



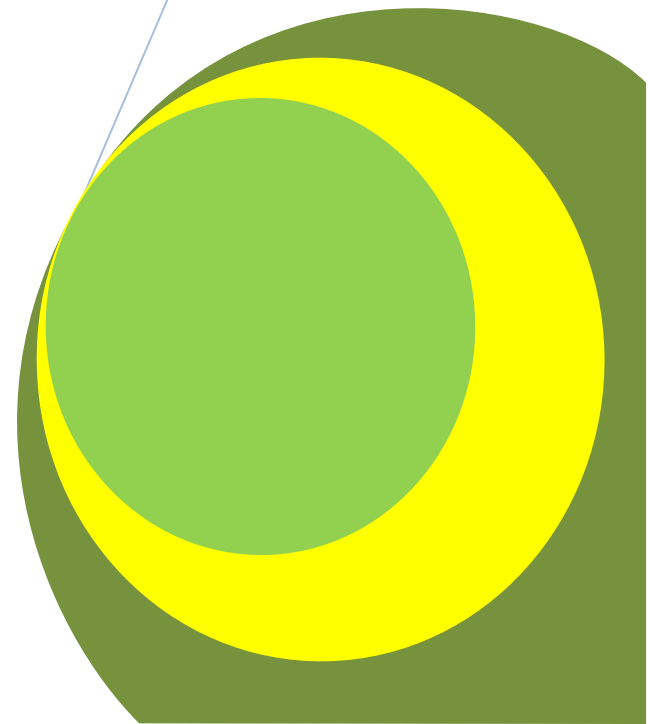
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## **Effect of micro finance on performance of women owned enterprises, in kisumu city, kenya**

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*Research Article*

# Effect of micro finance on performance of women owned enterprises, in Kisumu City, kenya

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**ABSTRACT**

Micro financing is the provision of financial services to low-income clients or solidarity lending groups that lack access to banking and its related services. Traditionally, women based enterprises have not been favoured by the mainstream credit policies of the commercial banks owing to their inability to raise collateral securities to guarantee the loans. The general objective of this study was to determine the effect of micro financing on the performance of women owned enterprises in Kisumu City. Specifically, the study sought to determine the effect of microfinance on productivity, profitability and growth and expansion of women owned enterprises. The study population comprised 3000 registered women businesses. A sample of 341 was drawn. Clustering, simple random and purposive sampling approaches were applied. Primary and secondary data were used. Questionnaire and interview were used to obtain primary data. Quantitative data was analysed by use of both the descriptive and inferential statistics. The results indicated that micro financing in sufficient quantities would have greater effect on profitability, productivity and growth and expansion of women owned enterprises. The outcome of the study would be significant in reformulating women business credit policies, for improving credit services to entrepreneurs.

**Keywords:** Lending groups, Micro Finance services, women performance, women-owned enterprises.

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**INTRODUCTION**

Despite the crucial role of women entrepreneurs in the economic development of their families and countries; it is, however, discovered that women entrepreneurs have low business performance compared to their male counterparts (Akanji, 2006); and this is caused by factors which normally affect entrepreneurial performance such as lack of credit, saving, education or training, and social capital (Shane, 2003). However, microfinance programmes and institutions have globally recognized as a prospective component of strategies of development organisations, governments, and societies to promote enterprises in developing countries (Hulme, 2000). They are organisations with a goal to serve the needs of un-served or underserved markets as a means of meeting development objectives (Ledgerwood, 1998). Through serving these groups, the owners of micro and small enterprises (MSEs) are expected to accumulate wealth and therefore grow after time. Specifically, microfinance institutions provide a broad range of services including deposits, loans, payment services, money transfer and insurance to the poor/low-income households and their enterprises (Chijoriga, 2000; Conford, 2001; Pilipinas, 2002).

Women entrepreneurship plays a critical role in the economic development of societies. However, for long, women entrepreneurs have low business performance compared to their male counterparts and this has been attributed to factors which normally affect entrepreneurial performance such as lack of credit, saving, education or training, and social capital. It is however still unclear the effect these funds have had on the women owned enterprises. Little information is available on this front partly owing to the fact that most of the women based enterprises fall within the informal sector. It is therefore difficult to make meaningful analysis on the relationship between micro financing and performance of these enterprises for future projections and decision making. This is the gap this study sought to address. It focused on the effect of micro finance on the performance of women owned enterprises in Kisumu City. The general objective of the study was to determine the effect of micro finance on the performance of women owned enterprises.

## Literature Review

Modern micro finance emerged in late 1970s with a strong orientation towards private sector solutions. This resulted from evidence that state owned agricultural development banks in developing countries had been a monumental failure, actually undermining the development goals they were intended to serve (Adams et al., 1984). Nevertheless public officials in many countries hold a different view, and continue to intervene in microfinance markets. Micro finance means building permanent local institutions. Micro finance also means integrating the financial needs of poor people into a country's mainstream financial system. The problem of women's access to credit was given particular emphasis at the first International Women's Conference in Mexico in 1975 as part of the emerging awareness of the importance of women's productive role both for national economies, and for women's rights.

Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. Enterprise performance implies attributes that show changes in volumes of activities or physical size. There is an ongoing debate as to the best way to stimulate women entrepreneurship that contributes to both economic and social inclusion (Welter, 2004). A thorough understanding of how SMEs grow is an important issue because, according to Berger and Udell (1998), and Radovic (2007), small and medium-sized enterprises provide the engine for economic growth for many countries. As a result of gender inequalities, women remain to some degree in all parts of the globe-untapped economic resources and underutilized economic assets (Landes, 2003). Most researchers have not focused their studies on women owned enterprises and credit accessibility, hence the reason for current study.

## RESEARCH METHODOLOGY

A descriptive survey design was adopted. The study was carried out in Kisumu City, Nyanza Province of Kenya with a population of over 968,909 (Male – 48.9 %, Female – 51.1 % in 2009) and a geographical area of 919 km<sup>2</sup>. Women based business network is approximately 20% of the total women population. The target population was small and medium sized women owned enterprises in Kisumu City, which were estimated at 7000 registered businesses of which about 3000 were active. These were mainly in the line of food outlets (760), retail shops (725), boutique (385), salons (480) and communication e.g. phone accessories (650). A sample of 341 enterprises was drawn based on the formula provided by Mugenda and Mugenda (2003). Cluster sampling approach was used initially. Simple random sampling was then used to pick enterprise from each cluster into the sample. Women owners were interviewed using a structured and semi-structured questionnaire.

## RESULTS

### Socio-Demographic characteristics of the respondents

The study interviewed three hundred and forty one (341) respondents. Of the respondents 3.2% (11) were between the ages of 18-25years, 45.2 % (154) were 26-30 years, 25.8% (88) were between 31-35 years, 12.9% (44) were between the ages of 36-40 and another 12.9% were between 41-45 years. On their marital status, majority (71%) of them were married, 16.1% were single, 6.5% were separated and another 6.5% was divorced. The respondents were also asked to indicate if apart from running their business they were employed elsewhere, the results indicated that only 22.6% were employed.

### Information on the Business and Microfinance

The respondents were asked to give information concerning the microfinance and businesses the women are involved. The results indicate that most women interviewed joined the microfinance in 2009. The earliest time known that the women joined the microfinance was in 2000 and the latest was 2011. Concerning the times they have received the loan, most women had received loans twice. Some women had received as much as five times. The results also indicated that 68% of the respondents had been in business between 0-3 years and the remainder between 4-6 years. The results also indicate that most women entrepreneurs engaged in an array of business ranging from food outlet (29%), retail shop (23%), boutique (10%), saloon (29%) and in communication (9%) e.g. selling phone accessories. The respondents were asked to indicate how they could describe the microfinance services obtained. The results show that a minority (3%) felt that the services were inadequate, 32% rated the

microfinance services as average. On the other hand 61% rated the services as adequate and only 3% as very adequate.

Using the Chi square, the study tested the adequacy of the services offered by the microfinance, the results in Table 1 indicates that the services offered by the microfinance services were above average and thus adequate.

**Table 1:** Chi square Test Statistics for adequacy of the microfinance

How would you describe the microfinance services you have obtained in the past	
Chi-Square	316.161 <sup>a</sup>
<i>df</i>	3
Asymp. Sig.	0.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 85.3.

**Source:** Research Data, 2012

The respondents were asked to describe the benefits obtained from the microfinance. The results presented in Table 2 indicate that credit services were ranked high with 74%, average with 23% and 3% ranked it low. On training, 48% ranked it high and 52% ranked it average. On savings services, 3% ranked it very high, 29% high, and 58% ranked it average and only 10% ranked it low. Generally most of the respondents ranked the services above average.

## DISCUSSION

As noted by Parker and Pearce (2001) microfinance is one of the many interventions for generation of income. In the case of Africa in particular, Kiiru (2007) asserts that there are more important constraints that face the clients of micro finance such as individual product prices, land tenure, technology, and market access. These problems place a lot of responsibility on government to create the enabling environment as well as the framework conducive not only for rural finance but also in market development. Sachs (2009) for example, claims that microfinance can play a huge role in alleviating poverty if it helps to find ways through the market to get new opportunities to earn income by the investments in both farm and nonfarm activities. This view is consistent with the findings of the study which indicate that microfinance services have positive effect, on productivity, profitability and growth and expansion of women owned enterprises which are precursors for development and eventual poverty alleviation.

The size of loans even prompted some women to leave the microfinance programs arguing that the loans were too small for any meaningful income generating activity (Coleman, 2006). Coleman argues that one reason why wealthier borrowers may have experienced larger impacts was because they could commandeer larger loans. Compared with the findings of the current study, this argument is consistent. The current study showed that microfinance services were adequate and reported successes on their effect on the women enterprises. It can safely be argued that the mere access to the microfinance services alone is not adequate; though its level is equally significant.

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