Determinants of Loan Uptake by Small Medium Enterprises in DRC: A Case of Small Medium Enterprises in Goma Town

Kibendelwa Siva Mireille and Dr. Thomas Githui

Abstract: Significance of loans to the SMES is based on the fact that they are unable to source own funds hence financial institutions are the major players and the chief contributors in as far as growth of SMES is concerned. This study joins the debate by investigating determinants of loan uptake by SMES in DRC. Specific objectives used were; to evaluate the extent customer deposits, bank credit products, non-performing loans and cost of credit determines loan uptake by SMES in DRC. The study adopted cross sectional research design. The target population was all the 320 registered SMES in Goma-DRC. The study also used stratified random sampling method. Self-administered questionnaire was developed on a Likert scale format. The study used descriptive statistics of frequency, standards deviations and means as well as correlation analysis. The study also used multiple regressions. Data analysis was aided by Statistical Packages for Social Sciences (SPSS) version 25. The study concluded that customer deposits had the highest influence on loan uptake by SMES. Credit product was concluded to have the second highest influence on the uptake of loans and this was followed by NPL and consequently cost of credit. The study recommends that banks should be able to create measures that support mobilization of deposits from customers so as to increase loan uptake. The study recommends that lenders should increase loan repayment period so as to enhance the chances of borrowing. The study recommends that the enterprises should be sensitized by the relevant lenders on the need for embracing good financial records. The study recommends that since most SMES are low income earners and may lack collateral, they should make sure that they uphold a better credit history which could also be used for making credit decisions by the financing institutions.

Keywords: Loan Uptake, Customer Deposits, Credit Products, Non-Performing Loans, Cost of Credit

I. INTRODUCTION

Small and medium enterprises are the backbone of any economy as such they represent one of the major players in overall economic development (Minsky, 2015). SMES encourage equal expansion on a broad basis and provide more chances for women and youth contribution in the country’s economic expansion (Liao & Tapsoba, 2014). With globalization, the SMES sector plays not only the role of protection and support sector, but also as an engine of growth and expansion. Further while SMES constitute the largest part of businesses in the DRC, their contribution to gross domestic product is small due to the fact they are faced with meager financial resources (Stevenson & Pond, 2016). Therefore, financial support insofar as the growth and development of SMEs is concerned is very significant for the overall economic development in any country be it developing or developed nations.

In Sri Lanka, most of the SMES have been experiencing difficulty in accessing loans from various financing institutions. The reason is because they do not have proper financial records or rather security (Osken, Onay & Unal, 2016). Additionally, SMES who qualify for loans are always subjected to high interest rates because they are risk averse. Coupled with lack of information on the SMES’ standardized financial records, most of them are denied loans or rather fail to apply for loans because they are aware that financing firms will not process the applied loan.

In Turkey, SMES have significantly contributed to the economic growth of the country insofar as value addition and creation of employment opportunities is concerned. In the year 2011 only, SMES contributed in the manufacturing sector about 34% total of value addition, contribution in the trade sector was about 84% and also almost 100% contribution was found in the services areas (Osei-Assibey & Bockarie, 2013). Factually, there has been a notable increase and improvement of growth of SMES in the country.

Back in Africa with specific attention to South Africa, Bauer and Esqueda (2017) established that most of the SMES that has never applied for credit lacked knowledge on procedural requirements. The government has attempted to increase rate of loan access and also used various stakeholders to educate entrepreneurs on the financial aspects. The upward increment in the accessibility of credit due to increase knowledge and literacy has, therefore, permitted many entrepreneurs to apply for loans that can be easily paid back.
In Nigeria, so as to improve the uptake of loans by SMES, the government introduced “Small and Medium Enterprises Equity Investment Scheme (SMEIS)” in 2001. This was after the uproar among various entrepreneurs who argued that the threshold for borrowing was beyond their reach. In order to enrich SMES, the Central Bank of Nigeria came up with the microfinance policy in December 2005 that ensured rendering of loan services to the SMES (Obeng & Sakyi, 2017). Notwithstanding, credit accessibility has been deemed as main hindrance in the growth of SMES in the country of Nigeria. The fact that SMES have little credit accessibility has adversely affected their business.

In Kenya, Economic Survey (2006) shows that SMES contributed to about 50% fresh job opportunities in 2005 (Aseyo & Okibo, 2013). Nevertheless, a report by commercial banks indicated that inadequate government assistance to SMES was hampering their development and ultimately growth. The commercial banks suggested that in order for the SMES to experience upward growth, the government should create conducive environment such as financial assistance as well having legal and regulatory frameworks that are friendly to the SMES quest for loan uptake. Furthermore, commercial banks reported in the year 2012 that presence of inadequate support from government hindered the general development and growth of SMES (Islam & In Vos, 2015).

