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## Aspects Influencing the Loan Uptake of Women Enterprise Funds by Small and Medium Enterprises in Thika Town, Kenya

**Ngugi, Damaris Wambui**

Student, Department of Business Administration, Kenyatta University (KU), Kenya

**Thuo, Anthony**

Lecturer, Department of Business Administration, Kenyatta University (KU), Kenya

### **Abstract:**

*The study had four objectives as follows; to analyse the significance of access to information about Women Enterprise Fund on the uptake of the loans; to analyse the significance of cost of lending on the uptake of Women Enterprise Funds loans; to analyse the effect of credit rating on the uptake of loans at the Women Enterprise Fund and to establish the effect of financial literacy training on the uptake of Women Enterprise Funds. Descriptive survey design was used and a sample of 169 respondents was selected by stratified random sampling from a target population of 564 women owner-managers. The study showed that lack of financial training hampers the uptake of loans by Small and Medium-sized Enterprises. In addition, high interest rates did not prevent women businesses in Thika town from accessing credit. Information on available funding opportunities are not accessible to many women enterprises. The financial training literacy among women entrepreneurs in Thika Town is low and inadequate. Although lack of financial training literacy has a negative effect on access to loans, its effect was not a significant determinant of accessing Women Enterprise Funds. The cost of financing was high hence resulting into an inverse relationship with access to loans by women enterprises in Thika Town. There was little information about how to access Women Enterprise Funds among women entrepreneurs in Thika Town. Credit rating among women enterprises was poor hence a negative relationship with access to Women Enterprise Funds loans. This study recommends that Women Enterprise Funds government and financial institutions should provide women entrepreneurs with financial training literacy. Women enterprises need to seek financial training before making major financial decision that could have detrimental effects on their businesses.*

**Keywords:** Women Enterprise Funds, Loans, uptake, Small and Medium-sized Enterprises, credit rating, accessibility, financing

### **1. Introduction**

Securing loans is an important concept that helps individuals and Small and Medium Enterprises to generally increase their income while creating more assets for themselves. The poor and vulnerable in the society have been targeted by different organizations in low-income regions through the introduction of credit facilities. According to Liberta (2017), women hesitate to take Bank loans as a form of development, but those who have taken loans as a way of capitalization experienced increase in their business growth. The current global force participation rate for women is close to 49% whereas for men is 75%, a difference of 16 points (ILO, 2017).

According to World Bank data report (2019), female population was reported at 51.39 %, thus contributing to slightly higher than half the population of the whole country. Whereas the highest number of women in workforce is in Africa, they also account for highest percentage of unpaid family workers (Abdi, 2017). A critical aspect of promoting gender equality is the empowerment of women, with a focus on identifying and redressing economic imbalances and giving women more autonomy to manage their lives (Sarojini, 2017). Giving small loans at good rates to women and farmers is one of the best ways to make rural areas sustainable because financing for women helps the whole community (Chris, 2019). Women entrepreneurship plays an important role in the economic development of a country. Eyerusalem (2019) found that women entrepreneurs enhance livelihoods within the family and leads to creation of wealth at national level.

In order to respond to this high rate of economic gender inequality, policy makers are increasingly focusing on encouraging women to create their own jobs. Various Governments are increasingly promoting the spirit of entrepreneurship. Individuals and economic groups are encouraged to form new businesses and provided with Government support such as tax incentives, loans and grants and communication systems to encourage this creation process. This is of paramount importance because with the size of the projected growth of the labour force, even under the best scenarios, the expansion of wage and salary jobs will not absorb the majority of the future labour force (ILO, 2016).

Finance is very crucial in starting and operations of a business. Studies carried out on this area have indicated that there is a positive relationship between credit and enterprise sector for women entrepreneurs. Women Entrepreneurs who have access to finance (financing and who are not afflicted by the discriminatory practices levelled against women

entrepreneurs seeking funds are likely to venture in the male dominated sector (Robb& Coleman, 2017). Financial capital is one of the ingredients enabling business to start, expand, remain viable and become sustainable (Robb&Coleman, 2017).

