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MICRO ENTERPRISE CREDIT AND ITS EFFECTS IN KENYA: An Exploratory Study

Final Report

Bureau for Asia & Private Enterprise
Office of Emerging Markets

Prepared for:	*AFR/MDI and S&T/WID*
Prepared by:	*Coopers & Lybrand*
Sponsored by:	*Private Enterprise Development Support Project II* *Project Number 940-2028.03* *Prime Contractor: Coopers & Lybrand*

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Prepared by: *Jennefer Sebstad, Consultant to Coopers & Lybrand*
Martin Walsh, Consultant to Coopers & Lybrand

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Ernst & Young was the prime contractor for the Private Enterprise Development Support Project II (Project Number 940--2028.03) until October 1, 1991. On October 1, 1991, this project was transferred to Coopers & Lybrand, which is now the prime contractor. Because this report was produced prior to October 1, 1991, it may contain references to Ernst & Young.

Abbreviations

EDP	Enterprise Development Programme
KREP	Kenya Rural Enterprise Programme
Ksh.	Kenya Shillings
NCCK	National Council of Churches of Kenya
PCEA	Presbyterian Church of East Africa
SSBE	Small Scale Business Enterprises

Conversion Rates

Exchange rate (October 1990): US$1 = Ksh. 23

Inflation rate for Kenya (1990): 12.6%

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EXECUTIVE SUMMARY

This report presents the results of a study on the impacts of micro-enterprise credit in Kenya. It is based primarily upon interviews with 50 micro-enterprise credit clients drawn from two different credit programs, one urban and the other rural.

The purpose of the study was twofold. Its first objective was to assess the impacts of micro-enterprise credit upon clients' enterprises, their households, and the wider enterprise environment in which they operate. A second objective was to use the results to develop a working methodology for use in future impact studies and program evaluations.

The main text of the report describes and analyzes the principal findings of the study. It shows that overall improvements in the financial performance of the assisted enterprises during the loan period were impressive. Average monthly sales increased by 75%, direct value added rose by 120% and cash incomes increased by 110%. However, there were significant differences between individual enterprises; not all of them performed as well as the overall figures imply. 30% of the enterprise experienced a reduction in sales, 26% a drop in direct value added, and 56% a fall in cash income. There was also limited evidence of underlying structural improvements within the enterprises. Average net profit margins remained constant at .22 although a third of clients still succeeded in increasing their margins. This suggests limited improvement in business practices and profitability in the remaining two thirds of the enterprises.

As the above data suggest, the benefits of loan investment were not spread evenly among the clients in the study sample although some consistent patterns emerged. One striking finding, for example, was that the loans typically had a much greater impact in the urban sample compared to the rural. Production enterprises generated higher levels of sales, direct value added, and cash incomes, but trade enterprises increased these figures at the highest rate during the loan period. There were no simple relations between loan impacts and gender of the clients in the overall sample. However, significant gender differences emerged in considering the urban and rural samples separately. The financial status of urban women's enterprises improved much more than urban men's. Exactly the reverse happened in the rural sample, where women's enterprises performed less well than men's.

Data on employment show that the total number of employees (excluding enterprise owners) increased by 37% and the average number of employees per enterprise rose from 1.18 to 1.62. The average investment per new job created worked out to be Ksh. 41,336/US$ 1,797, less than one eighth the estimated investment needed to generate a modern wage job in Kenya. However, while employment increased quantitatively, the structure of the labor force did not change quite so positively. The proportion of men to women employees (80%:20%) hardly changed. The proportion of unpaid to paid workers (74%:26%) and full-time to part-time employees (63%:37%) also stayed much the same. Similarly, the distribution of workers by status -- wage employees (33%), piece rate workers

(19%), casual laborers (22%), and family workers (26%) -- did not change. Of the few new jobs generated for women, most were in unpaid work.

At the household level, increased cash incomes from the assisted enterprises translated into an estimated 31% increase in household incomes. Overall, the assisted enterprises provided 42% of total household incomes. Over half of the women in the samples were the sole or primary earners for their families, indicating the importance of micro-enterprise income for them. Women enterprise owners generally reported that the assisted enterprises did not increase their workloads, but they did complain about their husbands' wish to assert economic control over the income from their enterprise activities.

Beyond the household the loans had a limited impact on the structure of backward enterprise linkages, although the clients did shift slightly from retail to wholesale suppliers. There was, however, a positive impact upon the structure of forward linkages. While most of the clients depended largely on providing goods and services to individual consumers, there was a significant increase (58%) in the number selling to larger customers. These new customers were primarily other micro-enterprises in the urban area and public institutions (especially schools) in the rural area. At the same time, an impressive proportion of the clients provided goods or services that were new or unique to the community (46%), saved time or labor (40%), or were lower in price than those provided by their competitors (30%).

The loans did not have an impact on the regulatory environment, but regulatory constraints did impinge negatively on clients' business operations and thus the effectiveness of their loans. The most successful clients in the study were much more likely to be working outside the regulatory environment than those who were less successful.

An appendix to the report presents methodological recommendations for future studies. The proposed approach is essentially a pragmatic one, and a draft questionnaire is presented together with notes on its use and application in the field. This survey instrument can be adapted to a variety of contexts and uses, including monitoring and evaluation of credit impacts within micro-enterprise assistance programs. It is also designed to be applied to a larger sample and to generate a much more thorough analysis than the present study. The proposed methodology will hopefully form a basis for testing and extending the study results to other places in Kenya and Africa.

1. INTRODUCTION

1.1 Purpose of the Study

The purpose of this study is to help understand the impacts of micro-enterprise credit in Kenya. The research explores a range of impacts at different levels, beginning with the client and the assisted enterprise itself, and extending to other household and community enterprises and economic activities.

Through intensive interviews with 50 micro-enterprise credit clients who have received credit at or near commercial rates of interest and who have demonstrated good repayment records, the study examines:

1. The financial performance of the enterprises during the loan period, analyzing changes in sales, direct value added, cash incomes, net profit margins, assets, employment and management practices.

2. The relationships between the assisted enterprises and other household enterprises and economic activities with special attention to the fungibility of resources.

3. The interaction between the assisted enterprise and other enterprises and economic activities beyond the household with reference to forward and backward linkages and competition.

4. Enterprise performance in relation to the broader enterprise environment including the regulatory context, formal and informal financial systems, and community organizations.

The study concludes by identifying the common characteristics of clients who have successfully invested their loans and improved the profitability of their enterprises during the loan period.

A related objective is to develop a practical methodology for studying micro-enterprise credit impacts that can be adapted and used in other places in Kenya and Africa. Efforts focused on developing an approach that generates project-specific data useful for monitoring and evaluation, as well as comparative information across projects and geographic locations useful for improving the design of broader micro-enterprise policies and programs.

To date, few micro-enterprise program evaluations in Africa have systematically tackled the question of impacts beyond the enterprise. Most have emphasized the structure and costs of various credit, training, and technical assistance methodologies, the numbers of clients reached, and repayment rates. To the extent that they have addressed enterprise level impacts, many evaluations have focused rather narrowly on the use of the loan, and changes in sales, assets, and employment. The studies have often overlooked the longer term implications of these changes for the client, household and broader community. Moreover, few have addressed issues such as how loans effect structural changes and profitability within the enterprises or the type and quality of employment generated through micro-enterprise investments. Other unconsidered issues include changes in the allocation of labor and capital resources within the household, and interactions with the wider enterprise environment.

Impact information is particularly opportune at this time given the rapid expansion of micro-enterprise credit programs in Africa, especially "minimalist" approaches that emphasize reaching more people at lower cost. This is an increasingly important strategy for expanding income and employment opportunities for Kenya's burgeoning labor force given the limited ability of the formal sector to generate a sufficient number of jobs and agriculture to absorb additional labor. Because minimalist programs, by definition, are concerned with reducing program expenses, they generally provide little or no technical assistance or client follow-up. Programs are considered successful if credit is delivered in a cost effective manner and repaid. Typically, minimalist approaches assume that credit, in and of itself, will have a positive impact on the client's enterprise.

This study explores the extent to which this assumption holds true. If someone repays a loan, does it necessarily mean they have invested it in their enterprise? Has the financial status of the enterprise improved? Are more people employed? Has the loan changed enterprise management practices? Has it generated positive spinoffs for other household enterprises and economic activities? Has it stimulated forward and backward linkages or had other effects beyond the household? Do micro-enterprise credit programs have different impacts on men and women? Do impacts differ in urban and rural areas or across sectors? Ultimately, what impacts can we realistically expect from minimalist and other micro-enterprise credit schemes?

The limited attention devoted to these types of questions in the past relates partially to the lack of appropriate methodological tools. Many conventional financial measures, for example, are overly complicated and impractical to use in measuring the performance of micro-enterprises. Such methods are technically complex and thus require highly skilled personnel. As such, they are more appropriate for larger scale enterprises and need to be streamlined and adapted to the context of micro-enterprises. Other methodologies are more academic in nature and their findings are not always pertinent to programmatic concerns. A related shortcoming is that the design of evaluation research strategies -- a time consuming endeavor -- is often left to practitioners running micro-enterprise programs who are already overburdened with implementation responsibilities and face considerable time constraints. In general, there is a need for a practical, streamlined evaluation methodology designed specifically for micro-enterprises that can be adapted to various contexts and that generates information useful for project monitoring and evaluation, as well as for policy and program research.

1.2 Organization of the Study

This report presents the findings from interviews with 50 micro-enterprise credit clients supported through the Kenya Rural Enterprise Programme (KREP). KREP is an intermediary support agency that provides financial and non-financial assistance to organizations promoting micro-enterprise development in Kenya. The interviews involved open-ended discussions on a range of issues related to the client's enterprise, household, and community. The main text of the report is divided into seven chapters. Chapter Two, which follows, outlines the research methodology. Chapter Three describes the two study areas, Mombasa town and rural Meru district, and the two credit programs that the study sample was drawn from. Chapter Four provides a description of the clients, their enterprise and household characteristics, and the loan funds. Chapter Five analyzes changes in enterprise performance during the loan period in sales, direct value added, cash incomes, net profit margins, employment generation, and enterprise management. Chapter Six reviews linkages beyond the enterprise, including the relationship between the assisted enterprise and other household and community enterprise and economic activities. This section also discusses the relationship between the enterprise and the regulatory environment, client participation in formal and informal financial systems, and client membership in business and other community organizations. The final chapter presents a summary of the research findings, highlighting issues related to location, sector and gender. It further identifies the common characteristics of successful clients and concludes with some general observations and remarks on program implications.

The main text of the report is followed by three appendices. Appendix A lists the enterprises operated by the 50 interviewees. Appendix B is comprised of the tables referred to in Chapters Four, Five, Six, and Seven. Appendix C presents the main methodological conclusions of the study and includes a draft questionnaire and notes on its use in the field.

The findings presented in this report should be read in conjunction with the report of a parallel study conducted by KREP which involved a broader survey of 127 credit clients from six micro-enterprise credit programs in eight locations in Kenya. The purpose of the KREP survey was to provide a broader picture of enterprise level impacts of assistance programs in Kenya in order to complement the findings from the intensive interviews and to assist in identifying certain proxy indicators of impact. KREP also collected data on program costs from the six organizations to assess enterprise level impacts against total lending costs. While the present report addresses questions of "effectiveness", the KREP study extends its analysis to questions of "cost-effectiveness".

2. METHODOLOGY OF THE STUDY

2.1 Research Design

The research design was essentially exploratory and it should be emphasized at the start that it does not pretend to any degree of statistical rigor. It was based upon intensive and open-ended interviews with two small samples of micro-enterprise credit clients. This methodology was chosen with the specific aim of providing a detailed contextual understanding of micro-enterprise operations and credit impacts -- information which cannot be gleaned from the available literature, but is a prerequisite for developing a focused and practicable survey instrument. This instrument could then be tested and applied in a more statistically rigorous fashion in future studies (see appendix C).

2.2 Sample Selection

Two samples of micro-enterprise credit clients, one urban and one rural, were selected from among the organizations assisted by KREP. The urban sample included 25 clients drawn from the Small Scale Business Enterprises (SSBE) program run by the National Council of Churches of Kenya (NCCK) Mombasa Branch. The rural sample comprised 25 clients of the Enterprise Development Programme (EDP) operated by the Presbyterian Church of East Africa (PCEA) Chogoria Hospital in Meru district in Kenya's Eastern province. These two programs are described in more detail in Chapter Three.

The first criterion for selecting respondents was that they should be "good repayers", having completed or being on course to complete their loan repayments. While it would have been ideal to select clients who had all repaid their loans, this was not possible because there were too few in either program who met this criteria. To this extent the study focuses upon short term rather than long term impacts. The samples excluded clients in default or more than three months in arrears. This criterion allowed the researchers to focus upon a wide range of credit impacts and to evaluate these in a context where credit had been delivered successfully -- conditions which approximate those intended by minimalist programs. The study did not assess programmatic structure or methodologies nor their overall impacts, and should not be read in this way.

Other criteria were that the two samples should, as far as possible, reflect the gender and sectoral composition of their respective universes, that is, the total number of clients and assisted enterprises in the two programs. Sectoral composition refers to the standard classification of enterprises as production, trade, or services. Respondents were further selected according to the location of their enterprises. In the urban sample this entailed choosing a proportionate number of clients from three of Mombasa's four main geographical areas. In the rural sample this meant selecting clients from each of the area's three main altitude zones, though there was limited scope for making this selection representative given the small number of rural clients who satisfied the other criteria. More detailed information on the actual application of these criteria is provided in Chapter Three.

2.3 Data Collection

The researchers (Jennefer Sebstad in Mombasa and Martin Walsh in Meru district) used an open-ended questionnaire to elicit information on the client and the impacts of credit upon the assisted enterprise, the client's household, and the wider community. Individual interviews lasted from two to four hours and were kept as informal and conversational in style as possible. The majority of the interviews took place at the site of the enterprise so they could be enriched by direct observation. In Mombasa they were conducted in English, with the assistance of a Swahili interpreter in just nine of the interviews. In Meru district all but one of the interviews were conducted directly in Swahili. Program officers were not present during the interviews but did provide initial introductions, often some days in advance. The researchers carefully explained the general purpose of the study to respondents and stressed the confidentiality of the information recorded. As is usual, the interviews included check questions in order to minimize any response bias.

The researchers supplemented the interviews with data from program and client files, including loan application, appraisal and monitoring forms, and from discussions with program staff. They gathered further information on a variety of topics, including enterprise linkages, markets, competition, and the wider community through interviews and informal discussions with community members, particularly business people, bank staff, and local government officials. This was complemented by secondary data sources including published and unpublished reports, and articles in the local press.

Fieldwork at both locations was conducted between October and December 1990. The resulting data were processed and analyzed by the authors working jointly in Nairobi in early 1991.

3. THE CONTEXT OF THE STUDY

This chapter describes the context in which the clients interviewed for the study operated their enterprises. The first part describes Mombasa town and the NCCK Small Scale Business Enterprises program. The second part discusses rural Meru district and the PCEA Chogoria Hospital Enterprise Development Programme.

3.1 The Urban Context

3.1.1 Mombasa Town

The urban sample included 25 urban micro-enterprise owners from Mombasa, Kenya's second largest town and the administrative headquarters of the Coast province. Mombasa is one of the oldest urban centers in sub-Saharan Africa and part of the Indian Ocean's great circle of trade. Historically, it was a starting point for the trade of slaves and ivory from up-country and a variety of agricultural commodities from the coast. It was also the seat of government for the Kenya Colony and Protectorate until 1907 when it moved to Nairobi.

Mombasa is located on the Indian ocean four degrees south of the equator and is comprised of four distinct geographic areas:

1. Mombasa Island, 4.8 kilometers long and 14.2 square kilometers in area, is the oldest and most populated area. It includes the central business district, port facilities, railway yards, an industrial area, and residential neighborhoods. It is developed almost to its capacity and, thus, has limited scope for additional growth.

2. The north mainland is linked to the island by a bridge and is the site of Mombasa's largest municipal market, and houses a number of rapidly expanding residential and peri-urban communities. It is the major corridor to the agricultural areas north of Mombasa.

3. The west mainland is connected to the island by a causeway and houses many commercial and public purpose activities including port facilities, an industrial area, a large oil refinery, and the airport. It also provides the major road link between Nairobi and Mombasa.

4. The south mainland is linked to the island by a ferry and is the major route to the south coast tourist hotels and agricultural areas. Together with the north mainland, it is the fastest growing part of Mombasa.

Mombasa's population has always been ethnically heterogenous. The indigenous African population, the Swahili, has long mixed with Arabs and Indians as well as the more closely related peoples of Mombasa's immediate hinterland. With the development of the port and railway at the turn of the century, up-country Africans began to move to Mombasa in large numbers. Immigrants from the mainland now comprise a large majority of Mombasa's population. These include both coastal (Mijikenda) and up-country ethnic groups (especially the Taita, Kamba, Kikuyu, Luhya, and Luo).

Given Mombasa's economic and social history, it is not surprising to find that economic stratification follows ethnic lines (Stren 1978). Among Africans, coastal groups are disproportionately represented in unskilled and casual jobs while up-country groups are more active in commerce and petty trade. Up-country groups in general have been more successful economically. Asians, who started settling in large numbers as early as 1850 to work as traders, clerks, administrators, and after 1900 to work as laborers on the railroads, hold a strong position in the commercial sector and owned most freehold land until the 1970s. Omani Arabs are predominately land owners, clerks, managers and civil servants, while Hadhramaut Arabs are small traders and shopkeepers.

Economically, the shipping industry became the primary force in Mombasa's commercial and industrial development after the completion of a major railway line from Mombasa to Kisumu in 1901 and two deep water berths in Kilindini harbor in 1926. The port is Mombasa's largest formal sector employer with over 11,000 workers on staff. Other major employers include the municipal government, the railways, a cement factory, several import/export houses, the post office and customs department, a bus company, and an oil refinery. Tourism, which plays an important role in Mombasa's economy, also provides an important source of employment.

Overall, 80% of all working age men and 55% of all working age women are active in Mombasa's labor force (Government of Kenya 1988a). Data on the urban areas of Coast province show that slightly more than half of the employed labor force (56%) is in formal wage employment compared to 66% in urban Kenya as a whole. The remaining 44% of the employed labor force are self employed or employees in small-scale enterprises (Government of Kenya 1988a and 1988b). A higher proportion of workers are in the small-scale enterprise sector than for urban Kenya as a whole (34%), probably because Mombasa has had a flourishing informal sector since the turn of the century. Unlike Nairobi, there were never any serious legal restrictions on residence for Africans in Mombasa. For many years the port paid the highest wages in the country for unskilled labor, and as the population grew, many also turned to hawking, trading, and other small-scale enterprise activities. Analysis of the 1986 Urban Labor Force Survey data suggests that, in absolute numbers, there are almost as many people working in the informal sector in Mombasa as in Nairobi, although the total population is well under half that of Nairobi. It also shows that the informal sector is a more important source of employment for women in Mombasa than for men. Overall, 38% of all employed women and 21% of all employed men depend on the informal sector for employment.

Despite Mombasa's diverse economic base and large informal sector, unemployment is a serious problem, especially for women. The overall unemployment rate (16.3%) approximates the national urban average (17.7%). However, women in Mombasa have a higher unemployment rate (30.2%) than any other group in urban Kenya; it is almost three times higher than for Mombasa's men (11.0%) and well above the national average for women (25.2%). This represents a dramatic shift in Mombasa's labor force since 1978 (Government of Kenya 1988) and is probably due to a combination of factors. These include fewer formal sector job opportunities and the fact that more women are entering the labor force (due to the growing number of urban female migrants and women headed households and a decline in male wage rates which makes women's participation in the work force critical for family survival).

Mombasa's informal sector has grown rapidly over the past decade, and this has created tensions similar to those experienced in urban areas of other countries. Most recently, conflicts have arisen between small-scale enterprise owners with fixed premises (especially those holding highly prized leases in the municipal markets) and hawkers and street vendors without fixed premises (many selling outside the markets). During the study period police cleared the streets of hawkers and vendors in a crowded area in central Mombasa, at the behest of those selling in the nearby municipal market. In response, 300 hawkers, a majority of whom were women, organized a spontaneous protest march to the town hall and demanded their right to continue their businesses. The municipal authorities were forced to concede, and allowed the hawkers to return to their selling places while they "studied the problem". This coincided with a municipal council moratorium on issuing new licenses, and an order for hawkers and kiosk operators in Mombasa to demolish their structures within 15 days. The latter order was widely ignored and the small-scale sellers, while nervous, are continuing to operate their businesses. Similar tensions have rocked Nairobi in the past year and will probably continue with the increasing expansion of the labor force and the falling number of opportunities for formal sector employment.

These tensions represent a new trend and suggest that informal sector expansion now poses more of a threat to established businesses than ever before. The official reactions further indicate that the municipal council has limited means at hand to balance the varied interests within the business community. A fundamental contradiction in official policy is becoming clear: the government's highly publicized support for the informal sector on the one hand, and the arbitrary enforcement of longstanding public regulations to restrict its growth on the other.

3.1.2 The Small Scale Business Enterprises Program

Urban clients in the study all participated in the Mombasa Small Scale Business Enterprises (SSBE) program sponsored by the National Council of Churches of Kenya (NCCK). As a prominent organization representing Christian churches in Kenya, the NCCK is involved in a wide range of educational, community development and social justice activities. The SSBE program is a national effort providing credit, training, and technical assistance to small enterprises in five urban areas of Kenya: Kisumu, Mombasa, Nairobi, Nakuru and Nyeri. The Mombasa program is run by five staff members, including the branch head, two credit officers, a secretary and a driver.

The NCCK's SSBE program began on a experimental basis in the mid-1970s. The methodology initially combined social work with economic assistance and targeted the very poor, most of whom were involved in marginal economic activities. Even though the loans were quite small and reached a limited number of clients, recovery rates were low. Thus, the program was revamped in 1986 to emphasize the viability of the assisted enterprises and the ability of the clients to repay their loans, rather than poverty alleviation per se. The target group shifted from the "poorest of the poor" to people with fairly stable existing businesses or other sources of household income. The clients interviewed for this study received loans under this latter SSBE program.

Loan funds are administered through the town center branch of the Kenya Commercial Bank. Disbursements and repayments are made through savings accounts, which the clients are required to open upon receiving a loan (monthly repayments are then transferred to the NCCK account on a standing order). The objective is to give clients experience in dealing with a formal financial institution, and to encourage the banks to "graduate" clients with good repayment records. Loans are repayable over 24 months with an interest rate of 14% (the commercial rate at the start of the program) calculated on a declining balance. Grace periods range from three to six months. Following appraisal of the applicants' enterprises, local staff forward their recommendations to a national level committee where the final decisions are made.

Disbursements under the revamped program began in February 1988 and by October 1990 loans had been advanced to 122 clients. Of these clients, 39% were men and 61% women, and 33% operated production enterprises, 54% trade enterprises, and 13% service enterprises. To date, the Mombasa branch has lent a total of Ksh. 2,783,000/US$121,000 with an average loan size of Ksh. 22,811/US$992.

Despite the staff's careful review and appraisal of client enterprises, repayment rates within the program have been disappointing. As of December 1990, only 33% of all clients were up-to-date with their repayments; 25% were 1-3 months in arrears; and 42% were over three months in arrears. These low repayment rates appear to be partially related to the borrowers' perceptions of the NCCK more as a social welfare organization than a serious financial institution. The cumbersome approval process and time lag between the loan application and disbursal of funds has sometimes reinforced this perception. A turnover in Mombasa staff may also have affected some clients' commitment to the program. The NCCK began taking legal action against defaulters in 1990, and staff report that recovery rates are beginning to improve.

Partly in response to these problems, the program was redesigned again in late 1990. It now embodies a minimalist strategy offering smaller loans to larger numbers of people and group guarantees in place of the lengthy appraisal process. While the new program has generated much enthusiasm in communities throughout Mombasa, it may further reduce repayments in the old program, especially among clients who are no longer motivated by the incentive of a second, larger loan.

From the 122 Small Business Enterprises Program borrowers, a sample of 25 "good repayers" was selected for the present study, including clients who were on schedule or less than 3 months behind. The sample, which represents the gender and sectoral composition of clients in the overall program, includes 15 women (60%) and 10 men (40%); nine production enterprises (36%), 13 trade enterprises (52%), and three service enterprises (12%). The sample is clustered in three distinct geographic areas of Mombasa: approximately half operate their enterprises on Mombasa island; about one third are on the north mainland; and the remaining 16% are on the west mainland. The sample therefore represents enterprises with spatial linkages to the central business district, agriculture, and industry (see appendix A for a list of specific enterprises in the urban sample).

3.2 The Rural Context

3.2.1 Meru District

The rural sample was drawn from Meru district in Kenya's Eastern province. It comprised 25 micro-enterprise owners in Nithi and South Imenti divisions, most of them living 30 km or more south of Meru town, which is the nearest urban center and headquarters of the district administration.

This area is located on the eastern slopes of Mount Kenya, and is characterized by a series of ridges and valleys running down from west to east. Historically this has hampered communications in a north-south direction, including links to Meru town in the north and Nairobi (some 200 km away) in the south. This situation has only changed very recently, with the completion in 1986 of a tarmac road between Meru and Embu, the provincial headquarters and terminus of the old all-weather road from Nairobi. The new road does not follow the line of its seasonally impassable predecessor and has already begun to affect local market centers, stimulating the rapid growth of some and leading to a decline in the comparative importance of others.

The district is dominated by a single ethnic group: the Meru, speakers of a Bantu language which is very closely related to that of the Kikuyu further to the south. The Meru further divide into a number of smaller dialect groups. In the sample area these sub-groups are the Mwimbe (in the northern part of Nithi division) and the Igoji (in the adjacent and southern part of South Imenti division). The contemporary differences between them are slight, and in general terms the rural sample area can be described as ethnically homogenous. Religious affiliations are also fairly homogenous. The majority of the local population are practicing Christians, most of them members of the Presbyterian, Pentecostal or Roman Catholic churches.

The character and level of economic and social development in the area also mirrors the mountain topography, in particular changes in elevation. Following earlier studies (Goldschmidt 1986; Goldberg et al. 1987), the area can be divided into three main altitude zones, as described below.

In the upper zone, above 1,500 meters, tea is the dominant cash crop. Rainfall is in the range of 1,500-2,000 mm per annum and falls in two seasons: March-May and October-December. A wide variety of crops other than tea are cultivated in both seasons, the latter season providing the largest harvests (in March-June). Tree felling and timber splitting are also important income generating activities close to the forest line. All of the forests within the inhabited area (up to 2,600 meters) have been cleared. This is the most densely populated as well as the most economically and socially developed of the three zones.

The middle zone, between 1,200 and 1,500 meters, enjoys less rainfall than the upper zone and the terrain is not as sharply dissected. Coffee, introduced in the 1930s, is the dominant
cash crop. Local varieties of tobacco also provide an important source of income for some farmers. Maize and beans are the dominant food crops and are grown in much greater quantities than is possible at higher altitudes. The middle zone straddles the new Embu-Meru tarmac road and occupies an intermediate position in its levels of economic and social development. There is less pressure upon the land here than in the upper zone, and this has resulted in a downhill pattern of migration, now also extending into the lower zone.

The lower zone, below 1,200 meters, stretches down from the lower foothills of Mount Kenya into the semi-arid plains which lie on either side of the Tana River. The cash crops in this zone include cotton and tobacco grown for a multinational company. Sorghum and millet are important food crops in the lower and drier areas, and livestock-keeping (cattle, sheep, and goats) is also more important than in the higher zones. Road communications are not well developed and the level of economic and social development in this zone is correspondingly much lower than elsewhere.

Surveys conducted by the Community Health Department of Chogoria Hospital have firmly established some of the broad economic and social correlates of this altitudinal zoning. Levels of education and average incomes increase with elevation, as do the health of respondents and related social practices and indicators (Goldberg et al. 1987; Ferguson and Fischbacher 1989).

The upper zone has undergone two notable developments since the 1960s: the introduction of tea as a cash crop and the registration and consolidation of land holdings (yet to be completed throughout the middle and especially the lower zones). Tea, marketed through the Kenya Tea Development Authority, has proved to be a more reliable cash crop than coffee, which is marketed through producer cooperatives. The main reasons for this have been the recent fall in world coffee prices (Kariithi 1990), inefficiency within the cooperatives, and their failure to pay coffee producers on time or more regularly than once or twice a year. Coffee farmers in the middle zone have seen their incomes drop considerably, and many of them have begun to invest in other cash crops, most notably tobacco.

The economic advantages enjoyed by the upper zone have, nonetheless, translated into population pressure and an increasing scarcity of land and employment opportunities. The majority of secondary school leavers reportedly fail to secure wage employment but return to work on their family farms, which continue to be subdivided at an alarming rate. Farmers on the higher slopes have traditionally exchanged their produce for grain and livestock products from the lower altitudes. A number of farmers in the upper zone also cultivate in the middle zone; likewise some farmers in the middle zone also cultivate in the lower zone. Increasing numbers of farmers are now migrating permanently downhill into the drier areas where it is still possible to obtain uncultivated (and unregistered) land.

Survey data collected in the early 1980s from a village in the upper zone indicate that 67% of the employed labor force were primarily engaged in farming and/or forestry. 19% of the total were in formal sector wage employment. Surprisingly, equal proportions of men and women were wage employed. Only 13% of the labor force described their primary occupation as being in the informal sector, 7% as micro-enterprise owners and 6% as their employees. There was a significant gender difference in this case. 22% of men were employed in the informal sector as opposed to only 6% of the women in the sample (Goldschmidt 1986). Comparable information is not available for the middle and lower zones. The 1985 Chogoria Community Health Survey (Goldberg et al. 1987) indicated that opportunities for wage employment are more numerous in the upper and middle zones; casual labor and micro-enterprise activities are most common in the middle and lower zones.

