Strathmore UNIVERSITY

KSG

Policy Brief

No. 01/2012

Grounding Policy on Evidence

Innovation in women owned enterprises can profoundly impact growth

The Policy Brief's Audience

Trade, Planning & V2030, Economic and Gender Policy Makers; Economic and Gender Policy Implementers; Development Partners, Donors, Research & Policy Organizations, Treasury, the Ministry of Trade, Capital Market Stakeholders, and Individual Entrepreneurs.

Micro, Small and Medium Enterprise Growth and Innovations:

The Case of The Women Enterprise Fund in Kenya

This evidence based policy brief includes

- The study methodology
- A summary of main study findings
- Growth and Innovation policy options
- Efficiency and Sustainability policy options for the Fund

Summary

This study sought to examine the performance of the Women Enterprise Fund (WEF), a Kenya Government Initiative that aims to develop and grow women-owned MSMEs. Five years since its inception, it is imperative to establish whether the Fund is achieving its objectives in reaching the intended beneficiaries with the right kind of funding and support. Using a mixed method approach, comprising qualitative and quantitative methodologies, the study examined the performance of the Fund at three levels. At the micro level the study focused on the growth and innovativeness of the MSME, challenges faced and how they were being addressed. Analysis at the meso level investigated the kinds of complementary/support services the Fund was offering to women entrepreneurs before and after they accessed funding. At the macro level, the study focused on the appropriateness of the policy and institutional framework under which the WEF operates.

Full Report

The findings and evidence summarized in this policy brief is available in the full study report:

- A Consortium research report prepared under the Investment Climate and Business Environment (ICBE) Research Fund
- The report is also available on Strathmore University and KSG Websites

Methodology

Fourteen constituencies in four Counties – Kakamega, Nairobi, Nakuru and Nyeri – were purposively selected. Individual women entrepreneurs were sampled through stratified random sampling. Questionnaires were used to survey women-owned enterprises. Qualitative data were collected through in-depth interviews and focus group discussions with selected groups of respondents. Quantitative data were analysed using SPSS. Results are presented in descriptive and multivariate forms. Descriptive results show the extent of growth and innovation in the post loan period. Multivariate regression analyses empirically establish the determinants of growth and innovation among women-owned enterprises. Logistic regression models for the selected measures of growth were estimated using the maximum likelihood estimation technique in SPSS. Qualitative data were content analysed for emerging themes and patterns as a basis for discussing study findings.

Main Findings

Fund Level Performance

Total Government Allocations: The total amounts allocated by government to the Fund have fluctuated over time with a generally declining trend. By the 2011/2012 financial year, the total government capitation had declined by 78 percent to Kshs.200 million compared to the initial seed fund of Kshs.1 billion allocated during the base financial year, 2007/2008.

Comparative Trends in Stream Disbursements: Loan amounts allocated to Financial Intermediaries (FIs) remained consistently higher than the CWES stream over the five financial year period under review. The 2008/2009 allocations suggest near parity in allocations across the two lending streams. Trends thereafter show a widening gap in favour of FIs.

Number of Borrowers: The total number of Fund beneficiaries in the CWES stream increased exponentially within the first year of implementation before a gradual but steady decline in the total number of borrowers between 2008/2009 and 2010/2011. The 2011/2012 financial year saw a significant increase in total number of CWES borrowers from 67,950 in 2010/2011 to 146,400 in 2011/2012, representing a 115 percent increase. No explicit data existed on the number of borrowers in the FI stream for each financial year. However, data on the total number of borrowers showed that, whereas the number of entrepreneurs accessing the Fund through the CWES stream constituted 86 percent of all borrowers, those in the FI stream constituted only 14 percent. This suggests that only one in every seven borrowers was receiving their loan from FIs.

Returns on Loans by Stream: FI lending generated higher returns on investment (ROI) in both absolute and relative terms. The foregoing trends suggest that while the FI stream was receiving the most allocation, it reaches fewer women entrepreneurs and brings lower returns in term of interests received by WEF. This evidence therefore calls for a review of the viability and impact of the FI lending window.

Extent of Growth and Innovation

Growth: Study findings show that although the general indicators reflect positive growth among women owned enterprises in terms of total business worth, turnover, gross profit and number of employees, they obscure incidences of stagnation or decline among businesses. Incidences of decline or stagnation were significant at between 15 to 30 percent across the four measures.

Innovation: The most common form of innovation was in the change or addition of new products in the post loan period. Innovations in terms of services, markets and sources of raw materials were, however, less common among women owned enterprises. The study found no evidence of significant differences in growth and innovation among enterprises across geographical regions, borrowing streams or age groups.

Determinants of Growth and Innovation

Growth: Overall, entrepreneur characteristics such as age, marital status, level of education family size and ownership of other businesses were poor determinants of growth. Business characteristics such as location, person managing the business and the age of the loan, were significant determinants of growth in the number of employees. Growth in number of employees was considered a critical proxy for the other forms of growth in terms of total business worth, turnover and gross profit. From the findings, locating an enterprise in an urban area increased the odds that the business would either stagnate or decline in its number of employees. Urban decline on this indicator could partly be attributed to heightened competition among low-end enterprises which characterized most women-owned ventures in urban slums and informal settlements. Findings also showed that the innovation characteristics of enterprises hardly determined their growth, that is, a new product or service line for example, did not translate to growth of the enterprise.

