EFFECTS OF GROUP AFFILIATION LENDING MECHANISM ON ACCESS TO FINANCE IN RURAL KENYA: A SURVEY OF MASABA NORTH DISTRICT

CYPRIAN MASANGA MOKUA

SCHOOL OF HUMAN RESOURCE DEVELOPMENT
JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY
PO BOX 00200-62000,
NAIROBI, KENYA

ABSTRACT

Women in rural areas access micro-credit as a group rather than individually since they are faced with various challenges. Several studies have been carried out on the performance of micro-finance institutions but these studies have hitherto neglected the effect of this group mechanism on the development of the clients especially woman entrepreneurs in terms of borrowing experience.

This study sought to establish the effect of group affiliation mechanism on access to credit by woman entrepreneurs in rural Kenya .The study adopted descriptive research design. A population of 1200 drawn from women enterprise fund members was used .Both closed and open ended questionnaires were used to collect primary data. Secondary data was obtained from periodicals, internet and published journals and books.

Data was analyzed both qualitatively and quantitatively and then presented through frequency tables, bar graphs and percentages. Based on these findings, the following recommendation was proposed: The group affiliation lending mechanism should consider the needs of women entrepreneurs who may require rapid growth as well as allow maximum autonomy to the entrepreneurs in order to safe-guard their business secrets.

Key words: Group lending, Women entrepreneur**,** Lending policy

1. Introduction

1.1 Background of the study

Women entrepreneurs account for a large number of both formal and informal economies in Kenya. They make a substantial contribution to the country’s national economy. For them to develop and grow, they require business support services (BSS) rather than in the form of welfare and charity, (saleemi, 2009). Women all around the would have had difficulties in accessing finance and even when they do so, they obtain smaller amount of loans compared to their male counterparts, (Atieno, 2001).

The situation of women in terms of access to credit has remained the same for a long time in most African countries. A change of attitude is therefore needed if women are to participate fully in development activities, (Atieno, 2001). The rate of business formation by women entrepreneurs has significantly outpaced that of men across all ethnic groups in the United States, (CWBR, 2004). However women still own and manage fewer businesses than men, (Minniti, 2010).

The gender stereotypes perpetuated by the society imply that women are incapable of establishing and operating businesses but such ideas are being challenged by the significant evidence of women's capabilities in business, (Mlambo, 2011). The impetus for extensive research conducted on women in business throughout African continent stems out of the policy makers' realization that women are untapped source of economic growth, (Mlambo, 2011).

Women entrepreneurs represent 48 percent of the entire entrepreneurs in the SME sector, (Kibas, 2005). They own up to 45 percent of business and contribute up to 46 percent of their countries GDPs. However their presence in business is largely in the formal sector for several reasons one of it being lack of access to finance, (IFC, 2007).

Despite their individual participation and contribution to the economies of the country and the continent as a whole, these women entrepreneurs face many challenges and obstacles in their endeavors to establish and operate their businesses. These obstacles and challenges stem from discrimination, difficulties in accessing funding, and balancing work and family lives.

Serra, (2007), observed that about 55% of women in Kenya are located and reside in rural areas and thus lack the necessary technical knowledge on processes and effective ways of bidding for funds such as putting together convincing proposals. The government of Kenya therefore came up with different lending approach in an attempt to improve their situation, especially in their access to credit facilities.

Though the Kenyan government has done all this, there is still a lot that needs to be done especially in enabling funds and credit facilities reach the intended women entrepreneurs mostly those in rural areas through liberalization of lending policies of the financial institutions mostly those created by the government for the purpose of creating equity in terms of access to finance.

1.2 Statement of the problem

Women entrepreneurs in rural Kenya have not got access to credit from financial institutions. Women entrepreneurs have been making a significant impact in all areas of the economy especially in developed countries, (Saleemi, 2009). Though in developing countries, the percentage of business started and operated by women is less than those started by men, they are among the small scale enterprises which have become an important contributor in the Kenyan economy accounting for a gross development product (GDP) of between 12%-14%, (RoK, 1992).

