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FACTORS AFFECTING LOAN REPAYMENT BY WOMEN ENTREPRENEURS: A CASE OF KISII COUNTY, KENYA

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Abstract

Women entrepreneurs play an important role in the economic development of the Country. The research focused on the Women Entrepreneurs who belong to groups seeking for financial access. According to Central Bank of Kenya report of 2010 the default rate experienced by financial institutions had continued increasing and stood at 8%. Thus the study main objective was to establish the factors affecting loan repayment by women entrepreneurs. The research model developed predicted that marketing knowledge, training, group membership and financial availability affected loan repayment. Stratified random sampling as a sampling method was used by the research after having established the sampling frame of women groups accessing funds from financial institutions in Kisii town, Kenya. The researcher made use of a structured questionnaire that was administered to the target respondents The study established that loan repayment by women entrepreneurs is affected to a high level through adherence of members to group by- laws and regulations. The study found that that carrying out the business for a long period enables them to be in a position to repay the loans acquired without any difficult. The study recommends that the microfinance institutions management should have an effective loan management plan.

Keywords: Market Knowledge, Financial availability, Training, Women entrepreneurs, Kenya

INTRODUCTION

Women entrepreneurship plays an important role in the economic development of a Country. Ochola and Okelo (2013) found that women entrepreneurs enhance livelihoods within the family and leads to wealth creation at the national level. Due to their growing importance there is increased research in the area. Female entrepreneurs have been seen as a major force for innovation, job creation and economic growth and therefore there has been a swarm of research into women's business ownership. Despite the crucial role they play, women entrepreneurs continue to face a number of challenges which include: failure to repay their loans in time, discrimination, lack of access to finance, lack of experience, lack of training among others (Jamali, 2008). Though there is growing interest in women funding through women enterprise fund and a number of micro-financing institutions, studies show that loan repayment by women are a big challenge which leads to reduction of their potential to positively contribute to the economy (Kamanza, 2014). There is therefore a need to look into the factors influencing poor loan repayment by women entrepreneurs in Kisii, Kenya.

Studies show that women constitute half of the world's population, perform nearly two thirds of its work hours but still receive only one tenth of income and one percent of world's property. Gender discrimination is distinct and common in all developing countries (Kalai, 2004). Microfinance, financial services tailored for poor people, has been celebrated for its ability to reach out to women and enhance their welfare. Women entrepreneurs in Kenya are the key to economic growth because they are generating employment. But women owned businesses could contribute more than what they are doing today. A growing amount of research shows that countries that fail to address gender barriers are losing out on significant economic growth. Without increased attention to the gender dimensions of economic development, Kenya is therefore unlikely to meet its growth targets. This therefore demonstrates that addressing gender barriers in Kenya could generate significant economic growth for the country. The Kenyan government recognizes that women entrepreneurs have not been on an equal footing when it comes to their access to opportunities and assets but it has yet to effectively address the barriers facing women in business (Athanne, 2011).

Indeed women entrepreneurs around the world are making a difference. They contribute numerous ideas and a great deal of energy and capital resources to their communities, and generate jobs as well as create additional work for suppliers and other spin-off business linkages (Common wealth secretariat, 2002). Siwadi and Mhangami (2011) adds that it is undeniable that women entrepreneurs are the major actors in that sector and contributors to economic development and are becoming increasingly visible in the local economies of the developing counties. Promoting women's economic and political empowerment has gained greater attention over the last three decades (Yeshiareg and Defene, 2007).

