AN ASSESSMENT OF THE EFFECTS OF FINANCIAL INTERMEDIATION ON BUSINESS PERFORMANCE: A CASE STUDY OF WOMEN OWNED MICRO AND SMALL ENTERPRISES IN KISII MUNICIPALITY – KENYA

Clement Achimba Okirigiti

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DECLARATION AND RECOMMENDATION

This research project report is my original work and has not been submitted for any degree or any award in any university.

Signature -- Date -----------------------------

CLEMENT ACHIMBA OKIRIGITI

CM11/0394/08

RECOMMENDATION

This Research project report has been submitted with our approval as the university supervisors.

Signature -- Date -----------------------------

DR. SZUMBAH MWANAONGORO

SENIOR LECTURER,

KISII UNIVERSITY COLLEGE

Signature -- Date -----------------------------

MR. MACTOSH ONWONG'A

LECTURER,

KISII UNIVERSITY COLLEGE

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DEDICATION

This research project is dedicated to my wife Rose and our sons Samuel and Charles Victor.

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ABSTRACT

The purpose of this study was to assess the effects of financial intermediation on business performance. The study was carried out on women owned micro and small enterprises in Kisii Municipality. Descriptive research design was adopted for the study. The study sought to : assess the extent to which financial intermediaries intermediates between savers and borrowers, to assess the level of business performance of micro and small women owned enterprises and ; to assess whether financial intermediation has an effect on business performance on women owned MSEs in Kisii Municipality. The target population of the study was 150 women owned enterprises in Kisii Municipality (Equity Bank, Kenya Women Finance Trust and Kenya Rural Enterprise-Loan Programme beneficiaries). Random sampling procedure was adopted to sample 108 respondents who participated in the study. Data was collected using a structured questionnaire. Data analysis was done using descriptive statistics techniques which include frequency tables, percentages and summated averages. A likert scale was used to identify the extent to which financial intermediation influences business performance on women owned MSEs in Kisii Municipality. Microfinance loans, bank loans and co-operative loans were the most preferred sources of finance by the women entrepreneurs. Data were analysed using the statistical software package for social sciences. The study findings are useful to the women entrepreneurs who will plan and manage their businesses effectively. The study will also help financial intermediaries and policy makers to formulate appropriate policy framework to guide in the management of registered micro and small women owned enterprises and women entrepreneurship in the country and will also add to the already existing literature on financial intermediation.

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LIST OF ABBREVIATIONS AND ACRONYMS

BDS	-	Business Development Services
CBK	-	Central Bank of Kenya
DFIs	-	Development Finance Institutions
DFID	-	Department for Internal Development
FDI	-	Foreign Direct Investment
GoK	-	Government of Kenya
K-REP	-	Kenya Rural Enterprise Programme
RoK	-	Republic of Kenya
GDP	-	Gross Domestic Product
SACCOs	-	Savings and Co-operative Societies
ROSCAS	-	Rotating Savings and Credit Associations
UNDP	-	United Nations Development Programme
FSS	-	Financial Sector Services
MFIs	-	Micro Finance Institutions
ILO	-	International Labour Organization
KNBS	-	Kenya National Bureau of Statistics
OECD	-	Organization for Economic Co-operation and Development
LGRD	-	Local Government Reform Programme
LAs	-	Local Authorities
SBP	-	Single Business Permit
MSEs	-	Micro and Small Enterprises
NBFIs	-	Non Banking Financial Institutions
NGOs	-	Non Governmental Organizations
FKE	-	Federation of Kenya Employers
FIs	-	Financial Intermediaries
SPSS	-	Statistical Package for Social Science
UK	-	United Kingdom
UNDP	-	United Nations Development Programme

CHAPTER ONE

1.1 Background of the study

Women as micro and small entrepreneurs have increasingly become the key target group for financial intermediaries. Consequently providing access to financial and non-financial services is not only considered a pre-condition for poverty alleviation but also considered as a strategy for empowering women (Karanja 1996). The micro and small enterprises (MSEs) play an important role in the Kenyan economy. According to the 1999 Baseline Survey (CBS, ACEG and K-REP) indicated that there were 1.3 million MSEs which contribute 18 percent of Kenya's Gross Domestic Product (GDP). The survey stated about 64 percent of the MSEs are in trade, under which women entrepreneurs fall. This sub-sector is engaged in buying and selling of goods. Income from the trade sub-sector is ranked lowest among the MSE sector, but they are vital to the livelihoods of many urban and rural poor. The Kenya Labour Force Survey Report of 1998/99 indicates that the sector covers all semi-organized and unregulated activities that are small scale in terms of employment (ROK, Labour Force Survey 1999).

The MSE sector is a major source of employment and income and about 48 percent of MSE operators are women. By the end of the year 2001, informal employment was estimated at 4.6 million accounting for 72 percent of total wage sector employment and 81 percent of private sector employment. The contribution of MSEs is more than double that of medium and large manufacturing sector that stands at 7 percent of the GDP (ROK 2003a). Micro enterprises are very small business often involving only the owner, some family members and at the most one or two paid employees. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However many micro enterprises advance into viable small businesses. Earning levels of micro enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support. Small enterprises constitute the bulk of the established businesses, with employment ranging between five and about 50. (Oketch 2000).

Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of proper planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker et al 2006). Lack of credit has also been identified as one of the most serious constraints facing MSEs and hindering their development (Tomeko & Dondo 1992). Education is one of the factors that impact positively on growth of firms. Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998).

Financial intermediaries are banking and non banking financial institutions which transfer funds from economic agents with surplus funds to economic agents that would like to utilize those funds. (Salmulson & Nordhans, 1989). Financial intermediation has not only opened up new opportunities for the financial sector participants through financial innovations there is increase of new market players arising from new products in the financial markets. These developments have increased the range of financing and investment opportunities available to economic agents. As the financial markets become more liquid there is an increased speed and strength of the channels of marketing policy with complete change in interest rates, the cost of investment financing and return on savings (Shane, 1997).

In Kenya, Financial intermediaries have programs that assist in developing micro and small enterprises through financial and technical assistance. Among the most notable financial intermediaries that have targeted women entrepreneurs are: the Kenya Women Finance Trust (KWFT), Kenya Rural Enterprise Program Bank (K-REP), and Equity Bank (Kioko 1995). K-REP operates two major loan programs for micro and small entrepreneurs, Jihudi and Chikola. The Jihudi methodology involves small groups. Each Jihudi group consists of four to eight individuals. The Chikola Loan Program works through existing rotating savings and credit self-help groups that are comprised of individual micro entrepreneurs. Jihudi and Chikola Loan Program are micro finance loans with minimum amounts of kshs. 15,000 to finance small-scale business people and entrepreneurs within a group set up (Kioko, 1995). Another scheme offered by K-REP is katikati, which is advanced to individual entrepreneurs with viable businesses whose credit starts at kshs 100,000 (K-REP, 2002).

Kenya women Finance Trust provides loans to women entrepreneurs, its business loan products to micro and small women entrepreneurs are Biashara loan, Mwangaza and mwamba. To be eligible for a KWFT group programme, the group must be registered with the Ministry of Culture and social services as a self-help group, have existed as a group and operated a merry-go round for at least one year, and must accept that they have to save an agreed amount of money on a monthly basis. The minimum savings is Kshs. 200 per month. Members must agree to use the savings as collateral for group and individual members loans. During the mobilization stage, groups complete eight weeks of training to build their capacity and enable them to fully utilize the credit they access. (KWFT 2002). KWFT is also currently piloting an individual loan programme to meet the needs of growth-oriented clients with financing needs of kshs 100,000 to ksh. 500,000. (KWFT 2004). Equity bank provides Fanikisha loan products. Fanikisha loans are of six types each to suit a particular class of entrepreneurs. Fanikisha shaba targets women entrepreneurs who lack conventional securities and would like to start micro enterprises and would like to borrow through a group approach. The loans range from Kshs. 10000 to Kshs. 300,000 with a repayment period of 6-12 months at an interest rate of 1.25 % p.m. Fanikisha Dhahabu and Fanikisha Imara targets women in MSE who would like to borrow individually and the repayment period is usually fixed at 24 months. (Coeztee et al 2002).

1.2 Statement of the Problem

Micro and small women owned enterprises continue to receive substantial funding from the government and other financial intermediaries so as to improve their financial sustainability. Many of these MSEs are able to access credit facilities from commercial banks and other formal institutions. Despite the accessibility of both financial and non financial services provided by financial intermediaries to women entrepreneurs, MSEs owned by women continue to perform dismally and others opt to quit. Lack of collateral, no track record of credit history and limited educational and vocational training have been indicated as the cause of poor performance of women owned MSEs. This study sought to assess the effects of financial intermediation on business performance of women owned MSEs in Kisii Municipality.

1.3 Objectives of the Study

1.3.1 General Objective

The study sought to assess the effects of financial intermediation on business performance of micro and small women owned enterprises in Kisii Municipality.

1.3.2 Specific Objectives

Specifically the study sought to assess:

i) The extent to which financial intermediaries intermediates between savers and borrowers.

ii) The level of business performance of micro and small women owned enterprises in Kisii Municipality.

iii) Whether financial intermediation has an effect on business performance of women owned MSEs in Kisii Municipality.

1.4 Research Questions

i) To what extent do financial intermediaries intermediates between savers and borrowers?

ii) What is the level of business performance of micro and small women owned enterprises in Kisii Municipality?

iii) Does financial intermediation have an effect on business performance of women owned MSEs in Kisii Municipality?

