ANALYSIS OF ACCESS TO THE MICROFINANCE INSTITUTIONS LOANS BY FEMALE ENTREPRENEURS AND THE IMPACT ON THEIR BUSINESS IN THE NAIROBI CENTRAL BUSINESS DISTRICT

BY

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DECLARATION

This project report is my personal work and has not been presented for a degree in any other university.

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I dedicate this work to my dear husband Edwin Asante and ours daughters Yvette and Bernice for their love, support and encouragement during the study.

ABBREVIATIONS

NGO'S	Non Governmental Organsations
MSEs	Micro and Small Entreprises
MFI	Microfinance Institutions
AMFI	Association of Microfinance Institution
GDP	Gross Domestic Product
PRSP	Poverty Reduction Strategy Paper
ILO	International Labour Organization
NCCK	National Council of Churches of Kenya
KWFT	Kenya Women Finance Trust
SMEP	Small Enterprise Program
HFCK	Housing Finance Company of Kenya.
ROSCA	Rotating Savings And Credit Association
ASCRS	Accumulating Savings And Credit Association
DDP	District Development Plan
IEA	Institute of Economic Affairs
UN	United Nations

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ABSTRACT

This study sought to analyze the relationship between access to finance and business performance. The study also sought to identify the constraints faced by Kenyan women owned small businesses in accessing credit.

A survey approach was adopted in this study. The population of this study comprised of Women owned SMEs based in Nairobi Central Business District. The exact number of female small business owners is not exactly known, since some of them are in retail businesses that are not registered. A convenience sample of 300 women randomly selected of which 244 were interviewed. The collection of primary data was done by administering a semi- structured questionnaire. However, respondents were able to give answers to open ended questions. Questionnaires were administered to women owned SMEs using a drop and pick method. Data was analyzed using statistical software SPSS, to produce descriptive statistics such as percentages and frequencies, while the results were presented by using tables and charts.

The results show that, the businesses were able to hire more employees and increase turnover Therefore the study established that access to finance impacted on financial performance of smes. The study also found that the major constraints that businesswomen encounter in accessing MFIs loans are lengthy process, lack of collateral, lack of education, lack of information, culture barriers, and lack of government support. Other constraints were found to be high interest rates, inadequate business skills, market for their goods, lack of credit and technical constraints.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

In almost every part of the world, limited access to finance is considered a key constraint to private sector growth. This is especially true of smaller firms that have minimal influence on policy. Lending to the poor is difficult throughout the world, as attested by many projects that experience high default rates. This is due to high screening, monitoring and enforcement costs. Development policy makers have embraced group lending as a possible alternative for lenders to provide credit to the poor. Group lending typically links the fate of borrowers by stipulating that if one borrower within a group fails to repay her loan, the others in her group must repay it for her.

Microfinance promises to reduce poverty by employing profit-making banking practices in low-income communities. In this study we examine why the promise of poverty reduction remains unmet. We explore the issue of access to finance by SMEs and its impact on the performance of the small firms.

The empirical evidence shows a the possibility of MFIs earning profits while serving the poor, but a trade –off emerges between profitability and serving the poorest..

Running banks in low-income communities is not easy. One of the great accomplishment of the economics of information, after all, has been to show how information asymmetries undermine credit markets in places where potential customers have few assets to offer as collateral (Besley, 1995).

Microfinance providers though have specialized in making uncollateralised loans in low-income communities. Through innovative contracts and new microfinance management practices, institutions are generating high loan repayment rates in context as diverse as the slums of Dhaka, wa-torn Bosnia, and rural Senegal. In doing so, microfinance providers have forced economic theorists to re-think pessimistic views of the scope for improving credit markets. But microfinance would be a grand failure if securing high repayment rates was all there was to it. Meeting the full promise of microfinance to reduce poverty without on going subsidies requires translating high repayment rates into profits. This is challenge that remains for most microbanks. The overall equation linking capital and labour inputs into profits and social change still proves difficult to master.

Lack of access to credit is generally seen as one of the main reasons why many people in developing economies remain poor. Usually, the poor have no access to loans from the banking system, because they cannot put up acceptable collateral or because the costs for banks of screening and monitoring the activities of the poor, and enforcing their contracts are too high to make lending to this group profitable. Since the late 1970s, however, the poor in developing economies have increasingly gained access to small loans with the help of the so-called microfinance programs. Especially during the past ten years, theses programs have been introduced in many developing economies. Well-known examples are the Grameem Bank system of group lending established in 1976 by Mohammad Yunus, a Bengal banker and economics in particular, has been widely copied in other developing countries.

Between December 1997 and December 2005 the number of microfinance institutions increased from 618 to 3133.The number of people who received credit from these institutions rose from 13.5 million to 113.3 million(84% of them being women) during he same period (Daey-Harris,2006). In this context the study will seek establish the relationship between the growth of microfinance institutions activities to financial performance among its loans beneficiaries.

According to the United Nations (UN), in 2002 almost one fifth of the world population (i.e. 1.3 billion people) were living in extreme poverty, earning less than one dollar a day.

In recent public debates microfinance has been mentioned as an important instrument to combat extreme poverty. To support this view the UN declared 2005 to be the international year of Microfinance. According to the UN microfinance can contribute significantly to the achievement of the United Nations Millennium Development Goals, as agreed upon by world leaders at the Un millennium summit in September 2000, and which aim at halving extreme poverty by 2015. In October 2006, the attention for microfinance and its role in reducing poverty was further increased when Mohammad Yunus received the Nobel Prize. According to the Nobel Committee microfinance can help people to break out of poverty, which in turn is seen as an important prerequisite to establish long lasting peace (Norwegian Nobel Committee, 2006).

Next to the growing attention from policy makers, the academic world has also shown increased interest in microfinance, especially during the last ten or so years.

Several questions have been addressed in the literature. One major strand of literature focuses on explaining how and why microfinance works from a theoretical perspective. In this contest most models focus on explaining so-called joint liability group lending and its implications for reducing information asymmetries, the trade –off between the financial sustainability and outreach of microfinance programs. However, there are only a few empirical studies investigating how microfinance helped to reduce poverty levels among women.

During the last decade, when the Kenyan economy faced serious setbacks, the Micro and Small enterprises (MSEs) sector was the fastest growing one. According to Green. et al, (2002), employment growth in the small business sector has overtaken growth in the formal sector.

High levels of poverty combined with slow economic growth in the formal sector have forced a large part of the developing world's population into self-employment and informal activities.

Giving the poor and low-income earners access to financial institutions is the only way to transform the economy.

The structure of employment in Kenya today is such that majority of the jobs are created by the informal sector.

According to the E*conomic Review 2004*, out of the half a million jobs created in year 2003, ninety four percent were created by the informal sector (Esipisu, 2004).

Capital structure theory assumes that small businesses have equal access to finance as other firms and can effectively compete for it. However, it is well known that small businesses face numerous challenges in accessing finance. These businesses rely on different sources of finance than large firms (Van et al, 1996). They are not able to get credit from the mainstream-banking sector as they lack collateral (Read, 1998).

An understanding of the role played by Micro Finance Institutions (MFI) in addressing the financial needs of the small businesses in Kenya is important.

1.1.1 Micro Finance Institutions in Kenya

The Microfinance Institutions sector (MFI) in Kenya has grown since its inception in the 1970's and is one of the most established in Africa (Kashangaki et al, 1999). 2004). While the main focus of the MFIs has been poverty reduction, this has changed gradually to emphasis on financing entrepreneurs, as demands have increased to have these institutions become financially sustainable (Kashangaki ibid.).

As a result of this growth, regulation of MFIs has become much more necessary. Apart from providing a regulatory environment for them, it provides legitimacy. Kimanthi (1997) argues that the sector has attracted many 'get rich-quick quacks'. It was supposedly a welcome move when in January 2004, the government proposed a MFI charter as part of a policy to ensure that Kenyan MFI adhered to ethical practices.

The microfinance institutions have provided the largest volume of credit to the SMEs. The market for small loans in Kenya had remained unserved for a long time and therefore filled by the microfinance institutions (COETZEE et al, 2002).

The clients of MFIs are those individuals operating micro and small enterprises while the donors through loans provide capital, training and operational cost.

The methods for financing services involves initial testing with small groups thereafter combine credit and training with the focus on project design, outreach and staffing.

Christen (1997) suggests that, a successful MFI should have a clear vision; access to finance, demonstrate viability, quality performance, high quality products that can be sold to the banking community in a cost effective manner.

MFIs are said to have higher administration costs than formal commercial banks and hence charge higher interests on loan.

The provisions of financial services to the low-income households and micro and small enterprises (MSEs) provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation. Widespread experiences and research have shown their importance of savings and credit facilities for the poor and MSEs.

This puts emphasis on the sound development of microfinance institutions as vital ingredients for investment, employment and economic growth.

The potential of using institutional credit and other financial Services for poverty alleviation in Kenya is quite significant. About 18 million people, or 60% of the population, are poor and mostly out of the scope of formal banking services. According to the National Micro and Small Enterprise Baseline Survey of 1999, there are close to 1.3 million MSEs employing nearly 2.3 Million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP.

Despite the important contribution made by MFIs, only 10.4% of SMEs receive credit and other financial services. The formal banking sector in Kenya over the years has regarded the informal sector as risky and not commercially viable. According to the Poverty Reduction Strategy Paper (PRSP) of 1999, a large number of Kenyans derive their livelihood from the MSEs. Therefore, development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long-term. However, in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation. This means that it is difficult for the poor to climb out of poverty due to lack of finance for their productive activities. Therefore, new, innovative, and pro-poor modes of financing low-income households and MSEs based on sound operating principles need to be developed.

In the past, microfinance institutions (MFIs) established using either an NGO or a savings and credit co-operative societies framework have been important sources of credit for a large number of low income households and MSEs in the rural and urban areas of Kenya. The MFIs have, however, operated without an appropriate policy and legal framework. Much focus has been put on the achievements of the MFI in terms of provision, credit and other financial services to the poor and SMEs, but not much has been done to establish the impact of the small loans to the performance of SMEs.

The Government of Kenya recognizes that greater access to, and sustainable flow of financial services, particularly credit, to the low-income households, women, and MSEs is critical to poverty alleviation.

Formal Banks normally viewed SMEs as high in transaction coast as serving them involve administering small deposits and loan. They also view SMEs as risky ventures that do not have access to adequate collateral and credit references. The geographical spread of SMEs is vast and deeper into rural areas where formal banks do not operate.

In Kenya's case, managing microfinance Institutions in a larger scale was pioneered by the NGOs, which had penetrated deeper into the rural areas and highlighted the financial plight of the poor.

The Kenya Rural Enterprise Program in Africa's best Known example of commercial microfinance institution offering savings and credit services on commercial terms to economically active households and Enterprises that are too small to be served by large commercial banks.

1.1.2 Role of MFIs as Source of Funds

Giving the poor and low-income earners access to financial institutions is the only way to transform the economy. This has not been possible because commercial banks are far out of reach for them. Mr. Moses Banda, the Chief Manager of Credit and micro finance operations at K-Rep Bank, says that there are more than 1.3 million people in the country who own small scale business but who have no access to banks.

