CREDIT-ASSISTED MICROENTERPRISES: WHAT THIS MEANS TO HOUSEHOLDS' INCOME AND LIVELIHOODS IN KAKAMEGA COUNTY

POLICY BRIEF

October 2019

Key messages

1. **Microfinance Institutions (MFIs) are a major source of credit, accounting for 88% of the total credit secured by entrepreneurs operating MEs in Kakamega County. Other sources of credit are Self-help groups (5%), cooperatives (4%) and banks (3%).**

2. **Entrepreneurs spend 69% of the total loan money secured from all the credit sources on microenterprise (ME) business and 31% is diverted to households' needs**

3. **Credit secured by entrepreneurs impacts significantly on the growth of ME businesses' stock and incomes. In spite of this, the corresponding growth in ME employment is insignificant.**

4. **Growth in incomes of credit-assisted MEs impact significantly on entrepreneurs' total households' incomes and subsequently their livelihoods, irrespective of their number of occupations.**

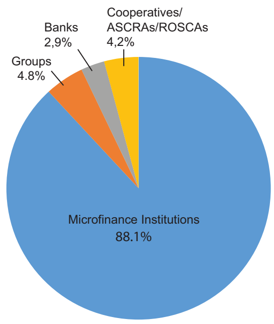
1. Introduction

Availability of credit is one of the major factors in the development of the ME-sector in Kenya (photos1, 2 and 3 showing examples of MEs within trade, service and artisan/manufacturing categories, respectively). Entrepreneurs' inability to access credit from mainstream financial institutions and Kenya Government's grassroots funds [such as Women Enterprise Fund (WEF), Youth Enterprise Fund (YEF), Uwezo Fund, among others] is attributable to high interest rates and structural rigidities, respectively. This constraints the development of the ME-sector. To address shortage of credit, MFIs have come up with special credit programmes to support entrepreneurs, especially those who are members of self-help groups and operating businesses, easily access credit. In fact, MFIs account for 88% of the total credit secured by micro entrepreneurs in the county (Obulinji, 2016).The role of MFIs in provision of credit is partly in line with the Kenya Government's Vision 2030 and the Big Four Agenda, that seek to improve food security and promote industrialization and employment of the increasing labour force. The ME-sector plays a key role in the economy of Kakamega County. The sector registers higher growth rates than agriculture and the formal wage employment sectors (GoK, 2013a; 2013b). Further, it employs 30% of the labour force (GoK, 2013a; 2013b), contributing 34% - 100% of entrepreneurs' total households' incomes. This significantly impacts entrepreneurs' livelihoods (Obulinji, 2016). Thus, with declining wage employment opportunities, agricultural productivity and land per capita, majority of the increasing labour in the county are finding solace in the ME-sector (GoK, 2013a; 2013b).

2. The Influence of Microfinance Credit on MEs

Figure 1 shows sources of credit secured by entrepreneurs operating MEs between 2008 and 2011. MFIs were the major sources of credit to entrepreneurs operating MEs. Hence there is need for the County Government of Kakamega to support activities of MFIs in provision of credit to the ME-sector. Figure 2 shows how credit secured by entrepreneurs was apportioned between business and household needs. Thirty point eight per cent was diverted to entrepreneurs' households' needs, reducing the impact of credit on performance of ME businesses. Credit spent on ME businesses met 86.3% of entrepreneurs' business needs. The implication is that money loaned to entrepreneurs is in excess of their business needs. Figure 3 shows how credit acquired was spent on ME variables. Overall, investment in business stock (capitalization) accounted for 65% of credit spent on MEs.

Source of Credit	Amount of Credit
Microfinance Institutions	16,253,100
Groups	881,000
Banks	535,000
Cooperatives/ASCRAs/ ROSCAs	779,000
Total	**18,448,100**



ASCRAs: Accumulating Savings and Credit Associations.
ROSCAs: Rotating Savings and Credit Associations.

