International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 12, December 2015
http://ijecm.co.uk/ ISSN 2348 0386

ASSESSING THE ACCESSIBILITY OF GOVERNMENT LOANS TO WOMEN OWNED SMES IN MACHAKOS COUNTY, KENYA

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Abstract

The purpose of this study was to identify the various factors influencing women owned SMEs financial sustainability in Machakos County, Kenya and to come up with valuable recommendations on how to ensure financial sustainability prevailed amongst women owned SMEs in the County. The objectives of the study were: to establish the influence of government loans accessibility on women owned SMEs financial sustainability. The study was carried out in the eight constituencies of Machakos County namely; Machakos Town, Mavoko, Kathiani, Mwala, Matungulu, Kangundo, Yatta and Masinga. The study used descriptive survey research design. A sample of 383 members was selected from a population of 5311 women owning SMEs businesses using stratified random sampling method. A semi- structured questionnaire was used for data collection. The questionnaire was validated by the supervisor, lecturers and colleagues from the University. Cronbach's alpha method was used to affirm the reliability of the *instrument. The study established that government loan accessibility influence financial sustainability of women owned SMEs in Machakos County. The study concluded that government loan accessibility had a positive attitude towards government loan policies, procedures and repayment terms. The researcher's recommendation was that, the government should reduce its lending rates to attract more women clients and avoid credit risks amongst women borrowers. It should collaborate with private agencies to come up with SME training programs to enhance management skills amongst women entrepreneurs. For realization of vision 2030, the stake holders should incorporate women entrepreneurs to enhance balanced economic growth.*

Keywords: Women Owned SMEs, Financial Sustainability, Government Loans Accessibility, Funding, Kenya

INTRODUCTION

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. 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).

The Organization for Economic Cooperation and Development (OECD, 2004) notes that women entrepreneurs have untapped source of economic growth, create new jobs for themselves and others, provide society with different solutions to management, organizations and business problems and exploit entrepreneurial opportunities". Despite encouraging remarks about capacities of women enterprises to boost local economy (USAID, 2001) briefs indicate that women owned and operated micro enterprises grow less rapidly and are likely to close sooner than male counterparts.

However, promoting women's economic and political empowerment has gained greater attention over the last three decades (YeshiaregDefene, 2007). For example, several interventions are being carried out by a number of stakeholders to ensure that the sector plays its role fully. Both the Government and the private sector (including the NGOs) are engaged in various efforts to empower the entrepreneurs in particular women, to grow their enterprises such as formation of Women Enterprise Fund (WEF) in Kenya. Women Enterprise Fund (WEF) was conceived by the Government of Kenya in 2006 and officially launched in 2007, (GoK, 2007)

The principal objective of the fund is economic empowerment of women. Women Enterprise Fund loans reach the target beneficiaries through the partner financial intermediaries and directly through Constituency Women Enterprise Scheme (C-WES). This fund is aimed to enable the government realize the 3rd Millennium Development Goal (MDG) on "gender equality and empowerment of women". In recognition of the critical role women play in socio-economic development, the WEF has been identified as a flagship project under the social pillar in the Vision 2030. It is expected that the fund will play a catalytic role in mainstreaming women in the formal financial services sector and experience financial sustainability.

Kenya has also made great strides in the realization of democracy, despite myriad challenges facing the country. In an initiative to support the youth and women and make them financially independent, the Jubilee Government launched Uwezo Fund that is yet to sufficiently take off despite the hype surrounding the fund. Being one of the promises under the Jubilee manifesto during the 2013 campaigns, Government has been put to task to fulfill its mandate by disbursing the Ksh 6 billion Uwezo fund to the youth and women (GoK, 2007). The aim of Uwezo fund is to provide youth and women access to grants and interest-free loans, as well as mentorship opportunities to enable them take advantage of up to 30% of Government procurement preference for youth, women and persons with disabilities through its Capacity Building Programme (GoK, 2007). Each eligible group can be awarded from Ksh500, 000 to Ksh3 million per project depending on how qualified their project proposal will be.