The microfinance institution which is an informal financial sector provides savings and credit facilities for small scale farmers in rural areas and for lower households and small scale enterprises in urban areas. They also mobilize rural savings and small savings from low income households.

The procedures of informal schemes are usually simple and straightforward as they emanate from local cultures and customs and they are also easily understood by the local population.

Access to credit is simple, non-bureaucratic and little based on written documents hence literacy is not a requisite for membership.

These informal sector microfinance institutions operate at times and on days, which are convenient for their members.

1.1.3 Challenges of Women in Accessing Funds

Accessing capital is difficult for many SME owners regardless of gender but women entrepreneurs seem to face more challenges than businessmen do. Read (1998) and ILO (1998) list the following as the challenges women business-owners face. Firstly, many women business owners come from low-paid employment backgrounds or were just dependent 'housewives' so they have neither savings of their own nor assets that can be provided as collateral. Secondly, married women may not own assets outright as these may be co-owned with the spouse for example the house, which may already have been given as security for another loan by the spouse.

Thirdly, banks may base financial track record on the continued uninterrupted work experience of the 'traditional male'. Due to family commitments a woman may lack this reliable financial track record, therefore their ability to repay the loan is doubted. Fourthly, household and domestic commitments, especially for single parents, are judged by lenders to reduce the success or survival of the business and hence their ability to pay the loan.

Fifthly, women entrepreneurs tend to specialize in service and retail businesses. Lenders, especially banks, prefer to lend to tangible assets like plant and equipment as opposed to service sector businesses as they lack tangible attachable assets in case of liquidation.

Sixthly, traditionally it was men who were involved in business. Consequently, many of the businesses owned by women are young businesses. Investors are reluctant to lend to start-up businesses, as they are perceived as risky. These young businesses have high start-up costs, suffer inexperience and lack a track record; they are therefore unattractive to the lenders.

Seventhly, due to unequal gender division of labour in unpaid productive activities at both the household and community level, female micro-entrepreneurs lack time to concentrate on their businesses.

Additionally, even though campaigns to give girls the same access to education as boys has borne some fruit, women still have lower levels of literacy and formal education. As a result, they lack skills to successfully run their enterprises.

Furthermore, cultural norms of gender hierarchy and separation have meant that women entrepreneurs lack access to labor. There are still men who would be intimidated to work under a woman employer. Women entrepreneurs also lack access to markets as a result of their exclusion from the most lucrative markets. They tend to concentrate in service businesses like hair salons and sale of foodstuffs.

The potential of micro and small enterprises is recognized in the ERS as a vehicle for job creation and wealth generation for majority of Kenyans who lack sufficient capital to venture into big businesses.

Majority of women lack venture capital and when these smes are developed, women would quickly create wealth hence a recipe for poverty reduction.

The contribution of small enterprises to GDP is always understated and difficult to estimate since the informal sector attracts almost everybody who has no formal employment or paid job attachment.

Role of women is thus essential in SMEs since wealth generation and job creation for majority of Kenyans will still remain a priority. Women must be empowered to start businesses.

1.2 Background to the Problem

1.2.1 The Role of Microfinance Institutions in Promoting SMEs

Findings by economists over the years show that small firms and entrepreneurship play a much more important role in economic growth than big established companies. As a consequence, many developing economies have come to realize the value of small businesses. They are found to be dynamic, innovative, efficient, and have faster decision-making processes due to their small size. Many governments and non-governmental organizations all over the world have realized the importance of this category of companies and have formulated public policies to encourage, support and fund the establishment of SMEs.

Development of small and medium enterprise are a proven solution for employment generation, a base for entrepreneurial activities and a reliable consumer of local raw materials and technology. The benefits of SMEs's to any economy are easily noticeable and include: contribution to the economy in terms of output of goods and services; creation of jobs at relatively low capital cost, provide a vehicle for reducing income disparities; develop a pool of skilled and semi-skilled workers as a basis for the future industrial expansion sectors of the economy; provide opportunities for developing and adapting appropriate technological approaches; and excellent breeding ground for entrepreneurial and managerial talent. The challenges that face SMEs in many developing countries, including Kenya are monumental. The most worrying among these challenges is funding. Most new small business enterprises are not attractive prospects for mainstream banks, with their rigid lending regulations. In Kenya, several lending schemes and microfinance institutions have been developed to address this key sector of the economy, but the solutions offered so far have been inadequate. Moreover some of these schemes do not address the smes that operate in the rural areas where the majority of Kenyans live. There is high external dependence for funding since most MFIs started as NGOs whose funding is from foreign donors and agencies. Since lending is to the lower level of society, default rates have proven to be extremely high in some instances. High default rate does not resonate well with the donors, hence creates more problems for women in sourcing for funds.

1.2.2 Women and Microfinance Institutions.

Disparities between men and women in basic rights, access to resources, and power to determine their own lives continue to exist in virtually all countries in the world. One known institution, which championed the financing of low-income groups, especially women, is the Grameen Bank in Bangladesh.

The Grameen Bank in Bangladesh is the brainchild of Dr Muhammad Yunus of Chittagong University who felt concern at the pittance earned by landless women after a long arduous day's work labouring for other people. He reasoned that if these women could work for themselves instead of working for others they could retain much of the surplus generated by their labor, enjoyed by others.

Established in 1976, the Grameen Bank (GB) has over 1000 branches (a branch covers 25-30 villages, around 240 groups and 1200 borrowers) in every province of Bangladesh, borrowing groups in 28,000 villages, 90% of borrowers being women. It has an annual growth rate of 20% in terms of its borrowers. The most important feature is the recovery rate of loans, which is as high as 98%. A still more interesting feature is the ingenious manner of advancing credit without any "collateral security".

The Grameen Bank lending system is simple but effective. To obtain loans, potential borrowers must form a group of five, gather once a week for loan repayment meetings, and learn the bond rules at the start of their weekly session. These rules incorporate a code of conduct that members are encouraged to follow in their daily life e.g. production of fruits and vegetables in kitchen gardens, investment for improvement of housing and education for children, use of latrines and safe drinking water for better health etc.

Groups in the same village are federated into a center. The organization of members in groups and centers serves a number of purposes. It gives individuals a measure of personal security and confidence to take risks and launch new initiatives.

The formation of groups is the first necessary step to receive credit. Loans are initially made to two individuals in the group, who are then under pressure from the rest of the members to repay in good time. If the borrowers default, the other members of the group may forfeit their chance of a loan. The loan repayment is in weekly installments spread over a year and simple interest of 20% is charged once at the year-end.

The groups perform as an institution to ensure mutual accountability. The individual borrowing member is kept in line by considerable pressure from other group members. Credibility of the entire group and future benefits in terms of new loans are in jeopardy if any one of the group members defaults on repayment. A survey on the Grammen Bank borrowers has shown that about 42% of the members had no income earning occupation (though some may have been unpaid family workers in household enterprises) at the time of application of the first loan. Thus, the Grameen Bank has helped to generate new jobs for a large proportion of the members. Only insignificant portion of the loans (6 per cent) was diverted for consumption and other household needs.

The Grameen Bank experience indicates the vital importance of credit as an entry point for up lifting the lives of the poor. It clearly shows that lack of collateral security should not stand in the way of providing credit to the poor. The poor can utilize loans and pay them if effective procedures for bank transactions with them can be established. The formation of groups with a small number of like minded rural poor has worked well, and group solidarity and peer pressure have substituted for collateral security.

1.2.3 Women in Informal Sector.

Women as micro and small entrepreneurs have increasingly become a key target group for micro-finance programs. Providing access to micro-finance is considered a precondition for poverty alleviation. As poor women are increasingly recognized to be better borrowers, they have become of interest also to regular financial institutions. But despite the proven positive impact of providing microfinance services to female entrepreneurs in the informal sector, there is little empirical evidence that MFIs loans have improved the livelihood of in Kenya.While the data about informal activities are somewhat unreliable, there is consensus that the informal sector is steadily growing in almost all developing countries, for example in Latin America, 8.4 of every ten new jobs created between 1990 and 1994 were in the informal sector; in Asia, the informal sector absorbs between 40 and 50 percent of the urban labour force, and in Africa, the urban informal sector currently employs some 60 percent of the urban labour force and will create more than 90 percent of all additional jobs in this region (ILO, 1997). The growing informalization of the economy has caused a rise in the number of women who work - participation rates of women in the informal sector are: e.g. 80 percent in Lima, Peru; 65 percent in Indonesia; 72 percent in Zambia, and 41 percent in the Republic of Korea (Lim, 1996).

While the slow, growth of formal sector employment opportunities, combined with a rapid and significant growth in the urban labour force, economic stabilization and restructuring programmes, and the quest for increased flexibility and deregulation of the economy have had detrimental effects on men and women alike, women have been increasingly pushed into informal activities. For example, the reduction in public sector jobs has affected women more than men, because of their concentration in temporary and lower level jobs. The decline in formal sector wages, has forced many women to turn to remunerated, most often informal work. Attitudes and cultural norms constitute other powerful barriers to women's entry into the (formal) labour market. The lack of access to informal and formal credit by women micro and small entrepreneurs has been identified by numerous studies *as* the major constraint. Recent ILO studies in the Philippines (59 percent), Bangladesh (76.4 percent) and Trinidad and Tobago place the lack of capital, especially in the start-up period, as the problem most often mentioned by women micro entrepreneurs.

With informal sources of finance being relatively easy to access, women rely on moneylenders and pawnbrokers, rotating savings and credit associations (ROSCAS), and friends, relatives, suppliers and shopkeepers. While these sources are providing the bulk of financial resources for female entrepreneurs and offer a number of potential advantages, such as proximity between borrower and lender, immediacy of loan disbursement, small loan size, flexible repayment schedules and minimal collateral requirements, they can be costly and discriminatory.

In Kenya gender bias deeply rooted in the cultural and traditional values has discriminated against women by denying them land, credit, inputs, agricultural extension and training. Furthermore, traditional division of labour overburdens women who have to spend time and energy on domestic chores such as fetching water, fuel and marketing. Similarly, the distribution of resources within the home exhibits pro-male bias. This limits women accessibility to fund. DDP Maragwa District (2002-08).

Other challenges and constraints, which face women in sourcing for funds, include lack of collaterals to access financial services. Limited educational backgrounds also worsen the problem for women as illiteracy complicates their understanding of the need to carry out viable small businesses.

Lack of a common yardstick to measure productivity also limits women in accessing funds. Compliance with international labour standards, law and codes and the high cost of complying with International labour standards is also prohibitive to a majority of Kenyan enterprises. Women entrepreneurs are normally affected by such prohibitions.

In Kenya the MFI's are not regulated under the Banking Act save for K-Rep Bank, which has embraced most of the formal banking practices.

Most of the other MFIs are not subjected to the continuous Central of Bank of Kenya supervisory activities as well as the prudential guidelines; they exhibit to greater extent informality in their operations. Indeed, it is the informality of the MFIs that has led Kenya Bankers Association to petition the government on several occasions to introduce legislation to regulate them so as to provide fairness to all institutions in the financial sector. This lack of fairness in the operations of MFIs frustrates women in sourcing for funds (Sunday Nation 30 may, 2004, p.20).

