent and not all respectively. This implies that business formality in terms of registered startup firms are more likely to get credit from international financiers as opposed to non-registered enterprises.

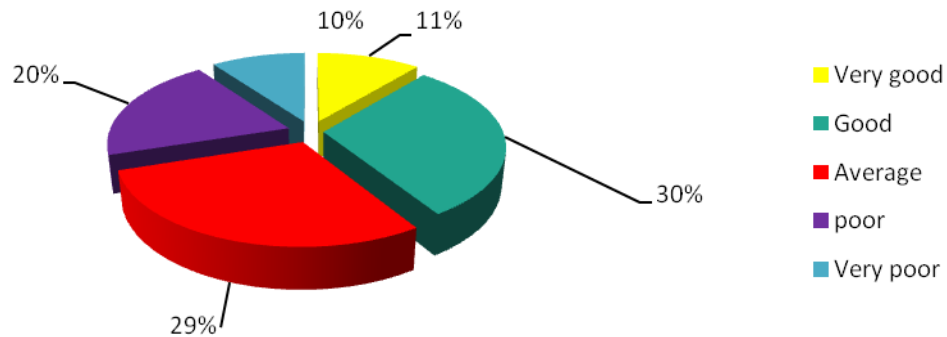
Figure 4.9 Influence of Business Formality on International Financiers Support to Startup Firms in Kenya



4.9.1 Rating the Acquisition of Credit from IFIs in Relation to Business Formality

The study further sought to rate the acquisition of credit from International financiers in relation to business formality. The findings were as indicated in Figure 4.10. From the findings 30% of the respondents indicated that the acquisition of loans in relation to business formality is good, and 29% indicating for average. While 20% of the respondents indicated the rating as poor with only 11% and 10% indicating very good and very poor respectively. This implies that any international financier will require that each business in need of a loan from them must be formal i.e. registered.

Figure 4.10 Rating the Acquisition of Credit from International Financiers in Relation to Business Formality



4.9.2 Statements Related to Access to Credit by Startup Firms from International Financiers in Relation to Business Formality

Business formality and access to credit facilities from international financiers' related statements were also evaluated in relation to startup firms financing. The findings were as indicated in Table 4.6. From the findings majority did agree that informality in startup firms leads to poor access to funds from international financiers as indicated by a mean of 3.86. Majority also agreed that international financiers provide support only to those startup firms that are registered as indicated by a mean of 3.42. Equally, the majority of the respondents disagreed that in their institution, the loans advanced to startup firms does not require any formality as indicated by a mean of 2.66. This can be deduced to mean that business formality is very crucial in access to credit facilities by the startup firms from international financiers in Kenya.

Table 4.6 Statements Related to Access to Credit by Startup Firms from International Financiers in Relation to Business Formality

| Statement | Mean | Standard deviation |
|--|-------------|---------------------------|
| Informality in startup firms leads to poor access to funds from international financiers | 3.86 | 0.563 |
| International financiers provide support only to those startup firms that are registered | 3.42 | 0.678 |
| In my institution, the loans advanced to startups does not require any formality | 2.66 | 1.056 |
| Delay in issuing business licenses hinders international financiers to lend to startup firms | 3.02 | 0.534 |
| Patenting of entrepreneurial ideas can assist in providing the seed capital | 4.01 | 0.432 |

4.10 Financed Startup Firms in Kenya (2010-2012)

After establishing the factors that influence international financiers in supporting startup firms and entrepreneurial ideas in Kenya, the study found it necessary to determine the number and average rate of application for credit by startup firms from international financiers for a period of three years. The findings were as indicated in Table 4.7. The findings indicate that the years 2012 was the leading with the average number of applications which stood at 8,076 with a rate of application of 31.45%. Number of applications in 2011 were 7,367 at a rate of 27.25% and 5,188 applications in 2010 at 26.08% rate of application. This may imply that credit demand by startup firms from international financiers increases each year for the period under consideration.

