

ROTATING SAVINGS AND CREDIT ASSOCIATIONS AND GROWTH OF WOMEN OWNED MICRO SMALL AND MEDIUM ENTERPRISES, IN BOMET COUNTY, KENYA

Ruth Chepkemai Serem,

MBA, Student Kenyatta University, Kenya

&

Dr. Ambrose Jagongo (Corresponding Author)

Senior Lecturer Kenyatta University, Kenya

DOI: <https://doi.org/10.56293/IJMSSSR.2024.5035>

IJMSSSR 2024

VOLUME 6

ISSUE 3 MAY - JUNE

ISSN: 2582 - 0265

Abstract: Small and medium-sized enterprises (SMEs) form the backbone of economies worldwide, comprising over 90% of businesses and playing a pivotal role in employment and value addition, particularly in non-agricultural sectors. In Kenya, this sector has been instrumental in sustaining livelihoods for millions, spanning both formal and informal economies. Despite their significance, SMEs often grapple with limited access to credit, a challenge exacerbated by perceived riskiness from the banking sector, attributed to the inherent opacity of smaller enterprises compared to their larger counterparts. Interestingly, they emerge as crucial lifelines, especially for women-owned businesses, offering alternative avenues for capital accumulation. However, despite the acknowledged importance of SMEs, research on their growth hurdles yields conflicting results, underscoring the need for a nuanced understanding. Therefore, this study sought to establish the effect of The Role of Rotating Savings and Credit Associations (ROSCA's) to the growth of women owned Micro small and medium enterprises (MSME's) in Bomet County, Kenya. The study adopted descriptive survey design. The target population was 270 registered and active women owned Micro Small and Medium Enterprises and a sample size of 135 was used. The study used both semi-structured questionnaire and data collection sheet to collect data. The data was analyzed using descriptive statistics and inferential statistics. The findings from data analysis indicated that lending policies have no statistical significance effect on the growth of women owned businesses (p -value= 0.020 > 0.05). The findings from the testing of literacy level of members on growth women owned businesses indicated there exists a positive effect ($\beta = .895$, $p < .05$). Guided by the findings a number of recommendations were made. Rotating Savings and Credit Associations (ROSCA's) should devise strategies on how they can save some funds for investments in income generating projects, this way members can increase their income pool. Lastly, ROSCA's should engage in training its members on financial management as it was noted to be a significant factor in influencing the growth of women owned Micro small and medium enterprises.

Keywords: ROSCA's-Rotating Saving and Credit associations, MSME's Micro small and medium enterprises.

1. Background of the Study

Micro, Small, and Medium Enterprises (MSMEs) stand as crucial pillars of socio-economic progress in Africa, as highlighted by various scholars (Tambunan, 2017; Ngugi et al., 2016). Their prevalence across African nations underscores their significant role in wealth creation, job generation, GDP growth, and fostering innovation and entrepreneurship. MSMEs are widely recognized as drivers of competitiveness and development, contributing substantially to economic growth at both national and grassroots levels. Their adaptability and flexible organizational structures position MSMEs as fertile grounds for innovation, according to Kobia, Katwalo, and Kiraka (2015). This agility enables them to swiftly respond to evolving market dynamics, thereby contributing to the production of economic and social value.

In Kenya, MSMEs form a formidable force, comprising a majority of businesses and employing a significant portion of the workforce (GOK, 2009). However, despite their vital contributions, MSMEs grapple with a multitude of challenges that impede their full potential. These include limited access to essential resources such as information, finance, and technology, along with cumbersome regulatory frameworks (GOK, 2005). Furthermore, securing funding from banks remains a daunting task for many MSMEs, as noted by Ryan (2014). The high rate of

MSME collapse within the initial years and the low rate of founding new enterprises underscore the sector's vulnerability (Ngui T., 2014). Even in the presence of numerous lending institutions, accessing funds remains a significant hurdle for Kenyan MSMEs, as highlighted by a UNDP report focusing on Kwale and Kitui Counties. Muthoni (2015) emphasizes the sheer volume of MSMEs in less developed countries, attributing them to a substantial portion of job creation. However, accessing higher value markets poses a significant challenge due to capital constraints, particularly for women entrepreneurs (Kirakaet, 2012). Despite these challenges, the MSME sector has historically served as a ladder for individuals ascending from subsistence living to active participation in the mainstream economy in Kenya (Maengwe & Otuya, 2016). Recognizing their pivotal role, the Kenyan Government, through initiatives like Kenya Vision 2030, aims to bolster MSMEs by enhancing their capacity and fostering innovation (Gichuki, Njeru & Tirimba, 2014).