Additionally the government has also intervened through use of its own financial institutions such as bank(s) to channel funds to women owned projects. For example, Kenya Commercial Bank (KCB) applied for a loan guarantee to reduce collateral requirements (previously set at more than 100 percent of the loan value) for select SMEs and to focus on building its understanding of individual SME businesses, their cash flow, and select economic sectors (USAID, 2006b, pp. 8-9; M. Rostal, personal communication, July 2009).To date, the KCB $3.95-million loans has guaranteed 216 SME loans totaling $3 million. KCB has developed and introduced two new loan products in the market that are backed by the guarantee: Biashara Working Loans, which target SMEs, and Grace Loans, targeted to women-owned businesses. The aim of the government is to ensure that women owned projects such as SMEs have financial sustainability.

Purpose of the Study

The general objective of this study was to investigate into the key factors influencing financial sustainability of women owned SMEs in Kenya: a case of Machakos County. That is, investigating on how government loan accessibility, financial innovativeness, capital structure and financial management influence financial sustainability on women owned SMEs.

LITERATURE REVIEW

Theoretical framework

There are several relevant SME financial sustainability theories that govern this study, However, this study is based on the Pecking-Order Theory or Framework (POF).

Pecking order Theory, is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy. A research study carried out by (Norton, 1991b) found out that 75% of the small enterprises seemed to make financial structure decisions within a hierarchical or pecking order framework. (Holmes 1991) admitted that POF is consistent with small business sectors because they are owner-managed and do not want to dilute their ownership. Owner-managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations. This theory is relevant in explaining the aspect of women owned SMEs and financial sustainability of SMEs in Machakos County.

SMES in Kenya

Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. The SME industry in Kenya is characterized by the employment of between 50 to 200 employees and capital assets of a substantial amount of about Ksh. 2 million (excluding property). There is no standard definition of SME in Kenya. Lenders definitions vary, but typically they define SMEs as businesses with six to 50 employees or with annual revenues less than 50 million Kenyan shillings. Regardless of the quantitative definition, it is agreed by virtually all stakeholders in this market that SMEs in Kenya are the “missing middle”. Their size and credit demand have outgrown the capacity of microfinance institutions, which offer small, short loans via group-lending methodologies, while the capacity of the SME risk profile combined with the lenders’ lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers for business banking.

The link between microcredit and financial sustainability of SMEs, though repeatedly emphasized by donors and practitioners in conferences and summits, is a controversial area of empirical research. (Mizan, 1993) finds significant and positive effects of participation in Grameen Bank program on entrepreneurs' decision making within the household. However, (Montgomery, 2005) finds that participation in Khushali Bank's 5 microcredit program in Pakistan does not increase the degree of enterprises financial sustainability while (Salman, 2008) suggest that at least in the urban slums, the link between microcredit and enterprises financial sustainability is not as strong as perceived by the donor agencies and microcredit practitioners. However all studies find that for the majority of borrowers income increases are small, and in some cases negative. According to (Kiraka, R. 2009) most SMEs in Kenya are faced with a lot of challenges starting and maintaining businesses in a highly competitive environment in Kenya.

Availability of credit remains a daunting challenge with most business expressing their dissatisfaction with financial institutions in making credit available to do business. Lack of information on where to access professional and financial services was a major impediment for growth, among those questioned in a recent survey. Despite availability of products offered by financial and microfinance institutions, the targeted recipients were not informed on where to get them and how to meet the requirements. They however said the assistance should come in form of provision of capital and loans to small enterprises as well as access to credit facilities and training. The interest rates on credit facilities offered to SMEs are too high compared to the market rates and that the loan repayment period was short.