In the DRC, lack of accessing finance has been recognized as the main handicap to SMES growth and expansion. As reported by the International Monetary Fund (2014), in DRC, insisted on the fact that loans are insufficient, costly and strongly concentrated in township. It is therefore foreseeable that SMES will not attain the performance necessary in terms of job creation and have not contributed to the expected economic GDP even though they represent most of the entire business population. Mohan (2012) showed that while SMES represent more than 90% of the population in the DRC, their contribution to the country's GDP is approximately less than 20%, while it can go up to 60% in countries with high revenues.

**Statement of the problem**

Uptake of loans is a major factor for the performance and ultimately the overall growth of SMES in the DRC. However, numerous research studies have indicated that most SMES in the DRC and with specific attention to Goma Town do face myriad of problems in their attempt to accessing loans (Visser & Chiloane-Tsoka, 2014). This is alarming due to the fact that DRC’s private sector is majorly dominated by SMES hence existence of problems in as far as loan uptake is concerned is detrimental to their overall growth (Unda & Margret, 2015). Further, issues such as small and ever competitive local markets, unpredictable political environment, hurdles encountered during loan application procedures, and inadequate provision of funds by the financial institutions have been treated as some of the factors that have minimized loan uptake by SMES in Goma.

Moreover, issues such as unfriendly collateral requirements, financial track records, defaulting status as well as lack of business networks that can be used for reference purposes have hindered SMES from accessing loans. As a result of these, uptake of loans by SMES has been constrained (Waweru & Spraakman, 2012). Coupled with traditionally high interest rates are charged, many potential entrepreneurs have kept off processing of loans and this has affecting the growth of businesses in the DRC and in particular Goma Town.

**General objective**

The research sought to investigate the determinants of loan uptake by SMES in DRC.

**Specific objectives**

i) To evaluate the extent customer deposits determines loan uptake by SMES in DRC.

ii) To establish the extent bank credit products determines loan uptake by SMES in DRC.

iii) To analyze the extent non-performing loans determines loan uptake by SMES in DRC.

iv) To assess the extent cost of credit determines loan uptake by SMES in DRC.

**Limitations of the study**

Accessing the exact number of small and medium enterprises was a constraint due to the issue of formal and informal sector and the irregularity of their activities. Since majority of people in DRC are French speaker, some respondents were limited to fill the questionnaire, so the necessity to translate some in French. Further, the study only investigated some determinants of loan uptake by SMES in DRC, while SMES face other challenges such as inflation, unpredictable political environment, lack of entrepreneurial skills and education among other factors.
Conceptual framework

Figure 1 gives an illustration of the conceptual framework.

Independent variable

- Customer deposits
  - Amount of deposits
  - Number of deposits
- Credit products
  - Loan size
  - Repayment period
- Non-performing loans
  - Number of defaulters
  - NPL recovery rate
- Cost of credit
  - Processing costs
  - Interest rate charged

Dependent variable

- Loan Uptake
  - Number of loans

Source: From the researcher (2019)

The figure shows that customer deposits which is measured by amount of deposits and number of deposits made have effect on the loan uptake by SMES. The framework shows that credit products as measured by loan size and repayment periods have effect on the uptake of loans by SMES. Further, the study assumes that Non-performing loans do have effect on loan uptake as such presence of defaulters and existence of inadequate loan recovery measures could lead to low uptake of loans. Cost of credit measures such as processing fee and interest rate charged on loans by financial institution could have effect on the rate of loan uptake. Therefore, customer deposits, credit products, Non-Performing Loans and cost of credit determined whether there is adequacy of funds that could lead to increase in borrowing and ultimately the increase in the growth of SMES.

II. LITERATURE REVIEW

Theoretical framework

Schumpeter’s Theory of Innovation

The theory was introduced by Joseph Schumpeter (Schumpeter, 1934). The theory argues that entrepreneurs contribute to the economic growth by coming up with innovations that ultimately takes growth to higher level of economic development. Therefore, the theory is related to the current study in the sense that SMES are run by entrepreneurs who improve economic growth by innovating new business ideas that if well financed does help in improving overall economic growth in any country. Therefore, for the entrepreneurial ideas to be implemented access of finance by means of loan uptake based on customer deposits and relatively cheaper cost of credit is an added advantage to their growth as well as overall country’s economic growth.

However, in criticizing the theory, Klein (2013) is of the opinion that the theory exaggerated on innovation role of the entrepreneurs. He says the theory overlook the organizational component of entrepreneurship. Secondly, he says that the theory is ignorant on risk taking role of entrepreneurs. This is because, if and when entrepreneurs initiates fresh ideas, indeed there are numerous risk encountered hence such concerns cannot be ignored as presented by the theory.