### *1.1.Statement of the Problem*

Women Enterprise Funds are financial resources that are allocated for women to start or expand existing businesses. When we speak of Women Enterprise Funds, we refer ourselves to those funds that are set aside by Government with an aim of economically empowering women (ILO, 2016) and in the context of this study the subject is Tuinuke loans. Researches carried out on entrepreneurship consider lack of capital as a main problem. Lack of capital is the main initial constraint facing Jua Kali enterprise (Gatobu,2019). The idea behind the conception of Women Enterprise Funds was to provide women entrepreneurs with access to finance and enhance their entrepreneurial skills, as a way of addressing unemployment and poverty.

Credit facilities provide small and medium enterprises a basis of starting a business and boosting the already existing enterprises. In recognition of this, the government has shown its commitment and role to have conducive environments for operators in the small and medium enterprises segment. Through Government policies, Women Enterprise Fund was created to offer affordable credit to women and it's expected that they will thrive in businesses. This fund is channeled through Constituency Women Enterprise Scheme and Financial Intermediaries.

However, of concern is that, even though the government has availed affordable funding to women entrepreneurs and prospective start-ups, these funds have not been fully utilized by the target group. The Women Enterprise Funds have not reached the targeted number of beneficiaries despite disbursement of more than KShs.7 billion (Auditor General Report, 2018). According to the Auditor General, the Women Enterprise Fund strategic plan for 2013- 2017 was to increase number of women beneficiaries from 536,649 in June 2012 to 1,391,150 by June 2017. The review of detailed Constituency Women Scheme in November 2016 showed that Women Enterprise Funds had reached 710,820, which is just half of the targeted number. In spite of the backdrop, recent studies have shown that under capitalization is a major problem faced by Kenyan women entrepreneurs. According to Rocco (2019), under capitalization is a major factor that has influenced the shutting down and lack of growth of women- owned businesses. The major reason for shut- down of women owned business is lack of finance and limited know-how of running businesses (Mwobobia, 2019).

This study, therefore, sought to analyze the institutional and external aspects influencing the loan uptake of women enterprise funds by small and medium enterprises in Thkia town Kenya.

### *1.2. General Objective*

This study sought to analyze the institutional and external aspects influencing the loan uptake of Women Enterprise Fund by small and medium enterprises in Thika Town.

#### 1.3.1. Specific Objectives

The following were the specific objectives of the study

- To determine the significance of access to information on Women Enterprise Funds on the uptake of the loans.
- To determine the significance of cost of lending on the uptake of Women Enterprise Funds Loans.
- To determine the significance of credit rating of the loan applicators by Women Enterprise Fund on the uptake of the fund.
- To determine the significance of financial literacy training on the uptake of Women Enterprise Funds.

## **2. Literature Review**

### *2.1. Theoretical Literature Review*

The Keynesian Theory was developed by John Maynard Keynes in an attempt to understand the great depression that happened in the 1930s. The three principal tenants in the Keynesian description of how demand works are; aggregate demand is influenced by economic decisions, prices respond slowly to changes in supply and demand and changes of aggregate, whether anticipated or not have greatest influence on employment and real output, not on prices. Moreno(1930) developed the first social grams for the study of social interpersonal relationships. The theory posits that individual are known to come together to ensure maximized common desires. The social network is formed by nodes and ties, with the nodes representing the individuals in a network and the ties representing the formed relationship, whereas the network is a representation of the common goals that they want to meet. Returns of investments increase when information is directed to the network. The Credit Equilibrium Theory was developed by Jaffe (1971) who described credit market as a perfect competition market where non-profit/loss point exists. This point is a tangent of credit supply band credit demand. A model of neoclassical credit market postulates that the terms of credits clear the markets.

