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Effect of Progressive Lending Mechanism on Access to Finance in Rural Kenya: A Survey of Masaba North District, Kenya

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Abstract:
Rural based women access credit as a group rather than individually and progressively graduate from smaller amounts of credit to higher ones just because they are perceived to lack the essentials that give them a mandate to get the credit. Several studies have been carried out on the performance of microfinance institutions but these studies have up to date neglected the effect of the progressive lending mechanism on the development of the clients especially Women entrepreneurs in terms of borrowing experience. This study sought to establish the effect of progressive lending mechanism on access to credit by women entrepreneurs in rural Kenya. The study adopted descriptive research design. A population of 1200 women entrepreneurs drawn from women enterprise fund members was used. Both closed and open ended questionnaires were used to collect primary data. Secondary data was obtained from periodicals, internet and published journals and books. Data was analyzed both qualitatively and quantitatively and then presented through frequency tables and percentages. Based on these findings, the following recommendations was proposed: the progressive lending mechanism should consider the needs of women entrepreneurs who may require rapid growth as well as allow maximum autonomy to the entrepreneur in order to safe guard their business secrets.

Keywords: *1. Progressive lending, 2. Women entrepreneur, 3. Access to finance.*

1. Introduction

1.1. Background of the Study

All around the world, women have had difficulties in accessing finance all along, and even when they do so, they obtain smaller loans than their male counterparts. This is one of the reasons why provision of credit has to be regarded as an important tool, especially to women entrepreneurs if success has to be achieved in alleviating the poor situation among the women, (Atieno, 2001).

An entrepreneur is one who brings resources, labor, material and other assets into combination that makes their values greater than before, and also who introduces changes, innovations, and a new order. Such a person is typically driven by certain forces- the need to obtain or attain something, to experiment, to accomplish, or perhaps to escape the authority of others, (Hisrich et al. 1996)

Hisrich et al (1996), continues to state that entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.

The act of entrepreneurship dates back to the earliest period of Marco Polo, who attempted to establish trade routes to the Far East. As a go between, Marco Polo would sign a contract with a money person to sell his goods. A common contract during this time provided a loan to the merchant- adventurer at a 22.5% rate including insurance, (Nteere, k. 2012).

During the Middle Ages, both the actor and the person who managed large production projects became entrepreneurs, although in such large productions projects, this individual did not take any risks, but merely managed project using the resources provided, usually by the government of the country. A typical entrepreneur during this time was a cleric- the person in charge of great architectural works.

Today the concept of innovation and newness is an integral part of entrepreneurship. The act of introducing something new, does not only take the ability t create and conceptualize but also the ability to understand the forces at work in the environment. The newness consists of anything from a new product to new distribution system to a method of developing of new organizational structure.

In Africa the act of entrepreneurship inherent came into focus in their struggle for survival and as they sought to improve upon their conditions, Africans discovered new ways of production, new ways of organizing themselves and better knowledge of their environment, (Kwayu et al,1985). He continues to indicate that in east central and southern African countries, people did wait for foreigners to introduce agriculture or iron making, basketry, this things came about as the internal demands of the people themselves arose.

In Kenya interest of development of entrepreneurship gained momentum as a possible remedy to the stagnation of economic development and the escalating unemployment problem since the late 1960s and early 1970s, (Nteere, 2012). According to the ILO report of 1972, there were attempts by the Kenyan government to initiate entrepreneurship soon after independence but the absence of an enterprise culture in Kenya's indigenous inhabitants made it impossible.

Greer, G. (1971), points out that most societies in East and central Africa were Matrilineal. Women were therefore the centre around which production, distribution and inheritance were organized. Greer continues to outline that though this, one of the most serious short coming of women entrepreneurship in the post colonial era was that they were male dominated. Since women almost always exclude half the population in any of the society, the fact is that women especially those in rural areas play an important role in the production. Development then cannot be achieved if women in the rural areas are excluded from full participation, (Nyeree, J. K. 1968).

Despite their individual participation and contributions to the economies of the country and the continent as a whole, these women entrepreneurs face many challenges and obstacles in their endeavors to establish and operate their businesses. This obstacles and challenges stem from discrimination, difficulties in accessing funding, and balancing work and family lives.