Many interventions have been put in place to address accessibility of finance to women entrepreneurs, but there still remain a big challenge. Estimates indicate that only 15 percent of the SMEs owned by women have already had access to growth capital, where rapid growth in profitability is still not apparent, (Central Bureau of Statistics, 1999).

The ILO report, (2008), states that women's mobility is limited in terms of often having to work close to home, having limited ability to transport, personal security considerations and restrictions from their husbands for those who are married, most of their enterprises are therefore located in rural area hence have potential for rural development yet considered un-creditworthy by most formal credit institutions.

St-Onge, and Stevenson, (2005) indicates that there should be credit improvement to SME sector if we are to stimulate growth and realize SME contribution to the economy. Despite this emphasis, the effect of existing institutional problems especially the lending terms and conditions on access to credit facilities have not been addressed, (Atieno, 2001).

The assumption that Women Enterprise Fund (WEF) is build to improve access issues if it comes to micro finance is not correct. What it does, is to create access where it exists and neglect access to lower women in social economic pyramid. If WEF is indeed about creating access to credit, it is to create access to substantial amount of credit there where it really does not exist, (Herman and Oketch, 2009).

According to IFC report, (2011), Microfinance has partly compensated for women's low access to formal finance. However, as women entrepreneurs grow, they need financial products and services that go beyond micro-credit. Despite their (women entrepreneurs) excellent repayment records when running micro-businesses, they are often not graduated to larger individual or business loans beyond micro-finance programs. The share of women served therefore declines as microfinance institutions diversify or transform into banks. Women are therefore less conspicuous in programs with larger loan sizes that could support higher levels of business development, (IFC, 2011).

1.3 Objective of the study

The main objective of this study was to establish the effects of group affiliation lending mechanism on access to finance by women entrepreneurs in rural Kenya.

2. REVIEW OF LITERATURE

2.1 Introduction

Most analytical works have attempted to explain the functioning of credit using new theoretical developments where most of these have explored the implications of incomplete markets and imperfect information for the functioning of credit institutions in developing countries. Stiglitz and Weiss, (1981) explains that terms and conditions employed by financial institutions , especially interest rates are seen to have a dual role of sorting borrower (adverse selection) and affecting the borrowers' actions (incentive effect) where they affect the nature of the transaction.

Adverse selection occurs because most lenders would like to identify the borrowers most likely to repay their loans since the banks' expected returns mostly depend on the probability of repayment. Banks therefore will use these terms and conditions that an individual is willing to take as a screening device in an attempt to identify borrowers with high probability of repayment. Stiglitz and Weiss, (1981) continue to indicate that borrowers who are willing to take these stiffer terms and conditions may on average be worse risks since the riskiness of those who borrow increases as the terms and conditions also increase.

Incentive effect occurs because, as the terms and conditions change, the behavior of borrowers is also likely to change as it affects the returns of their projects. Stiffer terms and conditions also induce firms to undertake projects with lower probability of success but high pay offs when they succeed, (Atieno, 2001).

Stiglitz and Weiss, (1981) further continues with this thought that credit institutions are not able to control all actions of borrowers due to imperfect and costly information, they thus formulate the terms and services they offer to induce borrowers to take action in the interest of the credit institutions and to attract low risk borrowers, where the results is the creation of an equilibrium rate of interest, at which the demand for credit exceeds the supply, this in turn affects the behavior of borrowers and their distribution as well as their returns to credit institutions, (Stiglitz and Weiss, 1981).

Stiffer terms and regulations when there is excess demand does not always proof profitable. This makes financial institutions to limit credit to certain borrowers where it results to a credit rationing which in turn results in two situations; among loan applicants who appear to be identical, some receive loan and others don't and identifiable groups of people who at a given supply of credit are unable to obtain credit at any interest rate, but with a large supply, they would, (Atieno, 2001).

Basley, (1994), argues that adverse selection arises because in the absence of perfect information about the borrower, stiffer terms and conditions will only encourage borrowers with the least risky projects and hence most likely to repay, borrow loans, while those with the risky project cease to borrow. These policies will thus play the allocative role of equating demand and supply for loanable funds, and will also affect the average quality of lenders' loan portfolios. Lenders will fix lower interest rates at a lower level and ration access to credit.