Table 4.7 The Number and Average Rate of Application for Credit Facilities from International Financiers for a period of three years

| Year | No. of applications | Rate of application (%) |
|-------------|----------------------------|--------------------------------|
| Year 2010 | 5,188 | 26.08 |
| Year 2011 | 7,367 | 27.25 |
| Year 2012 | 8,076 | 31.45 |

Source: Research Findings 2013

4.11 Regression and Correlation Coefficients of Factors Influencing International Financiers from Supporting Startup Firms in Kenya

Regression analysis was utilized to investigate the relationship between the variables. These included an error term, whereby a dependent variable was expressed as a combination of independent variables. The unknown parameters in the model were estimated, using observed values of the dependent and independent variables.

The correlation matrix in Table 4.8 indicates that availability of collateral is strongly and positively correlated with international support to startup firms as indicated by a correlation coefficient of 0.719. Further the matrix also indicates that availability of business plan is also positively correlated with international support to startup firms as given by a coefficient of 0.843. Similarly, the correlation matrix indicates that government policy is strongly and positively correlated with international support to startup firms as shown by a coefficient of 0.822

The correlation matrix also indicates that business formality is also strongly and positively correlated with international support to startup firms as shown by a coefficient of 0.672.

The correlation matrix implies that the independent variables: availability of collateral, availability of business plan, government policy on entrepreneurship and business formality are very crucial in enhancing financial support to startup firms by international financiers as shown

by their strong and positive relationship with the dependent variable i.e. international financiers support to startup firms.

Table 4.8 Correlation Coefficients between Availability of Collateral, Availability of Business Plan, Government Policy and Business Formality and International Financiers Support to Startup Firms.

| | Availability of collateral | Availability of business plan | Government policy | Business formality | International financiers support to startup firms |
|---|----------------------------|-------------------------------|-------------------|--------------------|---|
| Availability of collateral | 1 | | | | |
| Availability of business plan | 0.851 | 1 | | | |
| Government policy | 0.753 | 0.653 | 1 | | |
| Business formality | 0.754 | 0.854 | 0.714 | 1 | |
| International financiers support to startup firms | 0.719 | 0.843 | 0.822 | 0.672 | 1 |

The following model is the regression equation representing the relationship between factors influencing international financiers support to start-up firms and entrepreneurial ideas in Kenya as a linear function of the independent variables of availability of collateral, availability of business plan, government policy and business formality, with ϵ representing the error term.

$$Y_i = \alpha + \beta_1(CL) + \beta_2(BP) + \beta_3(GP) + \beta_4(BF) + \epsilon \text{ . When } \beta_5=0 \dots \dots \dots \text{Equation 1}$$

Where;

Y_i = International financiers support to start-up firms and entrepreneurial ideas in Kenya

β_i = Estimated parameters

CL = Availability of collateral

BP = Availability of business plan

GP = Government policy on entrepreneurship

BF = Business formality

ϵ = the error term

By incorporating the values of the Beta values into equation 1 then,

$$Y_i = \alpha + 0.719 (CL) + 0.843 (BP) + 0.822 (GP) + 0.672(BF) + \epsilon \dots \text{Equation 2}$$

4.12 Regression Model Summary of the Effect of Availability of Collateral, Availability of Business Plan, Government Policy and Business Formality and International Financiers Support to Startup Firms and Entrepreneurial Ideas in Kenya.

From the results shown in Table 4.9, the model shows a goodness of fit as indicated by the coefficient of determination (R^2) with a value of 0.7338. This implies that the independent variables availability of collateral, availability of business plan, government policy and business formality explain 73.38 percent of the variations of international financiers support to startup firms.

The study therefore identifies availability of collateral, availability of business plan, government policy and business formality as critical factors for enhancing international financiers support to startup firms.

