

Effects of Micro-Finance Funding On Sustainability of Women Owned Micro and Small Enterprises in Kenya

Peter Gituma.Kimathi,

PhD in Entrepreneurship Jomo Kenyatta University of Agriculture Technology, Kenya

Prof G.S Namusonge

Professor, School of Human Resource Development Jomo Kenyatta University of Agriculture &Technology, Kenya

Dr.Agnes Njeru

Lecturer, School of Human Resource Development Jomo Kenyatta University of Agriculture &Technology, Kenya

Abstract: *The study sought to investigate the effects of Micro-Finance on sustainability of women owned micro and small enterprises in Kenya. The study employed desk top research. Micro and Small enterprises have been recognized as a major source of global economic growth and women entrepreneurs have been acknowledged to play critical roles for bringing their ideas and capabilities towards successful achievement of the MSEs sustainability. Prior research has indicated that women face time, human, physical, and social constraints that limit their ability to sustain their businesses in Kenya. This research not only helps the Government to identify appropriate women entrepreneurs, but also leads the Kenyan women entrepreneurs in developing sound skills and capabilities in doing businesses which might help them to create and sustain successful business ventures so as to help achieve Kenya's vision 2030 which is based on the economic, social and political pillars with Science, Technology and Innovation (ST&I) as their foundation so as to create a knowledge-based economy.*

Keywords: *Micro-Finance, Women Entrepreneurs, Sustainability, Micro and Small Enterprises*

I. Introduction

Kenyan women entrepreneurs are increasingly recognized to play an important role to the unprecedented rate of growth of the Micro and Small Medium Enterprises (SMEs) and indirectly to the Kenyan Economy. The number of women in Kenyan MSEs in 2014 was 48 percent of the total employment in MSEs. The ILO report of 2013 indicated that 46 percent of Kenyan women surveyed professed desire for self-employment. It is not surprising that the number of women entrepreneurs in Kenya has increased in the past decade due to the emphasis on industrialization, and growing interests in privatization, self-employment and business oriented employment. All of these have been facilitated by the growth in various sectors such as banking and financing, food manufacturing, general trading, personal and public services, education, training and consultancy. It was found that Kenyan women have been involved in various enterprises formerly male-dominated (Mutuku, *et al*,2012). In Kenya, women entrepreneurs saw the establishment of a productive business as a means to improve their status in society as well as their family's standard of living and to serve their community by creating employment opportunities. The Kenyan government has come to realize that fostering the development of women entrepreneurship in the country is crucial for the achievement of Kenya's broader development objectives, including economic development and growth. Kenya is one of the very few countries which established the Ministry of Gender in 2002 and Women Enterprise Fund in 2007. Together, these two oversee the growth and sustainability of existing and potential women entrepreneurs in the country. Various government grants and funds are made available to the women entrepreneurs through many of its agencies such as Youth Enterprise Fund and Women Enterprise Fund. In its effort to turn Kenya into an "Information Society" as part of the efforts to become a knowledge-based economy, the government has pledged to see that all segments of the society, women entrepreneurs in urban and rural areas have access to new information technology (IT), particularly computers and Internet facilities. It is clear that the Kenyan government has been actively involved and concerned about women entrepreneurship development in the last decade. This is to ensure that women entrepreneurs are not left out from the process of national and economic development, particularly in important sectors such as ICT in order for the country to successfully realize Vision 2030. It is important that a comprehensive list of determinants are identified and that the Kenyan women entrepreneurs are able to comprehend these determinants as they bear barriers which influence on their enterprise sustainability, especially when they compete in this challenging, globalised business arena. This was the objective of this study. As the barriers proposed are generic in nature, they are also applicable to women entrepreneurs globally. Practical recommendations are provided.

1.1 Statement of problem

The focus of women role in developing the country has evolved over a long period of time. In the past women have been viewed as home makers who have no control of resources and dependence. Kenya has so far made milestones with many reforms having been made to see that women actively take up roles in the society that were previously viewed as male dominated. One of the milestones is Vision 2030 and the New Constitution enacted in 2010 has spelt out clearly the role of women.

Small and Micro Enterprises (SMEs) play an important economic role in many countries. In Kenya, for example the SME sector contributed over 50 percent of new jobs created in 2005 but despite their significance, SMEs are faced with the threat of failure with past statistics indicating that three out five fail within the first few months. This will seek to understand how SMEs manage the challenges they face. These challenges seem to change (evolve) according to different macro and micro conditions.