The absence of supply creates a lack of demand and that there are significant obstacles to the transformation of potential demand into revealed demand. The transaction cost involved in obtaining credit is considered greater than the utility which prompts SME holders to switch profit between activities as a way of financing working capital. This explains the existence of informal credit markets alongside formal credit institutions.

This theory was advanced by Frank Young. It is one of the sociological theories of entrepreneurship which aims at expounding the sociological factors that accelerate the growth and development of entrepreneurship. Young states that an entrepreneurial initiative is a function of financial availability. The theory therefore suggests a casual sequence where transformation codes are developed by the easy availability of finance to improve their symbolic position in their structure and thus become entrepreneurs, (Mohanty, 2005).

Access to finance is the main agency for building entrepreneurship. Young continues to state that entrepreneurial characteristics are found in clusters, ethnic communities, occupational groups and politically oriented functions.

This theory disregards the single handed concept of entrepreneurship, that entrepreneurs work single handedly or solely, (Afrin et, al. 2008). Entrepreneurial activity is the product of the family background, experience and availability of financial resources. Availability of credit therefore reduces a number of economic problems through the device of recombination of factors related to production, higher standards of labour, new technology and markets and more effective management of time and money, (Mohanty,2005).

Atieno, (2001) provides a Grameen experience where she shows that, most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of entrepreneurs in obtaining credit. Women can use the loan and repay if effective procedures for disbursement, supervision and repayment have been established. Placing conditions especially stiffer ones can help to keep away the influential non target group from a targeted credit programs, which demonstrates the need to develop appropriate institutions for the delivery of loans to small scale borrowers especially women in rural areas.

2.2 Group formation and access to finance

Kriticos (2005), points out that poor persons apply for micro loans in order to improve their self-employment opportunities, are mostly exclude from the credit market and as a consequence, they are either unable to be self-employed, or if they had started their own businesses, suffer from under-financing and are not able to expand their businesses. The reason for this exclusion contains a risk and a cost component in that all persons without collateral are unable to signal their creditworthiness so that banks which secure loans by collateral are incapable to assess their risk.

Kriticos (2005) continues to assert that it is not feasible in the usual banking system to substitute the additional screening and monitoring efforts for collateral. During the last three decades therefore major progress in this sector has been made where most micro finance institutions (MFIs) have developed mechanisms where borrowers form groups which jointly share liability for loan delinquencies or default. Where the incentives set by such contracts enables the lender to reduce his cost of screening, monitoring and enforcement.

Morduch (1999) argues that high repayment rates are likely because the combined mechanism induces borrowers to self-select into homogeneous groups of low risks before the loan contract is conducted and it induces several peer measures within the group of borrowers if anybody defaults. Evidence from the field shows that group contracts may work perfectly leading to repayment rates where in most cases they focus

and accept borrowers who have no access to the regular banking systems, the deliberate grouping by its eventual members and not by loan officers to ensure mutual responsibility for joint liability,
Microfinance institutions require this group formation as a collateral or insurance for micro credit. The effectiveness of the social network depends on network diversity, network size and relationship strength or bonding; the social capital provides business information resources, social support and professional information and advice to new or existing enterprises, (Allen, 2000). Soon after the members receive a loan, they have to monitor each other to make sure that every member has invested the loan in a safe project that will guarantee repayment by the peer. Members make use of their social ties and local networks to acquire the necessary information and create social sanctions and bring pressure on non-repaying members,(IFPRI, 2001).
The significance of peer or group formation is to improve repayment and has been highlighted by a member of authors. Stiglitz (1990), observes that major problems facing MFIs is ensuring that borrowers exercise prudence in the use of the funds so that the likelihood of repayments is enhanced.

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter looks at the methodology employed in the study, specifically, it focuses on the research design, study population, sample and sampling techniques, data collection methods, pilot study and data analysis and presentation.