Table 4.9: Regression Model Summary of the Effect of Availability of Collateral, Availability of Business Plan, Government Policy and Business Formality on International Financiers Support to Startup Firms and Entrepreneurial Ideas in Kenya

| Model Summary | | | | |
|----------------------|--------|----------------|-------------------------|----------------------------|
| Model | R | R ² | Adjusted R ² | Std. Error of the Estimate |
| 1 | 0.8566 | 0.7338 | 0.7011 | 0.7638 |

Predictors: (Constant), availability of collateral, availability of business plan, government policy and business formality.

4.13 Analysis of Variance (ANOVA)

Table 4.10: Analysis of Variance (ANOVA) Results for the Effect of Availability of Collateral, Availability of Business Plan, Government Policy and Business Formality on International Financiers Support to Startup Firms and Entrepreneurial Ideas in Kenya

| | Sum of Squares | df | Mean Square | F | F-critical value | Significance |
|------------|-----------------------|-----------|--------------------|----------|-------------------------|---------------------|
| Regression | 69.82 | 11 | 19.95 | 22.08 | 104.92 | 0.00 |
| Residual | 4.364 | 23 | 6.321 | | | |
| Total | 73.19 | 27 | | | | |

NB: F-critical Value (104.92) is statistically significant if the F-value (22.08) is less than F-critical. These values are obtained from table of F-values.

- a. Predictors: (Constant),** availability of collateral, availability of business plan, government policy and business formality.

The value of the F statistic (22.08) indicates that the overall regression model is significant hence it has some explanatory value i.e. there is a significant relationship between the predictor variables (of and in combination) availability of collateral, availability of business plan, government policy and business formality and the international financiers support to startup firms and entrepreneurial ideas in Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is a synthesis of the entire study, and contains summary of research findings, exposition of the findings, commensurate with the objectives, conclusions and recommendations based thereon.

5.2 Summary

5.2.1 Introduction

This part of the chapter does provide how availability of the four factors namely collateral, business plan, government policy, and business formality influences international financiers in providing support to startup firms and entrepreneurial ideas in Kenya.

5.2.2 Influence of Availability of Collateral on International Financiers Support to Startup Firms and Entrepreneurial Ideas in Kenya

The study found it necessary to determine the influence of availability of collateral on startup firms financing. First is the extent that the availability of collateral influence international financiers in supporting the startup firms. From the study findings majority indicated that availability of collateral influences international financiers in supporting startup firms to high extent followed by those who indicated very high extent with only few indicating for low extent and very low extent. This can be depicted to mean that collateral is the major determinant in accessing credit facilities from international financial institutions.

The study sought to determine the influence of availability of collateral basing on certain related statements. From the study findings majority were neutral that in their institution, most of the startup firms acquire credit using substantial collateral. Majority further agreed that the loans acquired by startups are strictly associated with how much their collateral can raise to repay the loan in case of default. Finally majority agreed that lack of collateral discourages their institutions from lending credit to startup firms. This implies that availability of collateral is very

crucial and therefore startup firms should consider what collateral they require before seeking credit facilities from international financiers. According to Sacerdoti (2005) in a study on access to bank credit in Sub-Saharan Africa (SSA), there is a wide concern that bank spreads are too high in Africa. Analysis conducted in a number of studies indicated that the causes of the spreads in most SSA banking system are high operating costs, difficulties in obtaining and using collateral, and the absence of efficient judicial procedures to facilitate loan recovery.

Rate of the acquisition of credit by the startup firms in relation to collateral was also very crucial for the study. The study findings indicates the majority being in agreement that acquisition of credit by the startup firms in relation to collateral is poor. This was followed by the respondents who indicated average, with only few indicating very good and very poor respectively. This implies that availability of collateral will boost startup financing by international financiers.

5.2.3 Influence of Availability of Business Plan on International Financiers Support to Startup Firms and Entrepreneurial Ideas in Kenya

The study also found it of great importance to determine to what extent is the availability of business plan influences international financiers in lending to startup firms. The study findings indicated that majority agreed that availability of business plan dose influence international financiers in supporting startup firms to high extent followed by those who indicated the influence as very high extent, with only few indicating the influence as very low extent.