Serra, (2007), observes that about 55 percent of women in Kenya are located and reside in rural areas and lack the necessary technical knowledge on processes and effective ways of bidding for funds, such as putting together convincing proposals. Since these women continued to face the same problems albeit government intervention, the government came up with a different lending approach in an attempt to improve their situation, especially in access to credit facilities.

Though the Kenyan government has done a lot in mobilizing and creating an entrepreneurial environment especially among women, there is still a lot that needs to done especially in enabling funds and credit facilities reach the intended women entrepreneurs mostly those in rural areas through liberalization of lending policies of financial institutions mostly those created by the government for this purpose. This study aims access the effect of women enterprise fund's lending policies on access to finance by women entrepreneurs in rural Kenya. This study aims to access the effect of progressive lending on access to finance by women entrepreneurs in rural Kenya.

1.2. Statement of the Problem

Women entrepreneurs in rural Kenya have not got access to substantial amount of credit from financial institutions. Women entrepreneurs have been making a significant impact in all areas of the economy especially in developed countries, (Saleemi, 2009). Though in developing countries, the percentage of business started and operated by women is less than those started by men, they are among the small scale enterprises which have become an important contributor in the Kenyan economy accounting for a gross development product (GDP) of between 12%-14%, (RoK, 1992).

Many interventions have been put in place to address accessibility of finance to women entrepreneurs, but this still remains a big challenge. Estimates indicate that only 15 percent of the SMEs owned by women have already had access to growth capital, rapid growth in profitability is not apparent, (Central Bureau of Statistics, 1999).

The ILO report, (2008), states that women's mobility is limited in terms of often having to work close to home, having limited ability to transport, personal security considerations and restrictions from their husbands for those who are married, most of their enterprises are therefore located in rural area hence have potential for rural development yet considered un-creditworthy by most formal credit institutions.

St-Onge, and Stevenson, (2005) indicates that there should be credit improvement to SME sector if we are to stimulate growth and realize SME contribution to the economy. Despite this emphasis, the effect of existing institutional problems especially the lending terms and conditions on access to credit facilities have not been addressed, (Atieno, 2001).

According to IFC report, (2011), Microfinance has partly compensated for women's low access to formal finance. However, as women entrepreneurs grow, they need financial products and services that go beyond micro-credit. Despite their (women entrepreneurs) excellent repayment records when running micro-businesses, they are often not graduated to larger individual or business loans beyond micro-finance programs. The share of women served therefore declines as microfinance institutions diversify or transform into banks. Women are therefore less conspicuous in programs with larger loan sizes that could support higher levels of business development, (IFC, 2011).

1.3. Objectives of the Study

The main objective of this study is to establish the effect of progressive lending on access to finance by women entrepreneurs in rural Kenya.

2. Review of Literature

2.1. Introduction

Most analytical works have attempted to explain the functioning of credit using new theoretical developments where most of these have explored the implications of incomplete markets and imperfect information for the functioning of credit institutions in developing countries. Stiglitz and Weiss, (1981) explains that terms and conditions employed by financial institutions , especially interest rates are seen to have a dual role of sorting borrower (adverse selection) and affecting the borrowers' actions (incentive effect) where they affect the nature of the transaction and do not

Adverse selection occurs because most lenders would like to identify the borrowers most likely to repay their loans since the banks' expected returns mostly depend on the probability of repayment. Banks therefore will use these terms and conditions that an individual is willing to take as a screening device in an attempt to identify borrowers with high probability of repayment. Stiglitz and Weiss, (1981) continue to indicate that borrowers who are willing to take these stiffer terms and conditions may on average be worse risks since the riskiness of those who borrow increases as the terms and conditions also increase.

Incentive effect occurs because, as the terms and conditions change, the behavior of borrowers is also likely to change as it affects the returns of their projects. Stiff terms and conditions also induce firms to undertake projects with lower probability of success but high pay offs when they succeed, (Atieno, 2001).

Stiglitz and Weiss, (1981) further continues with this thought that credit institutions are not able to control all actions of borrowers due to imperfect and costly information, they thus formulate the terms and services they offer to induce borrowers to take action in the interest of the credit institutions and to attract low risk borrowers, where the results is the creation of an equilibrium rate of interest, at which the demand for credit exceeds the supply, this in turn affects the behavior of borrowers and their distribution as well as their returns to credit institutions, (Stiglitz and Weiss, 1981).

