THE IMPACT OF MICROCREDIT ON WOMEN-OWNED SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM KENYA

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Microcredit is a crucial tool for economic empowerment of women. In Kenya, the microcredit industry has supported more than 3 million small and medium enterprises for close to 30 years. Kenya Women Finance Trust is a leading microcredit institution dealing exclusively with financing needs of women. However, whether the services provided by the institution have spurred growth among women-owned enterprises remains undocumented. The objective of this study was to assess the effect of access to microcredit services on the growth of women-owned enterprises within the Central Business District of Kisumu City. To accomplish this, we sourced primary data from 190 women entrepreneurs. The study found that access to microcredit significantly associated with sales, net profit, number of paid workers and liabilities. Thus, access to microcredit had positive effects on the growth of women-owned enterprises. In addition, Kenya Women Finance Trust's lending policies were not responsive to financing needs of women and to changes in the business environment. This undermined the potential of funded enterprises to achieve sustainable growth. The study recommends the need to review the financial institution's lending policies, increase the amount of microcredit funds and encourage other actors to finance women-owned enterprises.

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KEYWORDS: Access, Microcredit, Small and Medium Enterprises, Women-Owned, Central Business District

INTRODUCTION

Microcredit provides an opportunity for low income-earners, including women to improve their economic and social status. Besides economic empowerment, microcredit carries with it numerous other benefits for women, including better control of their reproductive health as well as reduced vulnerability to domestic violence. Better incomes make women less vulnerable to gender-based violence perpetuated by their partners (Goetz & Sen, 1994; Mayoux, 1998a). As noted by Ghadoliya (2000), 'microcredit plays a crucial role in socio-economic empowerment of women by promoting suitable conditions for them to move from positions of marginalization within households, to one of greater roles in decision-making at the community, national and international levels' (p34).

In most countries, commercial banks have not effectively addressed the financial needs of low income-earners, due to stringent baseline requirements. In addition, commercial banks perceive low income-earners as not being credit-worthy due to lack of assets, which they may use as collateral against credit facilities (World Bank, 2009). In this regard, credit facilities provided by Microcredit Institutions (MFIs) play an important role by filling the gap for financial services among low income-earners, majority of who include women. The services provided by MFIs are flexible and tailored to meet the financing needs of women in rural and urban settings (Chandrasekhar, 2004). The origin of microcredit is traceable to the 14th Century, when the Franciscan monks founded the community-oriented pawnshops (World Bank, 2009). In the 19th Century, establishment of the Credit Union Movement in Western Europe added a significant impetus to the growth of microcredit industry. These early movements played a crucial role in

the establishment of pro-poor institutions, which brought accessible and affordable financing opportunities to low-income earners (World Bank, 2009).

In the mid 20th Century, a similar movement emerged in Bangladesh. As noted by Besley (1995), a renowned economist and a Nobel Peace Prize winner, Muhammad Yunus initiated and propagated the idea. It later led to the establishment of the microcredit institution, the *Grameen Bank*, which served more than 7 million low-income Bangladeshi women by 2007. The success of the institution inspired its replication in India, Philippines, Indonesia and Pakistan, among other countries in the region. Since then microcredit, programs have spread all over the world. A study conducted by the World Bank (1999) indicated that about 25 million people worldwide were using microcredit to finance their business activities, with women forming up to 90% of beneficiaries. By 2005, up to 113 million borrowers had benefited from microcredit services and by 2010, microcredit industry addressed the financing needs of up to 150 million low income-earners, especially in developing countries (World Bank, 2009).

In Kenya, the microcredit industry is a relatively new phenomenon, with a few agencies starting about 25 years ago. Due to rapid development in Kenya's economic landscape, the agencies eventually graduated into vibrant institutions in the 1990s (Hospes, Musinga & Ong'ayo, 2002). The growth of microcredit industry in Kenya improved through the Government's resolve to create an enabling environment through appropriate policy and legal frameworks to support entrepreneurial development. Between 1992 and 1994, the Government was intensively involved in implementing the Structural Adjustment Programs (SAPs). In this regard, the aim of economic liberalization was to restore macro-economic stability and spur private sector investments. To counter the potential negative impact of liberalization, microcredit industry emerged as one of the areas requiring donor support. As noted by Atieno (2009), government estimations indicate that the microcredit industry has received more than US$ 200 million from external sources, which supported the financing needs of Small and Medium Enterprises (SMEs).