It was also very crucial for the study to rate the institutions lending to startup firms in relation to availability of business plans. From the study findings majority rated the institutions lending to startup firms in relation to availability of business plans as high, quiet a number indicated that lending to startup firms in relation to availability of business plans as low, few indicated the lending to startup firms in relation to availability of business plans as very high with only very few rating lending to startup firms in relation to availability of business plans as very low. This can be depicted to mean that business plans shows the level of startup operations and therefore very crucial in determining the international financiers ability to advance credit facilities to startup firms.

The study then evaluated the statements related to business plans in supporting startup firms. The study findings indicated that majority agreed that availability of business plans attract the

attention of international financiers. Also the majority agreed that poor business plans make lending unacceptable. The majority further agreed that good business plans increases the borrowers capacity to acquire finance from international banks. Further there was an agreement that good business plans reflects the ability of startup firms to utilize the credit. Further most respondents also agreed that poor business plans shows how poor the startup can manage the credit.

5.2.4 Influence of Government Policy on International Financiers Support to Startup Firms and Entrepreneurial Ideas in Kenya.

The study also found it necessary to determine the influence of government policy on entrepreneurship on international financiers to extent support to such policies. From the study findings majority indicated that government policy systems influence the international financiers to support policies on startups to high extent, quiet a number indicated low extent, few indicated very low extent with only very few indicating very high extent and not at all respectively.

The study further rated the acquisition of loans from international financiers in relation to startup firms in Kenya. The study findings have majority of respondents having indicated that the acquisition of loans from international financiers in relation to startup firms in Kenya as poor, with few indicating as good, very poor and very good respectively. This implies that government policies play a major role in encouraging international financiers in supporting startup firms.

The study further determined the influence of government policies on financing of startup firms by the international financiers. The study findings indicated that majority agreed that poor system of government policy on startup firms hinders international financiers on supporting startup firms. Majority of respondents also agreed that bureaucracy in obtaining information hinders international financiers from supporting startup firms. The study further indicated that majority of respondents agreed that good loan repayment record by the government does influence international financiers to lend.

5.2.5 Influence of Business Formality on International Financiers Support to Startup Firms and Entrepreneurial Ideas in Kenya.

Business formality was also important for the study. First the study sought to determine the influence of business formality on international financiers support to startup firms. From the study findings majority indicated that business formality does influence international financiers support to startup firms to high extent, few indicated low extent and low extent with only few indicating very high extent and not at all respectively. This implies that business formality i.e. registered startup firms are more likely to get credit from international financiers as opposed to non-registered enterprises.

The study further sought to rate the acquisition of credit from international financiers in relation to business formality. From the study findings majority of the respondents indicated that the acquisition of loans in relation to business formality is good, followed by those who indicated average. Further quite a number of the respondents indicated the rating as poor with only few indicating very good and very poor respectively. This implies that any international financier would require that each business in need of a loan from them must be formal i.e. registered.

Business formality and access to credit facilities from international financiers related statements were also evaluated in relation to startup firm financing. From the study findings majority did agree that informality in startup firms leads to poor access to funds from international financiers. Majority also agreed that international financiers provide support only to those startup firms that are registered. However majority of the respondents disagreed that in their institution, the loans advanced to startup firms does not require any formality. This can be depicted to mean that business formality is very crucial in access to credit facilities by the startups from international financiers in Kenya.

5.3 Conclusions

From the study findings it can be concluded that availability of collateral influences international financiers from supporting startup firms to high extent that the loans acquired by startup firms are strictly associated with how much their collateral can raise to repay the loan in case of default and that lack of collateral discourages their institutions from lending credit to startup firms. Further the study concludes that acquisition of credit by the startup firms in relation to collateral

has been poor. And this can be attributed to the fact that the proprietors of SMEs do not have any other form of asset let alone the seed capital.

