MAKING KENYA'S CREDIT GUARANTEE SCHEME WORK FOR WOMEN'S ENTERPRISES

Policy Brief
Submitted to The National Treasury
By University of Nairobi Women's Economic Empowerment Hub

Thought-leader in cutting edge research for WEE

MOTTO:

Promoting women's economic empowerment through African women centered research, policy change and collaboration with women's organisations, policy makers and other stakeholders

EXECUTIVE SUMMARY

This policy brief is based on research work: *'Assessing what works for Women's Economic Empowerment (WEE) in the implementation of Kenya's Credit Guarantee Scheme',* which evaluated implementation of the Credit Guarantee Scheme (CGS). The research was undertaken by the University of Nairobi Women's Economic Empowerment (UON WEE) Hub in collaboration with the Kenya National Bureau of Statistics and the National Treasury. The study aimed at monitoring the extent to which the implementation of the CGS has been gender-inclusive. Both quantitative and qualitative data was collected from Micro Small and Medium Enterprises (MSMEs) in Kajiado, Kirinyaga, Kitui, Nairobi, and, Nakuru counties.

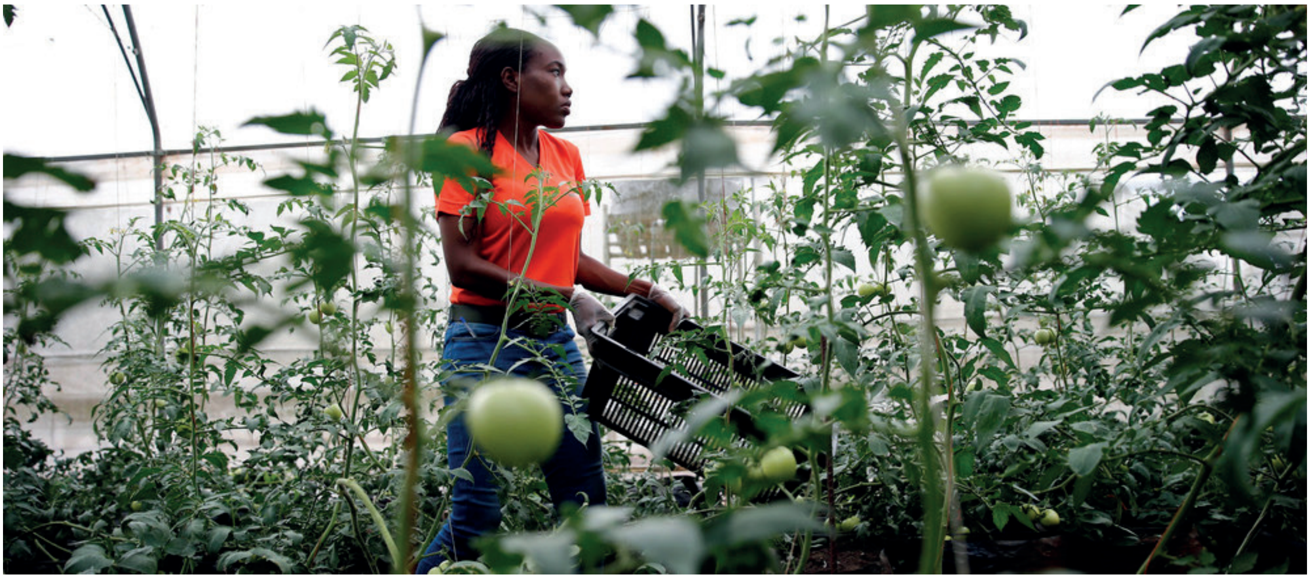
The findings from this study are expected to serve as input towards improved reporting and dialogue on women's economic empowerment and support evidence-based policymaking on the implementation of Kenya's CGS facility. The study finds that the CGS currently targets formal enterprises; more male-owned than female-owned enterprises surveyed had applied for credit; generally male- owned enterprises are likely to access higher levels of credit than female -owned enterprises; and; female - owned formal enterprises are likely to access high credits levels that female -owned informal enterprises. A key recommendation is therefore to support women's enterprises to transition from informality to formality through training and other measures such as business incubation so as to enable them to access higher levels of credit.

