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## Shinyalu: Credit for Small Rural Businesses

*Given certain conditions, a non-official local committee can be an effective means of providing credit to small-scale rural businesspersons, some of whom may be members of the committee itself.*

*The effectiveness of such a scheme appears to require:*

- 1. Significant opportunities for the effective use of modest amounts of credit;*
- 2. A representative governing/lending committee, accountable to the community; and,*
- 3. Social peer pressure as a source of responsible committee decisions and as a means of enforcing loan repayment.*

### THE SHINYALU CASE

In Shinyalu, Western Kenya, a traditional funeral committee was converted into a commercial loan committee. Most village business operators took advantage of the loan scheme and responded with an exceptionally high repayment rate. The credit scheme provided a learning experience for small businesspersons. It illustrated the effective use of credit and contributed to the success and improvement of business operations.

A credit scheme's purpose is to combine resources, opportunities, and incentives to enlarge wealth beyond the cost of the credit. This case describes such a scheme. It may offer lessons useful to persons interested in village economic development and the promotion of small-scale commerce and service businesses as part of a rural development effort. Partnership for Productivity (PPF), a non-profit private voluntary organization, started the Shinyalu effort in 1972.

### SETTING

Shinyalu is located at a crossroads nine miles southeast of Kakamega, the provincial capital. It has 80

market businesses, more than 50 permanent shop buildings, and a diverse business population. More than 12 clans are represented in the village. Quakers and Roman Catholics are the most numerous, but there are several Muslim and Protestant shopkeepers. Most of Shinyalu's businesspersons\* also are involved in farming. Several manage commercial farms, and at certain times of the year there is a cash flow from farm to business and vice versa.

The market businesses are small, typically with one or two employees. Sixty-five percent are trade enterprises (selling provisions, maize, charcoal, and meat); 20% are service enterprises (restaurants, bars, maize mills, bicycle repair shops); and 15% are service or fabricating enterprises (tailor, carpenter, furniture).

There is only about \$1,500 in the Shinyalu loan fund. Loans range from \$60 to \$300 over a term of 3-6 months at 6% interest. All business managers in the village are eligible to apply for loans. The schedule of loans is publicly projected, and each person knows who has the capital which he might borrow in the future.

\*Over 30% of Western Province business operators are women.

Each of these Design Notes states a lesson which may be useful to those engaged in planning, managing, or evaluating development efforts, such as technical assistance projects. A given note may describe a technique and discuss its use, may present and explain a useful concept, or report a functional relationship between some intervention and some outcome. Design Notes are backed by cited evidence from PASITAM studies, published literature, or the reports of development agencies.

Comments and queries are invited, along with requests for additional copies and supplemental materials.

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The loan scheme has four objectives.

**Objective 1: To test the effect of injecting small amounts of capital into selected businesses to finance specific plans for change or expansion.**

A cultural anthropologist assessed the program's impact on 23 of the first 40 loan recipients. He obtained a composite view of each case through discussions with the recipient and members of the loan committee, and by general observation.

In the short-run, 16 of these businesses increased their inventories or otherwise expanded their enterprises. Over a longer term, 11 of the 23 borrowers increased their stock and improved their record-keeping and business methods. Four exhibited only slight progress. Eight showed no evidence of such change. Those who used their loan capital wisely in the short run also showed a long-term improvement in business activity.

After the initial loan recipients had received and repaid their loans, PFP established a business management extension service. Interestingly, the loan recipients who had used their loans wisely requested assistance from the management extension service.

The management service is independent of the loan mechanism. PFP's experience indicates that when loan and management advisory activities are combined, borrowers view the management advisor as a loan collector.

**Objective 2: To provide a loan service to small-scale businesses beyond the normal reach of existing commercial and governmental credit facilities.**

The loan scheme has now been used by most Shinyalu businesses. By December 1975, 52 of Shinyalu's 82 businesses had received one or more loans. Over 70% of all manufacturing enterprises, 70% of the trade enterprises, and 50% of the service enterprises had borrowed at least once.

The exact number of Shinyalu businesspersons who have received commercial or governmental loans is unknown, though the number is relatively small. Formal requirements and application procedures of the Shinyalu scheme are certainly less rigorous than government and commercial procedures.