1.2.4 Role of MFIs in Providing for Funds.

Micro credit is a critical anti-poverty tool, a wise investment in human capital. When the poorest, especially women, receive credit, they become economic actors with power. Power to improve not only their own lives but, in a widening circle of impact, the lives of their families, their communities, and their nations." *(Kofi Annan, Secretary General).* Microfinance since the works of Mckison (1973) and Shaw (1973) in finance for development gained importance especially as a tool for development in developing countries. According to Lidgerwood (1999), Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term may also refer to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit, however some microfinance organizations also do provide insurance and payment services, It involves making financial resources available to the productive poor.

It must also be pointed out that for microfinance to perform a credible function as a poverty reduction and development tool, governance is of critical importance. Microfinance is in fact an old age practice, intended to reach out to all those who have not fully benefited through the development process. For such group, investments should be financed trough own savings, equity or credit.

Empirical evidence establishes that less than 15 percent or the population in developing countries has access to mainstream financial services. Aryeetey (1995)
Kenya a recent survey, Profile of Women's Socio-Economic Status in Kenya, done by the Institute of Economic Affairs (IEA) reveals that women, despite having better saving habits and operating majority of small enterprises they remain poor. This is despite many policy interventions to improve their standards. This survey reveals that women operate 54 per cent of all enterprises and more women tend to save compared to men.Poverty, however, is higher among women, with 50 per cent of them in rural and 46 per cent in urban areas being poor. IEA attributed their plight to poor enrolment of girls in secondary schools and higher institutions of learning.Poor participation in higher education leaves women in low paying jobs where they cannot move up the corporate ladder to decision making positions.

According to the report, women's enrolment in universities stood at 39 per cent in 2006.
The effects of low representation in education are evident in the labour market structure, where women are under-represented in most of the sectors.Other than limited access to education, the report attributes low participation of women in the labour market to their demanding domestic and reproductive roles.This locks them out of high level economic activities, leaving them to operate small enterprises, which are relatively flexible and allow them time for conflicting domestic roles.According IEA research ,although women operate 54 per cent of the total enterprises in the country, they dominate wholesale and retail, rural manufacturing and urban agriculture sectors while men are well represented in such sectors as urban manufacturing, financial services and transport..

Those operating small enterprises have difficulty accessing credit especially from mainstream financial institutions. The survey shows that although 49.9 per cent of those with access to credit are women, much of the advances came from micro-finance institutions and informal mechanisms. Women are still disadvantaged as most of the financial institutions are located in urban areas and do not assist them expand beyond the micro-level. Most of them also lack training in management, their business cannot benefit from international trade because they are mostly small and informal and also lack adequate network systems.

The purpose of study is to assess the state of outreach to women in the microfinance industry today and to take stock of recent innovations developed by practitioners to better serve this market segment. In addition to basic statistics on respondents' clients and portfolios, the research will ask questions about performance of their businesses after accessing the loans. The study will seek to highlight the current factors that hamper the growth of female owned smes despite an easy access to micro loans. This study also aims to find out whether the challenges generally faced by female entrepreneurs are relevant to the MFIs' female clients in Kenya and whether they bar their SMEs from getting credit from the MFIs.

1.3 Research Problem

In the past decade, microfinance has established itself as an integral part of financial sector policies of emerging developing countries. The core objective was to alleviate poverty through provision of small loans to the poor and most disadvantaged in the society. Many studies have been carried out focusing on the importance of microfinance as a targeted strategy for poverty alleviation. The current studies are mainly focused on topics such as effect of group lending on loan repayment rate, the trade off between MFIs profitability and serving the poor, MFIs accountantability among others .In Kenya there exist a knowledge gap on how the access to MFIs credit has alleviated poverty among women. As recent research has shown, 49.9 percent of those who access small loans are women, and they operate 54% percentage of the countries enterprises . In spite of these the study found that Kenyan women still live in poverty. This raises a question of how much Microfinance institutions that have been associated with helping empower the poor has achieved in raising their income and living standards? This study will seeks to explore and answer the questions of whether the access to microfinance loans over a period of time has generated into a better financial performance of the small business. It will also seek to know the constraints that some women entrepreneurs still face in accessing the MFIs loans, considering that group lending is supposed to compensate for lack of collateral by individual members of the group. Could group lending be a barrier to accessing MFIs credit?

1.4 Objectives of the Study

The specific objectives are to:

1. Analyze the relationship between access to finance and business performance.
2. Identify the constraints faced by Kenyan women owned small businesses in accessing credit.

1.5 Significance of the Study

1.5.1 Academics

Scholars/Academicians will find this study valuable for it's contribution in bridging the existing knowledge gap regarding the performance of SMES funded by FMIs. This study will help learn more about access of microfinance loans and its impact on small and medium business.

1.5.2 Financiers

It will help the government and other development partners such as World Bank, United Nations and other development agencies in establishing a benchmark on the achievement of microfinance institutions goals of alleviating poverty among the poor.

1.5.3 SME Owners

The study will help discover the abilities of women regarding the pursuit of entrepreneurial activities.

1.5.4 Government

It will be of great significance to the policy makers for this study reveals many gaps/limitations that may need to be filled by Microfinance sector stakeholders.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Small and Micro Enterprises (SMEs) in Kenya

It is a recognized fact that SMEs play a key role in the economic development of any country. The potential of this sector to create wealth and employment has been demonstrated in previous studies (Hussain et al, 2003 and Green et al, 2002). This informal sector has been growing steadily in almost all developing countries.

ILO (1998) states that in Latin America, 8.4 of every ten new jobs created between 1990 and 1994 were in the informal sector; in Asia, the informal sector absorbs between 40% and 50% of the urban labour force, and in Africa, the urban informal sector currently employs some 60% of the urban labour force and will create more than 90% of all additional jobs in the region.

With the ever-rising number of new entrants into the Kenya labor market including those being retrenched from formal employment, the importance of the informal sector cannot be underscored too heavily. Furthermore, given the almost non-existent employment in the public sector, rapid growth in urban labor force, economic stabilization, restructuring programmes, the effects of economic liberalization and the under-performing economy, the SMEs sector has provided the greatest opportunities for employment (AMFI, 2003 and ILO, 1998). While this has invariably affected both men and women, more and more women have been edged out into the informal sector. The jobs held by many women tend to be temporary or lower level posts, thus public sector retrenchment has affected them more than men. Cultural norms too tend to bar women from entry into the formal job market (ILO, ibid.).

The total number of people working in the sector was just over 4.624 million in year 2001 up from 4.15 million in year 2000, representing an increase of 11.4 percent.

Table1: Represents jobs in the informal sector by province (Figures are in thousands)

Province	1998	1999	2000	2001
Nairobi	801.4	896	998.9	1,114
Central	530.8	592.4	656.4	732.2
Nyanza	402.7	447	494.4	548.9
Western	239.3	267.8	297.8	333.8
Rift Valley	635.9	708	785.2	875.9
Eastern	316.3	350.8	386.8	428
Coast	410.6	458.6	511.4	569.6
North Eastern	16.5	18.2	19.9	22
Total	333.5	3,738.8	4,150.9	4,624.4
Of which:				
Urban	1,146.6	1,278.3	1,419.2	1,581.1
Rural	2,206.9	2,460.5	2,731.7	3,043.3

Source: AMFI 2003

However, despite the SMEs' innovative capabilities, many of them do not develop into medium-size enterprises (Kabecha, 1999). Difficulty in accessing finance both for start-up and growth has been cited as the major hindrance to small business growth (Gray et al, 1997).

The SME sector in Kenya is composed of self-employment outlets and dynamic enterprises involved in different activities. The majority of these are found in urban areas but they are also present in rural areas (Green et al, 2002). Among the key players in this sector are micro-businesses run by women, most often outside the market areas and by the roadside selling fruits, vegetables, drinks, sweets and cakes. They also include newspaper vendors, shopkeepers, taxis, and handcarts, artists - carving wood, weaving reeds, twisting metal or painting signs, hawkers, hairdressers and dressmakers, among others.

The numbers of persons involved in different activities in the SME sector, according to 2001 Economic Survey, are given in table 2.

Table 2: Represents the Number of People in SMEs in Each Sector of the Economy.

Activity/ Year	1998	1999	2000	2001
Manufacturing	779.9	861.8	934.2	1,029.8
Construction	109.5	125.9	133.2	139.5
Wholesale & Retail Trade, Hotels & Restaurants	1,924.4	2,145.6	2,405.2	2,691.4
Transport & Communications	95.9	106.8	120.6	135.5
Community, Social & Personal Services	291.7	329.1	369.5	418.2
Others	152.1	169.6	188.2	210
Total	3,353.5	3,738.8	4,150.9	4,624.4

Source: Economic survey 2001. Figures are in thousands

A majority of these small businesses are sole proprietorship with a third of them operating from their homes. Women own about fifty per cent of these businesses. A recent study showed that female owned businesses tended to be informal, start smaller, use less start up capital, grow slower, have limited access to credit and operate from semi-permanent structures and homes (Green et al, 2002).

2.2 Microfinance Institutions

When entrepreneurs start businesses, some of them have moderate goals but others have ambitions to grow into large firms in future. This objective can only be met if there are enough finances. (Hussain et al, 2003). Some researchers like Read (1998) argue that women entrepreneurs face more hurdles in raising capital for their businesses than their male counterparts. In this section we look at the sources of finance available to small businesses, both male - and female - owned and the challenges they face in raising capital

Microfinance has become an increasingly important tool for economic growth in developing countries as noted by Wydick (2002). Though most previous studies look at microfinance as a new concept, the poor have always had their own traditional financial systems that served them. According to Harper (1998) what are new are the evolved formal MFIs. These MFIs have greatly benefited from the informal traditional financial intermediaries serving the poor and they owe their origins to two long-standing institutions, the moneylenders and local savings groups. Nearly every community in the world has some form of regular savings mechanism. These may or may not have a credit element, but they have been seen as a poor man's/woman's substitute for formal banking (Harper, 1998).

Non Governmental Organizations (NGOs) have been the main innovators of formal micro finance and they continue to be the main players in this sector. National governments and donor agencies consider NGOs as the best placed institutions through which to deliver development. As a result, NGOs work in collaboration with governments and act as implementers of donor-funded programs (Harper, 1998).

The microfinancial services offered by the NGOs were initially seen as part of social outreach to the poor and were highly subsidized, with little concern about financial sustainability. However, the MFIs services have increasingly become commercialized and experience from other MFIs in Latin America and Asia have informed the MFIs in Africa (Kimanthi, 1997). Bancosol in Bolivia for instance is a good example of how an NGO can transform itself into a profitable financial institution. This case also confirms that profit-making and social development goals are not necessarily two ends of a continuum (Bhatt et al, 2001).Critics of profit-making MFIs argue that if NGO-based MFIs pursue profit-making, they may ignore the rural population, preferring to operate in urban areas. The argument is that the urban population provides low-risk clientele and low costs of operation while the rural population often lives in difficult conditions with poor infrastructure and dependence on rains for their sustenance (Bhatt et al, 2001). Microfinance is increasingly seen as a tool to promote sustainable economic activity at the grassroots. In Bangladesh where micro-credit began in the 1970s, many of the enterprises that started with micro-credit have helped generate 5% economic growth per year for the past decade (Engardio, 2003). Gulli (1998) argues that microfinance should be seen as provision of small-scale financial services to those traditionally kept outside the financial system, rather than the more narrow view of microfinance as services for the poor micro enterprise owners. The ultimate objective should be to make MFIs sustainable financially so that they can reach more people.