1.5 Justification/ Significance of the Study

The micro and small enterprises have greatly contributed to the growth of the Kenyan Economy. The sector contributes to the creation of employment and economic empowerment of women entrepreneurs. Most of the studies conducted focus on the risk assessment and accessibility of credit to these enterprises. There is little study conducted in line with financial intermediation. The study is expected to provide information to women entrepreneurs to enable them plan and manage effectively their businesses. The study will also help financial intermediaries and policy makers to formulate appropriate policy framework to guide in management of registered micro and small women owned enterprises and other researchers interested in financial intermediation and related issues.

1.6 Assumptions of the Study

The study was based on the following assumptions: First, financial intermediaries play an important role in financing and developing women entrepreneurs, second, the respondents were honest and understood well the operations of their enterprises and co-operated with the researcher and provided reliable responses regarding their enterprises in relation to financial performance.

1.7 The Scope of the Study

The study focused on the effects of financial intermediation on business performance of women owned micro and small enterprises operating within Kisii Municipality under the K-REP, Equity and Kenya Women Finance loan program for Women Entrepreneurs. It was conducted between December 2010-March 2011. A random sample of 108 women owned micro and small enterprises was selected for the study. Data was collected using a structured self administered questionnaire.

1.8 Limitations of the Study

The limitations of this study were: First, data was collected by the use of questionnaires, this may have left out other data collection tools such as document analysis. The respondents were the owners of the business enterprises who may not have disclosed the exact information about their enterprises and the study covered only Kisii Municipality.

1.9 Operational Definition of Terms used in the study

Micro and small enterprises(MSEs)	Are businesses with at least one and not more than 50 employees or whose annual turnover is less than Kshs. 4 million.
Risks	The probability that unforeseen factors may arise that can adversely affect the normal operations of MSEs and which most cases lead to losses.
Micro finance	Refers to the supply of financial services to people who are not able to access facilities from commercial banks.
Financial intermediation	Refers to how financial intermediaries and women entrepreneurs intermediate in Kisii Municipality.
Business Performance	Refers to how well the women owned MSEs in Kisii Municipality achieve their objectives such as growth in assets, number of employees.
Liquidity	The degree to which a debt obligation coming due in the next 12 months can be paid from cash or assets that can be turned into cash.
Poor	This refers to (the) people who cannot have access to finances from commercial banks as a result.
Financial Intermediary	A financial institution which transfer funds from economic agents with surplus funds to those who need the funds.
Financial Management	Refers to how the women entrepreneurs in Kisii Municipality raise, allocate and ensure that the finances are used effectively and efficiently in achieving the enterprises overall financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Financial Intermediation

Mishkim & Eakim, (2009) define Financial intermediation as the process of channeling funds between surplus and deficit agents. Financial intermediaries (FIs) facilitates buyers and sellers of capital resources. Financial intermediaries are institutions such as banks insurance companies, savings and loan associations that take deposits or funds from one group and allocate them to another group. (Bhattacharya & Thakor 1993). Without financial intermediaries in the world of imperfect information, there would be great inefficiencies in allocation of financial resources for example mortgages would typically come in large, irregular sizes with long and uncertain duration lenders assuming a certain level of risk aversion would demand higher compensation for bearing risk and irregular conditions to approve funding. The role and organization of the FIs depends not just on the ability to evaluate risks but also addressing post lending moral hazards (Boot, 1997). FIs reduce the cost of transactions with services from brokerage of quality asset transformation they gain from an increase in size because of economies of scale and by diversification of information. F1 such as banks provide viable signals to capital markets through their loan approval processes. The regular monitoring of their financial status mitigates asymmetrical information and improve the quality of total aggregate investments. (McKinnon , 1973)

Commercial banks act as a centre of financial intermediary universe and are considered in many aspects as an indicator of a nation's economic health. They hold the largest variety of earning assets that include commercial and residential mortgages, personal loans, working capital requirements, automobile loans, term financing, structural financing and also financing innovations through derivatives. They act as an agent of monetary policy where interest rates are determined by the central bank would restrict and ease conditions on which credit is made available in the economy. They also serve as " trusted dealers" by issuing bank guarantee and letters of credit (Bhattacharya & Thakor 1993).

The design and delivery of financial services greatly affects access particularly for the poor. Financial intermediaries often require traditional forms of collateral property such as land, housing for which women frequently lack title complicated application procedures and documentation requirements can prevent women with lower education and few skills from applying. Minimum loan sizes and inflexible repayment schedules stipulations that may be required for efficient credit disbursement, often preclude women applicants seeking smaller loan activities that yield income over longer or more infrequent interval. Similarly, sectional priorities may favour male economic activities over those of women. The lack of knowledge about women's economic activities and documentation that can substantiate their profitability, reduce women's access to credit and insurance products finally where women concentrate in informal economic activities or enter and exit the labour market more frequently to bear and care for children, they are less likely to acquire pension rights or have access to financial instruments for retirement, death and burial (OECD, 2006).

2.2 Importance of Financial Intermediaries

Kenya had a well developed financial system by 1996, made up of 51 commercial banks, 23 non-bank financial institutions, 5 building societies, 39 insurance companies, 3 reinsurance companies, 10 development financial institutions, 1 capital market authority, 20 securities and equities brokerage firms, 1 stock exchange, 12 investment advisory firms, 57 hire purchase companies, several pension funds, 13 foreign exchange bureaus, and 2670 savings and credit cooperative societies (Development Plan 19997/2001). At Independence Kenya inherited a financial system composed of the Currency Board of East Africa, a commercial bank sector dominated by foreign banks and a smaller number of specialized financial institutions. In may 1966, central bank of Kenya was established by an Act of parliament with only 10 (mainly foreign owned) commercial banks. The set goal for the financial sector was to ensure its growth and stability so that it could stimulate growth in other sectors of the economy thus achieving a high economic growth rate. The narrow financial sector was characterized by government control on the allocation and pricing of financial resources. The inherited financial system expanded and became more diversified in the 1970s and 1980s especially with the government policy to encourage local participation in the financial system and setting up of specialized institutions to collect savings and finance investments through issuing new bank and NBFIs licenses. In the 1960s, Kenya had fewer than 10 NBFIs but the number of institutions expanded and their deposits and liabilities increased as they strove to compete with existing financial banks (Ndele, 1991).

Informal financial service providers include several variants of merry-go-rounds and rotating savings and credit associations (ROSCAS). Infact there are thousands of ROSCAS in Kenya serving as a source of credit for millions of low income people. FIs have rapidly grown serving more customers and larger geographical areas offering a wide range of financial products and services. The FI have developed lending methodologies suitable for low income women clients, this is aimed at supporting the millennium development goal of poverty alleviation as well as a strategy for empowering women (KWFT 2002). KWFT believes that access to credit through MSEs financing strengthens women's bargaining position and financial status within the households hence enabling them influence strategic decisions affecting their families. Kenyan banks and micro-finance institutions are scrambling to attract micro and small enterprises by tailoring products to meet the needs of this niche, such cross-functional products are designed to give a wholesome feel of the banking experience for MSE account holders where they are able to get ability services and goods at one point and at reasonable prices (Gakure 2001).

2.3 Functions of Financial Intermediaries

2.3.1 Monitoring

Fry (1995) argues that borrowers must be "monitored" because there is an expost information asymmetry in that lenders do not know how much the firm has produced. Only the individual borrower observes the realized output of his project, so contracts cannot be made contingent on the output. Consequently , a lender is at a disadvantage because the borrower will not honor ex ante promises to pay unless there is an incentive to do so. Bott (1997) asserts that the lender must bear a cost to determine whether the borrower has resources to repay the loan or not, a decision made after the borrower's project output has been realized and after a payment has been offered to the lender. To reduce the probability of a default risk by giving the bank collateral can improve monitoring incentives if the collateral's value is sensitive to inefficient continuation of the firm's current business strategy . in this case, the bank must monitor the firm's situation so that it can use the threat of calling the loan to force the firm to adopt a more conservative policy or even outright liquidation so as to preserve the value of the bank's collateral. (King & Levine ,1993)

2.3.2 Credit creation

Commercial banks and NBFIs help in deposit mobilization and credit creation. Commercial banks attracts more deposits from the government and other public depositors than NBFIs (Ndele, 1991) NBFI's contribution to the provision of credit has kept on improving even though it falls below that of commercial banks. NBFIs have adopted aggressive campaign strategies to lure depositors. These intermediaries assures depositors development credit with their savings as well as flexible interest rates, these measures have attracted many depositors (Ndele 1991).

Savings and credit co-operative societies (SACCOs) are the institutions with the most visible impact on the lives of many Kenyans. Their primary objective is to give a group –based members access to a convenient savings system and affordable credit. They are currently organized as work place or crop-based savings and credit associations. SACCOs are the largest suppliers of micro-finance in the country accounting for over 90 percent. (Coetzee, Kabbuchi & Munjama 2002).

2.3.3 Loans

Loans are financial products which financial intermediaries sell to the borrowers (Pandey, 2009). Loans are usually issued for a specific period of time and can be classified as short terms, medium term and long term. Loan covenants are usually included in the loan agreements. Restrictive covenants are usually included in the long-term loan agreements. These restrictions curtail the firms freedom in dealing with the financial matters and put it in an inflexible position. Covenants in the loan agreements may include restrictions to incur capital expenditure; to maintain working capital at a particular level. Loan covenants may look quite reasonable from the lenders point of view as they are meant to protect their interests, but they reduce the flexibility of the borrower to operate freely and it may become burdensome if conditions change (Pandey, 2009).

2.3.4 Guaranteeing

Bhattacharya & Thakor (1993) alludes that banks acts as guarantors by issuing guarantees and letters of credit. Micro finance institutions Operate Credit Guarantee Schemes (CGS) which aims at facilitating access to finance thro ugh the provision of a guarantee that replaces in part, or in full, the need for collateral. Credit guarantee schemes often combine public support with a self help element (mutual guarantee schemes) (KWFT, 2002).