The UON WEE Hub Management under the Leadership of the Prof. Wanjiku Kabira (the hub Leader) and Dr. Mary Mbithi (Director research) is pleased to share the key findings of this study with you. The research was undertaken by: Agnes Meroka-Mutua, Dalmas Ochieng' Omia, Sila Muthoka, and, Deborah Muricho. The UON WEE Hub work is financially supported by the Bill & Melinda Gates Foundation.

1. INTRODUCTION

The study used a mixed-method approach to assess the level of access to credit by women-owned enterprises in Kajiado, Kirinyaga, Kitui, Nairobi, and, Nakuru counties. It explored the determinants of women's access to credit, the uptake of CGS among women-run enterprises, and challenges and opportunities in the operationalization of CGS. The study involved a quantitative survey with MSME as well as key informant interviews with the CGS implementing banks and local leaders at various levels; focus group discussions with women and men entrepreneurs; and; case narratives with women entrepreneurs. Both quantitative and qualitative data collection tools were used to gather information from women and men MSMEs owned enterprises.

The motivation for the study is that Kenya has no previous studies that have comprehensively analyzed what works for Women's Economic Empowerment (WEE) in the implementation of CGS. It is also motivated by the fact that MSMEs are the principal engine in accelerating Kenya's economic development, employment creation while also contributing to over 33.8 percent of Kenya's GDP (KNBS, 2016). Further, KNBS (2016) estimates that more than 7.4 million MSMEs in the country provide employment to approximately 14.9 million Kenyans in various sectors, with about 50% of the licensed and 68% of the unlicensed being owned sorely or in partnership by women. With the adverse impact of the COVID-19 Pandemic, coupled with pre-existing barriers, MSMEs have increasingly faced challenges in accessing credit necessary to sustain their operations due inadequate collateral, information asymmetry, and limited best practices in information



management, which make them unattractive to lenders. Indeed, according to the Central Bank of Kenya (2021), less than 30% of MSMEs rely on bank-sourced finance for working capital. Furthermore, the adoption of Sustainable Development Goals (SDGs) by Kenya and other countries bolsters the need for statistics on Women's Economic Empowerment (WEE) in response to SDG Goal number 5.

In addition to the general challenges that MSMEs face, women-owned MSMEs are further disproportionately impacted by gender, social and cultural norms. Women-owned businesses are smaller in size, enjoy lower profits and lower take-home pay in comparison to men's enterprises (International Finance Corporation, 2011). Further, COVID-19 pandemic has had significant gender impacts, such as increased cases of gender Based Violence (GBV) and the merging of the private and public spheres thus increasing the burden of unpaid care and domestic work which exacerbate challenges that women-owned MSMEs usually face (Mbote and Meroka-Mutua 2020). The CGS therefore, as a part of the Presidential economic stimulus package to alleviate the impact of the COVID-19 pandemic on MSMEs is a timely and crucial tool to aid MSMEs in accessing credit facilities for their business needs. Understanding the extent to which women-owned MSMEs are accessing and benefitting from credit generally and from the CGS in particular, as well as documenting their experiences and behaviour in credit markets, will inform policy initiatives on how best to help women-owned enterprises access guaranteed credit.

2. KEY FINDINGS AND POLICY IMPLICATIONS

2.1 Characteristics of the respondents

The sample size for the survey, comprised a total of 813 MSME establishments, with 478 (about 41%) being males and 335 (59%) being females. Out of these, 51% of the female and 49% of the male were aged between 35 and 49 years. Over 90% of the men and women interviewed had secondary education and above. The majority of the women interviewed hailed from Kajiado, Nairobi, and Kitui counties (about 28%, 24%, and 21% respectively). Their male counterparts had 31%, 21%, and 18% from Kajiado, Nairobi, and Kitui counties respectively. In terms of sectors, 41% of the respondents interviewed were from the service sector while about 40% were from the retail sector.

