Access to Credit by Women’s Groups in Kenya

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INTRODUCTION

The Kenya government recognizes the role of women as primary players in the agricultural and informal sectors. It has therefore heeded to the call by women for greater economic empowerment and has formulated policies to mainstream them alongside men in the overall development of the nation (Republic of Kenya 1994a, 1996). Income-generating projects for women’s groups are, and will continue in the foreseeable future, to be one of the most important instruments through which individuals and their families are economically empowered. The groups aim at building capacity to help themselves by undertaking programs that have a direct impact on their welfare. These programs have had a new orientation of income-generation as opposed to original aim of group work and merry-go-round. This has culminated in the rapid growth of small-scale businesses run and managed by women groups. UNICEF (1992) study reinforced this point by asserting that women groups play a significant role in the effort to reduce maternal deaths, child deaths and poverty. But central to the success and sustainability of women’s groups’ projects in the rural areas, are issues related to access, affordability and availability of credit.

JUSTIFICATION OF THE STUDY

The adoption of World Bank and the International Monetary Fund led Structural Adjustment Programs by Kenya in the early 1980’s placed additional burden to Kenyans. Employment opportunities
Gender Inequality in Developing Countries

dwindled with time and subsidies on social services were removed. People's standards of living were adversely affected especially for the majority who live in the rural areas. It is believed that the worst hit group economically is women in the rural areas where more women than men live (United Nations Fund for Population Activities/ Women’s Bureau 1996:18). The woman with an independent source of income has dignity, is less likely to be a victim of domestic violence and has more say in the household decision making process.

To economically empower these people, there is a need to enhance their level of participation in productive activities. Therefore, mechanisms need to be put in place that will ensure provision of basic economic assets through availing affordable credit to them. Affordable credit will lead to increased returns, economic independence, and material provision for the family and improved social welfare for the society as a whole.

OBJECTIVE

The objective of the paper is to highlight the challenges that face women groups regarding access to affordable credit and opportunities that are available. It addresses the emerging credit policy issues so as to ensure financial adequacy, success and sustainability of the groups’ income-generating activities.

STUDY AREA, SAMPLING TECHNIQUE AND SAMPLE SIZE

The study area was Kakamega district, which is in western province of Kenya. According to Kenya (Republic of Kenya 1999: 105) report on poverty, Kakamega district had, on the overall, 50.6 per cent poor people, with males and females making up to 51 per cent and 49 per cent respectively. In the district, cultural biases against women, especially on rights to land ownership and other resources are still a major concern (Republic of Kenya 1994b, 1997). Difficulties in land inheritance, obtaining title deed and loans, are common problems.

Systematic Random Sampling method was used to obtain the sample size that fulfilled the requirement of efficiency, representation, reliability and flexibility as recommended by Kothari (1985: 88). Fourteen per cent sample was desired hence the first women’s group
in each source list per division was selected randomly from the first seven groups and thereafter every seventh group was automatically included in the sample. Informants for each woman’s group in the sample consisted of group leaders, members, and representatives of the government, micro-finance institutions, commercial banks and international agencies. Primary data on sources of funds were collected for 171 women’s groups’ income generating activities by way of observation, personal interviews, focussed group discussions and administration of questionnaires.

EMPIRICAL RESULT AND DISCUSSION

The survival of the women’s groups’ income generating activities entirely rests on the availability of funds. Availability of affordable credit creates opportunities for the groups to get funds so as to embark on income-generating activities. It was therefore hypothesized that the presence of money lending institutions especially commercial banks and micro-finance institutions would encourage the groups to borrow the much-needed funds. The commercial banks that operate in the study area are Barclays Bank, Kenya Commercial Bank, Standard Chartered Bank, National Bank and Post Bank. The major money lending Non-bank institutions in the area include Improve Your Business; K-REP; Kenya Women Finance Trust; PRIDE-Kenya; Partnership for Productivity Service Foundation (PFP)-Kenya and Women Enterprise Development Company. The religious organizations involved in credit provision include ADRA; the Catholic Church; National Council of Churches of Kenya and Young Women Christian Association (YWCA). The government is also involved in providing credit through the Rural Enterprise Fund; Community Development Trust Fund (CDTF); Kenya Industrial Estate; and the Lake Basin Development Authority. Embassies of Japan, America, Britain and the Netherlands also provide financial assistance to the groups. Other agencies/authorities that provide financial assistance include Kenya Finland Cooperation, KENAFYA (A primary health care program carried out by Kenya and Finland), Danish International Development Agency, Swedish International Development Authority and Finish International Development Agency.

It can be seen from the foregoing that credit is actually available
in the study area to those who can meet the lending conditions of various credit-offering institutions. However, it appears that women groups do not take loans from these credit-offering institutions as depicted in the table 1.