II. Literature Review

2.1 Capital inadequacy

Kenya has had a long history of economic leadership in East Africa as one of its largest and most advanced economies. However, inconsistent efforts at structural reforms and poor policies over the past couple of decades have generated a prolonged period of decline in development indicators and significantly eroded the leadership position at a time when other countries in the region have made significant strides. However, due to a lack of, finance, technical skills, confidence, strong individual involvement and the willingness to take risks, women were often unable to establish and sustain successful businesses. UNDP (2011) estimated that 52% of the rural women and 63% of the urban women lived below poverty line. It is also estimated that 85% of businesses in the informal sector and 48% of small and micro enterprises were owned by women who face the twin challenge of business skills and financing.

2.2 Performance of Micro and Small Enterprises

Small and micro enterprises have widely been recognized as the major source of employment for many households in developing countries. Sonobe et al. (2012) note that small micro enterprises have the potential to expand and grow in size to the level of creating significant impact to the growth of economies and thus reducing poverty levels. Different case studies have carried analytical work that attempts explain the attributes and aspects that are required by small micro enterprises to improve their performance. The works by Shumpeter and Cole's theory of enterprise, Knights theory of risk, and theory of labour economics as cited by Smith-Hunter and L Boyd (2004) have over the years been used by different studies to explain the dynamics of entrepreneurship behavior. These entrepreneurial theories are based on the hypothesis that an entrepreneur is an investor who is always focused on maximizing better fortunes from the venture they invest in. Ab Aziz et al. (2005) argued that an entrepreneur is an investor who must come up with new ideas and innovations to facilitate growth of the enterprises.

Millions of women of all income levels in developing economies are venturing in the field of entrepreneurship. Some case studies indicate that the number of women entrepreneurs setting up micro enterprises is outnumbering men who have dominated the venture for many years (Gikonyo et al. 2006). Weber (1930) theory of labor attributes these observations to the fact that those who are excluded from the mainstream economy (mostly women) always tend to venture into entrepreneurial activities to fulfill their social economic needs. However, ILO (International Labour Office) Seed Program and ADB (African Development Bank) (2004) noted that despite many women venturing into entrepreneurial activities in developing counties, majority of SMEs were not sustainable. Ojera et al. (2011) also established that in Sub-Saharan Africa, 50% of SMEs recorded deteriorating performance five months after they were started. Nevertheless, a study by Fafchamps et al. (2011) and Golla et al. (2011) observed that some women entrepreneurs had successfully operated enterprises and were able to create employment in their communities while increasing their income.

III. Research Methodology

This study will employ stratified random sampling to collect data from 85 businesses using interviews and questionnaires. The data will be analyzed descriptively and presented through figures, tables and percentages.

3.1 Target population

The study focused specifically on women entrepreneurs who participated in micro finance activities within Nairobi city. The study also purposively focused on women entrepreneurs who had applied for business credit from microfinance institutions

3.2 Population of the Study and Sample Selection

The identified accessible population was 517 women entrepreneurs who participate in registered SMEs within Nairobi city and who keep enterprise operation records. The respondents were stratified according to the locations of their enterprises. Yamane (1967) formula was used to determine the sample size of 225 respondents who were proportionately drawn from Central Business District area. Proportional allocation method was then used to identify the number of respondents to be picked from a particular strata used. Systematic random sampling was used to identify the actual respondents to participate in the study by picking the third case.

3.3 Data analysis

Descriptive data on characteristics of SMEs and education levels were analyzed using percentages. Inferential statistics was analyzed using ordinal logit model. According to Hosmer and Lemeshew (1989) ordinal logit models are flexible and results can have meaning full interpretation form mathematical point of view hence ordinal logit model was selected for this study. Stata soft ware command (rcheck) was used to check for the robustness of the model.

