“Challenges of finance accessibility by SMEs in the democratic republic of Congo: is gender a constraint?”

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CHALLENGES OF FINANCE ACCESSIBILITY BY SMEs IN THE DEMOCRATIC REPUBLIC OF CONGO: IS GENDER A CONSTRAINT?

Abstract

Small and medium enterprises (SMEs) play a significant role in income generation, job creation, poverty reduction and reducing income inequality of all countries, regardless of the level of development. Nevertheless, in developing countries, they are exposed to several challenges affecting their business operations and growth. Among others, access to external financing has been cited to be the most pressing challenge for SMEs in developing economies. The lack of accessibility has been indicated to result from the deficiencies observed from both financial institutions and SMEs. Further, it has been discovered that from the SMEs' perspective, gender, among other entrepreneurial characteristics, has a role in accessing finance. This paper surveys a sample of 109 SMEs in the Democratic Republic of Congo not only to find what are the challenges faced in seeking finance, but also to investigate the extent to which gender impacts access to finance. The evidence gathered shows that finance is really constraining, there are more rejections than approvals of finance due to the lack of collateral, high interest rates and the inability of SMEs to develop attractive and bankable projects. With regards to gender, the findings were somehow assuring in the sense that when both women and men apply for external finance, they stand the same chances of accessing finance. Recommendations were established to all the actors. SMEs must put more effort into regulating their businesses in order to reduce their risks and build strong relationships with lenders. Financial institutions should not only reconsider the interest rates as they were perceived to be extremely high, but also train SMEs to be "more bankable". Lastly, the Government should implement policies to support firms and render the business environment more appealing for both SMEs and financial institutions.

Keywords finance, SMEs, Congo, gender

JEL Classification L25, G21

INTRODUCTION

Background

In the Democratic Republic of Congo (DRC), the International Monetary Fund (2014) stipulated that credit remains scarce, expensive and highly concentrated in urban areas. Thus, it is not surprising that SMEs are not achieving the growth required in terms of increased job creation, and have not contributed to the economies GDP as expected regardless of the fact that they constitute almost all of the population of companies. Safoulanitou et al. (2013) demonstrated that while SMEs account for about 99% of firms in Cameroon, more than 90% in the DRC and 80% in Congo Brazzaville, their contribution to respective countries' GDP is estimated at less than 20%, while it can reach up to 60% in countries with high incomes. A considerable number of studies in the literature, in developed or developing economies, have raised the question of whether financial constraints faced by SMEs differ with respect to the gender of the SMEs' owner/manager. According to Bardasi et al. (2007), gender should be a matter of concern in Africa for three main reasons. Firstly, the pri-

vate sector, particularly agriculture and informal businesses, are highly dominated by women, accounting for over one-third of all firms. Secondly, the ability of women to grow their businesses, to increase productivity and job creation is hampered by existing institutional and legal barriers that affect SMEs owned by women and men differently. Thirdly, and most importantly, there is solid evidence at the micro level supporting the presence of gender disparities putting women at the disadvantaged side, thus reducing their growth potential. Muravyev et al. (2009) further emphasized that gender interest emanates from the perception and the evident differences between women and men in business ownership rates, financing patterns, start-up size, debt ratio, and so forth. In Sub-Saharan Africa, the gender gap has been reported to be more severe, women struggle to start-up new ventures and access finance from formal bank institutions (Aterido et al., 2013). The DRC, considered to be among SSA countries, has neither been proven to be an exception nor being part of the countries that discriminate women financially. In order for the SME sector to fully realize its potential in the DRC, there is a need to investigate challenges faced by firms operating under this sector with focus on barriers encountered while in the quest for external finance, since lack of finance has been identified in the literature as a general constraint in SSA. Further, having prospects of becoming an entrepreneur in mind and in accordance with the interesting topic of women's empowerment, it is important to examine if the gender financial barrier, in terms of accessibility, exists in the country.