2. Statement of the Problem

Muthathai's (2017) examination of Kenyan women-owned businesses unveiled a critical challenge: the persistent low levels of education among these entrepreneurs. This educational deficit translates into a scarcity of proficient business management skills and knowledge within the sector, hindering its growth potential. Furthermore, the absence of familial support, compounded by difficulties in accessing loan facilities, compounds the struggles faced by women entrepreneurs. Similarly, Kiruthu's (2012) analysis shed light on the impact of various services on women-owned firms in Thika Municipality. It revealed significant accessibility hurdles to both financial and non-financial services, posing formidable barriers to expansion and success for women entrepreneurs. In response to these challenges, informal financial institutions like ROSCAs emerge as potential solutions, offering avenues for filling critical gaps in financial and business capacity support for MSMEs. However, there remains a paucity of research evaluating the effectiveness of ROSCAs in delivering such services to women-owned enterprises. This underscores the necessity for empirical investigations to bridge the existing knowledge gap, providing valuable insights into the efficacy of ROSCAs as a tool for supporting the growth and sustainability of women-owned MSMEs.

3. Review of Literature

3.1 Theoretical Review

The study was drawn upon three foundational theories: the Resource-Based View (RBV) theory, Schumpeterian theory, and Collective Action theory, each offering unique insights into the dynamics of Micro, Small, and Medium Enterprises (MSMEs). Originating from scholars like Penrose (1959), Bain (1968), Wernerfelt (1984), Rumelt (1984), and Barney (1986), the Resource-Based View theory posits that a firm's competitive advantage stems from its internal resources and capabilities (Davis & Simpson, 2017). By focusing on factors such as knowledge stocks, physical assets, and human capital, RBV theory offers a fruitful avenue for enhancing MSMEs' competitiveness and performance. Schumpeterian theory, attributed to the work of Joseph Schumpeter, emphasizes innovation as a driver of economic development. This theory underscores the importance of entrepreneurial activity and creative destruction in fostering growth and dynamism within MSMEs.

Collective Action theory, as delineated by Olson (2009), elucidates how groups collaborate to achieve common objectives. Within the context of MSMEs, this theory elucidates how entities like ROSCAs facilitate collective action by vetting members, setting monitoring mechanisms, and utilizing social sanctions to prevent free-riding (Bharamappanavara, Hanisch & Rommel, 2016). By integrating insights from these theories, the study aimed to provide a comprehensive understanding of the challenges and opportunities faced by MSMEs, while also proposing strategies for enhancing their growth and sustainability.

4. Research Methodology.

4.1 Research design.

This study was structured around a descriptive survey design, chosen to provide a comprehensive understanding of the factors influencing the growth of women-owned Micro, Small, and Medium Enterprises (MSMEs) in Bomet County, Kenya. Descriptive survey design serves the purpose of capturing and presenting an accurate

depiction of individuals, groups, or situations under investigation (Coughlan, Cronin & Ryan, 2007). This approach was favored to ensure a thorough examination of all relevant factors, thereby minimizing potential biases in the data collection process (Salaria, 2012). By adopting a descriptive survey design, the study aimed to delve into the intricate dynamics surrounding the influence of ROSCAs on the growth trajectories of women-owned MSMEs in Bomet County.

4.2. Empirical Models

To ascertain the relationships between the independent and dependent variables, the study employed multiple regression analysis. According to Orodho (2007), regression analysis serves as a statistical tool for quantifying the relationships among variables, offering various techniques for modeling and analyzing multiple variables simultaneously. In this study, the dependent variable was linked with the independent variables to explore their interconnectedness as follows;

$$Y = \beta_0 + \beta_1 X_{t1} + \beta_2 X_{t2} + \beta_3 X_{t3} + \beta_4 X_{t4} + e.$$

Where:

Y= Growth of Women Owned MSMEs.

t= Financial years 1,2,3,4

X₁=Lending Policies.

X₂=Literacy level of members

X₃=Loan sizes

X₄=Membership

e = Error term

β_0 = y Intercept when X=0

β_1 , β_2 , β_3 and β_4 = Regression (beta) coefficients associated with independent variables.

4.3 Target Population and Sample Size

The target population of interest for this study was 270 registered Women-Owned MSMEs in Bomet Central Business District, Bomet County. The sample size was 135. This study sampled 50% of the target population of women-owned MSMEs which was determined by

$n = N * 0.5$; Where: n = Sample size; N = Population size; sample was calculated as follows: -

$n = 270 * 0.5$

= 135 Women owned Micro Small and Medium Enterprises

To select the sample units, the study employed random sampling. This method ensured that each potential participant had an equal chance of being included in the study, thus enhancing the representativeness of the sample. The respondents consisted of both the owners and, when unavailable, the supervisors of the selected women-owned MSMEs.