2.2 Gender differences in business characteristics

About 90% of both male and female-owned businesses had been registered and had operating licenses. Most businesses, both male (42%) and female-owned (43%) had been in operation for between 6-10 years. Over 70% of both male and female-owned enterprises had less than 10 employees. The following differences were observed between female and male -owned businesses.

i) About 78% of the female-owned businesses had KRA pins as compared to 83% of the male-owned enterprises.
ii) The female-owned enterprises with operational bank accounts were 74% while their male counterparts were 80%.
iii) 34 percent of female-owned businesses were operating without business plans as compared to 27 percent of male owned businesses thus constricting their attractiveness to lenders and other investors.
iv) 40 percent of male-owned and 36% of the female-owned had been in business for over 10 years.

In conclusion, male-owned enterprises were more likely to have KRA PIN, have a bank account, and keep business records compared to female-owned enterprises. Also, there is consistently more formal male-owned enterprises than formal female-owned enterprises in all five counties. The challenge here is how to increase the number of formal female-owned enterprises in the economy.

2.3 Loan applications

The respondents were asked whether or not they had applied for loans in the last six (6) months period. The findings reveal that:

i) CGS currently targets formal enterprises
ii) Out of 841 businesses, 166 (about 20%) had applied for credit in the last 6 months
iii) For formal enterprises, more male-owned enterprises (76%) had applied for credit as compared to women-owned enterprises (71%)
iv) About 74% (123 businesses) of the applicants had had their loans approved
v) 6 percent (10 businesses) of the approved loans received a lower amount than that applied for
vi) Loan application by females is more likely not to be approved as compared to loan application by males (18% versus 10%).

The turnaround time was therefore the most important parameter for both male and female business owners in their choice of a credit provider.

Concerning loan applications, women specifically said the following:

"I have been at my shop for five months and I have not borrowed any loan because of fear of the interest attached, I am very new to the business. I use my savings." Female Start Ups FGD, Kajiado.

"I take loan through chama, I have never taken one from the bank, I take through women chamas." Case Narrative, Nairobi.

2.4 Determinants of access to credit

The most important factors considered while choosing credit providers by both female and male entrepreneurs are:

i) Fast turnaround time identified by 47% of female and 40% of male respondents, respectively,
ii) Favourable interest rates identified by 20% and 32% of female and male respondents respectively, and,
iii) Low collateral requirement identified by 19% and 14% of female and male respondents respectively.

The turnaround time was therefore the most important parameter for both male and female business owners in their choice of a credit provider. This is because a fast turnaround time enables the borrowers to get their loans in real-time and therefore expedite their business activities. If the CGS were to secure one or more of the three considerations for beneficiary MSMEs, it is likely that the overall impact would increase for female-owned as well as male-owned enterprises. Regarding interest rates, women said the following:

> *"Loans from banks help, but the interest is high so when you make your profit, 50% or 70% of it pays for the interest. So you are left with little profit of even 30%." KII, Kitui.*
>
> *"Table banking interest rate is low and the duration you are given is like four- or three months making*
> *repayment easier." Women's FGD, Kajiado.*

2.5 Credit seeking behavior

Regarding the type of lender by gender, the following were the findings:

i) 79 percent of the female applicants had their loans approved while 84% of the male applicants had theirs approved from the banks.
ii) About 92% of the total male applicants and 58% of the total female applicants had their loans approved by the SACCOs.

Banks and SACCOS, therefore, remain the main source of credit for both formal male and female-owned businesses. However, since only 7 banks are participating in the CGS and no SACCOs, this may be leaving out a considerable number of both male and female-owned enterprises. A major challenge for women-owned businesses is that some financial institutions may not be equipped to offer credit products that meet their unique needs, in addition to facing a number of constraints such as lack of collateral required to secure a loan such as a fixed asset in the form of a land title or property deed.