### Table 1
**Sources of Funds for the Women’s Groups Projects**

<table>
<thead>
<tr>
<th>Source</th>
<th>Number of projects</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members Contributions</td>
<td>55</td>
<td>32</td>
</tr>
<tr>
<td>Funds Drives</td>
<td>44</td>
<td>25</td>
</tr>
<tr>
<td>Kenya Government</td>
<td>29</td>
<td>17</td>
</tr>
<tr>
<td>International Agencies</td>
<td>21</td>
<td>12</td>
</tr>
<tr>
<td>Micro finance Institutions</td>
<td>18</td>
<td>10</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Religious Organizations</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Individual Donations/loans</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>171</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Field Data*

Thirty two percent of the projects sampled were funded from members’ contributions. This is in line with the Makoffu (1995) finding that 95 per cent of funds used by the groups come from member’s contributions. This phenomenon explains why groups lack enough funds for their activities. This is because members often default on their contributions. Twenty five percent of the projects that were sampled had been funded through funds drives (*Harambee*). In the researcher’s view, this is a potential source of funds given the Kenya’s long tradition of self-help. However, the groups must be well organized and pursue economically viable projects if they have to attract funds through this method.

Seventeen percent of the projects in the sample had received financial assistance from the Government. Most of them had been funded from the Presidential Women’s Development Funds drive of 1997. However, the funds were inadequate to the extent that some groups only managed to open bank accounts. Furthermore, the funds were received only once and most groups, which benefited, registered for just that purpose and have since ceased to exist. These funds also
generated a lot of misunderstanding between members that split the groups instead of uniting them. Moreover, a few groups had shared the money among members.

International donor agencies and embassies had funded only twelve percent of the sampled projects. Moreover, these agencies and embassies do not directly target Women’s Groups’ projects but instead fund specific activities that are related to their programmes. Only ten percent of the projects sampled had been funded through credit from micro-finance institutions. These institutions therefore play a minimal role as far as financing of the women’s groups activities are concerned. Only two percent of the sampled projects were financed by credit from commercial banks despite several banks operating in the area as listed in the section dealing with availability of credit. Ironically, Kenya Commercial Bank operates a fund for small and micro-enterprises in the area. The recent closure of some of the sub-branches of commercial banks has made access to credit by those operating in the rural areas even more illusive. Ninety six per cent of the sampled groups operated bank accounts while four per cent did not. Seventy one per cent of the groups that operated bank accounts indicated that their accounts had minimum balances most of the time. They also complained of paying high bank charges. However, they were forced to maintain the account because it is one of the requirements for registration and existence of the group.

There are several religious organizations and churches that give credit to women’s groups. These organizations give modest loans to their members and groups. Some of them charge interest rates as low as seven percent. However, this source of credit is not open to everybody and this may explain why only two percent of the sampled projects were funded from this source. Another source of credit that was investigated was loans from individuals. On a priori basis, it was postulated that progressive and prominent members in the community could donate and/or lend funds or materials towards the groups’ activities. Unfortunately, none of the sampled activities had been funded from this source.

CHALLENGES

Appropriate Collateral

Credit offering institutions demand collateral in form of land
title deed, houses and share certificates. While women groups do not own valuable properties, have no share certificates, and the land they access do not belong to them. In fact most groups did not have enough land on which to carry out their project despite the hypothesis that land is available and cheap in the rural areas. The factors that are observed to be contributing to lack of own land or inadequacy of it are: cultural practices that do not allow women to own land through inheritance (Republic of Kenya 1994b: 101) and low economic empowerment of rural women (Republic of Kenya 1986 and 1992).

**Lending Condition**

Credit offering institutions have stringent lending conditions. They require groups to have registered, paid registration fees, able to file certain statements of accounts, prepare and show cash flow analysis, business plans and project proposals. However, these groups operate with no business plans, keep their records poorly and some do not keep records at all. They cannot therefore file proper statements of accounts and provide correct up to date information on their activities, which is one of the requirements that must be made for them to qualify for a loan. Furthermore, Credit offering institutions dictate to the groups the type of businesses to be undertaken. For example, those dealing with second hand clothes do not qualify for credit. Some groups complain of short grace and repayment periods.

**Interest Rates and Bank Charges**

Most groups sampled indicated that they do not borrow from commercial banks and micro-finance institutions due to high interest rates and bank charges. In fact, only ten percent and three percent of the projects sampled had been funded through loans taken from the micro-finance and commercial banks respectively. This is a major challenge because interest rates must be charged at the market rates to sustain the credit scheme. Moreover, it has not been proved that groups that borrow at market rates of interest do not make profit and are therefore unable to repay their loans. In fact, according to Ehigiamusoe (1995), Malcolm, Esipisu and Rao (1998), the poor are capable of borrowing at commercial of interest rates and repay their loans. Other reasons given by Ehigiamusoe (1995) for charging
commercial rates of interest include high transaction costs due to many applicants, promotion of discipline, protection of the loan fund against losses through bad debts and inflation, and expansion of the size and value of the loan fund. United Nations (1994) also argued that financial institutions should charge interest rates that cover operating costs and risk provision. This paper therefore argues that the idea of high interest rates and bank charges prohibiting taking of credit is a perceived one developed due to wrong attitude of the groups. This is a challenge that must be content with.