2.4 Gender and the Performance of Women's Enterprises.

According to the 1999 National micro and small enterprises Baseline Survey there were 612848 women entrepreneurs (MSEs) in Kenya. Women were more likely to be operating in the trade sector (75 percent) and were more dominant than male in leather and textile (accounting for 67 per cent of total MSEs in that sector), retail accounting for 56 percent of total MSEs in that sector) entertainment (accounting for 55 percent of the total MSEs in that sector) and manufacturing (accounting for 68 percent of the total MSEs in that sector).

Table 1: Sex Distribution of MSE owners by location, 1999.

Location	Male	MSEs	Female	MSEs	Total	
Urban	213262	48.3%	227886	51.7%	441148	100%
Rural	457465	54.3%	384962	45.7%	842427	100%
Total	**670727**	**52.3%**	**612848**	**47.7%**	**1283575**	**100%**

Source: National MSE Baseline Survey 1999 P. 19.

Women are less likely to employ others in their enterprises. The average number of employees in female owned MSE is 1.54 versus for male owned MSEs (Table 2). In MSEs owned by women about 86 per cent of the workers are the owner operators; only four percent of their workers are hired, the remainder is made up of either family members or apprentices. For MSEs owned by men, these percentages are 68 and 17. Thus, 60 percent of total MSE employment is accounted for by male owned enterprises (1,414,650 workers) and only 40 percent by women MSEs (946600 workers)

Table 2: Distribution of total MSE employment by location and sex, 1999.

Location	Male	MSEs	Female	MSEs	Total	
Urban	470380	58.1%	338940	41.9%	809320	100%
Rural	994270	60.8%	607660	39.2%	1,551,930	100%
Total	**1,414,650**	**59.9%**	**946,600**	**40.1%**	**2,361,250.**	**100%**
Average no. of workers	2.1 persons		1.54 persons		1.83 persons	

Source: National MSE Baseline Survey 1999 P. 29.

McCormick, (2001) noted significant differences in the performance of women's enterprises vis-à-vis those of Kenyan men. Their enterprises are smaller, less likely to grow, less profitable and begin with less capital investment than those owned by women. Not only is there a great deal of gender segregation by sector (with women dominating in food processing, beer brewing, hair dressing, dress making and retail of second-hand clothing while men dominate in work, carpentry, vehicle repair, shoe making , construction and transport) but women and men operate from different locations. Men are twice as likely as women to locate in trading centres, commercial districts or roadside locations; women are three times are likely as men to belong to some type of business association although there are indications that women's networks have less power to assist the businesses.

McCormick, (2001) isolated three factors that account for these differences in enterprise performance, the first factor has to do with the level of Education, on average women entrepreneurs are less educated than their male counterparts and twice as likely as men to be illiterate. Two major reason for this difference institutional in nature. Marriage institutions discourage investment in women's education and the division of labour assigns a greater share of household responsibility to girls. Because they have lower educational attainment they are also less likely to benefit from the training programmes. The second factor has to do with the opportunity to accumulate savings. Because women have lower levels of education and are segregated into lower paying jobs, they have lower savings with which to start a business. Thirdly, women spend less time in their business than men because they are expected to carry out their domestic responsibilities including housework, food preparation and child care. This also way women are more likely to operate their business from the home.

Kenyan women entrepreneurs at the micro level have great difficulties obtaining financing due to collateral constraints. Most of them are forced to cooperate with other women in small groups to mobilize savings and pool these resources for lending to individual group members. Alternatively they form in small groups to access micro-credit through a mutual guarantee sustain from a micro-finance organization. (Kiplagat,1998).

2.5 Macroeconomic and Regulatory Environment

Business environment relates to those features found outside the enterprise itself. This includes an array of influence ranging from economic, social and cultural factors systems, to policies, laws and other kinds of rules, to public and private institutions and the effect of other enterprises. The MSE operations cut across almost all sectors of the economy, and sustain a high percentage of households in Kenya. (Wanjohi, 2008). The MSE activities form a breeding ground for businesses and employees, and provide one of the most prolific sources of employment. Their operations are more labour intensive than large manufacturers. At the same time, they are the suppliers of low cost products and services in the domestic market.

An enabling environment includes the social and cultural context, the political systems including the influence of governance and the economic systems and policies. Each of these variables affect the markets in which the private sector operates. In turn they influence the growth and competitiveness of business. The government plays a crucial role in MSE development as displayed by activities performed by different arms of the government. The key organs of the government such as parliament and related policy making institutions such as Local Authorities (LAs) have to grasp the role of government in MSE development, and be more aware of the impact of new policies and laws on the operations of small enterprises. In this process, the government has to set the institutional framework for business, the rules of the game and to ensure that enterprises receive appropriate incentives that facilitate efficient performance. Such interventions have potential for mainstreaming the informal economy alongside larger formal enterprises. (Alila & Mitullah, 2000)

The Local Government Reform Programme (LGRP) was initiated in 1999. The objectives of the programme were reduction of poverty and unemployment coupled with spurring the economy into higher rates of growth. The reforms had three components: improving local service delivery; enhancing economic governance, and alleviating poverty. These objectives were to be achieved though increasing efficiency, accountability, transparency and citizen ownership. The KLGRP, is specifically structured as a policy instrument designed to achieve the above goals. Its immediate policy focus has been the removal of unnecessary regulatory barriers and the reduction of costs of doing business. In particular the government initiated two nation-wide reform efforts, namely: The single Business Permit (SBP) and the Local Authority Transfer Fund (LATF). The SBP in relation to small businesses is a response to business licensing problems faced by MSEs. Business licensing was aimed at protecting consumers from exploitation, health and safety hazards and control of business activities. Business licensing imposes costs on businesses that are often out of proportion to the benefits delivered. Further, in practice, the regulatory provisions are abused and have become merely income earning opportunities for those charged with enforcing the regulations (Devas and Kelly 2001).

The regulatory powers of the central bank were limited under the Banking Act 1968, while enforcement of banking regulations and supervision of financial institutions were hindered by lack of staff and adequate information. These factors resulted in the growth of NBFI and building societies in the 1980s. again, to promote indigenous financial institutions the sector was subjected to low entry barrier and less liquidity, capital and revenue requirements. With little supervision the increasing number of new financial institutions faced liquidity and solvency problems due to poor financial practices, fraud and mismanagement. It was not until the collapse of several financial institutions in 1985-1986 that the government took steps to improve central bank ability to regulate and supervise NBFIs and building societies and impose stringent licensing requirements for new institutions (Ngugi & Kabubo,1998) Financial liberation entails a variety of measures such as liberalization of interest rates, establishing freedom of entry and procedures for orderly exit from the banking industry, reducing reserve and liquidity requirements, eliminating or minimizing credit allocation directives, eliminating preferential credit at concessional interest rates and removing controls in the capital account of the balance of payments (Montiel, 1995). In Kenya however nominal interest rates increased minimally immediately after liberalization and inflation accelerated very high negative real rates were recorded (Njuguna & Ngugi; 2000).

The macro economic environment affects the performance of the banking sector by influencing the ability to repay borrowed loans, the demand for loans with unpredictable returns from investment and the quality of collateral to determine the amount of premium charged and therefore the cost of borrowed funds to the investors with an unstable micro-economic environment and poor economic growth, investors face uncertainty about investment return and then raise the lending rates as the level of non-performing loans goes up squeezing the bank margin for example poor output reduce firm profitability while reduced assets price reduce the value of collateral therefore the credit worthiness of the borrowers. As a result a return on investment declines increasing the level of non-performing loans and banks charge high risk premiums to cover their default risks. (Wanjohi & Mugure , 2008).

2.6 Social Intermediation

Providing financial services to marginalized people in society often requires more than traditional styles of financial intermediation. Financing the poor entails some measures of upfront investment to nurture human capacity (knowledge, skills, confidence) and to build local institutions as a bridge to reduce gaps created by poverty, illiteracy, gender and remoteness (Ledgerwood 1999). This process of building capacity among the marginalized in microfinance is known as social intermediation. Social intermediation is the process in which investment is made in the development of both human resources and institutional capital with the aim of increasing self reliance of marginalized groups preparing them to engage in formal financial intermediation.

Social intermediation is different from other common types of social welfare services because it offers mechanisms enabling beneficiaries to become clients who should be ready to enter into a contract involving reciprocal obligation. This aspect of social intermediation should eventually prepare individuals to enter into solid business relationship with formal financial institutions. The process normally involves training members in basic accounting and financial management as well as business strategy to ensure viability and sustainability of financial services offered.

Ngugi (1999) reported that there were 500 registered business development services (BDs) providers in Kenya in 1999, KMAP, the Kenya Institute of Business Training, ILO's start and improve your Business (SIYB), Federation of Kenya Employers (FKE), and the Kenya Institute of Management offer Counseling and Consultancy services to MSEs. These services supplement those for business one-stop shops and business service centres, both initiated with donor support. According to Ngugi, (1999) there are several weaknesses in the business support system policy, lack of sustainability of organizations offering BDS, lack of trained personnel, staff motivation, linkages with private sector organizations and adequate implementation funds and the politicization of the activities of the associations.

2.7 Review of Related Empirical Literature

Dondo (1991) in his study of credit programs for micro and small enterprises in Kenya found out that the legal environment was generally hostile to MSEs in Kenya and that the government had not established enabling legal environment for micro finance institutions and their clients. The legal environment was particularly hostile to micro entrepreneurs who operated from temporary structures, as they were often dislocated from their premises by local authorities. The findings also revealed that micro-finance institutions were operating under different Acts of parliament, thus making their activities uncoordinated. The findings further revealed that some MFI institutions were registered under the Banking Act and therefore were expected to be regulated by the policies governing the banking sector. The policy required micro-finance clients to be treated like those of commercial banks in terms of the requirements for security or collateral for loan taken and recovery of default loans through means used by commercial banks, interest rates charged by MFIs were too high compared to the market rates and therefore making it difficult for them to access microfinance loans.