Women Entrepreneurs in Kenya

According to (Central Bureau of Statistics, 1999), National Micro and Small Enterprise Baseline Survey (the most comprehensive Kenyan survey on the sector), there were 612,848 women entrepreneurs (MSEs) in Kenya, 47.7 per cent of the total, a percentage that closely mirrors their share of the labour force (46.7 per cent). Women were more likely to be operating in the trade sector (75 per cent), and were more dominate than men in leather and textiles (accounting for 67 per cent of total MSEs in that sector), retail (accounting for 56 per cent of total MSEs in that sector), entertainment (accounting for 55 per cent of total MSEs in that sector) and other manufacturing (accounting for 68 per cent of the total MSEs in that sector) With regard to their demographic distribution, about 80% of women entrepreneurs are in the 20 – 39 years age bracket, with the 40 – 49 age bracket representing about 18.5% of the entrepreneurs. Over 56% of the women entrepreneurs are married, and about 32% are single.

A significant number of women entrepreneurs are also educated up to secondary school level (about 36%), while 34% have primary level education. Only about 3% are university graduates (ILO, 2008). Women are less likely than men to employ others in their enterprises. The average number of employees in a female-owned MSE is 1.54 versus 2.1 for male-owned MSEs. In MSEs owned by women, about 86 per cent of the workers are the owner operators; only four per cent of their workers are hired; the remainder is made up of either family members or apprentices. The Government of Kenya reports that there were 2.8 million MSEs in 2002, contributing to employment of 5.1 million people. If the proportion of women operators remained the same as it was in 1999 at 47.7 per cent, the estimated number of women MSEs in 2002 would be 1.3 million.

If the employment share of their enterprises remained at 40 per cent, this means women could be generating as many as 2 million jobs for Kenyans (including themselves) (Stevenson & St-Onge, 2005).

Stevenson & St-Onge, (2005) profile Kenyan women entrepreneurs into four categories. The first category is that of the Jua Kali micro-enterpriser. The women who own these often unregistered enterprises in the informal economy, have little education (less than secondary level), and are constrained by lack of entrepreneurial and business knowhow, access to credit, and awareness of markets and market opportunities. They constitute about 96.7 percent of all SMEs owned by women. The second category is comprised of women with micro enterprises (6-10 employees) and these constitute 2.6 percent of the enterprises. The third category is the small enterprises (over 10 employees), that constitute 0.7 percent of enterprises.

The women own micro and small enterprises have a minimum of secondary education, previous experience as an employee in a public or private sector enterprise, and a supportive husband who may be directly or indirectly involved in the business. Their businesses are generally registered and operate from legitimate business premises. The fourth category is made up of women with university education, who came from entrepreneurial family backgrounds, have experience in managerial positions in the corporate world, access to financial means and supportive husbands. They constitute less than 0.1 percent of all women-owned enterprises.

Government credit accessibility and women owned SMEs

In Kenya, the government initiated the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) in 2003 whose intention was to turn around the ailing Kenyan economy. The strategy registered some success, with over one million jobs created in the period between 2003 and 2007, and the Gross Domestic Product (GDP) growth rate rising from

0.6% per annum in 2002 to 7% in 2007. Following this development, the government launched Kenya Vision 2030, which is the country's economic blueprint covering the period 2008 to 2030. It aims at making Kenya a newly industrialized "middle income country providing high quality of life for all its citizens by the year 2030." The vision will be implemented in 5-year phases starting with 2008-2012.

The vision is based on three pillars: the economic pillar, the social pillar and the political pillar (Ministry of Planning, National Development & Vision 2030 [MPNDV2030], 2007).