The study further concludes that availability of business plan influence international financiers in supporting startup firms to high extent and that the institutions lending to startup firms in relation to availability of business plans as high. The study also concludes that availability of business plans attract the attention of international financiers, that poor business plans make lending unacceptable, that good business plans increases the borrowers capacity to acquire finance from international banks as good business plans reflects the ability of startup firms to utilize the credit and that poor business plans shows how poor the startup firms can manage the credit.

As far as government policy is concerned the study concludes that government policy systems influence the international financiers to support policies on startups to high extent, that the acquisition of loans from international financiers in relation to startup firms in Kenya is poor, that poor system of government policy on startup hinders international financiers on supporting startup firms, that bureaucracy in obtaining information hinders international financiers from supporting startup firms and that good loan repayment record by the government does influence international financiers to lend.

Business formality was also important for the study where a number of conclusions can be derived; that business formality influence international financiers support to startups to high extent, that the acquisition of loans in relation to business formality is good, that informality in startup firms leads to poor access to funds from international financiers, that international financiers provide support only to those startup firms that are registered and that in their institution, the loans advanced to startup firms require formality.

5.4 Recommendations

The study recommends that startup firms should put into consideration the most influential factors that hinders their financial support from international financiers i.e. the required collateral in accessing the credit, good and attractive business plan to attract the attention of international financiers, formalizing the business to operate legally. Thus enabling them to be recognized when seeking for financial support from international financiers. The government should also

formulate good business and entrepreneurial policies in favour of startup firms. This is in a bid to enable them access financial support with ease from international financiers to expand their business operations. The government should also streamline and consolidate business registration process to enable more startup firms to be formalized. This can be done by reduction of bureaucracy during registration and reduction of registration fee for the newly created businesses to facilitate their growth. Governments should work in conjunction with higher learning institutions to incorporate and develop entrepreneurship and business plan skills to trainees.

5.5 Limitations of the Study

Inadequate time was one of the problems faced in undertaking the field survey. The study applied a survey which is time consuming and expensive. Capturing all aspects was therefore not possible due to time constraints. The design of the study being descriptive statistics applied to obtain valid information yet the results or findings are still considered as approximations.

Maintaining confidentiality and ensuring anonymity during questionnaire administration imposed a limitation on the generalization of the research findings. Confidentiality policy amongst some organizations could have restricted respondents from providing confidential matters pertaining to their organizations. This is because some of the respondents could have answered the questionnaire based on the realities which could likely affect data validity and hence reliability of the research findings.

5.6 Areas for Further Research

The study focused on the selected independent variables of availability of collateral, availability of business plan, government policy and business formality and the dependant variable, international financiers' support to startup firms. There are other variables that have equally important contribution towards startup firms' support from international financiers. Therefore other studies should focus on other factors not considered and how they can be incorporated in the variable to enhance startup firms support from international financiers. In addition, independent studies should be done on government policy on developing entrepreneurship and business ideas for startup in Kenya in order to counter the importance of collateral.

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APPENDICES

Appendix 1: Questionnaire for Credit Managers

Below is a questionnaire that intends to capture your views as a credit manager at an international financier towards startup financing in Kenya. Please note that no identification is required and information given is intended for academic purposes only. Ensure that you respond to all the questions. Thank you.

PART 1: Background Information

1. What number of years has your company been in operation in Kenya
Below 20 years 21-30 years 31-40 years 41-50 years Over 50 years
2. How many continents does your company have presence
One - Two
Three - Four
Five - Six
Seven and above
3. State your companys' headquarters and the number of countries of presence worldwide
Headquartered in number of countries

PART 1: Availability of Collateral

4. According to you, to what extent does availability of collateral influence international financiers in supporting the start up firms?

Very high extent High extent Low extent Very low extent Not at all

5. Table 1.1 below provides statements related to availability of collateral and accessibility of funds from international financiers, tick appropriately?