By 2001, about 1.3 million SMEs were operational in the country and provided job opportunities to about 2.4 million people; and accounted for about 70% of economic activities (Hospes et al., 2002). By 2008, SMEs created employment for about 75% of the national workforce and contributed up to about 22% of the national Gross Domestic Product (GDP). In Kisumu town, the role of SMEs as regards employment creation needs no amplification. By 2008, the sector engaged more than 40% of the district's labour force (Government of Kenya, 2008). Kenya Women Finance Trust (KWFT) is one of the institutions that have shaped the microcredit industry in the country by extending microcredit facilities to women-owned SMEs (Odhiambo, 1985; Hospes et al., 2002; Government of Kenya, 2008). Established in 1982, KWFT has an elaborate national network of nine regional offices, supported a satellite of sub-regional offices. KWFT empowers women by providing accessible and affordable financial services.

Microcredit facilities are important for the growth and expansion of SMEs and for their subsequent role in the national economy (Atieno, 2009). The growth and expansion of SMEs requires sustained investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, microcredit facilities may help small-scale entrepreneurs improve their incomes and accumulate own capital (Hossain, 1988; Atieno, 2001). KWFT have exclusively served the financing needs of women-owned SMEs; however, whether the microcredit services provided by the institution has spurred growth in the performance of women-owned SMEs, especially within the Central Business District (CBD) of Kisumu City remains unclear and undocumented. Against this background information, this study determined the impact of microcredit services on women-owned SMEs within Kisumu City. The resultant information is useful for development agencies, as well as scholars in microfinance, entrepreneurship as well as gender and development. The remainder of this paper covers a section on literature review, data and methodology, results and discussions, as well as concluding remarks.

LITERATURE REVIEW

Small and Medium Enterprises (SMEs) play an important role in the social and economic development of many countries by creating employment opportunities and improving incomes. In Kenya, the development of SMEs is a priority strategy for the country's industrialization, employment creation and poverty reduction (Mitulla, 2003; Atieno, 2009). In this regard, SMEs create employment for about 75% of the national workforce and contribute up to 22% of the national Gross Domestic Product (Mbithi & Mainga, 2006; Atieno, 2009). With about 70% of SMEs located in rural areas, the sector is poised to support the development of rural economies (Mitulla, 2003).

The Government of Kenya (GoK) recognizes the contribution of SMEs to the national economy; and has since formulated policies to facilitate their establishment and survival. For instance, in 1996, the GoK developed the Sessional Paper Number 2, on *Industrial Transformation to the Year 2020*, which emphasized the need to improve the availability of credit facilities to SMEs in all parts of the country (Atieno, 2001). The *Economic Recovery Strategy Paper for Wealth and Employment Creation (ERSWEC) 2003-2007* identifies SMEs and in particular expansion of the informal sector as one of the activities to facilitate economic recovery and growth.

In 2005, the GoK published another policy paper– the Sessional Paper Number 2, on the *Development of Micro and Small Enterprises for Employment and Wealth Creation* was published (Government of Kenya, 2005; Mbithi & Mainga, 2006; Atieno, 2009). The paper articulates policies for developing SMEs, including the need to increase access to financial services. In 2006, the GoK drafted the *Micro and Small Enterprises Bill*, as a step towards legalization of SMEs in the country. Article 20, part 1 of the Bill created the Micro and Small Enterprises Development Fund (SMEDF), with the purpose of providing funding to registered SMEs through microcredit (Government of Kenya, 2006).

Among other challenges experienced by SMEs, inadequate access to formal credit stands out as a key impediment to their survival and performance. In Kenya, SMEs have limited access to credit services provided by formal financial institutions. As such, most SMEs rely on retained earnings and loans from informal associations, which are often unpredictable, unsecure and have a limited scope for risk sharing. Besides, as SMEs grow, their credit requirements become too complicated for informal credit sources to address (Aryeetey, 1996).