Most micro-enterprise activity and employment, when not home-based, revolves around the numerous market centers in the sample. It is not unusual to find a large proportion of the shops in these boarded up and only opened seasonally following coffee payments. Many of their owners and/or tenants live elsewhere in the community, where individual homesteads are widely dispersed. Otherwise the open-air markets in such centers typically operate just two days in the week. Traders move from market to market in regular rotation.

Despite the recent depression of coffee prices, it is evident that entrepreneurial activity has been steadily growing in the sample area as a whole. The growth of some market and trading centers, among them Chogoria, has been considerably stimulated by the opening of the new tarmac road. Downhill migration has also led to the growth of market centers in the middle and lower zones. Respondents recalled that Magutuni, now a medium-sized market center with some 60 shops, was less than half the size ten years ago. Like nearby Kiairugu, which has less than 20 shops, much of its recent growth is ascribed to the profits of tobacco growing and trade. The development of these centers in the middle zone has had a knock-on effect in the lower zone. Kaare, for example, a small market with fewer than 10 shops, is growing rapidly through the efforts both of new settlers and of entrepreneurs based in Magutuni, 14 km away and Kaare's main link to the outside world.

On balance, the environment is one which provides considerable opportunities for micro-enterprise development, assuming that the depression of coffee prices is only temporary and the Kenyan economy as a whole does not slide into deep recession.

3.2.2 The Enterprise Development Programme

The 25 respondents in the rural sample had received loans through the Enterprise Development Programme operated by the Presbyterian Church of East Africa (PCEA) Chogoria Hospital. The hospital was founded in Chogoria in 1922 as a Church of Scotland mission station and now has 300 beds and serves a catchment area of about 4,000 square kilometers with an estimated population of 400,000 people in Nithi, South Imenti, and Tharaka divisions. Chogoria itself is located 2 km west of the main Embu-Meru road and lies at some 1,540 meters in altitude, just above the hypothetical border of the upper and middle zones.

In 1970 a Community Health Department was formed in the hospital, one of its tasks being to provide outreach services through local community clinics. The Enterprise Development Programme (EDP) was started within the Department in 1987, following in the wake of the 1985 Chogoria Community Health Survey which established a clear relation between poor health status and low levels of income in the community. Initial support for the EDP was provided by the Kenya Rural Enterprise Programme in the form of technical assistance and a grant to support a revolving loan fund and related project costs. The EDP currently has a staff of five (down from seven), as well as the use of hospital drivers and secretarial staff.

The initial goal of the EDP was to establish community-based projects run by the Area Health Committees which otherwise manage the local community clinics. It was hoped that the profits from these group enterprises would contribute towards the self-financing and long term sustainability of the community health program. Between 1987 and 1990 more than Ksh. 1.2 million/US$52,175 in loans was disbursed to 21 projects. However, while early assessments indicated that a number of the projects were profitable, the extent to which they could sustain local health care was doubted, and the EDP shifted its emphasis to individual lending.

The individual loan program began in 1989. By September 1990 a total of Ksh. 1,828,980/US$79,521 had been disbursed to 133 individual micro-entrepreneurs, an average of Ksh. 13,752/US$598 per client. The program selected clients on the basis of a number of criteria. They had to be recommended by one of the Area Health Committees, specifically one of those which was running a profitable community project. Applications from joint husband-wife teams and individuals in regular wage employment were not allowed. EDP field staff conducted simple feasibility studies of potential client businesses and their proposed use of the loan. Successful applicants opened savings accounts (minimum deposit Ksh. 500/US$22) with the Kenya Commercial Bank, which has a part-time branch in Chogoria and operates a mobile service to some market centers in the sample area. With the exception of checks made payable directly to wholesale suppliers, the loans were disbursed through these accounts. Repayments were originally made in the form of bank transfers. This method of repayment soon proved unworkable because many clients did not maintain sufficient deposits in their accounts and EDP staff now collect repayments from groups of clients in the field at prearranged places and times every month. Stiff fines of Ksh. 50/US$2 per day are imposed upon clients who fail to pay on time.

Grace periods range from 1-3 months, and monthly repayments are typically made over a period of two years. Interest is calculated at 15% per annum on a declining balance. In September 1990 repayment rates stood at an impressive 97%. At the same time 9 clients were in arrears and 2 in default; the latter having had their assets repossessed. The relatively high repayment rates achieved by the EDP owe much to their current system of collection and punitive fines. However, the first loans were not given out until mid-1989 and a majority of the 133 clients are still less than half way through their repayment schedules.

Despite the early success of the individual loan program in these terms, like many KREP assisted organizations, the EDP has since switched to a "minimalist" model of group lending and guarantees in order to reach more clients at lower cost. This new program was being introduced in late 1990 and is similar to that now being run by the NCCK and other lending organizations supported by the Kenya Rural Enterprise Programme. It is not yet clear whether this will affect repayment rates in the original individual loan program as seems to be happening in Mombasa; EDP staff continue to collect loan repayments while busy in establishing the new program.

For the purposes of this study a sample of 25 "good repayers" was selected from the 133 clients in the individual loan program. Given the relative youth of this program and the need to have respondents who had completed a significant proportion of their repayment schedules, it was not possible to select a sample which was representative in every respect. The gender composition of the sample -- 15 men (60%) and 10 women (40%) -- is similar to that of the overall program (66% men and 34% women). The sectoral composition of the sample, however, is rather less representative. 8 (32%) of the sample clients operated production enterprises, 15 (60%) were engaged in trade enterprises, and only 2 (8%) were running service enterprises. The equivalent proportions for the whole program of 133 clients are 24%, 53%, and 23% respectively. In terms of location, 7 (28%) of the sampled clients were operating in the upper zone, 14 (56%) in the middle zone, and the remaining 4 (16%) in the lower altitude zone.

On-site interviews were conducted during the rains in October and November. For many of the communities involved this was a time of some monetary hardship, not least because of the declining value of and long delays in coffee payments. Likewise, for many businesses it was a time of relatively little activity and low turnover. Those enterprises which flourish mainly at the start of the school year in January -- bookshops and the tailoring of school uniforms -- were at a virtual standstill. The significance and effects of these seasonal circumstances will be considered further in the analysis which follows.

4. BACKGROUND CHARACTERISTICS

This chapter presents background information on the sampled clients, the characteristics of their enterprises and households, and the loans they received. The tables in this and subsequent sections are presented in Appendix B in the order in which they are cited in the text.

4.1 The Clients

As indicated in section 2.2 above, the combined sample comprised 25 urban and 25 rural enterprise owners, half of whom were men and half women (Table 1). This equal distribution in terms of location and gender reflects the criteria employed in selecting the two samples.

The 50 respondents had an average age of 39 years. Urban clients tended to be a little older than rural clients, and men slightly older than women (Table 2). The relatively high age of the combined sample was reflected in the fact that the majority, 78%, were married, while 8% were separated or divorced from their spouses and only 14% were single and unmarried (Table 3). There were no significant gender differences in marital status. Education levels were fairly high -- most of the respondents had between five and twelve years of formal education, and just over a third of the total (34%) had attended secondary school. More urban (16%) than rural clients (8%) had no education. Women tended to have higher education levels than men (28% of the men and 12% of the women had less than five years of education) (Table 4). The finding that education requirements are higher for women's entry into self employment is consistent with findings from other studies of women's labor force participation in Kenya.

Almost all of the clients (96%) were Christians. This is not surprising given that both programs are run by Christian organizations. It might be added that although there is a large Muslim community in Mombasa, there is none in Chogoria or its environs; thus, all of the rural sample were Christians. Over two thirds of all clients described themselves as saved Christians, including more than half of the Christians in the urban sample and the vast majority in the rural sample (Table 5). Saved Christians in Kenya are typically more active in business and other aspects of community development than those who are not saved. One reason for this is that they are encouraged to withdraw from the traditional networks of social obligation and reciprocity which act as levelling mechanisms and can discourage individual entrepreneurship. It should be noted, however, that a number of clients in the rural sample described themselves as saved when there were other indications that they were not. One of these contraindications was the fact that they cultivated and traded tobacco, a lucrative activity which Chogoria Hospital had refused to provide loans at least partly on health and religious grounds. Clients' willingness to overstate their degree of religious commitment is understandable in this context, and it was even alleged that some had joined the Presbyterian church in order to increase their chances of securing a loan.

The rural sample was ethnically homogeneous and all but one client was born and raised within the Chogoria catchment area, a reflection of the comparatively low degree of migration into (though not out of) rural Meru district (Table 6). By contrast, the urban sample was polyethnic and made up almost entirely of migrants. Only one of the clients was born in Mombasa. The rest came from every province in the country, the largest number from rural areas of Coast province. Most of these were from the Taita Hills, which have long been an important source of labor and horticultural produce for Mombasa town. The composition of the urban sample mirrors patterns of labor migration into the town. It also reflects the fact that up-country migrants tend to dominate the better-off enterprises in the informal sector, those which have attracted most support from the NCCK's loan program. Finally, since most of the in-migrants are Christians, they are much more likely to apply for program loans than the Muslims who form the larger part of Mombasa's indigenous community.

The urban and rural clients differed with respect to their parents' occupations. Among the urban sample, 56% had one or both parents engaged in business, petty trade, or large-scale commercial farming. Only 12% of the rural clients had parents engaged in these entrepreneurial activities. Similarly, rural clients were less likely than their urban counterparts to have parents engaged in wage employment (Table 7). Most parents of rural clients were involved solely in agriculture. This can be taken as an indication of the relatively recent growth of off-farm enterprise in rural Meru, where the sample was therefore comprised largely of first generation entrepreneurs. In terms of gender it is notable that more than twice as many women (48%) as men (20%) had parents engaged in business. This contrast was particularly marked in the rural sample, and it suggests that women with such a family background are more likely to enter the micro-enterprise sector and are perhaps better prepared to overcome some of the hurdles facing women.

4.2 Enterprise Characteristics

In terms of enterprise sectors, 56% of all the assisted enterprises were trade activities, 34% production or manufacturing activities, and only 10% services (Table 1). These proportions reflect criteria employed in the selection of the two samples (as discussed in Chapter Two).

At the time of interview all of the urban clients were the sole proprietors of their enterprises. One had started out in a partnership but bought out his business partner during the loan period. A number of the rural clients, especially married women, were reluctant to claim sole ownership even when they managed and operated their enterprises single-handedly. Instead they described themselves as being in partnership with their spouses. All of them were, however, treated as sole proprietors for the purposes of loan disbursement and repayment. In the one case where a married couple applied jointly for a loan the wife was advised to reapply as an individual. In fact, her husband played the main role in running the enterprise. In the urban sample one woman secured a loan for what was in effect her husband's enterprise. In this case he was ineligible to apply because the enterprise was formally registered in his wife's name.

Two thirds of all the clients worked full-time in their assisted enterprises. The remaining third were only engaged part-time (Table 8). In the urban sample this was mainly because some owners held other jobs and left their business in the hands of family workers or wage employees. In the rural sample it was more often because the enterprise itself was run on a part-time basis. Butcheries, for example, were only open two or three days per week. There was little difference between urban men and women in the time invested in their enterprises. However, rural women were much more likely than rural men to work full-time in their enterprises. One reason was that rural men spent more time engaged in other non-farm enterprises or employment.

In fact the majority of both men and women clients in the urban and rural samples were also involved in other employment and enterprise activities. About half of the clients ran one or more other non-farm enterprises (18% ran more than one) and 14% were wage employed. Wage employment was more common in the urban sample, partly because wage employees were not eligible to join the rural program. The two wage employed rural clients secured their jobs after they had received loans. There are also far fewer employment opportunities in the rural area. In sharp contrast with the urban sample, all of the rural clients grew crops for domestic consumption and, in most cases, for sale on the market. Many of the rural clients also kept livestock, mostly cattle, sheep, and goats (Table 9).

The other non-farm enterprises run by clients were distributed rather differently by sector compared with their assisted enterprises. Close to half were services, a third were production activities, and only about a quarter were trade activities (Table 10). Information was also collected on the number and sectoral distribution of clients' previous or "dead" enterprises. 58% of these were trade activities, 25% production, and 17% services (Table 11). These figures imply that clients are much more likely to move in and out of trade enterprises, and/or that they are more likely to fail. This is not surprising given that this sector is generally the easiest to enter in terms of its lack of training requirements. In all of these cases it is notable that women are much more strongly represented in trade than other activities. This reflects the existing sexual division of labor in self employment and women's over-representation in sectors with ease of entry in terms of skill and capital requirements. It also relates to the higher barriers to entry for women in the labor market.

On average the assisted enterprises were six years old. The men's enterprises were somewhat older than the women's, especially in the urban sample (Table 12). About two thirds of the respondents started their enterprises with their personal savings (64%), primarily from the profits of other enterprises, including sales of cash crops. Only one client started his enterprise with a loan from a financial institution, a reflection of the difficulty micro-enterprise owners face in obtaining credit from formal sources. Six clients began their enterprises with program loans and the remainder with gifts and loans from relatives and friends. There were some notable urban/rural and gender differences. Rural men were more likely to start with savings from other enterprise activities, especially agricultural production, and urban men with savings from wage employment. Urban women tended to start with savings from other enterprises, while rural women depended largely on gifts from relatives and friends, including their husbands. Overall, an equal number of men and women started with personal savings. However, men were more likely than women to start with loans, and women more likely than men to start with gifts (Table 13). This is a result of men's greater access to credit.

The average amount of start-up capital in the combined sample was roughly the same for women and men, but varied considerably according to different geographic and sectoral categories. Urban clients started with almost twice as much capital as rural clients (Ksh. 10,108/US$439 compared to Ksh. 5,412/US$235). Rural men in service and production activities and urban women in trade activities started with the least amount of capital. The highest amounts were among urban women in production activities and urban men in service activities. These finer comparisons have to be treated with some caution, however, because of the bias introduced by the few clients who started their enterprises with relatively large sums of money (usually in the form of program loans). This helps explain why rural women engaged in trade activities appear to have started with more than double the capital that urban women traders did. For instance, one of them opened a bookshop with a program loan of Ksh. 30,000/US$1,304 (Table 14).

4.3 Household Characteristics

The mean size of clients' households -- including the members of dependent households -- was 6.8 persons: 3.6 children and 3.2 adults. Households in the urban sample were slightly larger in size than those in the rural sample (Table 15). Three quarters of the households (74%) had children in primary school, and almost all households had someone besides the client who earned income from a non-wage source. Urban households were more likely than rural households to have children in secondary school, unemployed dependents, and a wage earner. The complete absence of unemployed dependents in the rural sample is explained by the fact that all the adults without wage employment worked at least part time for their households' agricultural enterprises. Thus they are described as non-wage earners, a category which also includes self-employed entrepreneurs, like most of the clients themselves (Table 16).

Within the combined sample, 84% of the men and 56% of the women were either the sole or primary income earners within their households and, in this sense, could be considered their economic heads (Table 17). The large proportion of women in this group illustrates the importance of micro-enterprise income for them.

Average monthly household income was almost six times higher in the urban sample (Ksh. 12,692/US$552) than it was in rural one (Ksh. 2,180/US$95). Incomes were highest in the households of urban women clients (Ksh. 15,221/US$662) and lowest for rural women clients (Ksh. 1,390/US$60). Overall, the monthly income of women clients' households (Ksh. 8,307/US$361) was higher than that of men's (Ksh. 5,805/US$252). These figures should not be taken to imply that in general women enjoy higher incomes than men. Instead they may reflect the fact that the urban program generally selected women clients who had both strong enterprises and other secure sources of household income (Table 18).

Urban households in the sample depended more on income from the assisted enterprise than rural households (Table 19). The assisted enterprises provided 46% of total urban household incomes but only 22% of total rural household incomes. Income from other enterprises provided a further 31% of urban incomes and 21% of rural household incomes. Overall, the sampled urban households derived 77% of their income from micro-enterprises run within the household, and only 21% -- most of the remainder -- from wage employment. This is a striking illustration of the importance of the informal sector to the subsistence of some urban households. Perhaps surprisingly micro-enterprise activities (assisted and other enterprises combined) also provided the largest single contribution (43%) to the income of the sampled rural households. In this case, however, there was a more even distribution of income by source. In addition to non-farm enterprises, agricultural enterprises (including livestock) contributed 27% and wages a further 29% of total household income in the rural sample. Nonetheless, in all, 70% of the rural sample's household income came from farm and non-farm self-employment.

Cash remittances made an insignificant contribution to household incomes. In the urban case this is not surprising. However, urban respondents reported that they themselves sent little in the way of remittances to their rural kin. If this finding could be generalized to other urban centers and households then it would help to explain why households in the rural sample received comparatively little in the form of remittances. Otherwise it is clear that the relative insignificance of remittances received in the rural case at least partly reflects the degree to which local Meru households have reduced extended family ties -- absentee and working sons are not expected to send cash as regularly to their parents as they are in some other parts of Kenya. Another consideration is the nature of the sample itself. No doubt the proportional significance of remittances would rise if the sample was comprised of older and less economically self-sufficient households.

In terms of the relative distribution of income by source, there were no significant differences between the households of men and women clients in the urban sample. There was, however, a difference in the absolute amounts that their households earned -- the women's households had much higher incomes on average (Ksh. 15,200/US$661 as compared with the men's Ksh. 8,900/US$387 per month). In the rural sample the difference was the other way round with the households of men clients enjoying higher average incomes (Table 20). In the rural case there was also a marked difference between men and women in the distribution of income by source. In the men's households 57% of their income was from micro-enterprise activities, and a total of 85% from these and agriculture/livestock combined. By contrast the rural women's households derived 73% of their income from wages, 27% from agriculture and, on balance, none at all from their non-farm enterprises. This is a function of the relatively poor financial performance of rural women's enterprises (discussed in more detail in section 5.1) and a reflection of the fact that rural women were more likely than the men clients to have spouses or other household members in paid employment.

4.4 The Loan Funds

A total of Ksh. 916,000/US$39,826 was loaned to the 50 clients in the combined study sample. The average loan size was Ksh. 18,320/US$797. The average was slightly higher for urban clients than for rural clients, and for men than for women. Loans in the urban sample ranged in size from Ksh. 5,000/US$217 to Ksh. 60,000/US$2609 and in the rural sample from Ksh. 3,000/US$130 to Ksh. 30,000/US$1304 (Table 24).

Most clients reported using their loans for the intended purposes. On this account 91% of the total loan capital was invested in the enterprises which had been identified for assistance and only 9% was diverted to other purposes (Table 25). While this may be an understatement of the amount diverted, it should be noted that in both loan programs some of the loans were given 'in kind' (e.g. as checks or drafts made out to chosen suppliers) and thus could not be put to alternative uses.

About three quarters of the loan funds which were invested in the assisted enterprises were used for working capital and one quarter for fixed capital. Urban/rural differences were striking in this respect with rural clients investing 99% of their loan funds in working capital, compared to only 52% in the urban case. Purchases of machinery and equipment accounted for the largest part of urban clients' investment in fixed assets. A significant proportion of funds was also spent on upgrading business premises and thus improving clients' security of tenure -- a factor positively linked with business success (see Chapter 7). Overall, there were no significant differences between men and women in how they invested capital within their enterprises (Table 26).

Of the loan funds used outside the assisted enterprises, most were allocated to savings (43%) or household expenditures (41%). The remaining 16% was invested in other enterprise activities (15%) and agriculture (1%). Although they diverted very little to agriculture, rural clients' investments were still more diversified than those of urban clients. They retained 49% as savings, invested 28% in other enterprises, and spent 20% on household expenditures. Urban clients invested nothing in agriculture and very little in other enterprises, most was spent on their households (58%) or kept as savings (39%). Perhaps surprisingly, urban men were more likely than women to divert funds to household expenditures. However, the opposite was true in rural areas (Table 27).

At the time of the study 50% of all the loan funds (principal plus interest) had been repaid. The urban clients were slightly ahead in this regard, having repaid 56% of total funds as opposed to the 43% repaid by those in the rural sample. One quarter of the urban clients had completely repaid their loans, while none of the rural clients had (Table 24). These figures reflect the status of the programs of which the clients are a part. While it would have been ideal to select samples comprised of clients who had all repaid their loans, this was not possible because there were too few clients in either program who met this criterion (see Chapter Three).

5. ENTERPRISE LEVEL IMPACTS

This chapter assesses the impact of program loans upon the assisted enterprises. The chapter falls into three main sections. The first focuses upon changes in the financial status and performance of the assisted enterprises in terms of sales, direct value added, cash income, net profit margins, and enterprise assets. The second section analyzes changes in the size and structure of employment, and also looks at the costs of job creation. The third and final section examines loan impacts upon enterprise management and planning.

5.1 Financial Performance

5.1.1 Overview of Performance

Overall, the financial status of the assisted enterprises improved significantly during the loan period:

- Total monthly sales increased by 75%;
- Total direct value added increased by 120%;
- Total cash income increased by 110%;
- Average net profit margins stayed constant at .22.

Urban enterprises did better than rural enterprises in all categories. Sales increased by 87%, while gross profits, direct value added, and cash incomes all increased by well over 100% in the urban sample. Net profit margins in the urban enterprises increased from .30 to .35. In the rural sample, sales increased by 47%, while gross profits and direct value added rose by over 80%. However, rural cash incomes fell by 18% and net profit margins declined from .14 to .08 (Tables 28 and 37).

The difference between the financial performance of the urban and rural enterprises is open to a variety of explanations. The rural enterprises averaged less than half the sales of the urban enterprises, both before and after loan disbursement. This lower turnover is partly a function of the lower purchasing power of rural consumers and thus a lower demand for goods and services in rural areas. In addition to lower sales, the high cost of some inputs for rural enterprises -- due to distances from suppliers and inadequate transport links -- further reduces their profit margins. This helps to explain why cash incomes and net profit margins fell in the rural sample -- they were not high enough to offset the burden of loan repayments (all of the clients in the rural sample were still repaying their loans at the time of the study). It is evident from these figures, as it was from rural clients' own comments, that loan repayment was not an easy process for many of them. In effect taking a loan meant that they had to face a short-term (two year) drop in their enterprise incomes in expectation of future increases. Increases in cash income, proportional to the increases in sales and direct value added, should show once loan repayments have been completed. In the urban case, with its larger volume and higher margin enterprises, they are already evident.

The higher rate of increase in sales and direct value added in the urban enterprises may relate to a larger market potential in an urban area like Mombasa that is open to capture through increased capital investments. The potential for such growth was actually declining in much of the rural sample area during the loan period because of the drastic fall in coffee prices and consequent drop in the spending power of many local consumers (see section 3.2.1). It may also be relevant to point out that two of the urban enterprises performed considerably better than the rest. If they are removed from the sample then the urban/rural contrast is not as apparent. Nonetheless, it is significant that these two enterprises were able to perform so well, and it may be that a larger sample would have produced as many examples like them.

As these last comments indicate, there were significant differences between individual enterprises, and not all of them performed as well as the overall figures imply. Of all the enterprises sampled, 15 (30%) experienced a reduction in sales, 13 (26%) a drop in direct value added, and 28 (56%) a fall in cash income. Moreover, net profit margins stayed the same for 10% of the enterprises and fell for 59% of them. Some of the reasons for these negative results have already been touched upon above, others will become clearer in the sections below. It is important to note from the start, however, that the benefits of loan investment are not spread evenly among enterprises, an observation which applies equally to both the urban and rural cases.

5.1.2 Sales

Sales figures provide the basic starting point for determining change in enterprise performance. As noted above, the absolute volume of sales was much lower in the rural sample than in the urban sample both before and after loan disbursement. Moreover, this gap widened during the loan period -- sales increased in urban enterprises by 87% and rural enterprises by only 47%. Before the loan, urban sales figures were double the rural sales figures. Following the loan they were almost triple those of the rural figures.

Total sales increased in all enterprise sectors during the loan period. Sales figures were significantly higher for production activities than for trade or service activities before the loan. They remained highest in this sector after the loans, though the gap was closed somewhat by the much better overall performance of traders, who almost doubled their total sales during the loan period (Table 29). The larger increase in sales for trade compared to other enterprise sectors was partly due to the increased volume achieved by the two very successful traders in the urban sample. One of these was a woman vegetable seller who expanded into wholesale trade, and the other a man stationary seller who won a government tender. However, while trade activities were potentially the most lucrative, they also tended to be the most risky. Thus, whereas the two most successful urban clients were traders, the only two urban clients who closed their businesses were also traders. In the rural sample traders also increased their sales more and performed much better on average than entrepreneurs in other sectors. In this case, however, none of the traders went out of business, and there is no evidence to suggest that trading was any more or less risky than other types of enterprise in the rural sample area.

In terms of gender the most notable differences were in the urban sample. Urban men enjoyed much higher average sales and rates of increase in sales during the loan period than urban women. In the rural sample, however, women clients had slightly higher average sales, while there was no significant difference between men and women in the rate of increase during the loan period (Table 30).

5.1.3 Direct Value Added

Both gross profits and direct value added were calculated for the assisted enterprises. As can be seen from a comparison of the results, there is not much difference between the two sets of figures, and they could readily stand as proxies for one another (Tables 28 and 31-34). This section therefore focuses upon direct value added, which functions as an indicator of the extent to which the micro-enterprises have generated 'new' income during the loan period.

The most significant result to note is that, overall, direct value added more than doubled during the loan period. In terms of sectoral differences it followed roughly the same pattern as sales. Both before and after the loan, direct value added for production activities was more than double that of trade or services. This gap narrowed against trade but widened against services during the loan period. Overall, direct value added in trade activities increased by 220%, significantly more in both the urban and rural samples than other enterprise sectors. The only sector experiencing a decline in direct value added was rural services. However, this represents the average of only two enterprises, too small a sample from which to draw any firm conclusions (Table 33).

Direct value added was much higher in the urban sample than it was in the rural sample both before and after the loan. Moreover, the rate of increase was greater in the urban sample (130%) as compared to the rural sample (83%). Urban women clients achieved far greater increases than rural women, while rural men's enterprises performed somewhat better than those run by urban men. The rate of increase for urban women (257%) was four times greater than that for urban men (64%). By contrast, rural women started out with a slightly higher direct value added than men, but ended up at a lower level (Table 34).

5.1.4 Cash Income

Cash income is an indicator of the funds available for reinvestment or distribution to the owner. It is calculated by subtracting all business expenses (cost of goods sold, transport, equipment, utilities, rent, wages, loan repayments and other expenses) from sales. Cash income is perhaps the best measure of potential household impacts because it indicates what is left over for the household and other investments after the deduction of all business expenses (including wages and loan repayments). It should, however, be pointed out that cash income as calculated here does not necessarily correspond to the actual sums of money withdrawn from the enterprises. Obviously, though, in cases where it is a negative figure or where clients' actual withdrawals are somewhat larger, then the enterprises will not remain viable without external cash inflows.

Overall, average cash incomes increased by an impressive 110% during the loan period (Table 35). However, this figure is somewhat misleading as over half of the clients actually experienced a fall in cash income during the loan period. In some cases this was a temporary phenomenon. Within the urban sample, for example, two clients had low sales in the month of the interview because they were preparing large orders to be sold the following month. While they showed a decrease in cash income, they were in fact very successful clients. Two others had temporarily closed their businesses, one while recuperating from an operation and another while attending a relative's funeral. In other cases, the decline in cash income reflected business difficulties. Two urban clients had closed down completely, and several others were struggling to stay afloat. Such difficulties were even more evident in the rural sample, and can be related in part to the lower margins on which the rural enterprises operate, an argument already rehearsed in section 5.1.1.

On average, cash income was higher for production activities, but increased at the fastest rate for trade enterprises. It was also higher for urban enterprises -- similar to the pattern already described for direct value added (Table 35).

However, a somewhat different pattern emerges with respect to gender. Before the loan, cash income for urban women was about half that of urban men's. After the loan, women's cash incomes increased by 272%, and in the month of interview their average cash incomes (Ksh. 6,919/US$301) were higher than men's (Ksh. 4,256/US$185). This was partly due to the remarkable performance of three women clients in the urban sample. It may be no coincidence that all three were engaged in producing or providing agricultural produce for the urban market (vegetables, milk, and eggs). By contrast, rural women clients performed much worse than the rural men, and on average their enterprises emerged with negative cash income flows (Ksh. -95/US$-4). In this case women were operating enterprises with lower profit margins and, as a result, many of them found the process of loan repayment burdensome. While rural men clients averaged much lower cash incomes in absolute terms than their urban counterparts, they succeeded in increasing them at a slightly higher rate. Their somewhat better performance than the rural women reflects a larger number of individual clients with increased cash incomes, the most striking of whom was a shoemaker whose cash income increased from an estimated Ksh. 40/US$2 per month before the loan to Ksh. 5,078/US$221 per month when he was interviewed (Table 36).

5.1.5 Net Profit Margins

Net profit margins, calculated as cash income divided by sales, provide a basis for comparing enterprise profitability. More importantly, changes in the margins function as an indicator of the efficiency of businesses and business practice, including the use of loans. The fact that average net profit margins remained constant during the loan period indicates that there was no overall improvement in business practice and profitability, or at least insufficient change to register prior to the completion of loan repayments.