3.2 Research design

The study adopted the descriptive design in examining selected women entrepreneurs and their accessibility to credit from Women Enterprise Fund (WEF). The study also adopted both the qualitative and quantitative approaches of data collection and analysis, with quantitative approaches.
Using all this multidisciplinary methods, the researcher aimed at examining and describing the association and relationship between the two variables as has been shown in the conceptual framework. Several researches (Bryman, 1995, Rossman & Wilson, 1991) suggests that a combination of qualitative and quantitative research methods, contextualize the analysis by providing richer details and initiate new line of thinking through attentions and surprises, turning ideas around and providing fresh insights.

3.3 Population

The target population of the study included rural women entrepreneurs running both formal and informal enterprises in Masaba North District. The women in particular were those running cereals, second hand merchandises, wholesale/retail, green grocers, M-pesa shops and Bodaboda micro-enterprises in Masaba North District
According to the data got from the office of gender and social services in Masaba North District, there are approximately 10,000 women entrepreneurs in Masaba north district and that there are up to 300 women groups which are entrepreneurial oriented. Out of this 60 are engaged in non-entrepreneurial activities. The study therefore targeted 240 of women groups whose mandate is entrepreneurial development.

3.3.1 Target population

The researcher targeted women entrepreneurs based in Masaba North district. These are women who carry out various businesses in the SME sector in rural Kenya. The researcher mostly concentrated on 1,200 women entrepreneurs who have received credit from WEF or those who are in the process of getting credit and those who because of various reasons are unable to get this fund and are therefore discouraged to try again.

3.3.2 Sampling Frame

A sample of respondents was drawn from the 1200 women who own businesses in Masaba North district where stratified sampling methods will be used and where necessary cluster sampling will be used, (Mugenda & Mugenda, 2003)

The procedure that starts with stratification of items, and then followed by sampling is called stratified random sampling (Kombo& Tramp, 2006). According to Mugenda and Mugenda (2003), stratified random sampling involves selecting subjects in such a way that the existing subgroups in the population are more or less reproduced in the sample.

3.3.3 Sampling size

Neuman (2000) argues that, the main factors considered in determining the sample size is the need to keep it manageable enough. This enabled the researcher to derive from it detailed data at an affordable cost in terms of time, finances and human resources (Mugenda and Mugenda, 2003).

According to Mugenda and Mugenda (2003), social science research applies the following formula to determine the sample size

$n\dot{} = \frac{z^2pq}{d^2}$------------------------------- **Equation (i)**

where:

n= the desired sample size if the targeted population is greater than 10000

z= the standard normal derived at the required confidence level

p= the proportion in the target population estimated to have characteristics being measured.

q=1-p

d= the level of statistical significant set.

If the estimate of the proportion of the target population assumed to have the characteristics of interest is not provided, then 50% should be used. Therefore with the proportion of the target population being .50, then the z- statistics is 1.96. Consequently, the sample size will be;

$$\boldsymbol{n\dot{} = \frac{(1.96)^2(0.50)(0.050)}{(0.50)^2} = \dot{3}84}$$

If the target population is less than 10000, the sample size determined using the following formula;

$$\boldsymbol{n\dot{f} = \frac{n}{1+{}^{n}/_{N}}}$$

Where;

nf= the desired sample size, where the population is less than 10,000.

n= the desired sample size where the population is more than 10,000.

Therefore the sample size for the study will be;

$$\dot{nf} = \frac{384}{1 + {}^{384}/_{1200}} = \dot{2}90$$

By applying simple random sampling the researcher introduced probability sampling wherein each subject had every chance of being selected. Systematic stratified and where necessary cluster sampling was used since the population was grouped in terms of type of business, age, education and the geographical location.
Systematic sampling was used to pick the sample required in the study. In this method every nth item in the list was selected and using the above method, the researcher selected a sample of 360 subjects as a sample size for this study. The researcher conducted a demographic survey to find out where the women entrepreneurs are located within the study location (Masaba North District) and identified the SMEs that are owned by these women, the self-help groups that have been financed by WEF and where the WEF offices are located.
The market centers that were used in this study include Keroka, Rigoma, Bonyama, Magombo, Kebukebe and Mosobeti market. In selecting the group the researcher used stratified random sampling procedure which stratified them into most active; upcoming and dormant.