2.2.1 Microfinance Institutions in Kenya

Dondo (2000) traced the history of the MFIs in Kenya to the mid 1950s when the joint Loan Board Scheme was established to provide credit to indigenous Kenyans with the small trading business loans.

Mugwanga (1999) states that microfinance activities in Kenya started in the early 1970 after the 1972 ILO Seminar Report on employment and it was initially supported by the church based institutions like National Church Council of Kenya (NCCK) and other smaller church based NGOs. The programmes were ad-hoc and done as addition to other social outreach programmes. In 1980, other specialized organisational like the Kenya Rural Enterprise Fund (K-Rep) and the Kenya Women Finance Trust (KWFT) began operation and they were heavily subsidized and relied mainly on the donors for funds using integrated approach. In 1990, the minimalist approach was adopted by a number of MFIs and other activities like training were stopped or hived into separated programme. During this period, there emerged the Pride Kenya and Faulu Kenya. NCCK then established the small enterprise program (SMEP) then in March 1999, K-rep was the first MFI to convert to Commercial Bank (Dondo 2000)

2.3 Sources of Funds for SMES

The three main sources of funds for SMEs include:

Formal institutions – including rural banks and cooperatives, semiformal institutions - including non-governmental organizations and informal sources – including money lenders and shopkeepers. Institutional microfinance includes microfinance services provided by both formal and semiformal institutions. Microfinance institutions are institutions whose major business is the provision of microfinance services.

2.3.1 Formal Institutions - Rural Banks and Cooperatives

Hari (2006) states that, formal sector finance institutions could form a joint venture with informal sector institutions in which the former provide funds in the form of equity and the later extends savings and loan facilities to the urban poor. Another form of partnership can involve the formal sector institutions refinancing loans made by the informal sector lenders.

Under these settings, the informal sector institutions are able to tap additional resources as well as having an incentive to attain greater financial efficiency.

MFIs could also serve as intermediaries between borrowers and the formal financial sector and on-lend funds backed by a public sector guarantee (Phelps, 1995). Business-like NGOs can offer commercial banks ways of funding micro entrepreneurs at low cost and risk, for example, through leveraged bank-NGO-client credit lines. Under this arrangement, banks make one bulk loan to NGOs and the NGOs packages it into large number of small loans at market rates and recover them (Women World Banking, 1994). There are many on-going researches on this line but context specific research is needed to identify the most appropriate model.

Traditionally, the formal sector Banking Institutions in Kenya have been serving only the needs of the commercial sector and providing loans for middle and upper income groups.

Similarly, for housing the HFCK has generally not evolved a lending product to serve the needs of the poor primarily because of the perceived risks of lending to this sector. The risks that are generally perceived by the formal sector financial institutions include; credit risk, high transaction and service costs. As far as the formal financing institutions are concerned, there are commercial banks, housing finance institutions, rural development banks and cooperative banks among others.

2.3.2 Semi-formal Institutions

These are mainly non-government organizations. Organizations that are registered under non-financial legislation, for example; cooperatives, business or non-governmental organizations (NGOs) are sometime referred to as "semi-formal.

2.3.3 Informal Sources

Informal Financial markets are largely characterized with financial transactions and activities that are not regulated by the central bank. Unlike formal institutions, such transactions rarely use legal documentation or the legal system to enforce contracts. One category of informal agents specializes for either the credit or the savings side of the market e.g. ROSCA's savings groups. Another bases the financial transaction on personal or business relationships e.g. Money lenders (Aryeetey et al, 1996).

Dale (1992) found several informal sources of finance that are a reflection of Kenya and Africa as a whole.

1. Money Lenders

Money lenders are people that specialize in lending money to others. The loans are for short periods and most of them operate on small scale. They charge high interest rates but loans are given quickly and often include relatively low if any transactions on the borrower's part. They often invest heavily in screening and monitoring their clients, and may intervene to significantly shape their client's choice of business. (Dale, 1992).

Cunning and Dry (2005) quoted British colonial officer Sir Malcolm Darling's (1925) observation of the rural Moneylender of Punjab:" He is always accessible, even at night: dispenses without troublesome formalities, asks no inconvenient questions, advances promptly, and if interest is paid, does not press for repayment of principal. He keeps in close personal touch with his clients, and in many villages shares their occasions of wealth or woe. With his intimate knowledge of those around him, he is able, without risks, to finance those who would otherwise get no loan at all.

In their study of Rural financing of developing countries, they found that an important characteristic of this form of lending is that the loan contract often involves much less collateral than would a similar bank loan, and at times, no collateral other than farmers scope to divert resources or effort away from the financed project and toward other activities where the lender may not be able to establish clear claims. In Kenya, money lenders commonly known as 'Shylocks' operate almost like pawn brokers,

The unfortunate thing is that they prey on the desperation of their client's financial needs. They mostly lend money with electronic goods as collateral.
They charge high interest rates (as high as forty percent) and demand payment within a specific period, failure of which leads to collateral being sold. The collateral is valued accordingly at the lenders discretion and is normally below market rates. (The Daily Nation, 27th July 2007).
Franda (1979) in his defense of the moneylender, quotes a Rural Indian proverb that says that no village is complete without a moneylender, a medical practitioner, a teacher and a stream that does not dry up in summer, Observing dryly that the moneylender is mentioned first (Franda, 1979).Indeed Money lenders play a very important role in providing financing for SME's more so in the poverty stricken African continent.

2. Pawn Brokers

Pawn Brokers, as the name suggests, lend money by using marketable assets such as gold, jewellery, and household articles as collateral or security. Borrowers in need of money pawn an asset or article as security or pledge and receive a loan, which is lower in proportion to the value of the pawned article. A pawn ticket is issued to the borrower as a transaction record. On repayment of he loan plus interest, the pawned article is returned to the borrower. The pawn ticket usually records name and address of the pawnbroker and the pawner or borrower, loan amount and its terms and conditions, detailed description of the pawned article.
Pawn broking has been in place from ancient times with households holding their assets primarily in gold and jewelry-assets that can be transported easily in times of unrest and pawned in times of financial need. Thus pawn broking has its attractive points for the lender (the pawn broker) as well as the borrower.

3. Friends and Relatives

Friend and relatives as lenders and borrowers represent the simplest form of an informal credit transaction. An individual in need of finance approaches a friend, relative or neighbor and request for funds. The fact that both lender and borrower are well known to each other dispenses the need for most, if not all, transitional terms and conditions for transaction ensuring repayability or credit worthiness, fixed and predetermined repayment amounts and schedules, collateral and guarantees. Such lenders are of course, single individual who provide loans on a needed-based manner. Credit given by them is loosely transacted on one-to-one basis, without the involvement of any third parties. It is considered a favor made for a future reciprocation (Dale, 1992).

This form of credit comes with a lot of benefits for both the lenders and borrowers. Terms and conditions imposed on the borrower are few, if none at all, usually with no interest payments or regular repayment schedules and transaction records are not made. Despite all these benefits, it also has its downside as well. While loans from friends, relatives and neighbors imply an obligation, it is aligned along traditional community links and personal relationships. The supply of loans is irregular and not always available. That is only when surplus are available with the individual or only when requested by a close friend/relative/neighbour, is the loan made (Srinivas,1996)

4. Saving Groups

In Africa, the most significant of all informal credit market initiatives is that of a community organizing itself into a group and generating finance at the community level. Srinivas, (1996) further this by argues that there is a wide range of such initiatives ranging from, for example, a small informal group of women who help each other in times of financial needs, to that of registered community level societies that offer savings and credit services to its members, and are linked with external groups such as NGOs and commercial banks. This is evident from the conversion of many community groups into microfinance institutions. Examples in Kenya include Faulu Kenya, Equity Bank that has even matured into al listed firm on the Nairobi Stock exchange, K-REP Bank limited among many others. The significance of such community financial activity has to be understood from the larger perspective of solidarity and community development of low –income groups being able to help each other of resource generated by the group and for the group of community organization leadership identification and training, education and skill development and other related issues (Srinivas, 1996).

Of particular importance is the involvement of the whole community in collective decision and making in matters that directly affect them. The group provides an opportunity for its members to save, however small an amount, and in intervals suited to them: daily, weekly or monthly. Returns on such saved amounts are sometimes better than those available from other formal institutions. Savings in some cases is compulsory, where loans are given as a multiple of the saved amount, encouraging thrift among members. Small loans for short periods are available on terms and conditions that are acceptable by the borrowers (which are also decided by them).

The terms and conditions of such loans are usually flexible, allowing for unforeseen delays in repayment.

The process of decision-making within the groups is democratic and is arrived at by consensus and agreement. This means that all benefits from any activity are equally shared by all members. Leaders of such groups are usually identified through a process of extensive community participation and meetings. The decisions and smooth functioning of all activities are carried out by leaders and community volunteers who are, in many cases, trained by NGOs and other external agencies. This increases the efficiency and yield of such activities.

Bringing the community together for savings and credit activity also increases the process of community networking and sharing of resources. Rackely (2005) in her article gives a perfect example of the functioning of savings groups from Maradi in Niger. Women's savings groups are shielding the whole communities from the full onslaught of the food crisis in Niger. Set up by Care, (an international NGO), the small savings and loan groups, effective community banking systems, are acting as a buffer against hunger because their members have been able to save money and grain collectively over the past few years.

Known as Mata Masu Dubara (MMD),"Women on the move" in the West African language Hausa, savings and loans groups are made up of women who commit to saving a fixed amount of money on a regular basis. Together, the group saves a pot of money from which they draw out loans to start small businesses, such as buying and selling sacks of grain, or chicken. Profit is then fed back into the group pot, which can again be used for larger loans for other business ventures, or where the need arises. Women in the savings and loans group have been better able to survive the food crisis than others, as they share their stocks of grain with each other, and have drawn on their financial savings.

Around 172,000 women across Niger are members of CDARE's MMD groups, which generate around $5.4 million each year.

5. ROSCAs

Bouman (1994) introduced the acronyms ROSCA (Rotating Savings and Credit Association) and ASCRS (Accumulating Savings and Credit Association).

These acronyms encompass the organizational set up of financial mutual locally known as "Merry go round". Rotating Savings and Credit Associations (ROSCA's) are a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cyclical contribution to a common fund, which is then given as a lump sum to one member in each cycle.