Closer analysis, however, reveals significant differences, some of which have already been mentioned above. Urban clients operated on higher average net profit margins than rural clients, and this gap increased during the loan period. Net profit margins for urban clients increased from .30 to .35 while for rural clients they fell from .14 to .08. Average profit margins for urban women were the highest and increased the most during the loan period, while they were lowest and declined the most for rural women. The contrast between the high margins of urban women (.38) and the much lower ones of urban men (.10) runs counter to the argument that women are concentrated in activities with lower returns. This is clearly not always the case, and may reflect the fact that the urban loan program selected some of the better women's enterprises (Tables 37 and 38).

In terms of enterprise sectors, net profit margins were highest in service activities (.28) followed by production (.22) and trade (.18). The only sectors in which net profit margins increased on average during the loan period were urban production and urban trade. Examination of individual cases, however, shows that the enterprises in which net margins have increased form a quite heterogenous set. This is because enterprise efficiency, and so net profit margins, can be increased in a number of ways and do not necessarily bear any relation to the type of enterprise. Increased margins can be achieved, for example, by reducing operating costs, by expanding into a line of goods or services with higher profits, or by operating the enterprise at fuller capacity. Different examples can be found in both the urban and rural samples. One of the successful urban clients had switched from retail to wholesale trading of vegetables; another made use of underutilized land and buildings by adding to her herd of dairy cattle; and one of the successful rural clients, a clothes hawker, used his loan to buy clothes in bulk from Nairobi.

5.1.6 Assets

The enterprises in the combined sample increased their fixed assets by an average of 29% during the loan period. The total value of fixed assets in the urban sample was more than double that in the rural sample, though the overall rate of increase was broadly similar in both areas. In the urban case, fixed assets had the highest value in production enterprises, but increased more among the service enterprises -- largely due to one client's investment in rental units. Traders owned the least assets in the urban sample, while overall the increase in the value of their fixed assets (18%) was not much more -- and in many cases was due to -- the rate of inflation over the same period (estimated at 12.6% for 1990). In the rural sample the value of fixed assets was much higher on average for traders. In fact, the rural traders had higher assets on average than their urban counterparts, the reason being that a smaller number of urban traders owned their own business premises as well as the land on which they were built. By contrast fixed assets increased most for both production and service enterprises in the rural sample (Table 39).

Gender differences were quite marked in the ownership of fixed assets. The value of men's assets was considerably higher than that of women's in the rural sample, but comparable (at least after the loans) in the urban sample. This can be interpreted as a reflection of men's dominant role in property ownership in the rural area. In the urban case, women were just as likely as men to own major assets in land and buildings. The greatest increase in the value of fixed assets was, nonetheless, achieved by urban men clients. Much of this increase can be attributed to the actions of two clients, one who invested in rental units and a carpenter who purchased new equipment (Table 40).

Data on current and therefore total assets were available only for the rural sample. Rural clients' current assets increased by considerably more (124%) than their fixed assets (26%), a result consistent with their use of loan funds mainly as working capital. Total assets increased by 58% during the loan period. Current assets increased most in rural trading enterprises. Their value, like that of fixed assets, was also highest in this sector after the loans. Overall, though, there was little difference between enterprise sectors in the increased value of their total assets, 58% on average (Table 41).

Rural women clients had slightly higher current assets than rural men, though men increased the value of their assets more (by 130% as opposed to 116%) during loan period. However, men clients' total assets were much higher in value than women's because of their ownership of more fixed assets in the rural area. Nonetheless, women's total assets increased proportionately more (79%) than men's (52%) in the rural sample (Table 42).

5.2 Employment

5.2.1 Size of Employment

The loans had a significant impact on increasing the number of employees in both the urban and rural enterprises. The total number of employees (not including the clients/owners) increased by 37% during the loan period from 59 to 81 bringing the average number of employees per enterprise up from 1.18 to 1.62 (Table 43).

These increases were more pronounced in the urban sample, where absolute numbers of employees were also higher. The total number of urban employees increased by 42% (from 38 to 54), while the number of rural employees increased by 29% (from 21 to 27) (Table 43). They were also higher for trade enterprises where employment increased by 53% (from 17 to 26), compared to service enterprises where employment grew by 25% (from 4 to 5), and production enterprises where, although the absolute numbers were highest, the rate of increase was the lowest at 23% (from 38 to 50) (Table 44). With regard to gender, the rate of increase was greater for women employees than for men -- 60% for women (from 10 to 16) against 33% for men (from 49 to 65) -- although their absolute numbers still remained low (Table 46). Turning to the type of employees, there were fewer unpaid than paid workers, but as a whole, the unpaid group increased at a higher rate: unpaid full-time workers increased by 400% (from 1 to 5) and unpaid part-time workers increased by 33% (from 12 to 16). Increases for paid workers were 27% (from 36 to 46) for full-time and 40% (from 10 to 14) for part-time employees (Table 48). Finally, with respect to the status of employees, family workers expanded by 54% (from 13 to 21), piece rate workers by 36% (from 11 to 15), wage employees by 35% (from 20 to 27), and casual workers by 20% (from 15 to 18) (Table 51).

5.2.2 Structure of Employment

While the size of employment expanded substantially across all sectors, the structural composition of employment remained relatively constant during the loan period.

With respect to sector, before the loan 64% of all employees were in production enterprises, 29% in trade enterprises and 7% in service enterprises; after the loan 62% were in production, 32% in trade, and 6% in services. The urban sample had relatively more employees in production enterprises, while the rural sample had relatively more in trade and service activities. This pattern did not change during the loan period (Table 45).

A majority of employees in the client enterprises both before and after the loan were men (Table 46). The overall proportion of women employees only increased marginally from 17% to 20% during the loan period. There were no significant differences between the urban and rural samples in this regard (Table 47). After the loans, women continued to be concentrated in trade and service enterprises, and men in production enterprises.

Similarly, there was little change in the composition of labor from unpaid to paid or part-time to full-time employment. Before the loan 78% of all employees were paid and 22% were unpaid; after the loan 26% remained unpaid. Both before and after the loan, 63% of employees worked full-time and 37% part-time. Moreover, women and rural employees continued to be over-represented among unpaid workers during the loan period (Table 49).

Looking further at the structure of employment by work status, this picture is amplified. Family workers were the only type of employees who increased their proportional representation in the combined sample during the loan period, up marginally from 22% to 26% of the total. The proportion of wage employees dropped slightly from 34% to 33%; that of casual workers fell from 25% to 22%; and that of piece rate workers stayed the same at 19%. Perhaps surprisingly there were no paying apprentices at all in the combined sample (Table 54). Comparing the status of employees in the urban and rural enterprises, they both had roughly the same proportions of wage and piece rate workers. However, the urban enterprises had more casual workers, and the rural enterprises more family workers (Table 54).

In reviewing the work status of employees by sector, piece rate and casual workers were concentrated in production enterprises, family workers were concentrated in trade activities, and wage employees were spread across sectors (Table 57 and 58). This pattern was similar in the urban and rural samples and did not change during the loan period.

Similarly, there was little change in the work status of employees by gender during the loan period. Women's higher concentration in family work, and men's higher concentration in casual and piece rate work did not shift. Male employees were fairly evenly distributed across wage, casual and piece rate jobs, with the highest proportion in wage jobs. These distributions did not change significantly during the loan period. The most noticeable urban/rural differences for men were the higher proportion of urban men employed on a casual basis, and the higher number of rural men employed as family workers (Table 55).

Women employees remained confined to wage jobs and family work during the loan period with a large majority in the latter category. All of the women employed by the rural enterprises were unpaid family workers both before and after the loan. Among urban women employees, the proportion of wage employees fell from 50% to 40% and the proportion of unpaid family workers increased from 50% to 60% during the loan period (Table 56). Of the 6 new jobs created for women, 5 were unpaid family jobs employing mostly the wives and daughters of male entrepreneurs. Thus, the loans had little impact on expanding paid employment opportunities for women within the assisted enterprises.

Data were also collected on the relationship of employees to the enterprise owner. Before the loan 18% of employees in urban enterprises and 43% of employees in rural enterprises were related to their employers. After the loan, 30% of the urban employees and 44% of the rural employees were related to their employers. Thus, rural employees were more likely to be related to their employers than urban employees, although urban entrepreneurs were more likely to hire relatives during the loan period (Table 60). Overall, the employment of kin increased at a faster rate than that of non-kin in the assisted enterprises (Table 59).

To summarize, of the 22 new jobs created:

- 73% were in the urban and 27% were in the rural enterprises;
- 73% went to men and 27% to women;
- 54% were in production, 41% in services and 5% in trade;
- 64% were paid and 36% unpaid; and
- 36% were family work jobs, 31% were wage jobs, 18% were piece rate work, and 14% casual employment.

In sketching the main characteristics of the new employees, the typical new men employee was likely to be employed full-time, skilled, and working in an urban production enterprise. He was most likely paid and engaged either as a monthly wage employee or casual worker. He was just as likely to be in a first job as previously employed. The typical new women employee was also likely to be a full-time employee in an urban enterprise, but she was unskilled, more likely to be working in a trade enterprise, and to have been previously employed. She was most likely to be an unpaid family worker (Table 61).

5.2.3 Investment Per Job Created

The average investment per job created in the samples (calculated by dividing the total number of new employees by the total loan capital for the sample) was Ksh. 41,336/US$1,797, significantly lower than the average investment required to create a formal wage job in Kenya which is estimated to be Ksh. 320,000/US$13,913 (Government of Kenya 1989a). The investment needed to create a job was twice as high in the rural sample (Ksh. 67,500/US$2,935) as in the urban sample (Ksh. 31,938/US$1,389).

5.3 Enterprise Management and Planning

5.3.1 Management Practices

Overall, the loans had little impact on enterprise management practices (Table 62). Only 6 clients kept financial records before the loan, and although they rose in number to 27 after the loan, this was primarily because bookkeeping was required or encouraged by the loan programs. Some clients had kept records for a short period after receiving their loans but then had given up. Those who continued often did so intermittently and the records they kept were usually incomplete. As a result very few clients knew their enterprise profits or the value of their stock, although most were aware of profit margins on individual items and some their gross profit margins (especially those involved in trading). In general, however, bookkeeping was not used as a management tool by the clients.

Similarly, the loans did not have a major impact on cash management practices. Relatively few clients employed strict controls -- separating business and household cash -- either before or after the loan. Most moved cash in and out of their enterprises and mixed it with cash from other sources with little control. A number of rural clients, especially shopkeepers, also drew goods from their own enterprises without paying for them or recording the fact.

Most urban clients had bank accounts prior to the loan (often a post office or cooperative society savings account) but less than half the rural clients did (excluding those who only had accounts with coffee cooperatives). All of the clients had bank accounts after the loan, again, because they were required by the loan programs. Otherwise the loans had little impact on the use of accounts as a management tool. Almost all had savings rather than checking accounts and, for the most part, did not use their accounts regularly. Some clients hardly used their bank accounts at all. A major disincentive for the urban clients was the fact that their accounts were set up as means of loan repayment, with monthly deductions made through standing orders. As a result many did not view their accounts as private and within their own control, and were reluctant to use them. In the rural case this system of repayment had been abandoned, but it was more difficult for most clients to gain access to their accounts, given their distance from and the problems of transport to the bank premises. Many clients lived in areas served by a mobile bank, but it only visited once a week and did not serve the most remote of the market centers in the rural sample.

Some clients (18%) reported tightening their customer credit policies during the loan period. However, this can be attributed more directly to problems encountered in collecting customers' debts rather than interpreted as an effect of the loan per se. Most clients had had a bad experience with customer credit at some point. Clients offering credit were typically very strict and limited it to trusted customers and/or those who earned regular monthly salaries. While credit was not always recorded, clients generally knew exactly how much they were owed.

Security was an important concern for both urban and rural clients. Six urban clients and one rural client were robbed during the loan period. 30 clients used security measures (e.g. employed a watchman, installed metal grills, etc), eight having introduced these measures during the loan period. There can be no doubt that clients' worries over their ability to meet loan repayments heightened their fears over security. One rural client, who had purchased a large quantity of raw materials with the loan, was so concerned that he also bought a bed and mattress and started sleeping on his business premises, bow and arrows close at hand. In general it was not uncommon for male entrepreneurs renting premises in the rural market centers to sleep with their enterprises rather than their spouses.

5.3.2 Business Planning

The urban clients had many new business ideas. Three quarters of them had specific plans for improving or expanding their businesses and/or starting new enterprises. Given their greater dependence on cash income, urban clients were under more pressure to increase their profits. Most of them were happy with their business activities, and they all declared a preference for self employment over wage employment.

On the whole rural clients were less strongly committed to their business activities, a function of their more diverse subsistence strategies. Most of them indicated a preference for wage employment, and two of the clients in the rural sample (as well as others in the program) took up jobs when they were offered. In general, though, there were too few employment opportunities in the community for this to provide a major distraction -- and it was not unusual for entrepreneurs who secured wage employment (including one of those in the sample) to continue running their enterprises with the help of other family members. Rural clients did express fewer ideas for expanding or improving their businesses: at the time of interview many of them were preoccupied by the need to complete their loan repayments in what they saw as an adverse economic climate. However, this did not stop them from planning the creation of new enterprises, no doubt partly in order to spread their risks further (Table 63).

6. IMPACTS BEYOND THE ENTERPRISE

This chapter is divided into two main parts. The first part discusses loan impacts upon the clients' households in terms of income, investments, and labor allocations. The second part examines impacts beyond the household, and is divided into four principal sections. These deal separately with wider enterprise linkages, the regulatory environment, the role of formal and informal financial systems (other than the loan programs), and client participation in other business and community organizations. It should be noted that the analysis in this chapter is not limited to consideration of loan impacts alone. Emphasis is also placed upon the way in which factors in the enterprise's environment can affect its performance and thus the effectiveness of loan funds.

6.1 Impacts Upon the Household

Clients' tendency to mix money from their businesses with other household cash (see section 5.3.1) illustrates an important aspect of resource management within the household -- the ready transfer of resources, including capital and labor, from one domestic activity or enterprise to another. This is done in order to spread risk and ensure the subsistence of the household as an integral unit. An understanding of this fungibility of resources is essential to analysis of credit impacts at the household level. It is also important to note that the process works both ways, that is, the allocation of domestic resources may have an equally important impact upon the assisted enterprise and the effectiveness of credit injected into it.

The sections which follow discuss loan impacts at the household level in terms of the fungibility of resources in clients' households and, in turn, the impacts of their domestic management strategies upon the assisted enterprises and loan use. This discussion is based as much upon qualitative observation as it is upon hard statistical data, which proved difficult to obtain in the absence of detailed baseline information and difficult to interpret in the absence of control groups in the survey samples (deficiencies which are addressed, however, in the survey methodology presented in Appendix C).

6.1.1 Household Enterprises and Income

The most direct impact that loans may have upon the household and household income occurs when part (or all) of the loan capital is diverted for this purpose. As noted in section 4.4 above, at least 9% of total loan capital in the combined study sample was diverted to clients' households and other household enterprises (Table 16). The significance of these transfers becomes more apparent when examined in terms of the individual clients involved. 44% of urban clients (4 men and 7 women) diverted an average of almost Ksh. 4,000/US$174 each -- a sum equal to less than a third of the average monthly income of urban clients' households. Only 28% of rural clients admitted diverting part of their loan capital. However, the sums of money they diverted -- an average of nearly Ksh.

5,000/US$217 each -- were proportionately much higher, at more than double the average monthly income of their households (Table 20). These represent significant injections of capital into the household. Moreover, it is possible that the actual numbers of clients involved and the amounts they transferred were even higher, given their understandable reluctance to admit to such transfers.

The diverted loan capital was put to a variety of uses. Urban clients spent 58% of their diverted capital on everyday household expenses, retained 39% as savings, and transferred a mere 3% to other household enterprises. Rural clients retained 49% as savings, invested 39% in other enterprises, spent 20% on household expenses, and invested only 3% in agriculture and/or livestock (Table 20). The difference between these two patterns of usage is quite striking. On the whole rural clients made more productive investments with their diverted capital, while urban clients felt more pressure to contribute directly to household expenditures.

Cash also flowed in the opposite direction. 16% of all the clients interviewed (20% of the urban sample, 12% of rural clients) reported drawing upon the working capital or profits from other household enterprises (including agriculture) to help meet their loan repayments (Table 21). This is not to mention transfers of cash from other sources in the household. In this case it is difficult to get a sense of the amounts of money involved. A number of clients spoke of a regular give and take: they withdrew cash from the assisted enterprise whenever it was required and repaid it on a similarly ad hoc basis. One rural client, for example, often lent money to her husband from her retail shop, and in return expected him to meet the loan repayments from his monthly wage.

A clearer impression of the extent to which clients had to borrow cash in order to meet their loan repayments can be derived from data on the cash incomes of assisted enterprises (see section 5.1.4). When they were interviewed, 12% of the urban clients (10% of the men and 13% of the women) had negative cash incomes, indicating that they almost certainly had to borrow or transfer cash from elsewhere in order to help repay their loans.
This problem was even more apparent among the rural clients, 44% of whom (47% of the men and 40% of the women) registered negative cash incomes. Again, the actual numbers may have been even higher, given the likelihood that some clients drew more from their enterprises than their cash flows would in theory allow.

The movement of capital in and out of the assisted enterprises also takes place independently of the loans and the need to repay them. Some of this movement is between different household enterprises -- recalling that 56% of the urban and 48% of the rural clients had other micro-enterprises, while all of the rural clients also operated agricultural/livestock enterprises (Table 9). 32% of urban clients reported drawing from these other activities to invest in the assisted enterprise during the loan period, while 36% of the clients had actually started their enterprises in this way. 56% of rural clients had drawn from other enterprises, including agriculture, to invest in the assisted enterprise, while 44% of them had drawn their start-up capital from the same sources (Table 21).

Capital also moved in the opposite direction, from the assisted enterprises to other household enterprises. 56% of urban clients and 64% of rural clients reported drawing from the assisted enterprise to invest in other enterprises and activities (Table 21). Comparison of the reported inflows and outflows indicates that more clients take capital from the assisted enterprise to invest in other household enterprises than vice versa. This suggests that overall the assisted enterprises have a positive impact upon other household enterprises. Without estimates of the actual amounts transferred in both directions or the amounts reinvested from enterprise profits it is difficult to say more. It may well be that clients are decapitalizing assisted enterprises in favor of others, though on balance this seems unlikely.

The contribution of the assisted enterprise to clients' household income can be assessed without much difficulty, at least for the period after the loan. Overall, the assisted enterprises provided 42% of household incomes in the study sample, 46% of urban clients' and 22% of rural clients' household incomes. As discussed in section 5.1.4, the lower rural figure is partly explained by the relatively poor performance of rural women clients' enterprises. It is also a function of the fact that rural households have a more diversified income base than their urban counterparts.

In the absence of detailed baseline information, changes in household income and the relative contribution of the assisted enterprise can only be estimated indirectly. Assuming income from other sources to have remained constant, monthly household incomes increased by an average of 31% during the loan period, more than double the rate of inflation. Urban clients' household incomes rose by 37% on average, 12% in the case of men and 50% in the case of women clients. Rural clients fared less well. Overall, their household incomes increased by only 6%, and while men clients' household income rose by a respectable 29%, that of women clients fell by 31% (Table 18). In terms of individual clients, an estimated 44% of all the clients sampled increased their household incomes over the loan period. In the urban sample 56% increased their incomes, 70% in the case of men clients and 47% in the case of women. In the rural sample 32% of all the clients increased their household incomes, 40% of the men clients and 20% of the women clients.

These increases in household income are a direct function of increases in the cash income provided by assisted enterprises, and have been calculated in this way. The lack of data on other sources of income before the loan rules out the use of a more balanced method of estimation. The method employed here does, nonetheless, indicate the relative impact of the assisted enterprise upon household income, all things being equal. Overall, the picture which emerges is a positive one. It is likely than an even greater impact upon household incomes will be evident once clients have completed their loan repayments. This can be illustrated by excluding loan repayments from the calculation of enterprise cash incomes. The difference is (and will be) particularly significant in the rural case. 72% of rural clients increased their enterprise cash incomes before debt service by an average of 112% for the sample as a whole. This translated to an overall increase in household incomes (again, excluding debt service) of 29%. Had they not been repaying their loans, 67% of the men clients and an impressive 80% of the women clients in the rural sample would have increased their household incomes. Had the urban clients not be repaying their loans, 68% of the clients, 90% of the men and 53% of the women, would have increased their household incomes. Overall, urban household incomes would have increased by 43%.

6.1.2 Household Expenditures and Investment

The impact of increases in household income upon standards of living are even more difficult to assess, given the likely intervention of a range of exogenous factors which cannot be readily controlled for in a study of this kind. Basic data on household expenditures and investment were, however, collected, and are summarized below.

Average monthly household expenditure estimates were six times higher in the urban sample (Ksh. 5,764/US$251 per month) than in the rural sample (Ksh. 849/US37 per month). On average, urban clients' households spent over half of their domestic budget on food bills, and most of the remainder on rent and transportation. Rural clients' households spent the largest proportion, 46%, on education. However, in absolute terms this was less than two thirds the amount that their urban counterparts spent for the same purpose. Although they relied largely upon food they produced themselves, the rural households spent a further 42% of their budgeted income on food items. In absolute terms, however, this was only a fraction of the amount spent by the urban clients' households on their daily food requirements (Table 22).

These figures can be compared with the household income estimates already referred to above (Table 20). The relative importance of income from the assisted enterprises is at once apparent. In the urban case assisted enterprise income alone almost covers the ordinary domestic budget while in the rural case it accounts for just over half. It should also be noted that there is an obvious discrepancy between the income and expenditure figures: estimated household incomes are more than double the estimates of household expenditure in both the urban and rural samples. The difference is a function of the way in which the expenditure figures were (and could be) elicited. They exclude unbudgeted and partly unpredictable expenditures (such as medical fees or the costs of meeting diverse social obligations) as well as a range of possible investments, including investments in household enterprises.

Many of the clients interviewed reported making substantial household investments during the loan period. Overall, 28% of the clients invested in house building, 12% in buying land, 46% in agriculture or livestock, and 22% in other enterprises. One urban client even invested profits from the assisted enterprise in bank shares. In general, urban clients' investments were more varied than those of rural clients. Over half of the rural clients invested in agricultural production, and more than a third in house building (Table 23). Most of these were in the process of constructing permanent houses with quarried stone, cement, and roofing sheets of corrugated iron. Clients generally agreed that the program loans were instrumental in enabling them to make these investments, either by releasing capital which would have been invested in the assisted enterprises or through the increased income they derived from them.

6.1.3 Labor Allocations

Aside from monetary capital or income, there is one other major resource which households possess and can invest in their enterprises: the labor of household members. Like financial capital, labor is frequently transferred or shared between household enterprises. In the absence of detailed time series data, all but the most conspicuous changes in the allocation of household labor are difficult to capture for the purposes of analysis. The following discussion is therefore confined to general observations based upon qualitative statements made by clients and deductions from the quantitative data which are available.

Changes in enterprise performance and organization (resulting from the loan) can, in theory, affect household labor in a number of different ways. The most direct impact is likely to be upon the labor of the client and enterprise owner. After the loan two thirds of all the clients (60% of the men and 76% of the women clients) were working full-time in their assisted enterprises (Table 8). The overall proportion of clients who were working full-time was lower in the rural sample (60%) than it was in the urban sample (76%). One reason for this was rural clients' heavier commitment to other enterprises, especially agriculture. Another was the fact that a number of the assisted enterprises in the rural sample were not open full-time because they were largely seasonal in nature (e.g. bookshops, school uniform making) or only satisfied a limited demand (e.g. butcheries). Excluding the start-up businesses, there were few cases of clients who worked noticeably longer in their enterprises after the loan than they had done before. In the urban sample there were just two clients (two of the most successful) who obviously increased their workload. One, a woman who expanded from retail to wholesale vegetable trading, started spending six nights a month traveling by bus back and forth to Central province to buy potatoes and cabbages. In the rural sample there were at least two clients who increased their hours of work, one of them the shoemaker who began to work as his own night watchman.

It is interesting to note that more women clients worked full-time in their enterprises than men. Most of the women sampled had young children, many of them pre-school infants (Table 16). In general, however, the labor of child care was shared with other family members. A surprising finding was that only one person in the combined samples employed a nursemaid -- a rural male butcher. As a result many women clients reported that their status as mothers did not significantly affect their work in the assisted enterprises, nor did loan-related changes in their enterprises affect their own domestic labor. Some women did, nonetheless, refer to the burden of child care, and one urban client was forced to suspend her business operations because of a reproductive health problem.

Many of the married women clients described themselves as working in partnership with their husbands and denied that there were ever serious conflicts over their labor investments, distribution of enterprise earnings, or the management of the enterprise. A few women did, however, complain that conflicts over their labor had arisen. One rural woman client noted that she had no option but to close her retail store when her husband asked for her help in cultivation, and this had clearly had a detrimental effect upon the volume of business in certain months of the year. One of the urban clients complained that she was unable to expand her embroidery school, a home-based enterprise, because her husband would not let her have students at their house except on weekday mornings. At other times he insisted that she take personal care of their household and children. In these two cases domestic labor obligations clearly had a negative impact upon the assisted enterprises and the effectiveness of the loans.

In most cases the loans and associated enterprise changes did not increase clients' workloads or have a negative impact upon their other labor investments, including their ability to operate other enterprises in the household. Indeed, in some instances clients' own labor investments in their enterprises were reduced, freeing them to spend more time in other productive activities. This was invariably achieved by taking on additional labor. One urban client, a metal trunk maker, used part of his loan to employ extra casual workers and so double his labor force. He then trained one of his permanent employees to manage the enterprise in his absence, and thus freed himself to engage in other activities, including the sale of carved handicrafts to tourists visiting Mombasa. One of the most successful of the rural clients put his daughter, who had just finished secondary school, in charge of his retail store, and transferred his own labor to a series of profitable agricultural enterprises.

This last example points to another area of impact upon household labor allocations, the employment of family labor. As described in section 5.2.2, the loans prompted a significant growth in the employment of family labor. Overall, the number of employees related to their employers increased by 75%. After the loan they made up 35% of the total labor force (Tables 59 and 60). The largest proportion of these were unpaid family laborers, who increased in number by 54% to make up 26% of the labor force (Tables 51 and 54). The greatest increase in the employment of family labor was registered in the urban sample, while family labor was most important to clients in the rural sample -- where all of the women and almost one third of the men employed were unpaid family laborers (Tables 55 and 56).

The use of, and therefore the increase in, unpaid family labor can be interpreted as either a positive or a negative impact, depending upon the individual case. At its most positive, it gives employment to the unemployed and, in lieu of a wage, provides valuable on-the-job training and experience in working in or managing a micro-enterprise. It was quite common for urban enterprises to draw on the labor of unemployed household dependents -- children, spouses, or other extended family members. One urban client, for example, put her young daughter in charge of her charcoal selling business, in the hope that she would continue to run it, as well as other household enterprises, so that the client herself could eventually retire. In many cases the family laborers were clients' spouses. While this sometimes involved spouses working in equal partnership or helping one another out, it sometimes had a more negative aspect. Thus the wife of one urban client gave up her job as a nursery teacher to work in his retail store, and, although she did so voluntarily, lost her economic independence in the process. A number of both urban and rural women clients described similar experiences in the past.

The loss of women's economic independence (assuming they had it in the first place) is typically a result of husbands' control over the finances of enterprises which are run jointly or nominally owned and managed by their wives. In some cases women clients had drafted their husbands in to help run their enterprises only to find financial control being taken away from them. One enterprising urban woman client opened a secret bank account to keep her husband at bay. She had started her vegetable trading business in order to maintain the family when her husband became unemployed, and when it had expanded following the loan she invited him to help out so that he would not have to remain unoccupied at home. His response was to increase his demands upon the money she earned. In cases like this the use of family labor is anything but beneficial to the household and women's economic position within it. It may even limit enterprise growth and the effectiveness of credit.

6.2 Impacts Beyond the Household

The second half of this chapter examines loan impacts beyond the household, especially upon other enterprises and economic activities in the community. The underlying premise is that enterprise performance both influences and is influenced by these broader relationships. As a result, discussion is not limited to loan impacts *per se*, but also considers factors which affect enterprise performance and restrict the potential for loan impacts. The first of the four following sections looks at wider enterprise linkages. The second section examines the role of the regulatory environment and how this affects the assisted enterprises. A third section assesses clients' participation in formal and informal financial systems independent of the loan program. The final section of this chapter presents information on clients' participation in other business and community organizations.

6.2.1 Linkages to Other Enterprises

Backward Linkages: The loans only had a marginal impact on the structure of backward enterprise linkages. Clients purchased inputs equally from formal and informal sector suppliers both before and after the loan. Formal sector suppliers included retail distributors, wholesale distributors and factories. Informal sector suppliers included individuals and households as well as other micro-enterprises.

Among urban clients, the proportion purchasing supplies from formal sector retail distributors fell from 28% to 20%; those purchasing from formal sector wholesale distributors increased from 36% to 52%; and those clients buying from households and individuals increased from 8% to 12%. Among rural clients, the proportion purchasing inputs from formal sector wholesale distributors increased from 56% to 72%; clients purchasing from households and their individual members increased slightly from 36% to 40%; and the proportion buying inputs from micro-enterprises increased from 32% to 40%. More detailed analysis of value added generated through backward linkages was beyond the scope of this report, but is a relevant topic for future subsectoral studies (Table 64).

The loans also had little impact on improving the clients' access to supplier credit or discounts. Few clients received supplier credit either before or after the loan (12%). And while a higher proportion received supplier discounts (22%), this did not change significantly during the loan period. Urban clients were much more likely to receive credit and discounts than rural clients both before and after the loan (Table 64).

