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# Factors influencing access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya

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**FACTORS INFLUENCING ACCESS TO FINANCE AMONG ENTERPRISES  
IN THE CULTURAL AND CREATIVE SECTOR IN NAIROBI COUNTY,  
KENYA**

**OGUTU ERICK OTIENO JEAN**

**MDF/114322/18**

**SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE MASTER'S DEGREE IN DEVELOPMENT FINANCE AT  
STRATHMORE BUSINESS SCHOOL**



**STRATHMORE BUSINESS SCHOOL  
STRATHMORE UNIVERSITY  
NAIROBI, KENYA**

**NOVEMBER 2021**

# DECLARATION

I, the undersigned, declare that this dissertation is my original work and has not been submitted for examination in any other institution.

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**ERICK OGUTU OTIENO JEAN**  
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**Supervisor's Approval:**

This dissertation has been submitted for examination with my approval as the university supervisor.

Sign:  ..... Date: .....15/11/2021.....

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**Lecturer**  
**Strathmore University**

## ABSTRACT

Businesses within the Cultural and Creative Sector (CCS) are credited with contributing substantially to the economies of many countries worldwide to the extent of being described as the next frontier for economic growth through creating jobs and contributing to tax revenue. Whereas Kenya's regulatory framework for the broader segment of Micro, Small and Medium Enterprises (MSMEs) is in place and interventions by public, not-for-profit and private sectors well established, little focus has been placed on facilitating the growth of cultural and creative enterprises which have mostly remained small-sized and informal. This study seeks to investigate the influence of business owner attributes, firm characteristics and exogenous factors on access to finance by cultural and creative sector enterprises. Using descriptive survey research design, the study targets research on a sample of 215 simply randomly selected firms in Nairobi City County, Kenya. Data analysis is objective based while analytical techniques range from descriptive frequencies to inferential statistics. Results show that, mobile money and SACCOs had the highest success rates (above 94%) of access to financial services for creative sector enterprises in Nairobi even though they were the least preferred. Creative sector enterprises preferred commercial banks whose success rate of access to financial services was low at 25%. CCS enterprises seek financing mostly to innovate on products through research (M=4.00, SD=1.04), to digitize operations such as sales (M=3.89, SD=1.35), marketing and communication (M=3.77, SD=1.08). The greatest constraints to access to finance in the creative sector were high interest rates (M=4.44, SD=1.009), cumbersome funding requirements such as collateral (M=4.14, SD=2.877) and lack of be-fitting credit product (M=3.77, SD=1.432). Key challenges facing CCS the firms include investors not understanding the creative sector (M=4.53, SD=0.964), lack of supportive policies such as intellectual property protection (M=4.24, SD=0.887), lack of IP collateral tools (M=4.04, SD=0.882). The probability of cultural and creative sector enterprises accessing finance in commercial banks decreases by 0.076 among younger business owners, increases by 0.012 among businesses that have operated for longer and increases by 0.194 for managers with a lengthy business experience and good business networks (*ceteris paribus* for each variable). The probability of access to finance within SACCOs increases by 0.024 among businesses that have operated for longer and, *ceteris paribus*, by 0.133 among businesses whose owners had entrepreneurship training. Access to finance among informal savings groups (*chamas*) decreases by 0.036 among businesses with higher duration of operation in the creative sector and also, separately, increases by 0.415 among businesses whose owners have entrepreneurship training. Registration status of the business was critical with access to finance within commercial banks, SACCOs and informal savings groups (*chamas*) increasing by 8.7%, 36% and 67%, respectively, if the business was registered. Favorable financial services provider (FSP) policy on CCS financing, *ceteris paribus*, increases the probability of access to finance within commercial banks and SACCOs by 7.5% and 14.5%, respectively. In conclusion, there is a desirable mix of individual attributes, business characteristics and exogenous factors which, if addressed, would increase chances of access to finance for majority of CCS businesses in Nairobi. These attributes include years of experience (the more the better), access to technical training in CCS business, access to business networks as well as having the owner register their creative enterprise to formalize business operations to increase access to finance.

**Key words:** Cultural and creative sector; micro, small and medium enterprises

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## LIST OF ABBREVIATIONS AND ACRONYMS

<b>BCLB</b>	Betting Control and Licensing Board
<b>CBR</b>	Central Bank Rate
<b>CCS</b>	Cultural and Creative Industries (CCS)
<b>CCS</b>	Cultural and Creative Sector
<b>CIA</b>	Central Intelligence Agency
<b>DFID</b>	Department for International Development
<b>FIT</b>	Fashion Institute of Technology
<b>GDP</b>	Gross Domestic Product
<b>IFC</b>	International Finance Corporation
<b>KFCB</b>	Kenya Film Classification Board
<b>KNBS</b>	Kenya National Bureau of Statistics
<b>MCSK</b>	Music Copyright Society of Kenya
<b>MFI</b>	Microfinance Institution
<b>MOITED</b>	Ministry of Industrialization, Trade & Enterprise Development
<b>MSCH</b>	Ministry of Sports, Culture and Heritage
<b>MSEA</b>	Micro and Small Enterprise Authority
<b>MSEDF</b>	Micro and Small Enterprises Development Fund
<b>MSME</b>	Micro, Small and Medium Enterprise
<b>SACCO</b>	Savings and Credit Cooperatives
<b>SUIERC</b>	Strathmore University Institutional Ethics Review Committee
<b>UNESCO</b>	United Nations Educational, Scientific & Cultural Organization

## DEFINITION OF KEY TERMS

**Access to finance** – ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other risk management services (Demirgüç-Kunt, et al 2008; Richardson, B. (2008).

**Cultural and Creative Economy** - The creative economy comprises of knowledge-based economic activities that bear economic, cultural and market objectives. Such activities can be clustered into industries: radio, television and cable broadcasting; performing arts, motion picture (film) and recording; publication of books, journals and newspapers; design of software games, music and theatre production; photography, commercial art and advertising (UNCTAD, 2010).

**Exogenous factors** – The study conceives that there are factors which are outside the control of CCI enterprises that can influence the ease with which they can access finance. Such exogenous factors include financiers' products policies with respect to serving the needs of the CCS sector in Kenya; federal or county taxes, business registration and licensing requirements among others.

**Firm characteristics** – These are firm level attributes that can influence access to finance among CCI firms that include the size of the business, registration status, bank account ownership & stage of product development as established by Onyeator (2019).

**Owner/management attributes** – This concept refers to attributes of the CCI business owner or manager that can influence the firm's access to finance such as experience in the industry, human capital aspects like training, their attitudes towards fundraising, connectedness to the MSME ecosystem facing CCI and awareness of the financing landscape.

**CCS and CCI challenges** – The study conceives that Cultural and Creative Industry (CCI) businesses face challenges different from those facing other Micro, Small and Medium Enterprises (MSMEs) in Kenya (HEVA Fund, 2018). Such challenges include high informality, lack of appropriate policies and valuation instruments for creative intellectual property (IP), limited access to financiers, inappropriate credit instruments and lack of awareness among investors.

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I am obliged to my family members and friends for their moral and spiritual support. They gave me hope and strength to face the challenges I encountered. In the same breadth, I would also like to thank my research assistants, for helping me out with the data collection for this research.

I thank you all, most profoundly and unreservedly!

.

## DEDICATION

I dedicate this work to the nine sons and daughters of my parents, Raphael Ogutu Orwa and Beatrice Akello Orwa;

*Michael Orwa, Lilian Ogutu, Judith Ogutu, Joan Ogutu, Bonface Ogutu, Elijah Ogutu, Walter Magolo, Lameck Ogutu, Sheila Ogutu*

We're resilient because we know God is on our side and trials that happen in our life are for our good and His glory!

For we have learnt, in whatsoever state we are, therewith to be content. We know how to be abased, and we know how to abound; everywhere and in all things we have been instructed both to be full and to be hungry, both to abound and to suffer need. (Philippians 4:11-12)



# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction of Chapters

This thesis is organized into five chapters. Chapter one introduces the study with an understanding of the situation of enterprises operating in the cultural and creative sector in Kenya, a statement of the researchable problem area objectives, scope and significance. Chapter two presents the theoretical framework suitable for explaining how these type of enterprises are able to raise capital, borrow and achieve other aspects of finance for their businesses. In the empirical literature section, experiences from various countries including Kenya are reviewed leading to identification of gaps in knowledge to inform the conceptual framework that guides this study. Chapter three presents the research methodology while chapter four has the research findings. Finally chapter five contains a discussion of the key findings, conclusions and recommendations.

### 1.2. Background to the Study

As a country that is experiencing structural transformation (reallocation of resources across various sectors of the economy), Kenya's economy is becoming propelled by the services sector with agriculture stagnant and industry growing at a slower pace more than ever before (World Bank, 2013; Ernst, 2016). In 2017, the services sector contributed 47.5% of Kenya's Gross Domestic Product (GDP) as compared to 34% and 18% contribution by agriculture and industry sectors respectively (Central Intelligence Agency - CIA, 2019). Among the most vibrant industries within the services sector comprises of various industries in the cultural and creative economy.

UNCTAD defines the creative economy to be "an assortment of creative industries, which comprise the creation, production, marketing and distribution of products, and services resulting from human creativity". According to UNCTAD, the creative economy comprises of knowledge-based economic activities that bear economic, cultural and market objectives: Such activities can be clustered into industries: radio,

television and cable broadcasting; performing arts, motion picture (film) and recording; publication of books, journals and newspapers; design of software games, music and theatre production; photography, commercial art and advertising (United Nations Conference on Trade and Development [UNCTAD], 2010). This definition is best applicable to the Kenyan context as acclaimed in a more recent review of the UNCTAD's framework by the [DFID] (2016).

### **1.2.1 Importance of the cultural and creative sector**

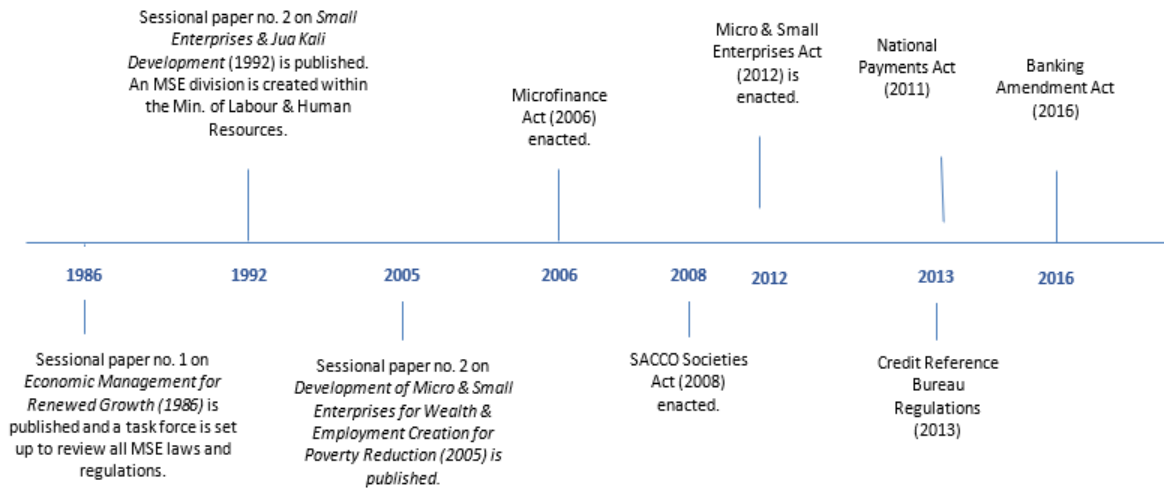
The Cultural and Creative Sector (CCS) is one of the most prolific sectors driving the global economy. In 2015, cultural sector industries generated revenues equivalent to 3% of world's output with television, newspapers/magazines and visual arts topping the ranking delivering \$477 billion, \$354 billion and \$391 billion respectively (World Economic Forum, 2015); the market for creative goods alone was \$509 billion.

Cultural and creative sector industries are equally important to developing countries for providing markets, generating much needed incomes and jobs for the local community besides contributing tax revenues for the government (Gregory and Rogerson, 2018). "The creative economy is recognized as a significant sector and a meaningful contributor to national gross domestic product of the developing countries. It has spurred innovation and knowledge transfer across all sectors of the economy and is a critical sector to foster inclusive development whether it be arts and crafts, books, films, paintings, festivals, songs, designs, digital animation or video games, the creative industries are more than just sectors with good economic growth performance and potential. They are expressions of the human imagination spreading important social and cultural values" (UNCTAD, 2019). Cultural and creative sector enterprises generate revenues to the government through taxes and also contribute towards the preservation of cultural heritage. Software for example is used in all the creative sector industries, from music to advertising, graphic and visual arts and marketing (Ouma, 2015). Besides, software provides the platform for financing as exemplified by the financial services sector which rely on mobile wallets, APPs and USSD codes for banking through mobile electronic channels.

Kenya has over 100,000 Micro, Small and Medium Enterprises (MSMEs) majority of whom operate within the informal sector rather than the formal sector (UNCTAD, 2018; Kenya National Bureau of Statistics [KNBS], 2017). In 2011, copyright-based industries in Kenya contributed a total of 5.3% of national output (GDP) that was equivalent to KES 85.2 billion (\$850 million). The film and television industry contributed nearly half of the amount translating to 2.45% of the country's GDP (Manyalla, 2016). In 2016, just three foreign production companies registered in Kenya under Export Promotion Zones (EPZ) facility employed 2,327 people, generated an income worth Ksh 867 million (\$8 million) and made local purchases worth Ksh 318 million (HEVA Fund, 2016). This demonstrates the huge potential of creatives to contribute to economic growth and national development. More advanced countries like China and Australia have been cited as excellent case studies for using their cultural and creative sector (CCS) in a liberal way to drive economic growth and urban development since the 1980's (Landry and Bianchini 1995; Kong, 2014 and Liang and Wang, 2020).

### **1.2.2 Access to finance supply and demand environment for CCS enterprises**

Access to finance supply and demand environment for enterprises in the cultural and creative sector in Kenya is tied to the regulatory environment surrounding this sector. While there are specific regulations and policy frameworks that govern the creative economy in Kenya, when it comes to financing, enterprises in the cultural and creative sector face the same ecosystem circumstance's as other MSMEs in other sectors. Kenya's policy framework anchors on the Micro and Small Enterprises Act (2012) and Micro Small Enterprises Authority (MSEA) to provide financing for Micro Small Enterprises (MSE) promotion, capacity building, research, development, innovation and technology transfer as well as providing affordable and accessible credit to MSEs (Heva Fund, 2016).



**Figure 1.1: Evolution of Kenya's MSME policy framework**

Another construct of the Micro and Small Enterprise Act (2012) is the Micro and Small Enterprises Development Fund (MSEDF) and the Microfinance Act (2006) established to regulate and license microfinance institutions and the SACCO Societies Act (Act 14 of 2008) created to govern the regulation, licensing, and supervision of Savings and Credit Cooperatives (SACCOs). The Credit Reference Bureau Regulations (2013) were introduced to create a framework that would enable risk-based lending and in so doing reduce the collateralized lending that had dominated SME lending. The 2012 SME Act that seeks to improve business regulations and which can disproportionately benefit SMEs. These efforts include legislation of the Companies Act (2015), the Insolvency Act (2015), Business Registration Act (2015), Movable Property Act (2017) and automation of various processes. The Banking Amendment Act (2016) placed a cap on Commercial Bank's lending rates at 4% of the Central Bank Rate (CBR).

In specific to the CCS, the National Policy on Culture and Heritage policy is yet to be implemented (Ubunifu Report, 2016); The Intellectual Property (IP) Law as a critical protection mechanism for CCS MSMEs. The regulatory IP framework in Kenya illustrates the increasing value of the creative economy and is anchored on the Kenya Constitution 2010 that reaffirms the importance of protecting the IP rights of citizens. Prominent creative personalities are stakeholders on the Board of the oversight body

which is called the Competent Authority (established under section 48 of the Copyright Act, 2001). The Kenya Film Classification Board (KFCB) empowered by Laws of Kenya Act Cap 222 and Kenya Information and Communications Act to regulate the creation, broadcasting, possession, distribution and exhibition of films in the country with a view to promote national values and morality as well as to impose age restrictions and regulate free-to-air radio and TV services. The Music Copyright Society of Kenya (MCSK) licensing looks out for creative sector revenue collection and distribution. Other private platforms such as Safaricom's skiza, mdundo.com, YouTube, i-tunes and social media have attained huge traction in the Kenyan market due to high digital adoption.

Several factors drive growth in the creative sector including a growing middle class with an appetite for consuming creative goods especially among a healthy pool of talent among the youth who are keen to find alternative forms of unemployment; a growing culture of entrepreneurship; liberalization of the media industry culminating in the switch from analogue to digital broadcasting in 2015 which triggered exponential growth in the pace of the digital content creation sector (GSMA, 2017 and Gallerger, 2019).

Generally, Kenya's entrepreneurship ecosystem acknowledges the need for be-fitting financial support for start-up and scale-up of enterprises. Under the leadership of the Ministry of Industrialization, Trade and Enterprise Development (MIOTED), various state agencies provide direct support to entrepreneurs and MSMSEs across sectors; this support ranges from training, network support, market access and financial support - through grants and credit funds usually at an interest rate that is lower than market rates. Non-governmental organizations on the other hand offer non-financial support such as training and technical advisory but also offer grants for innovative enterprises. The private sector provides the bulk of the financial support which includes banks, venture capital funds, fintechs, microfinance institutions, SACCOs.

Following the advent of Covid-19 pandemic in 2020, the government through the "Work-For-Pay" program set aside Kshs. 100 million stimulus package for artists, actors and musicians. Local commercial banks restructured loans to offer a moratorium

to cushion enterprises suffering shocks due to the pandemic but this mostly benefits the larger enterprises. However, the World Bank's SMEs in a Pandemic study (2020) revealed that Development Financial Institutions (DFIs) financing would not be adequate to survive through the pandemic, calling for an ecosystem approach to support especially micro and small enterprises that are more vulnerable to COVID-19 pushed closures (World Bank, 2020). Also, many of the above interventions have not targeted working capital needs of start-ups whereas there is lacking evidence on the impact of the 2020 recovery funding interventions (Microsave Consulting, 2021).

It has also been established that creative sector enterprises in the arts, entertainment and recreation industries face challenges accessing affordable finance due to their micro and small structure (Kenya National Bureau of Statistics [KNBS], 2017). Demand side data of financial sources for business from an MSMEs survey shows that SMEs' typical sources of capital for the business starts with internal resources which range from family, own savings, ploughing back returns from the business, to informal (micro-lenders and digital apps) and least from formal financial institutions such as banks and venture capitalists (Kenya National Bureau of Statistics [KNBS], 2017).

The challenge of MSME access to finance within formal financial institutions has been widely studied by many authors including Okello, Mpeera, Munene and Akol (2017) who studied the relationship between access to finance and growth of SMEs in developing economies based on a case of Uganda. In jurisdictions outside Kenya, attributes of the business owner, business characteristics and external (exogenous) factors have been studied and seen to influence performance of SMEs by Liang and Wang (2020); Bunagan and Sison (2019); Lo, Wang, Wah and Ramayah (2016); Kong, (2014) among others. This study clusters factors influencing access to finance for creative sector enterprises into owner attributes, firm attributes and exogenous factors as explained in the conceptual framework (Section 2.4).