3.4 Data Collection Procedure

This is the process of selecting and developing measuring tools and methods appropriate to this research study. Data collection involved a self-administered questionnaire. A self-administered questionnaire is desirable because of low cost, adequacy of time for respondents to give responses, it is free of interviewer's biases and a large number of respondents may be reached, (Kothari, 2004).

3.5 Data Collection instruments

These are tools or devices which assisted the researcher to collect the necessary data. Questionnaire and structured interview guides were the main instruments used in this study. These instruments will be developed and adapted to the various selected respondents.

3.6 Pilot Testing

Pilot study is the component in the data collection process and a crucial element of the good study design. It is a small scale trial run of all the procedures planned for uses in the main study, (Monette*et. al*. 2002). As well as the specific pretesting of the research instrument to be used in the study.
This study is necessary for it is an opportunity to test hypotheses. It gives an allowance for checking to reduce statistical and analytical procedures; is a chance to reduce problems and mistaken in the study and leads to the reductive of the cost incurred by inaccurate instruments,(Isaac & Michael, 1995). Moreover, the researcher will seek information from the participants in the pilot study to determine the degree of clarity of questions and to identify problems areas that need attention, (Neuman, 1997).

3.8 Data analysis

Data cleaning and tabulation was carried out as part of the pre-analysis activities. This ensured that data is presented in a desired and appropriate manner, help keep track of the questionnaire that will be processed, as well as aid in speeding up the data entry process, (Bogdam&Bilken, 1999).The final data was then analyzed both qualitatively and quantitatively using descriptive statistics. The study data was analyzed through the Excel computer application packages. The results were then presented using frequency distribution tables, percentages and bar charts so as to clearly show the trend of the distribution in line with the view of, (Mugenda&Mugenda, 2003).

4. DATA ANALYSIS, PRESENTATION AND RESULTS

4.1 Effect of group membership on access to finance

The study found out that (96%) of the women in entrepreneurial groups attributed their access to finance due to affiliation to microcredit groups. (4%) of the women however, felt that their membership in a group did not contribute to their access to credit. The respondents felt that the various mechanisms of group lending were attainable and straight forward hence easing their access to funds as opposed to individual borrowing requirements that they deemed to be stringent.

These findings are in line with those of Conning (2000) who found out that the group lending mechanism to be a contractual model that enables previously marginalized entrepreneurs to use their social collateral as a means of financial empowerment.

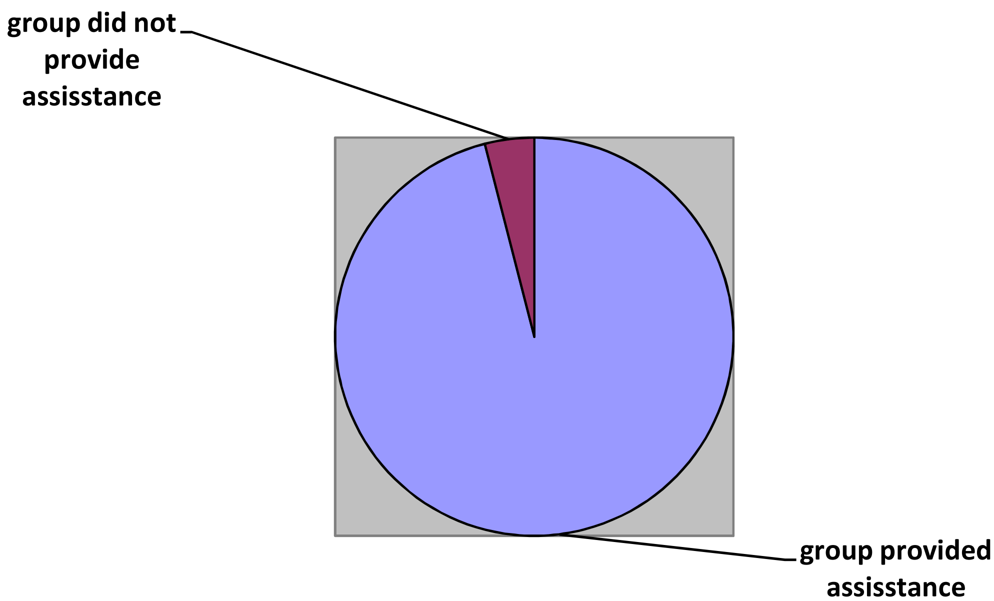

Figure 4.5 Effect of group mechanism on access to credit.