Forward linkages: Over three quarters of the enterprises in the sample sold goods and services to individual customers and their households, while less than a third sold to other enterprises. However, during the loan period, the number of clients selling to business customers increased by 58%, from 19 to 30. The new business customers tended to be informal sector micro-enterprises for urban clients and formal institutions (mostly schools) for rural clients.

The proportion of enterprises offering customer credit increased only marginally during the loan period, from 36% to 42%. More urban than rural enterprises offered credit both before and after the loan. In contrast, the proportion of enterprises offering customer discounts actually fell during the loan period, from 24% to 22%. Urban enterprises were much more likely to offer discounts than rural (Table 65).

Competition: The majority of clients in the sample reported that competition had increased during the loan period (66%). Competition was higher in trade activities and in urban enterprises. More urban clients knew of competitors who had gone out of business or who were starting up businesses. Accordingly, competition had a greater negative effect on prices and sales volume within urban enterprises, and more urban clients changed their product line or design in response to competition (Table 66).

Cooperation: The most common form of cooperation among sampled entrepreneurs was to share an employee -- usually a night watchman. About a third of all clients cooperated in this way. In addition, 16% of the respondents cooperated by participating in informal trade associations, and 16% by helping to look after each other's businesses. Other less frequent forms of cooperation included colluding on prices, setting production quotas, sharing licenses, making joint purchases, and sharing raw materials. Baseline information on cooperation was not available, so it is not possible to analyze changes during the loan period (Table 67).

Provision of New Goods and Services for the Community: A significant proportion of enterprises in the sample played an important role in their communities by providing goods and services that were new or unique (46%), time or labor saving (40%), or lower in price than those provided by their competitors (30%). Rural enterprises were more likely to provide new or unique products or time and labor saving products. Urban enterprises were more likely to offer lower prices to their customers (Table 68).

Involvement in Regional Export/Import Trade: One interesting finding of the study was that a significant number of clients (especially those in Mombasa) were involved in cross border trade, especially importing goods from Tanzania. Most of this was done informally outside the regulatory framework. Five clients imported Tanzanian cloth, two Tanzanian used clothes, two Tanzanian vegetables, one Tanzanian handbags, and one Ugandan shoes. Two clients produced metal trunks that were exported through middlemen to both Tanzania and Somalia (Table 69).

6.2.2 The Regulatory Environment

As might be expected, program loans did not have any impact upon the regulatory environment in which assisted enterprises operate. The regulatory environment does, however, have an obvious impact on micro-enterprise performance and therefore upon the success of loan programs. With this in mind, the following section describes the role of the regulatory environment in clients' business experience.

Regulatory policies and procedures affecting Kenya's informal sector are somewhat inconsistent. Historically, regulations were designed to restrict rather than support the entry and growth of informal enterprises, especially in urban areas. A shift in government policy in support of the informal sector, especially over the past five years, has not been accompanied by corresponding regulatory reforms within local government councils, which are responsible for instituting and enforcing most regulations. The result is that existing regulations tend to control informal sector enterprises by restricting their operations rather than support them (for example, by ensuring secure land tenure, access to services, and protection from harassment by public officials and formal sector competitors).

An illustration of this last point is provided by the experience of used clothes sellers. Those in the urban sample were licensed to sell used clothes, but then were harassed by police while transporting their goods from suppliers to their business sites. While used clothes are out of favor with the government, they are a critical good to lower income families, and a lucrative business. Those selling used clothes are caught in a difficult position and end up paying bribes to survive.

Contradictions in government policy towards the informal sector were highlighted during the purge of hawkers in Nairobi during 1990 when they were forcefully cleared out of several low income areas of the city. Despite government recognition that small-scale enterprises employ between 40% and 60% of the urban labor force, contribute between one quarter and one third of total urban income, and can generate employment at a lower cost than the formal sector, these campaigns persisted (Shaw, 1990). Local officials in Mombasa ordered similar clearances but, as mentioned in section 3.1.1 above, they were not carried out. Ironically, the order for this last clearance came only a month after a large government-sponsored exhibition had been held to promote informal sector producers in the Coast province.

Micro-enterprises in the rural sample area were generally less prone to official scrutiny and harassment, though this depended very much upon their location. Clients living and operating enterprises at a greater distance from the main Embu-Meru road and the larger market centers were less likely to suffer from regulatory constraints. However, those who worked in closer proximity to the relevant authorities were more likely to attract unwelcome attention. This is especially so for those in Chogoria, where one client had been forced to move her temporary kiosk because it was too close to the hospital compound. Likewise entrepreneurs who have to travel to Meru, Nairobi and elsewhere to purchase their supplies are more liable to be harassed.

Licensing is the primary regulatory tool used in both urban and rural Kenya. While some informal sector enterprises, including home-based activities, do not require licenses, most of them do. Licenses and certificates for different purposes are issued by different government agencies as well as by the municipal and county councils. In addition to trade and occupation licenses these include movement permits for particular agricultural commodities, health licenses, and certificates of verification for weighing scales. Depending upon the particular circumstance, entrepreneurs are also liable to pay various other charges and fees, including service charges, market fees, and plot rents. Not surprisingly, entrepreneurs are often unclear as to what exactly is required of them and why. Moreover, meeting these requirements can be a time consuming and expensive process, especially for traders and others in the rural areas (some of whom paid more than Ksh. 1,000/US$43 per annum in licenses and fees). Failure to pay may result in hefty fines; it is not unusual for bribery also to play a part in the process.

More than half of the clients interviewed operated outside or partially outside the licensing system. Approximately one quarter of the clients were unlicensed, and another quarter partially licensed (Table 70). There were no significant urban/rural or gender differences in this respect. In the rural sample, however, the location of the business did make some difference. Clients operating enterprises in the most remote of the sample sites were rarely, if ever, visited by council and other officials enforcing the licensing regulations. As a result these clients were more likely than others to be operating without licenses altogether.

Theoretically, anyone earning more than Ksh. 2,000/US$87 per month is subject to **income tax**. However, none of the interviewed clients paid any income taxes, although many had incomes above this amount. One urban client did file an income tax return. However, he reported an income loss and thus avoided paying anything.

Price controls had a greater impact than taxes on enterprises in the sample, especially upon retail stores. Most of the rural clients who owned retail stores complained that they were forced to violate these controls and charge higher prices because local wholesale suppliers did the same, especially in the case of goods which were in short supply. A common practice of wholesalers in both the urban and rural areas was to force their customers to purchase unwanted goods in order to get access to controlled price goods, like sugar, which were in short supply. Urban clients complained of the pitifully low profit margins on controlled goods, but were forced to keep their prices within specified levels because of the higher degree of competition and proximity of enforcing agencies (Table 70).

Bribery and extortion are closely linked to the regulatory system. Although the survey did not ask any questions about corruption, clients mentioned incidents of bribery or extortion 31 times in the course of the interviews. While the findings are somewhat anecdotal, it was notable that no one mentioned paying a bribe to protect themselves against police harassment at their business site. The most frequently mentioned bribes were paid to gain access to raw materials (22%), either by bribing guards at factory gates or through forced purchase of unwanted goods. The second most common reason for paying a bribe was to avoid being fined for regulatory violations (16%). Several clients mentioned paying bribes to protect themselves against police harassment while transporting goods (10%) and to gain access to licenses (10%). Others paid bribes to public officials for land allocation, to parastatal officials for telephone or electricity installation, and to local thugs for protection. Several clients also mentioned the need to pay "key money" to gain access to rental property. Urban clients mentioned bribery rather more frequently (71%) than rural clients (29%) (Table 71).

Tenure of the business site was an important factor in enterprise performance in the study. Within the sample, 70% of the sampled clients had secure tenure; that is, they either owned, leased, or rented their land and premises. Another 4% were wholly mobile hawkers. The remaining 26% had insecure tenure, and operated their enterprises from public land either with or without authorization. Within the urban sample, women were much more likely to have insecure tenure than men (47% of women compared to 10% of men). By contrast, the same proportion of men and women in the rural sample had insecure tenure (20%). Insecure land tenure appeared to be less of a problem for the rural enterprises than for the urban -- 80% of the rural enterprises had secure tenure, compared to only 60% of the urban enterprises (Table 72). As described in section 7.2, successful clients were much more likely to have secure tenure than less successful clients.

Security was more of a problem for the urban clients. Six urban clients suffered robberies either at their business site or while transporting their goods during the loan period. Only one rural client was robbed during the same period (Table 73).

6.2.3 Participation in Other Formal and Informal Financial Systems

Most of the sampled clients had never taken an enterprise loan from a formal source before. The loans therefore had a major impact in exposing clients to a formal borrowing system. It is too early to tell whether they will "graduate" to commercial banks. However, bankers interviewed during the course of the study were not encouraging. One bank official in Mombasa argued that even if a micro-enterprise client had a profitable business, a good past repayment record, and collateral, the bank would probably not give them a loan. He gave three reasons for this: first, the banks do not have the staff or time to screen micro-enterprise clients and adequately assess their businesses; second, given the high degree of instability in the economy there was no guarantee that a micro-enterprise which had done well in the past would continue to perform well in the future; and, third, in cases of non-payment, it is a political liability for a bank to confiscate collateral from small borrowers. This official also doubted whether credit programs targeted to micro-enterprises truly served the poor. "To qualify for the loans," he claimed, "big people become small and rich people become poor."

Borrowing: While clients had relatively limited previous borrowing experience with commercial banks, they did have experience with a wide range of other formal and informal savings and credit systems. During the loan period, 46% borrowed from cooperative societies -- 72% of the rural clients borrowed from their coffee cooperatives to purchase agricultural inputs and 20% of the urban clients borrowed from employer or market cooperatives, primarily to buy land or pay school fees. A further 46% of the clients took private loans from friends or relatives, and 14% received supplier credit (primarily urban clients). Clients also received credit from private moneylenders, educational institutions, government programs, and hire-purchase schemes. And despite the difficulties involved, six urban clients did take loans from commercial banks during the loan period (Table 74).

More than half the women in the sample (60%) participated in rotating savings and credit associations, an equal number in the urban and rural samples. In most cases, participants earmarked these funds specifically for household purchases. A practice within one group was to accompany members to the shops to ensure that the funds were used appropriately and to prevent the capital from falling into husbands' hands. While no men participated in this type of informal financial system, most had women relatives who were active in them (Table 75).

Lending: Enterprise operators in the study were active lenders, especially the urban clients. Overall, 48% of the clients sampled offered customer credit (60% of the urban clients and 36% of the rural clients); 10% provided loans to employees (16% of the urban and 4% of the rural clients); and 44% lent money to friends and relatives (56% of the urban and 32% of the rural clients) (Table 76). While the amounts lent were usually modest, they could still reduce the amount of capital available for reinvestment in the clients' enterprises and thus restrict their potential for growth. The effect is much the same when funds are transferred to other enterprises and household activities.

6.2.4 Participation in Business and Community Organizations

Rural clients were more active in both business and non-business organizations than urban clients. On the business side, almost three quarters of the rural clients belonged to coffee cooperatives. 28% participated in registered self help groups, 16% were involved in informal trade based groupings, and 16% were officials of the area health committee group enterprises. Rural clients were also involved in national business or trade organizations (8%), local market committees, or unregistered rotating credit associations (Table 77). On the non-business side, rural clients belonged to a wider range of organizations than their urban counterparts. All of the rural clients were church members, and about one quarter were church officials. Rural clients were also active on school (28%), land survey (4%), and health (12%) committees; in football clubs (8%); and on the local development committee (4%) (Table 78).

Urban clients were more active in unregistered rotating credit associations (36%), registered credit groups (16%) and trade unions (12%) than rural clients, but less active in most other types of business organizations. Only 12% participated in cooperative societies. A similar proportion participated in informal trade-based groupings (16%) and national business or trade organizations (8%) (Table 77). Urban clients reported participation in only three types of non-business organizations: churches (92%); mosques (4%) and clan-based welfare associations (20%) (Table 78).

The contrast between urban and rural clients in their different patterns of organizational participation is largely a function of the different kinds of communities in which they live. Again, without baseline data it is difficult to determine whether and how these patterns have changed during the loan period. It may well be, however, that increased participation in certain kinds of business and community organizations is more directly related to enterprise success in general than loan impacts as such. Finally, in some cases non-participation may correlate more directly with improved enterprise performance. One of the sampled clients, for example, had withdrawn from participation in rotating credit associations because she felt that the financial risks outweighed the possible benefits. From this point of view it is also interesting to note that few clients assumed local political or administrative responsibilities. It can be surmised that in this case too they were hedging their bets.

7. SUMMARY AND CONCLUSIONS

This chapter provides the summary and conclusions to the study. It falls into three main parts. The first summarizes the major findings of the study on the impacts of micro-enterprise credit in Kenya. The second presents these findings in a different form, by comparing the profiles of the most successful with less successful clients. The third and final part discusses some of the implications of these findings for assistance programs and micro-enterprise development strategies in general.

7.1 Micro-enterprise Credit Impacts

The four sections which follow summarize the major findings of the study with respect to micro-enterprise impacts in Kenya. The first section looks at the overall impacts, while subsequent sections trace these impacts in terms of rural-urban, sectoral, and gender differences.

7.1.1 Summary of Overall Impacts

Data were collected on 50 micro-enterprise owners who had received loans averaging Ksh. 18,320/US$797 each. All of the clients were good repayers, one of the main criteria for their inclusion in the study. On average, they were half-way through their loan repayments when interviewed.

The clients reported that they had invested 91% of the total loan capital in the enterprises they had designated for assistance. This investment had an impressive overall impact upon the financial performance of their enterprises, at a time when many of them felt that economic conditions were less than favorable. The total monthly sales of assisted enterprises increased by 75% during the loan period. Direct value added, an indicator of the "new" income generated, increased by 120%. Cash income, an indicator of the funds available for reinvestment or distribution, increased by an average of 110%. These are significant improvements by any standard, more so given that most clients are still in the process of repaying their loans. There were, as might be expected, considerable differences between enterprises. Nonetheless, 70% of the clients increased their sales and 74% increased their direct value added. While only 44% of the combined sample increased their cash income, this proportion will undoubtedly rise once loan repayments have been completed.

Although enterprise finances improved in quantitative terms, there is no evidence to show an underlying qualitative improvement in enterprise performance. Average net profit margins remained constant at .22 -- and less than a third (31%) of the clients operating enterprises both before and after the loan succeeded in increasing their margins. This indicates that there was no overall improvement in business practice and profitability, or at least insufficient change to register prior to the completion of loan repayments.

This also confirms the impression derived from an examination of clients' management practices. Despite adopting practices required or encouraged by their loan officers (e.g. use of bank accounts, some bookkeeping), clients generally continued to manage their enterprises in an ad hoc way, with little respect for basic cash control procedures. At the same time most clients did not calculate their costs and net profits, and took fewer steps than they might have to reduce the former and increase the latter. While this did not stop individual clients from performing well, it is possible that the sample would have registered higher levels of growth overall if they had changed some of their business practices.

Most of the clients, not to mention other members of their households, were also involved in other employment and enterprise activities. Capital and other resources were typically transferred between different household enterprises as and when required, a typical risk aversion strategy. On balance capital flowed out of the assisted enterprises and into other activities. While it is possible that some assisted enterprises were thereby being decapitalized, it seems more likely that, overall, improvements in the financial status of assisted enterprises were translated into productive investments in other household enterprises.

In the absence of more detailed baseline information it is difficult to come to a firm conclusion on this last point. A similar qualification must be applied to the available data on household incomes. There is no doubt that overall the assisted enterprises provided a significant proportion of the total income of clients' households: 42% after the loans. It is more difficult to assess whether or not and how household incomes had changed during the loan period. Assuming that other sources of income remained constant, then the increased cash incomes of the assisted enterprises -- which more than doubled overall -- would have translated into a 31% increase in household incomes (and even more had the majority of clients completed their loan repayments). The household investments made by some clients suggest that the loans did have such an impact on household incomes, at least for a third or more of the clients sampled.

The data on employment provide a conclusion similar to that reached on the financial performance of assisted enterprises. While employment increased quantitatively, the structure of the labor force did not change quite so positively. The total number of assisted enterprise employees (excluding their employers) increased by 37% during the loan period and the average number of employees per enterprise rose from 1.18 to 1.62. However, the composition of the labor force remained much the same as it had been before the loans. The proportion of men to women employees (80% : 20% after the loans) hardly changed. Likewise the proportions of paid and unpaid workers (74% : 26%); full-time and part-time employees (63% : 37%); and the different statuses of workers -- wage employees (33%), piece rate workers (19%), casual laborers (22%), and family workers (26%) -- stayed the same.

The investment required to create a job was only a fraction of that calculated for jobs in the modern formal sector. The investment per new job in the assisted enterprises works out to be Ksh. 41,336/US$ 1,797. The investment needed to generate a modern wage job is estimated to be more than eight times this amount: Ksh. 340,000/US$ 14,783. The implication of these findings is that while micro-enterprise credit does not affect the existing structure of employment, it does provide an effective means of addressing unemployment in terms of both the number and the cost of jobs created.

The overall increase in employment is just one aspect of credit impacts upon the wider economic environment. The loans had a limited impact upon the structure of backward enterprise linkages, although clients did shift slightly from retail to wholesale suppliers. Otherwise they were equally dependent upon informal and formal sector suppliers both before and after the loans. There was, however, a positive impact upon the structure of forward linkages. While most of the clients continued to provide goods or services to individual consumers, there was a significant increase (58%) in the number selling to larger customers, including other micro-enterprises and public institutions like schools. At the same time an impressive proportion of the clients provided goods or services that were new or unique in the community (46%), saved time or labor (40%), or were lower in price than those provided by their competitors (30%).

The loans did not have any impact upon the regulatory environment or clients' attitudes towards it. Regulatory constraints did, however, impinge negatively upon clients' business operations and, to that extent, upon the effectiveness of their loans. Whether or not this limited enterprise growth more or less than the clients' own business practices is a matter for debate. Certainly, many of the clients were keen to see their businesses expand and were much more prepared to use formal systems of credit for this purpose. To date, however, non-governmental credit programs still offer them much more hope of securing credit than the commercial banks do.

7.1.2 Urban/Rural Differences

The study selected 25 urban and 25 rural micro-enterprise credit clients for interview. One of the most striking findings of the study is a consistent pattern of urban/rural differences which cannot be explained by differences in the two programs or the specific locations from which the interviewees were drawn.

The most significant of these differences is the fact that the loans typically had much greater impacts in the urban sample than they did in the rural. Sales increased by an average of 87%, compared to 47% in the rural sample. Direct value added increased by 130%, compared to 83%. Cash income increased by 141%, while in the rural case it actually fell by 18% during the loan period. Similarly, average net profit margins increased from .30 to .35 in the urban sample, but dropped from .14 to .08 in the rural case. While the proportion of clients who increased their sales and direct value added were broadly similar in both cases, roughly twice as many urban clients as rural clients increased their cash income and net profit margins.

These differences in impact correlate with a number of other factors. First, it should be noted that the urban enterprises operated with much higher turnovers on average. Rural enterprises averaged less than half the sales of the urban enterprises -- partly a function of the lower purchasing power of rural consumers and thus a lower demand for goods and services in the rural sample area. Rural enterprises also typically pay more for their inputs because of the greater distance to suppliers and generally higher transport costs which further reduces their profit margins. Thus they fact both supply and demand constraints. This helps to explain why cash income and net profit margins fell in the rural sample -- the relatively low turnover and margins were insufficient to offset the burden of loan repayments. Not surprisingly, rural clients experienced much more difficulty in meeting their loan repayments.

The urban enterprises, with double the turnover, also required twice the amount of start-up capital as the rural enterprises. Their fixed assets were also more than double the value of those in the rural sample, though they increased in value at similar rates (31% and 26% respectively) during the loan period. The urban clients received larger loans than their rural counterparts (an average of Ksh. 20,840/US$906 compared to Ksh. 16,200/US$704), and had repaid rather more of the loan principal plus interest due (56% of the total compared to 43%) at the time of the study. Unlike the rural clients, who used almost all of their (undiverted) loan funds as working capital, the urban clients invested nearly half of the total in fixed capital. Part of this was spent on upgrading business premises as a means to secure or improve tenure -- a factor directly correlated with enterprise success in the urban sample.

Another important difference between the urban and rural clients was the extent to which their households depended upon the assisted enterprises for their income. Altogether, the urban households derived more than three quarters (77%) of their income from informal sector enterprises, and most of the rest (21%) from wage employment. Almost half (46%) of their total income came from the assisted enterprises. The rural households derived less than a half (43%) of their income from off-farm enterprises, and most of the rest from their farms (27%) and the wage employment of family members (29%). Less than a quarter (22%) of their income came from the assisted enterprises. When this information is combined with the data on the financial performance of assisted enterprises, then it is apparent that the loans had a greater potential impact upon urban clients' households than those of the rural clients. All other things being equal, changes in the assisted enterprise would have led to a 37% increase in the average income of urban households during the loan period, 43% had clients not been repaying their loans. Rural household incomes would have increased by only 6%, but 29% had they fully repaid their loans.

In this context it might be noted that although urban households were only slightly larger than rural households (with an average of 7.2 compared to 6.3 persons), their average incomes were almost six times higher (Ksh. 12,692/US$552 after the loan compared to Ksh. 2,180/US$95). Urban clients were clearly under more pressure to improve the performance of their enterprises -- they had more articulated business plans and ideas -- and realized that micro-enterprise activities provided them with the best chance of securing the future of their families. Rural clients were much less dependent upon the little income they derived from their micro-enterprises, preferred to spread their risks across a much wider range of activities, and thought of wage employment as a much better provider (combined, of course, with cash crop and subsistence agriculture).

The loans also had a much greater impact upon employment in the urban sample. The urban labor force (clients/employers excluded) increased by 42% during the loan period, from 1.52 to 2.16 employees per assisted enterprise. The rural work force increased by 29%, from 0.84 to 1.08 employees per enterprise. After the loan there were exactly twice as many employees in the urban enterprises as in the rural sample. The most significant structural differences in employment between the urban and rural samples were the higher proportion of casual laborers in the former, and the higher proportion of family workers in the latter. While the structural composition of employment did not change significantly during the loan period, it is evident that increases in the urban labor force were considerably more productive in terms of creating income-earning jobs and helping to reduce unemployment.

Changes in the structure of backward and forward enterprise linkages were also more pronounced in the urban case. The shift from retail to wholesale suppliers, noted in section 7.1.1 above, involved urban enterprises in particular. And it was mainly in the urban sample that clients established new forward linkages with other micro-enterprises, while some of the rural clients secured new orders from their local schools. As might be expected, the regulatory environment had more of a negative impact upon urban clients than it did their rural colleagues -- in all respects the stakes were higher in the urban sample area. At the same time, urban clients were somewhat more successful in securing credit from the commercial banks, though nowhere near as successful as they would have liked.

7.1.3 Sectoral Differences

The 50 assisted enterprises were divided by sector as follows: 28 (56%) were trade enterprises, 17 (34%) were production or manufacturing concerns, and the remaining 5 (10%) were services. In terms of many variables the use of sectoral definitions is a poor substitute for more detailed subsectoral analysis. This is not feasible, however, with such a small sample of enterprises. The following discussion is therefore confined to a consideration of the broad sectoral categories.

As might have been predicted, production enterprises enjoyed the highest average turnover, more than one and a half times that of trade activities and three times higher than that of services. Likewise, the direct value added and cash income generated by production enterprises were correspondingly higher (though not average net profit margins, which were highest in the services). Production enterprises also had the highest number of employees, almost double the total employed by traders and ten times more than the number working in services. Moreover, production enterprises employed by far the largest number and proportion of paid employees (wage employees, piece rate workers, and casual workers) as opposed to unpaid family workers. None of these employees, however, were women, though some of their employers were. This relates to the existing sexual division of labor within the informal sector in Kenya which limits women's participation as employees in small scale production units, especially in casual work.

Perhaps surprisingly, the overall impact of the loans was much greater in trade activities. Traders' sales increased by an average of 95% during the loan period compared to 67% and 68% for production and services. Direct value added in trade enterprises increased by 220% compared to 89% in production and a mere 43% in services. Similarly, cash income increased by 162% in trade compared to 97% in production and a low 13% in services. The only exception to this trend was that average net profit margins increased slightly in production enterprises, but fell slightly in trade and dramatically in services. Employment, meanwhile, increased in trade activities at more than double the rate (53%) than it did in production (23%) and services (25%). A large proportion of the new employees in trade enterprises were, however, unpaid family workers. A large proportion of these were also women.

The better performance of trading enterprises could be explained by the fact that they often require relatively small injections of working capital in order to increase their purchases of stock and so satisfy existing demand for these goods. It is more likely that production enterprises will need larger investments in fixed capital in order to expand and open up new markets, at least once they have reached a certain stage of development. In any case, there can be little doubt that trade enterprises are often much easier to start. It also appears that they offer more opportunity for growth in the sense that returns to investment are more immediate. This is corroborated by the relatively large number of trade enterprises in both of the loan programs studied, as well as in the past experience of the sampled clients. Trade enterprises generally require less start-up capital than production enterprises, especially when they begin as roadside hawking. They also require less special knowledge and training, and are readily undertaken by both women and men.

7.1.4 Gender Differences

Although the gender distribution was not predetermined, 25 men and 25 women clients were selected for study. Overall, there is no simple relation between loan impacts and the gender of clients. However, significant gender differences do emerge when the urban and rural samples are considered separately.

During the loan period the overall financial status of urban women's enterprises improved much more than men's, despite the fact that their sales increased at a much lower rate. Women clients' direct value added increased by 257% compared to 64%, while their cash income increased by 272% compared to men's 30%. Urban women's average net profit margins increased from .33 to .46, while men's fell from .26 to .20.

In the rural case exactly the reverse happened: women's enterprises performed much worse than men's. While women's sales increased at the much the same rate as men's, their direct value added increased by only 47% compared to men's 110%. Worse still, rural women's cash income fell by a dramatic 118%, while men's increased by 39%. The women clients' average net profit margins also fell, from .11 to zero, while men's slipped slightly from .17 to .16.

There is a very sharp contrast between the two cases. After the loans, urban women clients enjoyed higher cash incomes from their enterprises than men. This translated into a (hypothetical) 50% increase in their total household incomes. By the same measure, urban men's household incomes increased over the loan period by a mere 12%, below the rate of inflation. By contrast, rural women's enterprises registered negative cash income overall after the loans. The rural women clients suffered a drop of 31% in their household incomes, while men's rose by 29% over the same period.

There are a number of possible explanations for this state of affairs. It is perhaps most difficult to account for the comparative success of urban women clients, given that they received much smaller loans on average (Ksh. 16,840/US$732) than the men (Ksh. 28,000/US$1,218). However, it is perhaps no coincidence that three women who performed remarkably well were all engaged in producing or providing agricultural produce for the urban market (vegetables, milk, and eggs). By contrast, some of the rural women clients were operating enterprises with lower profit margins than men in a situation of limited demand and intense competition. Under these circumstances they were struggling to meet their loan repayments and as a result had to transfer capital from other activities into their enterprises.

In general, rural women have less mobility because they spend more time than both men and urban women in subsistence production and other domestic labor activities (such as water collection, firewood gathering, crop related production) (Government of Kenya 1988a and 1991). Some of the rural women in the sample operating retail shops, for example, were open for fewer hours during the peak agricultural seasons.

Turning to the household, women generally reported that the assisted enterprises did not increase their workloads or have a negative impact upon their other labor investments. Where difficulties arose, it was usually a function of women's relations with their husbands, and the latters' wish to gain or assert economic control (80% of the women clients were married; 66% were the sole or primary income earners in their households). Indeed, in at least one case where a woman's enterprise was successful, her husband redoubled his efforts to secure control over the income from it.

The loans also had little positive impact upon women employees in the assisted enterprises. While the number of women employed by the sampled micro-enterprises (both paid and unpaid) increased by 60% during the loan period, women still made up only 20% of the total employees. Moreover, 75% of all women employees were unpaid family workers

(100% in the rural sample), and the remainder wage employees. Only 14% of men employees were family workers; the rest were paid for their labor in one way or another. Loan-related changes in enterprise performance did not have any impact upon the gender composition of the micro-enterprise labor force, but left the majority of working women working at home without a wage.

7.2 Profile of Successful Clients

This section looks at the credit impacts from a slightly different angle, by examining the profile of "successful" clients. "Successful" clients are defined for this purpose as those who increased their average net profit margins (cash income divided by sales) of their assisted enterprises during the loan period. They are contrasted with the "less successful" clients whose net profit margins remained the same or declined over the same period. While increased enterprise profitability is not the only criterion of success, it does act as a useful proxy for a range of impacts, including increased household incomes. Moreover, it provides a better measure than other financial indicators (like cash income alone) of structural change in the assisted enterprise and its management.