Among the key initiatives planned for the first phase (2008-2012) of the economic pillar specific to SMEs are: (i) building 'producer business groups' which will be based in the rural areas and will feed different urban centres; (ii) creation of two economic clusters (around sugar and paper); (iii) creation of five MSME industrial parks; (iii) one-stop-shop for SMEs and (iv) streamline the microfinance sector that mainly provides financial services to MSMEs (MPNDV2030, 2007). In addition, in 2007 the Kenya government initiated the Youth Enterprise Fund, a two billion Kenya Shillings initiative (US$25million), whose aim is to provide start-up capital to small enterprises whose owners are below 30 years of age. A similar Fund was set up to support women entrepreneurs – the Women Enterprise Fund. These Funds are managed through microfinance institutions and continue to receive government support. Circumstantial evidence suggests that some success has been registered, but no empirical study has been conducted yet to assess their effectiveness.

The Women Enterprise Fund

The Women Enterprise Fund (the Fund) was established through Legal Notice No. 147 Government Financial Management (Women Enterprise Fund) Regulations, 2007, had begun its operations in December 2007. It has five mandates as provided in the establishing legal notice. These are: Providing loans to women using the two channels, namely, microfinance institutions (MFIs) and the Ministry of Gender, Children and Social Development under the Constituency Women Enterprise Scheme (CWES); Attracting and facilitating investment in micro, small and medium enterprises oriented infrastructure such as business markets or business incubators that will be beneficial to women enterprises; Supporting women oriented micro, small and medium enterprises to develop linkages with large enterprises; Facilitation of marketing of products and services of women enterprises in both domestic and international markets; Supporting capacity building of the beneficiaries of the Fund and their institutions (Government of Kenya, 2009).

The vision of the Fund is to socially and economically empower Kenyan women entrepreneurs for economic development, and its mission is to mobilize resources and offer access to affordable credit and business support services to women entrepreneurs. The core values of the Fund are: Integrity, Teamwork, Innovation, Courage and Respect for Diversity (Government of Kenya, 2009). In order to achieve its mandate, the Fund set up ten objectives (Government of Kenya, 2009). These are: To increase the loan portfolio from Kshs.682 million to Kshs.4 billion by the year 2012; To grow the Fund from Kshs.1.215 billion to Kshs.3 billion by the year 2012; To increase the number of women entrepreneur borrowers from 92,000 to over 600,000 by 2012; To link at least 60 women micro, small and medium enterprises in each province with large enterprises by 2012; To enhance and strengthen the knowledge, skills and capacity of women entrepreneurs; To facilitate marketing of products and services of women enterprises in local and international markets; To facilitate development of supportive infrastructure for women enterprises; To strengthen institutional capacity of the Fund; To enhance advocacy and publicity of the Fund; To enhance efficiency in the operations and processes of the Fund. An establishment of the Fund is a step towards ensuring resources reach excluded women. It is also a testimony of the Kenya government's commitment to the realization of the 3rd Millennium Development Goal (MDG) on women empowerment and gender equity. Successful execution of the Fund's mandate is supposed to address the existing hurdles women face in venturing and growing sustainable enterprises (Government of Kenya, 2009).

RESEARCH METHODOLOGY

Research Design

Research design is the plan and structure of investigation conceived as to obtain answers to research questions. For the purpose of this study, the researcher employed a survey research design. As a descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables (Cooper and Schindler, 2003).

This approach was appropriate for this study, since the researcher intended to collect detailed information in order to describe the nature of the relationship between the various factors and women owned SMEs financial sustainability.

Descriptive statistics was applied to study the effects of between various factors and women owned SMEs financial sustainability. Both quantitative and qualitative approach to analyze the data were employed. A questionnaire was the main instrument of collecting data. This instrument was preferred because of its low cost even when the population is large, it is free from the biases of the interviewer, and SMEs have more time to give well thought answers (Mugenda and Mugenda, 1999). It also saves time on the part of the researcher. In this case the researcher was interested in investigating the factors influencing financial sustainability of women owned SMEs and so a causal study was deemed to be more appropriate.