Kaza (1997) investigated why banks were not able to meet their targets for women enterprises in Bawida. He found the overriding importance for family for women and instances such as marriage children or even a crisis in the family lead to closure of enterprises of women. Financial intermediaries are therefore hesitant to give loans to women entrepreneurs; they quit even a well-running business for the sake of their families. This factor also leads women to locate their enterprises near their homes even if means compromising on business interests.

A study by Richardson, Howarth and Finnegan (2004) on women entrepreneurs in Africa reveals that many women entrepreneurs in Africa. Lack of skills and expertise in certain business matters. The MSEs owned by women entrepreneurs do not operate proper accounting systems which undermines the accessibility and reliability of information concerning the profitability and repayment capacity. Most MSEs operate in a more volatile environment which has a negative impact on the security of the transactions, they experience more variable rates of return and higher rates of failures and are less equipped in terms of both human and capital resources to withstand economic advertisities. The quality of projects submitted for financing are often below the minimum basic standards for receiving any serious consideration by financiers as they have higher risk profiles and the lenders feel that they will not get paid and that their assets are not properly registered. Smallness also protects them from legal proceedings and rarely meet the conditions set by financial intermediaries which see MSEs as a risk because of inadequate collateral and lack information about their ability to repay the loans.

Rosa et al (1996) conducted a study to measure the comparative performance of business by gender. They found out that women owned businesses have a lower sales turnover, fever employees serving mostly the local markets and women entrepreneurs are less ambitions to grow their business. Women consider growth as a risk which may be financial or social and may come from exogenous or endogenous sources and consequently they try to be more risk averse, more careful and conservative purposely avoid approaching financial intermediaries for debt financing. Chell & Baines, (1998) in their study on gender and business performance found out that women entrepreneurs in the united kingdom lack human, social and financial capital more as compared with their intentions to start a business. They also pointed out inadequate capitalization despite accessibility to the well developed financial system in the country.

Bush et al (2005) investigated the apparent disconnect between opportunities and resources in equity finding for women owned enterprises. Their findings confirmed that women often lack power and social family support structure to grow other businesses. Access to formal finance is poor because of high default risk due to lack of collateral; most lending to MSEs is security based, without regard for potential cash flow. The loan guarantee schemes sometimes hinder individual women entrepreneurs who are not able to get a guarantor for the loan. Property ownership is also an issue, and the women entrepreneurs often have to solely own their credit history for a chance to receive a loan. The 1999 National Baseline Survey revealed that Kenyan MSEs cite lack of credit and competition as the most pressing factors to business operations and contributing to a huge number of business closures, these factors can be considered secondary rather than primary problem. The survey shows that the solutions lie within the business structures. Discipline finance management, differentiating products and services to satisfy customer needs, having business located within the reach of customers and good networking can make a difference between succeeding and failing.

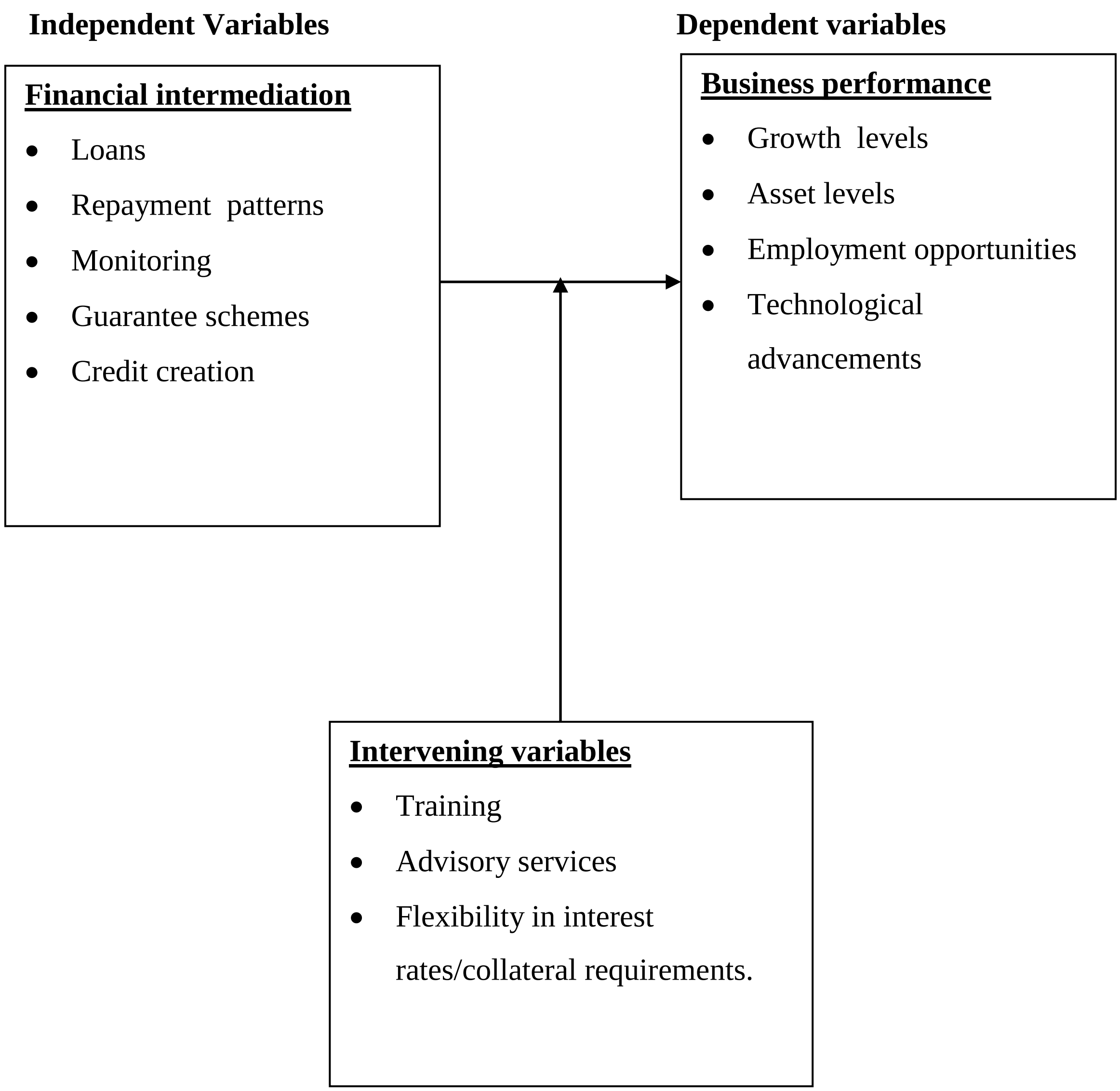
Gakure (2003) in her study on issues impacting on growth of women owned enterprises in Kenya established that there is stigmatization of women entrepreneurs in Kenya. Even successful women entrepreneurs are viewed negatively because society does not expect women to succeed on their own without male assistance. Gender disparities persist in education enrolment and retention rates, social norms are still characterized by cultural practices that accord lower roles and status to women, and that women still lack full access to control over and management of resources (lack of access to finance and credit, representation in co-operative societies, access to information and appropriate technologies). Both resources and decision making have remained largely the prerogative of men.

Previous researchers have provided insightful information about the performance of MSEs in terms of credit accessibility and other aspects of financial intermediation however it appears little empirical studies have been undertaken on the effects of financial intermediation on business performance of micro and small enterprises in Kenya. This study therefore will seek to assess the effects of financial intermediation on business performance of women owned MSEs.

2.8 Conceptual Framework

The framework explains the relationship among several variables. The independent variables comprise the functions of financial intermediaries, these include loans, monitoring, guaranteeing, savings, credit creation, repayment pattern. The dependent variables of the study were the performance of women owned enterprises, performance was measured using variables such as growth level of organization, asset levels profit/sales, employment and technological levels. The intervening variables include training, advisory services and the flexibility of interest and loan requirements. This study sought to assess the effects of financial intermediation on performance of micro and small women owned enterprises in Kisii Municipality.

Figure 2: Conceptual Framework



Source : Researcher's own work 2011

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The proposed study used descriptive design to evaluate the effects of financial intermediation on performance of micro and small enterprises owned by women. The design was adopted because of its appropriateness in describing the current situation of phenomenon (Kothari 2009).

3.2 The Study Area

The study was conducted in Kisii Municipality in the new county of Kisii. The municipality has a total population of nearly 83,460 persons according to 2009 Kenya Population and Housing Census. The municipality is made up of both agrarian and commercial economy. It has undergone rapid economic growth and development and this has caused rapid population growth. Another good indicator of the town's economic fortune has been the increasing number of financial intermediaries, a clear sign that there are many clients to save and borrow cash. The combination of the above factors made the municipality to be an appropriate choice for the study.

3.3 Target Population

Target population for the study was 150 women entrepreneurs under the K-REP bank, Kenya Women Finance Trust and Equity Bank Loan Program for women entrepreneurs within Kisii Municipality.

3.4 Sample and Sampling Technique

Using the formula by Nasiurma (2000)

$n = (NCv^2) / [\ Cv^2 + (N-1)\ e^2\ ]$

Where

n = Sample size

N = Population

Cv = Coefficient of variation (0.5)

e = Tolerance at desired level of confidence (0.05)

The sample size was 108 MSEs owned by women.

Random sampling technique was employed to obtain the required sample of 108 MSEs from the total target population of 150 women owned enterprises. The use of random sampling was to ensure that each member of the target population had an equal and independent chance of being selected (Oso & Onen, 2005).