Excluding clients whose enterprises were not operating either before or after the loan, the study provides a total sample of 39 clients for this analysis. Of these, 12 clients (31%) increased their average net profit margins, while 27 clients (69%) saw their margins stay the same or decline. The distinguishing characteristics of the first of these two groups, the "successful" clients, can be summarized as follows (see Table 79):

- Successful clients were more likely to be from the urban sample than less successful clients (see section 7.1.2). Within the urban sample, successful clients more often had their enterprises on Mombasa Island, the part of town which hosts the central business district (see section 3.1.1). Successful rural clients were more likely to have their businesses in the upper zone and less likely to have them in the lower zone of the Chogoria catchment area -- recalling that the upper altitude zone enjoys the highest levels of economic development (see section 3.2.1);

- Successful clients were more often in trade and less often in production and service enterprises than their less successful counterparts (see section 7.1.3);

- Overall, the successful clients were more likely to be men. There was, however, a big difference between the urban and rural samples in this regard. Almost two thirds of the successful urban clients were women, whereas none of the successful rural clients were (see section 7.1.4);

- The successful clients were slightly better educated, with an average of 7.9 years in formal education, than the less successful clients, who had completed an average of 6.6.years. There was, however, no significant difference in their average ages. The successful urban clients were more likely to be saved Christians. For rural clients the reverse seems to be true, though their somewhat biased responses to this question casts some doubt upon this result (see section 4.1);

- The enterprises operated by successful clients were younger on average (5.3 years) than those operated by their less successful counterparts (7.2 years). The successful clients had less experience with enterprises in the past, specifically with failed or "dead" enterprises. Successful urban clients were more likely to have (or have had) parents who operated a business (not necessarily the same kind of business), though not the rural clients. Successful clients were also more likely to be currently active in different business and community organizations, especially in the case of rural clients;

- Successful clients, both urban and rural, received much larger loans on average (Ksh. 24,917/US$1083) than less successful clients (Ksh. 13,778/US$599). They also diverted a much smaller proportion of their loan capital (3% compared to 13%) away from the assisted enterprises, and invested none of it in other household enterprises. Previous borrowing experience did not seem to affect their success. Successful clients were much less likely to borrow from other formal and informal sources during the loan period, while the successful rural clients borrowed nothing at all. A higher proportion of the successful urban clients did, however, take out commercial loans during the loan period;

- The successful clients and their households were much more dependent than the others upon the income provided by their enterprises. The assisted enterprises were the sole or primary source of income for all of the successful clients and their households, but for only half of the less successful clients. Proportionately fewer successful clients and their households had access to other sources of income -- whether from wage employment or other enterprise activities, including farming. They were thus far more motivated to ensure the success of their assisted enterprises, and far less likely to transfer their attention or enterprise income to other activities;

- A significantly higher proportion of successful clients invested in building a house during the loan period. They also made proportionately more other investments, including those in land and agriculture;

- Successful clients were less likely to have children in secondary education and thus were less burdened by one of the largest household expenses for many Kenyans: secondary school fees (primary education is free, or at least considerably less expensive). Successful urban clients were more likely to be supporting more than one household. They were also slightly more likely than their less successful colleagues to be supporting unemployed dependents. Neither of these factors were applicable in the rural situation;

- Successful clients were more able to rely upon an employee or other household member to look after their enterprises in their absence than unsuccessful clients. Among other things, this suggests that they were better organized and more willing to delegate responsibility to others;

- An overwhelming majority of successful clients had access to a reliable supply of raw materials or goods for their enterprises; less successful clients were much more prone to encounter shortages in supply. Successful urban clients were also much more likely than less successful clients to have more secure tenure of their business sites and better access to public utilities. These were not significant factors, however, in the rural case;

- More successful than less successful urban clients provided goods or services for which there was a steady demand, but the reverse was true in the rural case. Successful rural clients were in a stronger competitive position than those who were less successful, though this made no difference in the case of urban clients;

- Successful urban clients were much more likely than unsuccessful ones to be operating either partly or wholly outside of the regulatory environment (by not purchasing all of the required licenses or fulfilling other relevant regulations). As a result they were less affected by regulatory constraints. This implies that in the urban case the regulatory environment has a markedly negative impact upon enterprise performance, especially for clients who choose to operate within the regulatory framework (see section 6.2.2). Successful rural clients were no more or less mindful of the regulations governing business than their less successful colleagues. More successful than unsuccessful rural clients did, however, mention the adverse effects of regulatory constraints upon their enterprises. This is partly a reflection of the fact that the successful rural clients operated in centers where they were much more likely to attract official attention for regulatory violations.

7.3 Program Implications

Overall, micro-enterprise credit has significant impacts. However, it does not have all the impacts that development practitioners may wish for. Credit by itself does not address many of the structural constraints facing micro-enterprises, nor is it an appropriate intervention under all circumstances. Given the small sample size and exploratory nature of the present endeavor, further studies are needed to confirm what impacts can or cannot be expected. However, to the extent that the present study's findings may apply to a larger sample, they convey certain implications for the design of credit programs. The programmatic interpretation of the research findings will, of course, depend to a large extent upon program objectives. Without debating this broader issue, the following sections suggest some general issues to consider in the context of program development.

Targeting Issues: Urban enterprises in the study generally operated at higher levels and performed better than rural enterprises during the loan period. While this suggests that credit targeted to urban enterprises might lead to more impressive overall outcomes, the distribution benefits would be more skewed. One point for programs to consider is that credit may have more limited results in rural areas without additional, complementary interventions, such as efforts to expand markets, address supply constraints, or upgrade transport links. The greater vulnerability of rural enterprises to declines in the overall economy (like the recent fall in coffee prices) further points to the need for broader policy measures to improve rural incomes.

The study findings also suggest that production enterprises are not always the best investments, depending upon program objectives. Trade enterprises, for example, showed greater rates of increase in employment during the loan period. Perhaps more importantly, investment in production enterprises had almost no impact on expanding employment opportunities for women. It is difficult to generalize on such a small sample, but one implication is that targeting enterprises across sectors will lead to more positive impacts for women.

The stark contrast between the performance of urban and rural women entrepreneurs suggests that locational differences should be carefully considered in developing program strategies targeted to women. Urban women, for example, may be more appropriate candidates for minimalist credit than rural women, who are more in need of complementary assistance. This supports arguments made elsewhere that credit in and of itself seems to do little to improve rural women's income without additional measures (Jiggens 1988).

Credit: The study findings show that the better performing clients had larger average loan sizes. While optimal loan size obviously depends on the different needs and capacities of individual enterprises, this finding implies that smaller loans may have less of an impact. Loan size may also be an important factor in effecting structural changes within the enterprises by allowing for investments in fixed rather than working capital.

While the study did not focus on the design of credit delivery systems per se, the experience of the sampled clients points to the need for banking systems that respond more to micro-enterprise clients' needs -- systems that are more convenient in terms of time and location and less formal and inhibiting in their orientation.

The study focused upon clients who were good repayers, and it can be assumed that the positive impacts outlined in this report will also be found in the case of minimalist credit programs. At the same time, it should also be clear that credit, whether minimalist or not, does not have all of the impacts which proponents may wish. It does not, for example, have a noticeable impact upon the management of micro-enterprises or the structure of employment.

Training: The limited impact of the loans on client management practices suggests a role for management training to improve clients' understanding of the concept of net profits and good and bad business practices which can lead to making a profit or suffering a loss. This may be especially important in effecting structural improvements and moving clients up the enterprise scale.

Regulatory Reform: The adverse impact of the regulatory environment on micro-enterprise performance within the study suggests a need to identify some of the contradictions in existing policies and regulations, inconsistencies in their implementation or enforcement, and ways that they could play a more supportive role. Such analysis should ideally consider individual enterprise subsectors and identify specific policy and regulatory measures appropriate to each.

Monitoring and Evaluation: The study in general argues for the incorporation of a broader set of indicators into ongoing micro-enterprise program monitoring and evaluation systems. Such information can be used to assess the fuller impacts of credit and identify complementary policy and program interventions. A proposed methodology for collecting this type of information is presented in Appendix C.

Research: Comparative research on micro-enterprise credit impacts would be useful for improving development policies and programs targeted to this enterprise sector. Further research along the lines of the present study based on larger samples elsewhere in Kenya and in other countries could provide the basis for comparative analyses and more clearly defined policy and program recommendations. Again, the survey methodology presented in Appendix C supplies a starting point for such studies. The proposed methodology draws upon lessons from the present study and is designed to generate more powerful results than those presented here.

APPENDIX A

APPENDIX A: LIST OF RESPONDENTS' ENTERPRISES

URBAN SAMPLE

Women's enterprises

Poultry (2)

Dairy cattle

Vegetable selling (4)

Second-hand clothes selling (2)

Charcoal selling

Curio selling

Cloth hawking

Soda/cake kiosk

Embroidery sch

Hair salon

Men's enterprises

Metal trunk production

Shoe making (2)

Carpentry

Fishing

Retail shop (2)

Stationary shop

Rental units

RURAL SAMPLE

Women's Enterprises

Tailoring

Skin and hide drying

Stone quarrying

Retail shop (4)

Bookshop

Grain trading (2)

Men's enterprises

Shoe making

Tailoring

Butchery (3)

Retail shop (4)

Bookshop

Grain trading

Clothes hawking (2)

Restaurant

Barber's kiosk

APPENDIX B

APPENDIX B: TABLES

LIST OF TABLES

CLIENT BACKGROUND

HOUSEHOLD DATA

USE OF THE LOAN

FINANCIAL PERFORMANCE OF THE ENTERPRISES

EMPLOYMENT

BUSINESS PLANNING AND MANAGEMENT

LINKAGES TO OTHER ENTERPRISES

THE REGULATORY ENVIRONMENT

BORROWING AND LENDING

PARTICIPATION IN ORGANIZATIONS

PROFILE OF SUCCESSFUL CLIENTS

CLIENT BACKGROUND

Table 1: Assisted enterprises by sector and gender of client

	Men		Women		Total	
URBAN (n=25)						
Production	6	60%	3	20%	9	36%
Trade	3	30%	10	67%	13	52%
Services	1	10%	2	13%	3	12%
Total	10	100%	15	100%	25	100%
RURAL (n=25)						
Production	5	33%	3	30%	8	32%
Trade	8	53%	7	70%	15	60%
Services	2	14%	0	0%	2	8%
Total	15	100%	10	100%	25	100%
TOTAL (n=50)						
Production	11	44%	6	24%	17	34%
Trade	11	44%	17	68%	28	56%
Services	3	12%	2	8%	5	10%
Total	25	100%	25	100%	50	100%

Table 2: Average age of clients at time of interview (years)

	Men	Women	Total
Urban	44	40	41
Rural	38	36	37
Total	40	38	39

Table 3: Marital status of clients

	Men		Women		Total	
URBAN						
Single						
Unmarried	1	10%	1	7%	2	8%
Separated/divorced	0	0%	2	13%	2	8%
Widowed	0	0%	0	0%	0	0%
Married						
One spouse	7	70%	12	80%	19	76%
Two spouses	2	20%	0	0%	2	8%
Total	10	100%	15	100%	25	100%
RURAL						
Single						
Unmarried	4	26%	1	10%	5	20%
Separated/divorced	1	7%	1	10%	2	8%
Widowed	0	0%	0	0%	0	0%
Married						
One spouse	9	60%	7	70%	16	64%
Two spouses	1	7%	1	10%	2	8%
Total	15	100%	10	100%	25	100%

(cont.)

Table 3: Marital status of clients (cont.)

TOTAL	Men		Women		Total	
Single						
Unmarried	5	20%	2	8%	7	14%
Separated/divorced	1	4%	3	12%	4	8%
Widowed	0	0%	0	0%	0	0%
Married						
One spouse	16	64%	19	76%	35	70%
Two spouses	3	17%	1	4%	4	8%
Total	25	100%	25	100%	50	100%

Table 4: Years of education of clients

	Men		Women		Total	
URBAN						
0 16%	3	30%	1	7%	4	
1-4	0	0%	1	7%	1	4%
5-8	4	40%	8	53%	12	48%
9-12	1	10%	4	27%	5	20%
13+	2	20%	1	7%	3	12%
Total	10	100%	15	100%	25	100%
RURAL						
0	1	7%	1	10%	2	8%
1-4	3	20%	0	0%	3	12%
5-8	5	33%	6	60%	11	44%
9-12	6	40%	3	30%	9	36%
13+	0	0%	0	0%	0	0%
Total	15	100%	10	100%	25	100%
TOTAL						
0	4	16%	2	8%	6	12%
1-4	3	12%	1	4%	4	8%
5-8	9	36%	14	56%	23	46%
9-12	7	28%	7	28%	14	28%
13+	2	8%	1	4%	3	6%
Total	25	100%	25	100%	50	100%

Table 5: Religion of clients

	Men		Women		Total	
URBAN						
Christian						
Saved	4	40%	8	53%	12	48%
Not saved	4	40%	7	46%	11	44%
Muslim	2	20%	0	0%	2	8%
Total	10	100%	15	100%	25	100%
RURAL						
Christian						
Saved	12	80%	10	100%	22	88%
Not saved	3	20%	0	0%	3	12%
Muslim	0	0%	0	0%	0	0%
Total	15	100%	10	100%	25	100%
TOTAL						
Christian						
Saved	16	64%	18	72%	34	68%
Not saved	7	28%	7	28%	14	28%
Muslim	2	8%	0	0%	2	4%
Total	25	100%	25	100%	50	100%

Table 6: Migration and origin of clients

	Men		Women		Total	
URBAN						
Clients originally from present locality	1	10%	0	0%	1	4%
Clients originally from other locality:*						
Nairobi	0	0%	3	20%	3	12%
Central Province	1	10%	3	20%	4	16%
Coast Province	4	40%	4	27%	8	32%
Eastern Province	1	10%	0	0%	1	4%
Nyanza Province	2	20%	2	13%	4	16%
Rift Province	1	10%	1	7%	2	8%
Western Province	0	0%	2	13%	2	8%
Total	9	90%	15	100%	24	96%

* Average years in present locality was 17 years for urban men, 15 years for urban women, and 16 years for both groups.

(cont.)

Table 6: Migration and origin of clients (cont.)

RURAL	Men		Women		Total	
Clients originally from present locality	15	100%	9	90%	24	96%
Clients originally from other locality:*						
Nairobi	0	0%	0	0%	0	0%
Central Province	0	0%	0	0%	0	0%
Coast Province	0	0%	C	0%	0	0%
Eastern Province	0	0%	1	10%	1	4%
Nyanza Province	0	0%	0	0%	0	0%
Rift Province	0	0%	0	0%	0	0%
Western Province	0	0%	0	0%	0	0%
Total	0	0%	1	10%	1	4%

* single case of rural in-migrant, 7 years in present locality

Table 7: Parents' occupation

	Men		Women		Total	
URBAN	(n=10)		(n=15)		(n=25)	
Clients whose:						
Parents engaged in business, petty trade or large-scale commercial farming	5	50%	9	60%	14	56%
Parents engaged in wage employment	2	20%	3	20%	5	20%
Parents engaged solely in agricultural production	3	30%	3	20%	6	24%
RURAL	(n=15)		(n=10)		(n=25)	
Clients whose:						
Parents engaged in business, petty trade or large scale commercial farming	0	0%	3	30%	3	12%
Parents engaged in wage employment	1	7%	1	10%	2	8%
Parents engaged solely in agricultural production	14	93%	6	60%	20	80%
TOTAL	(n=25)		(n=25)		(n=50)	
Clients whose:						
Parents engaged in business, petty trade or commercial farming	5	20%	12	48%	17	34%
Parents engaged in wage employment	3	12%	4	16%	7	14%
Parents engaged solely in agricultural production	17	68%	9	36%	26	52%

Table 8: Clients working full-time or part-time in assisted enterprise

	Men		Women		Total	
URBAN (n=25)						
Full-time	8	80%	11	73%	19	76%
Part-time	2	20%	4	27%	6	24%
Total	10	100%	15	100%	25	100%
RURAL (n=25)						
Full-time	7	47%	8	80%	15	60%
Part-time	8	53%	2	20%	10	40%
Total	15	100%	10	100%	25	100%
TOTAL (n=50)						
Full-time	15	60%	19	76%	34	68%
Part-time	10	40%	6	24%	16	32%
Total	25	100%	25	100%	50	100%

Table 9: Other employment and enterprise activities of client

	Men		Women		Total	
URBAN						
Clients in wage employment	2	20%	3	20%	5	20%
Clients operating other enterprises:						
one other enterprise	3	30%	6	40%	9	36%
two other enterprises	2	20%	1	7%	3	12%
three or more other enterprises	0	0%	2	13%	2	8%
(total)	(5)	(50%)	(9)	(60%)	(14)	(56%)
Clients engaged in agriculture/livestock	1	10%	1	7%	2	8%
Clients with previous enterprise experience	7	70%	11	73%	18	72%
RURAL						
Clients in wage employment	2	13%	0	0%	2	8%
Clients operating other enterprises						
one other enterprise	3	20%	3	30%	6	24%
two other enterprises	1	7%	1	10%	2	8%
three or more other enterprises	2	13%	0	0%	2	8%
(total)	(6)	(40%)	(4)	(40%)	(10)	(40%)
Clients engaged in agriculture/livestock	15	100%	10	100%	25	100%
Clients with previous enterprise experience	8	53%	4	40%	12	48%

(cont.)

Table 9: Other employment and enterprise activities of client (cont.)

	Men		Women		Total	
TOTAL						
Clients in wage employment	4	16%	3	12%	7	14%
Clients operating other enterprises						
one other enterprise	6	24%	9	36%	15	30%
two other enterprises	3	12%	2	8%	5	10%
three or more other enterprises	2	8%	2	8%	4	8%
(total)	(11)	(44%)	(13)	(52%)	(24)	(48%)
Clients engaged in agriculture/livestock	16	64%	11	44%	27	54%
Clients with previous enterprise experience	15	60%	15	60%	30	60%

Table 10: Other "current" enterprises run by clients by sector

	Men		Women		Total	
URBAN	(n=7)		(n=17)		(n=24)	
Production	3	43%	5	29%	8	33%
Trade	0	0%	8	47%	8	33%
Services	4	57%	4	24%	8	33%
Total	7	100%	17	100%	24	100%
RURAL	(n=12)		(n=5)		(n=17)	
Production	3	25%	2	40%	5	29%
Trade	1	8%	1	20%	2	12%
Services	8	67%	2	40%	10	59%
Total	12	100%	5	100%	17	100%
TOTAL	(n=19)		(n=22)		(n=41)	
Production	6	32%	7	32%	13	32%
Trade	1	5%	9	41%	10	24%
Services	12	63%	6	27%	18	44%
Total	19	100%	22	100%	41	100%

Table 11: Previous client enterprises by sector

	Men		Women		Total	
URBAN	(n=13)		(n=15)		(n=28)	
Production	5	38%	3	20%	8	29%
Trade	5	38%	11	73%	16	57%
Services	3	24%	1	7%	4	14%
Total	13	100%	15	100%	28	100%
RURAL	(n=9)		(n=3)		(n=12)	
Production	2	22%	0	0%	2	17%
Trade	5	56%	2	67%	7	58%
Services	2	22%	1	33%	3	25%
Total	9	100%	3	100%	12	100%
TOTAL	(n=22)		(n=18)		(n=40)	
Production	7	32%	3	17%	10	25%
Trade	10	45%	13	72%	23	58%
Services	5	23%	2	11%	7	17%
Total	22	100%	18	100%	40	100%

Table 12: Average age of assisted enterprise (years)

	Men	Women	Total
Urban enterprises	8.5	4.5	6.0
Rural enterprises	5.8	5.1	5.6
Total enterprises	6.9	4.7	5.8

Table 13: Sources of start-up capital

	Men		Women		Total	
URBAN						
Loans from:						
assisting organization	1	10%	2	13%	3	12%
other financial institutions	1	10%	0	0%	1	4%
relatives and friends	1	10%	0	0%	1	4%
Savings from:						
wage employment	5	50%	1	7%	6	24%
other enterprises (including agriculture)	1	10%	8	53%	9	36%
rotating credit associations	0	0%	1	7%	1	4%
other sources	0	0%	1	7%	1	4%
Gifts from:						
relatives and friends	1	10%	2	13%	3	12%
Total	10	100%	15	100%	25	100%

(cont.)

Table 13: Sources of start-up capital (cont.)

	Men		Women		Total	
RURAL						
Loans from:						
assisting organization	2	13%	1	10%	3	12%
other financial institutions	0	0%	0	0%	0	0%
relatives and friends	2	13%	0	0%	2	8%
Savings from:						
wage employment	2	13%	2	20%	4	16%
other enterprises (including agriculture)	8	54%	2	20%	10	40%
rotating credit associations	0	0%	1	10%	1	4%
other sources	0	0%	0	0%	0	0%
Gifts from:						
relatives and friends	1	7%	4	40%	5	20%
Total	15	100%	10	100%	25	100%

(cont.)

Table 13: Sources of start-up capital (cont.)

	Men		Women		Total	
TOTAL						
Loans from:						
assisting organization	3	12%	3	12%	6	12%
other financial institutions	1	4%	0	0%	1	2%
relatives and friends	3	12%	0	0%	3	6%
Savings from:						
wage employment	7	28%	3	12%	10	20%
other enterprises (including agriculture)	9	36%	10	40%	19	38%
rotating credit associations	0	0%	2	8%	2	4%
other sources	0	0%	1	4%	1	2%
Gifts from:						
relatives and friends	2	8%	6	24%	8	16%
Total	25	100%	25	100%	50	100%

Table 14: Average amount of start-up capital (Ksh.)

	Men	Women	Total
URBAN			
Production	6,416	38,666	17,166
Trade	12,200	2,880	6,276
Services	16,000	8,400	10,933
Total	9,110	10,773	10,108
RURAL			
Production	1,540	4,427	2,623
Trade	8,780	6,225	7,588
Services	250	n/a	250
Total	5,230	5,686	5,412
TOTAL			
Production	3,978	21,547	9,895
Trade	10,490	4,553	6,932
Services	8,125	8,400	5,592
Total	7,170	8,230	7,760

HOUSEHOLD DATA

Table 15: Overview of household and dependent household members

	Total number	Average per household
URBAN		
Children	95	3.8
Adults	86	3.4
Total	181	7.2
RURAL		
Children	85	3.4
Adults	72	2.9
Total	157	6.3
TOTAL		
Children	180	3.6
Adults	158	3.2
Total	338	6.8

Table 16: Household and dependent household members by current education and employment status

	Total No.	Average per h/h	No. of h/h with	as % of all h/h
URBAN				
Pre-school	21	0.84	12	48%
Primary school	63	2.52	18	72%
Secondary school	19	0.76	10	40%
Further education/ training	6	0.24	6	24%
Unemployed	23	0.92	13	52%
Non-wage earner*	33	1.32	23	92%
Wage earner*	16	0.64	13	52%
Total	181	7.24	25	100%
RURAL				
Pre-school	19	0.76	13	52%
Primary school	56	2.24	19	76%
Secondary school	8	0.32	5	20%
Further education/ training	3	0.12	3	12%
Unemployed	0	0	0	0%
Non-wage earner*	60	2.40	25	100%
Wage earner*	11	0.44	8	32%
Total	157	6.28	25	100%

(cont.)

Table 16: Household and dependent household members by current education and employment status (cont.)

TOTAL	Total No.	Average per h/h	No. of h/h with	as % of all h/h
Pre-school	40	0.80	25	50%
Primary school	119	2.38	37	74%
Secondary school	27	0.54	15	30%
Further education/ training	9	0.18	9	18%
Unemployed	23	0.46	13	26%
Non-wage earner*	93	1.86	48	96%
Wage earner*	27	0.54	21	42%
Total	338	6.76	50	100%

* refers to member's primary activity

Table 17: Economic household headship

	Men		Women		Total	
URBAN						
Sole h/h income earners	5	50%	5	33%	10	40%
Primary h/h income earners	5	50%	3	20%	8	32%
Total (percent of all clients)	10	100%	8	53%	18	72%
RURAL						
Sole h/h income earners	4	27%	1	10%	5	20%
Primary h/h income earners	7	47%	5	50%	12	48%
Total (percent of all clients)	11	74%	6	60%	17	68%
TOTAL						
Sole h/h income earners	9	36%	6	24%	15	30%
Primary h/h income earners	12	48%	8	32%	20	40%
Total (percent of all clients)	21	84%	14	56%	35	70%

Table 18: Change in average monthly household income during the loan period by gender of client*

	Before (Ksh.)	After (Ksh.)	% change
URBAN			
Men	7,919	8,900	12%
Women	10,161	15,221	50%
Total	9,265	12,692	37%
RURAL			
Men	2,095	2,708	29%
Women	2,021	1,390	-31%
Total	2,065	2,180	6%
TOTAL			
Men	5,007	5,804	16%
Women	6,091	8,307	36%
Total	5,665	7,438	31%

* Total household income includes income from assisted enterprise plus all other sources of household income. Figures in this table assume that other sources of household income remained constant during the loan period and are based on current estimates (since estimates for before the loan period were unavailable).

Table 19: Distribution of current household income by source and gender of client

	Men	Women	Total
URBAN			
Assisted enterprise	48%	45%	46%
Other enterprises*	32%	31%	31%
Agriculture	1%	2%	2%
Livestock	1%	0%	0%
Wages	18%	22%	20%
Remittances	0%	0%	0%
Total	100%	100%	100%
RURAL			
Assisted enterprise	32%	-7%	22%
Other enterprises*	25%	7%	21%
Agriculture	22%	27%	23%
Livestock	6%	0%	4%
Wages	13%	73%	29%
Remittances	2%	0%	1%
Total	100%	100%	100%

(cont.)

Table 19: Distribution of current household income by source and gender of client (cont.)

	Men	Women	Total
TOTAL			
Assisted enterprise	44%	41%	42%
Other enterprises*	30%	29%	30%
Agriculture	6%	4%	5%
Livestock	2%	0%	1%
Wages	17%	26%	22%
Remittances	1%	0%	0%
Total	100%	100%	100%

* including rents

Table 20: Average monthly household income by source and gender of client after the loan

	Men	Women	Total
URBAN	(Ksh.)	(Ksh.)	(Ksh.)
Assisted enterprise	4,256	6,919	5,854
Other enterprises*	2,833	4,698	3,951
Agriculture	117	278	213
Livestock	60	3	26
Wages	1,592	3,273	2,601
Remittances	42	50	47
Total	8,900	15,221	12,692
RURAL			
Assisted enterprise	868	-95	483
Other enterprises*	684	97	449
Agriculture	595	370	505
Livestock	152	6	93
Wages	357	1,010	618
Remittances	52	2	32
Total	2,708	1,390	2,180

(cont.)

Table 20: Average monthly household income by source and gender of client after the loan (cont.)

	Men	Women	Total
TOTAL	(Ksh.)	(Ksh.)	(Ksh.)
Assisted enterprise	2,562	3,412	3,169
Other enterprises*	1,759	2,398	2,200
Agriculture	356	324	359
Livestock	106	5	60
Wages	975	2,142	1,610
Remittances	47	26	40
Total	5,805	8,307	7,438

* including rents

Table 21: Fungibility of capital among household enterprises during the loan period

	Men		Women		Total	
	#	%	#	%	#	%
URBAN						
Clients who started assisted enterprise with savings from other h/h enterprises	1	10%	8	53%	9	36%
Clients who invested part of loan capital in other h/h enterprises	0	0%	1	6%	1	4%
Clients who drew profits or working capital from other h/h enterprises to help repay the loan	1	10%	4	27%	5	20%
Clients who drew profits or working capital from other h/h enterprises to invest in assisted enterprise	3	30%	5	33%	8	32%
Clients who drew profits or working capital from assisted enterprise to invest in other h/h enterprises	3	30%	11	73%	14	56%

(cont.)

Table 21: Fungibility of capital among household enterprises during the loan period (cont.)

	Men		Women		Total	
	#	%	#	%	#	%
RURAL						
Clients who started assisted enterprise with savings from other h/h enterprises	9	60%	2	20%	11	44%
Clients who invested part of loan capital in other h/h enterprises	3	20%	1	10%	4	16%
Clients who drew profits or working capital from other h/h enterprises to help repay the loan	3	20%	0	0%	3	12%
Clients who drew profits or working capital from other h/h enterprises to invest in assisted enterprise	7	47%	7	70%	14	56%
Clients who drew profits or working capital from assisted enterprise to invest in other h/h enterprises	10	67%	6	60%	16	64%

(cont.)

Table 21: Fungibility of capital among household enterprises during the loan period (cont.)

