# MAKING KENYA'S CREDIT GUARANTEE SCHEME WORK FOR WOMEN'S ENTERPRISES

BRIEF FOR PARTICIPANTS (MSMES)

By University of Nairobi Women Economic Empowerment HUB

# MOTTO:

Promoting women's economic empowerment through African women centered research, policy change and collaboration with women's organisations, policy makers and other stakeholders

# EXECUTIVE SUMMARY

This brief is based on research work: *'Assessing what works for Women's Economic Empowerment (WEE) in the implementation of Kenya's Credit Guarantee Scheme',* which evaluated the implementation of the Credit Guarantee Scheme (CGS). The research was undertaken by the University of Nairobi Women's Economic Empowerment (UON WEE) Hub in collaboration with the Kenya National Bureau of Statistics and the National Treasury. The study aimed at monitoring the extent to which the implementation of the CGS has been gender-inclusive. The key findings from this study are expected to contribute to improved reporting and dialogue on women's economic empowerment and support evidence-based policymaking on the implementation of Kenya's CGS facility. The study finds that the CGS currently targets formal enterprises; more male- owned than female-owned enterprises surveyed had applied for credit; generally, male-owned enterprises are likely to access higher levels of credit than female-owned enterprises; and; female- owned formal enterprises are likely to access high credits levels than female-owned informal enterprises. The study recommends the provision of training and skills to women-owned enterprises in order to build their capacity to be able to effectively respond to the factors that limit them from accessing CGS-backed loans. This will surely benefit the women-owned entrepreneurs.

The UON WEE Hub Management under the Leadership of Prof. Wanjiku Kabira (the hub Leader) and Dr. Mary Mbithi (Director of research) is pleased to share the key findings of this study with you. The research was undertaken by: Agnes Meroka-Mutua, Dalmas Ochieng' Omia, Sila Muthoka, and, Deborah Muricho. The UON WEE Hub work is financially supported by the Bill & Melinda Gates Foundation.

# 1. INTRODUCTION

The government of Kenya rolled out the Credit Guarantee Scheme through the Public Finance Management (Amendment) Act, 2020 on 25th August 2020. The aim of this scheme was to stimulate the recovery of businesses that were affected by the COVID-19 pandemic by partnering with financial institutions in the private sector to provide credit guarantees that allow MSMEs to access credit that is guaranteed by the government. The implementation of the CGS commenced in December 2020, with Kshs. 3 billion having been allocated to the scheme. As of 2021, there were seven implementing financial institutions that provide loans under the scheme. These are ABSA, Credit Bank, KCB, DTB, Cooperative, Stanbic, and NCBA. One must hold a bank account with any of these banks. In addition, the business enterprise must be registered, should have an operating license, KRA Pin, and keep business records. The benefits include expansion of businesses, increased growth, more profits, increased income for the family, and economic empowerment

The study used a mixed-method approach (quantitative and qualitative study) to assess the level of access to credit by women-owned enterprises in Kajiado, Kirinyaga, Kitui, Nairobi, and, Nakuru

counties. It explored the determinants of women's access to credit, the uptake of CGS among women-run enterprises, and challenges and opportunities in the operationalization of CGS. The study finds that the CGS currently targets formal enterprises; more male-owned than female-owned enterprises surveyed had applied for credit; generally, male-owned enterprises are likely to access higher levels of credit than female-owned enterprises; and; female-owned formal enterprises are likely to access high credits levels

than female-owned informal enterprises. The study recommends the provision of training and skills to women-owned enterprises in order to build their capacity to be able to effectively respond to the factors that limit them from accessing CGS-backed loans. This will surely benefit the women-owned entrepreneurs

# 2. KEY FINDINGS AND POLICY IMPLICATIONS

The research was conducted on Micro Small and Medium Enterprises (MSMEs) in Kajiado, Kirinyaga, Kitui, Nairobi, and, Nakuru counties and reveals the following:

## 2.1 Gender differences in business characteristics

Regarding the gender differences in business characteristics, the key findings were:

- About 90% of both male and female-owned businesses had been registered and had operating licenses.
- Most businesses, both male (42%) and female-owned (43%) had been in operation for between 6-10 years. Over 70% of both male and female-owned enterprises had less than 10 employees.
- About 78% of the female-owned businesses had KRA pins as compared to 83% of the male- owned enterprises.
- The female-owned enterprises with operational bank accounts were 74% while their male counterparts were 80%.
- Around 34% of female-owned businesses were operating without business plans as compared to 27% of male-owned businesses thus constricting their attractiveness to lenders and other investors.
- Nearly 40% of male-owned and 36% of the female-owned had been in business for over 10 years.
- Only 16% are female-owned enterprises benefited from CGS

## 2.2 Loan applications

The CGS currently targets formal enterprises.