3.5 Data collection instruments and procedures

A structured questionnaire was self administered to collect primary data. The questionnaire contained closed ended questions from which probable responses were selected from the list provided. The questionnaires were examined to ensure that they were fully filled. The questionnaire was piloted or be pre-tested on 20 women owned enterprises in the Kisii South District. Reliability of the questionnaire was determined using the test-retest method in which the respondents were required to provide information for the second time. A correlation coefficient was obtained to obtain the reliability of the instrument subject to the rule of thumb of at least 0.5 as proposed by Polonsky & Welleer (2009)

3.6 Data analysis and presentation

The descriptive statistical techniques: frequency and percentages, weighted averages or summated average were used to analyse the data. The results were presented using tables, charts. Statistical software package for social sciences (SPSS) was used to generate the required descriptive statistics.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Response Rate

Out of the 108 questionnaires that were given out to the respondents, only three were not returned. This indicates that the response rate was high, that is 97.2% and therefore the findings of the study will not be invalidated. This is summarized by the data in table 4.1.1.

Table 4.1.1 Response Rate

Response	Frequency	% Frequency
Returned	105	97.2%
Unreturned	3	2.8%
Total	**108**	**100%**

Source: Field data (2011)

4.2 Background Information of the Respondents

4.2.1 Age of Respondents

The study sought to establish the age of the respondents to the study. Table 4.2.1 below shows the response rate obtained from the field.

Table 4.2.1 Age of the Respondents

Age	Frequency	% Frequency
Under 20 years	5	4.8%
20-29 years	43	40.9%
30-39 years	38	36.2%
Above 40 years	19	18.1%
Total	**105**	**100%**

Source: Field data (2011)

From the table 4.2.1 above it shows that 4.8% (5) of the total respondents are aged below 20 years. The respondents aged between 20 years and above and below 39 years constitute 77.1% of the respondents and are the majority. Those entrepreneurs aged 40 years and above constitute 18.1% of the respondents. This indicate that most of the business enterprises are owned by middle aged entrepreneurs.

4.2.2 Educational Level of the Respondents

The study sought to establish the educational level of the respondents to the study. This is indicated by the field data in the table 4.3.2 below.

Table 4.2.2 Educational Level of the Respondents

Education level	Frequency	% Frequency
Primary	17	16.2%
Secondary	41	39.1%
College	32	30.5%
University	15	14.2%
Total	**105**	**100%**

Source: Field data (2011)

Table 4.3.2 above indicates that 16.2% of the respondents had primary education, 39.1% had obtained secondary education 30.5% had attained college education and only 14.2% of the respondents had university education. There is an indication that majority of the respondents had at least secondary education, this implies that the educational levels of the entrepreneurs affects the level of participation of the entrepreneurs in business activities.

4.2.3 Previous Work Experience

The study sought to establish the level of experience of the entrepreneurs prior to commencing the current business. Table 4.2.3 show the results obtained from the field.

Table 4.2.3 : Previous Work Experience

Years of experience	**Frequency**	**% Frequency**
0 years	24	22.8%
1-3 years	41	39.1%
4-7 years	19	18.0%
8-10 years	15	14.3%
Over 10 years	6	5.7%
Total	105	100%

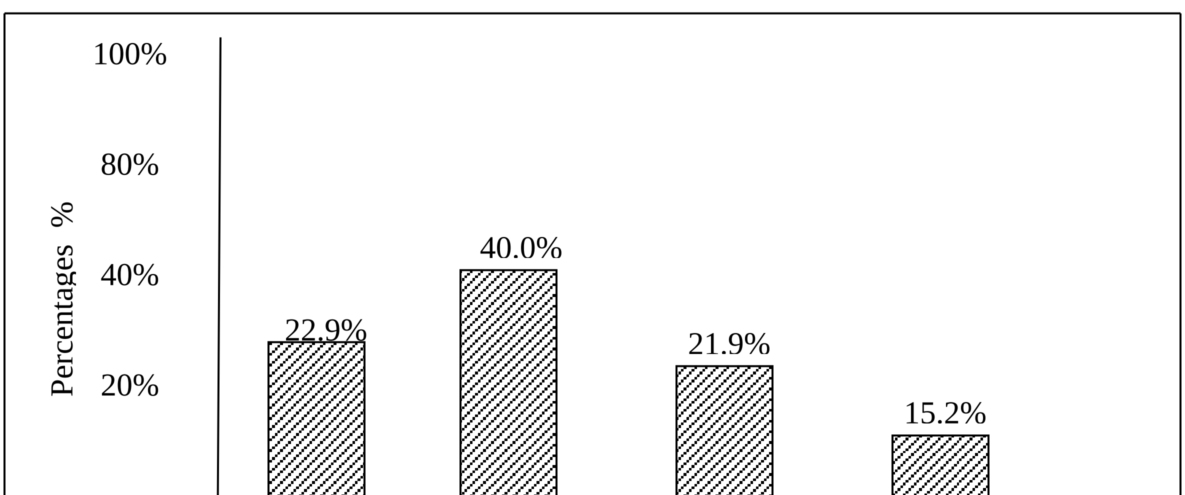
Source: Field data (2011)

The results in Table 4.2.3 shows the results obtained from the filed that 22.8% of the respondents had no previous experience in business before embarking in their current business activity. 57.1% of the respondents had experience of between 1 year and 7 years while only 20% of the respondents had experience of between 8 years and over. This indicates a strong correlation between lack of experience and business failure.

4.2.4 Length of Time Business Has Been in Operation

The study sought to establish the length of time the enterprises have been in operation. The findings of the study are presented in the graphs below.

Figure: 4.2.4: Length of time business has been in operation



Source: Field data (2011)

From the study it was established that 22.9% of the enterprises had been in operation for a period of less than 1 year, 40% of the enterprises had been in operation for a period of between 1 year and 2 years, 21.9% of the enterprises had been in operation for a period of below 3 and 4 years while only 15.2% of the enterprises had been operation for a period of over 4 years. The data shows that most of the businesses have been in existence in less than 2years.

4.2.5 Type of Business

The study sought to establish the type of business the respondents were engaged in. The findings are shown in table 4.2.5 below.

Table 4.2.5 Type of business

Type of business	**Frequency**	**% Frequency**
Retail	42	40%
Wholesale	8	7.6%
Transport	3	2.9%
Health and beauty	37	35.2%
Hospitality	9	8.6%
Construction	0	0%
Manufacturing	0	0%
Others	6	5.7%
Total	**105**	**100%**

Source: Field data (2011)

The results shows that 40% of the entrepreneurs are engaged in retail business, 35.2% in Health and beauty, 7.5% in wholesale, 2.9 in Transport, 8.6% in hospitality others 5.7% and none in construction and manufacturing. The findings show that majority of the entrepreneurs are engaged in retail and healthy and beauty type of businesses.

4.2.6 Ownership Structure

The study sought to establish the form of ownership structure of the enterprises. The findings are shown in table below.

Table 4.2.6 Ownership Structure

Ownership type	Frequency	% Frequency
Sole proprietorship	76	72.4%
Partnership	7	6.7%
Company	4	3.8%
Others	18	17.1%
Total	**105**	**100%**

Source: Field data (2011)

Table 4.2.6 shows that most of the enterprises are owned by sole proprietors 72.4%. partnership and company form of ownership are not very common with the women entrepreneurs, they constitute 6.7% and 3.8% respectively. Other type of business ownership constitute 17.1%.

4.3.1 Sources of Finance for Women Entrepreneurs in Terms of Preference

The study sought to establish the preferred source of financing for women entrepreneurs. The respondents were asked to rank in order of preference the mode of financing from highly preferable, neutral, less preferable and not preferable. These rates had scores of 5 to 1 from the highly preferable to not preferred. The results are shown in table below:

Table: 4.3.1 Sources of finance for women entrepreneurs in terms of preference

Mode of financing	WEIGHTS (W)							
	Highly preferable	Preferable	Neutral	Less preferable	Not preferred	∑wf	∑f	∑wf/∑f
	5	4	3	2	1			
	FREQUENCIES (F)							
Owner savings	79	14	11	01	00	486	105	4.62857
Donations from friends and relatives	26	28	31	18	02	383	105	3.64762
Bank loans	34	39	20	9	3	407	105	3.87619
Cooperative loans	29	25	18	26	7	358	105	3.40952
Microfinance loans	73	24	7	01	00	484	105	4.60952
Money lenders	17	11	29	17	31	281	105	2.67619
Government institutions	11	27	32	29	6	323	105	3.07619
Revolving funds	64	31	8	02	00	472	105	4.49523

Source: Field data (2011)

The results in table 4.3.1 above shows that owner's savings, microfinance loans and revolving funds are the preferred sources of finance by the women entrepreneurs. On the scale of 1-5 they were rated at a mean score 4 .62, 4.60 and 4.49 by the respondents in the Likert scale rating respectively. The results of the findings indicate that the entrepreneurs prefer personal savings, microfinance loans and finds from the ROSCAS. There is a reasonable mix between the use of one's personal savings and borrowed funds.

Bank loans as a source of finance were fairly rated by the respondents with a mean score of 3.87 co-operative loans were fairly rated with mean score of 3.40 and 3.64 respectively. This indicates that the entrepreneurs are able to secure loans from banks and co-operatives to expand their enterprises. The entrepreneurs can access credit facilities from the formal financial institutions for investment capital.

Government institutions and money lenders were lowly ranked by the respondents in terms of source of finance. They had a mean score of 3.07 and 2.67. based on the findings, the entrepreneurs may not be aware of the government's strategy to finance micro and small entrepreneurs. Money lenders were not preferred because of high interest rates charged and shorter repayment periods and lack of collateral normally required by the money lenders, hence the least preferred source of finance.