Stiffer terms and regulations when there is excess demand does not always proof profitable. This makes financial institutions to limit credit to certain borrowers where it results to a credit rationing which in turn results in two situations; among loan applicants who appear to be identical, some receive loan and others don't and identifiable groups of people who at a given supply of credit are unable to obtain credit at any interest rate, but with a large supply, they would, (Atieno, 2001).

Basley, (1994), argues that adverse selection arises because in the absence of perfect information about the borrower, stiffer terms and conditions will only encourage borrowers with the most risky projects and hence least likely to repay, borrow loans, while those with the risky project cease to borrow. These policies will thus play the allocative role of equating demand and supply for loanable funds, and will also affect the average quality of lenders' loan portfolios. Lenders will fix lower interest rates at a lower level and ration access to credit.

The absence of supply creates a lack of demand and that there are significant obstacles to the transformation of potential demand into revealed demand. The transaction cost involved in obtaining credit is considered greater than the utility which prompts SME holders to switch profit between activities as a way of financing working capital. This explains the existence of informal credit markets alongside formal credit institutions.

Economist G.F Papanek and J, R Harris are the proponents of this theory. To them when certain conditions are favorable, entrepreneurship and economic development will take place. Such economic incentives are the integral factors that have induced entrepreneurial activities and initiatives, (Pardeshi, et, al. 2007; Mohanty, 2005). Economic incentives are the basic traits which drive the entrepreneur to take up the entrepreneurial activities and to bring about development. Papanek and Harris continue to state that it is the inner urge coupled by the desire of an economic gain that give rise to entrepreneurial development, (Mohanty, 2005).

In this regard therefore, Mohanty's group level pattern theory deems to be more applicable since it puts more emphasis on the availability of and access to finance in a more cheaply manner. It is in this essence that we conclude that access to finance is the main agency for building entrepreneurship.

2.2. Effect of Progressive Lending on Access to Credit

The group lending mechanism works with various dynamic incentives. One such kind is the principle of progressive lending. Progressive lending is a stable of the classic Grameen bank model. It refers to the practice of promising lager and lager loans for group groups and individuals in good standing, (Mornduch&Armendariz, 2010). A typical borrower receives very small amount of first which increases with good repayment conduct or it links new, larger loans to the past repayment, (Hulmes&Mosle, 1996).

Through this mechanisms, loan sizes are increased over time on a condition pegged on repayment histories, (Besley&Coate 1995). This is a strong incentive to the borrower to make her pay back depts. and thus making monitoring and screening enforcement unnecessary exercise. Similarly, making borrowers start with small amounts makes selection process less costly for the MFIs since new clients can be tested before giving them much money.

A repeated action of the aspect establishes a long term relationship between the two parties hence developing confidence and enterprise stability over time. The offer of future credit serves as a powerful incentive to a micro entrepreneur trying to develop her business. In this scenario, a borrower will default only if her current income is greater than her future expected profits. With a small initial loan for a beginning entrepreneurial venture, this is unlikely. To further increase the likelihood of repayment, MFIs use dynamic lending. In which the size of the loan is gradually increased with each successful loan repayment.

The expected future profits are almost certainly greater than current earned income because the size of the loan continues to grow. However, this mechanism is based on the household steady and diversified income streams rather than the project itself and its particular riskness. This therefore limits its usefulness on certain populations, (Mornduch&Armendariz, 2010).

It can also feed a cycle of debts especially if a group member is struggling to fully repay her loan. This is ecause she will turn to another source eg family, peer, etc to borrow and clear the existing facility with the promise of another one. This is more especially when the incentive is paired with such restraints as in group liability(Roadman, 2012). The mechanism therefore, can only work best where there is little competition and little alternative source of credit supply, (Navajass et al, 2003). Further it works only as long as borrowers expect that the lender keeps working in the future and the expected group solidarity.

3. Research Methodology

3.1. Introduction

This chapter looks at the methodology employed in the study, specifically, it focuses on the research design study population, sample and sampling techniques, data collection methods, pilot study and data analysis and presentation.