Table 1.1

| STATEMENT | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| In my institution, most of the startup firms acquire funds using substantial collateral | | | | | |
| The loans acquired by startup firms are strictly associated with how much their collateral can raise to repay the loan incase of default | | | | | |
| Lack of collateral discourages my institution from lending funds to startup firms | | | | | |

6. According to you, how can you rate the acquisition of funds by the start up firms in relation to collateral?

Very good [] Good [] Average [] Poor [] very poor []

7. According to you, what can be done to ensure that international financial institution increases their lending ability to startup in relation to availability of collateral?

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PART 2: Availability of Business Plan

8. To what extent do you think availability of business plan influences international financiers from lending to startup firms?

Very high extent [] High extent [] Low extent [] very low extent [] Not at all []

9. How can you rate your institution's lending to startup firms in relation to availability of business plans?

Very high [] High [] Low [] very low []

10. Is it likely that your answer above influences the decision of international financiers to lend finances to startup firms?

Very likely [] Likely [] Unlikely [] Very unlikely []

11. In your own opinion, to what extent does the availability of business plan influences your institutional lending to startup firms?

Very high extent [] High extent [] Low extent [] very low extent [] Not at all []

12. According to you, how can you rate the acquisition of funds by the start up firms in relation to availability of business plans?

Very good [] Good [] Average [] Poor [] very poor []

13. Table 2.1 below consist statements related to availability of business plans and international finances to startup firms, tick appropriately.

Table 2.1

| STATEMENT | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| Availability of business plans increases demand for financing | | | | | |
| Poor business plans makes lending unacceptable | | | | | |
| Good business plans increases the borrowers capacity to acquire finance from international banks | | | | | |
| Good business plans reflects the ability of startup firms to utilize the | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| funded money | | | | | |
| Poor business plans shows how poor the startup can manage the funds | | | | | |

14. What can be done to ensure that availability of business plans increases the startup ability to acquire funds from international financiers?

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PART 3: Government Policy

15. According to you, to what extent does government policies on startup firms influence international financiers lending to start-up firms?

Very high extent [] High extent [] Low extent [] Very low extent [] Not at all

16. According to you, is it likely that the issue of government legislation system influence the decision of international financiers to support start-up firms?

Very likely [] Likely [] Unlikely [] very unlikely []

17. In your own opinion, how can you rate the acquisition of loans from international financiers by the start up firms in relation to government policies?

Very good [] Good [] Average [] Poor [] very poor []

18. Table 3.1 below has statements related to government policies and financing startup institutions by the international financiers, tick appropriately.

Table 3.1

| STATEMENT | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| Poor system of government policy on startup hinders international financiers on supporting startup firms | | | | | |
| Bureaucracy in obtaining information hinders international financiers from supporting startup firms | | | | | |
| Slowness in issuance of business licenses hinders international financiers to lend to startup firms | | | | | |

19. According to you, what can be done to ensure that government policy systems do not discourage international financiers from supporting startup firms?

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PART 4: Business Formality

20. According to you, to what extent does business formality influence international financiers from supporting the start up firms?

Very high extent [] High extent [] Low extent [] Very low extent [] Not at all []

21. According to you, how can you rate the acquisition of funds from financiers in relation to business formality?

Very good [] Good [] Average [] Poor [] very poor []

22. Table 4.1 below bare statements relating to business formality and international financiers support to startup firms, tick appropriately.

Table 4.1

| STATEMENT | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|--------------------------|-----------------|----------------|--------------|-----------------------|
| Informality in startups leads to poor access to funds from international financiers | | | | | |
| International financiers supports only those startups that are registered | | | | | |
| In my institution, the loan to startup firms does not require any formality | | | | | |

23. What can be done to make sure that international financiers support to startup firms is enhanced in relation to business formality?

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PART 5: Startup Firms Financing

24. Table 5.1 below is a table meant to capture the number and average rate of application for startup firms’ financial assistance for the last three years. Please fill in the table appropriately.

Table 5.1

| Year | No. of applications | Rate of application (%) |
|-------------|----------------------------|--------------------------------|
| Year 2010 | | |
| Year 2011 | | |
| Year 2012 | | |