### *2.2. Empirical Literature Review*

Tuitokek (2016) performed a study on the factors that influence the uptake of Youth Enterprise Fund loans in Tambach Ward, Keiyo North County. The objective of the study was to determine how youth awareness influence the uptake of Youth Enterprise Development Fund loans. The study adopted the descriptive research design and the target population was the 70 youth groups in Tambach County. The study concluded that lack of information adversely influenced the uptake of Youth Development Funds Loans in Tambach Ward, Keiyo North County. Guyo (2017) carried out a study on the effect of interest rates on the uptake of loans in Kenya Commercial Bank. The objective of the study was to determine the effect of interest rate capping on the uptake of commercial Banks in Kenya. The study adopted the

descriptive research to institute whether a connection existed between interest rate capping and uptake of loans in Kenya Commercial Bank. The study concluded that capping of interest rates by commercial banks of Kenya resulted to more retail consumers taking loans and there was an increase in loan uptake. Obbuyi (2017) carried out a study on the effect of credit rating policies on loan uptake of the Savings and Credit Co-operative Organisations in Nairobi County. The objective of the study was to analyse the significance of credit rating policies on loan uptake in Saccos in Nairobi County. The findings of the study showed that credit guaranteed programs have mixed success in improving the availability of bank credit to small businesses and developing countries. Kisaka (2016) assessed the effect of credit rating practices on loan book performance of commercial banks of Kenya. The research objective was to determine the significance of credit rating practices on the commercial banks of Kenya. The study utilized descriptive research design and the population of the study was the 44 registered banks in Kenya. The results of the study showed that credit rating practices greatly influence the loan book performance of commercial banks in Kenya. Lusimbo (2016) carried out a study on the relationship between financial literacy and the growth of Micro and Small Enterprises in Kenya, Kakamega Central County. The study covered 1300 Micro and Small Enterprises registered by the revenue department in Kakamega and was limited to Micro and Small Enterprises with at least 3 employees and 5 years of operations and minimum turnover of 5 million. The study adopted a descriptive cross sectional survey design. The findings of the study showed that there was a positive relationship between enterprise growth and financial literacy and that Micro and Small Enterprises that are more successful are run by entrepreneurs who are financially literate.

### 3. Research Methodology

The study adopted a correlational descriptive research design. Descriptive research design was appropriate for the study because it was used to ask questions about respondent's beliefs, opinions, attitudes, characteristics and behaviors in order to generalize the population. The dependent and independent variables were the uptake of Women Enterprise Fund loans and the institutional and external aspects influencing the uptake of the loans. The population comprised of those firms that are run by women entrepreneurs in Thika. To determine whether a business is women owned, 51% of the capital or shares must be owned by a woman. A sample of 169 respondents was selected by stratified random sampling from a target population of 564 owner-managers.

The study made use of questionnaires as the main tool for collecting data from the respondents. The questionnaires were first edited for purposes of ensuring consistency and completeness. The data was coded and through the use of SPSS Version 23 the researcher began analyzing the keyed data.

Reliability of the questionnaire was achieved by ensuring that the questionnaire was clear, well defined and administered to the right sample population.

The chosen respondents were guided on the most proficient method to fill in the questionnaire. The study used the analysis of variance (ANOVA) to examine the effect of the independent variables on the dependent variable in panel data model. Significance was pegged at 5% level.

### 4. Data Analysis, Presentation and Interpretation

#### 4.1. Response Rate

A total of 169 questionnaires were distributed. Out of 169 questionnaires, 148 of them were filled and returned for analysis. This makes a response rate of 87.6% which was considered adequate for data analysis and making conclusions.