Figure 1: *Sources of Credit for Entrepreneurs Operating Microenterprises*

Expenditure Item	Amount (in Ksh)
Entrepreneurs' Microenterprise/ Business Needs	12,766,085.20
Entrepreneurs' Household Needs	5,682,014.80
Total	**18,448,100**

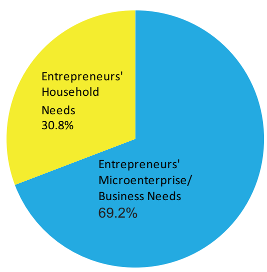


Figure 2: *Entrepreneurs' Expenditure of the Loan Money.*

Microenterprise Variables	Amount (in Ksh)	Percent
Business Stock		64.98
Tools	8,295,402.16	9.81
Raw Materials	1,252,352.96	3.63
Technology and Product Improvement	638,304.26	5
Training in Skills	63,830.43	0.5
Hiring Labour	399,578.47	3.13
Product Diversification	638,304.26	5
Improvement in Business Premise	702,134.69	5.5
Maintainance of Equipment	217,023.45	1.7
Part-Payment of Loans	95,745.64	0.75
Others	354,897.17	2.78
Total	12,766,085.20	100

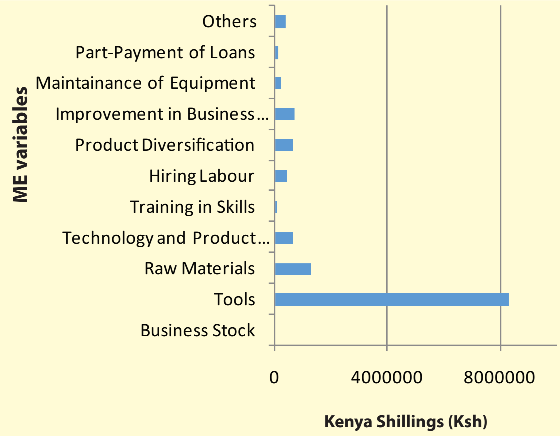


Figure 3: *How Credit Acquired was Spent on Microenterprise Variables*

Table 1 (Changes in ME Capitalization), Table 2 (Changes in Entrepreneurs' ME Monthly Average Incomes) and Table 3 (Changes in ME Monthly Total Employment in Man-hours) show the comparative growth in ME average capitalization (stock), average monthly income (in KES) and average monthly total employment (in man-hours), respectively, for credit-assisted and non-credit assisted MEs, using 2008 as the baseline year. It is evident from Tables 1, 2 and 3 that credit-assisted MEs performed significantly better in increasing entrepreneurs' business stock and income levels. However, changes in ME employment levels were not significant between MEs that received credit and those that did not. This implies that significant growth in ME employment can only result from establishment of new business units than from the existing ones.

Table 1: Changes in Microenterprise Capitalization

	Microenterprise capitalization levels (in KES)			
	Credit-assisted MEs		Non Credit-assisted MEs	
	Year 2008	Year 2011	Year 2008	Year 2011
Mean value in (KES.)	99,256.30	203,659.40	78,431.80	99,803.70
% Change	105.2		27.2	

Table 2: Changes in Entrepreneurs' Microenterpise Monthly Average Incomes

	Microenterprise monthly average income levels (in KES)			
	Credit-assisted MEs		Non Credit-assisted MEs	
	Year 2008	Year 2011	Year 2008	Year 2011
Mean value in (KES)	14,691.00	20,803.20	10,356.10	12,510.00
% Change	41.6		20.8	

Table 3: Changes in Microenterprise Monthly Total Employment in Man-hours

	Microenterprise monthly total employment levels (in man-hours)			
	Credit-assisted MEs		Non Credit-assisted MEs	
	Year 2008	Year 2011	Year 2008	Year 2011
Mean value in (man-hours)	672.3	752.8	580.6	615
% Change	12		5.9	