CONCLUSIONS AND RECOMMANDATIONS

Based on the findings of this study:

The study seemed to be in agreement with the study objectives. Majority of the respondents access their business funds through MFIs where women enterprise fund is included but with challenges especially brought about by lending policies. Most of the respondents were however in agreement that some of these policies have to an extent assisted in accessing the credit from Women Enterprise Fund and were therefore recommended to be improved to make the process easier and faster.

Through these policies especially that of group affiliation before accessing credit, women have been able to forge new business partnerships and increased linkages as evidenced by the increased number of women who are expanding their businesses in the district. This policy has made it easier for women entrepreneurs to develop progressively through the business stages without hitches and hindrances since the businesses get usually get the amount of credit that equals its ability to pay smoothly without struggling thus businesses get what they ought to get.

Majority of the women entrepreneurs agreed that the group formation mechanism had increased their probability of accessing funds and all women agreed that this mechanism enabled them a timely access to the funds for the eventual success of their enterprises.

It was affirmed funding polices had enhanced the development of women based SMEs in Masaba North District through increasing the probability of woman to access funds, provision of social support and timely access to resources, and ensuring that women entrepreneurs utilized their credit according to the intended purpose.

Additionally this study did found out that despite the positiveness of lending policies on access to credit by women entrepreneurs in Masaba North District these policies were ineffective in various ways: Group formation was unable to oversee the full utilization of funds among the women entrepreneurs

Recommendation

Base on the stated findings:

The study recommends that group formation as a requirement of access to credit continue to be employed among rural women entrepreneurs as it has greatly uplifted the challenges of accessing finance but the WEF should not delegate all the tasks to group leaders including training and business appraisal as this may not always be effectively carried out especially among the entrepreneurial groups formed in homogeneous manner.

REFERENCES

Afrin, A and Elizabeth D (2001). The impact of Micro credit; A case study from Peru. Washington, Dc; Management system international.

Atieno, R (2009) Linkages, access to finance and the performance of small scale enterprises In Kenya.World institute for development economic research.

Atieno, R. 2001. “Formal and Informal Institutions’ Lending policies and access to credit by small scale enterprises in Kenya. Regal press Kenya, Ltd

Atieno, R (2001) A qualitative analysis of microcredit group liability and women entrepreneurs Performance. Business and management review journal, 1 (15), 124-127

Basley, J (1994) Marketing tactics of selected small firms in East London CBD area South Africa University.

IFC and Kauffman, 2011. Women in business(WIN) IFC case studies: http://www.ifc.organ/gender.

International Finance Corporation, 2011. Strengthening Access to finance for women owned SMEs in Developing countries: Washington, DC Pennsylvania Avenue

International labour Organization, (2008) women entrepreneurs in Kenya, a preliminary report And factors affecting women entrepreneurs women entrepreneurs in micro and small Enterprises in Kenya, a preliminary research report geneva; Author.

Kriticos, S (2005) Key factors of joint liability loan contacts an empirical analysis.

Mohanty, SK. (2005), ***Fundamentals of entrepreneurship***. New Delhi; prentice hall.

Mugenda O.M &Mugenda, A. G (2003). Research methods; quantitative and qualitative Approaches.Nairobi; Acts press.

Republic of Kenya, 1994. Sessional paper number 2 of 1994 on national development plan.Nairobi: government printer

Republic of Kenya, 1997.Sessional paper number 2 of 1997 on National development plan.Nairobi: government printer

Republic of Kenya, 1998. Economic Survey, 1998. Nairobi: Government printer

Republic of Kenya, 1998. Sessional paper number 2 of 2006 on gender equality and development.Nairobi; Government Printer.

Stiglitz, J. and A. Weiss. 1981. “Credit rationing in markets with imperfect information”, American Economic Review, vol.71 no3:393-410

St- Onge, A and Stevenson, L (2005), Support for growth oriented women entrepreneurs in Kenya Switzerland; international labour organization