Statement of the problem

The lack of access to finance has been identified as the major constraint to SMEs' growth and development. The presence of an alarming rate of SMEs' failure in the DRC and the insignificant contribution to the country's GDP has given the Congolese economy great cause for concern; there is an urgent need to research the challenges faced by SMEs while seeking finance. It is rather ironic that despite the role played by SMEs and their obvious growth potential, they are the most constrained when it comes to accessing external finance. The IFC (2013) reported that in developing economies, around 55 to 68% of formal SMEs, accounting for 13.8 to 20.4 million firms, are not provided loans or are provided less than applied for by the formal financial sector. The DRC is not an exception to this disturbing problem, mostly for the reason that SMEs have not contributed as expected to the growth of the economy if compared to other African countries. It has been reported by the World Bank (2013) that the SME sector has not shown any sign of virtual growth for the past five years. Additionally, of the 6,000 SMEs that existed 25 years ago, only 5,000 remain, while large firms have been enjoying substantial growth. The reduction is arguably due to a combination of several constraints that such firms have to face in their day-to-day lives, and which impede them from growing. Against the background information stipulated above, the overall aim of this research is to develop a clearer understanding of challenges faced by SMEs in the DRC from the local owner and/or managers' perspectives. The study will only emphasize problems encountered on the demand side like several studies which have been conducted on SMEs (Irwin & Scott, 2010; Woldie et al., 2012). Understanding the problems that face such firms will help formulate solutions that can be given to policy makers, and thus contribute to the development of the sector and the country as a whole. Further, the study will examine if there is any gender-related barrier with access to finance as the African Development Bank (2013) has reported that wide gender disparities are present in the country irrespective of gender equality being enshrined in the Constitution. Addressing the general barriers and gender-specific barriers (if found present) to entrepreneurship and leveraging participation of entrepreneurs regardless of gender will help in unleashing and strengthening the DRC's productive potential leading to economic growth.

Research objectives

On the grounds of what is stipulated above, the objectives of the research are to: 1) identify the financing patterns/preferences of firms operating under the SME sector, 2) investigate the major challenges in accessing finance encountered by SMEs in the DRC and the different perceptions regarding finance accessibility, and 3) examine if SMEs owned by women are more constrained in accessing finance than those owned or managed by men.

Significance of the study

Several studies have been conducted on the challenges faced by SMEs in accessing finance, whether in developed economies or developing countries. Nevertheless, to the best knowledge of the researchers, there is a considerable gap in the literature as very few studies have been conducted and published regarding the financial problems of SMEs in the Democratic Republic of Congo. Moreover, none of them has investigated the presence of the "perceived gender financial barrier". Consequently, the need of the present research is self-evident, since it is the first to be carried in such a context. Based on that, it is hoped that this study does not only have a theoretical significance, but is also practical to different potential users. For instance, it covers the existing research gap and thus can be valuable to researchers, students and experts who will have useful information for their research. To finance providers and policy makers, the findings from the study will enable the design of new policies adapted to the real needs of the SME sector, and hence help the sector develop. SME owners can also apply the recommendations that emanate from the study in order to ease their own access to finance.

1. LITERATURE REVIEW

Significant empirical studies have focused on the relationship between SME owner/managers demographic information and access to finance. Within the wide-ranging category of owners or managers' characteristics, gender has received much attention and is the most considered in the literature (Abor & Biekpe, 2006; Coleman, 2000; Irwin & Scott, 2010) as having an impact on the ability of SMEs to access finance. Gender and use or access to finance from formal financial institutions, mostly banks, has raised discussions in the literature because the SMEs owned by women are growing and are starting to represent a considerable share in the small business sector (Coleman, 2000). Further, gender has been cited in large studies (Treichel & Scott, 2006; Kwong et al., 2012; Osei-Assibey et al., 2012) as being among the various factors that affect access to finance. Muravyev et al. (2009) stated that gender differences in financing patterns and the use of bank credit observed in SMEs could be explained by several reasons. On the one hand, it is has been observed that the supply side of finance discriminates about gender, meaning that in situations where both groups have similar grounds in terms of credit worthiness and solvency, bankers' decisions about credit applications are different. On the other hand, the authors argued that the difference in financing patterns between men and women could be a result of risk aversion. For instance, if female entrepreneurs are considered to be more risk averse, it is likely that they will have a lower demand of credit than men.