Loanable Funds Theory

The loanable funds theory was promoted by the Swedish economist Wicksell (1851-1926). It outlines the relationship between money accessible for borrowing and loan usage. Thereby, if the demand for loans is greater than supplies the interest rate will rise and vice versa. Therefore, supply of money accessible for borrowing and the demand for money to borrow relies on interest rates and there is an inverse relationship between loanable funds and interest rates. If the demand and supply of loanable funds change, the resulting rate would depend on the magnitude of the movement of demand and supply of loanable funds. Therefore, the low or high supply of loans is basically dependent on the amount of deposits made and absence or otherwise of non-performing loans hence the relevance of the theory to the study.

In criticizing, the theory, Keynes was of the argument that the theory of loanable funds was founded on an unreasonable supposition of full use of resources; unfeasible. However in real life, investment is not only affected by interest rates but also by the marginal efficiency of capital whose effect has been excluded; unacceptable combination of real and monetary factors: this theory try to combine monetary and real factors as
determinants of interest rates, however, criticisms have supported that these factors can’t be combined in the
form of the calendar, as it is obvious from the framework of this theory.

**Empirical Review**

**Customer Deposits and Uptake of Loans by SMES**

Customers’ deposits are primarily used by financial institutions to advance credit to customers. According to Osei-Assibey and Bockarie (2013), for the lending activities to be ascertained, the only alternative is for the financial institutions to mobilize sufficient funds from customers. The fact that the lenders depend on depositors’ money as a source of funds, it implies that a relationship exist between the capability of the lenders to mobilize funds and the credit quantity given to customers (Dunne & Kasekende, 2018). Therefore, the uptake of loans by SMES all depend on the amount of deposits as well as the number of deposits made by lenders.

Yet again a study by Chibole (2014) assessed the link between customer deposits and the loans application as well as the SMES growth in Kenya. The study used cross-sectional descriptive survey. The target population was 311 drawn from SMES in Nairobi Central Business District (NCBD). Stratified random sampling used 20% of population resulting to 62 participants in total. The study returned questionnaires were 19 in total. The data was analyzed using descriptive and regression statistics with the aid of Statistical Package for Social Sciences (SPSS 21.0). Findings of the study indicated that total amount of deposits made on daily, weekly, monthly basis affected the overall growth of medium enterprises in Kenya. The study also found that the lower the amount of deposits made the lower the loan provided to the SMES.

Tuyishime, Membra and Mbera (2015) study sought to establish the effects of customer deposits on the bank financial performance in commercial banks in Rwanda with a focus on Equity bank limited, Rwanda. By use descriptive statistics, the study found that interest rate affects the level of deposits received and later the profitability of the bank. The study further found that the use of innovative banking technologies have resulted to the increase in deposits by customers since use of technology has made depositing much easier. This also made the ROA, ROE, and net profit as well as the loan to increase. The statistical correlation revealed that there is a positive relationship between deposits mobilization and financial performance of Equity bank in Rwanda.

Boateng, Boateng and Bampoe (2015) study was based on the impact of various loan products in the access of credit by SMES in Ghana. The study employed deposit interest rates, number of deposits and amount of deposits as measures for customer deposits. Questionnaires were administered to 60 customers and beneficiaries of microfinance products of two major microfinance institutions in Ghana: Opportunity International Savings and Loans Ltd. and Sinapi Aba Savings and Loans Company Ltd. The study found a positive relationship between interest rates, number of deposits and amount of deposits as measures for customer deposits and the access of credit by SMES.

**Credit Products and Uptake of Loans by SMES**

The role of credit is basically to narrow the gap between borrowers’ financial assets and the needed financial support for their enterprises. As such there is need for financial institutions to have variety of credit products that can be accessed by borrowers at low rates. From the perspective of SMES, less credit products can decrease the demand for credits or otherwise (Akinboade, 2014).

In this study, credit products will be measured by loan or credit rationing. In Chaudhuri and Cherical (2012), credit rationing arises as and when a potential borrower is denied access to credit while loan size rationing happens as and when the received amount of loan by the borrower is smaller than what they applied for and this adversely affect loan uptake and ultimately entrepreneurial growth (Tan & Lee, 2015).

Akinboade (2014) research focused on identifying factors that influence credit demand by lenders in Uganda. Using logit regressions, the findings revealed that many entrepreneurs who sought credit were denied access due to costs, terms and conditions determined by the lenders. This is because, lenders normally determine amount of credit given and this is usually based on the possibility of default thereby resulting in credit rationing thus affecting loan uptake by SMES.