Informal women's enterprises still prefer table banking as their source of credit. They said the following:

> *"My observation is that when I take a loan from the Chama, it is easy to pay…If every month you are expected to pay 3,000/= while running your business you have that mindset that at the end of the month, I am expected to pay 3,000/=. So you have to plan or have that mindset in a month or every day if I can save 100/= at the end of the month I will have 3,000/=. So, I will not stress and it will be easy to pay." Women's FGD, Nakuru.*

2.6 Levels of credit accessed

The following observations were made:

i) About 64% of the successful applicants (comprising 58% of the females and 67% of the males) received Kshs. 500,000 or less,
ii) 14 percent (composed of 22% females and 10% males) received between Kshs. 500,001 and 1 million,
iii) 11 percent (9% female and 13% males) were granted between Kenya shillings one and three million loans, and,
iv) 11 percent (composed of 11% female and 10% males) received between three and five million.

Therefore, the majority of male-owned enterprises received a loan Kshs. 500,000 or less while most of the female-owned enterprises received a loan of between Kshs. 500,001 and 1 million. This implies most of the applicants from male-owned enterprises succeeded in getting a loan of Kshs. 500,000 or less while most of the female-owned enterprise's applicants were successful in getting a loan of between Kshs. 500,000 to Kshs. 1 million.

Discussions with key informants however indicated that male owned enterprises had higher levels of credit uptake compared to female-owned enterprises, implying that women-owned enterprises received lower credit amounts than what their businesses required. For instance, the lending banks indicated as follows:

> *"Credit sizes are between 100,000 to 1.5 for the women. For men mostly, one million to three million." KII, bank.*

And, regarding levels of credit, women said the following:

> *"I'll say men take higher amounts of loans. Women start from low levels as they grow. But men come when maybe they have some security and a project they want to complete so they take a loan and give security so they can complete their project. But women will start small and we grow with them." KII, Nairobi.*

> *"With banks, even though you are not always successful when you apply for a loan, but at least you can be hopeful that if you succeed, you will get the amount you want or close to that amount. But for the chama, you can only get smaller amounts and sometimes it might not be sufficient to do what you want." Women's FGD, Kitui*

2.6 The purpose and use of the credit

The following were the observations:

i) About 33 percent of both male and female credit applicants did so for business recovery to cushion them against the suffering effects of COVID-19

ii) 24 percent of the females and 21% of the males borrowed for business expansion for opening other branches

iii) 30 percent of women and 32% of men borrowed to increase their stock of goods

iv) With regards to the use of credit, 30% of the women who borrowed used it for the purpose it was intended for, compared to 35% of the men

v) 75 percent of the women diverted the credit to pay school fees while 66% of the men diverted the loans to pay rent.

Regarding the purpose of credit, women said the following:

> *"Sometimes loans have no benefit, because you may take a loan with the intention of expanding your business but you find you have emergencies and you end up using all the money you borrowed on those urgent needs. The other needs outweigh the need for business expansion." Women's FGD, Kitui.*

2.7 Loan repayment

About 88% of both males and females had already started making repayments on their credit facilities. As observed in the qualitative interview, many business owners are increasingly becoming aware of the need to build a good credit history through prompt repayment of their credit facilities.

"I would want to borrow large sums of money. But let me tell you, if you want to be okay, just go slowly so that you don't end up worse off. Loans can make businesses collapse..."

This will make their subsequent credit applications easier and even increase their loan limits. However:

i) 33 percent of female-owned and 41% for male-owned businesses were not able to make their loan repayments with ease. This could be mainly attributed to the negative effects of the Covid -19 pandemic that occasioned travel restrictions and hence disrupted the markets, supply, and demand. The economic effect of COVID -19 also resulted in the loss of jobs.

ii) 23 percent of the respondents had unpaid loans with slightly a larger proportion of them (about 24%) being male entrepreneurs while female entrepreneurs accounted for about 23% of the defaulters. Outstanding financial obligations such as unpaid loans exert added pressure on cash flows and have the potential to reduce access to credit by the enterprises.