Research conducted usually comes up with ambiguous findings. According to Abor and Biekpe (2006), there are conflicting arguments and evidence as to whether SMEs owned by women face gender-specific problems while seeking external bank finance. Authors such as Coleman (2000) argue that women face greater difficulties dealing with banks and there is a possible perceived discrimination that gives a preference to male entrepreneurs while seeking finance. Consequently, it does discourage women to seek external finance even when they are in need, which makes them use less debt finance than men holding other characteristics equal (Abor & Biekpe, 2006). In addition SMEs owned by women are relatively small at start-up because the owners choose to engage in sectors that do not require considerable funds (Kwong et al., 2012). In that perspective, Garwe and Fatoki (2012) have investigated credit demand and availability based on entrepreneurial characteristics in South Africa. They discovered that female entrepreneurs were significantly less likely to seek external credit than males because they had an internal fear of rejection. A possible reason could be because they do not have enough networking and connections like men. As stipulated by Demirgüç-Kunt and Klapper (2012) in Africa, men dominate the number of individuals having an account at financial institutions, thus finding it easy to deal with those institutions. Nevertheless, regarding access to finance, Garwe and Fatoki (2012) did not really find any significant differences in the availability of debt between both sexes, thus they concluded that women have equal access to debt when they apply.

In Ghana, according to Abor and Biekpe (2006), women are placed at a disadvantage compared to their male counterparts because of the present adverse discrimination existing in the lending process. Still, in the same country, Osei-Assibey et al. (2012) found a mixed relationship between financing at different stages of the SME life cycle and gender. At start-up, women had more access to formal banking credit than men, whereas in other stages, there is no big difference between the two groups as far as accessing finance is concerned. In their investigation of SSA countries, Aterido et al. (2013) concluded that though there is evidence that women are disadvantaged in accessing financial credit, the reasons lie more in other dimensions related to female inclusion in the modern market economy such as education and labour force rather than discrimination as such.

In more developed economies, Coleman (2000) using data from the National Survey of Small Business Finances found that financial institutions did not discriminate women against gender in providing capital. When Coleman (2000) tried to separate issues of access to credit and terms and conditions under which credit is obtained, she found that the terms under which women access credit are not appealing and more constraining than those of their male counterparts. For instance, women were charged high interest and were requested to provide higher valued collaterals on smaller loans than men. Muravyev et al. (2009) used data from a survey of 34 countries in Central Asia and Eastern Europe, with a sample size of 14,108 firms and found that SMEs owned by females not only face 5% lower probability of receiving credit, but also pay high interest rates equivalent to half a percentage point than male entrepreneurs. Specifically, they also found that gender differences were also dependent on the level of the country's financial development.

In the United Kingdom, Irwin and Scott (2010) found contradictory results, in the sense that women entrepreneurs have better access to credit. However, they concluded that since the findings were proven not to be statistically significant enough, gender has no influence on the ability of SMEs to access bank finance. Treichel and Scott (2006) used evidence from three surveys (1987, 1995, and 2001) in the United States and found that gender was significantly related to some aspects of access to credit from banks, and concluded that those effects persist over time. In their study, gender had an impact not only on bank loan application, but also on the size of loan obtained. Stefani and Vacca (2014) used data from the Europa Central Bank SAFE survey to assess credit accessibility conditions across the Euro area using firm level data. Their findings showed that SMEs owned and managed by women tend to operate with a narrower variety of sources of finance compared to those led by men, and often do not use external finance at all in their operations or investments. The same study indicated that even though banks are the providers of finance to SMEs regardless of gender, those owned by women have greater difficulties in obtaining credit with respect to their male counterparts because of both demand-side and supply-side factors. On the demand-side, female firms tend to apply less frequently for a bank loan: in particular, they more often do not ask, because they anticipate a rejection, whereas on the supply-side, female firms receive a rejection more frequently.