The government and the corporate world have come up with a number of financing schemes aimed at providing loans to women entrepreneurs (Beverly et al., 2011). According to Kamanza (2014) this effort mostly turns to be unfruitful due to poor loan repayment. Kamanza attributes this to business failure influences loan, gender roles, borrower's entrepreneurial skills and diversion of loan funds by borrowers. These factors have made the financial institutions to be skeptical about the entrepreneurial abilities of women. The bankers consider women loanees as higher risk than men loanees. The bankers put unrealistic and unreasonable securities to get loan to women entrepreneurs. Women in developing nations have little access to funds, due to the fact that they are concentrated in poor rural communities with few opportunities to borrow money (Starcher, 1996; UNIDO, 1995). Most financial institutions therefore discourage lending to women entrepreneurs on the belief that they can at any time leave their business and become housewives again. The result is that they are forced to rely on their own savings, and loan from relatives and family friends. By and large they had confide themselves to petty business and tiny cottage industries (Starcher, 1996)

Problem Statement

Women entrepreneurs play an important role in the Kenyan Economic growth (Mwobobia, 2012). Despite this important contribution, past statistics indicate that three out of five women enterprises fail within the first few months of operation (KNBS, 2007). According to Amyx (2005), one of the most significant challenges is the inability to repay the loans and negative perception towards microfinance institutions when it comes to loan recovery leading to a high default rate. According to Central Bank of Kenya (CBK) the gross non-performing loans in commercial banks increased from KSHs 61.8 billion in February 2009 to 63.2 billion in February 2010 (CBK Annual Report 2010). Given their importance there is need to understand the factors affecting loan repayment (Amyx, 2005).

Matonda, (2011) sought to establish the influence of Women Enterprises Fund on socioeconomic development of women entrepreneurs in Bonchari Constituency, Kisii County and found out that accessed financial services, training services and disbursement criteria adopted by WEF had a positive effect on socio-economic development of women entrepreneurs in Bonchari Constituency.

As seen from the studies reviewed, much has not been done on the factors affecting loan repayment by women entrepreneurs. It is on this basis that this study aimed at establishing the factors affecting loan repayment by women entrepreneurs among women entrepreneurs in Kisii County.

Specific Objectives

i. To establish the influence of market knowledge on the loan repayment by the women entrepreneurs in Kisii County.
ii. To establish the effect of finance availability on the loan repayment by women entrepreneurs in Kisii County.
iii. To establish the influence of business training on the loan repayment by women entrepreneurs in Kisii County.
iv. To establish the effect of membership to loan repayment by women entrepreneurs in Kisii County

THEORETICAL REVIEW

Joint Liability Theory

This theory is part of the group lending theories. Many MFI's (Microfinance) and SACCO's do practice group lending in a bid to minimize the risks brought about by default and delinquency by the borrowers. According to Yunus as quoted by Wahid (1993) through joint liability the financial institutions have been able to penetrate the un- bankable and those considered so poor to be lent due to lack of collaterals. This theory has been supportive of the unconventional lending practiced by the Grameen bank, due to the reasonable degree of financial self-sufficiency and repayment rates that are significantly higher than for comparable loans by conventional lending institutions (Morduch, 1999).

According to Ghatak and Guinnane (1999), the Joint liability lending institutions ask borrowers to form groups in which all borrowers are jointly liable to one another. These lenders are also characterized by intensive monitoring of the borrowers and rely heavily on past borrowers to ensure compliance.

Ghatak (1999) puts it that for the lending institutions to experience high repayment rates from borrowers there is need to encourage the borrowers to form groups such that the paying members can pressurize the non-paying, or those on the verge of defaulting to honour their contractual obligations. Ghatak insists that when there is a joint liability a bond of allegiance is formed at two levels. The foremost bond of allegiance is between the borrowers whereby a case of default is treated as a departure from the set norms and ideals of the group would like.

In this stead the lending institution is able to keep a tab on its clients and ensure that constant monitoring on their loan repayment behavior can be evaluated. This may be construed as a way of sharing costs between the loanee and the lending organization (Morduch, 1999).

According to Banerjee and Newman (1993) the application of joint liability theor ,the credit market failure problems can be corrected. This is through local information collected and utilized within the specific social networks created that is the institution of joint liability based group lending. Hence, it serves the objectives of both efficiency and equity by helping the poor escape from the trap of poverty by financing small-scale productive projects. According to Banerjee and Newman (1993) the effect of high risk borrowers is neutralized by the safe borrowers. The net pool of information collected from both set of borrowers can be used by the lending institution to stabilize or even pressurize any borrower who tends to lag behind in his or her commitments.