Target Population

According to (Cooper and Schindler 2003), a population is the total collection of elements about which we wish to make some inferences. The idea is not far from (Mugenda and Mugenda, 1999) view as they define a population as the entire group of individuals, events or objects having a common observable characteristic. The target population consisted of 5,311 SMEs (Machakos County report, 2013) operating in Machakos Municipality. The SMEs in Machakos are heterogeneous and thus stratified sampling was used. The strata were the business categories from which the sample was selected.

Sampling Procedure

Sample size is a given number of members or cases from the accessible population which is carefully selected so as to be a representative of the whole population with the relevant characteristics. Stratified random sampling was applied to pick 383 SMEs that was used in the study. This number was considered appropriate due to time and cost constraints. The stratified random sampling procedure was preferred because this concept allows unbiased sampling.

Table 1. Sample frame of women entrepreneur respondents

Name Of Town	Population	Sample Size	Percentage
Machakos Town	2155	100	26
Mavoko	956	60	16
Kathiani	443	32	9
Mwala	489	50	13
Matungulu	355	40	10
Kangundo	301	40	10
Yatta	267	30	8
Masinga	345	30	8
TOTAL	**5311**	**382**	**100**

Method of Data collection

This study employed a self-administered questionnaire as a sole means of data collection from SMEs. The instrument was based on a five point Likert scale. The instrument was divided into two sections. The first section contained questions on demographic and the type of business one runs. The second section covered aspects of financial sustainability of SMEs.

Primary data was used in this study since many SMEs do not have complete and regularly maintained business records. Therefore, the study used ordinal, nominal and rational data to achieve the research objectives.

Primary data was gathered through structured questionnaires. In order to ensure uniformity in response and to encourage participation, the questionnaire was kept short and structured with mostly multiple-choice selections in a likert scale. The questionnaires were preferred in this study because most of the respondents of the study were most likely literate (or illiterate in rare cases) and quite able to answer questions asked adequately. According to (Mugenda and Mugenda, 2003), questionnaires are commonly used to obtain important information about a population under study. The researcher obtained an introductory letter from the University to collect data then personally delivered and where necessary sought help from research assistants to distribute the questionnaires to the respondents and had them filled in and then collect later. The drop and pick later method.

Validity of research instruments

According to (Paton, 2002) validity is quality attributed to proposition or measures to the degree to which they conform to established knowledge or truth. An attitude scale is considered valid, for example, to the degree to which its results conform to other measures of possession of the attitude.

Validity therefore refers to the extent to which an instrument can measure what it ought to measure. It therefore refers to the extent to which an instrument asks the right questions in terms of accuracy. (Mugenda and Mugenda, 1999) validity is the accuracy and meaningfulness of inferences, which are based on research results. The researcher discussed the items in the instrument with colleagues, the supervisors the lecturers from the University. These suggestions were used in making necessary changes to the instrument.

Reliability of research instruments

Joppe, (2000) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study. If the results of a study can be reproduced under a similar methodology, then the instrument is considered to be reliable. Reliability was tested using the Cronbach’s alpha that was calculated from questionnaires from a pilot study. The instrument had a reliability coefficient of 0.805 and thus was reliable, the acceptable reliability coefficient is 0.7 and above (Nunnaly, 1978).

Data Analysis Approach

According to (Bryman and Cramer, 1997), data analysis sought to fulfill research objectives and provide answers to the research questions. The choice of analysis procedures depended on how well the techniques were suited to the study objectives and scale of measurement of the variable in question. The researcher used both qualitative and quantitative methods of data analysis. Qualitative analysis was used to analyze the perception and attitudes data (non-numerical data) that was collected from the study. Raw data collected was edited organized, into themes, grouped, interpreted, and presented in frequency tables.

Quantitative, data from the study was edited and analyzed using the Statistical Package for Social Sciences (SPSS) Computer software. All questionnaires were edited and responses coded before data entry into the computer for further analysis by use of the Statistical Package for Social Scientists (SPSS).Cross tabulation was the main method used for data analysis. After analysis, data was summarized and presented in form of frequency tables, percentages, and proportions.