2. RESEARCH METHODOLOGY

The study adopted a survey research design since this method was considered to be appropriate for this research. For this study, questions related to business achievements, finance, and challenges are likely to be sensitive, thus the utilization of a survey allows one to maintain anonymity of respondents. For this research, the population studied consisted of registered SMEs at the provincial division of statistics of South Kivu, which comply with the regulatory requirements of the country. It is worth noting that there are so many SMEs in Bukavu, but the study considers only registered entrepreneurs or small and medium scale enterprises as they are easy to locate as they operate in a formal way.

Similar to the study conducted by Woldie et al. (2012) on the challenges of microfinance accessibility in Tanzania, this research adopted a purposive sampling procedure, by targeting purposively 130 SMEs with the most considerable rationale eli-

gibility criteria for a potential SME to be considered is to be registered first at the provincial division. However, the number of the final sample is really dependent of the willingness of SMEs owner/managers to participate in the research.

The European Central Bank (2009) and the study of Woldie et al. (2012) were a great source of inspiration while designing the questions, as they were selected from either one or the other. Initially the questionnaire was drafted in English then translated into French as it is the country's official language. The questionnaire is composed of three main sections: (i) general information – the entrepreneur/firm; (ii) SMEs' finance and access to finance; (iii) the last section comprises questions regarding firm achievement, perception, general challenges and lastly recommendations.

A further step taken after designing the questionnaire was to carry out "the pilot test" or "test-running" which was conducted on 15 SMEs. The main objective of the testing was to improve the potential response rate, since through the initial test, poorly worded and complicated questions are eliminated.

Analysis was made through SPSS 22, because it can obtain data from any file and generate tabulated reports, plots of distributions, trends, descriptive statistics and complex statistical analyses. Statistical techniques like the mean, standard deviation, cross-tabulation, Mann-Whitney U test and Chi-square test were used in accordance with the research objectives.

3. FINDINGS AND DISCUSSION

3.1. Response rate

A total of 117 completed questionnaire returns were collected out of a targeted sample of 130 SMEs, yielding an 84% response rate. However, among the 117 questionnaire forms, 8 had some omissions, because the respondents chose deliberately not to provide an answer to certain questions. Therefore, in order to avoid dealing with missing data, they were removed from the sample making the sample size of 109 SMEs, which is still considered to be a good figure.

3.2. Distribution of the data

In order to know the suitable statistical test to conduct, the normality of the data distribution must be tested. For this purpose, the one-sample Kolmogorov-Smirnov test was conducted with the important variables regarding access to external finance and financing patterns. According to Field (2013), data are normally distributed when the significance value is greater than 0.05. From this it is evident that the data are not normally distributed.

3.3. Background information of the SME owner/managers

The sampling frame was not fairly balanced in terms of gender, since it was merely dominated by male respondents, accounting for 74.3%, whereas female participants represent less than a third of the total sample. This finding is relatively consistent with the Congolese business environment as women in the country are still discriminated in various ways. From the participants' qualifications, it is evident that popular entrants into the SME sector have some educational background, though at different levels. Only very few of the respondents do not have any formal school education, representing 8.3% of the sample probably due to the complexity of running a formal business, whereas only 14.7% of respondents have been through university. The majority had completed secondary education, accounting for 31.2% of the sample, followed by vocational and primary education, simultaneously representing 28.4% and 17.4%.

3.4. Firms' general characteristics

Based on the Congolese definition of SMEs, it can be observed that most firms fall into the category of micro firms (50.5%) with the number of employees ranging from 1 to 5. The second group is that of small firms representing 39.4% of the sample and just a few medium enterprises. A possible reason for such disparities is that the DRC have few industries that employ 51-200 individuals, thus such firms are really few. This can also be an ex-

planation to why the majority of firms are owned by one individual, generally called sole proprietorship (29.6%), whereas partnership accounts for only 17.4%. In terms of firms' size, it can be observed that the majority of firms fall into the micro category, representing nearly 60% of the sample studied. Small firms are only 39.4%, whereas medium SMEs account for only 1.8% of the sample. The findings regarding the sector of activities depict that there is a weak entrepreneurial culture limited to trading activities in products (53.2%), while the country has immense natural resources in terms of agriculture, forestry, mining and energy. This shows that the high local private sector potential is not yet fully exploited, thus leading to a disproportion in sector activities. The mining sector is not representative enough (5.5%), because the sample location does not possess a lot of minerals like the other parts of the country. Regarding the duration of the business, it can be observed that most businesses have been operating for at least five years, with the newest entrants accounting for 22.9%. The duration of 33% of firms fall into the category of 5 to 9 years and 20. Some 2% have existed for more than 15 years. Thus, it can be assumed that most entrepreneurs have the required experience to operate their business effectively and sustain it regardless of the challenges. An unfortunate observation is that most firms (60.6%) do not keep books of accounts or records. Yet, it is known that record keeping serves in reducing bias that does exist between financial institutions and SME owners.