4.3.2 Business Challenges

The study sought to establish business challenges that women entrepreneurs face. The respondents were asked to rank the challenges from most frequent, very frequent, not frequent, very frequent, and never occurred. These rates had scores of 5 to 1 from most frequent to never occurred. The results from the field data are indicated in table 4.3.2 below.

Table 4.3.2 Business Challenges

	WEIGHTS (W)							
	Most frequent	Very frequent	Neutral	Frequent	Never occurred	∑wf	∑f	∑wf/∑f
	5	4	3	2	1			
Type of challenge	FREQUENCIES (F)							
Lack of credit	54	41	07	03	00	461	105	4.39047
High interest rates	70	26	07	02	00	479	105	4.56190
Increased competition	72	24	09	00	00	483	105	4.6000
Debt collection	14	23	38	19	11	325	105	3.09523

Low demand /few customers	65	29	09	02	00	472	105	4.49523
Rent is too high	76	22	07	00	00	489	105	4.65714
Others (high taxes, transportation)	57	33	11	04	00	458	105	4.35190

Source: Field data (2011)

The findings of the study in table 4.3.2 above shows that the main challenges women entrepreneurs face rent is too high, increased competition, high interest rates, low demand and lack of credit were rated as the top five challenges facing women entrepreneurs who operate small and micro enterprises. Rent problem was rated with the highest mean score of 4.65. Most of the entrepreneurs operate their enterprises in rented premises. Due to the rapid expansion of Kisii Municipality, rent for business premises has considerably gone up. Increased competition was rated second with a mean score of 4.60. Majority of the business enterprises owned by women are in the beauty and health sector. The entrepreneurs target the same market segment hence the increased competition for the customers. The citing of competition as a top challenge is expected as most micro and small enterprises tend to congregate in dense markets (National Baseline Survey 1999). It also suggests a lack of market information and innovations as most new businesses are a duplication of already existing ones.

Interest rates were also rated as a challenge with a mean score of 4.56. Most of the respondents felt that the interest rates charged by financial intermediaries are high. It is important to note that whereas lack of credit was rated among top challenges, with a mean score of 4.39, majority of the entrepreneurs are able to access credit facilities from financial intermediaries, the high interest rates increase the operation costs of the business which affects the liquidity of the enterprises.

Debt collection and other challenges such as high taxes, transportation were rated least with a mean score of 3.09 and 4.36 respectively. Majority of the businesses do not offer credit facilities to their customers and usually the transactions are on cash basis, hence debt collection is not a major challenge to micro and small enterprises. The local taxes paid to the municipal council seems to be a challenge to the entrepreneurs.

4.3.3 Amount of Loan Borrowed

The study sought to establish the amount of loans borrowed by the women entrepreneurs in the last five years. The results from the field data are shown in table below.

Table 4.3.3 Amount of loan borrowed

Amount of loan	**Frequency**	**% Frequency**
<Kshs 10,000	9	8.5%
Kshs 10,000 – 50000	36	34.3%
Kshs 50,000- 100,000	30	28.6%
Ksh 100,000-500,000	23	21.9%
> Ksh.500,000	7	6.7%
Total	**105**	**100%**

Source: Field data (2011)

The results in Table 4.3.3 above indicate that majority of the entrepreneurs had borrowed loans of between Kshs. 10,000 to Kshs. 500,000 representing 84.8%. 8.5% borrowed less than Kshs. 10,000 and only 6.7% had borrowed loans above kshs. 500,000. There is indication that the entrepreneurs do not borrow large loans and prefer to borrow small loans.

4.3.4 Loan Repayment Pattern

The study sought to establish the repayment pattern of the loans borrowed. The findings of the study are shown in Table below.

Table 4.3.4 Loan repayment pattern

Repayment Pattern	Frequency	% Frequency
Weekly	42	40%
Monthly	57	54.3%
Annually	6	5.7%

Total	**105**	**100%**

Source: Field data (2011)

The results in the table above shows that 54.3% (57) of the total respondents repay their loans on a monthly basis, 40% repay weekly and 5.7% repay on annual basis, loan repayment pattern affects the amount of the loan borrowed as the enterprises liquidity is affected by the cash outflows.

4.3.5 Loan Repayment Period

The study sought to establish the repayment period of the loans advanced to women entrepreneurs. The results of the findings are tabulated in table below.

Table 4.3.5 Loan repayment period

Period	**Frequency**	**% Frequency**
< 1 year	58	55.2%
1-2 years	36	34.3%
3-4 years	9	8.6%
5-8 years	2	1.9%
7-8 years	0	0%
Total	**105**	**100%**

Source: Field data (2011)

The results in table 4.3.5 above shows that the repayment period of the loan are shorter with 55.2% (58) of the total respondents indicating that they are required to repay amount borrowed within the year of borrowing. 34.3% of the respondents indicate that the period of loan repayment is between 1 year and 2 years. 8.6% of the respondents pay their loans in the period of between 3 years and 4 years while 1.9% of the respondents indicated that the repayment period of between 5 years and 8 years and none of the respondents repays the loans borrowed over a period of 8 years. It can be observed that the financial intermediaries set short repayment periods, hence the repayment period has an impact on the nature of the amount borrowed, hence the entrepreneurs opt to borrow small amounts of loans due to shorter repayment periods.

4.3.6 Interest Rate Levels

The study sought to establish the level of interest rates charged by the financial intermediaries on the loans advanced to women entrepreneurs.

Table 4.3.6 Interest Rate Levels

Interest rate	Frequency	% Frequency
< 5%	4	3.8%
5-10%	13	12.3%
10-15%	26	24.8%
15-20%	39	37.1%
>20%	23	21.9%
Total	**105**	**100%**

Source: Field data (2011)

The results in table 4.3.6 above shows that 3.8% (4) of the respondents borrowed loans where they were charged interest at the rate of 5% and below. 12.3% of the respondents indicated that the interest rate levels were between 5% and 10%. Those who were charged interest rates of between 10 and 15% constituted 24.8% of the respondents The respondents who indicated that they were charged interest rates above 15% were 62 respondents who constituted 59%. There is a clear indication that the financial intermediaries change higher interest rates which discharges entrepreneurs from borrowing large loans from the intermediaries.

4.3.7 Business Performance Indicators

The study sought to establish the level of satisfaction of women entrepreneurs in terms of business performance indicators. The respondents were required to rank the level of satisfaction from very satisfied, satisfied, neutral, dissatisfied and very dissatisfied. These rates had scores of 5 to 1 from very satisfied to very dissatisfied. The findings of the study are tabulated in table 4.3.7 below.

Table 4.3.7 Business Performance Indicators

	WEIGHTS (W)							
	Very dissatisfied	Dissatisfied	Neutral	Satisfied	Very satisfied	∑wf	∑f	∑wf/∑f
	1	4	3	2	1			
Performance Indicators	FREQUENCIES (F)							
Growth sales	25	34	27	11	8	258	105	2.45714
Growth in no. of employees	22	31	23	27	02	271	105	2.58095
Growth in assets level	39	43	11	08	04	210	105	2.0
Growth in profit	28	39	16	13	09	251	105	2.39047
Technological advancement	34	27	19	14	11	256	105	2.43809

Source: Field data (2011)

The results in table 4.3.7 indicates that entrepreneurs were satisfied with growth in the number of employees in their enterprises, which was rated the top business performance indicator with a mean score of 2.58. McCormick (2001) noted that women entrepreneurs tend to be contented with few employees and do not want their enterprises to expand rapidly to accommodate more employees. They are comfortable to work with few employees. The growth in sales was rated second with a mean score of 2.45, while technological advancement was rated third with a mean score of 2.43. Growth in profit levels and asset levels were rated the least with mean scores of 2.39 and 2.0 respectively. The research findings indicate that the entrepreneurs were not satisfied with the assets held by the enterprises and the rate at which the profits grow. The poor performance of the businesses in profit may be a result of the increased costs of doing business such as high rent, high taxes and other rates, high interest rates which the respondents indicated as the main business challenges.

4.3.8 The Effect of Financial Intermediation Activities on Women Owned Enterprises.

The study sought to establish the effects of financial intermediation on women owned enterprises. Based on five point scale 1-5 (1=strongly disagree, 2=disagree, 3= undecided, 4=agree and 5 strongly agree the respondents were required to indicate the extent of agreement or disagreement on the financial intermediation activities. Table shows the response rates obtained from the field.

Table 4.3.8 The effects of financial intermediary activities on women owned enterprises

	WEIGHTS (W)							
	Strongly agree	Disagree	Undecided	Agree	Strongly disagree	∑f	∑wf	∑wf/∑f
	1	2	3	4	5			
Statement	FREQUENCIES (F)							
The financial intermediaries provide long term loans to women entrepreneurs	04	08	11	29	53	105	434	4.1333
The financial intermediaries do require collateral for the loans to women entrepreneurs	07	13	26	37	22	105	369	3.51428
Financial intermediaries provide detailed quality and precise information on other services and products.	21	19	25	16	24	105	323	3.07619
The repayment periods and interest rates are fair.	33	27	24	13	08	105	251	2.39047
Financial intermediaries participate in offering skills and trailing in financial	09	14	37	28	17	105	345	3.28571

management to women entrepreneurs.								
Financial intermediaries provide opportunities for expansion and growth in their services	13	18	27	32	15	105	333	3.17142

Source Field data (2011)

The results in table 4.3.8 shows that the intermediation activities of financial intermediaries plays an important role in the development of women intermediaries plays an important role in the development of women enterprises. The respondents rated the provision of long term funds to women enterprises with a mean score of 4.13. however the respondents felt that the collateral requirements by the FI constraints the entrepreneurs, this was rated to a mean score of 3.51. The respondents indicated that financial intermediaries provide opportunities for the expansion of their enterprises through training on business skills and provision of loans. The findings reveals that the respondents felt that the interest rates and repayment periods were not fair, this was the least rated with a mean score of 2.36. There is a general agreement among the entrepreneurs that financial intermediation activities of FIs have positively impacted on their enterprises.