The expansion of SMEs requires sustained investments; however, at low levels of income, capital accumulation may be difficult. Formal credit facilities may help small-scale entrepreneurs to improve their incomes and accumulate own capital (Hossain, 1988; Atieno, 2001). Hence, access to well-developed microcredit systems may be a crucial catalyst for economic development (Mitulla, 2003). As noted by Atieno (2009), formal microcredit services are important for the expansion of SMEs and for their subsequent role in the national economy.

The impact of microcredit on the growth of women-owned SMEs and women's economic status has been a subject of empirical investigations worldwide. Recent empirical evidence suggest that a well-developed microcredit system can help women-owned SMEs to access affordable credit services, which in turn, is likely to reduce poverty among women. Microcredit enables women entrepreneurs to improve net returns, insure against risks and broaden investment opportunities (Claessens & Kranz, 2001); similarly, Wright (2000) notes that microcredit provides an important glimmer of hope for women entrepreneurs, with a potential to bridge gender gap between men and women.

Barnes (2005) conducted a study in Zimbabwe to determine the impact of microcredit on the performance of SMEs and household economic status among communities most burdened by HIV and AIDS. The

study revealed that access to microcredit had a positive effect on borrowers' average income, food security, nutrition, treatment adherence as well as education of orphaned and vulnerable children. A little earlier in 2004, Robinson assessed the role of microfinance on the economic status of the poor in developing countries, majority of who are women. The study found that women-owned SMEs formed about 83% of microcredit clientele, which increased the role of women entrepreneurs in economic development at the household, community, national and international levels. Based on the findings, Robinson (2004) argued that investing in women-owned SMEs was an effective way of increasing family expenditures on health and education, as well as improving nutrition and food security.

Another study conducted by Khandker (2003), focused on the tracking of microcredit and poverty indicators in Bangladesh. The study found that access to microcredit reduced poverty rates by more than 20% among borrowers, with more than half of such improvement resulting from microcredit (Khandker, 2003). Due to the spillover effect on non-participants in microfinance schemes, the study attributed up to 40% of poverty reduction in rural Bangladesh to microcredit. In a review of the same study, two years later, Khandker demonstrated that the substantial impact of microcredit on poverty was entirely the result of borrowing by women rather than men (Khandker, 2005).

Furthermore, Morduch (1999) noted that in developing countries, women played a pivotal role as risk managers and drivers of development, particularly in poor communities. Microcredit programs in such countries enabled thousands of women to use small sums of money in creative ways to develop livelihoods, improve family well-being and accumulate savings. However, the study noted that available microcredit resources were too limited to spur long-term economic growth; thus, suggesting the need for more investments in microfinance programs (Morduch, 1999). The overriding message in the reviewed studies is that access to microcredit is a crucial factor for the survival and performance of SMEs. Although a number of studies have their setting in developing countries, in Kenya, the relationship between microcredit and performance of women-owned SMEs has not attracted as much empirical investigation, notwithstanding the fact that microfinance institutions such as KWFT have been operational in the country for close to three decades.

DATA AND METHODOLOGY

The study applied a cross-sectional survey design with both quantitative and qualitative approaches. The quantitative approach obtained numerical and quantifiable data. The qualitative approach elicited in-depth information based on personal experiences and opinions of women entrepreneurs. The study population consisted of women-owned SMEs operating within the CBD of Kisumu City. We sourced primary data from 190 women SME owners who had received microcredit from KWFT and stayed in business for at least three years. We also sourced secondary data through a review of KWFT registers and reports, as well as relevant empirical and policy literature. We used stratified random and purposive sampling procedures to obtain samples of SMEs and women entrepreneurs, whom were engaged in interviews between May and June 2010. Furthermore, we applied the Statistical Package for Social Sciences (SPSS) package to generate frequency distributions, percentages and cross-tabulations. The analysis of qualitative data involved organization into thematic areas, description and thematic analysis. The following publications support the methodology that we applied in this study: Best & Khan, 2004; Kothari, 2004; Bryman & Cramer, 1997; Mugenda & Mugenda, 1999; Nachmias & Nachmias, 1999.

RESULTS

The study covered a total of 190 women entrepreneurs, each representing and providing information about their enterprises. All the participants reported having received microcredit from Kenya Women Finance Trust (KWFT) to support their businesses. Of the 190 participants, the majority, [110 (57.9%)]

had received microcredit exclusively from KWFT trust once; 66 (34.7%) participants had been funded twice, 11 (5.8%) had received microcredit thrice, while 3 (1.6%) had been funded more than thrice. In addition, Table 1 indicates that the SMEs represented in this study were involved in various lines of business, including hairdressing, clothing boutique, tailoring, food selling and retailing, among others.