3.5. Financing patterns of SMEs

In order to have an idea on the financing patterns followed by Congolese SMEs, the financing preferences were categorized into three major groups based on a normal business cycle. Answers to questions 10-12 indicate that at start-up, nearly half of SMEs (49.54%) finance their business with their own savings and the next predominant source of funds is obtained from a combination of family and friends (17.3%). Loans from family and friends are used extensively by SMEs in their initial or start-up stage for the reason that financial institutions are reluctant to provide funding for start-up businesses as they are highly risky and do not provide collaterals. Inheritance is also a source of finance but not significant as such, because the majority of the Congolese population is poor, thus not every child has a chance to inherit.

The most critical observation is that funds obtained from financial institutions in terms of debt financing at start-up account for only 3.67%, which is really insignificant. The probable predominant reason is because firms at this stage (SMEs are more likely to be affected by information asymmetry problems) have not yet acquired enough experience to develop bankable projects and also lack tangible assets to use as guarantees in exchange of loans. This is consistent with the findings of Woldie et al. (2012) in Tanzania, where finance from financial institutions and other sources accounted for below 2.9%. As a result, 37.1% had to finance their businesses with their own savings. Additionally, the findings are in line with those of Osano and Languitone (2016) who found that in Mozambique, only 5% of firms use funds from financial institutions to finance their investments or working capital, thus forcing SMEs to rely mainly on their own funding means. In Sierra Leone, Kallon, cited in Okpara and Kabongo (2009), found that 65.6% of firms solely depend on personal savings as a major source of capital, 10.9% accessed sources from family and friends, 7.8% from business partners and 9.4% succeed in securing funds from commercial banks. The reason behind such patterns was explained by Abor and Biekpe (2009) who stipulated that new entrants to the SMEs tend to rely on owners' initial equity, because they are not initially in the position to present attractive and bankable investment projects to finance providers. The results are also supported by findings observed in emerging and developed economies. For instance, Hussain et al. (2006) sent semi-structured questionnaires to 32 SME owners to establish a comparison between the United Kingdom and China. They found that at start-up, firms considerably rely on savings and informal finance. Likewise, Irwin and Scott (2010) investigated Irish SMEs and found that SME owners relied mostly on their own savings at start-up. This proves that firms in developing economies, specifically in the DRC, do not have support when they first start their enterprises. As the majority have to rely on own savings, it implies that those entrepreneurs with ingenious ideas but with no initial savings are automatically constrained, be-

cause they cannot rely on either financial institutions or other sources of funds. After 2 years of operations, firms have somehow proved that they can cope with the challenges encountered in their daily lives. Though some of them are now able to secure a loan from financial institutions, only 6.42% relied fully on that source of funds. Consequently, we can observe that contrary to the initial start-up, reliance on own savings as the main source has decreased from 49.54% to 32.11% since firms have started to combine sources of funds. Family and friends are still significant at this stage as 16.51% of firms have used them as a means of financing. Overall, the most used sources were own savings (32.11%) and a combination of financial institution and own savings, accounting for 24.77%. After five years of operation, external finance from financial institutions improves slightly in terms of accessibility to SMEs. Loans as a source of finance nearly doubled from 6.42% (2 years) to 11.01% after 5 years. Own savings decreased dramatically and most SMEs with inheritance initially used the money in one way or the other. SMEs have been able to generate profits and 19.27% depended on retained profits as a way of financing new projects. Overall, SMEs in the DRC rely heavily on their own funds expressed in terms of savings. Contrary to the study of Woldie et al. (2012) family and friends still have a role to play after five years to firms operating since the figures only dropped by 4%, from 17.43% initially to 13.76% after five years. This could be explained by the fact that since access to finance is somehow low, firms which are not able to secure debt formally use this informal source of finance.