#### 4.2. Influence of finance training on the uptake of Women Enterprise Funds Loan

The study findings demonstrate that most of the study participants (81.1%) agreed with the statement that lack of financial training hampers the uptake of loans by small and medium enterprises. An additional 2% of the study participants indicated they strongly agreed with the statement. Only 10.8% of the respondents specified that they disagreed with the statement while an additional 2.7% specified that they strongly disagreed with the statement. The study findings demonstrate that lack of financial training can prevent loan uptake such as Tuinuke loans by Small and Medium Enterprises. The results are shown summarized in Table 4.1

Lack of financial Training Hampers the Uptake of Loans by SME		Frequency	Percent	Cumulative Percent
	Strongly disagree	4	2.7	2.7
	Disagree	16	10.8	13.5
	Undecided	5	3.4	16.9
	Agree	120	81.1	98.0
	Strongly agree	3	2.0	100.0
Total		148	100.0	

Table 1: Lack of Financial Training Hampers the Uptake of Loans by SME

#### 4.2. Cost of lending and the uptake of Women Enterprise Funds Loans

The study findings demonstrate that the majority of the study participants (60.8%) disagreed with the statement that businesses are unable to acquire credit due to high interest rates. An additional 24.3% specified that they strongly

disagree with the statement. Respondents who were undecided on the statement were 6.8% while 4.7% and 3.4% specified that they agree and strongly agree correspondingly. The results mean that interest rates are not the major reason that causes businesses to get credit. The results are summarized in table 4.2.

Businesses are Unable to Acquire Enough Credit Due to High Interest Rates		Frequency	Percent	Cumulative Percent
	Strongly disagree	36	24.3	24.3
	Disagree	90	60.8	85.1
	Undecided	10	6.8	91.9
	Agree	7	4.7	96.6
	Strongly agree	5	3.4	100.0
	Total	148	100.0	

Table 2: Interest Rates and Loan Uptake

#### 4.3. Collateral and Uptake of Women Enterprise Fund Loans

The study findings demonstrate that most of the study participants (58.1%) specified that they agree with the statement that collateral is a major requirement which denies businesses to acquire loans. An additional 8.1% of the study participants specified that they strongly agree with the statement. Undecided respondents were 17.6% while those that disagreed with the statement were 12.2% an additional 4.1% specified that they disagree with the statement. The results show the importance placed on collateral as a requirement for businesses to acquire loans. The findings are presented in table 4.3.

Collateral is a Major Requirement Which Denies Business to Acquire Loans		Frequency	Percent	Cumulative Percent
	Strongly disagree	6	4.1	4.1
	Disagree	18	12.2	16.2
	Undecided	26	17.6	33.8
	Agree	86	58.1	91.9
	Strongly agree	12	8.1	100.0
	Total	148	100.0	

Table 3: Collateral and the uptake of Women Enterprise Funds Loans

#### 4.4. Information Access and Uptake of Women Enterprise Fund Loans

The study findings showed that women entrepreneurs do not get enough information on funding opportunities which could help uplift and grow their businesses. The results are summarized in Table 4.

It is Easy to Acquire Information About Funding and Loan Uptake		Frequency	Percent	Cumulative Percent
	Strongly disagree	81	54.7	54.7
	Disagree	36	24.3	79.1
	Undecided	10	6.8	85.8
	Agree	14	9.5	95.3
	Strongly agree	7	4.7	100.0
	Total	148	100.0	

Table 4: Ease of Acquiring Information

#### 4.5. Hypotheses Testing

After the regression analysis, the analysis model equation can be completed and hypotheses tested.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

$$Y = 19.129 - 0.028X_1 - 0.095X_2 - 0.233X_3 - 0.249X_4 + 2.991$$

The study findings demonstrate that information about WEF has a significant relationship with uptake of Women Enterprise Funds in Thika Town ( $\beta = -0.233$ ,  $p = 0.025$ ). We therefore reject the null hypothesis that:

- $H_{01}$ : Information about Women Enterprise Funds does not have a significant effect on the uptake of Women Enterprise Funds in Thika town. We adopt alternative hypothesis that
- $H_{11}$ : Information about Women Enterprise Funds has a significant effect on the uptake of Women Enterprise Funds in Thika town. The study findings demonstrate that cost of financing does not have a significant relationship with access to WEF ( $\beta = -0.095$ ,  $p = 0.411$ ). We therefore fail to reject the null hypothesis that
- $H_{02}$ : Cost of lending does not have a significant effect on the uptake of Women Enterprise Funds Loans. The study findings demonstrate that credit rating has a significant relationship with access to WEF ( $\beta = -0.249$ ,  $p = 0.042$ ). We therefore reject null hypothesis that