Table 1: The Type of Business for SMEs Participating in the Study

CATEGORY OF SMES	FREQUENCY	PERCENT
Hairdressing	13	6.8
Clothing boutiques	49	25.8
Tailoring	51	26.8
Food selling	17	8.9
Hair dressing /clothing boutiques	12	6.3
Tailoring/clothing boutiques	14	7.4
Retailing	26	13.7
Others	8	4.2
Total	**190**	**100.0**

Table 1 presents the type of business activities carried out by the small and medium enterprises involved in this study. As reflected in the frequency distributions, most business ventures dealt in tailoring activities, clothing boutiques and retailing business. The category lumped as 'others' included hardware shops, bookshops and dry-cleaning outlets.

Table 1 also shows that some SMEs were involved in more than one business activity. In this regard, 12 (6.3%) respondents were involved in both hairdressing and clothing boutiques, while 14 (7.4%) respondents operated tailoring and clothing boutiques. The results presented in Table 2 further reveal a preference towards certain business lines such as clothing boutiques and tailoring shops among women.

Furthermore, 50 (26.3%) SMEs were aged between 3 and 5 years; 58 (30.5%) were aged between 6 and 8 years, while 69 (36.3%) were aged between 8 and 11 years old. Overall, up to 177 (93.2%) SMEs had been operational for between 3 and 11 years. Age emerged to be an important factor influencing the extent to which microcredit services affected the growth of SMEs. Through in-depth interviews, the study noted that older SMEs were more entrenched in the market than new ones. Thus, they had better marketing structures and were likely to experience faster growth than new firms were. In addition, 166 (87.4%) SMEs were registered as sole proprietorship business entities, 19 (10.0%) were limited liability companies, while 5 (2.6%) were registered as partnerships.

Of the 190 SMEs involved in the study, 83 (43.7%) were generating revenues in the range of KES 20,000 to KES 29,999; another 56 (29.5%) were generating between KES 10,000 and KES 19,999; while 17 (8.9%) generated between KES 30,000 and KES 39,000. In addition, 13 (6.8%) SMEs had revenues averaging KES 5,000 to KES 9,999; another 9 (4.7%) SMEs generated between KES 40,000 and KES 49,999; 8 (4.2%) had revenues below KES 5,000; while 4 (2.1%) SMEs reported average revenues of KES 50,000 or more. Notable from these results is the fact that majority of the SMEs [156 (82.1%)], were generating between KES 10,000 and 40,000 as net profits on a monthly basis. The study found that 141 (74.2%) SMEs had between 1 and 9 paid workers, 41 (21.6%) SMEs had between 10 and 19 workers, while 8 (4.2%) SMEs had 20 workers or more. However, the SMEs also relied on unpaid work provided by family members. Besides, the study revealed that support from family members in terms of unpaid labour was necessary for the survival of SMEs in their quest for a market share. However, for SMEs that managed to consolidate a strong financial base, family workers were gradually absorbed into the payroll and served as paid workers.

All the 190 SMEs had accessed microcredit from KWFT, with up to 176 (91.6%), receiving microcredit exclusively from the organization; while 16 (8.4%) others received credit from supplementary sources such as community savings and loan schemes, friends and relatives. The huge percentage receiving funding exclusively from KWFT indicated the significant role played by the organization in addressing

financing needs of women-owned SMEs within the community. Those who had received alternative funds from relatives, friends and suppliers hinted that such sources were favourable in terms of interest rates and devoid of complicated formalities. However, loans obtained from such sources were insufficient and in most cases, not available consistently. Table 2 shows that out of 190 participants, 31 (16.3%) had obtained between KES 10,000 and KES 19,000; 50 (26.3%) were funded to the tune of KES 20,000 to KES 39,000; while 59 (31.1%) received KES 40,000 to KES 69,000. In addition, 33 (17.4%) SMEs received microcredit between KES 70,000 to KES 99,000; those who received KES 100,000 or more were 17 (8.9%) business enterprises.