3.6. External finance

The research sought to find out the extent to which access to finance constrained SMEs in the past 2 years. Below is the first part which investigates the number of SMEs which applied for finance. In order to have a greater perspective, 3 possibilities were created: those who applied for finance and received finance either partly or fully, those who applied and were rejected and lastly firms which did not apply at all. The majority of SMEs in the DRC were in need of external finance, as only 16.5% did not seek external finance, but 83.5% made an attempt to apply for a loan. However, not all firms that applied for finance were able to secure a loan. According to the study sample, a considerable number of loan applications were rejected, as more than half of those who applied for finance, actually 53.2% out of 83.5%, did not receive the finance sought. This gives strong evidence of an existing constraint when it comes to access external finance in the DRC. Further, those respondents who were not able to secure a loan (34.9%) were asked to provide the reason behind the loan rejection. "If you did not receive the loan, what was your most pressing problem?" It is evident that the lack of collateral (47.37%) security was the most pressing constraint preventing SMEs from securing finance. However, it is reasonable for banks to ensure safety of their depositors, without which they cannot function. Thus, they are more risk averse and deny finance to owners or managers who do possess enough security guarantying repayment in case of a default. The second reason of rejections was due to the lack of financial statements (23.68%). This could possibly match with the fact that the majority of SMEs (60.6%) do not keeps records probably the reason being the sample is mainly composed of people who have not attained university education and who literally cannot understand the importance of proper documentation. Similar patterns have been observed in so many African economies. In Nigeria, for instance, Okpara and Kabongo (2009) concluded in their studies that the inability to raise external capital due to the lack of required collateral to be used against loans was the major reason as to why new ventures were facing a high rate of failure. Likewise in Ghana, Mensah et al. (2015) observed that banks were imposing stringent collateral conditions to SME borrowers who strongly perceived that the lack of collateral was their challenge par excellence in their inaccessibility to finance.

3.7. General challenges and major achievements

As to the challenges encountered, the findings portray that the majority of the sample (52.30%) of SMEs do not have adequate conventional collateral. This is the reason why most SMEs face a rejection while seeking finance. The study findings are in support of the proposition that access to finance is one of the major challenges encountered by SMEs in the DRC. From the sampled SMEs, only a few individuals have assets that could qual-

ify, thus they did not, because the poverty level is still considerable in the country. Such findings were also observed in more than one African economy. For example, in Mozambique, Osano and Languitone (2016) found that SMEs were denied and discriminated by lenders for not having adequate resources in terms of land and houses to provide in exchange for collateral. Woldie et al. (2012) also found that in Tanzania, most SMEs are constrained due to a lack of qualified collateral and those who are able to secure funds must use their houses in exchange for credit. The findings of other non-financial challenges identified are consistent with comparable studies conducted in the DRC by the World Bank (2013). SMEs do not function in a friendly environment as there are numerous obstacles to operating their businesses. A good number of respondents (19.27%) reported this barrier as their major challenge presenting a heavy financial burden on firms. Corruption and bribery imply paying for services that are supposed to be offered free, because they are regularly demanded to do by state agents. This challenge creates an unfavourable business environment and is considered to be a serious obstacle to firms' development and growth. SMEs are also burdened by high taxation; 12.84% of respondents reported it as being one of their challenges, as firms are repeatedly asked to pay various different taxes by different individuals. Infrastructural barriers are also present though at a low proportion (7.34%) probably because the study considered only urban SMEs which are likely have low problems with electricity, roads and water. Still for the firms which highlighted it as their challenge they will suffer low productive opportunities and high costs. Because of these enormous challenges, the evidence gathered has unfortunately proven that businesses are not expanding. After 5 years of operation, only 11.01% have succeeded in expanding their businesses, while the majority of firms (48.62%) function to sustain family basic needs (food, education, health). Normally, firms are expected to follow a growth cycle, from start-up to expansion, but this is far from being reality in the DRC. However, some of them have been able to increase trust from suppliers (17.43%), which is good as they can provide notably trade credit to them when financing is constrained. Only 22.94% of SMEs in this area have been able to increase the number of their customers.