IV. Findings And Discussions

4.1 The Effect of Microfinance Institutions Activities on the Enterprises Owned by Women in Nairobi City

The first objective of the study explored the effect of microfinance institutions on the women owned enterprises. The researcher explored the effect of the microfinance institutions by exploring the effect of the loans on the performance of the enterprises. The effect of the loans was explored using the amount of loans provided, the loan repayment period, the amount of loan paid per month and the monthly interest rate of the loans. The performance of the enterprises was explored by looking into the profits of the enterprises, the number of employees and the asset level of the enterprises. The researcher explored the relationship using the correlation analysis and presented the findings

The most popular source of funds to sustain and run the business was the banking institution as indicated by most of the respondents 84 (44.44%). Micro finance institutions were the second most source funds sought by women-owned enterprises; this is shown by the 60 (31.75%) respondents who indicated it. Some respondents 30 (31.75%) sought funds from family. 9 (4.77%) respondents got funds from merry go round, whereas few respondents 6 (3.17%) obtained funds to sustain their businesses from friends. Banks and micro finance institution lead in funding the business activities of the respondents from the Nairobi City. On the other hand friends were the least in funding women owned businesses. This confirms the lack of adequate economic power, social and family support structure to grow their ventures as established by (Davidson and Horig, 2003, Leinet *al* 2007). The researcher then went ahead to investigate the initial starting capital the women used to establish their businesses.

From the findings very few women reached the mark of 50000 shillings as their start-up capital for their business and thus affected greatly the rate of growth of women enterprises. These calls for micro finance to subsidize and come along to help and aid the women with loans to enable them expand their businesses. (Jalbert, 2000) established that women were not able to compete effectively with their male counterparts for stalls and also secure loans due to lack of the collateral security to borrow money to build their own premises at start-ups.

Out of the total 189 respondents 156 (82.54%) respondents claimed to have received intermediate services from banks while the rest of the respondents 33 (17.46%) did not. (Henry *et al* 2005) alluded that such services provided by micro finance were some of the factors that were thought to influence the growth of women based enterprises. The researcher then went ahead and enquired from the respondents who had accessed intermediate services from the banks of what services they had received. The table below shows some of the services the women owned enterprises received from banks

Table 4.1: Intermediate Services from Banks

Intermediation services the businesses benefit from banks		
	Freq.	Percent
Loans	67	42.95
Savings	51	32.69
Trainings and seminars	22	14.10
Business education	16	10.26

Researcher: 2014

Of the total 156 respondents who had received intermediate services from banks; 67 (42.95%) had received loans from banks, 51 (32.69%) had saved with their banks; Respondents who had undergone training and business education were 22 (14.10%) and 16 (10.26%) respectively. It is evident that loan and saving services were the most accessed services while general business trainings were least. (Storey 1994) identified

economic empowerment such as loans and business education and training to women owned enterprises would provide needed knowledge to the owners and thus lead to business growth.

Table 4.2: Profit of Sales in the Enterprise

Level of profit of sales in the enterprise	Freq.	Percent
Loss	3	1.59
Up to 2000	21	11.11
2001-20000	6	3.17
20001-38000	73	38.62
Above 38000	86	45.5
Total	189	100.00

Researcher: 2014

From the Table 4.2 above very few businesses 3 (1.59%) made losses. On the other hand, majority of the respondents 86 (45.4%) made a profit of up to 38000 shillings, 73 (38.62%) made profits of between 20001 and 38000. 6 (3.17%) of the total respondents made profits of between 2001 and 20000 shillings. From the table above more than 98% of the women owned enterprises were making profits. However, it is worthy to note that the majority of those who made profits were only able to collect about 20000 shillings which is not much too even secure collateral security to borrow money to build their own premises or expand their businesses (Jalbert, 2000).

Table 4.3: Assets Level of the Enterprises

The assets level of the Enterprise	Freq.	Percent
Up to 1000	34	17.99
1001 – 4000	15	7.93
4001 – 7000	12	6.35
7001 – 10000	41	21.69
Above 10000	87	46.03
Total	189	100.00

Researcher: 2014

From the table above businesses with assets level of up to 1000 were 34 (17.99%), those with assets of between 1001 and 4000 were 15 (7.93%). 12 (6.35%) women owned enterprises had assets ranging from 4001 and 7000. Additionally, 41 respondents claimed to have assets valued at between 7001 and 10000. Majority of the respondents had assets of 10000 and above. The study established that at the given range most respondents had assets valued at 7000 and above.

Attitude of spouse was also another important factor to be investigated. This was necessary so as to establish whether they were positive and supportive towards their women's idea of starting businesses.

Table 4.4: Problems Faced by Women Entrepreneurs

Researcher: 2014

Challenge	Rank	No of respondents
Limited working capital	1	156
Lack of collateral (security)	2	137
Inadequate business skills	3	128
Small market size	4	115
Most assets registered in husband's name	5	87
Discrimination against women	6	63

The most highlighted problem facing women entrepreneurs was the limited working capital as supported by 156 respondents. The second most pressing issue was lack of collateral (security) to guarantee them the security. Inadequate business skills came at a distance third as supported by 128 respondents. 115 respondents cited small market size as another problem. The respondents also noted that most assets were registered in their husbands name and ranked it at number 5 among problems facing them. At the very least was discrimination against women.