### 1.3 Statement of the problem

Evidence from different parts of the world point to the growing importance of the cultural and creative sector (CCS) in contribution to economic, social and cultural development of societies through incomes, employment and tax revenues (World Economic Forum, 2015; Khanna, Papadavid, Tyson and Willem te Velde, 2016, HEVA Fund, 2016 and UNESCO, 2017 among others). The creative sector generates revenue equivalent to almost 5% of world output with advanced countries like China and Australia having used the cultural and creative sector to drive economic growth and urban development (Landry and Bianchini 1995; Kong, 2014 and Liang and Wang, 2020). In 2017, Kenya's services sector within which CCS lies contributed 47.5% of Kenya's Gross Domestic Product (GDP) which was higher than agriculture and industry sectors independently (Central Intelligence Agency - CIA, 2019). Notwithstanding the relevance of the Cultural and Creative Sector (CCS) industries in Kenya, a majority of enterprises have stagnated in growth or collapsed due to limited access to affordable finance more than other reasons (Lo, Wang, Wah and Ramayah, 2016; Liang and Wang, 2020; Kenya National Bureau of Statistics, 2017; the United Nations Conference on Trade and Development, 2018 and the World Bank Group, 2020).

There is limited awareness among the research community about access to finance among CCS MSMEs that can facilitate business start-up or scaling up to growth phases of their life cycle. Previous works such as by Okechukwu (2018) focus on jurisdictions outside Kenya and have applied different conceptual underpinnings and analytical techniques from the ones proposed by this study. Key questions emerged: What could explain the slow growth and high informality of Cultural and Creative Sector (CCS) enterprises in Kenya? To what extent do owner attributes (such as entrepreneurial skills), firm characteristics (such as formalization) and exogenous factors (such as government policy) influence access to finance for enterprises within CCS sectors in Kenya? This study sought to investigate concerns particularly about access to finance by firms operating within the cultural and creative sector laying a spotlight on the influence of firm-owner attributes, firm-specific characteristics and exogenous factors using mainly quantitative research methods and an array of descriptive and inferential analytical techniques.

## **1.4 Objectives of the study**

### **1.4.1 Broad objective**

The general objective of the study was to determine factors influencing access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya.

### **1.4.2 Specific objectives**

1. To investigate the influence of owner management attributes on access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya.
2. To determine the influence of firm characteristics on access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya.
3. To determine the influence of exogenous factors on access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya.

## **1.5 Research questions**

1. How do owner attributes influence access to finance by enterprises in the cultural and creative sector in Nairobi County, Kenya?
2. How do firm characteristics influence access to finance by enterprises in the cultural and creative sector in Nairobi County, Kenya?
3. How do exogenous factors influence access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya?

## **1.6 Scope of the study**

This study was carried out among Micro, Small and Medium Enterprises (MSMEs) in the Cultural and Creative Sector (CCS) in Nairobi City County, also called creative enterprises. The scope of the study investigated issues the extent to which the sampled enterprises were able to access credit, make transactions or access cash flow financing for business operations. Nairobi City County was selected for the geographical scope of the study because it has the highest concentration of formal and informal enterprises dealing in cultural and creative goods and services and the possibility of the county harboring supportive demand and supply side infrastructure or systems that enable

creative enterprises to thrive relative to the rest of Kenya (Hivos, 2018). Lessons from the capital city county can aid to informing planners in other counties of the republic on critical success factors for development of creative sector enterprises. The study was undertaken in July 2021 targeting owners or managers of firms in the cultural and creative industries who had operated their businesses for a period of at least one year across all Sub Counties of Nairobi City County. This criterion qualified them to provide valid responses as regards their past and current experience with access to finance. On sample selection, MSMEs from five particular sub-sectors (industries) of the cultural and creative sector were included in the study as rationalized in Chapter 3 based on the wider HIVOs and UNCTAD framework.

## **1.7 Significance of the study**

### **1.7.1 Business Owners of Cultural and Creative Enterprises**

By this study striving to help overcome challenges of access to finance among businesses within the cultural and creative sector of Kenya, many Micro, Small and Medium Enterprises (MSMEs) owners can be motivated to venture into the creatives sector thereby generating livelihoods for themselves and employees.

### **1.7.2 Financial Service Providers**

Financing institutions such as commercial banks, Microfinance Institutions (MFI) and Savings and Credit Cooperatives (SACCOs) in Kenya can better understand that CCS MSMEs are unique in designing products that are different from those targeting MSMEs in other sectors of the economy.

### **1.7.3 Government and development partners**

Furthermore, government policy and non-state organizations are able to find information to enable them design better sectoral interventions for longevity of the creative enterprises in the country.

### **1.7.4 Researchers and the academia**

To researchers and academia this study adds to the wealth of understanding of determinants of access to finance among firms within the CCS by use of quantitative

and qualitative research methods that combine descriptive statistics with the inferential analytical techniques (including mean difference, dispersion, bivariate analysis and cause-effect regression) which has been rarely applied by previous research in this thematic study area.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Chapter two presents the theoretical foundation to the study and empirical evidence from different countries as regarding access to finance by cultural and creative enterprises. The chapter ends with a presentation of the empirical literature on access to finance by cultural and creative enterprises and gaps in literature review.

#### **2.2 Theoretical literature review**

This study is anchored on the pecking order theory of corporate finance and small business growth-oriented theories whose tenets are pivotal in the approach taken to answer on key issues surrounding access to finance by cultural and creative enterprises in Nairobi Kenya.

##### **2.2.1 Pecking order theory**

The pecking order theory was posited by Donaldson in 1961 and later modified by Stewart C. Myers and Nicolas Majluf in 1984. The theoretical persuasion of the pecking order theory of corporate finance rests on the assumption that firms are motivated by the desire to reduce financing related risks in their quest for business financing. Therefore, firms have a sequence of preference for type of capital used to finance their enterprise. Specifically, firms display a bias for internal funding over and above external funding and in turn, they prefer external funding or debt to equity (Myers and Majluf, 1984). This is because external sources of financing expose the enterprises to higher risk compared to internal financing.

The pecking order theory has two empirical implications on SMEs financing namely; 1) that internal funds should be the primary source of finance for SMEs in the CCS sector and 2) that external funds should be a more common choice than equity which should only be used when all other sources have been exhausted. It is, therefore, plausible that CCS enterprises experience a financial gap caused by lack of funds,

higher cost of financing and limited knowledge on external financial opportunities as has also been found elsewhere by Holmes and Kent (1991). Kimuyu et al. (2000) argued that micro and small enterprises (MSMEs) in Kenya are also unable to acquire external funding due to firm and owner attributes; factors such as size, ownership structure, business location, sector and socio-demographics of the owner.

The choice of internal versus external financing can be argued according to Fazzari, Hubbard, and Petersen (1988) who indicated that enterprises are more sensitive to internal cash flow because of the cost advantage of internal resources compared to external cash flow” and Shyam-Sunder and Myers (1999) who said that given a choice of debt over equity, a firm would fill their financing deficit by acquiring a new debt rather than new equity. It is arguable that the pecking order theory is relevant to the operations of CCS SMEs in Nairobi City because these firms do explore a combination of internal finances and external financing to start and grow their businesses while balancing the costs and risk exposure of their businesses. Borrowing from the pecking order theory, this study sought to investigate the range of sources of finance that creative enterprises utilize for various business needs and why or not they choose certain sources.

### **2.2.2 Small business growth model**

The small business growth model is a robust framework in understanding the financial needs of businesses as they grow from being sole-proprietorship to successful unicorns that create significant numbers of jobs. The theory was developed by Churchill and Lewis (1983) who argued that small businesses vary widely in their size and capacity to grow and can be categorized in 5 stages. Each stage is characterized by an index of size, diversity, and complexity and described by five management factors: managerial style, organizational structure, extent of formal systems, major strategic goals, and the owner's involvement in the business. These stages are: (1) existence--concerned with garnering customers and delivering the product or service contracted for; (2) survival--firms have demonstrated that they are workable business entities, but the key question becomes whether there is enough money for the firm to break even and stay in business; (3) success - here the decision facing owners is whether to exploit the company's accomplishments and expand or keep the company stable and profitable,

providing a base for alternative owner activities; (4) take-off - concerned with how to make the firm grow rapidly and how to finance this growth; and (5) resource maturity - companies have the advantages of size, financial resources, and managerial talent and will be a formidable force in the market if they retain their entrepreneurial spirit.

It is arguable that, whilst some cultural and creative enterprises in Kenya such as photographers and media content creators may have attained take off and resource maturity stages of growth, majority of the enterprises lie within existence and survival phases of growth. Therefore, access to finance will be critical to the scale up of the latter group of CCS enterprises. Notably, the Kenyan entrepreneurship sector has adopted a variation of the small business growth model with some tweaks to create a harmonized language between fund-seeking enterprises and venture seeking capital as detailed in VC4A's reporting framework as including 5 stages include: Seed & Development, Startup, Growth & Establishment, Expansion, and Maturity/Exit. VC4A is an ecosystem player seeking to build an angel investment network in East Africa.

Moreover, alternative perspectives have been offered by vocal critics such as O'Farrell and Hitchens (1988) who argued that the small business growth model fails to recognize the impact of external factors that can affect business performance which are being explored by this proposed study. Besides, not all small businesses have been found to follow the same cycle (Kazanflan & Drazin, 1989). Learning from the small business growth model, this study ensured to investigate the role of external factors (exogenous factors) in terms of what role is played by government policy, financier policy and ease of doing business environment (e.g. taxes and subsidies) among other issues with regards to how they influence access to finance by CCS enterprises in Nairobi City. Weighing the strategic fit of the two theoretical frameworks reviewed here, this study anchored a bit more solidly on the foundation of the pecking order theory of corporate finance.

## **2.3 Empirical literature review**

This section presents a review of previous studies and their findings.

### **2.3.1 Access to finance among creative sector enterprises**

The creative sector portends immense socio-economic benefits including creation of employment, contribution to tax revenue and foreign exchange. The driving factor for the growth of creative sector industries is high unemployment exacerbated by piling youthful population pressure. Unfortunately, however, viability of the CCS sector of Nigeria is yet to optimize the full potential due to lack of a “coherent policy articulation and execution” Okechukwu’s (2018).

A series of HEVA Fund’s creative sector doing-business study reports compared Kenya’s CCS sector with its regional financial hub counterparts - South Africa and Nigeria - highlighting challenges across sub-sectors: Film, Content Sector, Contemporary fashion and E-sports. The study finds that there is a growing market demand for creative products and services locally and internationally but also lack of skills in areas such as market development, networking and infrastructural gaps. Further, corrupt revenue collection systems are among the common challenges facing CCS enterprises (HEVA Fund, 2018).

Despite this appreciation of the socioeconomic contribution of the CCS sector in Nigeria, high informality continues to be a major challenge for financing CCS enterprises. First, lack of proper identification/definition of CCS enterprises further limit access to formal financing according to Onyeator (2019). Then there are sector specific issues such as weak Intellectual Property (IP) laws for industries like music and film which is marked by piracy severely affecting return on investment prospects for investors. The same issue has been discussed by Rozentale, and Lavanga (2014) and Borisova (2020) with regards to how the creative goods are subject to IP related risks in countries lacking adequate protection measures.

Another area of concern is the quality of technical and managerial skills amongst CCS enterprise owners limits their ability to access the exports market which would

strengthen the business case for financing CCS enterprises. For example, the quality of Kenya's fashion design or professional media production should be comparable to world leaders like "schools of fashion like the Pratt Institute in New York, the Fashion Institute of Technology (FIT) or the Massachusetts Institute of Technology".

From the supply side perspective, a South African study found that other factors such as lack of tangible assets, dependence on intangible assets, high uncertainty of market demand; lack of business skills, dependence on public investment schemes and specific market conditions such as size of the market, lack of good market intelligence, and lack innovative business models limit the attractiveness of the sector generally and of individual enterprises to various forms of financing, according to Gregory and Rogerson (2018).

Jagongo (2012) backs this argument with evidence from a Kenya SMEs study in Kenya describing situation as the "SME financing dilemma" whereby venture capitalists who are more risk tolerant are the ideal source of capital for SMEs however, typical SMEs in Kenya lack the minimum requirements such as business management capabilities and minimum capital to attract equity investors. The study un-matching needs of the VC investors and SMEs investees that could potentially emphasize the access to finance challenges in the CCS sector and additionally notes that majority of SME owners are ignorant of the various forms of financing options. In essence 51% of Kenyan SMEs prefer banks although use of mobile money and chama saving groups continues to draw a year-on year increase due to the proposition of uncollateralized loans, and provision of support services such as information, networks and mentorship (Viffa Consult, 2020).

Gregory and Rogerson (2018) brought forth an important argument that because CCS enterprise have their entrepreneurship motivation as "out of owner's passion" there are inherent limitations such as lack of any formal training, lack of information on basic formalization procedures like the process of registration of their enterprise or the essence of opening a bank account which speak to sound technical and managerial aspect of running the business and imperatively of accessing the required financing

(Gregory and Rogerson, 2018). The 2016 Kenya MSMEs study noted that rather than being driven by a sizable market demand, 23.4% of SMEs launch into business for better income, while 20.5% do it to be self-employed, and 17% do it because they have the requisite skills (KNBS, 2017).

A more recent work on the CCS sector in Kenya was conducted by HEVA Fund (2018b). The Uhuru Market Case Study highlights the situation for many textile traders and fashion entrepreneurs including inadequate skills, cost and availability of inputs, lack of equipment, lack of financial resources, lack of market access and lack of networking forums. To respond to the access to finance gaps, traders in Uhuru Market formed informal savings, credit organizations and informal peer-learning forums. However, these remain as informal coping mechanisms rather than full formal financial solutions HEVA Fund (2018b). Although the study only focused on the textile sector its findings will inform this study which has a much broader focus of the CCS sector. The study recommends further research to understand the varying type of finance accessed by CCS entrepreneurs in terms of amount, interest rates, and terms of payments to inform more specifically on the nature of financing gap and suggest interventions to bridge the gap.

#### **2.4.2 Influence of owner attributes and firm characteristics on access to finance**

Business owner attributes are important aspect of a small business especially with regards to how the owner makes decisions about operations of the firm. Bunagan and Sison (2019) in their work on Entrepreneurial Culture and Orientations of Small and Medium Enterprises (SME) Owners/Managers in the Kingdom of Bahrain underscored the role played by entrepreneurship orientation of the business owner (such as attitudes and skills) on performance of SMEs. Their study applied on descriptive correlation research design to conduct a survey on randomly selected samples of 40 SME owners/manager. Bunagan and Sison (2019) found that most SME owner/managers tended to be “relatively young, operating retail and service businesses, predominantly males and have acquired sufficient education to run their own undertakings”. Moreover, some of the business owners had undertaken entrepreneurship related trainings which enabled them run their businesses better.

Lo, Wang, Wah and Ramayah (2016) investigated critical success factors for organizational performance of SMEs in Malaysia using a partial least squares approach. Apart from attributes of the entrepreneur business characteristics including level of application of technology were important factors influencing organization performance of small and medium enterprises in Malaysia. Business characteristics have also been studied by Borisova (2020) and Rozentale and Lavanga (2014) in Riga where it was established that CCS enterprises are knowledge and labor intensive whereby owners exploit their creative skills to make intellectual property. This makes their goods sensitive and open to access by other people in the supply chain who were not necessarily involved in production.

Due to their unique characteristics enterprises in the CCS sector face more hurdles in accessing finance and as a result they go for more short-term and costly financial instruments compared to their counterparts in other sectors. The European Union (2013) conducted a survey on access to finance for cultural and creative sectors and established that CCS enterprises lack sufficient business assets to offer as collateral. They also lack managerial skills and business documentation with some having while others lack a good business plan/financial plan (which is the most common requirement by banks and private investors when applying for a loan). The study also highlights that owners' or manager's individual perceptions such as perceived complexity of applying for external finance, the required time investment inhibits access to finance among CCSs. The study also noted that CCSs had unique access to finance patterns 'with a higher-than-average use of short-term finance mostly relating to gap financing (to bridge the period of waiting for other funds and short-term pre-financing of projects which usually came at a higher cost than longer term financing.

The European Union (2013) recommended establishment of a credit guarantee facility to encourage lending to CCS enterprises, while providing capacity building programs in order to strengthen skills and sector knowledge, primarily with financiers but also with CCS firms. While the Kenyan context is different from Europe's, it can be hypothesized that medium and larger CCS enterprises exhibit different levels of access to finance- in terms of the quality of funding, this was an interesting perspective to evaluate in the proposed study.

Qualitative evidence from the Small Business Survey indicates that Creative Industry Businesses (CIBs) in the United Kingdom are less likely to apply for finance than SMEs generally with the exception of Architectural sector- yet those that did apply for finance the proportion encountering problems was significantly higher than for non-CIBs - particularly in the film/video and publishing sub-sectors (UK Small Business Survey, 2019). In the UK the use of business support services such as tax incentives, grants, financial instruments and advice and consultancy is to be revamped by setting up the right mix through incubators; accelerators; joint grant, loan and support packages - although in the European context (Henry et al., 2017). In Kenya, there is a gap in knowledge on what business support initiatives and entrepreneurial managerial skills are effective and needed to unlock more access to finance among CCS enterprises. The paper also brings an important perspective of ‘at what point of the business growth cycle is the support and finance being sought for?’ This is a critical question to keep in mind as different types of finance are required at different stages.

Against the backdrop of the above empirical evidence the following two-tailed null hypotheses (Ho) and alternative hypotheses (Ha) were formulated for empirical testing by this study:

*Ho<sub>1</sub>: Owner management attributes do not have a significant influence on access to finance by micro, small & medium enterprises in the cultural and creative sector in Nairobi County, Kenya.*

*Ha<sub>1</sub>: Owner management attributes have a significant influence on access to finance by micro, small & medium enterprises in the cultural and creative sector in Nairobi County, Kenya.*

*Ho<sub>2</sub>: Firm characteristics do not have a significant influence on access to finance among micro, small & medium enterprises in the cultural and creative sector in Nairobi County, Kenya.*

*Ha<sub>2</sub>: Firm characteristics do not have a significant influence on access to finance among micro, small & medium enterprises in the cultural and creative sector in Nairobi County, Kenya.*

### **2.4.3 Influence of exogenous factors on access to finance**

Whereas owner attributes and firm level characteristics are mostly within the control of the CCS entrepreneur, there exist other influences that are outside the control of the firm, namely the exogenous factors influencing access to finance. First the regulatory framework governing the SME sector may stimulate or discourage enterprise development. Indeed, the World Bank (2020) study noted that in Kenya factors such as business compliance is a requirement by many financiers due to the high costs that risk the success of an enterprise as non-compliance comes with hefty fines. Despite an improving ease of doing business ranking from 71 to 56 according to World Bank Doing Business (2021), MSMEs decry high registration and legal fees, the length of process taken to register a business, bribery in an attempt to speed up various processes e.g. securing a certain license – all which contributes to non-compliance. Although the regulatory environment is universal for all enterprises, this study will pay attention to any variations in how the regulatory requirements influence access to finance by CCSs across sub-sectors.

In the study by Bunagan and Sison (2019) it was established that external factors (exogenous factors in this study), specifically markets and the performance of the economy played a role in the success of enterprises in Bahrain. Indeed, it was established that the market was not very conducive whilst the economy was unstable for SMEs in Bahrain. In China, Liang and Wang (2020) found that, the growth of cultural and creative sector in the country were directly linked with urban (re)development such as creation of technology parks as an external factor influencing the performance of creative enterprises. Furthermore, CCS enterprises were impacted by the policy regime in China which Liang and Wang (2020) explained to be rather unique from Western countries for its ‘top-down’ rather than ‘bottom-up’ or mixed approach. It would, therefore, be recommendable that governments ensure the presence of ‘social and economic dynamics’ conducive for creative production.