- Out of 841 businesses, 166 (about 20%) had applied for credit in the last 6 months.
- For formal enterprises, more male-owned enterprises (76%) had applied for credit as compared to women-owned enterprises (71%).
- About 74% (123 businesses) of the applicants had had their loans approved.
- 6% (10 businesses) of the approved loans received a lower amount than that applied for.
- Loan application by females is more likely not to be approved as compared to loan application by males (18% versus 10%).

## 2.3 Determinants of access to credit

The most important factors considered while choosing credit providers by both female and male entrepreneurs were:

- Fast turnaround time identified by 47% of female and 40% of male respondents, respectively,
- Favorable interest rates were identified by 20% and 32% of female and male respondents respectively, and,
- Low collateral requirements were identified by 19% and 14% of female and male respondents respectively.

## 2.4 Credit seeking behavior

Regarding the type of lender by gender, the following were the findings:

- 79% of the female applicants had their loans approved by banks, while 84% of the male applicants had theirs approved by the banks. Banks, therefore, remain the main source of credit for both formal male and female-owned businesses.

The turnaround time was therefore the most important parameter for both male and female business owners in their choice of a credit provider.

## 2.5 Levels of credit accessed

The following observations were made:

- About 64% of the successful applicants (comprising 58% of the females and 67% of the males) received Kshs. 500,000 or less,
- 14% (composed of 22% females and 10% males) received between Kshs. 500,001 and 1 million,
- 11% (9% female and 13% males) were granted between Kenya shillings one and three million loans, and,
- 11% (composed of 11% female and 10% males) received between three and five million.

## 2.6 The purpose and use of the credit

The findings on the purpose and the use of credit were:

- About 33% of both male and female credit applicants did so for business recovery to cushion them against the suffering effects of COVID-19.
- 24% of the females and 21% of the males borrowed for business expansion or opening other branches.
- 30% of women and 32% of men borrowed to increase their stock of goods.
- With regards to the use of credit, 30% of the women who borrowed used it for the purpose it was intended for, compared to 35% of the men.
- Around 75% of the women diverted the credit to pay school fees while 66% of the men diverted the loans to pay rent.

## 2.7 Loan repayment

Based on loan repayments, the following was observed:

- About 88% of both males and females had already started making repayments on their credit facilities. As observed in the qualitative interviews, many business owners are increasingly becoming aware of the need to build a good credit history through prompt repayment of their credit facilities. This will make their subsequent credit applications easier and even increase their loan limits.
- 33% of female-owned and 41% of male-owned businesses were not able to make their loan repayments with ease. This could be mainly attributed to the negative effects of the Covid - 19 pandemic that occasioned travel restrictions and hence disrupted the markets, supply, and demand. The economic effect of COVID -19 also resulted in the loss of jobs.

- 23% of the respondents had unpaid loans with slightly a larger proportion of them (about 24%) being male entrepreneurs while female entrepreneurs accounted for about 23% of the defaulters. Outstanding financial obligations such as unpaid loans exert added pressure on cash flows and have the potential to reduce access to credit by the enterprises.

## 2.8 Business capacity development

With regard to the business capacity development, the study found that:

- About 80% of the business owners (80% male-owned and 80% female-owned) had not received information about business training.
- Of the 20% who had received the information, 73% (74% for female-owned and 72% for male-owned) attended the training.
- Most of the training sessions were facilitated by government institutions.
- All the respondents found the training to be useful.
- 64% (77% for females and 55% for males) of those attending the training shared the information with others.

## 2.9 Gender differences among informal enterprises

In the context of informality, the study found that there are significant gender differences between male and female-owned informal enterprises:

- Female owned enterprises are more likely to access the lower level of credit even where they borrow from formal sources such as banks. Thus, male-owned enterprises are more likely to access higher levels of credit.
- Gender norms have an impact on how women are able to access credit. For example, married women are likely to require consent from their spouse before they can take credit, and this is primarily because women still have limited control and ownership of valuable assets that can be used as collateral. These assets tend to be held by men and for women to use those assets as collateral, they require spousal consent.

# 3. CONCLUSION AND POLICY RECOMMENDATIONS

## 3.1 Conclusion

Based on the findings of this study, it is concluded that:

- Female owned enterprises still access lower levels of credit as compared to male-owned enterprises and this is attributable to several factors, including women having access to lower levels of collateral as compared to men; women are more cautious as compared to men and thus prefer not to risk-taking credit when they are not sure of how they will repay.
- Formal female-owned enterprises have better access to credit than their informal counterparts. They are able to access credit from formal sources such as banks and also access higher levels of credit than informal ones.
- Formality is likely to even the playing field between male and female-owned enterprises and also reduce gender gaps. It is likely that formal female-owned enterprises will be able to access the CGS in the same way as formal male-owned enterprises.
- Many women-owned enterprises are trapped in informality and access credit through informal channels such as women's groups and table banking. This category should be considered for

inclusion in the potential scope of the CGS while guarding against the possibility of on-boarding undue default risks.

