UTILIZATION OF SMALL BUSINESS LOANS AMONG WOMEN ENTREPRENEURS IN URBAN KENYA

Factors Associated with Diversion

Research Project

By

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ABSTRACT

This study was carried out between January and April 1998 to investigate loan use and loan diversion among women entrepreneurs who had received microenterprise loans from microfinance institutions in Nairobi. Women have been considered better credit risks than men because of the high loan repayment rates they exhibit. However, high loan repayment may not be an indicator of proper use of loans in business development. Funds given for business development have been known to be used for other purposes, and women have been known to sacrifice their energy and /or compromise household needs in terms of child care, health and food production/preparation, to produce enough to meet repayment of the credit.

This study investigates the various production, consumption and investment activities carried out by women in loan use and repayment. Using a post-test only survey research design, a sample of a hundred women were interviewed using semi-structured questionnaires. Data was analysed using proportions, correlation analysis and chi-square tests; using the Statistical Package for social Sciences SPSS the 6 th release.

The study found out that loan was diverted to some extent in 47% of the cases. On average , 16% of each loan given was diverted. Of the total loan given to women , 84% was used for business purposes; 11% was invested as savings or assets, 3% was used for consumption and 2% for other miscellenous uses . Eighty seven percent of the loan used in the loaned business was used for buying stock. Loan diversion increased as the loan size increased and the relationship was significant. Most loans were disbursed in the second half of the year. The amount of loan diverted increased at the same time but this increase did not have a significant relationship with the timing of loan disbursement. The amount diverted increased with subsequent loan cycles but the relationship was not significant. Amount of loan diversion decreased as the monthly household income and expenditure increased. The relationship was not significant, however.

Loans were fully repaid with income from the loaned business in 94% of the cases. The others partly paid with income from other businesses, rental houses and husbands income. When faced with repayment problems women reduced business stock, reduced domestic consumption or borrowed to repay loans. Others went into arrears, which were later cleared using business income, group members paying or balancing off with the Loan Security Fund. Married women were found to involve their husbands in 84% of major decisions regarding loan management.

This study recommends that microfinance institutions should continue to give business loans to women, but also operate flexible saving facilities for their clients and give fixed asset loans. A disaster fund or some other form of insurance should be put in place to safeguard entrepreneurs' livelihood; most of whom business is the only source of income.