Also exogenous to the operations of CCS enterprises is the issue of their identification by the financiers without being categorized broadly as the MSME business segment. Although UNESCO (2017) and the Ministry of Sports, Culture and Heritage (2012)

acknowledge the need to map Kenya's CCS sector by setting-up a framework for supporting CCS enterprises their efforts are yet to materialize. Using demand-side information the study sought to explore whether CCS enterprises are targeted by key financial sector players as a potential exogenous factor influencing access to finance. Based on the above empirical works, this study formulated the following two tailed null and alternative hypothesis about the influence of exogenous factors on access to finance:

*Ho<sub>3</sub>: Exogenous factors do not have a significant influence on access to finance by micro, small & medium enterprises in the cultural and creative sector in Nairobi County, Kenya.*

*Ha<sub>3</sub>: Exogenous factors have a significant influence on access to finance by micro, small & medium enterprises in the cultural and creative sector in Nairobi County, Kenya.*

## 2.5 Summary of literature review and research gaps

There is substantial existing literature with sound findings and recommendations about access to finance by SMEs in general including in Kenya (such as by the World Bank, 2020) but limited number of academic journals have been done especially in the CCS context like we see in the European Union Commission and UK Small Business Survey studies. The summary table highlights important studies done in the period 2012-2019 and their contribution or lack of it thereof in relation to this study.

**Table 2.1: Summary of literature review**

Author	Scope	Findings and recommendations	Gaps/ Implications to this study
Works that contribute to factors and variables of this study			
<b>Bunagan and Sison (2019)</b>	Entrepreneurial Culture and Orientations of SME Owners/Managers in the Kingdom of Bahrain	External factors (exogenous factors in this study), specifically markets and the performance of the economy played a role in the success of enterprises in Bahrain	It was interesting to investigate how market and economic performance indicators do influence CCS access to finance in Kenya

<b>Lo, Wang, Wah and Ramayah (2016)</b>	Critical success factors for organizational performance of SMEs in Malaysia using a partial least squares approach	Business characteristics including level of application of technology were important factors influencing organization performance of small and medium enterprises in Malaysia	Business characteristics were added to the conceptual framework as part of the predictors of access to finance by CCS firms.
<b>Heva Fund (2018)</b>	HEVA Fund's Creative Industry Doing Business study reports compared Kenya's CCS sector with its regional equals- South Africa and Nigeria. Sectors: Film, Content Sector, Contemporary fashion and E-sports.	Findings: Challenge- Lack of skills- including market development, networking skills. Poor networks Infrastructural gaps especially for revenue collection.	The two studies provided a generalized outline of challenges ailing of key CCS sectors – such as lack of financial resources. However, the studies did not emphasize on the of financial access gaps as sought by this study.
<b>HEVA Fund (2018)</b>	Nairobi's Uhuru Market Case Study targeting textile and fashion entrepreneurs in	Findings: Enterprise owners face challenges such as inadequate skills, cost and availability of inputs, lack of equipment, lack of financial resources, lack of market access and lack of networking forums.	
<b>Jagongo, (2012)</b>	A descriptive study utilizing survey and personal interview data from a sample of 106 MSMES out of a target population of 229 MSMES registered in Nairobi Central Business District in 2012.	“SME financing dilemma” whereby venture capitalists who are more risk tolerant are the ideal source of capital for SMEs however, typical SMEs in Kenya lack the minimum requirements such as business management capabilities and minimum capital to attract equity investors.	Although the CCS sector can be considered as a subset of the SMEs sector in Kenya due to similar characteristics, the study did not make specific analysis to the financing dilemma amongst the CCS enterprises. This study importantly paints a picture of SME challenges in Nairobi which is same unit of analysis and within geographical scope as the proposed study.
Works that differ mostly in methodology or scope from the approach of this study			
<b>Liang and Wang (2020)</b>	Cultural and Creative Industries and Urban (Re)Development in China	CCS in the country were directly linked with urban (re)development such as creation of technology parks as an external factor influencing the performance of creative enterprises	The study applied causal analytical techniques to assess how owner attributes, business characteristics and exogenous variables as they influence access to finance,

<b>European Union Commission (2013)</b>	Quantitative study of CCS enterprises in Europe.	<p>CCS's mostly access short-term financing which is more expensive compared to non-CCS enterprises.</p> <p>Owner attributes influence access to finance- such as managerial skills, ability to maintain sound business documentation, possession of a business plan, access to collateral assets, owners' perceptions of the complexity and time taken in sourcing external financing.</p> <p>Recommends CCS focused Credit Guarantee Funds to de-risk financing for the sector, and capacity building of entrepreneurs to enhance their managerial skills.</p> <p>Quality of funding is assessed in terms of short-term vs long-term and the interest cost of the financing.</p>	This study was done in the context of the developed world, and Kenyan being in the developing world plagued with immense infrastructural gaps, more micro and informal CCS enterprises and informal financing mechanisms would require locally nuanced research as sought by this study.
Works that aided in design of linkages in the conceptual framework			
<b>Small Business Survey (2019 &amp; 2016)</b>	Qualitative study on access to finance by CCS enterprises in the United Kingdom.	<p>Due to perceptual barriers- CCS enterprises are less likely to apply for finance than SMEs generally.</p> <p>In terms of attaining the right mix of business support services for the CCS sector - incubators; accelerators; joint grant, loan and support packages are recommended.</p>	The study triggers a focused approach to establishing the right mix of business support required for CCS sectors but didn't provide adequate contextualization to the nature of existing support structures for CCS entrepreneurs in Kenya – Nairobi County.
<b>Gregory and Rogerson (2018)</b>	Study of Creative Entrepreneurs characteristic across genders in South Africa.	Findings: in addition to being informal, and the owners lacked information on basic formalization procedures like the process of registration of their enterprise or the essence of opening a bank account.	Their work is a valuable contribution to this study by identifying that creative businesses lack business registration and bank accounts, but fails to establish the link between these attributes and access to finance.

Whereas literature on access to finance by CCS SMEs has been conducted in other countries such as Nigeria's (Okechukwu, 2018) England and Scotland (European Union Commission, 2013), their findings cannot be generalized to Kenyan CCSs as

each country's ecosystem is unique in offering, regulation and approaches and so is the local context that the CCS entrepreneurs operate in. This study sought to further draw attention to the Kenyan context such as high mobile penetration, availability of various sources of finance, include formal and informal enterprises and appreciate the micro nature of CCS enterprises which account for 93% of the informality in the SME sector according to KNBS (2017).

Also, in terms of time horizon, the majority of the studies were conducted before the advent of the Covid-19 global pandemic which has impacted larger and smaller businesses in various ways. Considering the pandemic, it is not known what combination of financial and other support services is needed to get CCS SMEs out of the economic shocks that can threaten their survival. In terms of methodology and theoretical underpinnings, reviewed studies had not applied the pecking order and growth-oriented theories in evaluating access to finance by CCS enterprises. Nonetheless, findings from past studies are imperative to identifying elements that to a large extent can influence access to finance by CCS-MSMEs in Kenya. Evidence from past research therefore has been harnessed by this study to help build the conceptual framework in the following section.

## **2.6 Conceptual framework**

Several factors determine CCS MSMEs access to finance in the country as presented by the Conceptual Framework in Figure 2.2. This study hypothesizes that the factors can be clustered into composites: owner attributes, firm attributes and exogenous factors on the *independent variable* side and access to finance on the *dependent variable* side.

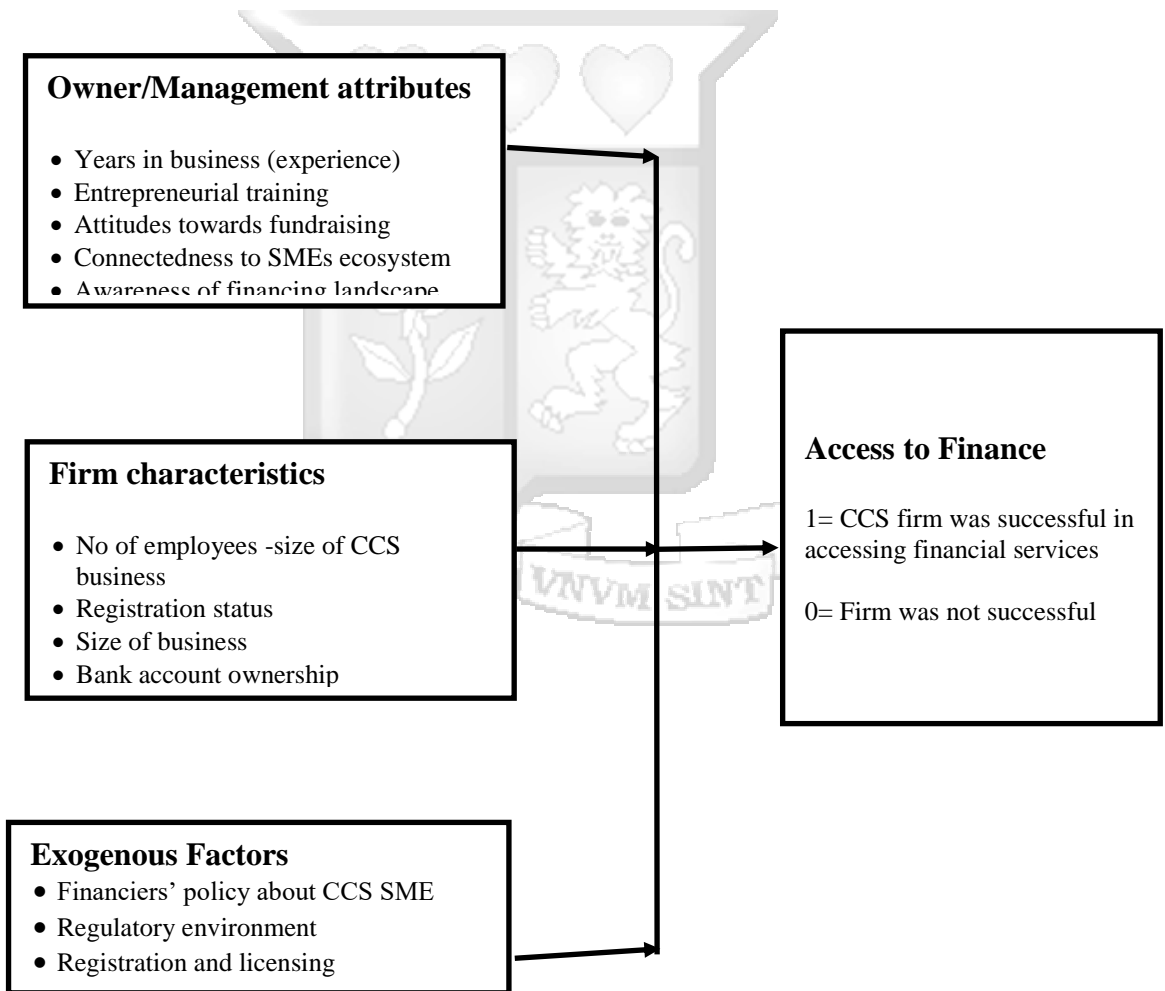
On the independent variable composites, owner or management attributes include operational experience, training, attitudes towards fundraising, connectedness to the MSME ecosystem facing CCS and awareness of the financing landscape. Firm characteristics include size of the CCS business, registration status, bank account ownership and stage of product development as posited by Onyeator (2019) and European Union (2013). Exogenous factors are those aspects outside the control of

enterprises and include: Financiers' products policies or investment thesis for the CCS sector in Kenya, taxes, business registration and licensing requirements among others. On the other hand, the dependent variable is access to finance measured by the status of CCS firm's ability to access finance from commercial banks, SACCOs, MFIs, chamas and mobile wallets (Henry et al., 2017).

$$\text{Access to finance (Y)} = \begin{cases} 1, & \text{if answer to whether respondent was successful accessing credit is 'Yes'} \\ 0, & \text{otherwise (if the answer is 'No')} \end{cases}$$

### Independent variables

### Dependent Variable



**Figure 2.2. Conceptual Framework**

**Source:** Researcher (2021)

## 2.6 Operationalization and measurement of study variables

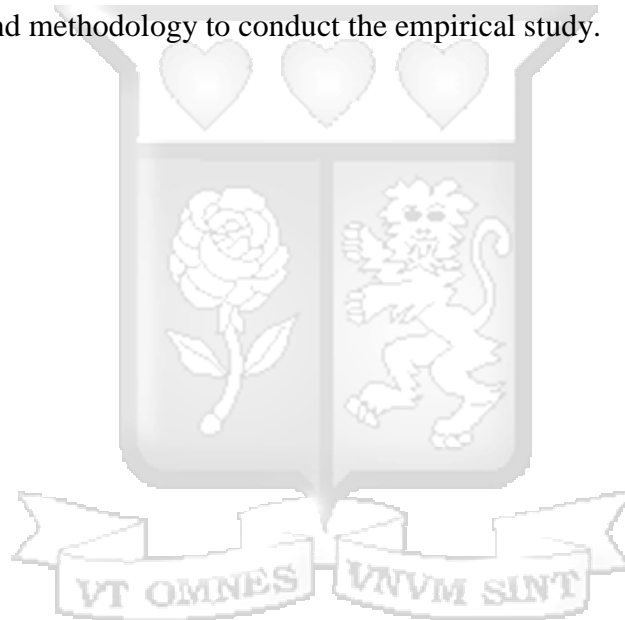
This section explains how variables are operationalized per study objective in terms of type of variable, data requirement, research instrument, respondent, measurement scale and data analysis techniques.

**Table 2.2: Operationalization of Study Variables**

Study Variables	Indicators	Data Collection Tool	Respondents	Analytical technique for hypothesis testing
Owner management attributes influencing access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya	<ul style="list-style-type: none"> <li>• Years in business (experience)</li> <li>• Entrepreneurial training</li> <li>• Attitudes towards fundraising</li> <li>• Connectedness to SMEs ecosystem</li> <li>• Awareness of financing landscape</li> </ul>	Questionnaire	CCS business owners/managers	Descriptive <ul style="list-style-type: none"> <li>- Measures of central tendency</li> <li>- Measures of dispersion</li> <li>- Mean differences</li> </ul> Inferential <ul style="list-style-type: none"> <li>- Cross tabulation</li> </ul> Statistics <ul style="list-style-type: none"> <li>- T-statistic</li> <li>- F-statistic</li> </ul>
Firm characteristics influencing access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya	<ul style="list-style-type: none"> <li>• No of employees -size of CCS business</li> <li>• Registration status</li> <li>• Stage of product development</li> <li>• Bank account ownership</li> </ul>	Questionnaire	CCS business owners/managers	<ul style="list-style-type: none"> <li>- Measures of central tendency</li> <li>- Correlation</li> </ul> analytical technique and cross-tabulation (Chi-Square test – both parametric and non-parametric tests) <ul style="list-style-type: none"> <li>- Correlation analysis</li> <li>- Regression analysis</li> </ul>
Exogenous factors influencing access to finance among enterprises in the cultural and creative sector in Nairobi County, Kenya	<ul style="list-style-type: none"> <li>• Financiers' policy about CCS SME</li> <li>• Regulatory environment</li> <li>• Registration and licensing requirements</li> </ul>	Questionnaire	CCS business owners/managers	<ul style="list-style-type: none"> <li>- Correlation analysis</li> <li>- Regression analysis</li> </ul>

## 2.7 Chapter summary

Chapter Two has established a manifest gap in literature review as regards limited information on access to finance by cultural and creative sector (CCS) enterprises in Kenya. It has been established that CCS firms in Nairobi County face challenges that are different from other micro, small and medium enterprises (MSME). Further, individual and firm level attributes as well as exogenous factors potentially influence the ease with which MSME CCS firms are able to access finance for startup and scale up but also that there exist other important factors that are outside the control of firms and business owners. This is the basis upon which the conceptual framework and questionnaire have been designed. Chapter Three next focuses on the requisite research philosophy and methodology to conduct the empirical study.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

Chapter Three specifies the research design for the study, population and sampling, data collection and analysis, research quality issues and ethical considerations. Due to the nature of the ontological and epistemological issues of inquiry (research questions), this study makes heavy use of quantitative research methods in data gathering and deductive techniques during data analysis.

#### **3.2. Research philosophy**

A research philosophy is belief by the researcher about the manner in which information on a phenomenal issue should be collected, analyzed and utilized to attain objectives of a study (Bajpai, 2011). There are four classic types of research philosophies, namely: pragmatism, positivism, realism and interpretivism. Pragmatism research philosophy ‘accepts concepts to be relevant only if they support action’ through use of a combination of quantitative and qualitative data; positivism posits that only knowledge (facts) acquired through observation is trustworthy. Positivist philosophy restricts the researcher to data collection (using quantitative strategies) and deductive interpretation in an objective ontology. Interpretivism philosophy is the opposite reflection of positivism in that it adopts induction method and subjective ontology. Finally, realism acknowledges that there is independence of ‘reality from the human mind’ (Saunders, Lewis and Thornhill, 2012). Pragmatism research philosophy was, therefore, adopted for this study.

#### **3.3. Research design**

The study investigated factors influencing access to finance among the cultural and creative sector enterprises in Kenya. Cross-sectional survey research approach was applied since data from respondents is collected across firms at a single point in time and within a short period. Saunders, Lewis and Thornhill (2012), Creswell (2014) and

Higgins (2014) recommend cross-sectional research design for its ability to provide numeric description of a situation affecting a study population and its relevance to situations where primary data is necessary, time is a limitation and longitudinal data unavailable. A mixed method research design is adopted due to the combination of use of quantitative and qualitative data.

In terms of theoretical conceptualization, the study is anchored on the framework by UNCTAD (2010) which clusters all enterprises within the cultural and creative sector into nine segments, namely: cultural sites, traditional and cultural expressions, performing arts, audio visuals, new media, creative services audio cultural, design, publishing and printed media and visual arts.

Due to time and resource limitations, the study selected only five sub sectors in which sample Cultural and Creative Sector enterprises for primary research based on the UNCTAD framework as presented in Table 3.1.

### **3.4 Population and sampling**

#### **3.4.1 Population**

The population for this study comprised of cultural and creative enterprises in Nairobi County whose exact number is unknown even though it is estimated to be in the hundreds of thousands of enterprises (Kenya Climate Innovation Center, 2020; Kenya National Bureau of Statistics [KNBS], 2017; UNCTAD, 2018). According to (HEVA, 2016) and the Kenya Climate Innovation Center (2020), 81% of Micro Small and Medium Enterprises (MSMEs) are in Nairobi County due to infrastructure and market proximity. Therefore, the choice of Nairobi County was primarily based on its high concentration of cultural and creative enterprises and the possibility of the county harboring supportive demand and supply side infrastructure or systems that enable creative enterprises to thrive relative to the rest of Kenya. Lessons from the capital city county are expected to be pivotal to informing planners from other counties about what ingredient can help fast track or incubate development of creative sector enterprise in other counties of the Republic of Kenya. The distribution of CCS-MSMEs is relatively similarly across the 17 Sub Counties of Nairobi City County. CCS businesses include

music artistes, performing art practitioners on the streets, gaming businesses, social media influencers, businesses in the fashion design industry, athletes, betting companies, designers and sellers of jewelry, media content creators, film makers, photographers, event organizers, publishers among others.

### 3.4.2 Sampling and sample size

For sample size determination, since the target population is infinite albeit unknown, the sample size was determined using Fischer's et al. (1998) single infinite population proportion formula as shown below.

$$n = \frac{Z^2 \cdot p \cdot q}{d^2} = \frac{(1.96)^2 \times (0.5) \times (0.5)}{0.07^2} = 196$$

The following assumptions are made:

- P – is the probability of occurrence of a phenomenon of study. Since the prevalence rate (probability) of access to finance among the CCS industries is unknown for the study, p is taken to be 50%.
- Margin of error (d) =7%
- Standard normal deviate at 95% Confidence interval (Z) = 1.96 | Pr(-1.96 < Z < 1.96) = 0.95
- Minimum sample size required (n) = 196

To minimize errors arising from the likelihood of non-response and attrition, ten percent of the sample size was added to the calculated sample size. Therefore, the total sample size was 215 firms operating within the CCS industries of Nairobi County. On sample selection criteria, stratified and quota sampling method was applied to allocate the sample size to five particular sub-sectors (industries) of CCS-MSMEs, namely: visual arts, performing arts, video games, music and design as rationalized by Table 3.1.