3.8. Perception about finance in the DRC

"What is your perception about accessibility to finance from financial institutions in Bukavu?" To answer this question, a list of perception factors was provided on a Likert scale basis, from which participants were required to answer whether they strongly disagree (1) or strongly agree (5) on the pre-established perception of Congolese entrepreneurs regarding external finance. Findings were presented in the form of means and standard deviations. According to Field (2013), standard deviation is the most commonly used and most important measure of variability in statistics which uses the mean as a reference point and measures variability by calculating the distance between each data score and the mean.

The results infer that there were different patterns of opinions as far as perceptions were concerned. Surprisingly, all the means of all the perceptions were above 3, which is a sign that the constraints are all important. The most prominent perception in terms of a constraint is access to finance, as its mean is the highest (4.0734) among all the five perceptions. Some 73.3% of the respondents accepted either by agreeing or strongly agreeing that access to finance is very low, while only 3.7% disagree with this statement and none of the respondents strongly disagree. A standard deviation of 0.868 relative to the mean 4.07 shows little variability in responses, adding to the credibility of the investigation that access to finance is really low in the DRC. The second highest ranked critical constraint is the complicated procedures faced by firms, and is the mismatch between profit generation and cost of credit, implying that banks' and financial institution charges are really higher than the profit that SMEs are able to gain. Further, 56.6% felt that there is a mismatch between loan repayment and business take off. These results imply that access to finance is really perceived as constraining in the DRC. Firstly, it is accessed by few as not only 57.8% agree that collateral is an issue, but also financial institutions charge a lot in terms of interest for the SMEs that secure finance, while they do not provide enough time before repayment. These findings are somehow

in accordance with those of Woldie et al. (2012) in Tanzania, though just in terms of severity, as SMEs' conditions are more critical in the DRC than in Tanzania.

3.9. Recommendations from respondents with regards to finance

The majority of the respondents (82.56%) felt that interest rates are extremely high in Bukavu. Consequently, they recommended that financial institutions should reduce their interest rates. The high cost of borrowing is indeed a significant explanation as to why access to finance is low in the DRC. Such findings are not surprising, because the literature reviewed earlier stipulates that firms are charged high rates.

3.10. Statistical significance of gender and access to finance

The last objective of this research was to investigate if there is any potential gender-related barrier as indicated in the literature. Thus, to examine whether there is a significant difference between the financing preferences at start-up, after 2 years and 5 years of being in operation between the SMEs with a female as the owner/manager and those owned or managed by a male, the Mann-Whitney U test was used. As mentioned before, because the data are not normally distributed, this non-parametric test between two independent ranks was the right method. *H0:* There is no significant difference in financing patterns of firms. *H1:* There is a significant difference in financing patterns of firms. Field (2013) stipulated that there is a significance in difference when the probability of the result is inferior to 0.05 (5% rule). The null hypothesis is accepted in this case, because the results from the test indicate that there is no significant difference of financing preference between women and men; all variables are greater than the 0.05 level of significance. Testing hypotheses of discrimination with the Chi-square test, Field (2013) stipulated the Chi-square test is the best to conduct when dealing with categorical data. For this test to be considered reliable, its missing cell must not be greater than 20%. The data in this study satisfy this assumption (0.0% cell has an expected count less than 5 and the minimum expected count is 4.62 less than 20), thus the results produced by the given test are reliable enough to make conclusions. Regarding gender, two general perceptions emanated from the literature: first, female applicants are viewed as more risk averse than male applicants and, second, while seeking finance, women are more challenged than men facing a higher rejection rate. Thus the hypothesis is established on the grounds: *H0:* Women are not discriminated while seeking external finance. *H1:* Women are discriminated while seeking external finance. In an attempt to determine credit accessibility of SMEs based on the gender of the entrepreneur, we can observe from the cross-tabulation that the sample is dominated by males (74.3%) and females accounting for only 25.7%. Twenty-eight (28) SME owners who were male applied for external finance and had their credit approved, whereas only 6 female SME owners received credit. Further, the results indicate that 35.8% male SME owners and 16.5% female SME owners were not granted credit. The cross-tabulation results are not enough to conclude that women do face challenges or not while seeking finance. Therefore, the Chi-square results should be interpreted. Overall, looking at the Chi-square test, we can say the test is not statistically significant, the variables are independent of each other because the significance 0.316 or 31.6% is far greater than the 5% level of significance. To sum up, in this case the null hypothesis is accepted, which stipulates that women do not suffer from any form of gender related discrimination while seeking finance. Other things being equal, when both sexes apply, they stand the same chance of getting finance. This finding is consistent with Garwe and Fatoki (2012) who found that all things being equal, women were given finance equally in South Africa. Nevertheless, it does contravene Abor and Biekpe (2006), Muravyev et al. (2009), Nkuah et al. (2013) who found solid evidence of a gender based discrimination with access to finance. In Ghana, Nkuah et al. (2013) concluded that the inability of women to access finance was a result of traditional practices hindering women's empowerment.