**Objective 3: To test a local, self-governing loan scheme.**

The Shinyalu Market Committee, previously a funeral committee, has about 16 members, elected to 5-year terms by secret ballot in a general meeting. Community

pressure can force the committee to resign and face new elections. There were two elections held between January 1973 and January 1976. In one case, the chairman and vice-chairman were forced to resign, suspected of asking for kickbacks. In the other, the secretary resigned after asking for money to process a loan application.

The Committee follows certain procedures. It meets monthly to review loan applications, interview applicants, and select loanees. Not more than half the loan funds may be held by Committee members. Loan repayments are made to the Committee treasurer according to a pre-determined schedule.

Criteria for borrower selection are simple. The applicant must be an established business operator, occupy a secure building, possess inventory greater than the value of the loan request, state how the loan will be used, keep certain records, have completely repaid on time any previous loan, and have a non-committee person guarantee the loan.

Peer pressure operates on two levels. As noted, committee members are subject to sanctions within the community. There is also peer pressure on loan recipients to repay their loans on time so that other business operators may borrow. "In one case, a man received K.shs. 500 (\$70) to aid in improvement of his hotel tea room. He did not put the money to its intended use, and at the end of the four-month period he declared himself unable to repay. But in the face of constant reminders from committee members, and sharp criticism from his peers, he sold a cow and paid off the debt." (Barclay, 1974, p. 4)

There is considerable evidence that peer pressure at both levels is a prime factor in the success of the scheme.

**Objective 4: To train small-scale rural businesspersons in obtaining and using credit.**

The loan scheme has educational value. It involves a small amount of capital which must be quickly turned over. Significant business development requires larger amounts of long-term capital from commercial and governmental sources. But more formal application procedures and requirements tend to be too complex for most rural small-scale business operators. The revolving loan scheme gives small-scale businesspersons experience with loan requirements, applications, and repayments.

PfP is now studying the effects of the credit education. Results are not yet available.

#### OTHER PILOT SCHEMES

Since 1972, revolving loan schemes have been established in six other Western Kenya villages, one with as few as 13 and one with as many as 97 businesses. Most did not have traditional committees which could be converted into loan committees. On the whole, they have not been as successful as Shinyalu.

First, local loan committees had to be created and trained in committee procedures. Factors such as corruption and political manipulations initially proved to be problems. These problems lessened with experience. Second, small villages with less than 25 businesses lacked sufficient peer pressure to ensure loan repayment. Third, the largest village may be too heterogeneous and "cosmopolitan" to ensure sufficient peer pressure for loan repayment.

These problems have helped define the success parameters of the loan scheme. No loans have been written off. The repayment-on-time ratio for the six other pilot schemes has been 92+ (155 loans), compared with the 99+% (120 loans) in Shinyalu as of January 1976.

#### DISCUSSION AND SUMMARY

The Shinyalu loan scheme has achieved its objectives. The other six loan schemes, within an experimental context, have helped build knowledge of the requirements for this type of scheme in Western Kenya. An aggregate on-time repayment record of 96+% is remarkable for any rural credit scheme.

The experience supports the thesis that peer pressure is a primary determinant of success. We can also conclude that sizable economically active rural markets, with relatively homogeneous business populations and experience in cooperation, provide the best environment for a successful revolving loan scheme. The area should have between 25 and 100 full-time operating businesses. It should be an actual or potential economic growth center and should show evidence of good loan committee potential.

One major question concerning such a scheme concerns the possibility of its replicability. The literature suggests that organizations with built-in peer pressure are an effective means of facilitating rural agricultural credit. The literature also indicates that commercial and governmental loans, made directly to small-scale rural enterprises, have a poor on-time repayment record. There has been little testing of intermediary mechanisms for small-scale rural business loans. This scheme might be tested more extensively by organizations operating in rural areas.

PfP has experimented with a small-scale, low-cost business management extension service to complement the loan scheme. This extension service provides advice in accounting, inventory control, sales management, quality control, and similar management skills. The extension service might also be tested elsewhere. It is not, however, essential to the loan scheme.

The future directions of the loan scheme remain unclear. It could evolve into a cooperative or a credit union where members provide part of the capital. It could be superseded by commercial and governmental sources as recipients learn to qualify for credit. But the Shinyalu experience demonstrates that modest amounts of money can be effectively and creatively used. Its future will be determined by further innovations.

Additional information may be obtained from PASITAM or Partnership for Productivity, Box 243, Kakamega, Kenya.

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*This Design Note was prepared by Richard L. Ramey.*

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