Further, Aberi and Jagongo (2018) study was based on influence of microcredit accessibility on growth of SMES owned by women in Kisumu City CBD. The study gathered data using primary data collection instruments. The target population was 190 participants. Upon analysis, it established that micro-credit accessibility was associated significantly with profitability and total sales as well as employee base. The study further found that factors such as loan size, repayment periods and credit rationing adversely affected the growth of SMES in Kisumu City. The results were indeed a clear indication that terms for lending by the financial institutions were not friendly to entrepreneurs in Kisumu City. Factually, this state did negatively affect the growth of SMES within the CBD.

Again, Awoke (2014) assessed association among various products of credit and the SMES performances in Ivory Coast. Regression statistical method was employed to analyze the generated data. The study adopted survey research design and systematic sampling technique. The study established that micro-credit has significant effect on the growth and consequently performance of SMES in the West African country. More specifically, the size of loan and repayment period provided by the financial institutions was not favorable to the SMES hence their performance was adversely affected.
Non-Performing Loans and Uptake of Loans by SMES

Myriad of studies have been done concerning macroeconomic factors that influences the number of non-performing loans. According to Bauer and Esqueda (2017), macroeconomic factors that have influence on NPL lead to credit risk. These factors could include: rate of inflation, rate of exchange, rate of unemployment, and gross domestic products among others (Islam & Vos, 2015). Therefore, whenever there is high inflation rates, the prices of stocks owned by banks also increases (Osei-Assibey & Bockarie, 2013). As such with the cap law in effect, the financing institutions are unable to increase the interest rates above the provided rates and thus they (borrowers) tend to be skeptical in processing loans to the SMES hence the uptake of loans by SMES is hampered.

Ho and Saunders (2018) studied the associational link between cost efficiency of banks and NPL in China. The study found a negative correlation between the variables. On the other hand, Klein (2013) found that low cost efficiency had correlation with an increase in the number of NPL. The low cost efficiency was found to be related with poor management and inadequate credit knowledge especially among SMES in Turkey. Therefore, poor management financial practices are as a result of low cost efficiency. Therefore, this implies that due to bad loan under-writing, monitoring as well as control, NPLs are likely to increase and the uptake of loans by SMES will be low.

Further, Ng’etich (2011) assert that some projects that are risk averse could result to high lending cost for borrowers which then could lead to a rise in the NPL levels and consequently affecting overall loan uptake by SMES.

Hawtrey and Liang (2018) established that bad management practices affected performance of loans as such regulatory authorities in developing economies such as DRC should focus on managerial performance in order to enhance the management of SMES so as to reduce NPLs and increase uptake of loans.

Cost of Credit and Uptake of Loans by SMES

As a matter of fact, cost of credit as determined by the interest rate charged by lenders has in the recent past been declining marginally because of bad economies. Government of DRC has been responding to this by attempting to change its regulations and policies that guide the commercial banks. This has assisted in boosting the economic growth while on the other side it has had an adverse effect on the lending to the SMES (Cowling & Westhead, 2016). In the DRC, cost of credit has been high and this has kept small business out of the bank where they have preferred to use their internally generated funds. Duration of repaying of any loan borrowed has also been shortened due to the fact that most firms rely on their own deposits which hit most firms harder by reducing the amount of credit creation. As a result, financing institutions have introduced heavy penalties on borrowers.

According to Obeng and Sakyi (2017), most sectors in the DRC, SMES provided immense support for many households. This is because, it is a platform that many of the big business emerges and most importantly creates employment for citizens. However, the cost of processing loans has recently hampered the uptake of loans by SMES ultimately leading to inadequate employment opportunities in the country (Aseyo & Okibo, 2013).

Gao, Sun and Zhou (2017) opined that most of financing institutions permitted past SME default to be factored in possible loans to customers. This is because the financial institutions argued that for continued running of businesses that have to resort to measures that help them recover lost loans by way of increasing interest cost as well as other fees that pertains loan processing. Such steps made the loan provided by the financial institutions to be extremely expensive as such many potential borrowers found themselves locked out of the entire loaning systems and consequently there business or rather enterprises were severely affected.

In Uganda, Edakasi (2013) studied the effect of interest rate on loan repayment with specific focus to Equity Bank Masindi Branch, Uganda. The research used both random sampling and purposive selection of a sample size of 60 respondents. Out of which 10 were Equity bank employees and 50 were customers. The study found that the level of interest rates has a direct effect on a consumer's ability to repay a loan. Stevenson and Pond (2016) assert that when interest rates are low due low processing fee, SMES are willing to borrow because they find it relatively easy to repay their debt. When interest rates are high, people are reluctant to borrow because interest on loans cost more. Some consumers may even find it difficult to meet their existing loan schedules, especially if interest rates increase faster than the rise in consumer's income. Therefore, if interest rates rise sharply and stay high for a long period, some SMES will default on their loans hence the significance of interest rate capping law.