## 6.2 Recommendations

For enhanced access to credit by women-owned businesses, there should be;

- Support for more women-owned enterprises to expand and develop and thus be better placed to meet the basic requirements for access to higher levels of credit.
- Provision of training specifically targeted at women's enterprises in order to build the knowledge and skills of these enterprises, so that they have the capacity to address the gaps they face in meeting the requirements for CGS-backed loans.
- Support of more informal women-owned enterprises to transition to formality.
- CGS Implementing Banks to develop and implement credit products that can be accessed by informal women-owned enterprises. This will support these enterprises to grow and expand and have a greater capacity to meet the requirements for CGS-backed loans.
- Business enterprises to register and try to meet the minimum requirements for access to CGS

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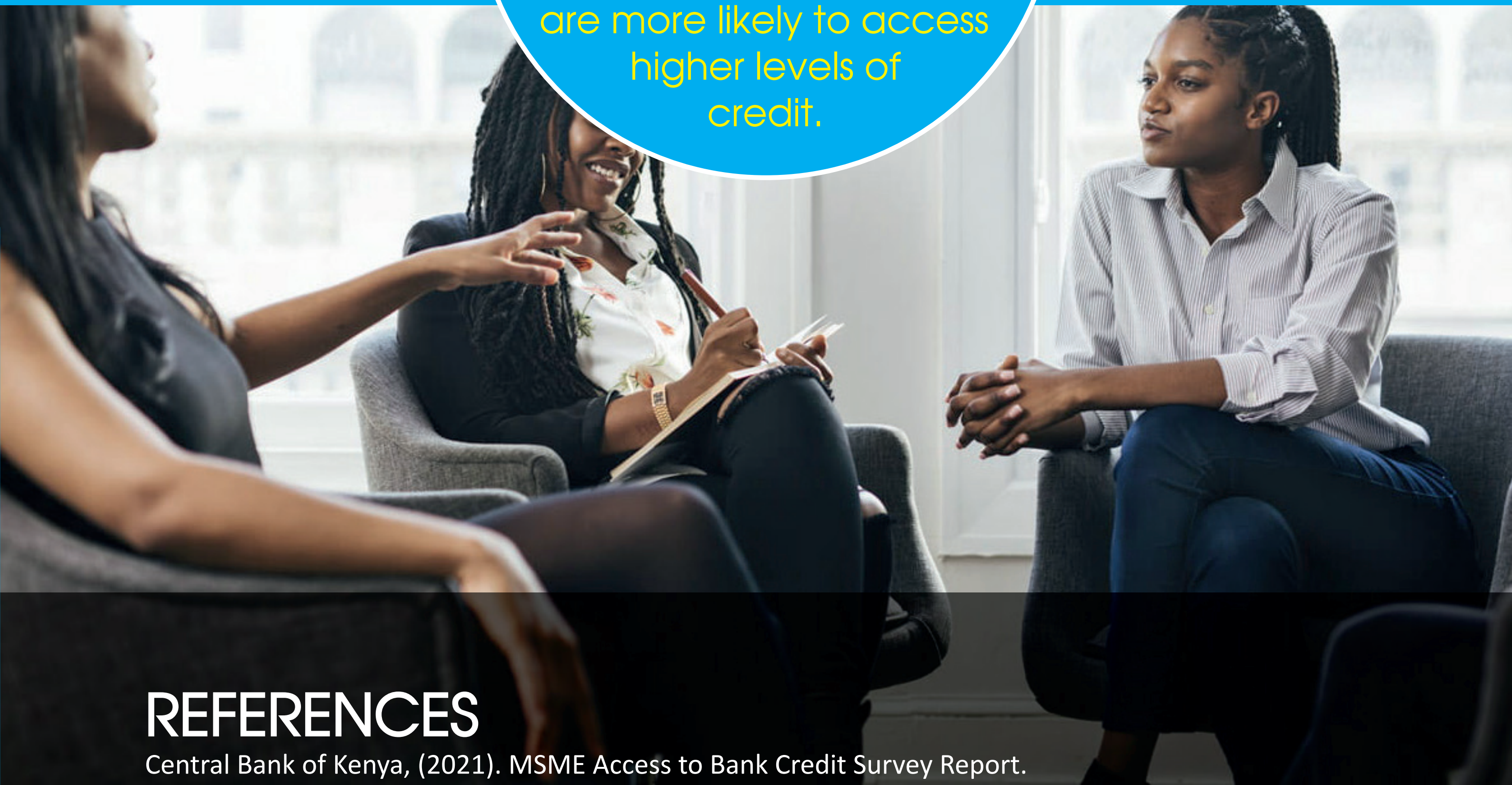

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