Table 4: Expenditure Pattern of Entrepreneurs' Households' income

Category of entrepreneurs based on ME Business and other occupations	Number of entrepreneurs	% of entrepreneurs' households' monthly incomes on:			
		Household consumables	ME business	Other household investment	Personal expenses
ME only	85 (35%)	69%	10%	14%	7%
ME and one other occupation	145 (60%)	63%	12%	13%	12%
ME and two other occupations	11 (11%)	61%	16%	13%	10%
% Average		64.30%	12.60%	13.30%	9.70%

3. The Contribution of MEs on Entrepreneurs' Households' Incomes and Livelihoods

From entrepreneurs surveyed, 35% depended entirely on ME business for their household income, while 60% and 5% had one and two other occupations, respectively. In that order, ME business contributed 37% and 24% of entrepreneurs' total households' incomes. It is thus evident that MEs contribute significant proportions of entrepreneurs' total households' incomes, even for those engaged in other occupations such as wage employment and or farming. Consequently, an increase in ME monthly incomes significantly impacts on entrepreneurs' households' total monthly incomes and livelihoods. Table 4 (Expenditure Pattern of Entrepreneurs' Households' income) shows how household incomes were spent based on entrepreneurs' number of occupations. On average, 64.3% was spent on food and other household consumables. A further 12.6% was re-invested back into the ME businesses and 13.3% was ploughed into other households' investments, where farming benefited 70% of this money. The flow of resources from businesses to farming directly contributes to food production. Further, investment of part of the MEs incomes enables households to accumulate assets. Thus, MEs as well as their growth play a significant role in the entrepreneurs' households' livelihoods.

4. Way Forward

1. MFIs are the key lenders to the ME-sector. Hence, there is need for the County Government of Kakamega to partner with MFIs and other stakeholders involved in credit provision to informal sector activities, with the aim of ensuring cheap and friendly/special credit programmes are developed to support micro entrepreneurs. Further, the development and strengthening of grassroots institutions such as self-help groups, community based organizations, ASCRAs, ROSCAs is important, as they act as preferred avenues through which MFIs and other stakeholders can channel their development resources (credit) aimed at development and improvement of peoples' livelihoods.

2. MFIs and other lenders to ME-sector need to develop institutional frameworks that can determine money lent to entrepreneurs is proportionate to their business financial needs

About the Policy Brief

This policy brief is a product of my PhD research work from Egerton University, titled: The Impact of Microfinance Credit on Microenterprises' Performance and Entrepreneurs' Livelihoods–A study of Businesses Managed by Members of Self-help Groups in Kakamega County, Kenya'. The research was undertaken by Humphreys W. Obulinji (2016). The research was partially funded by Egerton University and myself.

and that credit received is utilized for the intended purposes. For instance, self-help group leaders or members can be involved in monitoring how their members spend credit borrowed. Further, there is need for the County Government to collaborate with credit providers in developing programmes that sensitize and train entrepreneurs on how appropriately they can utilize business credit and incomes generated from their businesses. This will enhance the impact of credit on MEs incomes and the benefits thereof accruing in terms of improved livelihoods.

3. The increasing complimentary role of the ME-sector in generation of employment and incomes that subsequently and significantly affect the livelihoods of households in the county cannot be underestimated. There is need for the County Government to partly support the development of the ME-sector. This is important given that the county is faced with increasing labour force and reducing employment opportunities in agriculture and the formal wage-sector. Other problems that bedevil the ME-sector such as lack of adequate market and critical skills, among others, need to be addressed. Moreover, ME-sector has the potential to promote linkages with other sectors, such as agriculture, through investment and resource flows. This can improve food production and further improve households' livelihoods. Furthermore, growth in ME-sector could provide a better foundation for the industrialization of the county in the future as they graduate to medium-scale enterprises, one of the key aspects of the *Big Four agenda*'.

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