	Men		Women		Total	
TOTAL						
Clients who started assisted enterprise with savings from other h/h enterprises	10	40%	10	40%	20	40%
Clients who invested part of loan capital in other h/h enterprises	3	12%	2	8%	5	10%
Clients who drew profits or working capital from other h/h enterprises to help repay the loan	4	16%	4	16%	8	16%
Clients who drew profits or working capital from other h/h enterprises to invest in assisted enterprise	10	40%	12	48%	22	44%
Clients who drew profits or working capital from assisted enterprise to invest in other h/h enterprises	13	52%	17	68%	30	60%

Table 22: Major household consumption expenses during the loan period

Average monthly expenditures (estimates):	Urban (Ksh.)	%	Rural (Ksh.)	%
Food	3,001	52%	360	42%
Education	657	11%	394	46%
Other (including rents)	2,106	37%	95	12%
Total	5,764	100%	849	100%

Table 23: Major household investments during the loan period

Households investing during loan period in:	Urban #	Urban %	Rural #	Rural %	Total #	Total %
House	5	20%	9	36%	14	28%
Land	5	20%	1	4%	6	12%
Agriculture	5	20%	15	60%	20	40%
Livestock	1	4%	2	8%	3	6%
Other enterprises	7	28%	4	16%	11	22%
Financial investments	1	4%	0	0%	1	2%

USE OF LOAN

Table 24: Overview of loans by gender of clients

	Men	Women	Total
URBAN			
Total loan capital	250,000	261,000	511,000
Average loan size	28,000	16,840	20,840
% repaid at time of interview	54%	58%	56%
RURAL			
Total loan capital	229,000	176,000	405,000
Average loan size	15,267	17,600	16,200
% repaid at time of interview	42%	45%	43%
TOTAL			
Total loan capital	479,000	437,000	916,000
Average loan size	19,160	17,480	18,320
% repaid at time of interview	48%	53%	50%

Table 25: Use of loan capital

	Men		Women		Total	
URBAN						
to assisted enterprise	229,200	92%	238,470	91%	467,670	92%
diverted elsewhere	20,800	8%	22,530	9%	43,330	8%
RURAL						
to assisted enterprise	201,155	88%	169,200	96%	370,355	91%
diverted elsewhere	27,845	12%	6,800	4%	34,645	9%
TOTAL						
to assisted enterprise	430,355	90%	407,670	93%	838,025	91%
diverted elsewhere	48,645	10%	29,330	7%	77,975	9%

Table 26: Use of loan capital within the assisted enterprises

	Men	Women	Total
URBAN			
working capital	106,300 (46%)	137,900 (58%)	244,200 (52%)
fixed capital	122,900 (54%)	100,570 (42%)	223,470 (48%)
RURAL			
working capital	197,875 (98%)	169,200 (100%)	367,075 (99%)
fixed capital	3,280 (2%)	0 (0%)	3,280 (1%)
TOTAL			
working capital	304,175 (71%)	307,100 (75%)	611,275 (73%)
fixed capital	126,180 (29%)	100,570 (25%)	226,750 (27%)

Table 27: Use of loan capital outside the assisted enterprises

	Men		Women		Total	
URBAN						
other enterprises	0	0%	1,530	7%	1,530	3%
agriculture/ livestock	0	0%	0	0%	0	0%
household	14,800	71%	10,200	45%	25,000	58%
savings	6,000	29%	10,800	48%	16,800	39%
	20,800	100%	22,530	100%	43,330	100%
RURAL						
other enterprises	8,400	30%	1,200	18%	9,600	28%
agriculture/ livestock	700	3%	400	6%	1,100	3%
household	1,810	7%	5,200	76%	7,010	20%
savings	16,935	61%	0	0%	16,935	49%
	27,845	100%	6,800	100%	34,645	100%
TOTAL						
other enterprises	8,400	17%	2,730	9%	11,130	15%
agriculture/ livestock	700	2%	400	1%	1,100	1%
household	16,610	34%	15,400	53%	32,010	41%
savings	22,935	47%	10,800	37%	33,735	43%
	48,645	100%	29,330	100%	77,975	100%

FINANCIAL PERFORMANCE OF THE ENTERPRISES

Table 28: Enterprise level changes during loan period (monthly averages in Ksh.)

	Before loan	After loan	Percent change	No. ent/a w/incrses
URBAN				
Sales	9,464	17,677	87%	17/25
Gross profits/b	4,123	9,679	134%	20/25
Direct value added/c	3,846	8,833	130%	19/25
Cash income/d	2,426	5,854	141%	14/25
RURAL				
Sales	4,139	6,078	47%	18/25
Gross profit	1,054	1,903	81%	18/25
Direct value added	956	1,752	83%	18/25
Cash income	589	483	-18%	8/25
TOTAL				
Sales	6,802	11,878	75%	35/50
Gross profit	2,589	5,791	124%	38/50
Direct value added	2,401	5,293	120%	37/50
Cash income	1,508	3,169	110%	22/50

a/ this column shows the number of individual enterprises in the sample that have increased their sales, gross profits, etc.
b/ includes transport, rent, interest, wages and profits
c/ includes rent, interest, wages, and profits
d/ includes profits

SALES

Table 29: Change in average monthly sales by enterprise sector (Ksh.)

	Before loan	After loan	Percent change
URBAN			
Production	13,615	24,956	83%
Trade	7,946	16,566	108%
Services	3,593	6,563	83%
Total	9,464	17,677	87%
RURAL			
Production	6,710	9,228	38%
Trade	2,940	4,648	58%
Services	2,842	4,200	48%
Total	4,139	6,087	47%
TOTAL			
Production	10,163	17,092	68%
Trade	5,443	10,607	95%
Services	3,218	5,382	67%
Total	6,802	11,882	75%

Table 30: Change in average monthly sales by gender (Ksh.)

	Before loan	After loan	Percent change
URBAN			
Men	12,897	26,488	105%
Women	7,176	11,802	64%
Total	9,464	17,677	87%
RURAL			
Men	3,752	5,493	46%
Women	4,718	6,955	47%
Total	4,139	6,078	47%
TOTAL			
Men	8,325	15,990	92%
Women	5,947	9,379	58%
Total	6,802	11,878	75%

GROSS PROFIT

Table 31: Change in average monthly gross profit by enterprise sector (Ksh.)

	Before loan	After Loan	Percent change
URBAN			
Production	7,361	14,565	98%
Trade	2,092	7,197	244%
Services	3,209	5,777	80%
Total	4,123	9,679	134%
RURAL			
Production	1,560	2,705	73%
Trade	668	1,518	127%
Services	1,919	1,584	-17%
Total	1,054	1,903	81%
TOTAL			
Production	4,461	8,635	94%
Trade	1,380	4,358	216%
Services	2,564	3,681	44%
Total	2,589	5,791	124%

Table 32: Change in average monthly gross profit by gender(Ksh.)

	Before loan	After loan	Percent change
URBAN			
Men	6,428	10,897	69%
Women	2,587	8,866	243%
Total	4,123	9,679	135%
RURAL			
Men	1,040	2,109	103%
Women	1,075	1,594	48%
Total	1,054	1,903	81%
TOTAL			
Men	3,734	6,503	74%
Women	1,831	5,230	186%
Total	2,589	5,791	124%

DIRECT VALUE ADDED

Table 33: Change in average monthly direct value added by enterprise sector (Ksh.)

	Before loan	After loan	Percent change
URBAN			
Production	6,957	13,338	92%
Trade	1,847	6,459	250%
Services	3,178	5,604	76%
Total	3,846	8,833	130%
RURAL			
Production	1,450	2,511	73%
Trade	631	1,456	131%
Services	1,414	942	-33%
Total	956	1,752	83%
TOTAL			
Production	4,203	7,925	89%
Trade	1,239	3,958	220%
Services	2,296	3,273	43%
Total	2,401	5,293	120%

Table 34: Change in average monthly direct value added by gender (Ksh.)

	Before loan	After loan	Percent change
URBAN			
Men	6,336	10,366	64%
Women	2,187	7,811	257%
Total	3,846	8,833	130%
RURAL			
Men	916	1,928	110%
Women	1,015	1,489	47%
Total	956	1,752	83%
TOTAL			
Men	3,626	6,147	70%
Women	1,601	4,650	190%
Total	2,401	5,293	120%

CASH INCOME

Table 35: Change in average monthly cash income by enterprise sector (Ksh.)

	Before loan	After loan	Percent change
URBAN			
Production	3,589	7,715	115%
Trade	1,575	4,963	215%
Services	2,625	4,130	57%
Total	2,426	5,854	141%
RURAL:			
Production	694	744	7%
Trade	475	406	-15%
Services	1,029	13	-99%
Total	589	483	-18%
TOTAL:			
Production	2,142	4,230	97%
Trade	1,025	2,685	162%
Services	1,827	2,072	13%
Total	1,508	3,169	110%

Table 36: Change in average monthly cash income by gender (Ksh.)

	Before loan	After loan	Percent change
URBAN			
Men	3,273	4,256	30%
Women	1,861	6,919	272%
Total	2,426	5,854	141%
RURAL			
Men	626	868	39%
Women	533	-95	-118%
Total	589	483	-18%
TOTAL			
Men	1,950	2,562	31%
Women	1,197	3,412	185%
Total	1,508	3,169	110%

NET PROFIT MARGINS

Table 37: Change in average net profit margins

		Average net profit margin before loan	Average net profit margin after loan
By gender:			
URBAN	Men	.26	.20
	Women	.33	.46
	Total	.30	.35
RURAL	Men	.17	.16
	Women	.11	.00
	Total	.14	.08
TOTAL	Men	.22	.18
	Women	.22	.23
	Total	.22	.22

(cont.)

Table 37: Change in average net profit margins (cont.)

		Average net profit margin before loan	Average net profit margin after loan
By sector:			
URBAN	Production	.30	.36
	Trade	.21	.28
	Services	.83	.56
	Total	.30	.35
RURAL	Production	.10	.08
	Trade	.16	.08
	Services	.36	.00
	Total	.14	.08
TOTAL	Production	.20	.22
	Trade	.19	.18
	Services	.60	.28
	Total	.22	.22

Table 38: Changes in net profit margins during the loan period

Of all clients:/a		% in-creased	% stayed same	% de-creased	
By gender:					
URBAN	Men (n=8)	38%	24%	38%	(100%)
	Women (n=11)	46%	18%	36%	(100%)
	Total (n=19)	42%	21%	37%	(100%)
RURAL	Men (n=11)	36%	0%	64%	(100%)
	Women (n=9)	0%	0%	100%	(100%)
	Total (n=20)	20%	0%	80%	(100%)
TOTAL	Men (n=19)	37%	10%	53%	(100%)
	Women (n=20)	25%	10%	65%	(100%)
	Total (n=39)	31%	10%	59%	(100%)

a/ includes only clients whose enterprises were operating both before and after the loan

(cont.)

Table 38: Changes in net profit margins during the loan period (cont.)

Of all clients:/a		% increased	% stayed same	% decreased	
By sector:					
URBAN	Production (n=7)	29%	29%	42%	(100%)
	Trade (n=10)	50%	10%	40%	(100%)
	Services (n=2)	50%	50%	-0-	(100%)
	Total (n=19)	42%	21%	37%	(100%)
RURAL	Production (n=6)	17%	0%	83%	(100%)
	Trade (n=12)	25%	0%	75%	(100%)
	Services (n=2)	0%	0%	100%	(100%)
	Total (n=20)	20%	0%	80%	(100%)
TOTAL	Production (n=13)	23%	15%	62%	(100%)
	Trade (n=22)	36%	5%	59%	(100%)
	Services (n=4)	25%	25%	50%	(100%)
	Total (n=39)	31%	10%%	—	(100%)

a/ includes only clients whose enterprises were operating both before and after the loan

Table 39: Average value of fixed assets before and after the loan by sector (Ksh.)

	Before	After	Percent change
URBAN			
Production	61,343	76,077	24%
Trade	5,965	7,012	18%
Service	27,719	51,400	85%
Total	28,511	37,216	31%
RURAL			
Production	5,967	9,560	61%
Trade	15,490	18,358	19%
Service	2,686	4,204	57%
Total	11,413	14,410	26%
TOTAL			
Production	33,655	42,819	27%
Trade	10,727	12,685	18%
Service	15,203	27,802	83%
Total	19,962	25,813	29%

ASSETS

Table 40: Average value of fixed assets by gender (Ksh.)

	Before	After	Percent change
URBAN			
Men	23,995	37,559	57%
Women	31,523	36,963	17%
Total	28,511	37,216	31%
RURAL			
Men	16,409	20,846	27%
Women	3,920	4,756	21%
Total	11,413	14,410	26%
TOTAL			
Men	20,202	29,203	45%
Women	17,722	20,860	18%
Total	19,962	25,813	29%

Table 41: Total assets before and after the loan by sector (rural sample only)

	Before	After	Percent change
PRODUCTION			
Current assets	6,121	8,803	44%
Fixed assets	5,952	9,560	61%
Total Assets	12,073	18,363	52%
TRADE			
Current assets	5,967	15,988	168%
Fixed assets	15,490	18,358	19%
Total Assets	21,457	34,346	60%
SERVICES			
Current assets	657	1,235	88%
Fixed assets	2,686	4,204	57%
Total Assets	3,343	5,439	63%
TOTAL			
Current assets	5,591	12,508	124%
Fixed assets	11,413	14,410	26%
Total Assets	17,004	26,918	58%

Table 42: Total assets before and after the loan by gender (rural sample only)

	Before loan	After loan	Percent change
RURAL MEN			
Current assets	5,123	11,805	130%
Fixed assets	16,409	20,846	27%
Total Assets	21,532	32,651	52%
RURAL WOMEN			
Current assets	6,293	13,563	116%
Fixed assets	3,920	4,756	21%
Total Assets	10,213	18,319	79%
RURAL TOTAL			
Current assets	5,591	12,508	124%
Fixed assets	11,413	14,410	26%
Total Assets	17,004	26,918	58%

EMPLOYMENT

Table 43: Employees before and after the loan

	Before	After	% change
URBAN			
Total number employees*	38	54	42%
Average number employees per enterprise	1.52	2.16	42%
RURAL			
Total number employees	21	27	29%
Average number employees per enterprise	0.84	1.08	29%
TOTAL			
Total number employees	59	81	37%
Average number employees per enterprise	1.18	1.62	37%

* excluding owners

Table 44: Total number employees by sector

	Before	After	Percent change
URBAN			
Production	27	38	41%
Trade	9	14	55%
Services	2	2	0%
Total	38	54	42%
RURAL			
Production	11	12	9%
Trade	8	12	50%
Services	2	3	50%
Total	21	27	29%
TOTAL			
Production	38	50	23%
Trade	17	26	53%
Services	4	5	25%
Total	59	81	37%

Table 45: Distribution of employees by sector

	Before	After
URBAN		
Production	71%	70%
Trade	24%	26%
		4%
		100%
	52%	44%
	38%	44%
	10%	12%
	100%	100%
TOTAL		
Production		62%
Trade		32%
Services		6%
Total	100%	100%

Table 46: Total number of employees by gender

	Before	After	Percent change
URBAN			
Men employees	32	44	38%
Women employees	6	10	66%
Total	38	54	42%
RURAL			
Men employees	17	21	24%
Women employees	4	6	50%
Total	21	27	29%
TOTAL			
Men employees	49	65	33%
Women employees	10	16	60%
Total	59	81	37%

Table 47: Distribution of employees by gender

	Before	After
URBAN		
Men employees	84%	81%
Women employees	16%	19%
Total	100%	100%
RURAL		
Men employees	81%	77%
Women employees	19%	23%
Total	100%	100%
TOTAL		
Men employees	83%	80%
Women employees	17%	20%
Total	100%	100%

Table 48: Total number of employees by type of work

	Before	After	% change
URBAN			
Paid			
Full-time	27	36	33%
Part-time	7	9	28%
Unpaid			
Full-time	1	4	300%
Part-time	3	5	66%
Total	38	54	42%
RURAL			
Paid			
Full-time	9	10	11%
Part-time	3	5	67%
Unpaid			
Full-time	0	1	n/a
Part-time	9	11	22%
Total	21	27	29%

(cont.)

Table 48: Total number of employees by type of work (cont.)

	Before	After	% change
TOTAL			
Paid			
Full-time	36	46	27%
Part-time	10	14	40%
Unpaid			
Full-time	1	5	400%
Part-time	12	16	33%
Total	59	81	37%

Table 49: Distribution of employees by type of work

	Before (%)	After (%)
URBAN		
Paid		
Full-time	71	67
Part-time	18	17
Unpaid		
Full-time	3	7
Part-time	8	9
Total	100	100
RURAL		
Paid		
Full-time	43	37
Part-time	14	18
Unpaid		
Full-time	0	4
Part-time	43	41
Total	100	100

(cont.)

Table 49: Distribution of employees by type of work (cont.)

	Before	After
TOTAL		
Paid		
Full-time	61	57
Part-time	17	17
Unpaid		
Full-time	2	6
Part-time	20	20
Total	100	100

Table 50: Average number of employees per enterprise by type of work

	Before	After	% change
URBAN			
Paid			
Full-time	1.08	1.44	33%
Part-time	0.28	0.36	28%
Unpaid			
Full-time	0.04	0.16	300%
Part-time	0.12	0.20	66%
Total	1.52	2.16	42%
RURAL			
Paid			
Full-time	0.36	0.40	11%
Part-time	0.12	0.20	67%
Unpaid			
Full-time	0.00	0.04	n/a
Part-time	0.36	0.44	22%
Total	0.84	1.08	29%

Table 50: Average number of employees per enterprise by type of work (cont.)

	Before	After	% change
TOTAL			
Paid			
Full-time	0.72	0.92	25%
Part-time	0.20	0.28	40%
Unpaid			
Full-time	0.02	0.10	400%
Part-time	0.24	0.32	33%
Total	1.18	1.62	37%

Table 51: Total number of employees by status

	Before	After	Percent change
URBAN			
Wage employee	14	19	36%
Piece rate worker	6	9	50%
Casual worker	14	17	21%
Family worker	4	9	125%
Apprentice	0	0	0%
Total	38	54	42%
RURAL			
Wage employee	6	8	33%
Piece rate worker	5	6	20%
Casual worker	1	1	0%
Family worker	9	12	33%
Apprentice	0	0	0%
Total	21	27	29%
TOTAL			
Wage employee	20	27	35%
Piece rate worker	11	15	36%
Casual worker	15	18	20%
Family worker	13	21	54%
Apprentice	0	0	0%
Total	59	81	37%

Table 52: Total number of men employees by status

	Before	After	Percent change
URBAN			
Wage employee	11	15	36%
Piece rate worker	6	9	50%
Casual worker	14	17	21%
Family worker	1	3	200%
Apprentice	0	0	0%
Total	32	44	38%
RURAL			
Wage employee	6	8	33%
Piece rate worker	5	6	20%
Casual worker	1	1	0%
Family worker	5	6	20%
Apprentice	0	0	0%
Total	17	21	24%
TOTAL			
Wage employee	17	23	29%
Piece rate worker	11	15	36%
Casual worker	15	18	20%
Family worker	6	9	33%
Apprentice	0	0	0%
Total	49	65	33%

Table 53: Total number of women employees by status

	Before	After	Percent change
URBAN			
Wage employee	3	4	33%
Piece rate worker	0	0	0%
Casual worker	0	0	0%
Family worker	3	6	100%
Apprentice	0	0	0%
Total	6	10	66%
RURAL			
Wage employee	0	0	0%
Piece rate worker	0	0	0%
Casual worker	0	0	0%
Family worker	4	6	50%
Apprentice	0	0	0%
Total	4	6	50%
TOTAL			
Wage employee	3	4	33%
Piece rate worker	0	0	0%
Casual worker	0	0	0%
Family worker	7	12	71%
Apprentice	0	0	0%
Total	10	16	60%

Table 54: Distribution of all employees by status

	Before	After
URBAN		
Wage employee	37%	35%
Piece rate worker	16%	17%
Casual worker	37%	31%
Family worker	10%	17%
Apprentice	0%	0%
Total	100%	100%
RURAL		
Wage employee	28%	30%
Piece rate worker	24%	22%
Casual worker	5%	4%
Family worker	43%	44%
Apprentice	0%	0%
Total	100%	100%
TOTAL		
Wage employee	34%	33%
Piece rate worker	19%	19%
Casual worker	25%	22%
Family worker	22%	26%
Apprentice	0%	0%
Total	100%	100%

Table 55: Distribution of men employees by status

	Before	After
URBAN		
Wage employee	34%	34%
Piece rate worker	19%	20%
Casual worker	44%	39%
Family worker	3%	7%
Apprentice	0%	0%
Total	100%	100%
RURAL		
Wage employee	36%	37%
Piece rate worker	29%	29%
Casual worker	6%	5%
Family worker	29%	29%
Apprentice	0%	0%
Total	100%	100%
TOTAL		
Wage employee	35%	35%
Piece rate worker	22%	23%
Casual worker	31%	28%
Family worker	12%	14%
Apprentice	0%	0%
Total	100%	100%

Table 56: Distribution of women employees by status

	Before	After
URBAN		
Wage employee	50%	40%
Piece rate worker	0%	0%
Casual worker	0%	0%
Family worker	50%	60%
Apprentice	0%	0%
Total	100%	100%
RURAL		
Wage employee	0%	0%
Piece rate worker	0%	0%
Casual worker	0%	0%
Family worker	100%	100%
Apprentice	0%	0%
Total	100%	100%
TOTAL		
Wage employee	30%	25%
Piece rate worker	0%	0%
Casual worker	70%	75%
Family worker	0%	0%
Apprentice	0%	0%
Total	100%	100%

Table 57: Distribution of employees by status and sector before the loan

	Production	Trade	Services	Total
URBAN	(n=27)	(n=9)	(n=2)	(n=38)
Wage employee	26%	56%	100%	37%
Piece rate worker	22%	0%	0%	16%
Casual worker	52%	0%	0%	37%
Family worker	0%	44%	0%	10%
Apprentice	0%	0%	0%	0%
Total	100%	100%	100%	100%
RURAL	(n=11)	(n=8)	(n=2)	(n=21)
Wage employee	18%	38%	50%	28%
Piece rate worker	46%	0%	0%	24%
Casual worker	9%	0%	0%	5%
Family worker	27%	62%	50%	43%
Apprentice	0%	0%	0%	0%
Total	100%	100%	100%	100%
TOTAL	(n=38)	(n=17)	(n=4)	(n=59)
Wage employee	24%	47%	75%	34%
Piece rate worker	29%	0%	0%	19%
Casual worker	39%	0%	0%	25%
Family worker	8%	53%	25%	22%
Apprentice	0%	0%	0%	0%
Total	100%	100%	100%	100%

Table 58: Distribution of employees by status and sector after the loan

	Production	Trade	Services	Total
URBAN	(n=38)	(n=14)	(n=2)	(n=54)
Wage employee	31%	36%	100%	35%
Piece rate worker	24%	0%	0%	17%
Casual worker	45%	0%	0%	31%
Family worker	0%	64%	0%	17%
Apprentice	0%	0%	0%	0%
Total	100%	100%	100%	100%
RURAL	(n=12)	(n=12)	(n=3)	(n=27)
Wage employee	17%	33%	67%	30%
Piece rate worker	50%	0%	0%	22%
Casual worker	8%	0%	0%	4%
Family worker	25%	67%	33%	44%
Apprentice	0%	0%	0%	0%
Total	100%	100%	100%	100%
TOTAL	(n=50)	(n=26)	(n=5)	(n=81)
Wage employee	28%	35%	80%	33%
Piece rate worker	30%	0%	0%	19%
Casual worker	36%	0%	0%	22%
Family worker	6%	65%	20%	26%
Apprentice	0%	0%	0%	0%
Total	100%	100%	100%	100%

Table 59: Total number of employees by relationship to owner

	Before	After	Percent change
URBAN			
Related to owner	7	16	129%
Unrelated to owner	31	38	23%
Total	38	54	42%
RURAL			
Related to owner	9	12	33%
Unrelated to owner	12	15	25%
Total	21	27	29%
TOTAL			
Related to owner	16	28	75%
Unrelated to owner	43	53	51%
Total	59	81	37%

Table 60: Distribution of employees by relationship to owner

	Before	After
URBAN		
Related to owner	18%	30%
Unrelated to owner	82%	70%
Total	100%	100%
RURAL		
Related to owner	43%	44%
Unrelated to owner	57%	56%
Total	100%	100%
TOTAL		
Related to owner	27%	35%
Unrelated to owner	73%	65%
Total	100%	100%

Table 61: Profile of new employees

	Men		Women		Total	
URBAN						
Total new employees	12	100%	4	100%	16	100%
Paid	10	83%	1	33%	11	69%
Famil Worker	2	17%	3	67%	5	31%
Wage	4	33%	1	25%	5	31%
Piece rate	3	25%	0	0%	3	19%
Casual	3	25%	0	0%	3	19%
Family Worker	2	17%	3	75%	5	31%
Apprentice	0	0%	0	0%	0	0%
Full-time	8	67%	4	100%	12	75%
Part-time	4	33%	0	0%	4	25%
Production	11	92%	0	0%	11	69%
Trade	1	8%	4	100%	5	31%
Services	0	0%	0	0%	0	0%
Skilled	10	83%	1	25%	11	69%
Unskilled	2	17%	3	75%	5	31%
First job	6	50%	1	25%	7	44%
Not first job	6	50%	3	75%	9	56%

(cont.)

Table 61: Profile of new employees (cont.)

	Men		Women		Total	
RURAL						
Total new employees	4	100%	2	100%	6	100%
Paid	3	75%	0	0%	3	50%
Family Worker	1	25%	2	100%	3	50%
Wage	2	50%	0	0%	2	33%
Piece rate	1	25%	0	0%	1	17%
Casual	0	0%	0	0%	0	0%
Family Worker	1	25%	2	100%	3	50%
Apprentice	0	0%	0	0%	0	0%
Full-time	1	25%	0	0%	1	17%
Part-time	3	75%	2	100%	5	83%
Production	1	25%	0	0%	1	17%
Trade	2	50%	2	100%	4	66%
Services	1	25%	0	0%	1	17%
Skilled	3	75%	0	0%	3	50%
Unskilled	1	25%	2	100%	3	50%
First job	1	25%	2	100%	3	50%
Not first job	3	75%	0	0%	3	50%

(cont.)

Table 61: Profile of new employees (cont.)

	Men		Women		Total	
TOTAL						
Total new employees	16	100%	6	100%	22	100%
Paid	13	81%	1	17%	14	64%
Family Worker	3	19%	5	83%	8	36%
Wage	6	37%	1	17%	7	32%
Piece rate	4	25%	0	0%	4	18%
Casual	3	19%	0	0%	3	14%
Family Worker	3	19%	5	83%	8	36%
Apprentice	0	0%	0	0%	0	0%
Full-time	9	56%	4	67%	13	59%
Part-time	7	44%	2	33%	9	41%
Production	12	75%	0	0%	12	55%
Trade	3	19%	6	100%	9	41%
Services	1	6%	0	0%	1	4%
Skilled	13	81%	1	17%	14	64%
Unskilled	3	19%	5	83%	8	36%
First job	7	44%	3	50%	10	45%
Not first job	9	56%	3	50%	12	55%

BUSINESS PLANNING AND MANAGEMENT

Table 62: Change in client management practices during the loan period

	Before loan		After loan		Percent change
URBAN	#	%	#	%	%
Bookkeeping:					
Some bookkeeping	6	24%	12	48%	100%
Cash management:					
Separates business and household cash	2	8%	3	12%	100%
Use of bank account:					
Uses bank account	20	80%	25	100%	25%
Customer credit:					
Under control	20	80%	24	100%	20%
Security measures:					
Used	4	16%	8	32%	100%

(cont.)

Table 62: Change in client management practices during the loan period (cont.)

RURAL	Before loan #	Before loan %	After loan #	After loan %	Percent change
Bookkeeping:					
Some bookkeeping	2	8%	15	60%	2,450%
Cash management:					
Separates business and household cash	2	8%	5	20%	150%
Use of bank account:					
Uses bank account	11	44%	25	100%	127%
Customer credit:					
Under control	18	72%	23	92%	28%
Security measures:					
Used	18	72%	22	88%	22%

(cont.)

Table 62: Change in client management practices during the loan period (cont.)

TOTAL	Before loan #	Before loan %	After loan #	After loan %	Percent change
Bookkeeping:					
Some bookkeeping	8	16%	27	54%	238%
Cash management:					
Separates business and household cash	4	8%	8	16%	100%
Use of bank account:					
Uses bank account	31	62%	50	100%	61%
Customer credit:					
Under control	38	76%	47	94%	24%
Security measures:					
Used	22	44%	30	60%	36%

Table 63: Future business plans

	Urban #	Urban %	Rural #	Rural %	Total #	Total %
	(n=25)		(n=25)		(n=50)	
For assisted enterprise:						
Increase volume of goods/services	5	20%	7	28%	12	24%
Improve quality of goods/services	2	8%	0	0%	2	4%
Diversify into wholesale activity	2	8%	2	8%	4	8%
Diversify into new goods/services	3	12%	6	24%	9	18%
Purchase new tools/ equipment	4	20%	1	4%	5	10%
Move to better premise	4	20%	2	8%	6	12%
Open new branch	1	4%	0	0%	1	2%
Expand or improve other household enterprises	5	20%	2	8%	7	14%
Start new business	9	36%	14	56%	23	46%
Close down business	4	16%	3	12%	7	14%

LINKAGES TO OTHER ENTERPRISES

Table 64: Change in backward linkages during the loan period

URBAN	Before #	Before %	After #	After %	% change
Number enterprises buying inputs from:					
Individuals/households	2	8%	3	12%	50%
Informal sector micro-enterprises	14	56%	14	56%	0%
The formal sector:					
Retail distributors	7	28%	5	20%	-29%
Wholesale distributors	0	36%	13	52%	44%
Factories	4	16%	4	16%	0%
Institutions	0	0%	0	0%	0%
Number enterprises using:					
Supplier credit	5	20%	5	20%	0%
Supplier discounts	9	36%	10	40%	11%

(cont.)

Table 64: Change in backward linkages during the loan period (cont.)

RURAL	Before #	Before %	After #	After %	% change
Number enterprises buying inputs from:					
Individuals/households	9	36%	10	40%	11%
Informal sector micro-enterprises	8	32%	10	40%	25%
The formal sector:					
Retail distributors	0	0%	0	0%	0%
Wholesale distributors	14	56%	18	72%	29%
Factories	0	0%	0	0%	0%
Institutions	0	0%	0	0%	0%
Number enterprises using:					
Supplier credit	1	4%	1	4%	0%
Supplier discounts	2	8%	2	8%	0%

(cont.)

Table 64: Change in backward linkages during the loan period (cont.)

