Micro, Small and Medium Enterprise Growth and Innovation in Kenya: A Case of the Women Enterprise Fund

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EXECUTIVE SUMMARY

This policy brief outlines growth and innovation options available to the Government of Kenya with regard to women-owned enterprises. More specifically, it presents options on the efficiency and sustainability of the Women Enterprise Fund (WEF), a government initiative aimed at promoting enterprise development among women. This policy brief also accompanies a report analysing expert interviews, surveys with the managers and beneficiaries of WEF, and secondary evidence. The report argues that to support women-owned enterprises, there must be a better-integrated intervention by various stakeholders.

It concludes that policies should be considered to:

- Promote the growth and innovation of women-owned enterprises through business training, monitoring, access to individual loans, and business incubation for start-ups.
- Enhance the operational efficiency and sustainability of the WEF through better staffing, a more efficient funds disbursement structure, a simplified loaning process, and setting up the WEF as a semi-autonomous government agency.

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INTRODUCTION

In Kenya, women-owned enterprises comprise 48 percent of the total micro and small enterprises. However, the majority of these enterprises employ only the owner, and tend to be informal. They also tend not to grow beyond five employees. Of these enterprises, about 82 percent are in trade and services, and only about 0.8 percent in manufacturing and information technology. This concentration in low-value sectors leads to market saturation and little room for growth. Innovation through new product development and access to higher value markets is therefore a necessary condition for growth.

In 2007, the Government of Kenya established the Women Enterprise Fund (WEF) in order to help develop a greater number of women-owned SMEs. Five years after its inception, it was imperative to determine whether the WEF was achieving its objectives, and reaching the intended beneficiaries with the right kind of funding and support.

This policy brief focuses on two distinct but interrelated areas where the government needs to focus its attention to strengthen and expand support to women-owned enterprises. This includes development support to the enterprises, and the management and administration of WEF.

METHODOLOGY

Fourteen constituencies in four counties – Kakamega, Nairobi, Nakuru and Nyeri – were purposely selected. Nine-hundred women entrepreneurs were sampled through stratified random sampling, and data collected using questionnaires administered by researchers. The research also includes in-depth interviews with ten WEF managers, and focus group discussions with 14 constituency committees. Results were presented in descriptive and multivariate forms. Descriptive results showed the extent of growth and innovation in the post-loan period. Multivariate regression analyses establish the determinants of growth and innovation among women-owned enterprises. A basis for discussing the study findings was drawn from qualitative data analysed for emerging themes and patterns.

RESULTS AND CONCLUSIONS

WEF performance

Overall, the total amounts allocated by government to the WEF had fluctuated 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 in the base year, 2007/2008. Loan amounts allocated through the financial intermediaries (FIs) remained consistently higher than through the Constituency Women Enterprise Scheme (CWES) over the five-year financial period under review. Trends showed a widening gap between the two streams in favour of FIs.
The total number of WEF beneficiaries in the

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CWES stream increased from 1,740 in 2007/2008 to 146,400 in 2011/2012. In total 391,410 women had benefited through this stream in the five-year period. During the same period 63,708 women had benefited through the FI stream. This finding was significant given that the FIs had received two-thirds of all funds disbursed, with a third going to the CWES. The CWES stream also generated higher returns on investment (ROI) in both absolute and relative terms. It generated Kshs.38.2million in administration fees against Kshs.24.3million in interest fees from the FI stream. Therefore, while the FI stream was receiving the most allocation, it reached fewer women entrepreneurs and generated lower returns. This evidence calls for a review of the viability and impact of the FI stream lending.

Growth and innovation of the Enterprises

The study demonstrated that the indicators reflecting positive growth were total business worth, turnover, gross profit, and number of employees. However, there was stagnation or decline among 15-30 percent of the businesses across some or all of the four measures. Overall, business characteristics such as location, managers, size, and age of the loan were significant determinants of growth. Locating an enterprise in an urban area increased the odds that the business would either stagnate or decline. 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.

The most common form of innovation was in the change or addition of new products in the post-loan period. This often translated to a venture into new markets. However, in terms of new services and new sources of raw materials, innovation was less common. Findings also showed that innovation determined growth. In other words, a new product line could translate into growth of the enterprise. The study found no significant differences in growth and innovation among enterprises across geographical regions, borrowing streams, or age groups of the women entrepreneurs.

Challenges faced by the WEF and Enterprises

There were numerous challenges at WEF. At the administration level these included inadequate WEF field personnel, inadequate facilitation to field teams, low loan amounts, delays in disbursements, and an inefficient multi-layered Fund structure. At the lender level, there are several main challenges, including high cost of loan administration, competition with commercial bank products, poor dissemination of information, high demand for loans, lack of distinct product branding, high default rates in the CWES stream, misconception about purpose of WEF, bureaucratic processes in accessing the funds from WEF, political interference, and limited business monitoring.

At the borrower level the challenges included limited and shrinking markets for the products/services, competition, lack of business knowledge, lack of individual choice in group lending, diversion of the funds to other domestic needs, low literacy levels, lack of loan securities, and domestic interference by family members.

POLICY RECOMMENDATIONS

With regard to growth and innovation, training to borrowers on both streams should be standardised with room to address the unique borrower needs. WEF should then integrate an effective strategy on business innovation in its training and monitoring interventions.

There is an urgent need to design an effective business-monitoring programme. This will increase the likelihood that women borrowers receive timely interventions to enable their businesses to continue on a growth and innovation path. Funding through the CWES stream should be remodelled towards more individual lending. This will give prospective borrowers the freedom of investment choice and spur greater growth and innovation.

Loan allocation ceilings should be significantly increased, as there is a positive relationship between loan size and likelihood of growth. In most instances, the amounts of funds allocated to borrowers fall far below the actual business investment needs. Study evidence on the performance of WEF demonstrated that the CWES stream has higher rates of return and coverage compared to the FI stream. If WEF is to impact the lives of more economically marginalised women, then more funds should be allocated to the CWES stream. Additionally, WEF 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.

Finally, business incubators for start-ups should be initiated and funded in order to support growth and innovation. To minimize the risks

involved in funding start-ups, business incubator initiatives should be promoted. This would improve the contribution of WEF in supporting viable innovations that would otherwise be denied funding as start-ups.
Related to operational efficiency and sustainability, there is need for improved field-level staffing.

Volunteers currently managed the most critical interface between WEF and the borrowers in the CWES stream. There is need to review the administrative model to recruit and deploy better-remunerated and motivated field officers. The field officers should also be allocated more resources to increase their operational efficiency in the field.

It is also critical to simplify the application process, and ensure timely disbursement of funds. Increasing the funding cycles by implementing more disbursement tranches would diminish the lead times between application and receipt of the funds. The loan application process should also be simple to improve access to WEF by eliminating the cost-disincentive associated with visiting many offices in the pre-application stages.

Finally, related to the administration of WEF, the legal framework for dealing with defaulters needs to be strengthened.

All these recommendations on the operational efficiency suggest that WEF should be set-up as a semi-autonomous government agency.

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