**Table 3.1: Sample stratification and distribution framework**

CCS Segment	Sub-sectors	Sub-Sector/Specific trades from	Characteristics	Included in the study	Sample size
-------------	-------------	---------------------------------	-----------------	-----------------------	-------------

		<b>which to select respondent CCS firms</b>			
Core Arts Field	Visual arts	Crafts, paintings, sculpture, photography	Activity is not industrial; copyright is rare	√	43
	Performing arts	Theater, dance, festivals		√	43
	Heritage	Libraries and archives		X	0
Cultural Industries	Television and radio	Production	Activity is industrial aiming at massive production; intellectual copyright exists	X	0
	Video games	Design, resale etc.		√	43
	Music	Recorded, live performance etc.		√	43
	Books and press	Publishing IEC		X	0
Creative Industries and Activities	Design	Fashion design, graphics design, interior design, product design	Activity is not necessarily industrial but output is often copyrighted	√	43
	Architecture	Drawing		X	0
	Advertising			X	0
<b>Total Sample</b>					<b>215</b>

Source: Researcher (2021) adapted from Hivos (2018)

Based on the sample selection framework of Table 3.1, specific CCS firms were randomly sampled for inclusion in the study across each of the five sub sectors, namely: visual arts, performing arts, video games, music and design. The study respondents were business owners of the CCS firms selected based on the criterion set in Table 3.1.

### 3.5 Data collection methods

Researcher-administered structured questionnaires comprising both open-ended and closed-ended questions were used to collect relevant information from the respondents

(business owners) sampled from the population of CCS-MSMEs within Nairobi City County. Specifically, a total of 215 questionnaires were distributed to business owners who operate firms within the culture and creative sectors. The questionnaire comprised five parts: Part 1 was for screening and inclusion criteria to make sure only businesses in the Cultural and Creative Sector participated in the study. Part 2 obtained information on challenges facing CCS enterprises in accessing finance. Part 3 investigated personal attributes of the business owner/manager (the respondent). Part 4 inquired about business characteristics while part 5 gathered information on exogenous factors as presented by the conceptual framework (Figure 2.1). Finally, the last section will gather information on access to finance and MSME ecosystem connectedness of the targeted enterprises. The questionnaire was administered to business owner respondents by experienced interviewers (research assistants) trained and supervised by the researcher.

### **3.6 Data analysis**

#### **3.6.1 Data analysis procedure and techniques**

Once gathered from the field, data was subjected to cleaning and verification before entry to SPSS and Stata analytical software. A descriptive summary of statistics was established for each objective before subjecting the data to further explorations including bivariate analysis and factor analysis for variable reduction in preparation for regression (inferential analysis). Results of factor analysis by Principal Component Analysis (PCA) method are presented in Annex 7.

Quantitative data was analyzed using descriptive statistics (central tendency such as the mean or mode and measures of dispersion such as the range and standard deviation from the mean) and inferential statistics. Research Objectives 1, 2 and 3 required a combination of both descriptive and inferential analytical techniques, a diagnostic test procedure was performed done before hand to ensure that distribution of observations comply with the Classical Linear Regression Model (CLRM) assumptions for normality, non-multicollinearity and non-biasedness. Finally, the data for the three objectives was subjected to inferential analytical techniques ranging from Analysis of

Variance, Mean differences and binary logistic regression to analyze access to finance (A) guided by the following equational functional forms:

$$Y_j = \beta_0 + \beta_i X_i + \mu_j$$

Whereby variables E and X and parameters are defined as follows:

- $Y_i$  is the binary dependent variable measuring access to finance thus:  
 Access to finance (Y)=  $\begin{cases} 1, & \text{if answer to whether respondent was successful accessing finance is 'Yes'} \\ 0, & \text{otherwise (if the answer is 'No')} \end{cases}$
- $i=1, 2, 3$  representing independent variables from owner attributes, business characteristics to exogenous variables respectively.
- $j=1, 2, \dots, 5$  representing 5 strands of sources of finance namely: Commercial Banks, SACCOs, Microfinance Institutions (MFI), Informal Savings Groups (Chamas) and Mobile Wallets.
- $\beta_0$  is the constant term denoting the proportion of access to finance that is not explained by independent variables investigated by this study, namely, firm-owner attributes and firm-specific characteristics that are believed to influence access to finance.
- $\beta_i$  are coefficient parameters of independent variables (firm-owner attributes, firm characteristics and exogenous factors influencing access to finance).
- $X_i$  = Set of variables measuring owner attributes, firm characteristics and exogenous factors
- $\mu_j$  = is the stochastic error term, measuring other factors that may influence access to different strands of sources of finance that are not included in the deterministic model.

### 3.6.2 Regression model specification and diagnostics

#### Rationale for choice of binary logistic regression model and assumptions

Access to finance in this study refers to the ability of cultural and creative sector enterprises to obtain financial services, including credit, deposit, payment, insurance, and other risk management services (Demirgüç-Kunt, et al 2008). The estimable equation for the study had a binary dependent variable which assumed a value of 1 or

0. This is because respondents were asked whether or not they ever had a successful loan application to either of the five financial institutions, rather than measuring the frequency with which they had successful credit applications which would have resulted in a continuous dependent variable.

$$\text{Access to finance (Y)} = \begin{cases} 1, & \text{if answer to whether respondent was successful accessing finance is 'Yes'} \\ 0, & \text{otherwise (if the answer is 'No')} \end{cases}$$

The regression equation whose context is explained in Section 3.6 is formulated as follows.

$$Y_j = \beta_0 + \beta_1 X_i + \mu_j \quad (\text{Variables and parameters defined in Chapter 3})$$

Whereas it is possible to apply linear regression such as Ordinary Least Squares (OLS) method for an equation with continuous dependent variables, when the dependent variable is discrete the best models are of non-linear regression type since they establish accurate/consistent parameters and coefficients (Wooldridge, 1999). Applying OLS regression on discrete dependent variable equations (e.g. using a Linear Probability Model, LPM) establishes inaccurate parameters and coefficients that violate the Classical Linear Regression Model (CLRM) assumptions. The above specification equation of this study results to a binary response model (BRM) whose estimation can be done using families of regression techniques: (1) Linear Probability Model (LPM) which is an Ordinary Least Squares (OLS) variant for binary response outcomes, (2) logistic regression family and (3) probit regression family of models. LPM was ruled out because of its limitations of tending to treat a probability outcome of a discrete dependent variable as if it were continuous besides its failure to restrict estimated within the classical 0 to 1 range consistent with probability theory. Also, the OLS assumption of variance of Y being constant across values of X (homoscedasticity) which is not sustained since a binary variable can't portray this. Finally, the significance test of parameter weights assumes that errors in prediction (Y-Y') are normally distributed. Yet because Y only takes the values 0 and 1, this assumption is hard to justify in regular linear models. This situation demands the family of non-linear regression models.

In any case logistic and probit regression families are regarded as empirically superior to OLS and ANOVA mean-variance approaches in estimating optimal parameters for

a model that would best fit sample data<sup>1</sup>. With OLS and LPM being ruled out the choice between logistic and probit regression techniques becomes one of making the assumption on the distribution of error terms. In this case we assume that the errors display a logistic distribution rather than normal variates. Non-linear models limit estimated probabilities to fall between 0 and 1, thus we can describe the odds of an outcome (Access to Finance) as a product of coefficients raised to the respective predictor values (e.g. CCS business owner attributes denoted by “ $x_i$ ” for all ‘ $i$ ’=1,2, ...,  $n$ ’):

$$\frac{P}{1-P} = \beta_0 * \beta_1^{x_1} * \dots * \beta_n^{x_n} \quad \text{(v)}$$

By taking the natural logarithm of odds instead of plain odds (see Wooldrige, 1999), the model turns back into a linear functional form whose results have more intuitive interpretation:

$$\ln \frac{P}{1-P} = \ln[\beta_0 * \beta_1^{x_1} * \dots * \beta_n^{x_n}] = \ln(\beta_0) + \ln(\beta_1)x_1 + \dots \ln(\beta_n)x_n \quad \text{(vi)}$$

This natural log-odds ratio (*logit*) can be treated as linear regression in log-odds space (Wooldrige, 1999). For this study, logistic regression model allows us to assess relationships between access to finance outcome and the range of independent variables whose data was observed among CCS enterprises. It models the logit-transformed probability as a linear relationship of  $y$  against  $x_1, \dots, x_n$  and estimates parameter values for  $\beta_0, \beta_1, \dots, \beta_k$  via Maximum Likelihood Estimation (MLE) method. Analysis results are shown in Section 4.6 of Chapter 4.

<sup>1</sup> Usually, the model is considered optimal if it is the model from which the actual data are most likely to be observed (the maximum likelihood model). Logistic regression was first used by Dyke and Patterson (1952), but was most widely disseminated by Cox (1958, 1970; see Agresti, 2002: Ch. 16). Logit becomes more useful than ANOVA and linear regression in the case of binary outcomes (Chatterjee, 2000: Ch. 5).

Within the family of logistic regression models, binary logistic regression was chosen for modelling in this study rather than multinomial logistic regression (for discrete dependent variable with multi-strand outcomes) due to the nature of the dependent variable. This is because the choice set of five alternative sources of finance available to CCS business owners were not mutually exclusive. In other words, utilization of mobile wallets does not necessarily mean that respondents are locked out from utilizing SACCOs or commercial bank financial services. Indeed, as shown by the chi-square test of independence of sources of finance (Table 4.14), it was established that most respondents accessed more than one financial services provider. Therefore, even though multinomial logistic regression is best suited to modeling dependent variables with multiple outcomes, it was ruled out as it would have violated the test of Independence of Irrelevant Alternative (IIA) assumption (the Hausman test).

### **3.6.2 Diagnostic checks and results**

#### **(a) Test of normality of data**

Shapiro Wilk test of normality (Annex Tables) indicates that, all data for variables measured at ratio and continuous scales were normally distributed as shown by high W-scores ( $W > 1$ ) and low significance levels ( $p < 0.05$ ).

#### **(b) Test of multicollinearity**

Multicollinearity is a problem in which data for two or more variables which are subjected to inferential modeling together are too highly correlated causing variance inflation and unreliable results. A test for multicollinearity was conducted and established a mean variance inflation factor (VIF) score of 4.35 which being below the recommended value of 10 (Wooldridge, 1999) is desirable implying the absence of multicollinearity.

### **3.7 Research quality**

It is imperative to guarantee precision and accuracy of findings from this study so that they can be depended upon for CCS business decision making and policy formulation.

Thus, to guarantee objectivity of the research data quality, the data collection tool was subjected to validity and reliability checks before research.

### **3.7.1 Validity**

Content validity of the research instruments was ascertained in consultation with the supervisor who read through the research instruments and made proposals to improve them. The tools were also pre-tested and reviewed for relevant adjustments before the main study. Multiple data quality checks, validation and cleaning were done at data collection stages.

### **3.7.2 Reliability**

The researcher tested the questionnaire for reliability using the split-half internal consistency method which yields an internal consistency reliability estimate measured by Chronbach's Alpha. This was done using pilot testing data where upon the questionnaire was found to be reliable since correlation between the two split-halves was significant at 0.708 or 70.8% against a threshold of 0.7 as recommended by Cronbach (1951).

Moreover, data gathered were subjected to standard quality control checks and treatment before analysis which also guaranteed reliability of results before generalizing conclusions to the population. Criteria for hypothesis testing conclusion targeted a Type-1 error chance not exceeding  $p \leq 0.05$  level of significance. In this regard, interpretation of findings for variables corresponding to significant parameters is generalizable to the population with at least 95% Confidence Interval [C.I.]. Any results from variables with insignificant parameters has been treated as merely spurious thus neither valid nor reliable outside the sample. Whereas the 99% C.I. is most desirable especially for critical health sciences, 90% confidence is normally adequate for social scientific inquest (Akobeng, 2008 and Hazra, 2017).

### **3.8 Ethical considerations**

Rights to respondent privacy, respect and protection from psychological and physical harm of the respondents involved in the study were ensured by the researcher as part

of ethical considerations. First, the researcher sought permission from the relevant authorities to carry out the study before data collection. Approvals were obtained from the Ethical Clearance Certificate from Strathmore University Institutional Ethics Review Committee (SUIERC) and an introduction letter from the University explaining the purpose of the study as well identifying the researcher to target respondents. Moreover, a research permit from the National Council for Science, Technology and Innovation (NACOSTI) was acquired before the main data collection exercise. At the stage of data collection, the following protocol was adhered to: After a brief verbal introduction and presentation of the research permit and using the Consent Form, the researcher gave respondents sufficient and clear background information on the study upon which respondents based their decision on whether or not to participate in the study.



## CHAPTER FOUR

### PRESENTATION OF RESEARCH FINDINGS

#### 4.1. Introduction

Data collected from the field was analyzed and presented in this chapter. The chapter includes an examination of the respondents' general information, descriptive statistics, diagnostic tests, and inferential statistics. It begins with the identification of the response rate followed by demographic information of respondents, the descriptive analysis and determining the relationships on the variables.

#### 4.2. Response Rate

Out of a target sample of 215 CCS enterprises located in Nairobi County, 219 respondent enterprises were reached attaining a response rate of 102% (more than the target number of respondent enterprises).

#### 4.3. Business owner demographic summaries

##### 4.3.1. Academic and professional qualification

The respondents hereby referred as the CCS business owners interviewed were holders of diploma (53%), certificate (42%) and only 5% of them had attained a degree in terms of educational qualifications. This shows that CCS business owners had attained good foundational knowledge and were inclined to attaining technical skills rather than educational attainments.

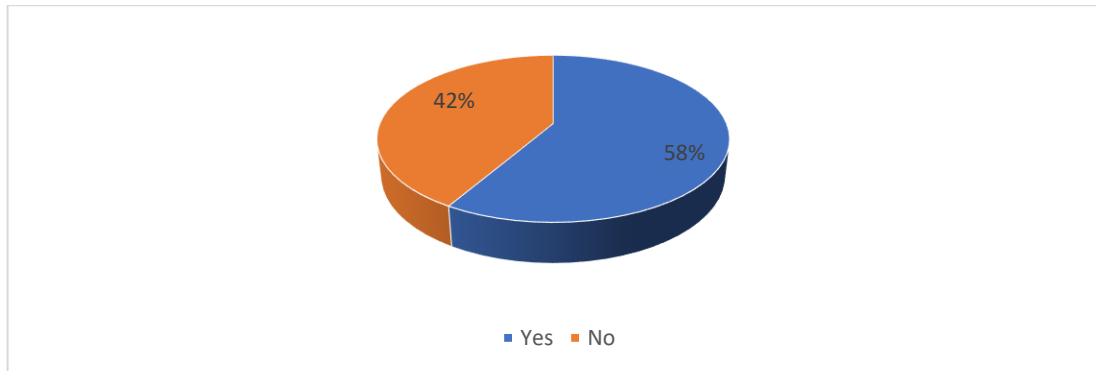
**Table 4.1: Highest level of qualification in Cultural and Creative Sector**

Highest level of qualification	Frequency	Percent
Certificate	54	42.2
Diploma	68	53.1
Degree and above	6	4.7
<b>Total</b>	<b>128</b>	<b>100.0</b>

Source: Researcher (2021)

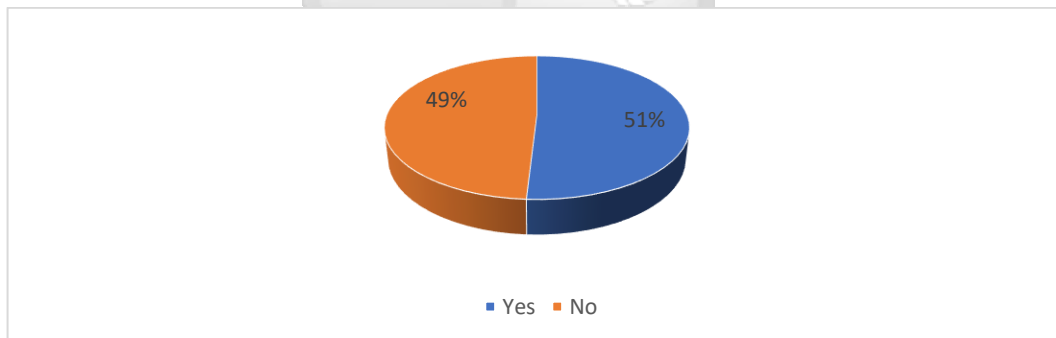
Slightly more than half of the CCS business owners had received formal training in a CCS related skill (58%), again 51% of the CCS owners had received a training on entrepreneurship. Figures 4.1 and 4.2 have the findings.

**Figure 4.1: Formal training status of CCS business owners**



Source: Researcher (2021)

**Figure 4.2: Have you undertaken any training on entrepreneurship?**



Source: Researcher (2021)

#### **4.4. Business demographics**

##### **4.4.1. CCS firm attributes**

The CCS businesses responding to this study were mostly informal (68%) with only a third of them being formally registered. The businesses were micro in size (90%) with only 10% having attained 10<employees>49.

**Table 4.2: Size of business**

<b>Number of employees</b>	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>
Microenterprise: 1 to 9 employees	196	89.5	89.5
Small enterprise: 10 to 49 employees	23	10.5	10.5

Source: Researcher (2021)

On years of operation, most were aged less than 10 years with over half of them (55%) being past their 6th year and a third of them (37%) being 5 years or less.

**Table 4.3: Duration of operation of your CCS business - years**

<b>Years</b>	<b>Frequency</b>	<b>Percent</b>
Up to 5	81	37.0%
6 – 10	120	54.8%
11 – 15	14	6.4%
16 – 20	3	1.5%
21 or more	1	.5%
<b>Total</b>	<b>219</b>	<b>100.0</b>

Source: Researcher (2021)

In terms of stage of business growth three quarters of them (74%) claimed to be in the scale-up phase, while 20% of them were in the start-up phase and 5% of them were in the development phase.

**Table 4.4: Stage of business development**

	<b>Frequency</b>	<b>Percent</b>
Start-up phase	44	20.1
Emerging growth (scale up)	162	74.0
Development (e.g. Private Equity exit phase)	11	5.0
Dissolution (encountering unbearable business challenges)	2	.9
<b>Total</b>	<b>219</b>	<b>100.0</b>

Source: Researcher (2021)

On a bank account ownership, 95% of the CCS businesses maintained a bank account with a commercial bank. We also established that the businesses maintained various forms of business records; personnel records (96%), bank statements (94%), and accounting (73%), registration documents (31%) with only 28% of them holding permits and licenses for their businesses.

**Table 4.5: Records maintained by CCS business**

Type of record	Enterprises keeping business records
1. Registration and legal documents	67 (30.6%)
2. Permits and licenses	61 (27.9%)
3. Insurance documents	3 (1.4%)
4. Accounting records (Cash book, Financial statement/balance sheet)	159 (72.6%)
5. Personnel records	210 (95.9%)
6. Banking statements	206 (94.1%)
7. Mobile wallet reports e.g. Mpesa	186 (84.9%)

Source: Researcher (2021)

#### 4.4.2. Connectedness to the CCS business support ecosystem

The interviewed CCS business owners had little connection to industry networks with only 14% of them being a member of at least one professional group within the industry.

**Table 4.6: Membership in professional groups within industry**

	Frequency	Percent
Yes	30	13.7
No	189	86.3
<b>Total</b>	<b>219</b>	<b>100.0</b>

Source: Researcher (2021)

On awareness of existing legal and supportive services available for CCS businesses in Kenya, CCS business owners were more woke on existing government funding

programs (32%) such as the Youth Enterprise Fund and Women Enterprise Fund and available credit products (23%) than they were about the regulation and institutional frameworks (17%). Notably only 19% of them were aware of the COVID-19 MSME cushioning funds set up recently. At the same time only 9% of the CCS business owners are aware of the MSME Authority as the mandated government agency for the support of enterprises including those in the CCS sector.