4.3.9 Perception of Women Entrepreneurs on Intermediation Activities

The study sought to establish the perception of women entrepreneurs on financial intermediation activities. Based on a five point scale 1 to 5 (1= 1=strongly disagree, 2=disagree, 3= undecided, 4=agree and 5 strongly agree. The researcher sought to establish how women entrepreneurs perceive each of the financial intermediation activities that impact on business performance. The table below shows the responses obtained from the field.

Table 4.3.9 Perception of women entrepreneurs on Intermediation Activities .

Statement	WEIGHTS (W)							
	Strongly agree	Disagree	Undecided	Agree	Strongly agree	∑f	∑wf	∑wf/∑f
	1	2	3	4	5			
	FREQUENCIES (F)							
Women often save smaller amount of personal capital available for start up.	05	18	33	28	21	105	357	3.40
Women have greater need for external funding yet have difficulties in obtaining such funding.	07	15	26	42	26	105	359	3.41904
Women lack knowledge about available option and cost of getting this information may be high due to family responsibilities.	11	19	37	25	13	105	325	3.09523
Financial intermediaries may have inaccurate perception of women borrowing and entrepreneurial behaviour.	04	12	20	31	38	105	402	3.82857
Financial intermediaries often rely on	02	07	13	34	49	105	436	4.15238

personal profiles and track record in reviewing loan applications.								
Women may be asked to pay higher interest rates or provide higher guarantees.	05	14	17	36	33	105	393	3.74285
Women may face explicit or implicit (structural) gender discrimination.	16	29	31	17	12	105	295	2.80952

Source: Field data (2011)

The results shown in table 4.3.9 above indicate that majority of the entrepreneurs felt that the intermediation activities of the financial intermediaries have an impact on their enterprises. There respondents felt that financial intermediaries often rely on personal profiles and track record when reviewing loan applications. This was highly rated with a mean sc ore of 4.15. On the need for external funding the respondents indicated that they had encountered problems when seeking external funding, this had been rated with a mean score of 3.41. The respondent also felt that FIs may not have accurate information on borrowings and entrepreneurial behaviour of women entrepreneurs, this had a mean score of 3.82. The findings of the study also indicate that the respondents felt that interest rates charged were high; this was rated with a mean score of 3.74. The respondents of the opinion that financial intermediaries do not discriminate clients based on their gender as indicated least with a mean score of 2.80.

4.4.1 Supervision on loan utilization

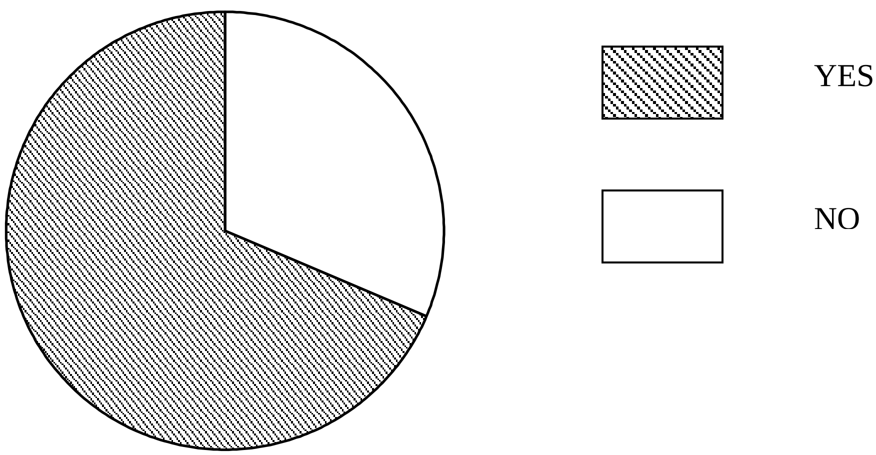
The study sought to establish whether financial intermediaries supervise the loanees on loan utilization. The following information was obtained from the field.

Table 4.4.1 Supervision on loan utilization

Response	Frequency	% frequency
Yes	72	68.6%
No	33	31.4%
Total	100	100%

Source : Field data (2011)

Figure 4.4.1 Supervision on Loan Utilization



From the results in figure 4.4.1 above, it is clear that most respondents had been supervised by financial intermediaries on loan utilization. This was cited by 68.6% of the respondents whereas 31.4% of the respondents indicated that they had not been supervised by the financial intermediaries on loan utilization.

The providers of funds usually monitor the usage of the funds by the recipients to ensure that the loan is utilized on the intended purposes for which it was provided. This is to reduce the default risk and to avoid diversion of the loans to other united purposes. Supervision on loan utilization will assist the loanees to repay their loans promptly and improve their credit rating.

4.4.2 Supervision on loan repayment

The study sought to establish whether financial intermediaries supervise women entrepreneurs on loan repayment. The results obtained are presented in the table below.

Table 4.4.2 Supervision on loan repayment

Response	**Frequency**	**% frequency**
Yes	72	72.38%
No	29	27.62%
Total	**105**	**100%**

Source: Field data (2011)

From the table 4.4.2 above the results shows that 76 (72.38%) of the respondents indicated that they had been supervised on loan repayment while 27.62% of the respondents indicated that they had not been supervised for loan repayment. Financial intermediaries monitor the repayment of the loans to reduce default risk and reduce mitigation costs incurred in loan recovery from defaulters.

4.4.3 Importance of supervision on loan repayment

The study sought to establish whether the entrepreneurs considered supervision on loan repayment important. The results obtained from the field are indicated in table below.

Table 4.4.3 Importance of Supervision on Loan Repayment

Response	**Frequency**	**% Frequency**
Yes	83	79%
No	22	21%
Total	**105**	**100%**

Source : Field data (2011)

The results in table 4.4.3 above indicates that 84 (79%) of the respondents considered supervision on loan repayment an important aspect while 21% of the respondents did not consider supervision on loan repayment important monitoring and evaluation on loan repayment assist the borrowers to plan properly an loan repayment and to cultivate harmonious relationship with the financial intermediaries as it improves their credit ratings for future loan considerations.

4.4.4 Nature of Training Before Receipt of Loan.

The study sought to establish whether the respondents had been trained before the loans were disbursed to them. The results of the field data are presented in the table 4.4.4 below.

Table 4.4.4 Nature of Training Before Receipt of Loan

Response	**Frequency**	**% Frequency**
Yes	92	87.62%
No	13	12.38%
Total	**105**	**100%**

Source: Field data (2011)

From the table 4.4.4 above, the results indicates that 92(87.62%) of the respondents had been trained before receiving the loans from the financial intermediaries. 13(12.38%) of the respondents indicated that they had not received any training before they received the loans. Financial intermediaries which provide women entrepreneurs loans have developed training programmes, the entrepreneurs are usually trained on group basis before loan disbursements are made.

4.4.5 Nature of Training

The study sought to establish the nature of training the woman entrepreneurs were exposed to before being awarded loans. The results of the field data are shown in table 4.4.5 below.

Table 4.4.5 Nature of Training

Type of training	**Frequency**	**% Frequency**
Business	16	17.39%
Book keeping	11	11.96%
Marketing	09	9.78%
Finance	17	18.47%
Savings	35	38.04%
Others	04	4.34%
Total	**92**	**100%**

Source: Field data (2011)

The results in table 4.4.5 above shows that the entrepreneurs had been trained on various aspects of business operations. 38.04% of the respondents indicated that they had been trained on savings, financial intermediaries encourage group savings as a pre-requisite for loan guarantee on group loans. Some loan products are given to groups, hence the need for group savings. 18.47% of the respondents indicated that they had received training on finance, this involves loan repayment procedures, interest rates calculations, re-arrangement or rescheduling of the loans. 17.39% of the respondents had been trained on business, business training involves the making of choices on the type of business plans. 11.96% of the respondents had received training on book-keeping which is an important aspect of record keeping and also in the provision of financial information of business enterprises. 9.78% of the respondents had been trained on marketing while 4.34% of the respondents indicated that they had been trained on other aspects of business management. The results of the findings shows that financial intermediaries play an important role in training of the entrepreneur.

4.4.6 Effect of training on management and incomes

The study sought to establish whether training helped to improve managerial abilities and incomes of the entrepreneurs. The results from the field data are tabulated in table 4.46 below.

Table 4.4.6 Effect of Training on Management and Income

Response	Frequency	% Frequency
Yes	87	94.56%
No	5	5.44%
Total	**92**	**100%**

Source : Field data (2011)

The results in table 4.4.6 above shows that 94.56%(87) of the respondents indicated that the training they had received had impacted positively on their management and helped to increase their incomes as they were able to access financial and non-financial assistance from the financial intermediaries. 5.44% (5) of the respondents felt that the training received had no impact on their managerial abilities and incomes. The findings of the study indicates that training is necessary to encourage entrepreneurship and provision of information to the entrepreneurs which will lead to a higher level of performance of women-owned enterprises.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings and Conclusions

The purpose of the study was to assess the effects of financial intermediation on business performance.

The first objective was to establish the extent to which financial intermediaries intermediates between savers and borrowers. The study found out that loans from financial intermediaries were popular with women entrepreneurs. Microfinance loans were highly rated with a mean score of 4.60, bank loans 3.87 and co-operative loans 3.40. This is a clear indication that the financial intermediaries play an important role in the provision of credit facilities to women entrepreneurs. The guarantee system provided by the group based schemes has made it possible for the women entrepreneurs to access loans easily. The group based schemes has helped to improve the savings of the entrepreneurs as each group member is required to open an account and deposit a minimum amount on a monthly basis. The savings can be used as a collateral for a group and individual member loans.