TOTAL	Before #	Before %	After #	After %	% change
Number enterprises buying inputs from:					
Individuals/households	11	22%	13	26%	18%
Informal sector micro-enterprises	22	44%	24	48%	9%
The formal sector:					
Retail distributors	7	14%	5	10%	-29%
Wholesale distributors	23	46%	31	62%	35%
Factories	4	8%	4	8%	0%
Institutions	0	0%	0	0%	0%
Number enterprises using:					
Supplier credit	6	12%	6	12%	0%
Supplier discounts	11	22%	12	24%	9%

Table 65: Change in forward linkages during the loan period

	Before		After		% change
URBAN	#	%	#	%	
Number enterprises selling to:					
Individuals/households	20	80%	21	84%	5%
Informal sector micro-enterprises	5	20%	8	32%	60%
The formal sector:					
Retail outlets	5	20%	7	28%	40%
Wholesale outlets	2	8%	2	8%	0%
Factories	0	0%	0	0%	0%
Institutions	0	0%	1	4%	n/a
Number enterprises offering:					
Customer credit	10	40%	12	48%	20%
Customer discounts	10	40%	9	36%	-10%

(cont.)

Table 65: Change in forward linkages during the loan period (cont.)

RURAL	Before #	Before %	After #	After %	% change
Number enterprises selling to:					
Individuals/households	19	76%	22	88%	16%
The informal sector micro-enterprises	3	12%	4	16%	33%
The formal sector:					
Retail outlets	0	0%	0	0%	0%
Wholesale outlets	0	0%	0	0%	0%
Factories	0	0%	0	0%	0%
Institutions	4	16%	8	32%	100%
Number enterprises offering:					
Customer credit	8	32%	9	36%	13%
Customer discounts	2	8%	2	8%	0%

(cont.)

Table 65: Change in forward linkages during the loan period (cont.)

	Before		After		% change
TOTAL	#	%	#	%	
Number enterprises selling to:					
Individuals/households	39	78%	43	86%	10%
The informal sector micro-enterprise	8	16%	12	24%	50%
The formal sector:					
Retail outlets	5	10%	7	14%	40%
Wholesale outlets	2	4%	2	4%	0%
Factories	0	0%	0	0%	0%
Institutions	4	8%	9	18%	125%
Number enterprises offering:					
Customer credit	18	36%	21	42%	17%
Customer discounts	12	24%	11	22%	-8%

Table 66: Competition during the past year by sector

	Production		Trade		Services		Total	
URBAN	(n=9)		(n=13)		(n=3)		(n=25)	
Number clients reporting in past year:								
Competition increasing	6	67%	10	77%	2	67%	18	72%
Competition staying same	3	33%	3	23%	1	33%	7	28%
Competition decreasing	0	0%	0	0%	0	0%	0	0%
Competitors going out of business	6	67%	9	69%	2	67%	17	68%
Competitors starting up businesses	4	44%	6	46%	2	67%	12	48%
Affect of competition on client's enterprise:								
Lower prices	2	22%	3	23%	1	33%	6	24%
Lower volume	0	0%	4	30%	0	0%	4	16%
Fewer customers	0	0%	2	15%	0	0%	2	8%
Shortages of raw materials	1	11%	1	8%	0	0%	2	8%
Change in product line or design	3	33%	0	0%	0	0%	3	12%
Closed down	0	0%	2	15%	0	0%	2	8%
None	2	22%	3	23%	2	67%	7	28%

(cont.)

Table 66: Competition during the past year by sector (cont.)

	Production		Trade		Services		Total	
RURAL	(n=8)		(n=15)		(n=2)		(n=25)	
Number clients reporting in past year:								
Competition increasing	1	13%	13	87%	1	50%	15	60%
Competition staying same	6	75%	2	13%	0	0%	8	32%
Competition decreasing	1	13%	0	0%	1	50%	2	8%
Competitors going out of business	4	50%	3	20%	1	50%	8	32%
Competitors starting up businesses	1	13%	5	33%	1	50%	7	28%
Affect of competition on client's enterprise:								
Lower prices	0	0%	1	7%	1	50%	2	8%
Lower volume	0	0%	2	13%	1	50%	3	12%
Fewer customers	1	13%	1	7%	1	50%	3	12%
Shortages of raw materials	0	0%	0	0%	0	0%	0	0%
Change in product line or design	0	0%	0	0%	0	0%	0	0%
Closed down	0	0%	0	0%	0	0%	0	0%
None	6	75%	13	87%	1	50%	20	80%

(cont.)

Table 66: Competition during the past year by sector (cont.)

TOTAL	Production (n=17)		Trade (n=28)		Services (n=5)		Total (n=50)	
Number clients reporting in past year:								
Competition increasing	7	41%	23	82%	3	60%	33	66%
Competition staying same	9	53%	5	18%	1	20%	15	30%
Competition decreasing	1	6%	0	0%	1	20%	2	4%
Competitors going out of business	10	59%	12	43%	3	60%	25	50%
Competitors starting up businesses	5	29%	11	39%	3	60%	19	38%
Affect of competition on client's enterprise:								
Lower prices	2	12%	4	14%	2	40%	8	16%
Lower volume	0	0%	6	21%	1	20%	7	14%
Fewer customers	1	6%	3	11%	1	20%	5	10%
Shortages of raw materials	1	6%	1	4%	0	0%	2	4%
Change in product line or design	3	18%	0	0%	0	0%	3	6%
Closed down	0	0%	2	7%	0	0%	2	4%
None	8	47%	16	57%	3	60%	27	54%

Table 67: Cooperation between entrepreneurs

	Urban		Rural		Total	
	#	%	#	%	#	%
Price collusion	2	8%	0	0%	2	4%
Production quotas	0	0%	1	4%	1	2%
Shared licenses	0	0%	3	12%	3	6%
Look after each other's businesses	4	16%	4	16%	8	16%
Shared employees*	7	28%	10	40%	17	34%
Joint purchases	0	0%	4	16%	4	8%
Shared raw materials	1	4%	1	4%	2	4%
Informal associations	4	16%	4	16%	8	16%

* primarily watchman

Table 68: Enterprises that provide new goods or services to the community

	Number of clients providing	As % of all clients
URBAN		
Good or service that is:		
New/unique for community	9	36%
Time or labor saving for community	7	28%
Lower in price than other sellers	11	44%
RURAL		
Good or service that is:		
New/unique for community	14	56%
Time or labor saving for community	13	52%
Lower in price than other sellers	4	16%
TOTAL		
Good or service that is:		
New/unique for community	23	46%
Time or labor saving for community	20	40%
Lower in price than other sellers	15	30%

Table 69: Clients involved in regional import/export trade

	Urban		Rural		Total	
	#	%	#	%	#	%
Imports:						
Tanzanian cloth	5	20%	1	4%	6	12%
Tanzanian used clothes	2	8%	0	0%	2	4%
Tanzanian handbags	0	0%	1	4%	1	2%
Tanzanian vegetables and beans	2	8%	0	0%	2	4%
Ugandan shoes	1	4%	0	0%	1	2%
Exports:						
Metal trunks sold to Tanzanian and Somali traders	2	8%	0	0%	2	4%

THE REGULATORY ENVIRONMENT

Table 70: Clients operating outside the regulatory environment

	Urban		Rural		Total	
	#	%	#	%	#	%
Unlicensed	6	24%	7	28%	13	26%
Partially licensed	7	28%	7	28%	14	28%
Illegal cross border trade	5	20%	1	4%	6	12%
Illegal currency exchange	1	4%	0	0%	1	2%
Selling above regulated prices	0	0%	8	32%	8	16%

Table 71: Prevalence of bribery

	Urban		Rural		Total	
Clients mentioning bribes for: a/	#	%	#	%	#	%
Protection from police harassment						
- at business site	0	0%	0	0%	0	0%
- while transporting goods	3	12%	0	0%	3	6%
Regulatory violations	1	4%	4	16%	5	10%
Access to licenses	1	4%	2	8%	3	5%
Access to raw materials						
- bribes to guards at factory gates	2	8%	0	0%	2	4%
- forced purchase of goods	2	8%	3	12%	5	10%
Land allocation	2	8%	0	0%	2	4%
Access to rental property (key money)	2	8%	0	0%	2	4%
Telephone installation	2	8%	0	0%	2	4%
Electricity installation	2	0%	0	0%	2	4%
Protection from local thugs	1	4%	0	0%	1	2%
Miscellaneous purposes	4	16%	0	0%	4	16%

a/ unsolicited comments

Table 72: Tenure of business site

	Men		Women		Total	
	#	%	#	%	#	%
URBAN						
Secure tenure						
Owns premise and land	0	0%	2	13%	2	8%
Owns premise/ leases land	3	30%	1	7%	4	16%
Rents Premise	5	50%	4	27%	9	36%
Total	8	80%	7	47%	15	60%
Insecure tenure						
"Authorized" use	1	10%	4	27%	5	20%
"Unauthorized" use	0	0%	3	20%	3	12%
Total	1	10%	7	47%	8	32%
Wholly mobile	1	10%	1	6%	2	8%
Total	10	100%	15	100%	25	100%

(cont.)

Table 72: Tenure of business site (cont.)

	Men #	Men %	Women #	Women %	Total #	Total %
RURAL						
Secure tenure						
Owns premise and land	4	27%	1	10%	5	20%
Owns premise/ leases land	0	0%	0	0%	0	0%
Rents Premise	8	53%	7	70%	15	60%
Total	12	80%	8	80%	20	80%
Insecure tenure						
"Authorized" use	3	20%	1	10%	4	16%
"Unauthorized" use	0	0%	1	10%	1	4%
Total	3	20%	2	20%	5	20%
Wholly mobile	0	0%	0	0%	0	0%
Total	15	100%	10	100%	25	100%

(cont.)

Table 72: Tenure of business site (cont.)

	Men		Women		Total	
TOTAL	#	%	#	%	#	%
Secure tenure						
Owns premise and land	4	16%	3	12%	7	14%
Owns premise/ leases land	3	12%	1	4%	4	8%
Rents Premise	13	52%	11	44%	24	48%
Total	20	80%	15	60%	35	70%
Insecure tenure						
"Authorized" use	4	16%	5	20%	9	18%
"Unauthorized" use	0	0%	4	16%	4	8%
Total	4	16%	9	36%	13	26%
Wholly mobile	1	4%	1	4%	2	4%
Total	25	100%	25	100%	50	100%

Table 73: Security problems for clients during the loan period

	Number	As % of all clients	Average loss (Ksh.)
URBAN			
Robberies at business site	4	.16%	9,550
Robberies in transit	2	8%	1,400
RURAL			
Robberies at business site	0	0%	0
Robberies in transit	1	4%	2,000
TOTAL			
Robberies at business site	4	8%	9,550
Robberies in transit	3	6%	3,400

Table 74: All other formal and informal sources of credit used by clients during the loan period (all activities)

	No. clients reporting use	% of all clients
URBAN		
Informal sources:		
Private moneylenders (20% per month)	1	4%
Friends or relatives (no interest)	13	52%
Rotating credit associations (no interest)	9	36%
Private mortgages (buying land from widow by paying school fees for her children)	1	4%
Educational institutions (no interest)	1	4%
Formal sources:		
Commercial banks (17% per year)	6	24%
Cooperative societies (1% per month)	5	20%
Government schemes (6% per year)	1	4%
Supplier credit (no interest)	6	24%
Hire/purchase schemes (50% flat rate)	2	8%
Educational institutions (no interest)	0	0%

(cont.)

Table 74: <u>All other formal and informal sources of credit used by clients during the loan period (cont.)</u>

RURAL	No. clients reporting use:	% of all clients
Informal sources:		
Private moneylender (20% per month)	0	0%
Friends or relatives (no interest, but often must lend in return)	10	40%
Rotating credit association (no interest)	6	24%
Private mortgage (buying land from widow by paying school fees for her children)	0	0%
Educational institutions (no interest)	0	0%
Formal sources:		
Commercial banks (17% per year)	0	0%
Cooperative societies (1% per month)	18	72%
Government schemes (6% per year)	0	0%
Supplier credit (no interest)	1	4%
Hire/purchase schemes (50% flat rate)	0	0%

(cont.)

Table 74: All other formal and informal sources of credit used by clients during the loan period (cont.)

	No. clients reporting use:	% of all clients
TOTAL		
Informal sources:		
Private moneylender (20% per month)	1	2%
Friends or relatives (no interest, but often must lend in return)	23	46%
Rotating credit association (no interest)	15	30%
Private mortgage (buying land from widow by paying school fees for her children)	1	2%
Educational institutions (no interest)	1	2%
Formal sources:		
Commercial banks (17% per year)	6	12%
Cooperative societies (1% per month)	23	46%
Government schemes (6% per year)	1	2%
Supplier credit (no interest)	7	14%
Hire/purchase schemes (50% flat rate)	2	4%

Table 75: Client participation in rotating credit associations

	Men		Women		Total	
Clients participating in a rotating credit association:						
Urban	0	0%	9	60%	9	36%
Rural	0	0%	6	60%	6	24%
Total	0	0%	15	60%	15	30%

Table 76: Client lending during the loan period

	No.	% of all clients	Terms
URBAN			
Clients providing:			
Customer credit	15	60%	- no interest
Loans to employees	4	16%	- salary advances - no interest
Loans to friends or relatives	14	56%	- no interest - don't always expect repayment
RURAL			
Clients providing:			
Customer credit	9	36%	-typically restricted to highly trusted customers or monthly wage earners
Loans to employees	1	4%	(probably underreported)
Loans to friends or relatives	8	32%	(certainly underreported)
TOTAL			
Clients providing:			
Customer credit	24	48%	
Loans to employees	5	10%	
Loans to friends or relatives	22	44%	

PARTICIPATION IN ORGANIZATIONS

Table 77: Client participation in business organizations

	No. of clients	as % of all clients
URBAN		
Formal organizations		
Jua Kali Association	1	4%
Chamber of Commerce	1	4%
Market cooperative societies	3	12%
Trade unions	3	12%
NCCK credit groups	4	16%
Registered self-help groups	6	24%
Informal associations		
Trade-based groupings	4	16%
Unregistered rotating credit associations	9	36%

(cont.)

Table 77: Client participation in business organizations (cont.)

	No. of clients	as % of all clients
RURAL		
Formal organizations		
Jua Kali Association	1	4%
National trade association	1	4%
Agricultural cooperative societies	18	72%
Market committees	1	4%
Area health committee project officials	4	16%
Registered self help groups	7	28%
Informal associations		
Trade-based groupings	4	16%
Unregistered rotating credit associations	1	8%

Table 78: Client participation in non-business organizations

	Number	As % of all clients
URBAN		
Religious organizations/ churches	23	92%
Religious organizations/ mosques	1	4%
Clan based welfare associations	5	20%
RURAL		
Football club	2	8%
Religious organizations/ churches	25	100%
Church official	6	24%
Celtic Revival Society	1	4%
Primary school committee	7	28%
Area health committee	3	12%
Land survey committee	1	4%
Location development committee	1	4%

PROFILE OF SUCCESSFUL CLIENTS

Table 79: Comparison of successful clients with less successful clients

Clients whose net profit margins:	URBAN		RURAL		TOTAL	
	increased (n = 8)	decreased or stayed the same (n = 11)	increased (n = 4)	decreased or stayed the same (n = 16)	increased (n = 12)	decreased or stayed the same (n = 27)
PERSONAL CHARACTERISTICS						
Percent women	62%	57%	0%	56%	42%	56%
Percent men	37%	43%	100%	44%	58%	44%
Average age (years)	41	39	33	39	38	39
Average years formal education	7.7	6.7	8.3	6.6	7.9	6.6
Percent clients with past enterprise experience	50%	72%	25%	44%	42%	56%
Percent clients whose parents operated a business	62%	55%	0%	19%	42%	33%
Percent clients who are active in community or business organizations	38%	36%	100%	44%	58%	41%
Percent clients who are saved Christians	50%	36%	75%	88%	58%	67%
ENTERPRISE CHARACTERISTICS						
Percent production	25%	45%	25%	31%	25%	37%
Percent trade	63%	45%	75%	56%	67%	52%
Percent services	12%	10%	0%	13%	8%	11%
Average enterprise age (years)	5.1	7.8	5.8	6.8	5.3	7.2
Location (urban)						
Mombasa Island	75%	46%	n/a	n/a	n/a	n/a
North Mainland	25%	27%	n/a	n/a	n/a	n/a
West Mainland	0%	27%	n/a	n/a	n/a	n/a

(cont.)

Table 19: Comparison of successful clients with less successful clients (cont.)

Clients whose net profit margins:	URBAN increased (n = 8)	URBAN decreased or stayed the same (n = 11)	RURAL increased (n = 4)	RURAL decreased or stayed the same (n = 16)	TOTAL increased (n = 12)	TOTAL decreased or stayed the same (n = 27)
Percent clients with other household enterprise income	25%	36%	75%	94%	42%	70%
Percent clients who borrowed from an informal source during the loan period	13%	36%	0%	31%	8%	33%
Percent client who borrowed from another formal or informal source during the loan period	25%	9%	0%	31%	17%	22%
BACK-UP LABOR						
Percent clients with employee or other household member who can take over enterprise in client's absence	62%	36%	50%	44%	58%	41%
RELIABLE INPUTS						
Percent clients with reliable supply of raw materials	100%	64%	75%	63%	92%	63%
TENURE AND ACCESS TO SERVICES						
Clients with secure tenure	88%	55%	75%	75%	83%	67%
Clients with access to services	75%	55%	0%	0%	50%	22%
RELIABLE MARKETS						
Percent clients who are strong competitors	63%	63%	75%	50%	67%	56%
Percent clients with steady demand for goods or services	88%	73%	75%	88%	83%	81%

(cont.)

Table 79: Comparison of successful clients with less successful clients (cont.)

Clients whose net profit margins:	URBAN		RURAL		TOTAL	
	increased (n = 8)	decreased or stayed the same (n = 11)	increased (n = 4)	decreased or stayed the same (n = 16)	increased (n = 12)	decreased or stayed the same (n = 27)
REGULATORY ENVIRONMENT						
Percent clients who operate partly outside regulatory environment	62%	9%	50%	50%	58%	33%
Percent clients who cite problems with the regulatory environment	13%	27%	50%	38%	25%	33%
'MOTIVATORS'						
Percent clients where assisted enterprise sole source of household income	38%	36%	25%	25%	33%	30%
Percent clients where assisted enterprise sole or primary source of h/h income	100%	55%	100%	50%	100%	52%
Percent client households with dependents in secondary school	38%	64%	25%	38%	33%	48%
Percent client household with unemployed dependents	38%	36%	0%	0%	25%	15%
Percent clients with other dependent households	38%	27%	0%	0%	25%	11%
Percent clients building a house	37%	9%	50%	25%	42%	19%
Percent clients with other investments (including agriculture)	75%	36%	100%	100%	83%	74%
FUNGIBILITY						
Percent clients who drew from assisted enterprise to invest in other household enterprises	62%	36%	50%	63%	58%	52%

APPENDIX C

APPENDIX C: PROPOSED SURVEY METHODOLOGY

One of the aims of this study was to contribute towards the development of a working methodology for analyzing the impacts of micro-enterprise credit in Africa. The focus was upon developing a relatively low-cost and pragmatic approach that could be used elsewhere to generate information useful not only for program planning and evaluation, but also for project design and policy analysis. The present appendix falls into three main sections. The first comprises a series of general methodological recommendations; the second presents a draft questionnaire; while the third section provides notes on the questionnaire's format and use.

C.1 General Recommendations

This section outlines and discusses a number of methodological recommendations developed on the basis of the work described in the main report. These recommendations are pragmatic in nature and intentionally avoid the nuances of theoretical and academic debate. This is necessary in a context where existing methodologies are largely derived from and typically more appropriate to the evaluation of impacts upon larger scale and more formal enterprises. The approach adopted here has been to identify impact measures that are appropriate to micro-enterprises and their environment, as well as to the various monetary and time constraints which programs interested in such a methodology are likely to be working under. The basic task therefore is to propose a methodology which can be easily applied in the field and will provide readily analyzable and usable results.

C.1.1 The Survey Instrument

Section C.2 presents a draft questionnaire based upon the open-ended questions used in this study, abridged and extensively revised to take account of lessons learned in conducting the interviews and analyzing the results. The questionnaire is followed by a series of notes (section C.3) designed to provide practical advice to interviewers on the form and formulation of specific questions.

The questionnaire has been designed so that most responses can be computer coded. Some questions have been left open-ended to capture certain qualitative aspects of impact and change over time. In any event, the questionnaire should not be applied without modification. Instead it should be treated as a draft that can be adapted to particular purposes and contexts by adding, subtracting and altering questions as appropriate.

The questions are framed to capture changes during the loan period at the level of the enterprise and the client's household, and within the wider community (however defined). A range of key

178

variables provide the basis for analyzing gender, urban/rural, and sectoral differences. More detailed information on the form and purpose of the different sections are included in the notes following the questionnaire. The following section discusses different ways of treating the most important variable, change before and after the loan.

C.1.2 Optional Uses of the Survey Instrument

Time series information -- data on different variables both before and after the loan -- is critical for undertaking any analysis of credit impacts. Three options for gathering this information are listed below in decreasing order of reliability:

(a) the most reliable method is to collect information at two points in time, applying a suitably modified version of the survey instrument both before and after loan disbursement. This option requires advance planning and cannot be initiated once loan disbursement has already taken place. The time and resources it might involve may also make it less attractive to some donors and program officers. The format of the model questionnaire given in section C.2 conforms to this option -- though it can be readily adapted to other purposes;

(b) where loans have already been disbursed and only a single survey is possible, then the best option is to select respondents for whom reliable baseline information is available in existing program files. The problem here is that reliable data of this kind are not always available. The client files consulted for the present study, for example, contained information that was sketchy and often inaccurate. This information had usually been collected in the context of the loan appraisal process, which often results in misreporting. Moreover, at least in the case of the urban sample, the loan was not disbursed for another two years, so the baseline information did not accurately reflect the position of the enterprise just before the loan.

(c) the least satisfactory option is to conduct a single survey relying entirely upon recall to assess changes over time. The difficulties involved in this case need hardly be spelled out. In many circumstances, however, this is the only option available. It was, for example, a major component of the present study, combined with the use of program files.

The ideal scenario would be to collect the data in conjunction with other program baseline, monitoring, and evaluation information. This could be done by modifying the present survey instrument and applying it to a representative sample of program clients.

179

C.1.3 Seasonality and Survey Timing

The issue of seasonality and its implications must be considered before the start of a survey. This is essential for determining the timing of the survey and the time frame to which certain questions should refer (this mainly affects the calculation of monthly sales and outlays, a subject discussed further in the notes following the questionnaire).

Seasonality in business performance typically varies from one subsector to another and may be a function of a number of different factors. These include seasonal variations in agricultural production cycles, the supply of labor, the availability of cash within communities, and important calendar events like Christmas, the month of Ramadhan, and the start of the school year. The effects of these parameters upon different types of enterprises make it extremely difficult to treat all of them equally in a survey which is conducted in a relatively short space of time and refers to current as opposed to annual performance. It is likely that some enterprises in any survey will be caught at quite different points in their seasonal cycles.

Variations between enterprises present less of a methodological problem than variations in past and present performance within the same enterprise. If the before and after comparison refers to an enterprise at different stages of its seasonal cycle then considerable distortions may appear in the data. The simple solution to this problem is to ensure that the pre-loan and post-loan data are collected for the same seasons. This may not be possible when relying upon baseline data recorded at different times of year for different enterprises, unless the survey is similarly staggered.

Finally, pre-loan data should be collected in, or at least refer to, the immediate pre-loan period, preferably less than six months before the loan is disbursed. A similar criterion should be applied to the post-loan survey -- though whether this will just help to minimize the problem of exogenous variables or also result in a failure to capture longer term impacts is a subject open to debate. Longer term evaluation need not, of course, be excluded from consideration.

C.1.4 Sample Size and Selection

Sample size should ideally be pegged to the study "universe", but at a minimum should include 100 loan recipients. While it would also be ideal to add a control group of enterprise owners who have not received loans, this may not be practicable in the context of most programs.

Respondents may be selected using a variety of criteria, some of which will vary according to the objectives of the survey. One criterion that should always be a lied -- although it was not possible in the present study -- is that all respondents should have completely repaid their loans. In addition, samples should comprise equal numbers of men and women and be distributed proportionately across enterprise sectors (production, trade, and services). For a better qualitative understanding of credit impacts across different enterprise subsectors and the linkages between them it may also be desirable to stratify the sample by subsector, or at least ensure that each enterprise subsector in the sample is represented by more than one case.

The survey results described in this report indicate that urban-rural differences should also be given consideration in selecting the sample. A more difficult question concerns the delimitation of the location from which respondents should be drawn. The present survey suggests that the selection of clients from a relatively well defined and restricted geographical area or community has a number of advantages for the qualitative analysis and interpretation of survey results. Certainly it makes the survey process much simpler. It also carries certain advantages in improving the design of programs or policies targeted to a particular locality.

C.1.5 Data Collection and Analysis

The draft questionnaire has been designed to be readily administered by program staff, students, or others with a minimum of special training. It may be appropriate to precede or accompany this work with informal observations and discussions in the sample area, tasks which can be undertaken by the survey supervisor. This would assist in planning the survey and in interpreting the data once they have been collected, coded, and processed by computer.

C.2 <u>The Draft Questionnaire</u> (following page)

181

IMPACTS OF MICRO-ENTERPRISE CREDIT

DRAFT QUESTIONNAIRE

Serial Number: ______________________

Name of client: ______________________

Type of enterprise: ______________________

Location of enterprise: ______________________

Interviewer:

(1) ______________ (2) ______________

Date of interview:

(1) ______________ (2) ______________

122

PART I: CLIENT BACKGROUND

		Before	After
01	Gender of client 1 = Male 2 = Female	|______|	
02	Age of client (in years)	|______|	
03	Marital status of client 1 = Unmarried 2 = Separated or divorced 3 = Widowed 4 = Married/one spouse 5 = Married/two spouses 6 = Married/three or more spouses 7 = Other (specify)	|______|	|______|
04	Origin of client 1 = From present locality 2 = From other locality (specify)	|______|	
a.	If from other locality, years in present locality	|______|	
05	Ethnicity of client (specify)		
06	Religion of client 1 = Christian/saved 2 = Christian/not saved 3 = Muslim 4 = Other (specify)......................	|______|	
07	Formal education of client 1 = None, nonliterate 2 = None, literate 3 = 1-4 years 4 = 5-8 years 5 = 9-12 years 6 = 13+ years	|______|	

	Before	After
08 Parents' occupation (1 = Yes; 0 = No)		
a. One or more parents engaged in business, trade, or larger-scale commercial farming	!________!	
b. One or more parents engaged in regular wage employment	!________!	
c. One or more parents engaged in agricultural production	!________!	
09 Client's training (1 = Yes; 0 = No)		
a. None, no relevant skills	!________!	
b. None, self taught	!________!	
c. Apprenticeship, on-the-job training	!________!	
d. Technical/vocational training	!________!	
e. Management/business training	!________!	
10 Client's previous employment (1 = Yes; 0 = No)		
a. Wage employment	!________!	
b. Self employment	!________!	
c. Other (specify)......................	!________!	

11 Past (dead) enterprises run by client
Specify enterprises and their sector
(1 = Production; 2 = Trade; 3 = Services)

Enterprise	Sector
a.____________________________	!________!
b.____________________________	!________!
c.____________________________	!________!
d.____________________________	!________!

PART II: THE ENTERPRISE

12 General description of enterprise (open)

Significant changes, if any, during loan period (open)

	Before	After
13 Sector		
1 = Production 2 = Trade 3 = Services	!________!	!________!
14 "Life cycle" of enterprise		
1 = Start up (before only) 2 = Ongoing 3 = Closed down (after only)	!________!	!________!
15 Age of assisted enterprise (rounded in years)	!________!	
16 Ownership		
1 = Individual 2 = Husband-wife partnership 3 = Other partnership 4 = Group/cooperative	!________!	!________!
17 Usual hours of operation (amounts)		
a. Hours per day	!________!	!________!
b. Days per week	!________!	!________!
c. Hours per week	!________!	!________!
d. Weeks per year	!________!	!________!

18 If enterprise is seasonal, describe high/low or active/inactive months

....

....

185

19 Main products or services provided (open)

	Before loan	After loan
a.	________	________
b.	________	________
c.	________	________
d.	________	________
e.	________	________
f.	________	________
g.	________	________
h.	________	________
i.	________	________
j.	________	________

20 Location (1 = Yes; 0 = No)	Before	After
a. Urban	!_____!	!_____!
b. Rural	!_____!	!_____!
c. Home-based	!_____!	!_____!

21 Access to services
(1 = Accessible on premise;
2 = Accessible off-premise;
0 = Inaccessible)

a. Piped water	!_____!	!_____!
b. Electricity	!_____!	!_____!
c. Telephone	!_____!	!_____!
d. Banking facilities	!_____!	!_____!
e. Post office	!_____!	!_____!

	Before	After
22 Security of tenure (1 = Yes; 0 = No)		
a. Secure tenure		
1. Owns premise and land		
2. Owns premise, leases land		
3. Rents premise		
b. Insecure tenure		
1. 'Authorized' use of site		
2. 'Unauthorized' use of site		
c. Wholly mobile		

23 Source(s) of start-up capital (specify amounts)

Loans:	
a. From assisting organization	
b. From other financial institution	
c. From private moneylender	
d. From friends or relatives	
Savings:	
e. From wage employment	
f. From other enterprises	
g. From rotating credit associations	
h. From agriculture	
i. From livestock	
Gifts:	
j. From friends or relatives	

PART III: LOAN INFORMATION

		Intended	Actual
24	Date received project loan		
25	Loan amount/principal		
26	Loan amount/principal plus interest		
27	Repayment period (months)		
28	Amount of monthly installment		
29	Total principal and interest repaid		
30	Percent principal and interest repaid		
31	Loan use (amounts)		
	a. For assisted enterprise		
	1. Working capital		
	2. Fixed capital		
	3. TOTAL		
	b. For other enterprises		
	1. Working capital		
	2. Fixed capital		
	3. TOTAL		
	c. For agricultural investment		
	1. Working capital		
	2. Fixed capital		
	3. TOTAL		
	d. For livestock investment		
	1. Working capital		
	2. Fixed capital		
	3. TOTAL		

	Intended	Actual
e. For household expenses		
1. Consumption	|______|	|______|
2. Investment	|______|	|______|
f. For savings	|______|	|______|
g. Other use (specify)	|______|	|______|
....		