CONCLUSION

Overview

Whilst there are numerous studies on the financing and other challenges of SMEs in developed countries and some developing countries, extremely little information is available on this topic in the DRC. This study used data from a sample of SMEs in the DRC to fill this gap, thus investigated two main concerns. Firstly, the research aimed at finding out the challenges of SMEs in accessing finance. The evidence gathered has proved that the majority of SMEs (52.3%) failed to secure formal finance mainly due to a lack of collateral. Therefore, the financing patterns are dominated by personal savings of the individual owning the SME. There is also a strong belief from such findings that many people with sound business ideas but with no personal savings are "giving up" simply because of the difficulties of raising finance. Another possible reason for inaccessibility to finance could be the fact that a considerable number of firms do not keep records, thus they are unable to prove to lending institutions that they are financially stable. Such findings demonstrate that SME operators contribute partly to their exclusion to finance. A critical observation in this study is that firms do not follow the normal growth cycle (early start-up stage – growth and expansion – maturity) as a considerable number of firms (48.6%) function to sustain family basic needs, while only 11% of the sample is able to grow. This is because apart from the financial challenges, the Congolese government has failed to offer an appealing business environment to the private sector. SMEs do encounter not only other non-financial constraints such as heavy taxation composed of a multitude of different taxes, lack of adequate infrastructure causing tremendous losses and inability to expand activities to rural areas, but also the lack of financial governmental assistance. The second objective of the study was to find out if female entrepreneurs face gender-related discrimination in accessing external finance. The motive of questioning the gender barrier is because the literature has not revealed clear findings. Further, because the Congolese population is mostly women dominated, but there is an imbalance in entrepreneurship, the study ought to understand the disproportion emanating from inaccessibility to finance. The reassuring fact from the findings is that, though access to finance is constraining in the DRC, there is no evidence to conclude that women are discriminated on the basis of their gender and other things being on the same grounds, when both sexes apply, they are granted finance or challenged equally. This suggests that perception of not considering the women entrepreneur segment viable has changed.

Recommendations

From the findings of this research, recommendations are made to three different actors: the Government, banks and other financial institutions, and lastly SME owners.

The Government: should deepen or increase the little support it offers to SMEs as the economic conditions and financial system of the country do not allow SMEs to acquire finance favourably from financial institutions.

Financial institutions: This study recommends that banks and other financial institutions should be proactive and find innovative ways to accommodate SMEs, a typical example being to train them on how to be "bankable".

SMEs: From the findings of the study, it is apparent their business is not regulated enough, as they do not keep records of their daily activities. Yet, it is well known that books of accounts serve a significant role in alleviating the information asymmetry between lenders and borrowers, thus enabling access to finance. Therefore, it is suggested that they should maintain an internal database of all the incomings and spending made. The resistance of SMEs to provide numerical information on their turnover and assets made it impossible to include and test other characteristics that affect access to finance such as firm size in terms of assets versus access to finance. Thus, future researchers should focus on obtaining tangible financial information for better conclusions.

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