3.2. Research Design

The study adopted the descriptive design in examining selected women entrepreneurs and their accessibility to credit from Women Enterprise Fund (WEF). The study also adopted both the qualitative and quantitative approaches of data collection and analysis, with quantitative approaches.

Using all this multidisciplinary methods, the researcher aimed at examining and describing the association and relationship between the two variables as has been shown in the conceptual framework. Several researches (Bryman, 1995, Rossman& Wilson, 1991) suggests that a combination of qualitative and quantitative research methods: contextualizes the analysis by providing richer details and initiates new line of thinking through attentions and surprises, turning ideas around and providing fresh insights.

3.3. Population

The target population of the study included rural women entrepreneurs running both formal and informal enterprises in Masaba North District. The women in particular were those running cereals, second hand clothes, wholesale/retail, green grocers and M-pesa and Bodaboda micro enterprises in Masaba North District

According to the data got from the office of gender and social services in Masaba North District, there are approximately 10,000 women entrepreneurs in the said district and that there are up to 300 women groups which are entrepreneurial oriented. Out of this 60 are engaged in non-entrepreneurial activities. The study therefore targeted 240 of women groups whose mandate is entrepreneurial development.

3.3.1. Target Population

The researcher targeted women entrepreneurs based in Masaba North district. These are women who carry out various businesses in the SME sector in rural Kenya. The researcher mostly concentrated on 1,200 women entrepreneurs who have received credit from WEF or are in the process of getting this credit and those who because of various reasons are unable to get this fund and are therefore discouraged to try again.

3.3.2. Sampling Frame

A sample of respondents was drawn from the 1200 women who own businesses in Masaba North district where stratified sampling methods will be used and where necessary cluster sampling will be used. (Mugenda and Mugenda, 2003)

The procedure started with stratification of items, and then follow by sampling is called stratified random sampling (Kombo and Tramp, 2006). According to Mugenda and Mugenda (2003), stratified random sampling involves selecting subjects in such a way that the existing subgroups in the population are more or less reproduced in the sample.

3.3.3. Sampling Size

Neuman (2000) argues that, the main factors considered in determining the sample size is the need to keep it manageable enough. This enabled the researcher to derive from it detailed data at an affordable costing terms of time, finances and human resources (Mugenda and Mugenda, 2003).

According to Mugenda and Mugenda (2003), social science research applies the following formula to determine the sample size

-------------------------------- Equation (i)

where:
n= the desired sample size if the targeted population is greater than 10000
z= the standard normal derived at the required confidence level
p= the proportion in the target population estimated to have characteristics being measured.
q=1-p
d= the level of statistical significant set.

If the estimate of the proportion of the target population assumed to have the characteristics of interest is not provided, then 50% should be used. Therefore with the proportion of the target population being .50, then the z- statistics is 1.96. Consequently, the sample size will be;

=384

If the target population is less than 10000, the sample size determined using the following formula;

---------------------------------Equation (ii)

Where;
nf= the desired sample size, where the population is less than 10,000.

n= the desired sample size where the population is more than 10,000.
Therefore the sample size for the study will be;

= 360

By applying simple random sampling the researcher introduced probability sampling wherein each subject had every chance of being selected.
Systematic stratified and where necessary cluster sampling were used since the population was grouped in terms of type of business, age, education and the geographical location. Systematic sampling was used to pick the sample required in the study. In this method every nth item in the list was selected and using the above method, the researcher selected a sample of 360 subjects as a sample size for this study.
The researcher conducted a demographic survey to find out where the women entrepreneurs are located within the study location (Masaba North District) and identified the SMEs that are owned by these women, the self-help groups that have been financed by WEF and where the WEF offices are located.
The market centers that were used in this study include Keroka, Rigoma, Bonyama, Magombo, Kebukebe and Mosobeti market. In selecting the group the researcher used stratified random sampling procedure which stratified them into most active; upcoming and dormant.

3.4. Data Collection Procedure
This is the process of selecting and developing measuring tools and methods appropriate to this research study. Data collection involved a self-administered questionnaire. A self-administered questionnaire is desirable because of low cost, adequacy of time for respondents to give responses, it is free of interviewers biases and a large number of respondents may be reached, (Kothari, 2004).