For example, a group of 10 persons may contribute Ksh 200 per month for 12 months. The Ksh 1,200 collected each month is given to one member. Thus, a member will lend money to other members through his regular/further monthly contributions. After having received the lump sum amount when it is his turn (i.e. borrow from the group), he then pays back the amount when in regular /further monthly contributions. This explains the name rotating savings and credit associations for such groups (Srinivas, 1996). Depending on the cycle in which a member receives his/her lump-sum, members alternate between being lenders and borrowers. That is, there is a mutual give-and-take involved in ROSCA's. Members participating in a ROSCA are selected by organizer based on ethnic lines, working groups, sex, marital status, geographical limitations same native language speaking persons etc. The amount to be contributed in each cycle is decided based on the number of participating members, the total winning amount that each member can get, and other socio-economic factors. Contributions can also be in form of shares' thus allowing a member to have more than one share or contribution in a particular cycle, increasing his chances of winning the lump sum, but also increasing the regular contribution he has to make (Srinivas, 1996).The frequency with which contributions has to be made in each cycle can daily, weekly, biweekly, monthly and half yearly, depending on the amount to be contributed. Usually, the smaller the amount, the shorter the cycle. The basis of deciding the winner of the lump sum is decided in any one of the following ways:

By consensus, where by common agreement members, the amount is usually given to a member who is in most need for finance.

By lots, where a lottery determines who gets the lump sum in a particular cycle. Members who have received the lump sum do not participate in subsequent lotteries, but continue to make their contributions. ROSCAs can be seen in almost every society around the world, and have been in existence for a considerable period of time. They are flexible and adapt themselves easily to rural and urban peculiarities as well as existing community patterns of grouping/organizing. This flexibility is one reason for their worldwide popularity.

In practice, however, ROSCAS have severe weaknesses. Schreiner (1999) argues that like other informal financial intermediaries, ROSCA's cannot make big, long-term loans ake big, long-term deposits; intermediate between strangers ;or diversify risk well .The informal keeps them beyond the influence of intervention

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6. Merchants

These businessmen give loans that are linked to the sale or purchase of their goods. The loans have no explicit interest and the lender adjusts the prices of goods to compensate for the loans. (Dale, 1992)

2.4 Challenges Faced by Women Entrepreneurs

Studies have shown a distinct bias toward reaching women in poor households. Most included social mobilization components to enhance women's capacity to access financial services delivered through project-supported mechanisms. More recent micro finance projects, such as the Rural Micro Finance Project in Nepal, have been designed to encourage greater participation of the private sector in micro finance. There are considerable differences in women and men's access to opportunities to exert power over economic structures in their societies. In most part of the world women are virtually absent or are poorly represented in economic decision-making including formulation of financial, monetary, commercial and other economic policies.

Consequently, the extent of equality between them at the individual and family level as well as in society as a whole. This has had far reaching implications on the economic status of countries especially the developing countries.

Many women have entered the informal sector owing to the lack of other opportunities. In most cases women's contributions and concerns remain too often ignored in economic structures such as financial markets and institutions, trade systems, labour markets, economics as an academic discipline, economic and social infrastructure as well as in families and households.

Although many women have advanced in economic structures, for the majority women, particularly those who face additional barriers, continuing obstacles have hindered their ability to achieve the economic autonomy and to ensure sustainable livelihoods for themselves and their dependents.

2.5 Role of Microfinance Institutions

Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their microenterprises, enhance their income earning capacity, and enjoy an improved quality of life (Journal of International Development. Special Issue. 1996

Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, microfinance helps to promote economic growth and development. Without permanent access to institutional micro finance, most poor households continue to rely on meager self-finance or informal sources of micro finance, which limits their ability to actively participate in and benefit from the development opportunities.

Micro finance can provide an effective way to assist and empower poor women, who make up a significant proportion of the poor and suffer disproportionately from poverty. Micro finance can contribute to the development of the overall financial system through integration of financial markets.

2.5.1 Issues and Challenges Facing MFIs

Previous research identifies some of the challenges faced by MFIs. First is dropout among clients. Reasons for dropouts differ depending on circumstances, but include inability to comply with programme requirements, illness or migration, inability to repay the loan, disagreements with other group members or programme staff. Other reasons for exit are business failure, loan diversion, absenteeism from group meetings and fraud, among others (Kashangaki et al, 1999).

Client dropout puts pressure on the MFI credit staff to recruit additional clients to meet the required client numbers at the branches. Consequently, the quality of clients is sacrificed for numbers and this affects group cohesion as well as the operations of the programme.

Secondly, poor management among some MFIs, especially new entrants with inexperienced staff, may lead to failure of the organization to pick up. Next is the problem of balancing sustainability and profitability in a culture where MFIs are seen as tools for poverty reduction. A sustainable institution should earn enough profits to cover costs and finance its own growth (Harper, 1998). The question is what should be the focus of MFIs to build up social capital or financial efficiency? Can it be said that sustainability is at the center of the sector's problems? (Nilekani, 2003). Furthermore, over-reliance on donor funds casts doubt on the survival of some of the MFIs as donor support continues to dwindle. Some donors may object to their donations being used as loans instead of gifts to the poor, especially at the perceived high interest rates MFIs charge. At the same time, clients who are used to receiving handouts may not understand why they now have to pay back money given (Bhatt et al, 2001).

The MFIs' success is largely dependent on borrowers investing in profitable businesses (Harper, 1998); yet not all businesses succeed – many are too small and not well enough managed to survive and stand on their feet. Giving and following up small loans consumes a lot of time, labour and money so even if there are high repayment rates, few MFIs make money from the business (Engardio, 2003).

It is recommended that a programme's success should be judged using two performance indicators, namely, institutional outreach and financial sustainability as opposed to the impact of credit on performance of the borrowers' enterprises. In this approach, outreach is measured in terms of the number of people served, types of financial instruments used, the average size of loans disbursed and the gender distribution of the portfolio of clients. A programme is judged to reach the poor, and hence be successful, if more small loans are given and more women clients served (Bhatt et al, 2001). According to Harper (1998), an ideal MFI is one that is able to start and develop a service and carry it on for as long as it is required.

The other challenge facing MFIs, according to Bhatt et al (2001), is where there is conflict of incentives facing donors, owners/donors, program staff and borrowers. For instance, donors may insist on higher volumes of loans and larger outreach, this may put pressure on staff to lend without proper screening of borrowers. Consequently, there will be low recruitment of new members, additional loans to existing clients, focus on the richer clients and abandonment of the poorer clients. Since clients are persuaded to take in more debt, they may discover later that they cannot keep up with the repayments, thus increasing default rates.There are instances when members of client groups have different incentives and probably prefer to access credit as individuals other than through a group. Forcing them to join groups, as most MFIs do, creates conflicts and has negative impact on the program (Bhatt ibid).It has been said that the poor are concerned more with accessibility and convenience of accessing financial services than they are with low interest rates for such services (Harper, 1998 and Bhatt et al, 2001). However, if high transaction costs are imposed on clients, they become uncooperative and this adversely affects the operations of the program.

2.6 Challenges of Small and Medium Enterprises as Clients of MFIs

2.6.1 Non-financial Factors

Studies demonstrate that lack of credit is an important factor but small businesses face a host of other challenges.

The small businesses in Kenya lack adequate government support, for instance in form of tax incentives. As a result of paying high taxes, the costs of operations increases and profits are minimal. The registration process does not favour them as it is often both long and tedious; prospective entrepreneurs give up or simply operate illegally. (Bindra, 2004)

Many small business people, like hawkers, have no permanent establishment from which to run their businesses. They have no legal claim on their own assets, as some have no title deeds for their land. Consequently, they have nothing to offer as collateral for additional capital for growth.

It has also been argued that most micro-entrepreneurs lack an aggressive marketing strategy for their products. Most often Kenyan entrepreneurs copy one another and produce goods that are a replica of others in the industry. As a result the market is flooded and competition is stiff. There is also no market for buying and selling existing micro-enterprises in Kenya. Therefore if an entrepreneur wanted to exit the market they would not have a buyer for their business (Gray, 1997). At the same time, if someone gets a loan for a micro-enterprise and the business subsequently fails because the market is flooded, they not only loose their livelihood but also have to struggle to repay the loan (Harper, 1998).

Lack of entry barriers in the informal sector is another non-financial challenge affecting the development of SMEs. It creates excessive competition that in a way leads to failure of the less efficient and poorly managed SMEs. However, in other industries, like construction and engineering, the high capital and skill requirement act as an entry barrier (Green et al, 2002).

Many of the business owners lack formal education or have minimal education (Bindra, 2004). A study by Daniels (1998) showed that education had a significant influence on an enterprise's profits. SMEs whose owners had completed upper primary schools and secondary school education made higher profits compared to those who had no education at all. Many of the entrepreneurs did not keep records and relied on memory, which became blurred with time. They need guidance on how to run their businesses and how to market their products and services to compete with others in the market. Most would benefit from understanding basic accounting practice. Many whose businesses are growing would benefit from knowledge of business planning and still others need to know how to manage a growing workforce (Bindra, ibid.)

Additionally, business seasonality, especially in the farming sector, has an effect on the performance of the SMEs operating in the sector. For example, in times of bumper crop harvest business is low for the grain trader as over-supply means low prices and low demand. On the other hand, during low rains and droughts the prices are high and demand is high so the trader makes booming business (Kashangaki, 1999)

2.6.2 Financial Factors

A lot has been written about SMEs inability to access finance (Hussain et al 2003 and Read, 1998). Some of the reasons that have contributed to this include lack of collateral that is required by banks. Therefore, banks have not paid much attention to the poor entrepreneurs as they consider them as risky (Auken ibid.). Knowing this, the poor do not attempt to go to the banks for credit (Harper, 1998).

It has been said that the poor pay more dearly for credit than the rich. Banks charge high interest rates but MFIs charge even higher rates. For the poor micro-enterprise owners, borrowing from commercial banks or other formal institutions is generally not an option. The delays, administration obstacles and incidental costs discourage them. On the other hand MFIs have provided better access than the commercial banks (Harper, 1998). '*One of the golden rules of micro-finance is that access is more important to small borrowers than cost*' (Harper, ibid.).

In addition to high interest rates, there are additional costs involved in applying for loans in particular bank loans. Examples of these costs are legal costs and costs of revaluing property like land for collateral as required by the bank. This discourages SMEs owners from applying for small loans (Kashangaki et al, 1999). Previous studies have shown that even though banks generally charge lower interest rates than MFIs, the final costs of bank loans are higher than the high interest charged by MFIs (Harper 1998). A long payback period discourages SME owners from borrowing from external sources. The future is not certain and they are afraid that, if the business does not pull through, they will still be left paying up the loan or even lose personal property offered as security (Read, 1998).