Table 2: Amount of Credit Received during Last Application

AMOUNT RECEIVED	FREQUENCY	PERCENT
KES 10,000-19,000	31	16.3
KES 20,000-39,000	50	26.3
KES 40,000-69,000	59	31.1
KES 70,000-99,000	33	17.4
KES 100,000 plus	17	8.9
Total	**190**	**100.0**

The Table shows the amount of credit received from Kenya Women Finance Trust during the last time respondent made an application. The results show that about one-third of participants received between Kenya Shillings (KES) 40,000 and 69,000, while slightly less than one-third received between KES 20,000 and 39,000. However, the results show that more than 90% of the women entrepreneurs received less than KES 100,000, which may have implications on the financial stability of women-owned enterprises.

The study found that microcredit provided to women under the group-based model ranged between KES 10,500 and KES 99,000, which explains why more than 90% of the enterprises were able to secure funds below KES 100,000. We requested participants to state their opinion regarding the adequacy of funds provided as microcredit by the KWFT. The results indicated that 110 (57.9%) entrepreneurs felt that the funds were inadequate vis-à-vis their financing needs, while 66 (34.7%) indicated that the funds were very inadequate. Consequently, up to 8.4% of the entrepreneurs sought supplementary funding from alternative sources.

Kenya Women Finance Trust delivered microcredit services to women using two key models, viz. individual-based and group-based models. Under the individual-based model, the institution provided microcredit to individual borrowers having minimum qualifications as well as providing collateral and business plans. In addition, individual borrowers took personal responsibility for credit advanced to them, which in turn, encouraged borrowers to service their accounts consistently. This provides opportunity for women to access high amounts of credit, which could improve the performance of business enterprises. Besides, individual responsibility discourages defaults. However, the model is inaccessible to most women in low-income brackets, especially those lacking collateral. The second model addresses financing needs for registered self-help groups. Under this model, each member is required to save their income with such groups for at least six months before qualifying for loans. Additional requirements for microcredit include prompt repayment and commitment to group activities.

Participants noted that the model is particularly effective in reaching out to women from low-income groups, since borrowers require no collateral, as group members take responsibility for loans advanced to individual members. This condition necessitates support for borrowers to ensure proper utilization of microcredit. This commitment equates to social collateral. The model restricts access to large amounts beyond KES 100,000 and non-commitment among some borrowers. Even though the group-based model is more risky than the individual model, it plays a bigger role in facilitating low income-earners to access microcredit. In this study, up to 173 (91.1%), as compared to 17 (8.9%) participants received microcredit through the group-based model. In addition, KWFT created special loan products based on demand, including loans for school fees, clean energy, water tank loan, community phone and access to electricity network.

The study set to determine the impact of microcredit services provided by KWFT on the growth of women-owned enterprises. In this regard, we measured access to microcredit in terms of the number of times one had obtained credit from KWFT, and the growth of SMEs in terms of change in sales volume, net profits, number of paid workers as well as the trend of liabilities before and after obtaining credit. In this regard, we asked participants to indicate the number of times they had obtained credit from the institution.

The results show that about one-half, 97 (51.1%) had been funded twice, 61 (32.1%) had received funding once, 23 (12.1%) had obtained microcredit thrice, while 9 (4.7%) had been funded more than three times. This implies that about 70% of the SMEs involved in the study were servicing their credit regularly, which enabled them to access microcredit repeatedly. The analysis yielded a computed chi square value of 19.35 with 3 degrees of freedom. This was statistically significant within 5% error margin, implying up to 95% chance that the growth of SMEs significantly associated with the number of times one accessed microcredit from KWFT. The results further suggested that SMEs accessing microcredit more than once were likely to experience higher growth in terms of sales volume, net profit, number of paid workers and liability status than those receiving microcredit for the first time.

Growth is one of the most important goals of a business enterprise. Growth is a crucial precondition for a firm's longevity. While negative growth is a sign of problems, stagnation is indicative of challenges an SME is likely to face in the future. Sales volume is one of the factors used to gauge whether an SME is growing positively or otherwise. Based on this, we requested participants to indicate their opinion regarding the performance of their SMEs in terms of sales before and after receiving microcredit from KWFT. As indicated in Table 3, 140 (73.7%) respondents felt that their enterprises were very inactive in terms of sales before receiving microcredit; however, after credit, up to 160 (84.2%) participants were convinced that their SMEs became more active - an indication that performance in terms of sales improved for more than 80% of the SMEs that received microcredit from KWFT.