**Table 4.7: Awareness of MSME support initiatives**

	<b>Frequency</b>	<b>Percent</b>
Which existing Supportive reg and institutional Micro, Small framework (Acts) and Medium Enterprise (SMEs) support initiatives in Kenya are you aware of?	37	16.9
Setting up of the MSME Authority	19	8.7
Devolved funds (e.g. YEDF, WEF)	70	32.0
Funds for cushioning MSMEs against shocks like Covid-19	42	19.2
Credit products from financial institutions	51	23.3
<b>Total</b>	<b>219</b>	<b>100.0</b>

Source: Researcher (2021)

#### 4.4.3. Needs, access and use of savings and credit services

To understand access of finance by businesses we asked CCS business owners to describe the financial needs of their business at the time of study. The top-ranking reasons for seeking financing were for product innovation through research (M=4.00, SD=1.04), to digitize operations such as sales (M=3.89, SD=1.35), marketing and communication (M=3.77, SD=1.08), product development (M=3.42, SD=1.22), product distribution (M=3.40, SD=1.16) and finally for business startup (M=2.92< SD=1.31) as shown by percentage of strongly agree in the Table 4.8.

**Table 4.8: Main reason why CCS enterprises need financing**

	Scale					Mean	SD
	Strong Agree: 5	Agree: 4	Neither Agree nor Disagree: 3	Disagree: 2	Strongly disagree: 1		
I needed financing mainly for my business start-up	36 (16.4%)	50 (22.8%)	16 (7.3%)	95 (43.4%)	22 (10.0%)	2.92	1.31
I need financing mainly for product/service development	48 (21.9%)	70 (32.0%)	43 (19.6%)	42 (19.2%)	16 (7.3%)	3.42	1.22
I need financing mainly for product distribution	48 (21.9%)	55 (25.1%)	64 (29.2%)	41 (18.7%)	11 (6.0%)	3.40	1.16
I need financing mainly for marketing & communication	61 (27.9%)	85 (38.8%)	43 (19.6%)	21 (9.6%)	9 (4.1%)	3.77	1.08
I need financing mainly for innovation/Research & Development (R&D)	83 (37.9%)	87 (39.7%)	16 (7.3%)	32 (14.6%)	1 (0.5%)	4.00	1.04
I need financing to enable me to automate and digitize operations such as sales	98 (44.7%)	61 (27.9%)	26 (11.9%)	5 (2.3%)	29 (13.2%)	3.89	1.35

Source: Researcher (2021)

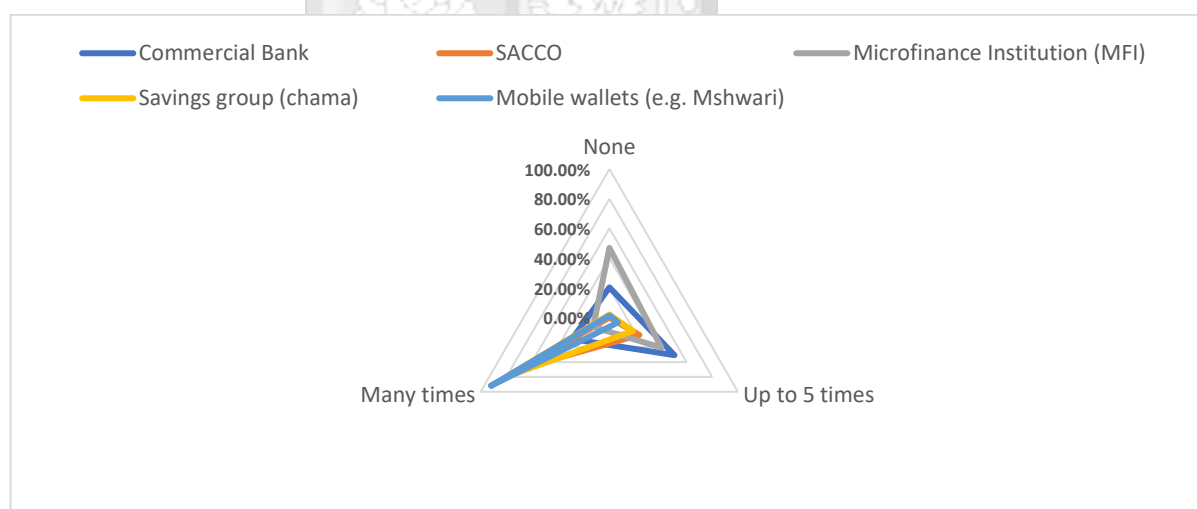
In terms of membership to providers of savings and credit services, the respondents use multiple providers and all of them (100%) had a mobile wallet account e.g. Mpesa or Mshwari. Use of commercial bank accounts was at 94.5%, followed by informal savings groups (chamas) at 69%, while microfinance institutions and formal SACCOs were used by 43% and 35% of the respondents, respectively. Frequent use of services from financial service providers was highest for mobile wallets (92%) followed by informal savings groups (80%) and formal SACCOs (69%). Commercial banks and Microfinance institutions reported less frequent use by the respondents which points to their use as a mandatory business requirement rather than a functional source of financing for the CCS businesses as can be read in the Table 4.9 and Figure 4.3.

**Table 4.9: Enterprises membership and access to financial service providers<sup>2</sup>**

Financial Service Provider (FSP)	CCS businesses who are clients	Times accessed financial services (last 1 year)		
		None	Up to 5 times	Many times
i. None	0 (0%)	-	-	-
ii. Commercial Bank	207 (94.5%)	42 (20.3%)	105 (50.7%)	60 (29%)
iii. SACCO	77 (35.2%)	6 (7.8%)	18 (23.4%)	53 (68.8%)
iv. Microfinance Institution (MFI)	32 (42.6%)	15 (46.9%)	13 (40.6%)	4 (12.5%)
v. Savings group (chama)	152 (69.4%)	3 (2.0%)	28 (18.4%)	121 (79.6%)
vi. Mobile wallets (e.g. Mshwari)	219 (100%)	3 (1.4%)	15 (6.8%)	201 (91.8%)
vii. Other, specify _____	0%	-	-	-

Source: Researcher (2021)

**Figure 4.3: Times enterprises accessed financial services in the last one year**



Source: Researcher (2021)

Specifically for credit, access to finance was measured by asking the CCS business owners whether they had ever tried seeking financial services (loans or to conduct business transactions) from a particular provider and the percentage success rate among applicants as tabulated in Table 4.10. The findings were that most CCS

<sup>2</sup> NB: Multiple response

businesses (87%) had attempted to access financial services from a commercial bank, out of which only a quarter of them succeeded. This implies that there is a financial gap for CCS businesses that commercial banks are best suited to fill, however due to constraints in access, three quarters of this need is unmet by commercial banks. Informal savings groups (chamas) were the second most preferred provider of financial services (FS) to the creative sector by 70% of the respondents and recorded a high success rate of 94% while formal SACCOs was the third preferred FS provider by 32% of the respondents recording a success rate of 84%. Finally, mobile wallets were the least preferred financial services provider by 8% of the respondents, however it was the most accessible with 100% success rate. Remarkably mobile money and SACCOs had the highest success rates on access to financial services even though they were the least likely sources of finance where CCS business owners went seeking FS.

**Table 4.10: Financial institutions from which CCS firms seek credit facility<sup>3</sup>**

Type of financial institution	Enterprises which tried seeking financial services	Enterprises whose financial service needs were met
None	219 (100%)	-
Commercial Bank	190 (86.8%)	48 (25.1%)
SACCO	69 (31.5%)	58 (84.1%)
Microfinance institution	22 (10%)	3 (13.6%)
Savings group (chama)	152 (69.4%)	143 (94.1%)
Mobile wallets (e.g. Mshwari)	215 (8.2%)	209 (97.2%)

Source: Researcher (2021)

#### 4.5. Access to finance among CCS businesses in Nairobi County, Kenya

Study findings revealed that high interest rates (M=4.44, SD=1.009), cumbersome funding requirements such as collateral (M=4.14, SD=2.877) and lack of be-fitting credit product (M=3.77, SD=1.432) were the top three access to finance constraints facing CCS businesses in Nairobi County, Kenya. Other constraints in order of importance are limited awareness of products and requirements, perceived difficulty

<sup>3</sup> CCS-MSME business loans are mostly available from informal financial institutions. But why are mobile wallets, chama and SACCO loan applications more likely to approve CCS-MSME loan applications than commercial banks and MFIs (commercial banks and MFI have same regulator - the Central Bank of Kenya)?

in accessing formal financial institutions and lack of requisite business records as shown in Table 4.11.

**Table 4.11: Reasons why CCS enterprises don't seek formal credit facilities**

Restrictions to credit seeking	Strong Agree: 5	Agree: 4	Neither Agree nor Disagree: 3	Disagree: 2	Strongly disagree: 1	Mean	SD
I have limited awareness of products and requirements by financial institutions in Kenya	86 (39.3%)	49 (22.4%)	11 (5.0%)	17 (7.8%)	56 (26.6%)	3.42	1.653
Formal financial institutions have too restrictive funding requirements such as lack of collateral	96 (43.8%)	60 (27.1%)	22 (10.0%)	38 (17.4%)	2 (0.9%)	4.14	2.877
I do not have requisite business records	38 (17.4%)	80 (36.5%)	22 (10.0%)	41 (18.7%)	38 (17.4%)	3.18	1.385
My business is still too nascent (below proof of concept)	38 (17.4%)	81 (37.0%)	18 (8.2%)	20 (9.1%)	62 (28.3%)	3.06	1.515
I do not trust financial institutions	34 (15.5%)	33 (15.1%)	10 (4.6%)	33 (15.1%)	109 (49.8%)	2.32	1.567
Financial institutions have too high interest rates	149 (68.0%)	42 (19.2%)	12 (5.5%)	8 (3.7%)	8 (3.7%)	4.44	1.009
I haven't found any appropriate financial instruments (relevant credit products) for my business	98 (44.7%)	48 (21.9%)	27 (12.3%)	16 (7.3%)	30 (13.7%)	3.77	1.432
It is difficult for me to access formal financial institutions	67 (30.6%)	42 (19.2%)	35 (16.0%)	22 (10.0%)	53 (21.2%)	3.22	1.564

Source: Researcher (2021)

Looking beyond bank credit as a form of financing, CCS business owners strongly agreed on the following key challenges for access to finance as shown in Table 4.12: investors not understanding the creative sector (M=4.53, SD=0.964), lack of supportive policies such as intellectual property protection (M=4.24, SD=0.887), lack of IP collateral tools (M=4.04, SD=0.882), lack of suitable credit products for specific business needs (M=3.71, SD=1.251) and informality reasons (M=3.20, SD=1.213).

**Table 4.12: Key challenges of access to finance facing CCS businesses**

	Strong Agree: 5	Agree: 4	Neither Agree nor Disagree: 3	Disagree: 2	Strongly disagree: 1	Mean	SD
My business is quite informal	43 (19.6%)	43 (19.6%)	61 (27.9%)	58 (26.5%)	14 (6.4%)	3.20	1.213
We lack supporting policies such as how to ensure our intellectual property rights are protected (anti-piracy)	108 (49.3%)	64 (29.2%)	39 (17.8%)	7 (3.2%)	1 (0.5%)	4.24	.887
Our industry does not have requisite tools to value intellectual capital which financiers can accept as collateral	78 (35.6%)	80 (36.5%)	54 (24.7%)	5 (2.3%)	2 (0.9%)	4.04	.882
Our industry lacks suitable credit products for business needs	65 (29.7%)	86 (39.3%)	29 (13.2%)	17 (7.8%)	22 (10.0%)	3.71	1.251
People like me lack access to formal financial institutions	64 (29.2%)	29 (13.2%)	24 (11.0%)	53 (24.2%)	49 (22.4%)	3.03	1.565
Investors do not really understand the cultural and creative sector	170 (77.6%)	13 (5.6%)	23 (10.5%)	9 (4.1%)	4 (1.8%)	4.53	.964

Source: Researcher (2021)

#### 4.6. Bivariate analysis

##### 4.6.1. Statistical test of independence of various sources of finance

To investigate for relationships in access to different sources of finance among CCS businesses, a Chi-square test of independence was conducted. Chi square is a test of independence between two discrete variables in which a null hypothesis (Ho) of no dependence between the variables of interest is claimed. A comparison of the calculated Chi-square statistic with the critical statistic at the corresponding degrees of freedom is made with the decision criterion being to reject the null hypothesis whenever the calculated statistic is greater than the critical statistic. In that case the test statistic is statistically significant ( $p < 0.05$ ). Rejection of Ho confirms that there is lack of independence between the two variables of interest which implies there exists an association. Table 4.13 has the findings from analysis.

**Table 4.13: Chi-square test of independence of sources of finance**

Source of finance	Commercial Banks ( $\chi^2$ )	SACCO ( $\chi^2$ )	MFI ( $\chi^2$ )	Chama ( $\chi^2$ )	Mobile Wallets ( $\chi^2$ )
Commercial Banks	-	0.3145 (0.575)	0.8312 (0.362)	22.9900*** (0.0000)	5.0633** (0.024)
SACCO	0.3145 (0.575)	-	2.5001 (0.114)	64.7861*** (0.000)	15.3021*** (0.000)
MFI	0.8312 (0.362)	2.5001 (0.114)	-	1.4030 (0.236)	5.7763** (0.016)
Chama	22.9900*** (0.0000)	64.7861*** (0.000)	1.4030 (0.236)	-	9.6554*** (0.002)
Mobile Wallets	5.0633** (0.024)	15.3021*** (0.000)	5.7763** (0.016)	9.6554*** (0.002)	-

Notes:

\* - test statistic is established with 1% level of significance, all statistics established at 1 degree of freedom

\*\* - test statistic is established with 5% level of significance

\*\*\* - test statistic is established with 10% level of significance

p-values in parentheses

Source: Researcher (2021)

Results of the chi-square tests reveal that there was independence of data on access to finance between commercial banks and SACCOs, between commercial banks and MFIs as well as between SACCOs and MFIs. So, if any random CCS firm has access to finance in a commercial bank it does not mean that they can also easily access finance in a SACCO. However, there was a relationship between access to finance within Chamas and commercial banks, between chamas and SACCOs as well as between chamas and mobile wallets. This means that if typical CCS firm has ease of access to finance in a chama, they are also likely to have ease of access to finance in a SACCO. Finally, there was also a relationship between access to finance within mobile wallets and all the four other sources of financial services.

#### 4.6.2. Mean difference analysis on access to finance

Two tail test statistics were generated to assess whether there lay differences on CCS access to finance on the basis of selected attributes (business challenges, owner attributes, firm characteristics and exogenous variables). Hypotheses used to calculate the 2-tail test *t-statistic* on access to finance, Ho: There is no difference in the mean value of characteristics of business owners who have access to finance (Group y=1)

from the mean of business owners without access to finance (Group y=0). Table 4.14 has results.

**Table 4.14: Relationship between CCS business owner attributes, business characteristics and exogenous variables on access to finance**

		Access to finance in Commercial Banks (t-statistic)	Access to finance in SACCOs (t- statistic)	Access to finance in MFIs (t- statistic)	Access to finance in Chamas (t-statistic)	Access to finance in Mobile Wallets (t- statistic)
Business composite	challenges	5.3448***	- 4.7651***	-0.6144	-7.6370***	-0.1821
CCS owner composite	attributes	3.7222***	6.5754***	0.5129	- 10.2422***	-2.1368**
Firm composite	characteristics	2.3142**	3.1367***	-0.1244	-3.3053***	-1.5000
Exogenous factors composite		3.2174**	1.0636	0.1637	-3.6074***	-0.3040

Notes:

\* - statistic is established with 1% level of significance

\*\* - statistic is established with 5% level of significance

\*\*\* - statistic is established with 10% level of significance

Source: Researcher (2021)

It emerged that access to finance differed by the nature of business challenges facing a respondent CCS firm. For example, higher proportions of firm owners without business records for example were able to access finance from chamas and SACCOs than those with business records but it was the opposite scenario within commercial banks. In a similar way, differences in access to finance within commercial banks, SACCOs and Chamas were observed on the basis of CCS owner attributes and firm characteristics and perceptions on exogenous factors. Results from this exploratory mean-difference assessment procedure sheds light on the possibility of real effects of some independent variables on CCS access to finance across five strands of alternative sources. This can be confirmed using a more advanced cause-effect analytical technique.

#### 4.7. Influence of owner attributes on access to finance by CCS firms

The creative sector business owners interviewed strongly agreed that academic/professional qualifications (M=2.64, SD=.909) top the reasons that influence their ability to access finance. Managerial attributes specifically connection to the MSME ecosystem (through industry networks) (M=2.47, SD=1.097), owner entrepreneurship skills (M=2.54, SD=1.238) can influence their ability to access financing but to a little extent. However, they did not agree to age and gender being influential in their chances of access to finance as shown in Table 4.15 below.

**Table 4.15: Influence of owner attributes on access to finance by CCS firms**

	<b>Strong Agree: 5</b>	<b>Agree: 4</b>	<b>Neither Agree nor Disagree: 3</b>	<b>Disagree: 2</b>	<b>Strongly disagree: 1</b>	<b>Mean</b>	<b>SD</b>
Gender	20 (9.1%)	6 (1.4%)	3 (1.4%)	14 (6.4%)	176 (80.4%)	1.54	1.242
Age	46 (21.0%)	13 (5.9%)	2 (73.1%)	19 (72.1%)	139 (63.5%)	1.75	1.201
Academic or professional qualifications	63 (28.8%)	82 (37.4%)	41 (18.7%)	27 (12.3%)	6 (2.7%)	2.64	.909
Entrepreneurship Skills training	65 (29.7%)	84 (38.4%)	55 (25.1%)	11 (5.0%)	4 (1.8%)	2.54	1.238
Membership to professional networks	105 (47.9%)	83 (37.9%)	24 (11.0%)	5 (2.3%)	2 (0.9%)	2.47	1.097

Source: Researcher (2021)

#### 4.7.1. Regression of owner attributes on access to finance by CCS firms

**Table 4.16: Marginal effect of owner attributes on access to finance**

<b>DV outcome:</b> Access to finance (y)= $\begin{cases} 1, & \text{if answer is Yes} \\ 0, & \text{otherwise (No)} \end{cases}$	<b>Model 1:</b> <b>Commercial Banks</b>	<b>Model 2:</b> <b>SACCO</b>	<b>Model 3:</b> <b>MFI<sup>4*</sup></b>	<b>Model 4:</b> <b>Chama</b>	<b>Model 5:</b> <b>Mobile Wallets<sup>3</sup></b> *
<b>Regressors (IVs):</b>					
Sex (1=Female, 0=Male)	.023	-.030	Omitted	.066	-.001
Age of respondent	-.076**	.050	-.000	-.033	.008
Academic attainment/level of education	.002	.027	.001	-.041	.009
Duration of operation of CCS business	.012 *	.024 **	-.016*	-.036***	.004*
Formal training in CCS (1=Trained, 0=Not trained)	-.051	.133*	Omitted	.415***	.024
Training on entrepreneurship (1=Trained, 0=Not trained)	-.033	.016	-.035	-.057	-.001
Business networks (1=Yes, 0=No)	.194*	-.049	-.041	.324***	.000
Composite perception scores of individual attributes	-.149**	-.046***	.001	.085***	.005*
Constant (NB: for odds ratio)	-.021	2.635	5.064	-14.452** *	-1.177
<b>Model Goodness of Fit:</b>					
<i>Number of obs</i>	218	217	49	217	218
<i>LR test: chi2(8)</i>	22.11***	58.94** *	4.58 (6df)	151.63** *	7.26
<i>Prob &gt; chi2</i>	0.0047	0.0000	0.5991	0.0000	0.5088
<i>Log likelihood (max: 5th iteration)</i>	-101.280	-95.484	-8.997	-63.437	-36.955
<i>Pseudo R2</i>	0.0984	0.2359	0.2028	0.5444	0.0894
<i>Probability Pr(y)=1, f(x=Ā)</i>	17.6%	19.1%	2.3%	85%	96.8%

Notes on the confidence with the range of predicted  $\beta$  versus actual population parameter:

\* - sample coefficient is established with 1% level of significance (99% confidence interval)

\*\* - coefficient is established with 5% level of significance (95% confidence)

\*\*\* - coefficient is established with 10% level of significance (90% confidence interval)

Source: Researcher (2021)

<sup>4\*</sup> Model collapsed due to limited variation of data (nearly all CCS enterprises in the sample used mobile money while nearly all of them did not use MFIs as a source of finance)

Three models of Table 4.16 present a good fit (prediction power based on sample data) as indicated by the odds-ratio log likelihood chi-square test statistic  $\chi^2$ ; models estimating CCS access to finance among commercial banks, SACCOs and informal savings groups (chamas). However, the models for CCS access to finance from MFIs and mobile wallets do not have significant prediction statistics on their goodness of fit – this is because MFIs had extremely low access while mobile wallets had near perfect access among the sampled CCSs of Nairobi County. The model for commercial banks establishes a LR  $\chi^2$  of 22.11 at 8 degrees of freedom and 0.01 level of statistical significance which implies less than 1% estimation error. Similarly, the models for SACCOs and chamas have LR  $\chi^2$  of 58.94 and 151.63, respectively, at 8 degrees of freedom and 1% level of statistical significance ( $p < 0.01$ ).