2.6.3. Challenges Faced by Women in Accessing Loans

According to the UNCDF survey (2002), on Increasing Access and Benefits for Women among Microfinance Institutions women in their countries were seen primarily as housewives, despite the fact that they often worked outside the home. The African institutions put particular emphasis on the fact that, even though women provide 70 per cent of local agricultural labor, extremely limited decision making power in matters of property ownership or politics means that they rarely control the wealth they produce. One institution noted that a woman is rarely accepted as head of the household even though she may be fully financially responsible for the family. However, this institution also said that the perception of women as housewives only was breaking down in urban areas. Certain Middle Eastern institutions echoed this observation, reporting that while opportunities for work outside the home for poor or rural women were limited largely to informal trading, many more avenues – and role models of successful businesswomen – were available to educated, urban women. By contrast, women of all classes were much more likely to work outside the home according to institutions in Africa, Eastern Europe, and East Asia. In South Asia, although many institutions said that women were still seen primarily as housewives and enjoyed limited control over their income, respondents also reported signs of change. One Indian institution said that some of its older credit groups were now emerging as the first role models for female entrepreneurs in the area. An institution in Bangladesh highlighted the crucial role that women play in household management, noting that "Women are expected to be the household bank." Perhaps because of this role, another respondent from Bangladesh was able to report that women's access to loans had produced a positive change in gender relations among its client base, by obliging the men to depend on women for credit.

Accessing capital is difficult for many SME owners regardless of gender but women entrepreneurs seem to face more challenges than businessmen do. Read (1998) and ILO (1998) list the following as the challenges women business-owners face:
Many women business owners come from low-paid employment backgrounds or were just dependent 'housewives' so they have neither savings of their own nor assets that can be provided

as collateral. Secondly, married women may not own assets outright as these may be co-owned with the spouse for example the house, which may already have been given as security for another loan by the spouse. Banks may base financial track record on the continued uninterrupted work experience of the 'traditional male'. Due to family commitments, a woman may lack this reliable financial track record, therefore their ability to repay the loan is doubted. Household and domestic commitments, especially for single parents, are judged by lenders to reduce the success or survival of the business and hence their ability to pay the loan. Women entrepreneurs tend to specialize in service and retail businesses. Lenders, especially banks, prefer to lend to tangible assets like plant and equipment as opposed to service sector businesses as they lack tangible attachable assets in case of liquidation. In addition, traditionally it was men who were involved in business. Consequently, many of the businesses owned by women are young businesses. Investors are reluctant to lend to start-up businesses, as they are perceived as risky. These young businesses have high start-up costs, suffer inexperience and lack a track record; they are therefore unattractive to the lenders.

Due to unequal gender division of labour in unpaid productive activities at both the household and community level, female micro-entrepreneurs lack time to concentrate on their businesses. Additionally, even though campaigns to give girls the same access to education as boys has borne some fruit, women still have lower levels of literacy and formal education. As a result they lack skills to successfully run their enterprises. Furthermore, cultural norms of gender hierarchy and separation have meant that women entrepreneurs lack access to labour.
Women entrepreneurs also lack access to markets as a result of their exclusion from the most lucrative markets. They tend to concentrate in service businesses like hair salons and sale of foodstuffs.

2.7 Summary

The literature review is focusing on access to the Micro microfinance loans in providing small loans to the poorest with focus on women. Lack of access to credit is generally seen as one of the main reasons why people in developing economies remain poor. Microfinance promises to reduce poverty by employing profit making banking in low income communities. According to the United Nations (UN), in 2002 almost one fifth of the world population was living in extreme poverty earning less than a dollar a day. In recent public debates microfinance has been mentioned as an important instrument to combat extreme poverty. It is widely believed that access to small loans by small business enterprise is anti-poverty tool that turns the poorest into economic actors. The Grameen Bank in Bangladesh system of group lending has been widely copied in developing countries. Many studies have pointed out the many challenges that limit poor women entrepreneurs from accessing loans, such as lack of education and information, lack of collateral and culture barriers among others. Apart from MFIs loans the literature elaborates on other sources of funds for SMEs. According to literature women are still disadvantaged and have problem accessing finances from main stream financial institutions. A recent survey by Institute of Economic Affairs in Kenya found that poverty is higher among women, with 46% being urban women despite the fact that they operate 54% of all the SMEs and save more compared to men. Apart from growing attention from policy makers, the academic world has also shown increased interest in microfinance, mostly focusing on explaining how and why microfinance works from a theoretical perspective. While existing literature provides evidence on financial performance of MFIs (Cull et al.2007), there is a knowledge gap that exists concerning the impact of MFIs loans on performance of female owned SMEs.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section outlines the research methodology, by giving a detailed analysis of the research design, population and sample, data collection methods and procedures, and the data analysis method to be adopted.

3.2. Research Design and Population

A survey approach was adopted in this study as this will allow contact with otherwise inaccessible participants and expand geographical coverage without increasing cost. The population of this study comprised of Women owned SMEs based in Nairobi Central Business District. The exact number of female small business owners is not exactly known, since some of them are in retail businesses that are not registered.

3.3. Sample and Data Collection

A convenience sample of 300 women randomly selected was interviewed.

The collection of primary data was done by administering a semi- structured questionnaire. However, respondents were able to give answers to open ended questions. Questionnaires were administered to women owned SMEs using a drop and pick method.

3.4 Data Analysis

Data was analyzed using statistical software SPSS, to produce descriptive statistics such as percentages and frequencies, while the results were presented by using tables and charts.

A multiple response analysis was also carried out and a cross-classification of the multiple response variates and other background variables to determine association between indicators of access to finance and business performance. The method of principal component analysis was used to determine the main factors limiting women owned enterprises performance.

CHAPTER FOUR

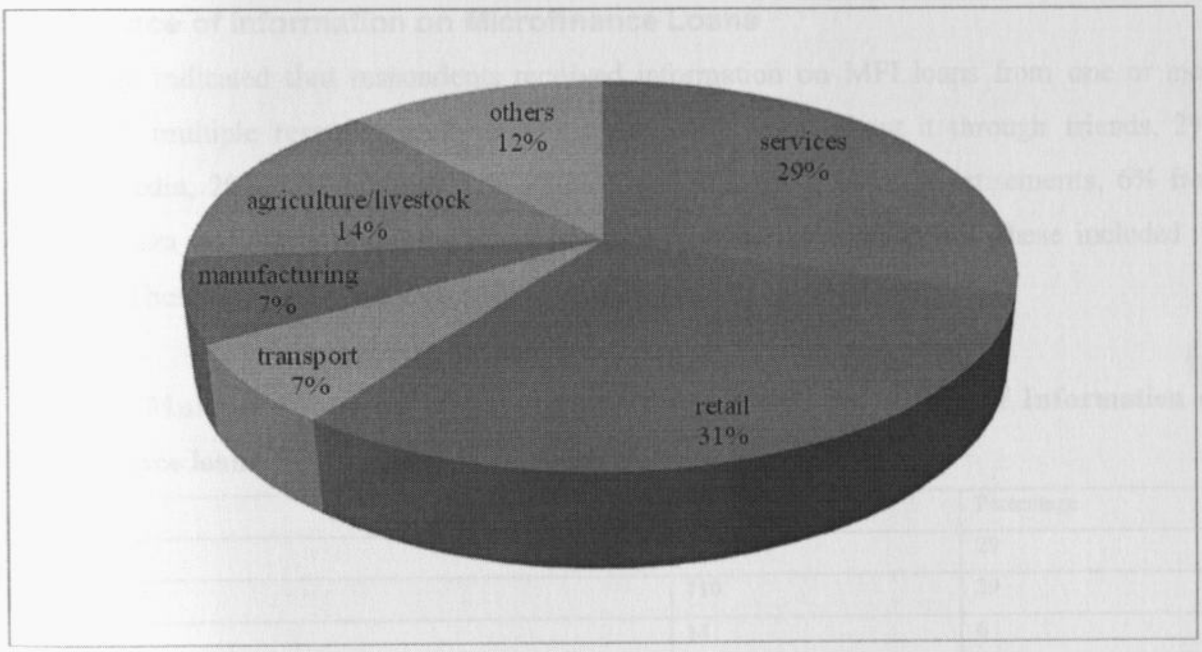
4.0 DATA ANALYSIS AND RESULTS

4.1 Summary of the Data

4.1.1 Types of Ventures

The study found that 31% of the businesses are retail, 29% are service restaurants, 14% are in the urban livestock/agriculture while 12% are in other industries such as service sector) for instance salons).

Figure 4.1 Distribution of Type of Ventures



4.1.2 Age of the Business

The study found that 34% of the businesses have been operating for 2 years, 18% for 3 years, 16% for 1 year and 13% for 5 years. It was also established that 10% of the businesses had existed for 4 years while the remaining 9% had existed for more than 5 years. This is shown in the table 4.2.

Table 4.2.Distribution of Respondents by Age of the Business

	Frequency	Percentage
1 year	41	17
2 years	83	34
3 years	41	17
4 years	26	11
5 years	31	13
more than 5 years	22	9
Total	244	100

Source: Author's computation from the survey

4.1.3 Source of Information on Microfinance Loans

The results indicated that respondents received information on MFI loans from one or more sources. A multiple response analysis found that 39% learnt about it through friends, 29% through media, 29% through outreach by MFI officials, 19% from advertisements, 6% from chief's baraza while 9% from other sources other than the ones stipulated. These included the churches. These results are summarised in the table below.

Table 4.3 Multiple Response Distribution of Respondents by Source of Information on Microfinance loans

	Frequency	Percentage
Media	67	29
Friends	110	39
Chief baraza	14	6
Advertisement	44	19
Outreach by MFI officers	65	29
Others	22	9
Total	244	100

Source: Author's computation from the survey

4.1.4 Sources of Capital for Ventures

A multiple response analysis established that 48% of the businesses obtained loans from MFIs, 37% from merry go round, 18% from bank while 12% from families. 11% of the businesses had also obtained credit from Saccos and from friends. This analysis is summarised in the tables below. Businesses in the agriculture/livestock sector (51%) received the highest financing from MFI's, followed by those in the service sector (48%) and then the transport sector (43%).

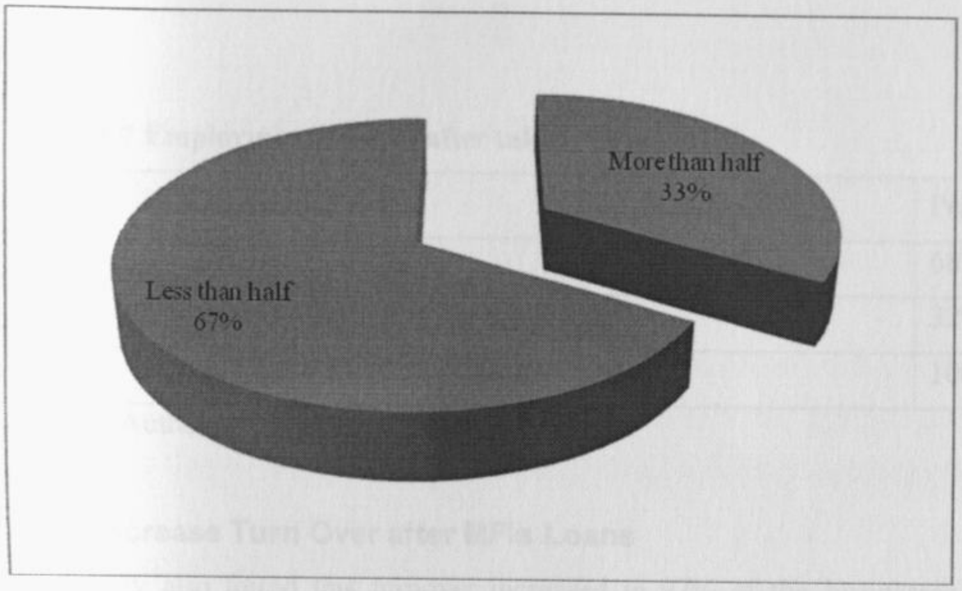
Table 4.4 Multiple response distribution of respondents by nature of business and source of capital for business.