Contract Theory

According to Hart and Holmström (1987) an optimal contract is a principal-agent problem that is comprehensive in that it specifies each party's obligations under each state of nature. The state of the contract may either be negotiated prior or maybe renegotiated to fit the changing nature of the clients. In group lending there must be something that makes members show commitment, this maybe in terms of the regular meetings that the members do attend. In this kind of scenario the regular attendance of meetings or on-time repayment of loan may be out of informal or formal contracts between the group members.

According to Adams (1992) a contract whether formal or inform acts a risk management method where both the parties shield themselves from planned or arbitrary failures of the other party. A good contract is the one that is able to identify the various loopholes of probable losses or risks, apportions responsibilities among the parties to the contract according to their expected roles. A formal contract is usually written down and inked by both parties and deposited at the depository of the lending institutions or their attorney. On the other hand the informal contract does exist between the parties even though it's not written. The trust and fear of the ensuing repercussions of the implied and verbally agreed upon terms of the contract characterized an informal contract

The developing countries are advised to go for incomplete contracts. According to Llewellyn (1931), incomplete contracts allows for a "tolerance zone". There is a consideration of the question "what if?", rather the conditions may not be the same all the times leaving room for the parties to the contract to renegotiate. The group lending scheme in Africa where the borrowers have multiple roles to play and faced with unpredictable business environment are encouraged to settle for incomplete contracts. One of the members may fall sick within his or her repaying period, business may be low, natural calamities may befall the business thus the incomplete contract may come handy in these and such other scenarios of the same nature.

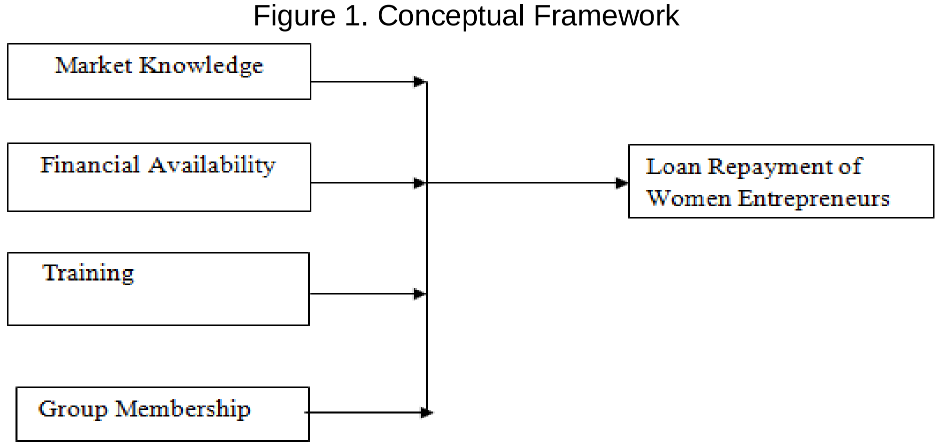
Experiential Learning Theory

According to Norel (2001), one of the strategies that lending institutions can use to reduce the rate of default by borrowers is through training. Training to the clients prior to the transaction of each loan and financial incentives for the credit officers can be used to inculcate a culture of loan repayment. The trainers must be able to take into consideration the nature of the learners and what kind of behavior they want the learners to adopt. Thus being cognizant of the need to shepherd the borrowers to practice regular behavior of commitment and repayment of their loans there is need to borrow from Kolb's Experiential Learning theory.

According to Kolb and Kolb (2008), the experiential learning theory can be applied to all facets of life, all age groups, by different cultures and different kinds of organizations. Kolb and Kolb (2008) describe research on experiential learning to have used ELT (Experiential Learning Theory) to describe the management process as a process of learning for individuals, teams, organizations to solve problems and make decisions, identify entrepreneurship opportunities and seeking a strategy formulation. ELT is based on the proposition that learning is a holistic process of adaptation. It should not only be taken as a result of cognition but includes integrated functioning of the total person –thinking, feeling, perceiving and behaving.