Innovation: Similar to the case in growth, entrepreneur characteristics were poor determinants of business innovation. Selected business characteristics were found to be significant determinants of innovation. An enterprise with one set of innovation factors had increased odds of innovating in other areas of the business. For example, if an enterprise had a new product, this translated to a new market.

Complementary Services

The most widely provided complementary service was training which was accessed by slightly over one half of women entrepreneurs (50.4%). Other common complementary services included general education and awareness and business progress monitoring. Although reported in interviews and group discussions, the following complementary services were rarely offered: networking, exhibitions, export promotion and product certification, supplementary loans, mobile banking and overdrafts. From the findings, it can be deduced that, outside training, few complementary services were available to the majority of women borrowers of the WEF loans at a level that could meaningfully sustain businesses on the growth path and spur innovations.

Challenges

The Fund continued to face numerous challenges at different levels. The main challenges at the Fund level included: inadequate WEF field personnel, inadequate facilitation to field teams, low loan amounts, delays in disbursements and an inefficient multi layered Fund structure. High cost of loan administration, competition with commercial bank products, poor dissemination of information, high demand/limited scope of coverage, lack of distinct product branding, lack of individual choices in group lending, bureaucratic processes and limited business monitoring were the main challenges at the lender level. At the borrower level the challenges faced included: limited and shrinking markets for the products/services, competition, lack of business knowledge, high default rates, misconception about purpose of the Fund, diversion of the funds, low literacy among segments of women borrowers, lack of loan securities and domestic interference.

Policy Options

Growth and Innovation

Innovation enhancement Strategy: The Fund should integrate an effective strategy on business innovation in its training and monitoring interventions.

Improved Business Monitoring: There is an urgent need to design an effective business monitoring programme. This will increase the likelihood that women borrowers will receive timely interventions to enable their businesses continue on a growth and innovation path.

Provision of Individual Loans: Funding through the CWES stream should be remodelled towards more individual lending. This will give prospective borrowers the freedom of investment choice. As opposed to group investment interests, individual initiative can spur greater growth and innovation.

Increase in amounts of Loans: Loan allocation ceilings should be significantly increased. In most instances, the amounts of funds allocated to borrowers fall far below the actual business investment needs.

Enhanced and standardised Training: Training to borrowers on both streams should be standardised with room for customization to unique borrower needs.

Increased Funding to the CWES Stream: Study evidence on the performance of the Fund demonstrated that the CWES stream has higher rates of return and coverage compared to the FI stream. If the Fund is to impact the lives of more economically marginalised women, then more funds should be allocated to the CWES stream.

Business Incubators for start-ups: The present funding framework excludes start-ups due to the high risks associated with such ventures. To minimize the risks involved in funding start-ups, business incubator initiatives should be promoted to improve the contribution of the Fund in supporting viable innovations which would otherwise be denied funding as start-ups.

Enhanced Revolving Funds: Beyond the table banking innovations by borrowers in the CWES stream, the Fund should make the revolving fund structures functional and efficient to ensure that funds are available to borrowers based on recoveries in both the FI and CWES streams.

Operational Efficiency and Sustainability Policy Options

Improved Field Level Staffing: Field offices remain thinly staffed. The most critical interface between the Fund and the borrowers in the CWES stream is managed by volunteers. There is an urgent need to review the administrative model used by the Fund to recruit and deploy better remunerated and motivated field officers.

Allocation of more resources to field teams: The Fund should review its financial structure on administrative costs to re-allocate more resources to field teams in a way that enhances their operational efficiency.

Legal framework for Defaults: The CWES stream still lacks a strong legal framework for securing loans to ensure improved recoveries. This calls for development of an appropriate strategy for giving legal backing to loan recoveries in the event of defaults.

Rationalizing administrative costs: Although the study did not find incidences of imprudent spending, the quest to enhance operational structures would have to be weighed against the level of administrative costs as a proportion of total funds available to borrowers. This ensures that available resources address the ever increasing demand for loans more efficiently.

Rationalizing Fund Structure: The current Fund administration structure should be reviewed to rationalize structures in its administration in a way that limits the bureaucracy and increases administrative efficiency.

Increasing the Number of Loan Holding Banks: The number of banks to which loans can be channelled should be increased, especially in the rural areas where borrowers may have to travel long distances to carryout bank transactions in the traditional banks to which loans have been channelled. This diversification will enable borrowers chose banking institutions closer to them thus cutting on operational costs.

Timely Disbursement of the funds: There is need to infuse efficiency enhancers in the disbursement process to ensure that funds get to lenders in reasonable time. Lenders pointed at delays in funding with the result that prospective borrowers end up giving up altogether. Increasing the funding cycles by implementing more disbursement tranches would greatly diminish the lead times between application and receipt of the funds.

Simplifying the application process: Making the application simple and restricting application to less rigorous requirements can significantly improve access to the Fund by eliminating the cost-disincentive associated with visiting many offices in the pre-application stages.

We are grateful to the ICBE Research Fund for financial and technical support to the study

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