A study by Madole (2013) examined the relationship between costs of credit on the performance of SMES in Tanzania, specifically in Morogoro Municipal. The research design employed was a case study. Data were collected from 100 respondents. Simple random as well as purposive sampling methods were utilized. Data was gathered by use of questionnaires, interviews, and documentary reviews as well as observations. Data were analyzed using descriptive statistics (frequencies and percentages) using SPSS version 20.0. It was established that due to credits provided by commercial banks from Morogoro, most SMEs were capable to realize higher growth rate as opposed to SMES that did not borrow from financial institutions. The profits surged, sales volume also improved, employee based multiplied, asset base also improved and more importantly poverty
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Research Instruments

A self-administered questionnaire was used to gather information for this research and the questionnaire was distributed to the respondent’s in this study. The questionnaire was divided into five different sections containing personal information for respondents as well as four sections for research objectives. The structured questionnaire consisted of close-ended questions. The respondents had a list of answers from which they were required to select only one choices that indicates their agreement or otherwise to the situation.

Piloting of research instruments

The pilot test was carried out to ensure the reliability of the instruments applied in a study. The researcher ran a pre-test of exercise of the research instrument tool before distributing the actual questionnaires so as to avoid misunderstanding, irrelevance and reduce errors. To enhance validity and reliability, the outcomes of this pilot study was used to ameliorate the research instrument. Completeness and accuracy was confirmed on all data collected and the other open responses from the respondents. Upon pilot test the study found a reliability of coefficient of 0.772. This was good as supported by Gay and Airasian (2003) that reliability above 0.65 is good.

Validity test

To ascertain the validity of questionnaire is one of the key factors for running the pilot study. The content validity of the instrument was examined by the supervising lecturer, who will ascertain its validity (Bryman, 2011). A pre-test assisted the research to determine the validity, where the instrument was dispensed to a little percentage of the actual sample population to verify relevance, reliability and also the availability of the information requested.

Reliability test

The internal standard of the research instrument is estimated by applying Cronbach’s alpha coefficient. Reliability of the questionnaires were assessed by administration of the said tool to the pilot group of respondents from exclusive enterprises. A construct composite reliability coefficient (Cronbach alpha) of 0.6 % or above, for all the constructs was considered adequate (Cronbach, 1951). Upon reliability tests of four items for each objective, the study found a reliability coefficient of 0.765. The result for reliability is shown in Table 3.

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.765</td>
<td>16</td>
</tr>
</tbody>
</table>

Data collection methods and procedures

A drop and pick later procedure was applied in this study. Questionnaires were given to respondents and were picked two days later to enable respondents to think through the questions before they respond and to complete them in at their most convenient time.

Proposed data analysis techniques and procedures

The collected data was coded, arranged and processed by use of the statistical package for social sciences (SPSS) version 25 program to analyze the data. Descriptive statistics of frequency, standards deviations and means was applied. The findings were presented in the form of statistical tables, charts and bar graphs. The study also used correlation analysis. This helped in giving an explanation of both the strength and also the direction of the relationship between variables. For advanced analysis, the study used multiple regression analysis. The method helped in investigating the relationship between independent and dependent variables.

The regression model is as follows

\[
Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon
\]

Where

- \( Y = \) SMES’ loans uptake
- \( X_1 = \) Customer deposits
- \( X_2 = \) Credit products
- \( X_3 = \) Non-performing loans
- \( X_4 = \) Cost of credit
- \( \epsilon = \) Error term
- \( \beta_1, \beta_2, \beta_3, \beta_4 = \) The coefficients of determination of independent variables
- \( \alpha = \) Constant

IV. DATA ANALYSIS, PRESENTATION AND DISCUSSIONS

Personal information for respondents

The study sought to establish the distribution of respondents by gender, educational levels and duration. The results are shown in table 4.
Table 4

<table>
<thead>
<tr>
<th>Gender</th>
<th>Male</th>
<th>Female</th>
<th>Percentage</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>Female</td>
<td>Percentage</td>
<td>Percentage</td>
</tr>
<tr>
<td>Highest educational level</td>
<td>Primary</td>
<td>5</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Secondary</td>
<td>17</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Tertiary</td>
<td>26</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>10</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Duration as Entrepreneur</td>
<td>1-3 Years</td>
<td>8</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>4-6 Years</td>
<td>23</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>7-9 Years</td>
<td>19</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Above 10 years</td>
<td>8</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

Results presented in Table 4 indicate that the male respondents were the majority as represented by 52% while female respondents were 48%. This shows that most enterprises in Goma town were operated by male respondents. The results show that most of the respondents had college/tertiary as highest educational level at 45% this was followed by those who had secondary level of education at 29% while those who had acquired university degree were 17%. Only 9% were primary certificate holders. This shows that most entrepreneurs in Goma town were learned hence had the knowledge required for an improved SMES performance to be realized.