According to the arguments put forth by Norel (2001), that for borrowers to be committed and be regular servicers of their loans they need the inculcation of certain behaviors, mode of thinking and perception so as to build social capital among a group of borrowers. The translation from the individual liability to joint liability in case of group lending is vital and ensures that risks of default are kept at minimum.

Figure 1. Conceptual Framework



Research Gap

The reviewed studies and literature have left gaps that the researcher would like to fill. To start with, many past researches have dealt more on the nature of the group lending and the dynamics of groups. From the literature reviewed it is noted that lending to women entrepreneurs involves concerted efforts of the borrower, group members and lending institutions. These researches have not done much justice on explaining the environment and drive of the borrower in repaying the loan, thus this is the focus of this research

RESEARCH METHODOLOGY

This research problem was studied through the use of descriptive survey research design. The research focused on factors affecting loan repayment by women entrepreneurs in Kisii County. The population of this was 400 entrepreneurs from Kenya women finance trust from Kisii County, Kenya. The study selected particular borrowers who included group leaders and the individual members in particular groups using stratified random sampling technique.

Table 1. target population

Categories of borrowers	Frequency
Group leaders	60
Group Members (borrowers)	340
Total	**400**

Stratified random sampling was used to select a sample population. The study targeted a sample size of 80 respondents from which 76 filled in and returned the questionnaire (see Appendix) making a response rate of 95%, this response rate was satisfactory to make conclusions for the study as Cooper and Schindler (2003), states that a response rate of between 30 to 80% of the total sample size can be used to represent the opinion of the entire population. Descriptive statistics was used to discuss the findings of the study.

ANALYSIS AND FINDINGS

Market Knowledge

Table 2. Influence of market study on loan repayment

Opinion	Frequency	Percentage
Yes	54	74.3
No	22	25.7
Total	**76**	**100**

The study sought to determine whether having business survey influences loan repayments by women entrepreneurs, from the findings majority of the respondents as shown by 74.3% agreed that doing a study/survey before engaging in the business so as to identify the risks, influences loan repayments by women entrepreneurs whereas 25.7 % of the respondents were of contrary opinion, this implies pre-study of the market influences loan repayments by women entrepreneurs

Effect of business information on loan repayment

Table 3. Effect of business information on loan repayment

Opinion	Frequency	Percentage
Yes	49	64.0
No	27	36.0
Total	**76**	100

The study sought to determine whether business information during market knowledge influences loan repayment by women entrepreneurs from the findings majority of the respondents as shown by 64% agreed that information from the media, friends and microfinance institution in relation to knowing the market knowledge and conditions influences loans repayment by women entrepreneurs, whereas 36% of the respondents disagreed, this implies that business information during market knowledge influences loan repayment by women entrepreneurs

Finance Availability

Table 4. Period of loan collection on Loan Repayment

Period	Frequency	Percentage
One week	35	47.4
Two weeks	15	19.7
One month	20	26.3
Others	6	6.6
Total	**76**	**100**

The study sought to determine whether the period of application and collection in determining availability of finance to the business and their effect on repayment of loans taken, from the findings majority of the respondents as shown by 47.4% were of the opinion that it took the one week to collect the loans from microfinance, 26.3% argued that it took them one month to collect the loan, 19.7% took two weeks to collect the loans, whereas 6.6% of the respondents were not certain how long it took them to access the loans, this implies that period of loan collection due to qualified loan officers, short or long procedures, application by many people and loan officers not willing to process loans for a short period affects finance availability which in the long run influences loan repayment by women entrepreneurs.