ANALYSIS AND FINDINGS

Government policies

The respondents were asked to indicate their attitude towards government policies, procedures, terms and conditions on loan lending to women entrepreneurs in Machakos County. The respondents were to show their rating choice using 5-levels attitude scale; Very positive, Positive, Undecided, Negative and Very negative. The results are summarized in Table 2.

Table 2: Government loan policies

	Frequency	**Percent**
Very positive	74	26.2
Positive	68	24.1
Undecided	46	16.3
Negative	52	18.
Very negative	42	14.9
TOTAL	**282**	**100.0**

The results in the Table 2 show the respondents' attitude towards government policies, procedures, terms and conditions of loan lending to women entrepreneurs in Machakos County. It was noted that 26.2% of the respondents were very positive towards government loan policies, procedures, terms and conditions of loan lending to women entrepreneurs in Machakos

County. 24.1% had a positive attitude, 16.3% were undecided, 18.4% had negative attitude and 14.9% had very negative towards government loan policies.

Borrowers repayment attitude

The respondents were asked to indicate their attitude towards repayment of government loans. The respondents were to show their rating choice using 5-levels attitude scale; Very positive, Positive, Undecided , Negative and Very negative. The results are summarized in Table 3.

Table 3: Women entrepreneur attitude towards Government loans repayment

	Frequency	**Percent**
Very positive	87	30.9
Positive	58	20.6
Undecided	49	17.4
Negative	47	16.7
Very negative	41	14.5
TOTAL	**282**	**100.0**

The results in Table 3 show the respondents attitude as a woman entrepreneur towards repayment of a government loan. From the Table, it can be noted that 30.9% of the respondents had a very positive attitude towards repayment of government loans,20.6% were positive 17.4%, undecided, 16.7% had negative and 15.2% very negative attitude toward government loan repayment. The outcome shows that more than 50% of the women entrepreneurs were for government loan. This is because most likely the repayment terms are friendly due to low interest rates and reasonably long loan repayment period.

In an attempt to understand the scope of these organizations, the 1999 MSE Survey enquired into the different types of assistance received by MSE operators. The operators cited both formal and informal assistance, and financial and non-financial assistance. In general, there seemed to be considerable support. The survey noted that the bulk of the MSE's credit (69.1 per cent) came from informal savings and credit associations, otherwise known as Rotating Savings and Credit Associations (ROSCAS). This was in line with other findings that only 4 per cent of accessed credit was obtained from formal financial channels, such as NGOs, micro-finance schemes, commercial banks and Savings and Credit Cooperative Societies (SACCOS). This also alludes with our findings that the women owned SMEs were necessitated by accessibility of government loan facilities.

CONCLUSION AND RECOMMENDATIONS

The study investigated the factors influencing the financial sustainability on women owed SME in Kenya. It specifically sought to establish the influence of government loan accessibility on women owned SMEs and to establish the influence of financial innovativeness on women owned SMES. The study concluded that Government loan accessibility to women SME had positive attitude towards government loan policies, procedures and repayment terms. The same conclusion was made by (Mizan, 1993) who found significant and positive effects of participation in Grameen Bank program on women entrepreneurs decision making within the household.

Capital structure findings showed that debt financing was preferable to equity capital and the cost of borrowing (interest) influenced financial suitability on women owned SMEs. This is according to (Pandey, 1990) who in his study implied that micro-enterprises should be encouraged to result in acquisition of capital from sources which have least risk to the firm.

It is clear from this study that government loan accessibility, financial innovativeness, capital structure and financial management influenced financial sustainability on the women owned SMEs. The following is therefore recommended by the researcher: The government should reduce its lending rates to attract more women clients and avoid credit risks amongst women borrowers. The government should collaborate with private agencies to come up with SME training programs to enhance management skills amongst women entrepreneurs. For realization of vision 2030, the stake holders should incorporate women entrepreneurs to enhance balanced economic growth.

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