4.4 Data Collection Instruments, Data collection procure and Data Analysis Methods

To gather data concerning ROSCAs and their impact on the growth of women-owned Micro, Small, and Medium Enterprises (MSMEs), the study utilized semi-structured questionnaires containing closed-ended questions. These questionnaires were distributed to the business owners, and in cases where they were unavailable, to the supervisors of the sampled women-owned MSMEs. Sekara (2000) advocates for the use of questionnaires due to their efficiency, affordability, ability to mitigate interviewer bias, provision of anonymity, and accessibility to a broad range of respondents. This approach ensured that a diverse pool of perspectives was captured, enriching the data collected. Additionally, inflation data was gathered using appropriate data collection methods. Zohrabi (2013) stresses the importance of validating research tools, especially when assessing constructs related to theories like

planned behavior. Therefore, the study conducted reliability and validity tests on the data collection instruments to ensure the accuracy and consistency of the data obtained.

5. Results, Findings and Conclusion.

5.1. Hypotheses Testing

Regression analysis was used to test the formulated hypothesis on Rotating Savings and Credit Associations (ROSCA's) and the Growth of women owned enterprises. Table 1 gives the findings of the regression model summary.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.983 ^a	0.966	0.965	0.105

a. Predictors: (Constant), Membership, Lending Policies, Literacy Level of Members, Loan Size

From the model summary table, r-squared for the relationship between the independent variables and the dependent variable was 0.966. This implies that 96.6% of the variation in the dependent variable is explained by the independent variables.

The outcomes of the ANOVA were established as well as shown in Table 2.

Table 2: ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	38.920	4	9.73	884.84	.000b
Residual	1.353	123	0.01	Residual	
Total	40.273	127	Total	Total	

a. Dependent Variable: Growth of Women Owned Businesses

b. Predictors: (Constant), Membership, Lending Policies, Literacy Level of Members, Loan Size

According to table 2, F computed as 884.84. The p-value being 0.000 which is less than 0.005, therefore the model was considered a good fit.

The outcomes of the beta coefficients as well as relevance for evaluating the theory are as shown in Table 3.

Table 3: Regression Coefficients

	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Beta		
(Constant)	-1.252		-1.425	0.157

Lending Policies	-0.601	0.255	-0.133	-2.355	0.020
Literacy Level of Members	2.066	0.048	1.355	43.285	0.000
Loan Size	0.338	0.093	0.231	3.618	0.000
Membership	-0.225	0.027	-0.383	-8.343	0.000

a. Dependent Variable: Growth of Women Owned Businesses.

From Table 3, the following equation was established:

All model coefficients were significant at 0.005. The findings also reveal that the model coefficients which include Literacy level of members ($\beta = 1.355, p < .05$), and Loan size ($\beta = 0.21, p < .05$) have a positive significant effect on the growth of women owned businesses. Lending policies ($\beta = -0.133, p < .05$) and membership ($\beta = -0.383, p < .05$) have a negative significant effect on growth of women owned businesses. The unstandardized β coefficient of lending policies shows that a unit change in lending policies causes a unit -0.601 change in growth of women owned businesses in Bomet County. Likewise, a unit change in literacy level of members, loan size and membership caused 2.066, 0.338 and -0.225 change in growth of women owned businesses respectively. The relationship between the dependent and independent variables can be represented as follows;

$$Y = \beta_0 - 0.601X_{t1} + 2.066X_{t2} + 0.338X_{t3} - 0.225X_{t4} + \epsilon.$$

Therefore, representing, $Y = \beta_0 - 0.601X_{t1} + 2.066X_{t2} + 0.338X_{t3} - 0.225X_{t4} + \epsilon.$

5.2 Conclusion

The Study’s outcome implies a positive impact between the Literacy Level of members who belong to a ROSCA and the growth of women owned Micro Small and Medium Enterprises. It is therefore important for the office bearers to organize regularly trainings and seminars to enlighten their members because this will translate into improved lives through the growth of their business. When the group is also run by skilled individuals it helps the group grow and finances managed better. Thus, the study concludes that by being a member of a ROSCA there is a positive impact on the growth of women owned Micro small and medium enterprises. This means by belonging to a ROSCA one has access to finance to boost their business. They also have opportunities to increase their knowledge base on how they can best run their businesses

5.3 Recommendations

The study recommends that Policy makers of ROSCAs, should endeavor to offer trainings to their members on financial management as it was noted to be a significant factor in influencing the growth of Women Owned MSME’s. The study recommends that individuals who already belong to a ROSCA should devise strategies on how they can also save some funds for investment purposes with this the ROSCA is able to have a stream of income that members can be distributed to the members in-addition to their savings. Additionally, ROSCA’s can incorporate Table banking to run concurrently with the ROSCA’s, as the table banking can enable members earn additional income from the income generated out of the interest rate charged on loans.