Table 3: Business Performance in Terms of Sales Before and after Credit

SALES	BEFORE CREDIT		AFTER CREDIT		SUMMARY STATISTICS		
	Frequency	Percent	Frequency	Percent	Computed χ^2	Df	P-value
Very active	11	5.8	29	15.3			
Active	32	16.8	160	84.2			
Inactive	7	3.7	0	0.0	7.341	3	0.043**
Very inactive	140	73.7	1	0.5			
Total	**190**	**100.0**	**190**	**100.0**			

*This Table indicates the opinion of women business owners regarding the activeness of their firms in terms of sales before accessing microcredit and after accessing microcredit from Kenya Women Finance Trust. The results suggest that a significant majority of women entrepreneurs (84%) believed that their firms became more active after accessing microcredit than before (n=190; χ^2=7.341; 3 degrees of freedom; p-value =0.05). Note that *,** and *** represents significance at 10, 5 and 1 percent, respectively.*

The results yielded a computed chi square value of 7.341 with 5 degrees of freedom. The results were statistically significant within 5% error margin, leading to the rejection of the null hypothesis stating that *there is no statistical association between access to microcredit from KWFT and the growth of SMEs in terms of sales* because it contradicted empirical evidence. This implies that there was some significant association between access to microcredit and the growth of women-owned SMEs. Hence, about 85% of the SMEs were likely to experience higher growth after accessing microcredit than before. Through improved sales, SMEs were in a better position to improve revenues and accumulate capital resources for reinvestments. In conclusion, access to microcredit facilities is likely to have a positive effect on the growth of SMEs in terms of sales.

The growth and expansion of SMEs requires sustained investment in working capital. However, at low levels of net profits, the accumulation of such capital may be difficult. Net profits provide a natural way through which SMEs build their financial base and replenish working capital. As net profits increase, so is the likelihood that an SME is experiencing growth. Based on these premises, we requested participants to indicate if there was any change in net profits, looking at the period before and after receiving microcredit from KWFT. The results presented in Table 4 below shows that the majority, [152 (80.0%)] participants were of the view that their SMEs registered dismal performance in terms of net profits before accessing microcredit from KWFT. After funding, up to 166 (87.4%) participants indicated that there was a positive change in net profits.

Table 4: Performance Before and After Access to Credit in Terms of Profits

CHANGE IN PROFIT	BEFORE CREDIT		AFTER CREDIT		SUMMARY STATISTICS		
	Frequency	Percent	Frequency	Percent	Computed χ^2	Df	P-value
Profit increased	18	9.5	166	87.4	13.144	2	0.031**
No change in profit	20	10.5	17	8.9			
Profit decreased	152	80.0	7	3.7			
Total	**190**	**100.0**	**190**	**100.0**			

*This Table presents women business owners' opinion regarding change in net profits before accessing microcredit and after accessing microcredit from Kenya Women Finance Trust. The results suggest that a significant majority of women entrepreneurs (87%) believed that net profits changed positively after accessing microcredit than before (n=190; χ^2= 13.144; 2 df; p=0.031). Note that *,** and *** represents significance at 10, 5 and 1 percent, respectively.*

The results obtained a computed chi square value of 13.0, with 2 degrees of freedom, which was statistically significant within 5% error margin. This led to the rejection of the null hypothesis stating that *there is no statistical association between access to microcredit and the growth of SMEs in terms of net profits* because it was inconsistent with actual data. The results suggested up to 95% chance that access to microcredit provided by KWFT was statistically associated with the growth of women-owned SMEs.

The number of paid workers is one of the key indicators commonly used to measure the magnitude of growth among SMEs. The bigger the change in the number paid workforce over time the higher the likelihood that growth is taking place. We requested participants to state the number of paid workers they had before and after receiving microcredit from KWFT. The results showed that up to 141 (74.2%) SMEs had between 1 and 9 paid workers, 41 (21.6%) had between 10 and 19 workers, while 8 (4.2%) had 20 workers or more. More still, Table 5 presents the results obtained from the bivariate analysis regarding change in the number of paid workers between the pre-credit and post-credit periods. The results suggest that there was a general increment in the number of paid workers.