Estimation results show that, based on mean values of predictors (independent variables) representing CCS business owner attributes, the probability of cultural and creative enterprises accessing finance within commercial banks, SACCOs and informal savings groups (chamas) in Nairobi County is 17.6%, 19.1% and 85% respectively. Considering the influence of predictors included in the model, owners of businesses in the creative sector have a chance of 85% of accessing finance in chamas. Also considering the influence of predictors included in the model, owners of businesses in the creative sector have a chance of 17.6% of accessing finance in commercial banks. This means CCS enterprises have higher chances of accessing finance from informal savings than with formal ones like commercial banks. The model excluded mobile wallets because it was a perfect case as nearly all respondents had an account mobile wallet savings and credit services.

**Estimated regression equations:**

$P(Y)=1_{(\text{Commercial Banks})} = -.021 + -.076 \text{ Age} + .012 \text{ Operation duration} + .194 \text{ Business networks}$
$P(Y)=1_{(\text{SACCOs})} = 2.635 + .024 \text{ Operation duration} + .133 \text{ CCI training}$
$P(Y)=1_{(\text{Chamas})} = -14.452 + -.036 \text{ Operation duration} + .415 \text{ CCI training}$

On specific effects of individual attributes, the probability of access to finance in commercial banks by creative enterprises decreases by 0.076 among younger CCS business owners, increases by 0.012 businesses that have operated for longer and by 0.194 for managers with a lengthy business experience and good business networks (ceteris paribus for each variable). The probability of access to finance within SACCOs increases by 0.024 among businesses that have operated for longer (greater experience) and, ceteris paribus, by 0.133 among businesses whose owners had entrepreneurship training. Access to finance among informal savings groups (chamas) decreases by 0.036 among businesses with higher duration of operation in the creative sector and also, separately, increases by 0.415 among businesses whose owners have entrepreneurship training.

#### **4.8. Influence of business characteristics on access to finance by CCS firms**

Creative enterprise owners interviewed strongly agreed that characteristics of their business such as the practice maintaining sound business records (M=4.21, SD=0.931), ownership of a bank account (M=4.10, SD=0.916) and stage of product/business development (M=3.53, SD=1.338) influenced their chances of accessing finance for their business more than did size of business and business registration status which was seen as more of basic requirements for operating a business.

**Table 4.17: Influence of firm characteristics influence access to finance**

<i>I believe that in my line of work and given the nature of my business...</i>	<b>Strongly Agree: 5</b>	<b>Agree: 4</b>	<b>Neither Agree nor Disagree: 3</b>	<b>Disagree: 2</b>	<b>Strongly disagree: 1</b>	<b>Mean</b>	<b>SD</b>
I am able to access financing faster than other types of businesses in my neighborhood	65 (29.7%)	77 (35.2%)	33 (15.1%)	40 (18.3%)	4 (1.8%)	3.10	1.034
The size of my business in terms of number of employees determines my ease of access to finance	95 (43.4%)	78 (35.6%)	27 (12.3%)	16 (7.3%)	3 (1.4%)	2.95	1.024
Registration status influences access to finance for my business	53 (24.2%)	80 (36.5%)	62 (28.3%)	19 (8.7%)	5 (2.3%)	3.37	1.127
Ownership of a bank account influences my access to finance	90 (41.1%)	73 (33.3%)	43 (19.6%)	13 (5.9%)	-	4.10	.916
Stage of development of the firm's products influences my access to finance	107 (48.9%)	73 (33.3%)	28 (12.8%)	9 (4.1%)	2 (0.9%)	3.53	1.338
Maintenance of business records influences my access to finance	103 (47.0%)	77 (35.2%)	25 (11.4%)	11 (5.0%)	3 (1.4%)	4.21	.931

Source: Researcher (2021)

**Table 4.18: Marginal effect of business characteristics on access to finance**

<b>DV outcome:</b> Access to finance (y)= 1, if answer is Yes 0, otherwise (No)	<b>Model 1:</b> <b>Commercial Banks</b>	<b>Model 2:</b> <b>SACCO</b>	<b>Model 3:</b> <b>MFI<sup>5</sup></b>	<b>Model 4:</b> <b>Chama</b>	<b>Model 5:</b> <b>Mobile Wallets<sup>3</sup></b>
<b>Regressors (IVs):</b>					
Business registration status (1=Registered, 0=Not registered)	.187***	.365***	.000	.678***	.053**
Business has a bank account (1=Yes, 0=No)	Omitted	.092	.020*	.162	Omitted
Size of business (1=Micro, 2= Small, 3=Medium)	.014	.108	.016	.295*	.007
Composite perception scores of business characteristics	-.015	-.017*	.001	.025*	.003
Constant (NB: for odds ratio)	2.835**	5.40***	-	-8.186***	-1.516
			11.337		

<sup>5</sup>\* Model collapsed due to limited variation of data (nearly all CCS enterprises in the sample used mobile money while nearly all of them did not use MFIs as a source of finance)

<b>Model Goodness of Fit:</b>					
<i>Number of obs</i>	207	218	219	218	207
<i>LR test: chi2(4)</i>	15.38*** (3df)	58.89** *	3.97	114.77** *	6.78* (3df)
<i>Prob &gt; chi2</i>	0.0015	0.0000	0.4105	0.0000	0.0793
<i>Log likelihood (max: 5th iteration)</i>	-103.200	-96.840	- 13.867	-82.936	-36.667
<i>Pseudo R2</i>	0.0693	0.2332	0.1251	0.4090	0.0846
<i>Probability Pr(y)=1, f(x=̄x)</i>	20.9%	21.4%	0.8%	69.9%	96.4%

Notes on the confidence with the range of predicted  $\beta^A$  versus actual population parameter:

\* - sample coefficient is established with 1% level of significance (99% confidence interval)

\*\* - coefficient is established with 5% level of significance (95% confidence)

\*\*\* - coefficient is established with 10% level of significance (90% confidence interval)

Source: Researcher (2021)

For assessing the effect of business characteristics on access to finance, four models estimating CCS access to finance among commercial banks, SACCOs, informal savings groups and mobile wallets established a good fit based on the sample data (Table 4.18). The model for commercial banks establishes a LR  $\chi^2$  of 15.38 at 3 degrees of freedom and 0.01 level of statistical significance. Models for SACCOs and chamas, mobile wallets have LR  $\chi^2$  of 58.8 and 114.77 respectively (4 df,  $p < 0.01$ ). The model for mobile wallets had a LR  $\chi^2$  6.78; 3df,  $p < 0.1$ .

#### Estimated regression equations:

$$P(Y)=1_{(\text{Commercial banks})} = 2.835 + .187 \text{ Business registration status}$$

$$P(Y)=1_{(\text{SACCOs})} = 5.40 + .365 \text{ Business registration status}$$

$$P(Y)=1_{(\text{Chamas})} = -8.186 + .295 \text{ Size of business} + .678 \text{ Business registration status}$$

The predicted probability of cultural and creative enterprises accessing finance from to commercial banks, SACCOs, informal savings groups (chamas) and mobile wallets in Nairobi County is 20.9%, 21.4%, 69.9% and 96.4% respectively on the account of business characteristics while measured at their mean values. Business registration status was the most important determinant that increased the probability of accessing

finance within commercial banks by 0.187 (18.7%). Creative sector enterprises had a 36% higher probability of accessing finance in SACCOs if they were officially registered while the probability of access to finance among informal savings groups (chamas) increased by 67% for registered CCS enterprises and separately by 29.5% for larger enterprises.

#### 4.9. Influence of Exogenous factors on access to Finance by CCS firms

Creative sector business owners strongly opined that access to finance is influenced by factors that are out of their control. These factors are regulatory environment on MSME financing (M=3.89, SD=0.878), performance of the economy (M=3.69, SD=0.89), taxes and licensing obligations (M=3.7, SD=0.982) and the policy of the financing institutions (M=3.68, SD=1.14) as shown in Table 4.19.

**Table 4.19: Influence of exogenous factors on access to finance**

	<b>Strong Agree: 5</b>	<b>Agree: 4</b>	<b>Neither Agree nor Disagree: 3</b>	<b>Disagree: 2</b>	<b>Strongly disagree: 1</b>	<b>Mean</b>	<b>SD</b>
Policy by financial institutions about creative sector	66 (30.3%)	78 (35.8%)	63 (28.9%)	10 (4.6%)	1 (0.5%)	3.68	1.141
The regulatory environment by government on SME financing	51 (23.4%)	51 (23.4%)	137 (62.8%)	23 (10.6%)	7 (3.2%)	3.89	.878
Performance of the economy (liquidity within the financial sector)	73 (33.5%)	117 (53.7%)	24 (11.0%)	4 (1.8%)	-	3.69	.890
Taxes and licensing obligations	115 (52.8%)	56 (25.7%)	31 (14.2%)	10 (4.6%)	5 (2.3%)	3.70	.982

Source: Researcher (2021)

**Table 4.20: Marginal effects of exogenous variables on access to finance**

<b>DV outcome:</b> Access to finance (y)= $\begin{cases} 1, \text{ if answer is Yes} \\ 0, \text{ otherwise (No)} \end{cases}$	<b>Model 1:</b> <b>Commercial</b> <b>Banks</b>	<b>Model 2:</b> <b>SACCO</b>	<b>Model 3:</b> <b>MFI<sup>6*</sup></b>	<b>Model 4:</b> <b>Chama</b>	<b>Model 5:</b> <b>Mobile</b> <b>Wallets<sup>3*</sup></b>
<b>Regressors (IVs):</b>					
Favorable FSP policy by financial institutions on CCS financing	.075**	.145***	.007	-.201***	.017
Favorable regulatory environment on CCS SME financing	.081**	.051	-.004	.073	-.005
Performance of the economy	.028	-.048	.002	-.009	.002
Taxes and licensing obligations	-.002	-.029	-.003	.014	.001
Constant (NB: for odds ratio)	1.888	2.632*	-5.299	-4.357***	1.616
<b>Model Goodness of Fit:</b>					
<i>Number of obs</i>	218	217	218	217	218
<i>LR test: chi2(4)</i>	14.81***	23.50***	1.36	37.67***	1.33
<i>Prob &gt; chi2</i>	0.0051	0.0001	0.8516	0.0000	0.8562
<i>Log likelihood (max: 5th iteration)</i>	-104.929	-114.225	0.0428	-120.417	-39.921
<i>Pseudo R2</i>	0.0659	0.0933	-15.158	0.1352	0.0164
<i>Probability Pr(y)=1, f(x=Ĥ)</i>	19.3%	23.9%	1%	68%	95.6%

Notes on the confidence with the range of predicted  $\hat{\beta}$  versus actual population parameter:

\* - sample coefficient is established with 1% level of significance (99% confidence interval)

\*\* - coefficient is established with 5% level of significance (95% confidence)

\*\*\* - coefficient is established with 10% level of significance (90% confidence interval)

Source: Researcher (2021)

On exogenous factors, three models estimating CCS access to finance among commercial banks, SACCOs and informal savings groups established a good fit based on the sample data. The model for commercial banks had a LR  $\chi^2$  of 14.81 at 4 degrees of freedom and 0.01 level of statistical significance. Models for SACCOs and chamas had LR  $\chi^2$  of 23.50 and 37.67 respectively (4 df,  $p < 0.01$ ).

<sup>6\*</sup> Model collapsed due to limited variation of data (nearly all CCS enterprises in the sample used mobile money while nearly all of them did not use MFIs as a source of finance)

### Estimated regression equations

$$P(Y)=1_{(\text{Commercial banks})} = 1.888 + .075 \text{ Favorable policy by FSPs} + .081 \text{ Favorable GoK regulations}$$

$$P(Y)=1_{(\text{SACCOs})} = 2.632 + .145 \text{ Favorable policy by FSPs}$$

$$P(Y)=1_{(\text{Chamas})} = -4.357 -.201 \text{ Favorable policy by FSPs}$$

The predicted probability of cultural and creative enterprises accessing finance from to commercial banks, SACCOs and informal savings groups (chamas) in Nairobi County is 19.3%, 23.9% and 68% respectively due to exogenous factors outside the control of the business. Favorable financial services provider (FSP) policy on CCS financing, *ceteris paribus*, increases the probability of access to finance within commercial banks by 0.075 or 7.5% other things held constant. A favorable regulatory environment on creative sector financing, *ceteris paribus*, increase the probability of access to finance within commercial banks by 0.081 or 8.1%. CCS businesses had a 14.5% higher probability of access to finance in SACCOs if the FSP policy was friendly and vice versa. It was the inverse case amongst informal savings groups (chamas) whereby the probability of CCS businesses accessing finance among chamas declined by 20.1% if the FSP policy was friendly and vice versa.



## CHAPTER FIVE

### DISCUSSION, CONCLUSIONS AND RECOMMENDATION

#### 5.1 Introduction

This chapter presents a summary of findings organized by the objectives of the study, conclusion, recommendations, limitations of the study and areas for further study.

#### 5.2 Discussion of findings

The findings of this study are discussed under each study objectives as follows.

##### 5.2.1 Access to finance among CCS firms in Nairobi County, Kenya

This study established that CCS enterprises face similar challenges to other SMEs such as lack of skills, operational inefficiencies, poor networks, and lack of financial resources to start and grow their businesses. Focusing on the issue of access to finance the study concurs with the UNCTAD (2018) in claiming that CCS enterprises experience a conglomerative role of these challenges in accentuating the difficulty of access to finance. This study brings forth evidence at two levels: first on access to various forms financing (beyond short-term credit). CCSs business owners find the ecosystem weak and unable to meet the financial needs of small and micro enterprises in the creative and cultural sector blaming investors for not understanding the sector and responding effectively with the right financial instruments. This is the *raison d'etre* for private funds such as Nest Foundation and Heva Fund who aim at creating awareness of the creatives sector through market studies such as the Uhuru market's textile sector study and creation of the VC fund that targets CCS enterprises (Heva Fund, 2018).

This study also found the policy frameworks as patchy with CCS entrepreneurs reporting that lack of Intellectual property protection and IP collateral tools that can bolster the investment cases of CCSs. In concurrence with a study on CCSs in Nigeria by Onyeator (2019) informality was reported as a key barrier to accessing all forms of

finance. The second level of evidence is on access to credit. The financial ecosystem for CCSs and all SMEs in Kenya is predominantly credit driven with limited equity and other forms of financing available. This study considered access to finance from formal and informal sources, reporting that most CCSs reported accessing credit from mostly from mobile wallets such as M-Shwari which is at individual rather than corporate level and from informal sources such as savings groups (Chamas). More formal and structured forms of financing are seen as more cumbersome in application process and require more stringent formal documents and collateral which can explain the rising growth in popularity of informal sources of financing among the creative sector enterprises in Nairobi City County, Kenya.

Across various sources of credit, CCSs reported that high interest rates as a challenge in accessing finance, lack of be-fitting credit products and cumbersome funding requirements as the key constraints. Corroborating the findings of this study with other recent works on SMEs financing by Viffa Consult (2021), it is intriguing that CCSs reported that high interest rates was a key barrier for accessing more formal credit sources such as commercial banks (rated by 78% of interviewed CCSs), at the same time 100% of the CCSs interviewed reported using mobile wallets credit many times. It is, therefore, imperative that loan application rejections by banks leave CCS enterprises with no option than run to mobile lenders which typically is a form of financing designed for individual needs and charges higher interest rates with daily penalty fees on non-payment. For example, Mshwari charges a fee of 7.5% per month (90% p.a) compared to a commercial bank loan that may be 14% p.a. Informal savings groups were also established as a key source of credit for small and micro-enterprises preferred for their cost-effectiveness and flexibility in meeting business cycle financing needs vis a vis commercial banks as evidenced by Mungiru and Njeru (2015) in a study titled *“Effects of Effects of Informal Finance on the Performance of Small and Medium Enterprises in Kenya- Kiambu County”*.

This study also found that more than a third of CCSs are concerned about the cumbersome funding requirements such as collateral essentially. This finding affirms Onyeator’s (2019) argument that high informality leads to lack of proper identification/definition of applicant firms which explains is how CCSs typically get

locked out of credit access. If not adequately addressed, the identification dilemma of CCS enterprises by financiers could spell doom for majority of informal CCSs who are unable to meet set ID requirements and credit assessment criteria set out by commercial banks. Indeed, Gregory and Rogerson (2018) sought to get to the root cause of the ‘informality’ finding that it was rooted in motivation to start the enterprise and gaps in technical and managerial skills of CCS managers. The World Intellectual Property Organization (WIPO) tells us that although Kenya’s quality of innovation and perception of entrepreneurship is one of the best in Africa, the trend of rush to entrepreneurship for self-employment has led to deterioration of the entrepreneurship quality (World Intellectual Property Organization [WIPO], 2011). The study finding brings to live the discussion of how formalization can be attained and sustained for the long haul.

Another third of CCSs cited lack of awareness of and perceived difficulty in accessing products and requirements which further entrenches the finding that CCSs lack of good market intelligence on financing options available cited by Gregory and Rogerson (2018) in their study on CCSs in South Africa. This is again brought home by Jagongo, A. O. (2012) whose Kenya SMEs study found that there is limited understanding of the various financing options such as private equity by entrepreneurs. On the perceptual barriers to access to credit, CCSs imagine more difficulties in accessing finance based on past experiences shared by their peers and it could also be because of the comparative ease in accessing finance from the mobile lenders such as Mshwari. It is imperative that ease of access is contingent on awareness of the actual process, perception based on shared customer experiences and comparative customer service experiences such as from mobile credit providers.