- H<sub>03</sub>: Credit rating does not have a significant effect on the uptake of Women Enterprise Funds Loans. We adopt alternative hypothesis that
- H<sub>3</sub>: Credit rating has a significant effect on the uptake of Women Enterprise Funds Loans. The study findings demonstrate that financial training literacy has no significant relationship with access to WEF ( $\beta = -0.028$ ,  $p = 0.775$ ). We therefore fail to reject the null hypothesis that
- H<sub>04</sub>: Financial literacy does not have a significant effect on the uptake of Women Enterprise Funds loans. These results are summarized in hypothesis testing table 4.5.

Hypothesis	Findings	Conclusion
H <sub>01</sub> : Information about Women Enterprise Funds does not have a significant effect on the uptake of Women Enterprise Funds in Thika town	Significant ( $\beta = -0.233$ , $p = 0.025$ )	Reject the null hypothesis
H <sub>02</sub> : Cost of lending does not have a significant effect on the uptake of Women Enterprise Funds Loans.	Not significant ( $\beta = -0.095$ , $p = 0.411$ )	Fail to reject the null hypothesis
H <sub>03</sub> : Credit rating does not have a significant effect on the uptake of Women Enterprise Funds Loans.	Significant ( $\beta = -0.249$ , $p = 0.042$ )	Reject the null hypothesis
H <sub>04</sub> : Financial literacy does not have a significant effect on the uptake of Women Enterprise Funds loans	Not significant ( $\beta = -0.028$ , $p = 0.775$ )	Fail to reject the null hypothesis

Table 5: Hypotheses Testing Results

## 5. Conclusion and Recommendations

### 5.1. Conclusion

The study found that although the majority of the respondents were literate, having undergone post-secondary education, they were did not have adequate financial training to enable them to make good funding and capitalization decisions.

The study revealed that cost of financing was a major limitation to the uptake of loans by women entrepreneurs in Thika Town. Expensive credit facilities are known to kill businesses when they cannot sustain servicing such facilities. Information about Women Enterprise Fund is important for the targeted beneficiaries who are women entrepreneurs.

There was little information about the organization among women entrepreneurs in Thika Town. Credit rating among women enterprises was low hence a negative relationship with access to Women Enterprise Fund loans. Many women enterprises struggle before they break even and most could have defaulted paying loans from other financial institutions in the process.

### 5.2. Recommendations

This study recommends that Women Enterprise Fund, government and financial institutions should provide women with financial training literacy. Women enterprises should seek financial training before making major financial decisions that could have detrimental effects on their businesses. The financial providers and Women Enterprise Fund should find ways of guaranteeing repayment of their loans rather than relying on collateral which could lock out many deserving women entrepreneurs from accessing loans. Women enterprises should seek professional help for their bookkeeping to avoid challenges that may cost them in future when they are seeking credit. The relevant financial services providers and lenders should be generous with information to make sure it reaches their targeted customers or beneficiaries. The financiers should look at the potential of a business when deciding to commit their funds rather than focusing on its net worth in terms of assets alone. Women Enterprise Fund should be flexible in terms of the amount that can be advanced to women enterprises. Some activities that such businesses carry out could require large sums of capital and having a limit could hinder such businesses from taking Women Enterprise Fund loans. The organization should review their loan application procedure and waiting time to make the process seamless.

### 5.3. Limitations of the Study

The study only used primary data; hence it did not consider any secondary data or any qualitative data that could have significant influence on the study variables. The study did not also take into account the effects of political climate and Government influence or analyze internal or external factors that had affected the loan uptake during the period of the study. The period of the study was limited and data was collected over a relatively short period of time and depth of the study notwithstanding, this restricted the scope of the study.

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