Table 5: Variation in the Number of Paid Workers

NUMBER OF PAID WORKERS	BEFORE CREDIT		AFTER CREDIT		SUMMARY STATISTICS		
	Frequency	Percent	Frequency	Percent	Computed χ^2	Df	P-value
1 to 9 workers	128	67.4	135	71.1	16.220	2	0.027**
10-19 workers	54	28.4	40	21.1			
20 workers+	8	4.2	15	7.9			
Total	**190**	**100.0**	**190**	**100.0**			

*The Table shows women business owners' opinion regarding change in the number of paid workers before accessing microcredit and after accessing microcredit from Kenya Women Finance Trust. The results suggest increment in the number of paid workers (n=190; computed χ^2= 16.220; degrees of freedom =2; p-value=0.027). Note that *,** and *** represents significance at 10, 5 and 1 percent, respectively.*

The analysis obtained a computed chi square value of 16.220, with 2 degrees of freedom. This was statistically significant within 5% error margin, leading to rejection of the third null hypothesis, which stated that *there is no significant association between access to microcredit and the growth of SMEs in terms of number of paid workers*. The results implied up to 95% chance that access to microcredit

provided by KWFT was associated with growth of women-owned SMEs in terms of number of paid workers. This suggests that most SMEs experienced increased performance after receiving microcredit, which necessitated the number of paid workers to go up. In conclusion, access to microcredit is likely to spur SME growth, which in turn is likely to create more employment opportunities.

The level of indebtedness is yet another indicator of whether an SME is growing or not. We further asked participants to state if there was any change in the trend of liabilities, during the period before and after obtaining funding from KWFT. As indicated in Table 6, liabilities were increasing for majority of participants [164 (86.3%)] before accessing microcredit. However, this trend changed for the majority, [163 (85.8%)] who indicated that their liabilities were decreasing after accessing microcredit from KWFT.

Table 6: Liability Status Before and After Credit in Terms of Liabilities

CHANGE IN LIABILITIES	BEFORE CREDIT		AFTER CREDIT		SUMMARY STATISTICS		
	Frequency	Percent	Frequency	Percent	Computed χ^2	Df	P-value
Liabilities increasing	164	86.3	19	10.0	9.024	2	0.046**
No change in liabilities	12	6.3	8	4.2			
Liabilities decreasing	14	7.4	163	85.8			
Total	**190**	**100.0**	**190**	**100.0**			

*This Table presents the perceptions of women business owners' opinion regarding change in liability status before accessing microcredit and after accessing microcredit from Kenya Women Finance Trust. The results show that for most participants (86%), liability was decreasing after accessing microcredit from the financial institution (n=190; χ^2=9.024; 2 df; p= 0.046). Note that *,** and *** represents significance at 10, 5 and 1 percent, respectively.*

In addition, he results obtained a computed chi square value of 9.024 with 2 degrees of freedom, which prompted rejection of the null hypothesis stating that *there is no statistical association between access to microcredit and the growth of women-owned SMEs in terms of the level of liabilities.* This suggests up to 95% chance that access to microcredit provided by KWFT significantly associated with the growth of women-owned SMEs in terms of liability status. In conclusion, the results suggested that a significant relationship exists between access to microcredit facilities and the reduction of liabilities for a business entity. Better still, access to microcredit enabled SMEs to manage their liabilities.

CONCLUSIONS

The main objective of this study was to assess the effects of microcredit on the growth of women-owned SMEs within the Central Business District (CBD) of Kisumu City. To achieve this objective, we sourced primary data from women entrepreneurs who had accessed microcredit from Kenya Women Finance Trust (KWFT). The study revealed that more than 90% of participants had received microcredit exclusively from KWFT, while less than 10% sought supplementary funding from other sources such as community savings and loan schemes, friends and relatives.

Even though KWFT played an important role in financing women-owned Small and medium enterprise (SMEs), alternative sources of financing were equally important in filling up the financing gap, which arose due to inadequacy of microcredit funds provided by KWFT. It also emerged that women entrepreneurs could only borrow up to a maximum of KES 100,000 under the group-based lending model. Much as the microcredit ceiling was a precautionary measure against default, it constrained the potential of women with greater entrepreneurial ambitions. This necessitates the revision of lending policies under the group-based model to address the actual financing needs of women-owned SMEs.