The results show that most entrepreneurs had duration of 4-6 years as reported by 39%. This was followed by 7-9 entrepreneurs with 7-9 years as reported by 33%. Above 10 years and between 1-3 years was represented by 14% on equal measure. It can be said that most SMES had garnered sufficient experience.

Customer Deposits and Uptake of Loans by SMES

The respondents were requested to indicate their level of agreement with statements that relate to customer deposits and loan uptake. The results are presented in table 5.

Table 5: Customer Deposits and Uptake of Loans by SMES

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
<th>Mean</th>
<th>Std dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many of my business partners have reportedly deposited less than the required monthly deposit agreement by the financial institutions</td>
<td>3</td>
<td>7</td>
<td>9</td>
<td>36</td>
<td>45</td>
<td>4.00</td>
<td>1.025</td>
</tr>
<tr>
<td>The number of deposits made by SMES has been reported to be low</td>
<td>5</td>
<td>3</td>
<td>10</td>
<td>34</td>
<td>47</td>
<td>4.00</td>
<td>1.034</td>
</tr>
<tr>
<td>The witnessed low deposit by many SMES has led to low uptake of loans by potential entrepreneurs</td>
<td>2</td>
<td>5</td>
<td>5</td>
<td>43</td>
<td>45</td>
<td>4.20</td>
<td>0.899</td>
</tr>
<tr>
<td>Many of my SMES partners have reported instances whereby they have been denied credit based on low deposit rates by SMES</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>41</td>
<td>43</td>
<td>4.10</td>
<td>0.999</td>
</tr>
</tbody>
</table>

The results in table 5 show that the respondents strongly agreed with a mean value of 4.00 that their respective business partners have reportedly deposited less than the required monthly deposit agreement by the financial institutions. The results are in agreement by yet another study by Osei-Assibey and Bockarie (2013) for the lending activities to be ascertained, the only alternative is for the financial institutions to mobilize sufficient funds from customers.

Again it was found that the number of deposits made by SMES has been low as supported by a mean of 4.0 indicating strong agreement levels. The results are in support of another study by Madole (2013) that found that the generation of deposits is an integral function of the financing institutions as such low deposits by enterprises was hampered the access of more loans by potential borrowers.

The study also show that most respondents strongly agreed (mean value of 4.10) that many of their SMES partners had reported instances where they have been denied credit based on low deposit rates by SMES. In support, Tuyishime, Memba and Mbera (2015) states that low deposits in most cases result to scarce credit by the bank which thereby locks out potential customers from borrowing.

Credit Products and Uptake of Loans by SMES

The respondents were requested to indicate their level of agreement with statements that relate to credit products and loan uptake. The results are presented in table 6.
The results in table 6 shows that most respondents agreed that loan repayment period has greatly hindered many SMES from applying for credit due to loan size rationing by the banks. In Chaudhuri and Cherical (2012), credit rationing arises as and when a potential borrower is denied access to credit while loan size rationing happens as and when the received amount of loan by the borrower is smaller than what they applied for and this adversely affect loan uptake and ultimately entrepreneurial growth. The results finally show that majority of the respondents strongly agreed (mean value of 4.24) that they have sometimes received less amount of loan applied for due to loan size rationing. Chaudhuri and Cherical (2012) study is in agreement with this study since they also found that loan rationing hampers SMES expectation because it makes them receive less than amount applied for.

### Non-Performing Loans and Uptake of Loans by SMES

The respondents were requested to indicate their level of agreement with statements that relate to Non-performing loans and loan uptake. The results are presented in table 7.

#### Table 7: Non-Performing Loans and Uptake of Loans by SMES

<table>
<thead>
<tr>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
<th>Mean</th>
<th>Std dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>As an entrepreneur, I am aware that the number of non-performing loans has increased</td>
<td>7</td>
<td>3</td>
<td>7</td>
<td>38</td>
<td>45</td>
<td>4.10</td>
</tr>
<tr>
<td>There has been increase in defaulting rate hence hindering the uptake of loans by SMES</td>
<td>3</td>
<td>7</td>
<td>19</td>
<td>40</td>
<td>31</td>
<td>3.88</td>
</tr>
<tr>
<td>I am aware that the recovery of many non-performing loans from business partners have increased</td>
<td>9</td>
<td>10</td>
<td>26</td>
<td>34</td>
<td>21</td>
<td>3.40</td>
</tr>
<tr>
<td>Loan loss provisions by many SMES have greatly increased</td>
<td>5</td>
<td>5</td>
<td>14</td>
<td>36</td>
<td>40</td>
<td>4.00</td>
</tr>
<tr>
<td>The existence of many Non-performing loans have slowed down the growth of our SMES</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>40</td>
<td>48</td>
<td>4.24</td>
</tr>
</tbody>
</table>