Business Training: Influence of training on loan repayment

Table 5. Influence of training on loan repayment

Opinion	Frequency	Percentage
Yes	66	86.8
No	10	13.2
Total	**76**	**100**

The study sought to determine the usefulness of training by microfinance on loan repayment and how it influences loan repayment by women entrepreneurs in Kisii county, from the findings majority of the respondents as shown by 86.8% agreed that training, was useful in facilitating effective loan repayment by women entrepreneurs in Kisii county whereas 13.2% of the respondents were of disagreed on the other hand, implying that training was very useful as it influenced loan repayment by women entrepreneurs in Kisii county

Group Membership

Table 6. Level of involvement of member in group management on loan repayment

Level	**Frequency**	**Percentage**
Very high	18	23.6
High	35	46.1
Fair	4	5.3
Low	14	18.4
Very low	5	6.6
Total	**76**	**100**

The study sought to determine the level to which involvement of member in group management on loan repayment influence loan repayment by women entrepreneurs, from the findings, most of the respondents as shown by 46.1% indicated to a high level, 23.7% of the respondents indicated to a very high level 18.4% of the respondents indicated to low level 6.6% of the respondents indicated to a very low level whereas 5.3% of the respondents indicated to a fair level. This is an indication that involvement of member in group management influences loan repayment by women entrepreneurs to a high level this is due to group lending programs offering a feasible and even profitable channel to extend credit to the poor, who are usually kept out of traditional banking systems. Group lending is a joint liability. This finding concur with findings by Mwisho, (2001) that loan repayments if purely influenced with proper involved in the management of the groups.

CONCLUSIONS

From the findings the study established that Market knowledge has a positive significant to influence loan repayment by women entrepreneurs in Kisii County, Kenya. The study established it is useful to gather information from the media, friends and microfinance institution in relation to knowing the market knowledge thus the study concludes that access to information had a positive effect on loans repayment by women entrepreneurs in Kisii County.

The study ascertained that business training, group dynamics market survey, credit management and product of the financial institution will ensure that responses are aiming for the same goal, thus the study concludes that business training had a positive impact on loans repayment by women entrepreneurs in Kisii County.

The study revealed involvement of member in group management influences loan repayment by women entrepreneurs to a high level, since the lender treats the individual members as if they are in default with one another and the whole entity known as the group thus the study concludes that group membership has a positive impact on loan repayment by women entrepreneurs in Kisii County.

RECOMMENDATIONS

Based on the findings, the study recommends that the management on microfinance institutions should consider adopting market knowledge during loan repayment. This will allow the management to create a comprehensive understanding that can be leveraged to influence stakeholders and create better decisions on loan taking and servicing of the loans.

The study recommends that the microfinance institutions keeps on availing finances as well as re-assessing the loan policies. This will help to identify whether the adopted counteractive measures are making any acceptable difference.

The study also recommends that is very crucial that the microfinance institutions conducts business training this will help the institution and the entrepreneurs to gather valuable information that will provide valuable insights in the strategy and the necessary input to find effective responses to optimize the loan defaulting.

The study recommends that the microfinance institutions management should have an effective loan management plan. This will help to identify internal and external constraints which are likely to cause a significant increase in the budget, disruption of the schedule or performance problems. By identifying the constraint the management is in a position to monitor each group that borrows loans.

SCOPE FOR FURTHER STUDIES

This research had intended to establish the effects the factors affecting loan repayment by women entrepreneurs in Kisii County, Kenya. Future researcher may focus on the relationship between loan defaulting and financial performance in microfinance institutions in Kenya.

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APPENDIX

QUESTIONNAIRE FOR THE LOANEES

SECTION 1: Market Knowledge

1.1. In which types of business currently engaged?

[ ] Hair dressing

[ ] Grocery

[ ] Wholesale/retail shop

[ ] Textile

[ ] Bar and restaurant

[ ] others ____

1.2. How long have you carried out business?

[ ] 1 year and below [ ] 1 year [ ] 2 year’s [ ] 3 year’s [ ] 4 year’s [ ] above

1.3. Did you conduct market study (survey) before starting your business?

No[ ] Yes [ ]

1.4. If No, why? ____

1.5. Are you able to get (access) business information related to your business?

No[ ] Yes [ ]

1. 6. If Yes, how to get this information?

[ ] From the media (TV, radio, newspaper, etc.)