Microcredit was availed to women under two models - the individual model and the group-based model. Although the individual model provided opportunity for women to access higher amounts of credit funds,

it did not benefit most people due to stringent minimum qualification, including requirement for collateral. Out of 190 participants, only 17 (8.9%) had accessed microcredit from KWFT as individual applicants. Most women lacked suitable collateral to secure microcredit through the individual-based lending model. This worsened because in most traditional African setting, women lack opportunity to possess immovable properties such as land. The assumption that women entrepreneurs can accumulate wealth and afford collateral may be unrealistic, especially in a highly competitive business environment, where most young business entities die within a year of operation. Thus, sensitizing men to provide necessary back up to women in terms of collateral may be a feasible alternative for enhancing access to microcredit for women-owned SMEs.

The group-based model provided a greater access to microcredit for women entrepreneurs. Although the model anchors on friendlier terms, it has a limited funding scope. Based on this premise, entrepreneurs in need of capitation funding beyond KES 100,000 found the model inappropriate in supporting their entrepreneurship ambitions. Thus, the model anchors on policies that created a glass ceiling to the entrepreneurial potential of women and women-owned SMEs. Increasing the amount of microcredit accessible under this model would go a long way in making the KWFT financing program supportive and responsive to the financing needs of women entrepreneurs. Women groups provide a platform for women entrepreneurs to access affordable microcredit on friendly terms. This necessitates sensitization about the importance of such groups their economic empowerment.

Under the group-based lending model, the amount of microcredit accessible was standard for all eligible borrowers, irrespective of whether the location of their SMEs is rural or urban. This concern may be justified by the increasing cost of doing business, especially in urban areas. In this regard, Helms (1997) reported that SMEs in urban settings, particularly in developing countries, are twice as likely to collapse as enterprises operating in rural settings. The growth of urban-based SMEs is a subject of various factors, including stiff competition, insecurity and unfavourable business policies, leading to heavy taxation and harassment by licensing authorities. Based on this, formulating lending policies that are sensitive to the financing needs of urban and rural-based SMEs is likely to improve KWFT's microcredit program. The study also found that KWFT's microcredit program targets women entrepreneurs in rural areas. However, recent studies and policy pronouncements have indicated that poverty in urban areas is escalating at an alarming rate, the main contributing factors being a high rate of rural-urban migration and a stagnant industrial sector (Atieno, 2009). This makes it important to formulate financing policies that are more sensitive to the financing needs of SMEs in various settings.

Access to microcredit remains instrumental for the growth of women-owned SMEs. The key indicators of growth considered in this study included sales volume, net profits, the number of paid workers, and the trend of liabilities before and after receiving microcredit. The study found that access to microcredit significantly associated with all these indicators of growth. The results suggested up to 95% chance that SMEs experienced higher sales and better profits after accessing credit from KWFT. This enabled SMEs to hire more paid workers to support increasing production and to reverse liability trends. In conclusion, adjusting lending policies to be consistent with the actual financing needs of women, and business environment is likely to strengthen the role of KWFT, as a leading pro-women microcredit institution in the country.

We included of women entrepreneurs in this study based on whether they had benefitted from microcredit from KWFT, duration in business of at least three years and availability of complete financial records. Although 230 entrepreneurs were contacted, only 190 (82.6%) successfully met the inclusion criteria. The main challenge was lack of complete financial records detailing profits and liabilities before and after receiving microcredit. Besides, some entrepreneurs deliberately avoided sharing up-to-date financial records due to suspicion that such information may end-up in the hands of taxation authority. We

excluded such entrepreneurs from the study, though at the expense of the sample size and validity of the resultant information.

This study reveals that access to microcredit is a key determinant of growth among women-owned SMEs. However, the environment in which such SMEs operate may also have significant influence on their financial health and the economic status of women entrepreneurs. More specifically, environmental factors such as taxation policies, competition, purchasing power of target consumers, demand patterns and utility costs, among others may have significant influence on SME performance regardless of the amount of credit funds invested in a business. Future studies should explore environmental factors influencing the performance of women-owned SMEs and make appropriate policy and programmatic recommendations.

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