As presented in table 7, the study found that respondents strongly agreed (with a mean value of 4.10) that they are aware that the number of non-performing loans has increased. In disagreement Osei-Assibey & Bockarie (2013) found that the interest high defaulting rate has lowered the number of NPL in Nigeria. Again the study found that respondents agreed (mean value 3.88) that there has been increase in defaulting rate has hindered the uptake of loans by SMES. The findings are in agreement with yet another study by Klein (2013) who found that low cost efficiency had correlation with an increase in the number of defaulting rates. The study concluded that increasing loan recovery rates will bring about increased performance of micro enterprise.
Further the results show that most respondents agreed (mean value of 3.40) that they are aware on increase in recovery of many non-performing loans from their business partners. In agreement, Bauer and Esqueda (2017) state that loan recovery by many financial institutions in Netherlands has increased. It was found that most respondents strongly agreed (mean value of 4.00) that loan loss provisions by many SMES have greatly increased in the recent past. However, Gao, Sun and Zhou (2017) found that variables such as interest rate and credit repayment periods resulted to many loan losses due to high defaulting rate in China. Finally the results show that majority strongly agreed (mean value of 4.24) that existence of many Non-performing loans have slowed down the growth of our SMES. In yet another study, Gao, Sun and Zhou (2017) found that NPL generally reduces the growth of SMES in China. This is because banks become cautious on loan provisions.

Cost of Credit and Uptake of Loans by SMES

The respondents were requested to indicate their level of agreement with statements that relate to cost of credit and loan uptake. The results are presented in table 8.

<table>
<thead>
<tr>
<th>Cost of Credit and Uptake of Loans by SMES</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
<th>Mean</th>
<th>Std dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan charges have increased hence negatively affecting SMES</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>36</td>
<td>53</td>
<td>4.29</td>
<td>1.043</td>
</tr>
<tr>
<td>Processing cost for loans have increased and this has affected growth of SMES</td>
<td>3</td>
<td>2</td>
<td>9</td>
<td>36</td>
<td>50</td>
<td>4.28</td>
<td>0.951</td>
</tr>
<tr>
<td>The bank requirements for new loans have increased thus many SMES have kept off bank loans</td>
<td>2</td>
<td>5</td>
<td>12</td>
<td>38</td>
<td>43</td>
<td>4.16</td>
<td>0.951</td>
</tr>
<tr>
<td>Many SMES access loans at cheaper interest rates nowadays</td>
<td>5</td>
<td>3</td>
<td>10</td>
<td>36</td>
<td>45</td>
<td>4.12</td>
<td>1.077</td>
</tr>
</tbody>
</table>

It was established in table 8 that most respondents strongly agreed (mean value of 4.29) that other bank charges have increased hence negatively affecting SMES. The results confirm the findings by Aberi and Jagongo (2018) that found that many financial firms still have hidden cost that SMES must pay as part of the loaned funds or rather during repayment periods. Again the study found that most respondents strongly agreed (mean value of 4.16) that the bank requirements for new loans have increased thus many SMES have been kept off bank loans. Aseyo and Okibo (2013) however found that the cost of processing particularly new loans has recently hampered the uptake of loans by SMES ultimately leading to inadequate employment opportunities in the country.

It was again found that majority of the respondents strongly agreed (mean value of 4.12) that many SMES nowadays access loans at cheaper interest rates than before. In support, Caporale and Gil-Alana (2010) say that interest rate capping has immensely increased the rate of borrowing in many developing countries as such economic growth has been witnessed.

Pearson Correlation Analysis

The study used Pearson product moment correlation to help in determining the relationship between the variables. The results are shown in Table 9.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer deposits</td>
<td>.661**</td>
<td>0.000</td>
</tr>
<tr>
<td>Credit product</td>
<td>.560**</td>
<td>0.003</td>
</tr>
<tr>
<td>NPL</td>
<td>.699*</td>
<td>0.02</td>
</tr>
<tr>
<td>Cost of products</td>
<td>.540*</td>
<td>0.023</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The study found that customer deposit was significantly correlated with loan uptake (Sig. 0.000). Credit product was found to be significantly correlated with loan uptake (Sig. 0.003). It was also found that NPL was significantly correlated with loan uptake (Sig.0.020). Finally cost of credit was also found to be
significantly correlated with loan uptake (Sig. 0.023). This shows that all the independent variables had positive correlation with the uptake of loans hence an indication that loan uptake significantly depends on customer deposits, NPL, credit costs and cost of products. In agreement with the linkage between the variables, Edakasi (2013) found that cost of credit, customer deposits and credit products have signification relationship with the use of loans in Uganda.