Table 4.5: Response on Importance of Loan Repayment Supervision

Is supervision important for loan repayment? Freq. Percent		
Yes	105	60.34
No	69	39.66
Total	174	100.00

Majority of the respondents 60.34% claimed that supervision on loan on repayment was very important with only few 39.66% of the respondents not thinking the supervision of loan repayment being important. The study also investigated whether the women owned enterprises had received any training before receiving loans.

Table 4.6: Measure of Growth

Measure of Sustainability	Freq	%
Profitability of the Business	63	84
Business enables support to the family	66	74
Self satisfaction/	74	70
Increase in income	42	84
Business is expanding	60	76
Increase in number of customers/clients	78	80
Supplying more goods	72	85
Business is running smoothly	65	78
Opportunity for self employment	60	80

Researcher: 2014

4.2 Summary of Research Findings

The first objective of the study explored the effect of microfinance institutions activities on the women owned enterprises. The researcher explored the effect of the microfinance institutions activities by exploring the effect of the loans on the performance of the enterprises. The effect of the loans was explored using the amount of loans provided, the loan repayment period, the amount of loan paid per month and the monthly interest rate of the loans. The performance of the enterprises was explored by looking into the profits of the enterprises, the number of employees and the asset level of the enterprises. There was a significant positive relationship between profits and the amount of loan given.

V. Recommendations

The study recommends that microfinance institutions should consider giving loans without strict conditions such as high guarantees and strong background information. This was so since women cited the above conditions before given loans. The study suggests that the women should be trained on business education and equipped with entrepreneurial skills if they were to realize any profits and business growth

References

- [1]. Ansoff, H. I. (2007). "The change shape of the strategic problem", paper presented in a special conference on business policy & planning research: the state of the art pittsburg. DA.
- [2]. Bencivenga, V. and B. Smith, (1991), Financial Intermediation and Endogenous Growth. Review of Economic Studies, Vol. 58, PP. 195-209.
- [3]. Bennet L. and Goldenberg, M. (1993). Providing Enterprise Development and Financial Services to Women: a decade of bank experience in Asia. The World bank, Washington DC, USA.
- [4]. Cheston, S. (2002). Micro finance and money matters, New York.
- [5]. Dana, L. P. (1999). Entrepreneurship in Pacific Asia Past, Present and Future, Singapore: World Scientific 59
- [6]. David F. R. (2011). Strategic management concept 13th Ed. Pearson Education prentice hall one Lakestreet.

- [7]. Devaus, D. A (2002). Surveys in social research (5thed) London Rootledge Du Retz, A.
- [8]. Henrekson, M (2000) Testing the female independence hypothesis "Small Business Economic Vol 14 No 1pp1-10

- [9]. Dondo A.C. (1999). The status of microfinance in Kenya.
- [10]. G.O.K (2008). Kenya Vision 2030-Aglobally competitive and Prosperous Kenya. First medium term plan George O. K AOL. (2008). The role of micro-finance in fostering women enterprises in Kenya
- [11]. Goldsmith, R. W. (1969). Financial Structure and Development. Yale University Press, New
- [12]. St-Onge, A. (1999). "Women Entrepreneurs in SMEs in Canada." In Women Entrepreneurs in SMEs in the APEC Region. Asia-Pacific Economic Cooperation, APEC, Singapore.
- [13]. Tarus, D, K, Tarno, E, M and Lagat C, K (2006). The role of Micro Finance Institutions in the growth and Development of SMEs survey of Eldoret town Kenya AJOB VOL1 PP18-26.
- [14]. The Central Bank of Kenya (2003). Payment Systems in Kenya. September issue.
- [15]. UNECE, (2004). Access to Financial and ICT for Women Entrepreneurship in UNECE Region:
- [16]. Entrepreneurship and SMEs Geneva and New York 2004.
- [17]. United Nations Industrial Development Organization, Vienna, 2003, Developing Rural and Women Entrepreneurship.
- [18]. WISTAT, (2002). The worlds women 2000: Trends and Statistics, United Nations, 2000
- [19]. Zikmund, W. L. (2000). Business research methods. (6th edition), Forth worth Tx Dryden press.