3.5. Data Collection Instruments
These are tools or devices which assisted the researcher to collect the necessary data. Questionnaire and structured interview guides were the main instruments used in this study. These instruments will be developed and adapted to the various selected respondents.

3.6. Pilot Testing
Pilot study is the component in the data collection process and a crucial element of the good study design. It is a small scale trial run of all the procedures planned for uses in the main study, (Monette et. al, 2002). As well as the specific pretesting of the research instrument to be used in the study.
This study is necessary for it is an opportunity to test hypotheses. It gives an allowance for checking to reduce statistical and analytical procedures; is a chance to reduce problems and mistaken in the study and leads to the reductive of the cost incurred by inaccurate instruments,(Isaac and Michael, 1995).Moreover, the researcher will seek information from the participants in the pilot study to determine the degree of clarity of questions and to identify problems areas that need attention, (Neuman, 1997).

3.7. Data Analysis
Data cleaning and tabulation was carried out as part of the pre-analysis activities. This ensured that data is presented in a desired and appropriate manner, help keep track of the questionnaire that will be processed, as well as aid in speeding up the data entry process, (Bogdam&Bilken, 1999).The final data was then be analyzed both qualitatively and quantitatively using descriptive statistics. The study data was analyzed through the Excel computer application packages. The resultswere then be presented using frequency distribution tables, percentages and bar charts so as to clearly show the trend of the distribution, (Mugenda&Mugenda, 2003).

4. Data Analysis, Presentation and Results

4.1. Effect of Progressive Lending on Access to Credit
The findings of the study as shown in table 4.5 indicate that (90%) of members considered the mechanism of step lending as the main contributor of the quick access to finance. A few respondents (10%) were however not sure on whether the same had been attained due to the effect of this mechanism.
The women entrepreneurs in Masaba North District informed the study that the progressive access of funds had provided an opportunity to test themselves and their enterprises gradually on their repayment strength and learn how to repay before they graduate to high amount of loans. This ensured progressive growth and development as well as increased enterprise stability.
This is because the mechanism ensures that the entrepreneur who clearly understands their business needs satisfy them effectively and progressively hence the stability of their enterprises.
Faced by similar findings in 2007, mkpado and arene concluded that, the increased access to finance in enterprises owned by women entrepreneurs who engage in group lending methodology arose from consistence access to funds gradually which creates confidence between the borrower and the lender, (Mkpado and Arene, 2007).

Step/progressive lending mechanism has fostered access to finance	No of Respondents	Percentage (%)
Agree	324	90%
Undecided	36	10%
Disagree	0	0%
Total	360	100%

Table 1: effect of step/progressive lending on access to finance

5. Conclusions and Recommandations

Based on the findings of the study

The study seemed to be in agreement with the study objective. Majority of the respondents access their business funds from MFIs where women enterprise fund is included but with challenges especially brought about by lending policies. Most of the respondents were however in agreement that some of this policies have to an extent assisted in accessing the credit from Women Enterprise Fund and were therefore recommended to be improved to make the process easier and faster.

Through these policies especially that of progressive lending mechanism women have been able to grow progressively businesswise as evidenced in the growing number of women who are expanding their businesses in the district. This policy has made it easier for women entrepreneurs to develop progressively through the business stages without hitches and hindrances since their businesses get the amounts of credit that equals their ability to pay smoothly without struggling thus businesses get what they ought to get.

Majority of the women entrepreneurs agreed that the progressive lending mechanism had increased their probability of accessing funds since one had to get a higher amount of credit after successfully repaying the lower one. It was affirmed that the lending policies had enhanced the development of women based SMEs in Masaba North District through increasing the probability of women to access funds, provision of social support and timely access to resources, and ensuring that women entrepreneurs utilized their credit according to the intended purpose.

Additionally this study found out that despite the positiveness of lending policies on access to credit by women entrepreneurs in Masaba North District, these policies were ineffective in various ways: progressive lending does not result in greatly improved planning and accountability among women entrepreneurs in Masaba North District.

The study established that progressive lending mechanism had improved the development of women based SMEs gradually in rural areas. This was done through motivating women to work hard to the success of their enterprises, cultivating a personal supervision and administrative skills even in their own enterprises as well as increasing business knowledge and information which led to more entrepreneurial productivity among women entrepreneurs in rural areas.

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