**Multiple Regression Analysis**

The study used regression method to help in ascertaining the relationship between independent variable and dependent variable. The results are shown in Table 10.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient (β)</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.383</td>
<td>0.333</td>
<td>0.74</td>
</tr>
<tr>
<td>Customer deposit</td>
<td>0.656</td>
<td>5.865</td>
<td>0.000</td>
</tr>
<tr>
<td>Credit products</td>
<td>0.008</td>
<td>0.077</td>
<td>0.039</td>
</tr>
<tr>
<td>NPL</td>
<td>-0.022</td>
<td>-0.193</td>
<td>0.047</td>
</tr>
<tr>
<td>Cost of credit</td>
<td>-0.079</td>
<td>-0.706</td>
<td>0.043</td>
</tr>
<tr>
<td>R-square</td>
<td></td>
<td></td>
<td>0.537</td>
</tr>
<tr>
<td>F-statistic (p-value)</td>
<td></td>
<td>(0.000)</td>
<td></td>
</tr>
</tbody>
</table>

The table shows there is a coefficient of determination of 0.537; this means that 53.7% of the variation in the loan uptake is explained by the independent variables. The results contradicts a study by Klein (2013) that established that NPL, credit cost, customer deposits had weak association with loan uptake by the SMES in Turkey. The ANOVA results show that the significance of the F statistics is 0.000 (it is less than 0.01). This implies that there is a significant relationship between independent variables and dependent variable. Therefore, it can be concluded that the model is significantly reliable. The results agree with yet another study by Tan and Lee (2015) that established that there was significant reliable relationship between loan uptake and performance of small businesses.

The coefficient results show that customer deposit is significantly related to loan uptake (β =0.656, p-value = 0.000). Credit product was significantly related to loan uptake (β = 0.008, p-value = 0.039). NPL was found to be significant to loan uptake (β = -0.022, p-value= 0.047). Cost of credit was found to be significantly related to loan uptake (β= -0.706, p-value= 0.043). In agreement with the linkage between the variables, Edakasi (2013) found that cost of credit, customer deposits and credit products have signification relationship with the use of loans in Uganda. The findings are also supported by Hawtrey and Liang (2018) who found that cost of credit, customer deposits and NPL have significant effect on the loan uptake.

**V. CONCLUSIONS**

The study concludes that customer deposits affected the uptake of loans by SMES. This is because in the recent past, the deposits made by customers especially SMES has reduced marginally and this has greatly affected the uptake of loans by SMES. The study concludes that credit products especially loan rationing has adversely affected the uptake of loans. This is because financial institutions provides loan conditions that potential entrepreneur can access hence hindering the uptake and consequently the growth of many SMES.

The study concludes that there has been increase in the NPL and this is attributed to the high number of defaulters witnessed. The high rate of defaulting has led to scarce credit by the FIs consequently affecting the uptake of loans by the entrepreneurs. The study concludes that cost of credit such as processing costs and other bank requirements for loans has adversely affected the rate of loan uptake. This is because many banks have initiated or rather resorted to hidden fees on loans and this has negatively affected loan uptake.

**Recommendations**

Due to the fact that financial institutions depend on SMES as a source of funds, it is, therefore, recommended that banks should be able to create measures that support mobilization of deposits from customers so as to increase loan uptake. The study recommends that lenders should increase loan repayment period so as to enhance the chances of borrowing. It is also recommended that lenders should make sure that they are not apply shorter repayment period that could hurt the financial expectation of the SMES. This is because it is factual that customers who fail to get the applied loans are likely to default or fail to re-apply for loans.

The study recommends that the enterprises should be sensitized by the relevant lenders on the need for embracing good financial records as this will make it easier for them to access loans that are applied for.
Customers should also make sure that they promptly repay their loans as this could act as an added advantage when applying for new loans. The study recommends that since most SMES are low income earners and may lack collateral, they should make sure that they uphold a better credit history which could also be used for making credit decisions by the financing institutions.

Areas for Further Studies

The objective of the study was to investigate the determinants of uptake of loans by SMES in DRC: a case of SMES in Goma Town. The study recommends that further study base on the relationship between interest rate capping and the performance of financial institutions in Goma. This will shed light on the extent the interest rate capping application has affected their performance.

VI. REFERENCES