### **5.2.2 Influence of owner management attributes on access to finance**

An investigation of the influence of CCSs owner attributes such as aged business owner with average level of education, years of business operation and industry training, regardless of their gender on access to finance is seen to vary by source of financing. The results are that owner attributes are important factors for access to finance but are more influential for informal savings groups (85%) than for SACCOs (19%) and for commercial banks (17.6%). Based on logistic regression - marginal

effect of owner attributes on access to finance, younger CCS business owners, those with a lengthy CCS experience and those with good business networks had higher chances of accessing credit with coefficients established at 10% level of significance (90% confidence interval). Particularly, for informal savings groups (chamas), individual attributes were an important driver of access to savings and credit. This phenomenon can be explained by the social collateral methodology adopted by most chamas as a crucial asset for any member as other members must put their name on a member's trustworthiness during credit appraisal. Without good social collateral members would be required to provide land title deed or car logbooks as collateral against credit sought – typical approach by commercial banks. As such it is not surprising that individual owner attributes – years of experience and technical training in CCS business and membership to a business network- emerge as important influencers of access to finance from an informal savings group (chamas). This finding is in line with the Financial Sector Deepening (FSD) Africa's work on Role of Savings groups, whereby they were seen as group members extending relationships to accumulate their funds for a range of purposes such as consumption, investment and emergencies including financing business activities throughout the business cycle (FSD Africa, 2016).

### **5.2.3 Influence of firm characteristics on access to finance**

Of the CCS businesses reached in this study 68% of them did not have a registered business as is typical for other MSMEs as established in the Census conducted by KNBS in 2017. Our model results for business characteristics against access to various sources of financing showed that although business registration is a mandatory requirement by formal financial institutions such as commercial banks and to some extent SACCOs, it remained an important factor for access to credit beyond being a minimum requirement. The model omitted mobile wallet because it is a perfect case as every respondent recorded use of a mobile wallet saving and credit services. In absence of collateral assets, CCS businesses that are registered tend to maintain some form of business records which comes in handy when accessing finance not just from formal financial institutions but also from SACCOs and informal savings (chamas). This could also be interpreted as a registered business that maintains business records have some form of data that a credit financier could use to score the credit worthiness

of the business as opposed to a case where no records at all were maintained. In concurrence, Dr. Muhammad Yunus (2008), a Nobel Peace Prize winner hailed as the father of Microfinance in his work in Bangladesh championed a conversation that the ‘poor find ways to make themselves credit worthy, ways that banks may not understand. Maintaining business records increases chances of data availability that drives more access to finance from formal institutions (Yunus, 2008).

#### **5.2.4 Influence of exogenous factors on access to finance**

Appreciation of the importance of a favorable regulatory environment on CCS financing was noted to have an influence on the likelihood of accessing finance amongst CCS enterprises across formal sources of financing. More significantly, favorable financial services provider (FSP) policy on CCS financing, *ceteris paribus*, increased the probability of access to finance by 7.5% for commercial banks, 14.5% for SACCOs and 20.5% for informal savings groups (chamas). This implies that when the regulatory environment is unfriendly, it is commercial bank credit access that gets most impacted negatively while access to informal sources is more resilient. At the same time when it comes to policy by formal financial institutions, when they are unfriendly then CCS entrepreneurs result to informal credit mechanisms making chamas the most sought-after source. This comes back to Yunus (2008) point that informal source are more resilient than formal sources to external shocks such as the global financial crisis. Well, the discussion is not whether formal or informal sources of finance are better but rather for what reasons is either source required to meet the various CCS financial needs and if the financing is accessed when needed at fair terms – which speaks to the quality of such financing.

#### **5.3 Conclusion**

The study concludes that there is a desirable mix of individual attributes, business characteristics and exogenous factors which, if addressed, would increase chances of access to finance for majority of CCS businesses in Nairobi. These attributes include years of experience (the more the better), access to technical training in CCS business, access to business networks as well as having the owner register their creative enterprise. These aspects of a CCS owner and enterprise should be prioritized in efforts to bring CCS business to the fore of formal business operations. Attaining these

attributes, however, is important for access to both formal and informal sources of financing. The study results also vocalizes the complementarity existence of various sources of financing based on their resilience to external factors that are out of control of the CCS businesses. These are regulatory environment on CCS financing and financial services provider (FSP) policy on CCS financing.

Findings of this study have important implications on the theoretical and conceptual frameworks. On the supply side, it is Whereas the pecking-order theory is about choice, but what influences their choice are the risk involved, strategic fit of financial services/products and costs. What we are trying to say here is that financial service providers need to relook at the model/design of their products and come up with products addressing the needs of the creative sector enterprises. Yes it's about choice, but no CCS enterprise wants expensive, inaccessible or risky solutions. There is definitely a gap when it comes to the products on offer. We talked about most CCS MSMEs needing credit for working capital needs or to respond to shocks such as COVID 19, such are never available, therefore we can't say that is self-exclusion. Look at how expensive unsecured loans are, because matters of intellectual property (IP) being used for collateral for creatives are still unheard of in the regional market. Yet it can be a great solution. Make loans affordable and less risky (products designed for CCS type of enterprises), that's another proponent of this theory.

## **5.4 Recommendations**

### **5.4.1 Recommendations for CCS ecosystem players**

Strengthen the CCS entrepreneurial support ecosystem - This study remarks that Kenyan CCSs are struggling to access any form of finance and due to the weak entrepreneurial support ecosystem, the question of convenience and quality of financing is still farfetched until adequate awareness, ease of basic formal requirements and quality entrepreneurship skills are assured.

In terms of building the technical and managerial skills as asked by Gregory and Rogerson (2018) and to build up the quality of entrepreneurship, existing government, and intermediary initiatives for supporting entrepreneurship in Kenya must advocate

for easier formalization of CCSs and at the same time offer trainings, documentation templates and reduce formalization fees. Further the players should enable peer networks for CCS business owners where they can learn from each other, receive coaching, and participate in lobbying for enabling government policies. The ecosystem actors in their various capacities should empower CCS business owners to attain Intellectual property protection for their creative works and products as attaining makes them attractive to a wider variety of investors such as angel investors and venture capitalists.

#### **5.4.2 Recommendations for Financial Service Providers (FSPs)**

On the supply side, more innovation is required by commercial credit, private equity, and other types of investors to make accessible quality financing with minimal requirements and offer products that align with the CCSs financing needs at all levels of business growth whether at start-up, growth and expansion stages. This recommendation is consistent with the Pecking-Order Theory because creative sector business owners are more likely to prefer internal sources and informal sources such as chamas at the beginning of their business life cycle for reasons related to access (no security requirements), risk and cost. In deepening access among formal financial service providers, innovation on alternative methods of identifying CCSs and assessing their credit or investment worthiness is required which could mean working with third parties such as Credit Reference Bureaus, Telcos, and other identification agencies. The mobile lenders such as Tala, use alternative data such as voice calls to on-lend to individuals.

#### **5.4.3 Policy recommendations**

From a policy perspective the government should strengthen existing entrepreneurial support programs such as the Youth Enterprise Development Fund (YEDF) or Women Enterprise Development Fund (YEDF) to extend dedicated support for entrepreneurs in the CCS sector. Further to support formalization efforts the process and fees required to register a business should be waived to encourage start-ups in the creatives sector for a period of up to 3 years. The government should also set up funds to encourage new entrepreneurs including unemployed youths to start a cultural and creative enterprise and support their set-up operational costs until they have gained the requisite

technical managerial skills to run the business to a level where they can access commercial credit or attract equity investors.

In terms of supporting the financial ecosystem, policies should support identification of CCS enterprises by financiers through a semblance of the infamous *Huduma Namba* for micro and small enterprises (MSEs). To support innovative credit delivery through alternative lending mechanisms, the government should enforce positive listing as opposed to negative on Credit Reference Bureau (CRB) platforms to ensure balanced view – both as an opportunity and a risk- of CCS entrepreneurs in credit appraisal by the financial providers.

#### **5.4.5 Recommendations for CCS entrepreneurs**

CCS entrepreneurs are critical actors on the demand side of financial access to the sector. This study reveals that individual owner and managerial and business characteristics are important drivers of access to various sources of financing. CCS entrepreneurs are therefore urged to pursue attainment of these characteristics – build experience in the CCS sector, find business networking in their field of practice that they can join and take available opportunities for training in technical skills including peer learning from other entrepreneurs in their field as all these aspects are crucial in increasing their likelihood for accessing financing. In terms of business set-up, they should priorities attaining basic formalization steps such as registering their business and maintain some form of basic to advanced business records. The entrepreneurs should also capitalize on the Intellectual Property law to secure licensing for their innovations as such certificates come handy when diversifying sources of financing to more equity financing as angel investors and venture capitalists find IP rights attractive in securing their investments in the cultural and creatives sector.

#### **5.5 Areas of further research**

Further research is recommended to understand the financial seeking behaviors of CCS entrepreneurs in terms of how they mix, pick, and drop a certain type of financing based on the need and characteristics of the owner and business at a specific point in the business cycle.

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## APPENDICES

### APPENDIX 1: LETTER OF INTRODUCTION TO PROSPECTIVE RESPONDENTS

#### Respondent Consent Form

I, \_\_\_\_\_, have had the study *on access to finance by cultural and creative industries* explained to me. I have understood all that I have read and have had explained to me and had my questions answered satisfactorily. I understand that I can change my mind at any stage.

Please tick the boxes that apply to you:

#### Participation in the research study

- I AGREE to take part in this research
- I DO NOT AGREE to take part in this research

#### Storage of information on the completed questionnaire

- I AGREE to have my completed questionnaire stored for future data analysis
- I DO NOT AGREE to have my completed questionnaire stored for future data analysis

<b>Participant's Signature:</b> _____	<b>Date:</b> ____/____/____
	<i>DD / MM / YEAR</i>
<b>Participant's Name:</b> _____	<b>Time:</b> ____ / ____
<i>(Please print name)</i>	<i>HR / MN</i>

I, \_\_\_\_\_ (Name of person taking consent) certify that I have followed the SOP for this study and have explained the study information to the study participant named above, and that she has understood the nature and the purpose of the study and consents to the participation in the study. She has been given opportunity to ask questions which have been answered satisfactorily.

<b>Investigator's Signature:</b> _____	<b>Date:</b> ____/____/____
	<i>DD / MM / YEAR</i>
<b>Investigator's Name:</b> _____	<b>Time:</b> ____ / ____
<i>(Please print name)</i>	<i>HR / MN</i>

## APPENDIX 2: QUESTIONNAIRE

### Screening Question:

Name of the Respondent (optional): \_\_\_\_\_

Name of the business and location: \_\_\_\_\_

*Do you own a business of Cultural & Creative Industries (CCS) nature (explain)?*

- Yes
- No, [If Yes, proceed with interview; If No, terminate the interview]

*For how long have you practiced your current cultural and creative business?  
\_\_\_\_\_ years (Discontinue the interview if the period of operation is less than 1 year)*

Questionnaire No. \_\_\_\_\_ Location: \_\_\_\_\_

1. Sex:  Male  Female
2. Age of respondent: ..... years  
 18-25 years  26-35 years  36 -45 years  46 -55 years  Above 55 years
3. Academic level:  No education  Primary  Secondary  Tertiary
4. Business domain/industry: which one category of CCS best describes your main Cultural Productive/Economic activity?
  - i. TOURISM, CULTURAL AND NATURAL HERITAGE (Activities related to tourism, culture and heritage)
  - ii. PERFORMANCE AND CELEBRATION (Creative, arts and entertainment activities; Manufacture of music instruments; Sound recording and music publishing activities; Retail sale of music and video)
  - iii. VISUAL ARTS AND CRAFTS (Photographic activities; Creative arts, crafts and entertainment activities; Manufacture of jewellery, ornaments and related articles)
  - iv. BOOKS AND PRESS (Library and archives activities; Book publishing; Publishing of newspapers, journals and periodicals; Retail sale of books, newspapers and stationery in specialized stores)
  - v. AUDIO VISUAL AND INTERACTIVE MEDIA (Motion picture, video and television program production activities; Radio broadcasting; Television programming and broadcasting activities)
  - vi. DESIGN AND CREATIVE SERVICES (Advertising; Specialized design activities)
  - vii. SPORTS (Sporting events; Design of software games; Manufacture of sports equipment)

## **Section A: Access to finance among CCS firms in Nairobi County**

5. Which savings and credit service provider are you a member of?

Source of credit	Tick $\checkmark$	Number of times accessed credit (last 1 year)		
		None	Up to 5 times	Many times
i. None				
ii. Commercial Bank				
iii. SACCO				
iv. Microfinance institution (MFI)				
v. Informal savings group (chama)				
vi. Mobile wallets (e.g. Mshwari)				
vii. Other, specify _____				

6. Please tick the types of financial institutions from which you tried and succeeded to access financial services such as credit or making business transactions.

Type of financial institution	Tick $\checkmark$
i. None	
ii. Commercial Bank	
iii. SACCO	
iv. Microfinance institution (MFI)	
v. Informal savings group (chama)	
vi. Mobile wallets (e.g. Mshwari)	
vii. Other, specify _____	

7. If your answer to Question 6 above is None, why have you never tried to seek credit facilities from financial institutions? Kindly rate the extent to which you agree with the following reasons based on a five-point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree.

	5	4	3	2	1
i.) Limited awareness of their products and requirements					
ii.) Too restrictive funding requirements e.g. lack of collateral					
iii.) Lack of requisite business records					
iv.) Business is still too nascent (below proof of concept)					
v.) Lack of trust or fear of financial institutions					
vi.) High interest rates					
vii.) Lack of appropriate financial instruments (relevant credit products) for CCS business					
viii.) Can't access formal financial institutions					
ix.) Unsuitability of the funds e.g. low loan amounts					
x.) Other(specify) _____					

8. Kindly rate the extent to which you agree that the following is the key business value chain reason why you need financing based on a five-point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree.

	5	4	3	2	1
i.) Start up					

ii.) Creative product/service development					
iii.) Creative product distribution					
iv.) Marketing & communication					
v.) Innovation/Research & Development (R&D)					
vi.) Digitization					
vii.) Other(specify) _____					

9. Kindly rate the extent to which you agree extent do you agree that the following are specific challenges of access to finance facing CCS businesses in Nairobi County based on a five-point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree.

	5	4	3	2	1
i.) High informality of CCS businesses					
ii.) Lack of supporting policies on intellectual property					
iii.) Lack of adequate accounting tools to value intellectual capital					
iv.) No suitable credit products for CCS business					
v.) Poor access to formal financial institutions					
vi.) Investor lack of awareness/understanding on CCS					

**Section B: Influence of owner/management attributes on access to finance by CCS firms in Nairobi County**

10. Duration of operation of your CCS business: \_\_\_\_\_ years

11. Do you have any formal training in Cultural and Creative Sector?  Yes  No

12. If Yes, what is your highest level of qualification?

- i. Certificate
- ii. Diploma
- iii. Degree and above

13. Have you undertaken any training on entrepreneurship?  Yes  No

14. Are you a member of a professional group within this industry?  Yes  No

15. Which existing Micro, Small and Medium Enterprise (SMEs) support initiatives in Kenya are you aware of (Tick  as many as respondent knows)?

- i. Supportive regal and institutional framework (Acts)
- ii. Setting up of the MSME Authority
- iii. Devolved funds (e.g. YEDF, WEF)
- iv. Funds for cushioning MSMEs against shocks like Covid-19
- v. Credit products from financial institutions
- vi. Other (specify) \_\_\_\_\_

16. Kindly rate the extent to which you believe that the following owner/management attributes influence access to finance by your firm. Base your answer on a five-point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree.

	5	4	3	2	1
i.) Gender of owner/manager					
ii.) Age of owner/manager					
iii.) Academic or professional qualifications					
iv.) Training on entrepreneurship					
v.) Connectedness to the CCS-MSME ecosystem e.g. Membership to professional networks					

**Section C: Influence of firm characteristics on access to finance by CCS firms in Nairobi County**

17. Is your business officially registered with government?  Yes  No

18. Does your business have a bank account?  Yes  No

19. What is the size of your business? (number of employees)

- Microenterprise: 1 to 9 employees
- Small enterprise: 10 to 49 employees
- Medium-sized enterprise: 50 to 249 employees

20. What stage of development has your company reached?

- Start-up phase
- Emerging growth (scale up)
- Development (e.g. Private Equity exit phase)
- Dissolution (encountering unbearable business challenges)

21. Which of the following records do you maintain for your business?

Type of record	Tick <input type="checkbox"/> as appropriate
1. Registration and legal documents	
2. Permits and licenses	
3. Insurance documents	
4. Accounting records (Cash book, Financial statement/balance sheet)	
5. Personnel records	
6. Banking statements	
7. Mobile wallet reports e.g. Mpesa	
8. Other (specify)	

22. Kindly rate the extent to which you agree that the following firm characteristics influence access to finance by your business. Base your answer on a five-point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree.

	5	4	3	2	1
i.) Nature of economic activity					

ii.) Size of the business in terms of employees					
iii.) Registration status of the business					
iv.) Presence of a bank account					
v.) Stage of development of the firm's products					
vi.) Maintenance of business records					

**Section D: Influence of Exogenous factors on access to Finance by CCS firms in Nairobi County**

23. Some factors outside the control of a firm (exogenous factors) can affect the ease with which businesses access finance for various needs. Kindly rate the extent with which you agree that the following exogenous factors influence access to finance by your business. Base your answer on a five-point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree.

	5	4	3	2	1
i.) Financier's policy about CCS SME financing					
ii.) Regulatory environment					
iii.) Performance of the economy (liquidity within the financial sector)					
iv.) Taxes and licensing					
v.) Other (specify).....					

24. Recommendations on improving access to finance by CCS businesses in Kenya?

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**THANK YOU FOR YOUR PARTICIPATION**

## APPENDIX 3: UNIVERSITY INTRODUCTION LETTER

Ole Sangale Rd, Madaraka Estate,  
P.O Box 59857 00200, Nairobi, Kenya.  
Cell: +254 703 414/6/7, Twitter: @SBSKenya  
Email: [info@sbs.ac.ke](mailto:info@sbs.ac.ke) or visit [www.sbs.strathmore.edu](http://www.sbs.strathmore.edu)



Friday, 09 July 2021

To whom it may concern,

### **RE: FACILITATION OF RESEARCH - OGUTU ERICK OTIENO JEAN**

This is to introduce **Ogutu Erick Otiemo Jean**, admission number **MDF/114322/2018** who is an MSc. in Development Finance (MDF) student at Strathmore University Business School (SBS). As part of our SBS MDF Master's Program, Erick is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the Master of Development Finance. He would like to request appropriate data from your organization to help him finalize his research.

Erick is undertaking a research project on "**Factors Influencing Access to Finance Among Enterprises in the Cultural and Creative Sector in Nairobi County.**" The information obtained from your organization shall be treated confidentially and shall be used for academic purposes only.

The MDF programme seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

Any assistance you can provide to him will be greatly appreciated and we shall be willing to provide any further information required.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Njoki Kiagiri".