Nature of Business		Source of Capital for Business							
		Microfinance loan	**Bank loan**	**Sacco**	**Merry go round**	**Family**	**Friends**	**Personal savings**	**Total**
Services	Percent (N=69)	47.8	15.9	11.6	43.5	13.0	11.6	36.2	100
Retail	Percent (N=75)	42.7	18.7	8.0	41.3	12.0	16.0	44.0	100
Transport	Percent (N=16)	43.8	12.5	25.0	31.3	12.5		37.5	100
Manufacturing	Percent (N=17)	35.3	23.5	11.8	17.6	11.8	5.9	11.8	100
Agriculture/livestock	Percent (N=35)	51.4	14.3	11.4	34.3	11.4	8.6	34.3	100
Others	Percent (N=29)	65.5	24.1	13.8	31.0	10.3	10.3	41.4	100
Total	Percent (N=241)	47.7	17.8	11.6	37.3	12.0	11.2	37.3	100

4.1.5 SMEs Venture Capital from MFI loans

It was also established that loans from the MFIs comprised less than half of the total capital composition in 67% of the firms while it was more than half in 33% of the firms. This is summarized in the chart below.

Figure 4.5 Percentage of SMEs Venture Capital from MFI loans



Source: Author's computation from the survey

4.1.6 Performance of SMEs after Access to MFIs Loans

Most of the respondents also indicated that their business performance improved after taking the loans. As shown in the table below, 95% of the respondents agreed while 5% disagreed.

Table 4.6 Performance of SMEs after Access to MFIs Loans

	Frequency	Percentage
Yes	108	95%
No	6	5%
Total	114	100%

Source: Author's computation from the survey

4.1.7 Employment of Staff after Taking MFIs Loan

Specifically, it was established that the businesses were able to employ more staff than before. As shown in the table below, 68% of the respondents said that they were able to hire more staff while 32% were not able to hire more staff. However, only 50% of those who hired more staff have hired only up to 3 people. 20% hired an average of 2 staff, while 30 did not hire any more staff.

Table 4.7 Employment of staff after taking MFIs loan

	Frequency	Percentage
Yes	78	68%
No	36	32%
Total	144	100%

Source: Author's computation from the survey

4.1.8 Increase Turn Over after MFIs Loans

The study also found that turnover increased in 97% of the businesses after the loans were extended to them. Only 3% of the firms' turnover did not increase as shown in the table below.

Table 4.8 Increase turn over after MFIs loans

Increase turn over after MFIs loans	Frequency	Percentage
Yes	111	97%
No	3	3%
Total	114	100%

Source. : Author's computation from the survey

4.1.9 Impact of MFIs Loan on Income.

In terms of the effect of loans on turnover, the study found that turnover in 97% of the businesses increased after being given the loans. Only 3% of the businesses did not register improved income as shown in the table below. Most of the respondents were of the opinion that the repayment period needs to be lengthened so as to make the businesses that take loans be able to reap some benefits from them.

Table 4.9 Impact of MFIs Loan on income.

Impact of MFIs Loan on income.	Frequency	Percentage
Yes	237	97%
No	7	3%
Total	244	100%

Source: Author's computation from the survey

4.1.10 Preference on method of sourcing funds

The study found that most of the respondents preferred group lending approach to the individual lending approach. As shown in the table below, 70% found group lending approach easier as opposed to 30% who said that the individual lending approach was easier for them.

Table 4.10 Distribution of respondents by preference on method of sourcing funds

Preference on method of sourcing funds	Frequency	Percentage
An individual	73	30%
A group approach	171	70%
Total	244	100%

Source: Author's computation from the survey

4.1.11 Loan Repayment Default

The study also found that some of the respondents had defaulted in making their loan repayments. As shown in the table below, 50% had sometimes failed, 23% has failed while 27% had not failed.

Table 4.11 Distribution of Respondents by Loan Repayment Default.

Loan Repayment default	Frequency	Percentage
Yes	56	23%
No	66	27%
Sometimes	122	50%
Total	244	100%

Source: Author's computation from the survey

4.1.12 Group Payment Default

The study also found that 50% of the groups had sometimes failed to repay their loans, 26% has failed to repay their loans while 24% had never failed to repay their loans. This is summarised in the table below.

Table 4.12 Distribution of Respondents by Group Payment Default.

Group Payment Default.	Frequency	Percentage
Yes	63	26%
Non	59	24%
Sometimes	122	50%
Total	244	100%

Source: Author's computation from the survey

4.1.13 Default effect on performance of SMEs performance

52% of the respondents agreed that failure to repay their individual or group loans had impacted negatively on their business performance. 48% of the respondents disagreed. This is shown in the table below. Failure to repay the loans means that the businesses have cash flow problems. Thus, they cannot be able to get more suppliers hence poor performance.

Table 4.13 Distribution of respondents by Group or individual default effect on performance of SMEs performance

Group or individual default effect on performance of SMEs performance	Frequency	Percentage
Yes	127	52%
No	117	48%
Total	244	100%

Source: Author's computation from the survey

4.14 Relationship between Access to Finance and Business Performance

Table 4.14 Summarizes the results on the relationship between percentages of capital received from MFIs, as an indicator of access to finance, and four key indicators of business performance: overall better performance, employment of more staff, increased turnover and improved income. The results indicate an association between the indicators of access to finance and business performance. Business which received less than half of their capital from MFIs employed more staff.

Table 4.14 Distribution of respondents by percentage of capital from micro-finance and indicators of improved business performance

		Indicators of improved business performance			
Capital from MFI		Better performance	Employed more staff	Increased turnover	Improved income
More than Half	Percent (N=56)	92.9	71.4	96.4	98.2
Less than half	Percent (N=59)	96.6	66.1	98.3	98.3
Total	Percent (N=114)	94.8	68.7	97.4	98.3

4.15 Constraint to Access to Credit

The study also found that the major difficulties that businesswomen face when sourcing for funds include lengthy process (22%), lack of collateral (21%), lack of education (19%), lack of information (18%) and default by member group (17%). This is summarized in the table below.

Table 4.15 Distribution of respondents by difficult faced by female entrepreneurs while sourcing for funds

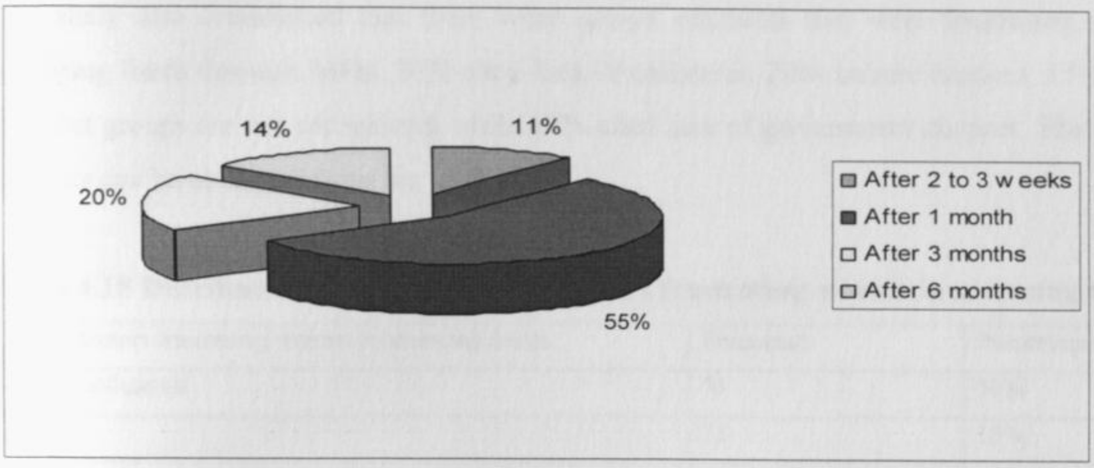
Difficult faced by female entrepreneurs while sourcing for funds	Frequency	Percentage
Gender discrimination	12	5%
Lack of collateral	51	21%
Lack of information	44	18%
Default by group member	41	17%
Lengthy process	54	22%
Lack of education	46	19%
Total	244	100%

Source: Author's computation from the survey

4.16 Grace period for repayment

It was established that 55% the businesses start repaying loans after 1 month, 20% after 3 months, 14% after 6 months, while 11% after 2 to 3 weeks. This is shown in the chart below.

Figure 4.16 Grace period for repayment



Source: Author's computation from the survey

4.17 Suitability of Repayment Grace Period

The study established that grace period affects the stock since most of them are retail. The study found that 60 %t of the respondents thought the grace period is not enough.

The respondents explained that they start repaying the loans even before they invest the money. The grace period is just too short to be able to start paying loans from the business cash flows. The respondents recommended that a grace period of 1 year would be better for them

Table 4.17 Distribution of Respondents by Suitability of Repayment Grace Period

Suitability of Repayment Grace Period	Frequency	Percentage
Yes	98	40%
No	146	60%
Total	244	100%

Source: Author's computation from the survey

4.18 Critical Factors Frustrating Women in Accessing Funds

The study also established that there were critical elements that were frustrating women in accessing funds through MFIs. 30% cited lack of collateral, 20% culture barriers, 15% cited the fact that groups are not recognized, while 14% cited lack of government support. The rest of the analysis can be observed from the table 4.18.

Table 4.18 Distribution of respondents by factors frustrating women in accessing funds.

Critical factors frustrating women in accessing funds.	Frequency	Percentage
Lack of collaterals	73	30%
Illiteracy	32	13%
Culture barriers	49	20%
Apathy to start business	22	9%
Group not recognized	37	15%
Lack of government support	34	14%

Source: Author's computation from the survey

4.19 Difficulties Faced by Female Owned SMES

The study also found that there were some difficulties that female owned businesses faced. As shown in the table 4.19, 30% cited high interest rates, 20% cited inadequate business skills, 15% market for their goods, 14% lack of credit and 13% technical constraints. The respondents asserted that if female owned small businesses were to be improved, differential lower interest rates should be given to them so as to be able to access more credit hence hire competent staff.

Table 4.19 Difficulties Faced by Female Owned SMEs.

Difficulties faced by female owned SMEs.	Frequency	Percentage
Lack of credit	34	14%
Market for their goods/services	37	15%
Lack of basic public services	22	9%
Inadequate business skills	49	20%
Technical constraints	32	13%
High interest rates	73	30%

Source: Author's computation from the survey

Table 4.20 Multiple Response Distribution of Respondents by Nature of Business and Constraints to Access to Credit.