[ ] From friends

[ ] From the loan provider (KWFT microfinance institution)

[ ] Others ____

1.7. Is your business successful? No[ ] Yes [ ]

1.8. If No, what do you use to repaying your loan?

[ ] From my personal asset (building, equipment) [ ] From other income source

[ ] Don‘t want to repay [ ] Others ______________________

SECTION 2: Finance Availability

2.1 Why do you borrow from KWFT microfinance?

[ ] For doing new business

[ ] For expanding already existing business

[ ] Others____

2.2 How many times have you borrowed from KWFT microfinance institution?

[ ] 1 [ ] 2 [ ] 3 [ ] 4[ ] Others ______________________

2.3 How long does it take the first application and loan collection?

[ ] One week [ ] Two weeks[ ] One month other _____________________

2.4 What is/are the reason(s) for these?

[ ] Loan officers are qualified

[ ] Speedy procedure (short process)

[ ] Due to long procedure (process)

[ ] Many people apply for credit at one time

[ ] The loan officers are not willing to finish within short time

[ ] Others ____

2.5 How much money do you borrow from KWFT MFI? ___________________

2.6 Do you spend the entire loan for running your business? No[ ] Yes [ ]

2.7 If No, for what purpose do you spent?

[ ] Consumption

[ ] Education for children

[ ] Health

[ ] Others ____

2.8 Do you take the preferred amount of loan from KWFT microfinance as you requested?

No[ ] Yes [ ]

2.9. If No, is it Higher Lower?

10. Is the amount of loan taken from KWFT microfinance enough for your business?

[ ] No[ ] Yes

SECTION 3: Business Training

3.1 Did you take training from KWFT microfinance? No[ ] Yes [ ]

3.2 If yes, what kind of training do you take?

[ ] Business training

[ ] Group dynamics

[ ] Market survey

[ ] Credit management

[ ] Product of the financial institution

[ ] Other____

3.3 By whom this training was given?

 By loan officer [ ] By managers [ ] By managers [ ] By external bodies

[ ] Others…….

3.4 Was the training useful? No[ ] Yes[ ]

3.5 How many times does the loan officer visits your business and checks your repayment status?

[ ] Once a month [ ] Two times a month [ ] Once within two month [ ] Others____

3.6 Are you served in a good manner by the loan officer and other employees of KWFT Microfinance? No[ ] Yes [ ]

3.7 If No, what is/are the reason(s)?

[ ] There is information gap

[ ] The loan officers are busy

[ ] The loan officers are not disciplined

[ ] Others ____

SECTION 4: Group Membership

4.1 How do you rate the level of involvement of members in the managing of the group affairs (Tick appropriately)

Very High	High	Fair	Low	Very Low

4.2 How frequently are group elections held (Tick appropriately)

Quarterly ( ) Biannually ( ) Annually ( ) Others Specify).................................

4.3 How do you rate the level of adherence by members to the groups' by laws and regulations? (Tick appropriately)

Very High	High	Fair	Low	Very Low

4.4 How many members have been trained in your group? .... (Indicate number)

4.5 Do the meetings help in the repayment of the loan? Yes ( ) No ( )

SECTION 5: Loan Repayment

5.1 How many times have you borrowed money?

[ ] Once [ ] Twice [ ] Three times [ ] More three times

5.2 How much have you borrowed in total?

[ ] Between Ksh. 1000 to Ksh 10000

[ ] Between Ksh 11000 to Ksh 20000

[ ] Between ksh 21000 to Ksh 30000

[ ] kshs 31000 and over

5.3 Have you ever failed to repay a loan you took?

[ ] Yes [ ] No

5.4 If yes, what were the reasons for defaulting?

[ ] Influence by group members not to repay

[ ] Poor management of loan due to lack of training

[ ] Market failure due to lack of prior market survey

[ ] Unavailability of funds due low liquidity of the enterprise

[ ] Failure due to other reasons not mentioned above

5.5 How was your loan finally repaid?

[ ] The loan was repaid by group members

[ ] Group members auctioned my assets to recover the loan

[ ] My savings were used to offset the loan

[ ] The loan was repaid through insurance

[ ] The loan was written off

□ The loan is still outstanding