	Before	After
32 Training and/or technical assistance related to the loan (1 = Yes; 0 = No)	|______|	|______|

33 Source of loan repayments (1 = Yes; 0 = No)

a. Assisted enterprise profits	|______|
b. Other enterprise profits	|______|
c. Wage employment	|______|
d. Agriculture	|______|
e. Livestock	|______|
f. Loans from friends/relatives	|______|
g. Loans from other sources (specify)	|______|
....	
h. Gifts from friends/relatives	|______|
i. Other (specify)	|______|

34 Other sources of finance for the assisted enterprise during and since the loan period (1 = Yes; 0 = No)

	After
a. Assisted enterprise profits	
b. Other enterprise profits	
c. Wage employment	
d. Agriculture	
e. Livestock	
f. Loans from friends/relatives	
g. Loans from other sources (specify)	
h. Gifts from friends/relatives	

PART IV: FINANCIAL STATUS OF THE ENTERPRISE

	Before	After
35 Assets of assisted enterprise (amounts)		
a. Fixed assets		
1. Land		
2. Premises		
3. Equipment and tools		
4. Fixtures and fittings		
5. TOTAL FIXED ASSETS		
b. Current assets		
1. Raw materials		
2. Unfinished products		
3. Goods for sale		
4. Suppliers' credit		
5. Customers' debts		
6. Cash in the bank		
7. Cash on hand		
8. Other (specify)...................		
9. TOTAL CURRENT ASSETS		
c. TOTAL ALL ASSETS (a5 + b9)		

36 Enterprise operating account (amounts)	Before	After
a. Monthly sales	¦________¦	¦________¦
b. Cost of goods sold	¦________¦	¦________¦
c. GROSS PROFIT (a - b)	¦________¦	¦________¦
d. Monthly outlays		
1. Equipment	¦________¦	¦________¦
2. Transport	¦________¦	¦________¦
3. Utilities	¦________¦	¦________¦
4. TOTAL (1 + 2 + 3)	¦________¦	¦________¦
e. DIRECT VALUE ADDED (c - d4)		
f. Monthly outlays		
1. Rental of premises	¦________¦	¦________¦
2. Rental of equipment	¦________¦	¦________¦
3. Wages in cash	¦________¦	¦________¦
4. Wages in kind	¦________¦	¦________¦
5. Licenses, registration fees and taxes (Details):.........................	¦________¦	¦________¦
6. Loan repayments	¦________¦	¦________¦
7. Other expenses	¦________¦	¦________¦
8. TOTAL (1 +....7)	¦________¦	¦________¦
g. CASH INCOME (e - f8)	¦________¦	¦________¦

192

PART V: BUSINESS MANAGEMENT AND PLANNING

	Before	After
37 Business management practices (1 = Yes; 0 = No)		
a. Bookkeeping (general)		
1. No records at all	! !	! !
2. Intermittent records	! !	! !
3. Regular records	! !	! !
b. Bookkeeping (specifics)		
1. Sales recorded	! !	! !
2. Gross profits calculated	! !	! !
3. Net profits calculated	! !	! !
4. Stock recorded	! !	! !
c. Cash control		
1. Cash mixed with other enterprise cash	! !	! !
2. Cash mixed with other household cash	! !	! !
3. Cash banked	! !	! !
4. Separate bank account for enterprise	! !	! !
5. Bank transactions reconciled in accounts	! !	! !
d. Credit		
1. Credit freely given to customers	! !	! !
2. Small amounts of credit given to trusted customers	! !	! !
3. Credit restricted to customers who earn a monthly wage	! !	! !

9

e. Security	Before	After
1. Cash locked in safe		
2. Watchman employed		
3. Other measures (specify)		
4. Loss due to theft or vandalism in enterprise during past year		
38 Current bank accounts (number)		

Details (bank name, year opened, balances):

Before	After
....	....
....	....
....	....

39 Business planning (1 = Yes; 0 = No)

a. Future plans for assisted enterprise		
1. Increase volume of goods/ services		
2. Improve quality of goods/ services		
3. Diversify into new goods/ services		
4. Purchase new tools/equipment		
5. Move to better premises		
6. Open new branch		
7. Employ more workers		
8. Close down		
9. Other (specify)...................		

b. Future plans for other enterprises

	Before	After
1. Expand or improve other enterprises	|______|	|______|
2. Start new enterprises	|______|	|______|
3. Take up wage employment	|______|	|______|
4. Other (specify)...................	|______|	|______|

PART VI: EMPLOYMENT IN THE ASSISTED ENTERPRISE

40 Employees (including client) BEFORE THE LOAN

a.Name	b.Gender/a	c.Age (years)	d.Status of Employee/b	e.Type of work/c	f.Usual pay Ksh.	Per period/d	g.Skilled?/e	h.First job?/e	i.Member of client's household/e
client									N/A

41 Employees (including client) AFTER THE LOAN

a.Name	b.Gender/a	c.Age (years)	d.Status of Employee/b	e.Type of work/c	f. Usual pay Ksh.	Per period/d	g.Skilled?/e	h.First job?/e	i.Member of client's household/e
client									N/A

a/ 1 = Male; 2 = Female
b/ 1 = Wage employee; 2 = Piece rate worker; 3 = Family/unpaid worker; 4 = Apprentice/trainee
c/ 1 = Full time; 2 = Part time; 3 = Casual; 4 = Seasonal
d/ 1 = Hour; 2 = Day; 3 = Week; 4 = Month
e/ 1 = Yes; 0 = No

PART VII: HOUSEHOLD LEVEL DATA

Household Composition

42 Members of client's household (including client) BEFORE THE LOAN

a. Age (years)	b. Relationship to client/a	c. In school/b	d. If so, current level/c	e. Unemployed/b	f. Family worker/b	g. Self employed/b	h. Wage employed/b

43 Members of other dependent households BEFORE THE LOAN

a. Age (years)	b. Relationship to client/a	c. In school/b	d. If so, current level/c	e. Unemployed/b	f. Family worker/b	g. Self Employed/b	h. Wage Employed/b

a/ 1 = Client; 2 = Spouse; 3 = Son; 4 = Daughter; 5 = Parent; 6 = Other relation; 7 = Unrelated
b/ 1 = Yes; 0 = No
c/ 1 = Pre-school; 2 = Primary; 3 = Secondary; 4 = Further education/training

44 Members of client's household (including client) AFTER THE LOAN

a. Age (years)	b. Relationship to client/a	c. In school/b	d. If so, current level/c	e. Unemployed/b	f. Family worker/b	g. Self Employed/b	h. Wage Employed/b

45 Members of other dependent households AFTER THE LOAN

a. Age (years)	b. Relationship to client/a	c. In school/b	d. If so, current level/c	e. Unemployed/b	f. Family worker/b	g. Self Employed/b	h. Wage Employed/b

a/ 1 = Client; 2 = Spouse; 3 = Son; 4 = Daughter; 5 = Parent; 6 = Other relation; 7 = Unrelated
b/ 1 = Yes; 0 = No
c/ 1 = Pre-school; 2 = Primary; 3 = Secondary; 4 = Further education/training

Other Household Enterprises

	Before	After
46 Other current client employment and income activities (1 = Yes; 0 = No)		
a. Full-time wage employment	|_____|	|_____|
b. Part-time wage employment	|_____|	|_____|
c. Other enterprises		
1. Non-agricultural	|_____|	|_____|
2. Agricultural	|_____|	|_____|
3. Livestock	|_____|	|_____|
f. Other (detail)........................	|_____|	|_____|

47 Other enterprises, including agriculture and livestock, currently run by client. Specify enterprise and sector (1 = Production; 2 = Trade; 3 = Services)

	Before Enterprise	Before Sector	After Enterprise	After Sector
a.	____________	|_____|	____________	|_____|
b.	____________	|_____|	____________	|_____|
c.	____________	|_____|	____________	|_____|
d.	____________	|_____|	____________	|_____|
e.	____________	|_____|	____________	|_____|
f.	____________	|_____|	____________	|_____|
g.	____________	|_____|	____________	|_____|

48 Enterprises, including agriculture and livestock, currently run by other household members. Specify enterprise and sector
(1 = Production; 2 = Trade; 3 = Services)

	Before			After	
	Enterprise	Sector		Enterprise	Sector
a.	______________	!____!	a.	______________	!____!
b.	______________	!____!	b.	______________	!____!
c.	______________	!____!	c.	______________	!____!
d.	______________	!____!	d.	______________	!____!
e.	______________	!____!	e.	______________	!____!
f.	______________	!____!	f.	______________	!____!
g.	______________	!____!	g.	______________	!____!

49 Fungibility of capital
(1 = Yes; 0 = No)

		After
a.	Started assisted enterprise with savings from other household enterprises	!____!
b.	Invested part of loan capital in other household enterprises	!____!
c.	Drew from other household enterprises to help repay the loan	!____!
d.	Drew from other household enterprises to invest in assisted enterprise	!____!
e.	Drew from assisted enterprise to invest in other household enterprises	!____!

Household Income

50 Sources and amounts of household and dependent household income (per month)

	Before the loan				After the loan			
	Client	Spouse	Other h/h members		Client	Spouse	Other h/h members	
a. From assisted enterprise								
b. From other enterprises								
c. From agriculture								
d. From livestock								
e. From rents								
f. From wages								
g. From remittances								
h. Other (specify)								
i. TOTAL								

		Before	After
51	Estimated value of major household assets (amounts)		
	a. House	! !	! !
	b. Land	! !	! !
	c. Other enterprises		
	1. Non-agricultural	! !	! !
	2. Agricultural	! !	! !
	3. Livestock	! !	! !
	d. Financial investments (e.g. bank shares)	! !	! !
	e. Other (specify)........................	! !	! !

52 Detail major household investments during and since the loan period (e.g land, house construction, other enterprises, financial investments):

....

....

....

....

53	Average monthly household expenditures for: (estimated amounts)		
	a. Food	! !	! !
	b. Rent	! !	! !
	c. Transport	! !	! !
	d. Education	! !	! !
	e. Other major expenses (specify)	! !	! !

....

....

	Before	After
54 Management of household income (open)		
a. Whose responsibility is it to meet the above household expenditures?	....	....
b. How is income from the assisted enterprise allocated? Who decides?	....	....
c. Any recent large purchases? If so, who decided?	....	....
d. Is allocation of income ever a subject of argument/ different opinions?	....	....

Household Labor Allocation

	After
55 Compared to before the loan, time client now spends working in the assisted enterprise: 1 = More time 2 = Less time 3 = Same amount of time	!________!
56 Compared to before the loan, time other members of client's household now spend working in the assisted enterprise: 1 = More time 2 = Less time 3 = Same amount of time 4 = Not applicable	!________!

203

PART IX: LINKAGES BEYOND THE HOUSEHOLD

Relationships with other enterprises

	Before	After
57 Backward linkages (1 = Yes; 0 = No)		
Assisted enterprise buying inputs from:		
a. Individuals/households	|______|	|______|
b. Informal sector micro-enterprises	|______|	|______|
b. Formal sector		
1. Retail distributors	|______|	|______|
2. Wholesale distributors	|______|	|______|
3. Factories	|______|	|______|
4. Institutions	|______|	|______|
Assisted enterprise using:		
c. Supplier credit	|______|	|______|
d. Supplier discounts	|______|	|______|
58 Forward linkages (1 = Yes; 0 = No)		
Assisted enterprise selling to:		
a. Individuals/households	|______|	|______|
b. Informal sector/micro-enterprises	|______|	|______|
c. Formal sector		
1. Retail outlets	|______|	|______|
2. Wholesale outlets	|______|	|______|
3. Factories	|______|	|______|
4. Institutions	|______|	|______|

	Before	After
Assisted enterprise offering:		
d. Customer credit		
e. Customer discounts		
59 Competition during the past year (1 = Yes; 0 = No)		
a. Competition increasing		
b. Competition staying the same		
c. Competition decreasing		
d. Competitors going out of business		
e. Competitors starting up		
Affect of competition on assisted enterprise:		
g. Lower prices		
h. Lower volume		
i. Fewer customers		
j. Shortages of raw materials		
k. Change in product line or design		
l. Closed down		
m. Other		
n. No effects		
Competitive position of assisted enterprise:		
o. Strong		
p. Average		
q. Weak		

	Before	After
60 Cooperation between entrepreneurs (1 = Yes; 0 = No)		
a. Price collusion	!________!	!________!
b. Production quotas	!________!	!________!
c. Shared licenses	!________!	!________!
d. Look after each other's businesses	!________!	!________!
e. Shared employees	!________!	!________!
f. Joint purchases	!________!	!________!
g. Shared raw materials	!________!	!________!
h. Informal associations	!________!	!________!
i. Other (specify)........................	!________!	!________!
61 Goods and/or services provided by the assisted enterprise (1 = Yes; 0 = No)		
a. New/unique for the community	!________!	!________!
b. Time/labor saving for the community	!________!	!________!
c. Lower in price for the community	!________!	!________!
62 Involvement of the assisted enterprise in regional import/export trade (1 = Yes; 0 = No)		
a. Imports goods/materials from neighboring countries	!________!	!________!
b. Exports goods/materials to neighboring countries	!________!	!________!

Borrowing and lending

	Before	After
63 Sources of credit used by client in past year (1 = Yes; 0 = No)		
Informal sources:		
a. Private moneylenders		
b. Friends/relatives		
c. Rotating credit and saving associations		
d. Private mortgage arrangements		
e. Other (specify)		
Formal sources:		
f. Commercial bank		
g. Cooperative society		
h. Government institution		
i. Non-governmental organiza		
j. Supplier credit		
k. Hire purchase schemes		
l. Other (specify)........................		
64 Has client ever taken a loan from a commercial bank? (1 = Yes; 0 = No)		
65 Client participation in rotating credit association (1 = Yes; 0 = No)		
a. If so, number members		
b. Amount contributed (per round)		
c. Frequency of contribution		

1 = Daily
2 = Weekly
3 = Monthly
4 = Other (specify)..................

	Before	After
66 Client lending (1 = Yes; 0 = No)		
a. To customers	|_____|	|_____|
b. To employees	|_____|	|_____|
c. To relatives/friends	|_____|	|_____|
d. Others (specify)................	|_____|	|_____|

Regulatory Environment for Assisted Enterprise

	Before	After
67 License(s) (1 = Required; 0 = Not required)	|_____|	|_____|
a. If required, 1 = Licensed 2 = Partially licensed 3 = Unlicensed	|_____|	|_____|
b. Related actions 1 = Suffered official harassment 2 = Paid bribes 3 = Paid fines	|_____|	|_____|
68 Service charges (1 = Applicable; 0 = Not applicable)	|_____|	|_____|
a. If applicable, 1 = Pays full amount due 2 = Pays partial amount due 3 = Pays nothing	|_____|	|_____|
b. Related actions 1 = Suffered official harassment 2 = Paid bribes 3 = Paid fines	|_____|	|_____|

	Before	After
69 Other taxes (1 = Applicable; 0 = Not applicable)	|________|	|________|
a. If applicable, 1 = Pays full amount due; 2 = Pays partial amount due; 3 = Pays nothing	|________|	|________|
Type(s) of tax (specify)		
b. Related actions: 1 = Suffered official harassment; 2 = Paid bribes; 3 = Paid fines	|________|	|________|
70 Minimum wages (1 = Applicable; 0 = Not applicable)	|________|	|________|
a. If applicable, 1 = Complies; 2 = Partially complies; 0 = Does not comply	|________|	|________|
b. Related actions: 1 = Suffered official harassment; 2 = Paid bribes; 3 = Paid fines	|________|	|________|
71 Health and safety codes (1 = Applicable; 0 = Not applicable)	|________|	|________|
a. If applicable, 1 = Complies; 2 = Partially complies; 0 = Does not comply	|________|	|________|
b. Related actions: 1 = Suffered official harassment; 2 = Paid bribes; 3 = Paid fines	|________|	|________|

	Before	After
72 Price controls (1 = Applicable; 0 = Not applicable)	¦______¦	¦______¦
a. If applicable, 1 = Complies 2 = Partially complies 0 = Does not comply	¦______¦	¦______¦
b. Related actions 1 = Suffered official harassment 2 = Paid bribes 3 = Paid fines	¦______¦	¦______¦
73 Use of land (1 = Applicable; 0 = Not applicable)	¦______¦	¦______¦
a. If applicable, 1 = Authorized use 2 = Unauthorized use	¦______¦	¦______¦
b. Related actions 1 = Suffered official harassment 2 = Paid bribes 3 = Paid fines	¦______¦	¦______¦
74 Building codes (1 = Applicable; 0 = Not applicable)	¦______¦	¦______¦
a. If applicable, 1 = Complies 2 = Partially complies 0 = Does not comply	¦______¦	¦______¦
b. Related actions 1 = Suffered official harassment 2 = Paid bribes 3 = Paid fines	¦______¦	¦______¦

	Before	After
75 Weights and measures regulations (1 = Applicable; 0 = Not applicable)	!________!	!________!
a. If applicable, 1 = Complies 2 = Partially complies 0 = Does not comply	!________!	!________!
b. Related actions 1 = Suffered official hara 2 = Paid bribes 3 = Paid fines	!________!	!________!

Participation in Organizations

76 Client participation in business organizations (1 = Yes; 0 = No)

<u>Formal organizations</u>:		
a. Business or trade association	!________!	!________!
b. Cooperative association	!________!	!________!
c. Trade union	!________!	!________!
d. Registered self-help group	!________!	!________!
e. Other (specify)	!________!	!________!
<u>Informal organizations</u>:		
f. Trade-based group	!________!	!________!
g. Rotating credit association	!________!	!________!
h. Other (specify)	!________!	!________!

	Before	After
Leadership:		
i. Is client in a leadership position in any of the above business organizations?	|________|	|________|
Detail:		
....		
Advocacy:		
j. Do any of the above organiz play an advocacy role for cl enterprise?	|________|	|________|
Detail:.................................		
....		
77 Client participation in non-business organizations (1 = Yes; 0 = No)		
a. Church	|________|	|________|
b. Mosque	|________|	|________|
c. Clan-based welfare association	|________|	|________|
d. Sports club	|________|	|________|
e. School committee	|________|	|________|
f. Political party	|________|	|________|
i. Other (specify)........................	|________|	|________|
Leadership:		
j. Is client in a leadership position in any of the above organizations?	|________|	|________|
Detail:		
....		

NOTES AND OBSERVATIONS

78 Any client references to:
(1 = Yes; 0 = No)

	Before	After
a. Illegal cross border trade	¦________¦	¦________¦
b. Illegal currency exchange	¦________¦	¦________¦
c. Police harassment	¦________¦	¦________¦
d. Bribery/corruption	¦________¦	¦________¦

	Before	After
79 Pace of work (open)	....	....
	....	....
80 Number customers (open)	....	....
	....	....
81 Quality of goods (open)	....	....
	....	....
82 Condition of fixed assets (open)	....	....
	....	....
83 Worker safety (open)	....	....
	....	....
84 Other observations (open)	....	....
	....	....
	....	....

C.3 Notes on the Questionnaire

C.3.1 General purpose of the questions

The questionnaire is divided into eight parts. The following notes describe the general purpose of each part.

Part I: Client Background. These questions establish the basic socio-economic and entrepreneurial characteristics of the respondent and identify any relevant changes in these during the loan period. They also provide the information necessary for analyzing the entire data base by gender, sector, and other key parameters.

Part II: The Enterprise. This section highlights the basic characteristics of the assisted enterprise and, again, identifies any changes in these during the loan period. It includes information on the goods and/or services provided by the enterprise, its ownership, age, hours of operation, location, access to services, security measures employed, the type of tenure, and sources of start-up capital.

Part III: Loan Information. This covers basic information on the loan, including its intended and actual use, the sources of loan repayment, and any training or technical assistance provided in relation to the loan.

Part IV: Financial Status of the Enterprise. This is a key section of the questionnaire which seeks information on the enterprise's overall financial position and profitability. Questions focus on the enterprise's fixed and current assets and its operating account before and after the loan. This information is not always easy to obtain and may require patient probing.

Data on the value of assets provide an indication of the overall financial condition of the enterprise. In the case of micro-enterprises it is neither necessary nor appropriate to reconstruct full balance sheets, given the simplicity of their equity base and their general lack of liabilities. It should also be noted that in a high inflation economy increases in the value of fixed assets may be a result of their appreciation over time. This factor should be isolated in the analysis and treated as an exogenous variable.

The enterprise operating account provides information on (i) sales (the basic starting point for determining changes in enterprise performance); (ii) gross income (a good proxy indicator of micro-enterprise income when fixed costs are relatively low); (iii) direct value added (an indicator of the extent to which the micro-enterprise generates "new" income); and (iv) cash income (an indicator of the enterprise's liquidity, the amount of funds available for reinvestment or distribution to the owner, and the enterprise's potential impact on the household's standard of living). Information on the enterprise operating account can also be used to calculate the enterprise's gross margin (gross income/sales), net margin (cash income/sales), and return on investment (cash income/total assets). These indicators provide a basis on which to compare profitability among and between enterprises.

Part V: Business Management and Planning. The management section provides information on basic business management practices before and after the loan (e.g. bookkeeping, cash control, credit, use of bank accounts, and security measures) and indicates possible impacts of the loan on these practices. It can also pinpoint potential areas for training.

The planning section shows changes during the loan period in how the client perceives the longer term viability of the enterprise, ways and means to expand, improve, or diversify the enterprise, and new market opportunities. It also provides information on whether the client prefers wage or self employment.

Part VI: Employment in the Assisted Enterprise. This section provides detailed information on changes in the numbers and characteristics of employees in the clients' enterprises. It generates information on the gender, age, status, type of work, usual pay, and the skill level of employees. It also provides information on whether it is the employee's first job, and his or her relationship to the client's household.

Part VII: Household Level Data. This is another key section of the questionnaire that allows for analysis of the relationship between the assisted enterprise and other household enterprises and income, and any changes in these over time. This covers basic data on household composition, other household enterprises and assets, and amounts and sources of total household income before and after the loan. It also provides information on the fungibility of capital between enterprises, and on new household investments (e.g. house construction, land purchases) during the loan period. The objective here is to assess changes in the "net worth" of the household during the loan period (hypothesized to be a more complete indicator of impact than changes in the assisted enterprise alone).

Part VIII: Linkages Beyond the Household. This part of the questionnaire assesses changes in the relationship between the assisted enterprise and other enterprises and economic activities within the community. It considers forward and backward linkages, changes in competition and cooperation, and the role of the enterprise in providing new goods and services for the community. It also analyzes three "dynamics" that influence enterprise performance: client participation in formal and informal borrowing systems, the relationship between the enterprise and the regulatory

215

environment, and client participation in business and other community organizations. The underlying hypothesis is that enterprise performance both influences and is influenced by these relationships.

C.3.2 Notes on Specific Questions

The following notes are designed to provide practical guidance to interviewers on how to elicit the information required to complete the questionnaire. The numbers below refer to specific questions in the questionnaire.

04 **Origin of client:** the definition of locality should be tailored to the particular survey sample.

06 **Religion of client:** the distinction between saved and unsaved Christians is relevant to different business attitudes and practices in some Kenyan contexts. It should be deleted where not relevant and other parameters added if required.

07 **Formal education of client:** the aggregates reflect the Kenyan system of education and should be changed as appropriate. An alternative is to ask the exact number of years of education completed.

08 **Parents' occupation:** specify the current or, in the case of those who are retired or deceased, the most recent principal occupation of the client's parents. If the client was raised by a person or persons other than his or her parents, then specify their occupation(s).

14 **Life cycle of enterprise:** the distinction between a new and ongoing enterprise is sometimes unclear when a client has been operating an enterprise, but is starting up a new activity. It is important to discuss and agree on a set of general guidelines for determining a "start-up".

18 **Seasonality of enterprise:** characteristics of seasonal enterprises will vary. At the most general level, the typically high and low volume or active and inactive months should be distinguished. The reasons for seasonality may also be noted. Before and after comparisons are most valid when data are collected in the same seasons or equivalent periods. It is essential to consider carefully the issue of seasonality before survey work begins and to establish guidelines on how it should be treated in the research design (see section C.1.3 above).

20 **Location:** home-based enterprises are those operated within the client's household. Other categories might be added according to the survey objectives.

216

22 **Security of tenure:** "insecure tenure" is when a client operates the enterprise from a site he or she does not own, lease, or rent and/or does not pay legally required taxes for use of the site. "Authorized" use of such a site means that the client has received permission (formal or informal) to use the land or premise from a public official or the owner. "Unauthorized" use means that the client has not received such permission.

23 **Sources of start-up capital:** this may be difficult to determine when capital has been introduced incrementally as the business has grown. In such cases only the initial injection of capital which started the business should be considered, even if it was relatively insignificant in monetary value.

31 **Loan Use:** under the "household expenses" category, "consumption" refers to the purchase of consumable items and other everyday subsistence expenses (including medical and school fees), while "investment" refers to the purchase of durable items (for example, household appliances), land, and other financial investments.

32 **Training and/or technical assistance:** this refers to substantive training and technical assistance in business management or operations. It should not include training or technical assistance related solely to managing the loan (for example, assistance in filling out loan applications or guidance on how, where, and when to repay the loan) or cases of simple verbal advice.

34 **Other sources of finance:** given the fungibility of resources, it is very difficult to determine the exact amounts invested in a particular enterprise over time. This question focuses on the sources, not the amounts, of finance for the assisted enterprise during the loan period.

35 **Assets of assisted enterprise:** the value of fixed assets may either appreciate or depreciate, often the former in economies with foreign exchange shortages, or import restrictions. It is relatively easy to determine their present value by asking the client to put a reasonable sale price upon them. An alternative approach is to ask the client the initial cost, year of purchase, and life span of the asset. This information can then be used to calculate the current depreciated value of the asset. However, tnis latter method does not capture the "appreciation" effect. Determining the past value of fixed assets in surveys depending on recall is especially difficult. Asking clients to provide a hypothetical resale price at a past point in time is likely to be quite unreliable. The alternative "year of purchase" method, therefore, will probably produce more reliable, if

217

less valid responses. The rule of thumb here is to be consistent in whatever method is used to determine the value of assets.

The value of current assets should be determined by the production cost (not the selling price) of the unfinished products and goods for sale. In cases where cash in the bank and/or cash in hand are mixed with cash from other sources the interviewer should ask the client to estimate the amounts derived from the assisted enterprise. Otherwise -- and this applies to all the financial questions of this kind -- the interviewer must make his or her own judgments on the basis of other information available on the assisted enterprise and the context in which it operates.

36 **Enterprise operating account:** the basis for calculating monthly sales and outlays should be determined by the particular survey. Options for the current account include the previous month, the latest month with complete records, or the monthly average over a particular period of time (especially for enterprises with widely fluctuating sales and outlays). In the case of enterprises which operate on a non-monthly cycle of production and sales, the available figures will have to be converted to their monthly equivalents. The determination of pre-loan accounts should ideally be done on a strictly comparable basis, but may depend on the nature of the baseline information available in program files, any accounts kept by the client, and the quality of the client's recall (see section C.1.2 above). Careful consideration should also be given to the choice of months or periods for comparison. This is particularly important where seasonality is a significant factor -- it makes no sense to compare a high season with a low season or vice versa (see section C.1.3 above).

40-41 **Employees before/after the loan:** "usual pay" is shown here in Kenya shillings (Ksh.). The currency should be changed as appropriate.

42-45 **Members of client's households/other dependent households:** the household can be defined simply as a group of people regularly eating out of the same pot. "Other dependent households" include those which depend on income from, or other assets owned by, the client's household for their survival. Respondents with more than one dependent household would include those with dependent children and/or parents living separately, as well as those with homes in different locations as a result of labor migration or marriage to more than one current spouse. "Unemployed" household members are more likely to be found in urban situations. Rural residents whose primary or sole occupation is working on the family farm fall into the "family worker" category. "Self employed"

28

refers particularly to those operating their own part-time or full-time enterprises.

47-48 **Other enterprises:** in the case of agriculture, different fields/farms should be listed as separate enterprises. For livestock different species of stock should also be listed as separate enterprises.

50 **Sources and amount of household and dependent household income:** where annual totals are available, for example for income from crop sales, they should be converted to a monthly average.

51 **Estimated value of major household assets:** estimate the current value. The main purpose of this question is to see if the total worth of the client's household has increased during and since the loan period.

57 **Backward linkages:** "informal sector micro-enterprises" includes small enterprises with ten or less employees operating outside, or partially outside, the regulatory environment (e.g. enterprises that are not formally registered and/or do not pay taxes).

67-75 **Regulatory environment:** questions on different areas of regulation should be adapted to local circumstances. The list of questions given here is specifically designed for the Kenyan context.

73 **Use of land:** for the definition of "authorized" and "unauthorized" use refer to the note on question 22.

76-77 **Client participation in business/non-business organizations:** the list of organizations under these two headings should also be tailored to local circumstances.

78-84 **Notes and observations:** this section should be filled in by the interviewer on the basis of his or her own independent observations.

In general, interviewers should remember to mark "N/A" for any questions that are not applicable.

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220

BIBLIOGRAPHY

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221

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