6. Areas for further Research

A similar study can be done in other counties in order to compare and contrast the results. Moreover, another study can be done using other constructs such as Table banking to have more insights on Informal access to finance. Lastly, the study can be duplicated and done as survey of all counties in Kenya in order to have a country overview of the role of ROSCA’s on performance of other entities other than women owned Micro Small and Medium enterprises.

REFERENCES

1. Abdulsaleh, A. M., & Worthington, A. C. (2013). Small and medium-sized enterprises financing: A review of literature. *International Journal of Business and Management*, 8(14), 36.

2. Acs, Z. J., Braunerhjelm, P., Audretsch, D. B., & Carlsson, B. (2009). The knowledge spillover theory of entrepreneurship. *Small business economics*, 32(1), 15-30.
3. Ahn, D., Kang, W., Kim, K. K., & Shin, H. (2017). Analysis and design of microfinance services: A case of ROSCA. *The Engineering Economist*, 62(3), 197-230.
4. Ambrose, J. (2012). Venture capital (VC): The all-important MSMEs financing Strategy under neglect in Kenya. *International Journal of Business and Social Science*, 3(21).
5. Ambrose J. & Njoroge G.(2016) Effect of women enterprise fund management training on the performance of Women Enterprises in Embu County.
6. Anderson, S., Baland, J. M., & Moene, K. O. (2009). Enforcement in informal saving groups. *Journal of development Economics*, 90(1), 14-23.
7. Andersson, E., & Gabrielsson, S. (2012). 'Because of poverty, we had to come together': collective action for improved food security in rural Kenya and Uganda. *International Journal of Agricultural Sustainability*, 10(3), 245-262.
8. Ardener, S. (2014). Credit unions and money clubs (ROSCAs)(Respond to this article at <http://www.therai.org.uk/at/debate>). *Anthropology today*, 30(4), 3-6.
9. Azam Roomi, M., Harrison, P., & Beaumont-Kerridge, J. (2009). Women-owned small and medium enterprises in England: Analysis of factors influencing the growth process. *Journal of Small Business and Enterprise Development*, 16(2), 270-288.
10. Barney, J. B., Ketchen Jr, D. J., & Wright, M. (2011). The future of resource-based theory: revitalization or decline?. *Journal of management*, 37(5), 1299-1315.
11. Basu, K. (2011). Hyperbolic discounting and the sustainability of rotational savings arrangements. *American Economic Journal: Microeconomics*, 3(4), 143-71.
12. Bauchet, J., & Larsen, V. (2017). ROSCA Composition and Repayment: Evidence from Taiwanese Bidding ROSCAs. *The Journal of Development Studies*, 1-13.
13. Bharamappanavara, S. C., Hanisch, M., & Rommel, J. (2016). The effect of heterogeneity and freedom of participation on collective action in rural self-help groups: Combining in-depth interviews with curve estimation. *Journal of Mixed Methods Research*, 10(2), 147-167.
14. Bisrat, A., Kostas, K., & Feng, L. (2012). Are there financial benefits to join RoSCAs? Empirical evidence from Equb in Ethiopia. *Procedia Economics and Finance*, 1, 229-238.
15. Blumberg, B., Cooper, D. R., & Schindler, P. S. (2014). *Business research methods*. London: McGraw-Hill Education
16. Bousalam, I., & Hamzaoui, M. (2015). Bank-based investing RoSCA for Islamic finance: a new alternative to drain households savings and reduce financial exclusion.
17. Bullough, A., De Luque, M. S., Abdelzaher, D., & Heim, W. (2015). Developing women leaders through entrepreneurship education and training. *The Academy of Management Perspectives*, 29(2), 250-270.
18. Castellani, D. (2014). Shocks and credit choice in Southern Ethiopia. *Agricultural Finance Review*, 74(1), 87-114.
19. Clemencia, O. Ouma, Charles M. Rambo. (2013). The impact of microcredit on women owned Micro Small and Medium Enterprises: Evidence from Kenya. *Global Journal of Business Research*, 7(5)
20. Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. (2013). *Applied multiple regression/correlation analysis for the behavioral sciences*. Routledge