Drive, Inadequate Information and Experience in Taking Loans

According to Republic of Kenya (1992), Oketch (1999), Ekpenyong and Nyong (1992), and Oketch and Dondo (1994), lack of drive among the groups to seek institutional credit, inadequate information about credit availability, lack of experience in taking credit and inability of the groups to understand the complexity of credit transactions, hinder the groups from taking loans. Commercial banks and micro-finance institutions are partly to blame because of their restricted network and outreach activities. The argument that low level of numeracy and literacy among the group members hinder them from taking loans is unfounded because studies have shown that they are good borrowers because they remember facts and figures more often than the literate ones who rely on records (Malcolm, Esipisu, Mohanty and Rao 1998, United Nations 1994).

General Fear of Taking Loans

The general fear of taking loans was cited as a challenge. The fear emanates from the experience of seeing individuals in the community being prosecuted in case of defaulting on loan repayment and their properties being taken away (Malcolm, Esipisu, Mohanty and Rao 1998).

Outreach Programs and Poor Network

Most banks and micro-finance institutions have limited network and outreach programs. They concentrate their activities in urban areas and target successful businesspersons and progressive farmers. According to Oketch (1999:49) the outreach programs of micro-
Finance institutions like K-REP, KWFT, PRIDE-Kenya, FAULU and CARE-Kenya are limited due to shortage of resources and lack of legal capacity to provide a wide range of financial services. Most of them depend on grants and to require them to effectively expand their outreach activities is a big challenge.

Reluctance by Formal Financial Institutions to Lend to the Groups

Formal financial institutions are reluctant to lend to the groups due to high administrative overheads relative to the size of loans (Ekpenyong, and Nyong 1992, Oketch 1999, Republic of Kenya 1992). This is the case notwithstanding the government’s policies contained in Session papers No. 2 of 1992 and No.1 of 1986 that identifies financial institutions to be important agents in the delivery of credit and finance to micro and small-scale enterprises (Republic of Kenya 1992, 1986). The challenge is to appropriately assess beneficiaries and deal with high levels of bad and doubtful debts in the banking sector.

Insurance Cover

Insurance is an important ingredient in business. It ensures the continuity of business after the risk has happened even though it adds to the cost of doing business. Furthermore, the insurance cover could be used as collateral for obtaining loan. It is against this background that some financial institutions require groups to have taken insurance covers for their businesses before applying for a loan. However, since most groups do not take insurance covers for their business, this poses a major challenge to them.

Taxation

The groups pay tax to the government. Sixty four per cent of those who pay tax argue that taxation adversely affect their operations by reducing their working capital, thereby hindering expansion of their businesses. They were of the view that the government should consider exempting them from paying taxes. Furthermore, some credit offering institutions pay taxes to the government, which reduces the funds available for lending.
CONCLUSION

Opportunities are enormous that could be explored to improve the situation. Unexplored potential (opportunities) range from goodwill on the part of the present coalition government and the donor community in eradicating poverty, the working nation ethics, zero tolerance of corruption, availability of resources especially raw materials, possibility of establishing collaboration with the government, NGOs, and financial institutions in areas of training, and emotional management counseling, to the availability of credit and the extra hardworking women groups in the rural areas of Kenya. The groups need to effectively tap these opportunities that are available and put in place measures that will repel possible threats like the dwindling financial resources, liberation that has increased poverty among members and the effects of HIV/AIDS pandemic on their productivity. The paper therefore makes the following recommendations.

Credit offering institutions should:

- Give credit to the group relying on ability to pay and not land as collateral. The institutions may consider the characteristics of the group, peer pressure, type and profitability of the projects to be funded before granting credit.
- Lessen their lending conditions regarding business insurance covers, cash flow analysis, and type of collateral, type of project that they accept to fund and prosecution in case of default, and consider increasing the grace and repayment periods.
- Hire technical officers to advice the groups; evaluate performance of the groups’ projects, and assist in writing business plans, record keeping and follow up visits.
- Extend their outreach programs and network to the interior rural areas and avoid concentrating their activities in urban places.
- Organize training on loan management, leadership and governance before loan disbursement.
- Repackage their lending conditions and tailor their products taking in mind the shortcomings of the formal banking practices that hinder the groups’ access to credit.
- Encourage popular participation and involvement of the target groups in designing and implementing the credit scheme, loan application, processing, evaluation and approval.
• Apply installment repayment procedures for the groups that are involved in petty trades and dairy animal rearing due to low frequent earnings. While bulk repayment procedure should be applied to those groups that are involved in crop farming since they receive income once annually after harvesting.

The Government should:
• Set policies and legal framework that will remove barriers in credit provision by the commercial banks and micro-finance institutions.
• Consider exempting small-scale businesses owned by the groups in rural areas from paying taxes so as to increase their working capital.
• Exempt micro-finance institutions that give credit to groups in the rural areas from paying taxes and duties so as to extend more credit to the groups.

The groups and other stakeholders should:
• Be sensitized about credit availability.
• Undertake business counseling and emotional management training in order to manage credit properly and have positive attitudes about taking loans.
• Be made aware of alternative possible sources of funds through outreach programs and public awareness.
• Undertake business activities that are within the scope of funding from commercial Banks and micro-finance institutions.

REFERENCES