The study revealed that a large majority of the respondents felt that the loan repayment period was very short thus straining and pressurizing them to make quick repayments. Consequently the respondents did not feel the immediate impact of the loans, but instead they felt immense pressure to put their earnings towards loan repayment, this affects their liquidity. Most respondents indicated that the interest rates charged on loans were too high compared to market rates and therefore making it difficult for them to access large loans. However, from a positive point of view the intermediaries had helped to mobilize savings and had enabled them to obtain capital for their enterprises. The findings revealed that the intermediaries monitoring and evaluation exercises prior to loan disbursements and after disbursements had an impact on the repayments of the loans by the borrowers. The monitoring and evaluation carried out in a consistent and orderly fashion, helps in a ligning the needs of the clients with the implementation strategies thereby leading to a positive impact of the loan program. The study reveals that majority of the respondents were unaware of the various incentives and credit facilities provided by the government to micro and small enterprises to improve the chances of success of its plans on small and micro enterprises government could do more to publicize the existence of these programs which target MSEs..

The study findings reveal that the MSE's performance is still low despite the availability of finance and non-financial assistance. Majority of the entrepreneurs operate as sole proprietors. The entrepreneurs, particularly those with only primary and secondary education may not know the various sources of credit available to them in the market and their ability to prepare bankable projects may be adversely affected as most of them do not to utilize services of outside consultants. This was confirmed when they were asked the rate their perception on intermediation activities. Majority of them felt that financial intermediaries often rely on their track record in review of loan applications and that the interest rates were higher and collateral requirements were high. The entrepreneurs were unlikely to meet the more stringent application requirements of the formal financial institutions which provide large investment loans due to their inability to provide the required financial statements and plans.

In conclusion, the financial intermediaries have greatly contributed to the establishment, expansion and development of MSEs owned by women. The impact of the loan programs can be viewed as a positive effect. The impact may be seen in terms of business productivity and growth as well as improvement in social status. The findings reveals that most beneficiaries in the study had expanded their businesses and their incomes had increased.

5.2 Recommendations

To assess the effects of financial intermediation on business performance of women enterprises:

First the gender barriers need to be addressed at all levels, from the legal system to the domestic system women entrepreneurs need more access to a full range of financial and non-financial support services. The growth of their enterprises is restricted by lack of collateral and flexible finance options. There is inadequate access to training, as well as follow-up to training inputs, and limited opportunity to avail themselves of external, formal managerial capacity buildings support. There should be a review of title of ownership of property, need of exposure to business ideas, opportunities, access to market information, financial and management training focused on growth and the need to strengthen policy coordination, implementation , monitoring and evaluation of government efforts to promote the MSE sector, emphasizing the role of Government as a facilitator and encourager of growth (rather than one of direct intervention).

Second, the financial intermediaries should consider involvement of their clients in the formulation and implementation strategies in order to avoid complaints and dissasfactions among the clients, the loan repayment period should be made flexible and perhaps paid over a period ranging between two to four years to ease the pressure of quick repayment that might hinder achievement of immediate impact, similarly the intermediaries should develop market based -loan programs and carry out comprehensive feasibility studies to ascertain the business challenges, business potential and the ability of the loan programs to meet the clients identified needs. The performance of loans are measured through monitoring and evaluation exercises which brings to light performance indicators such as loan repayment rates and customer default rates. Though evaluation exercises are important in determining the performance of loans, the intermediaries should put in place mechanisms to measure the change in the client's quality of life. Such mechanisms would put to light the concerns and issues raised by the clients, which if acted upon would contribute to modification of the loan programs to suite the needs of the clients and enhance the deepening of financial intermediation.

5.3 Suggestions for Further Research

The researcher suggests that further research be conducted on the following areas.

i) The strategies employed by financial intermediaries to enhance women entrepreneurship.
ii) The challenges faced by financial intermediaries in the financing of women entrepreneurs.
iii) The effects of interest rates on loan borrowings by women entrepreneurs.

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APPENDIX I

SAMPLE QUESTIONNAIRE FOR THE STUDY

Please fill in the questionnaire as accurately as possible. Any information given will be treated with confidentiality and will be used conclusively for the purpose of the research. Put a tick (√) in the appropriate box or circle the appropriate number that best answers each question.

PART A: ENTREPRENUER'S BACKGROUND INFORMATION

1.1 What is the name of your organization?

……………………………………………………………………………………………

1.2 What is your age bracket

Under 20 years [ ]

Between 20-29 years [ ]

Between 30-39 years [ ]

40 years and above [ ]

1.3 Please indicate your highest level of education.

Primary level [ ]

Secondary level [ ]

College level [ ]

University level [ ]

1.4 What is your experience prior to commencing current business?

Years of experience

0 years [ ]

1-3 years [ ]

4-7 years [ ]

8-10 years [ ]

Over 10 years [ ]

PART B. BUSINESS DETAILS

2.1 Which sector does your business fall?

Retail [ ]

Wholesale [ ]

Transport [ ]

Health and beauty [ ]

Hospitality [ ]

Construction [ ]

Manufacturing [ ]

Others [ ]

2.2 What form of organization ownership is your firm?

Sole proprietorship [ ]

Partnership [ ]

Company [ ]

Others [ ]

2.3 How long has your business been established?

Less than 1 year [ ]

Between 1-2 years [ ]

Between 3-4 years [ ]

Over 4 years [ ]

PART C: FINANCIAL INTERMEDIATION

3.1 How can you rate the following sources of finance in terms of preference?

Mode of financing	**Highly preferable 5**	**Preferable 4**	**Neutral 3**	**Less preferable 2**	**Not preferable 1**
Owners savings					
Donations from friends and relatives					
Banks loans					
Cooperative loans					
Micro finance loans					
Money lenders					
Government institutions					
Revolving funds					

3.2 Please indicate the frequency level of the following business challenges to which your business is exposed.

Type of challenge	**Most frequent 5**	**Very frequent 4**	**Frequent 3**	**Not frequent 2**	**Never occurred 1**

Lack of credit					
High interest rates					
Increased competition					
Debt collection					
Low demand /few customers					
Rent is too high					
Others (High taxes, transportation)					

3.3 How much loan have you borrowed from a financial intermediary in the last five years?

Under Kshs. 10,000 [ ]

Between Kshs. 10,000-50,000 [ ]

Between Ksh. 50,000-100,000 [ ]

Between Kshs. 100,000-500,000 [ ]

Over Kshs. 500,000 [ ]

3.4 What is the repayment pattern?

Weekly [ ]

Monthly [ ]

Annually [ ]

3.5 What is the repayment period?

Less than 1 year [ ]

1-2 years [ ]

3-4 years [ ]

5-8 years [ ]

Over 8 years [ ]

3.6 What were the interest rate levels?

Less than 5%	[ ]
5-10	[ ]
10-15%	[ ]
15-20%	[ ]
Over 20%	[ ]

3.7 Rate your level of satisfaction with the following business performance indicators.

Indicator	**Very dissatisfied 1**	**Dissatisfied 2**	**Neutral 3**	**Satisfied 4**	**Very satisfied 5**
Growth in sales					
Growth in the no. of employees					
Growth in sales level					
Growth in profit					
Technological advancement					

3.8 The following statements indicate the various intermediation activities to women owned enterprises. To what extent do you agree or disagree with the statements.

KEY SD – Strong Disagree D-disagree U- undecided A Agree SA – Strongly Agree

Statement	**SD 1**	**D 2**	**U 3**	**A 4**	**SA 5**
The financial intermediaries provide long-term loans women owned enterprises					
The financial intermediaries do require collateral for the loans to women entrepreneurs.					

Financial intermediaries provide detailed quality and precise information on their services and products					
The repayment period and interest rates are fair.					
Financial intermediaries participate in offering skills and training in financial management to entrepreneurs.					
Financial intermediaries provide opportunities for expansion and growth of business					
Financial intermediaries are fast and efficient in their services					

3.9 The following statements indicate the various intermediation activities to women owned enterprises. To what extent do you agree or disagree with the statements.

KEY SD – Strong Disagree D-disagree U- undecided A Agree SA – Strongly Agree

Statement	SD 1	D 2	U 3	A 4	SA 5
Women often save smaller amount of personal capital available for start up.					
Women have greater need for external funding yet have difficulties in obtaining such funding.					
Women lack knowledge about available option and cost of getting this information may be high due to family responsibilities.					
Financial intermediaries may have inaccurate perception of women borrowing and entrepreneurial behaviour.					
Financial intermediaries often rely on personal profiles and track record in reviewing loan applications.					
Women may be asked to pay higher interest rates or provide higher guarantees.					

Women may face explicit or implicit (structural) gender discrimination.					

PART D: SUPERVISION, ADVISORY VISITS AND TRAINING

4.1 Have you ever been supervised regarding loan utilization by your financial? Intermediary?

Yes [ ] No [ ]

4.2 Have you ever been supervised for loan repayment?

Yes [ ] No [ ]

4.3 Do you consider supervision as being important for loan repayment?

Yes [ ] No [ ]

4.4 Did you get any training before receiving loan?

Yes [ ] No [ ]

If YES, What kind of training was it?

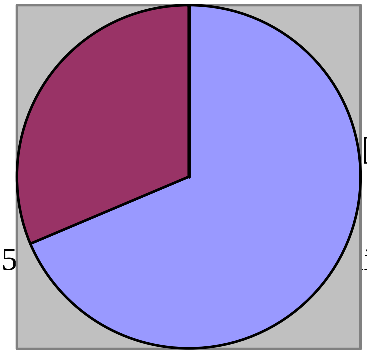
Business [ ]

Book keeping [ ]

Marketing [ ]

Finance [ ]

Savings [ ]



[ ]

4.5 ing has helped your managerial abilities and increase

Yes [ ] No [ ]

THANK YOU FOR YOUR CO-OPERATION