**Njoki Kiagiri,**  
**Associate Manager-Graduate Programmes,**  
**Strathmore University Business School**



Ole Sangale Road, Madaraka Estate  
P.O Box 59857 00200 Nairobi, Kenya  
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Twitter: @SBSKenya

Strathmore Business School is a proud member of:



## APPENDIX 4: UNIVERSITY ETHICAL APPROVAL LETTER



6<sup>th</sup> August 2021

Mr Otieno Erick,  
erick.ogutu@strathmore.edu

Dear Mr Otieno,

**RE: Factors Influencing Access to Finance Among Enterprises in The Cultural and Creative Sector in Nairobi County**

This is to inform you that SU-IERC has reviewed and **approved** your above **SU- master's** research proposal. Your application reference number is **SU-IERC1124/21**. The approval period is **6<sup>th</sup> August 2021 to 5<sup>th</sup> August 2022**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-IERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-IERC within 48 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-IERC within 48 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to SU-IERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and also obtain other clearances needed

Yours sincerely,

for: Dr Virginia Gichuru,  
**Secretary; SU-IERC**

**Cc: Prof Fred Were,**  
**Chairperson; SU-IERC**





## APPENDIX 6: WORK PLAN

ACTIVITY	Jan 2021	June 2021	July 12, 2021	July 21, 2021	July 22, 2021	July 23- 25, 2021	July 26, 2021	August 1, 2021	2021
Proposal Development									
Departmental Presentation & Correction of Proposal									
Pre-Testing of Research Instruments									
Data Collection, Analysis & Thesis write up									
Presentation of First Draft									
Write up of final draft									
Submission of dissertation for examination									
Oral Defense, corrections, binding and submission of Thesis									
Graduation									

## APPENDIX 7: ANNEX TABLES

**Table 1.1: Distribution of MSME by size and industry based on a sample**

Sector	No. of MSM Es	Micro	Small	Medium
Wholesale & retail	891,200	96.0%	3.6%	0.4%
Manufacturing	174,500	95.0%	3.8%	1.2%
Accommodation and food services	137,700	84.9%	14.2%	0.9%
Financial and insurance activities	65,500	92.0%	7.1%	0.9%
Education	37,800	31.7%	65.3%	3.0%
Administrative & support services	25,300	89.0%	10.3%	0.7%
Professional, scientific & technical activities	17,400	78.2%	19.0%	2.8%
Transportation and storage	15,200	69.4%	24.0%	6.6%
Arts, entertainment & recreation	13,900	93.3%	6.7%	0.0%
Human health and social work activities	13,000	80.2%	15.3%	4.5%
Information & communication	12,400	77.9%	21.1%	1.0%
Construction	7,800	69.5%	26.8%	3.7%
Real estate	7,000	87.0%	9.6%	3.4%
Agriculture, forestry & fishing	2,100	85.0%	14.6%	0.4%
Mining and quarrying	2,100	62.4%	37.6%	0.0%
Water supply, sewerage & waste management	1,700	49.3%	50.7%	0.0%
Electricity, gas, steam & air conditioning	500	61.6%	37.6%	0.8%
Other service activities	135,100	97.4%	2.4%	0.2%

**Source:** Kenya National Bureau of Statistics, KNBS (2017)

## Shapiro-Wilk Test for Normality of Data

Variable	Obs	W	V	z	Prob>z	
I have limited awareness of products and requirements by financial institutions in Kenya	219	0.9596	9	6.51	4.33	0.00001
Formal financial institutions have too restrictive funding requirements such as lack of collateral	219	0.3625	6	102.93	10.71	0
I do not have requisite business records	219	0.9733	9	4.297	3.37	0.00038
My business is still too nascent (below proof of concept)	219	0.9577	7	6.819	4.437	0
I do not trust financial institutions	219	0.9595	8	6.527	4.336	0.00001
Financial institutions have too high interest rates	219	0.8558	5	23.277	7.275	0
I haven't found any appropriate financial instruments (relevant credit products) for my business	219	0.9593	2	6.569	4.351	0.00001
It is difficult for me to access formal financial institutions	219	0.9864	6	2.187	1.809	0.03525
I needed financing mainly for my business start-up	219	0.9664	219	5.425	3.909	0.00005
I need financing mainly for product/service development	219	0.9887	4	1.818	1.381	0.0836
I need financing mainly for product distribution	219	0.9950	1	0.806	-0.499	0.69129
I need financing mainly for marketing & communication	219	0.9715	4	4.596	3.525	0.00021
I need financing mainly for innovation/Research & Development (R&D)	219	0.9517	2	7.797	4.747	0
I need financing to enable me to automate and digitize operations such as sales	219	0.9289	3	11.477	5.641	0
My business is quite informal	219	0.9928	9	1.148	0.319	0.37476
We lack supporting policies such as how to ensure our intellectual property rights are protected (anti-piracy)	219	0.9490	4	8.23	4.872	0
Our industry does not have requisite tools to value intellectual capital which financiers can accept as collateral	219	0.9516	9	7.801	4.748	0
Our industry lacks suitable credit products for business needs	219	0.9517	7	7.788	4.744	0
People like me lack access to formal financial institutions	219	0.9815	7	2.977	2.521	0.00585
Investors do not really understanding the cultural and creative sector	219	0.8792	19.506	6.866	0	
Which existing Micro, Small and Medium Enterprise (SMEs) support initiatives in Kenya are you aware of	219	0.9952	8	0.763	-0.626	0.73432
Which existing Micro, Small and Medium Enterprise (SMEs) support initiatives in Kenya are you aware of	173	0.9649	6	4.609	3.49	0.00024
Which existing Micro, Small and Medium Enterprise (SMEs) support initiatives in Kenya are you aware of	57	0.7318	2	13.992	5.67	0
Which existing Micro, Small and Medium Enterprise (SMEs) support initiatives in Kenya are you aware of	1	.	.	.	.	.

My gender can influence access to finance by my business	219	0.8780	3	19.696	6.889	0
My age can influence access to finance by my business	219	0.9457	2	8.765	5.018	0
My academic or professional qualifications can influence access to finance by my business	219	0.9743	4	4.143	3.285	0.00051
My skills training on entrepreneurship can influence access to finance by my business	219	0.9677	5	5.208	3.814	0.00007
My business connections within the CCS-MSME ecosystem e.g. Membership to professional networks can influence access to finance by my business	219	0.9024	15.76	6.374	0	
What stage of development has your company reached?	219	0.9676	4	5.226	3.822	0.00007
I am able to access financing faster than other types of businesses in my neighborhood	219	0.9742	7	4.155	3.292	0.0005
The size of my business in terms of number of employees determines my ease of access to finance	219	0.9371	1	10.155	5.358	0
Registration status influences access to finance for my business	219	0.9818	5	2.931	2.485	0.00647
Ownership of a bank account influences my access to finance	219	0.9820	4	2.901	2.461	0.00692
Stage of development of the firm's products influences my access to finance	219	0.9188	5	13.103	5.947	0
Maintenance of business records influences my access to finance	219	0.9217	4	12.637	5.863	0
I believe that the policy by financial institutions about CCS SME financing greatly influences access to finance by my business	218	0.9797	3.265	2.734	0.00313	
The regulatory environment by government on CCS SME financing greatly influences access to finance by my business	218	0.9712	1	4.63	3.541	0.0002
The performance of the economy (liquidity within the financial sector) influences access to finance by my business significantly	218	0.9656	7	5.522	3.949	0.00004
Taxes and licensing obligations does greatly influence access to finance by my business	218	0.7246	5	121.18	11.08	0

## Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.708	.703	18

## Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
I have limited awareness of products and requirements by financial institutions in Kenya	59.68	75.275	.498	.669	.669
I do not have requisite business records	59.92	76.938	.553	.401	.667
My business is still too nascent (below proof of concept)	60.04	76.109	.525	.509	.668
I do not trust financial institutions	60.78	81.254	.303	.253	.695
I haven't found any appropriate financial instruments (relevant credit products) for my business	59.33	85.524	.178	.380	.708
It is difficult for me to access formal financial institutions	59.88	80.008	.351	.425	.689
I needed financing mainly for my business start-up	60.17	86.860	.151	.470	.710
I need financing mainly for product/service development	59.68	85.761	.220	.259	.702
I need financing mainly for product distribution	59.69	82.039	.420	.311	.684
I need financing mainly for marketing & communication	59.33	85.882	.259	.207	.699

I need financing mainly for innovation/Research & Development (R&D)	59.10	85.638	.289	.269	.697
I need financing to enable me to automate and digitize operations such as sales	59.21	82.414	.325	.541	.692
My business is quite informal	59.90	88.348	.108	.366	.712
We lack supporting policies such as how to ensure our intellectual property rights are protected (anti-piracy)	58.86	88.113	.203	.259	.703
Our industry does not have requisite tools to value intellectual capital which financiers can accept as collateral	59.06	86.616	.297	.373	.697
Our industry lacks suitable credit products for business needs	59.39	83.670	.308	.308	.694
People like me lack access to formal financial institutions	60.07	86.706	.107	.330	.718
Investors do not really understand the cultural and creative sector	58.56	89.899	.079	.416	.712
Records kept - Registration and legal documents	38.81	19.135	.376	.	.583
Records kept - Permits and licenses	38.79	19.435	.310	.	.590
Records kept - Insurance documents	38.52	20.746	.100	.	.611
Records kept - Accounting records	39.23	20.803	-.034	.	.621
Records kept - Personnel records	39.47	20.975	-.082	.	.617

Records kept - Banking statements	39.45	20.909	-.046	.	.616
Records kept - Mobile wallet reports e.g. Mpesa	39.36	21.790	-.314	.	.638
Records kept - other	38.51	20.893	-.052	.	.613
I am able to access financing faster than other types of businesses in my neighborhood	37.41	17.014	.326	.	.576
The size of my business in terms of number of employees determines my ease of access to finance	37.56	17.468	.275	.	.587
Registration status influences access to finance for my business	37.14	17.819	.187	.	.610
Maintenance of business records influences my access to finance	36.29	20.327	-.039	.	.646
I believe that the policy by financial institutions about CCS SME financing greatly influences access to finance by my business	36.83	14.961	.522	.	.525
The regulatory environment by government on CCS SME financing greatly influences access to finance by my business	36.62	15.741	.625	.	.516
The performance of the economy (liquidity within the financial sector) influences access to finance by my business significantly	36.81	16.823	.446	.	.553
Taxes and licensing obligations does greatly influence access to finance by my business	36.81	16.220	.466	.	.545

### Study Location: Administrative Constituency of CCS Business/Owner

		Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Kamukunji	13	5.9	5.9	5.9	
	Starehe	15	6.8	6.8	12.8	
	Embakasi East	9	4.1	4.1	16.9	
	Kibra	17	7.8	7.8	24.7	
	Embakasi West	14	6.4	6.4	31.1	
	Roysambu	14	6.4	6.4	37.4	
	Ruaraka	16	7.3	7.3	44.7	
	Makadara	16	7.3	7.3	52.1	
	Dagoretti north	8	3.7	3.7	55.7	
	Kasarani	9	4.1	4.1	59.8	
	Westlands	12	5.5	5.5	65.3	
	Lang'ata	14	6.4	6.4	71.7	
	Embakasi North	11	5.0	5.0	76.7	
	Embakasi South	9	4.1	4.1	80.8	
	Dagoretti South	21	9.6	9.6	90.4	
	Embakasi Central	14	6.4	6.4	96.8	
	Mathare	7	3.2	3.2	100.0	
	Total		219	100.0	100.0	



**APPENDIX 7: FACTOR ANALYSIS BY PRINCIPAL COMPONENT ANALYSIS (PCA) METHOD**

**Reduction of factors constituting independent variables**

Factor analysis was carried out using principal component analysis (PCA) method to obtain composite variable for owner characteristics that influence access to finance. From the analysis, the sample was adequate to perform PCA since the KMO coefficient was 0.586 whilst the cutoff point is 0.5.

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Adequacy.	Measure of Sampling	.586
Bartlett's Test of Sphericity	Approx. Chi-Square	84.121
	df	10
	Sig.	.000

All the variables passed the inter-correlation test as shown by the communalities which are all above the minimum required 0.4.

**Communalities**

	Initial	Extraction
My gender can influence access to finance by my business	1.000	.688
My age can influence access to finance by my business	1.000	.744
My academic or professional qualifications can influence access to finance by my business	1.000	.766
My skills training on entrepreneurship can influence access to finance by my business	1.000	.792
My business connections within the CCS-MSME ecosystem e.g. Membership to professional networks can influence access to finance by my business	1.000	.807

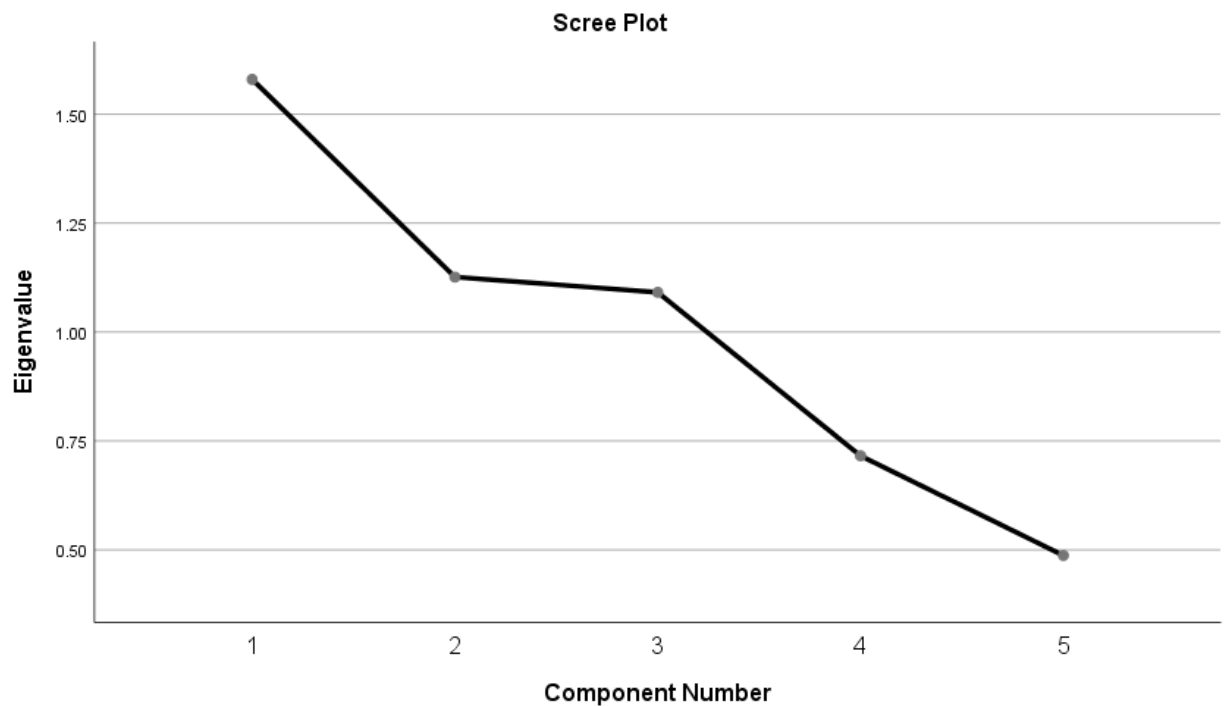
Extraction Method: Principal Component Analysis.

Factor analysis yielded three principal components with eigenvalues greater than 1. The three components cumulatively accounted for 76% of the total variation in the owner characteristics. Therefore, the component scores were added together to get the total score which accounts for the maximum variation from the three components. The resultant score was used for inferential statistics.

### Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.580	31.598	31.598	1.580	31.598	31.598
2	1.126	22.523	54.121	1.126	22.523	54.121
3	1.091	21.822	75.943	1.091	21.822	75.943
4	.716	14.316	90.258			
5	.487	9.742	100.000			

Extraction Method: Principal Component Analysis.



### Firm Characteristics

#### KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy. .507

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Bartlett's Test of Sphericity	of Approx. Chi-Square	72.205
	df	15
	Sig.	.000

### Communalities

	Initial	Extraction
I am able to access financing faster than other types of businesses in my neighborhood	1.000	.640
The size of my business in terms of number of employees determines my ease of access to finance	1.000	.676
Registration status influences access to finance for my business	1.000	.577
Ownership of a bank account influences my access to finance	1.000	.602
Stage of development of the firm's products influences my access to finance	1.000	.608
Maintenance of business records influences my access to finance	1.000	.740

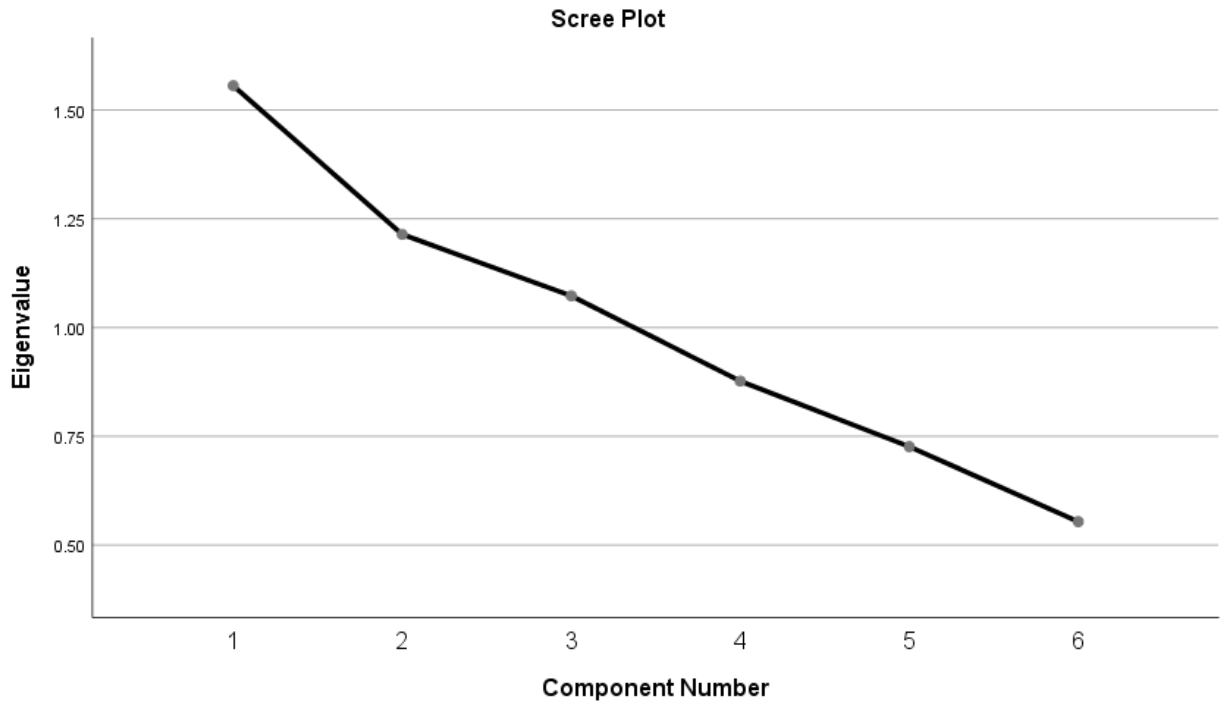
Extraction Method: Principal Component Analysis.

### Total Variance Explained

Component	Total	Initial Eigenvalues		Extraction Sums of Squared Loadings		
		% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.556	25.933	25.933	1.556	25.933	25.933
2	1.214	20.236	46.169	1.214	20.236	46.169
3	1.073	17.881	64.049	1.073	17.881	64.049
4	.877	14.615	78.664			
5	.726	12.105	90.769			
6	.554	9.231	100.000			

Extraction Method: Principal Component Analysis.

Factor analysis yielded three principal components with eigenvalues greater than 1. The three components cumulatively accounted for 64% of the total variation in the owner characteristics. Therefore, the component scores were added together to get the total score which accounts for the maximum variation from the three components. The resultant score was used for inferential statistics.



**Exogenous factors**

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Adequacy.	Measure of Sampling	.497
Bartlett's Test of Sphericity	Approx. Chi-Square	45.054
	df	6
	Sig.	.000

**Communalities**

Initial | Extraction

I believe that the policy by financial institutions about CCS SME financing greatly influences access to finance by my business	1.000	.623
The regulatory environment by government on CCS SME financing greatly influences access to finance by my business	1.000	.587
The performance of the economy (liquidity within the financial sector) influences access to finance by my business significantly	1.000	.698
Taxes and licensing obligations does greatly influence access to finance by my business	1.000	.714

Extraction Method: Principal Component Analysis.

### Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.363	34.065	34.065	1.363	34.065	34.065
2	1.260	31.510	65.575	1.260	31.510	65.575
3	.727	18.169	83.744			
4	.650	16.256	100.000			

Extraction Method: Principal Component Analysis.

Factor analysis yielded two principal components with eigenvalues greater than 1. The two components cumulatively accounted for 66% of the total variation in the owner characteristics. Therefore, the component scores were added together to get the total score which accounts for the maximum variation from the two components. The resultant score was used for inferential statistics.