		Constraints to access to credit							Total
Nature of business		**Lack of credit**	**Market for goods/services**	**Lack of basic public service**	**Inadequate business skills**	**Technical constraints**	**Difficult loan payment conditions**	**High interest rates on loans**	
Service	Percent (N=69)	34.8	42.0	31.9	53.6	39.1	69.6	79.7	100.0
Retail	Percent (N=72)	48.6	38.9	25.0	55.6	22.2	66.7	73.6	100.0
Transport	Percent (N=15)	13.3	26.7	6.7	53.3	33.3	80.0	66.7	100.0
Manufacturing	Percent (N=17)	23.5	47.1	17.6	47.1	58.8	88.2	82.4	100.0
Agriculture/livestock	Percent (N=31)	19.4	29.0	9.7	38.7	25.8	74.2	67.7	100.0
Others	Percent (N=28)	35.7	25.0	10.7	39.3	46.4	82.1	46.4	100.0
Total	Percent (N=232)	34.9	36.6	21.6	50.0	34.1	72.8	71.6	100.0

Source: Author's computation from the survey

The results of the multiple response indicates that difficult loan payment conditions, high interest rates on loans and inadequate business skills are the main constraints to credit access.

CHAPTER FIVE

5.0 SUMMARY AND CONCLUSIONS

5.1 Summary of the Study

The study found that 31% of the businesses are retail, 29% are service restaurants, 14% are in the agriculture while 12% are in other industries such as service sector. 34% of the businesses have been operating for 2 years, 18% for 3 years, 16% for 1 year and 13% for 5 years. It was also established that 10% of the businesses had existed for 4 years while the remaining 9% had existed for more than 5 years.

These results conform the held views that most female entrepreneurs deal mostly in retail.

The study found that 36% learnt about MFI loans through friends, 22% through media, 22% through outreach by MFI officials, 15% from advertisements, 5% from chief's baraza while 9% from other sources other than the ones stipulated. These included the churches. The fact that 36% of the respondents learnt about MFIs loan through a word of month, it points to a lack of coordinated effort to create awareness about the financial services much needed by the women entrepreneurs.

It was also established that 35% of the business obtained loans from MFIs, 27% from merry go round, 13% from bank loans while 9% from families. 8% of the businesses had also obtained credit from Saccos and from friends. The fact that only 35% of the business has obtained the MFIs loans signifies that the outreach is still not large. It also shows that Merry go round play an important role in financing women owned businesses.

It was also established that loans from the MFIs comprised less than half of the total capital composition in 69% of the firms while it was more than half in 31% of the firms. Most of the respondents also indicated that their business performance improved after taking the loans. 95% of the respondents agreed while 5% disagreed.

Specifically, it was established that the businesses were able to employ more staff than before. As shown in the table below, 76% of the respondents said that they were able to hire more staff while 24% were not able to hire more staff. In terms of the effect of loans on turnover, the study found that turnover in 97% of the businesses increased after being given the loans. Only 3% of the businesses did not register improved income. Most of the respondents were of the opinion that the repayment period needs to be lengthened so as to make the businesses that take loans be able to reap some benefits from them.

The study found that most of the respondents preferred group lending approach to the individual lending approach. 70% found group lending approach easier as opposed to 30% who said that the individual lending approach was easier for them. Those who opposed the group lending sited the undisciplined members who default, and make other members pay for them or loose the access to finance. The study found that some of the respondents had defaulted in making their loan repayments. 50% had sometimes failed, 23% has failed while 27% had not failed. The study also found that 50% of the groups had sometimes failed to repay their loans, 26% has failed to repay their loans while 24% had never failed to repay their loans. 52% of the respondents agreed that failure to repay their individual or group loans had impacted negatively on their business performance. These defaults rates are significant and might justify why the MFIs interests rates are so high. It may be a way of covering the effort of debt recovery and bad debts.

The study also found that the major difficulties that business women face when sourcing for funds include lengthy process (22%), lack of collateral (21%), lack of education (19%), lack of information (18%) and default by member group (17%). It was also established that 55% the businesses start repaying loans after 1 month. This is a short repayment period. On how this loan repayment period affects their businesses, the study established that it mainly affects the stock since most of them are retail. The study found that most of the respondents thought the grace period is not enough as shown by 60%. 40% had no problems with the grace periods given. The respondents explained that they start repaying the loans even before they invest the money. The respondents recommended that a grace period of 1 year would be better for them.

The study a established that there were critical elements that were frustrating women in accessing funds through MFIs. 30% cited lack of collateral, 20% culture barriers, 15% cited the fact that groups are not recognized, while 14% cited lack of government support.

The study also found that there were some difficulties that female owned businesses faced. 30% cited high interest rates, 20% cited inadequate business skills, 15% market for their goods, 14% lack of credit and 13% technical constraints. The respondents asserted that if female owned small businesses were to be improved, differential lower interest rates should be given to them so as to be able to access more credit hence hire competent staff.

5.2 Conclusions

The following conclusions were made from the analysis of the data. Firstly the study sought to analyze the relationship between access to finance and business performance. As the study found out, some businesses were able to hire more employees, increase turnover and income and also have better financial performance after taking the loans. This indicates that access to credit impacts positively on the performance of small businesses. How ever the extent of the performance could not be accurately evaluated. Secondly the study has shown that the female entrepreneurs face many challenges both before and after receiving the MFIs loans. Thirdly the study can suggest that access to finance is not enough to improve the financial performance of SMEs. Favorable repayment conditions, training in entrepreneurship and records keeping, abolition of collateral among other factors will go along way to ensure that female owned smes register tangible growth.

Fourthly the study sought to identify the constraints faced by Kenyan women owned small businesses in accessing credit. It found that the four major constraints that businesswomen face were lengthy process lack of collateral lack of education lack of information. These factors are intertwined since lack of education makes it difficult to get information and understand the process of accessing microfinance loans. This study has found that contrary to a popular belief MFIs request collateral in terms of equipment such as a fridge, a television set for a group member to be given aloan, that is a group guaranty is not enough to receive loan. This raises a question of whether the poorest who does not possess such equipment is able to access the MFI loans.Other constraints were found to be high interest rates, inadequate business skills, market for their goods, lack of credit and technical constraints

5.3 Limitation of the Study

Due to the lack of a proper sampling frame for the SMEs the study was carried out using a non-probability sampling (convenience sampling) approach and as such can be viewed as having provided basic data for further research. The results of the study are therefore only generalisable to SMEs that operate within the Nairobi CBD. Possible benefits of probability sampling like stratification and clustering would have capture variability that may be associate with SMEs of varying size and that are found at differing geographical localities. The lack of financial data on SMEs financial records is another limitation. The results could tell us to what extent the access to finance has impacted on the performance of SMEs.

5.4 Recommendations for Further Research

The study was carried on women entrepreneur's beneficiaries of MFIs loans irrespective of their type of business. Future research could be carried on more stratified sample that allows to highlight the impact of access to MFIs loans on various types of business and entrepreneurs.

5.5 Recommendations for Business Policy Makers

The study recommends that The MFIS partner with local authorities (Chiefs) and other stakeholders so as to create awareness of the availability and the process of accessing microfinance loans.In a coordinated effort, the government, MFIs and all stakeholders need to train the poorest on some entrepreneurship skills and records keeping so they can benefit from the access to the micro loans.Conditions of repayment are so unfavorable that entrepreneurs focus more on repayment rather than focus on growing their businesses. This needs some revision by MFIs.

Interest rate on MFIs loans is lined with the mainstream bank rates since they are very high and affect negatively the growth of small businesses. The MFIs should consider the size of the business and offer a loan that can allow it to grow faster and take opportunity of rising demand. Further, the grace period given for loan repayments are just far very short. MFIs need to extent the period to at least 6 months so that the loanees can use the money they have invested from the loans to make repayments. This will also give them an ample time to invest the money.

The MFIs should come up with new products that seek to finance the poorest who does not own any asset to give as collateral.

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APPENDICES

QUESTIONNAIRE

Question 1

What is the name of your business?

Question 2

What nature of business are you involved in?

A	Service (eg. Restaurant, Salon)
B	Retail
C	Transport
D	Manufacturing
E	Agriculture/livestock
F	Others(specify)

Question 3

How long have you been in operation?

A	1year
B	2 years
C	3 years
D	4 years
E	5 years
F	More than 5 yrs

Question 4

3. How did you learn about Microfinance loans in Kenya?

A	Through Media
B	Through Friends
C	Through Chiefs Baraza
D	Through advertisement
E	Through outreach by MFIS 0fficers
F	Others

Question 5

What are the sources of capital of your business?

A	Microfinance loan
B	Bank loan
C	Saccos
D	Merry go round
E	Family
F	Friends
G	Personal savings
H	Other sources (specify)

Question 6

What percentage of your capital is from Microfinance loans?

A	Less than half
B	More than half

Question 7

If you took a microfinance loan, did your business perform better than before?

A	Yes
B	No

Question 8

Did you employ more staff after taking the Microfinance loan?

A	Yes
B	No

Question 9

Did your turnover increase?

A	Yes
B	No

Question 10

Did your income increase?

A	Yes
B	No

Please provide the number of your employees for the years:

2003………… 2004………… 2005…………… 2006……….. 2007…………

Please provide your annual income.

2003……………2004……………..2005………………..2006…………2007………

Question 11

If your business did not perform better despite the Microfinance loan, what do you think was the reasons?

Question 12

What could be done so that the MFIs loans lead to a better performance of the business?

Question 13

Which method is easier for sourcing of funds from the MFIs

A	An individual
B	A group approach
C	Other (Explain)

Question 14

Do you default in making repayments?

A	Yes
B	No
C	Sometimes

If your answer is A or B, what was the reason for defaulting.?

Question 15

Does your group default in repayments?

A	Yes
B	Non
C	Sometimes

Question 16

Does group or your own default has a negative effect on the performance of your business?

A	Yes
B	No

Explain your answer---

Question 17

Can you identify the difficulties you or other business women faced when sourcing for funds from the MFIs?

A	Gender discrimination
B	Lack of collateral
C	Lack of information
D	Default by group member
E	Lengthy process
F	Lack of education
G	Any other difficulty

Question 18

How do you repay the loans advanced to you by the MFIs?

A	After2-3 weeks
B	After 1 month
C	After 3 months
D	After 6 months

Explain how it affects your business. .--

Question 19

Is the duration given as grace period enough?

A	Yes
B	No

If your answer is no, how does the payment mode affect your business.

Question 20.

If the answer is no, what is the grace period time that is convenient for your business.

Question 21

For the elements listed in the table below on a scale of 0-5, please indicate how critical each factor is in frustrating women in accessing funds from the MFI.

0-Factor has no impact
1-Factor has a marginal impact
2-Factor has a moderate impact
3-Factor is critical
4-Factor is very critical
5-Factor is extremely critical.

Factor	0	1	2	3	4	5
Lack of Collaterals						
Illiteracy						
Culture barriers						
Apathy to start business						
Group not organized						
Lack of Government support						

Question 22

What are the difficulties are faced by female owned small businesses?

A	Lack of Credit
B	Market for their good/services
C	Lack of basic public services
D	Inadequate business skills
E	Technical constraints
F	Difficult loan payments conditions
G	High interests rates on loans.

Additional comments--

Question 23

What do you think could be done to improve female small business owner's access to MFI's loans?