Women generally find it easier to repay smaller amounts of loans as attested in the following response:

> *"I would want to borrow large sums of money. But let me tell you, if you want to be okay, just go slowly so that you don't end up worse off. Loans can make businesses collapse, and that's what we were taught. Someone might be able to borrow 200,000 and repay, and I can't go for that same amount myself because my ability is different. So I go step by step. I started at 15,000, and increased to 25,000. Then we were told that if you cannot repay 25,000 then just remain at 15,000. So you start slowly, you move from 15,000 to 25,000 and* to 40,000. And I like moving slowly like that."
> Case Narrative, Nakuru.

2.8 Business capacity development

The following were the findings regarding business capacity development:

i) About 80% of the business owners (80% male-owned and 80% female-owned) had not received information about business training

ii) Of the 20% who had received the information, 73% (74% for female-owned and 72% for male-owned) attended the training

iii) Most of the training sessions were facilitated by government institutions

iv) All the respondents found the training to be useful

v) 64 percent (77% for female and 55% for male) of those attending the training shared the information with others.

2.9 Gender differences among informal enterprises

In the context of informality, the study found that there are significant gender differences between male and female - owned informal enterprises:

i) Female-owned informal enterprises are more likely to borrow as compared to male-owned enterprises. This is because, in the informal sector, loans are more accessible to groups and chamas, and while women are likely to form such groups, men are not.

ii) When male-owned informal enterprises borrow, they are likely to access higher levels of credit, because they prefer to access credit through banks and SACCOS, thus mirroring the formally owned enterprises.

It is therefore concluded that were the CGS to expand its coverage to reach more informal enterprises, more women-owned enterprises would benefit from this facility.

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3. CONCLUSION AND POLICY RECOMMENDATIONS

3.1 Conclusion

Based on findings of this study, it is concluded that:

i) Formal female-owned enterprises have better access to credit than their informal counterparts. They are able to access credit from banks and SACCOs and also access higher levels of credit than informal ones.

ii) Formality is likely to even the playing field between male and female-owned enterprises and also to reduce gender gaps. It is likely that formal female-owned enterprises will be able to access the CGS in the same way as formal male-owned enterprises.

iii) Many women-owned enterprises are trapped in informality and access credit through informal channels such as women groups and table banking. This category should be considered for inclusion in the potential scope of the CGS while guarding against the possibility of on-boarding undue default risks.

3.2 Recommendations

For enhanced access to credit by women-owned businesses, Government should consider:

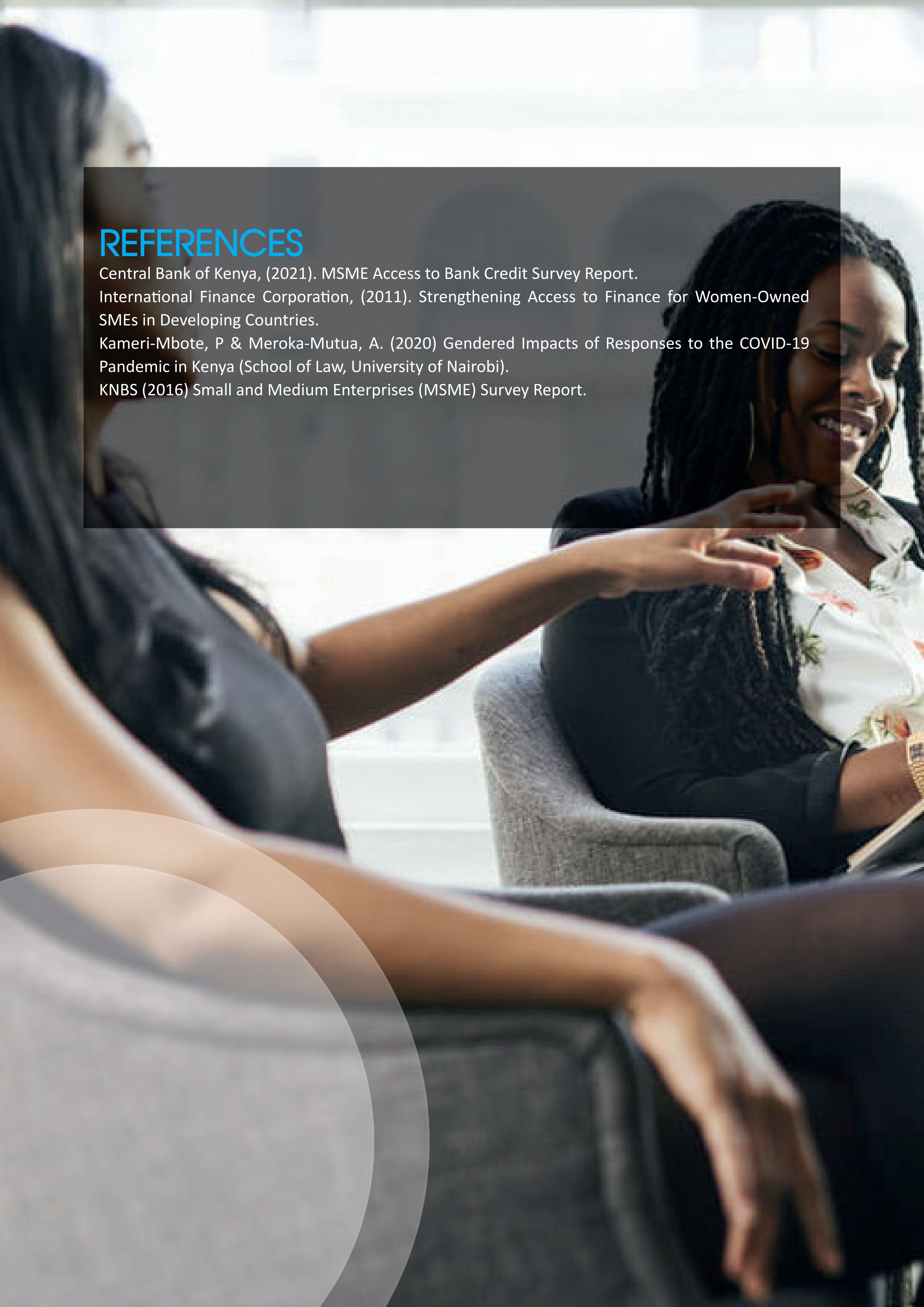
i) Supporting such enterprises to transition from informality to formality through training and other measures such as business incubation. The benefit of accessing the CGS and other credit facilities can be used as an impetus to encourage transitioning from informality to formality.

ii) Supporting women-owned informal enterprises to access higher levels of credit from formal lenders. This can be achieved by working collaboratively with formal financial institutions to develop mechanisms that:

    a) Provide flexible repayment terms to accommodate the needs of small businesses that have seasonal or uncertain cash flows. This may include quarterly repayments, longer grace periods, and loan rescheduling.

    b) Establish group lending products that target women-owned enterprises. This is because many women are in chamas that do table banking and merry-go-round but may have limited savings available for lending to members who need funds.

    c) Work with credit officers, who play a significant role in enhancing sustainable credit uptake. They offer both business skills and financial literacy training to listed potential borrowers, which in turn, affect the patterns of use of accessed credit and minimize potential defaults. Banks can make good use of their credit officers to enhance the business capacity of MSMEs before advancing them credit facilities.



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UNIVERSITY OF NAIROBI
AFRICAN WOMENS STUDIES AND RESEARCH CENTRE
WOMEN'S ECONOMIC EMPOWEREMENT HUB
P.O Box- 30197-00100 Tel: 0204918217
Email: weehub@uonbi.ac.ke Web: www.weehub.org