EFFECT OF GROUP LENDING MECHANISM ON ENTERPRISE DEVELOPMENT OF RURAL WOMEN IN KENYA. A SURVEY OF KENYENYA DISTRICT, KISII COUNTY-KENYA

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Abstract
Accessing finance has been identified as a key element for MSEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. MSEs in rural areas are involved in microcredit programmes that aid them to access finance easily and timely. Women in rural areas access microcredit as a group rather than individually since they are faced by various challenges. Several studies have been carried out on MFIs performance, neglecting the effect of their (MFIs) mechanisms on the development of their clients (entrepreneurs). This study sought to find out how the group lending mechanisms affect the development of women based enterprises in rural areas in Kenya. The survey research conducted in Kenyenia district, Kisii County used a questionnaire to collect data from 52 respondents. The data was analyzed both qualitatively and quantitatively and presented through frequency tables, bar graphs and percentages. The study found out that the group lending mechanisms were effective in ensuring timely access to funds, instilling supervision and administration traits among the entrepreneurs as well as enhancing enterprise stability and development over time. The study concluded that the mechanisms should be upheld as they ensure increased probability of accessing funds and leads to establishment of essential business linkages/ partners. The study recommended that the step/progressive lending mechanism considers the needs of the women entrepreneurs who may require rapid growth as well as allow maximum autonomy to the entrepreneurs in order to safeguard their business secrets even as they perfect the group monitoring mechanism.

Keywords: Group monitoring, Joint liability/ Group liability, Rural entrepreneurship, Step/Progressive Lending.

1.1 Introduction
The founding of financial institutions in the developing countries whose target groups were supposed to be poorer people and in particular, income generating micro small and medium sized enterprises originated in the industrialized nations. Soon after, western development policy began in the 1950s and 1960s after the donors noted that the investment in infrastructure was insufficient to achieve growth (Narasaih, 2006). The granting of credit in small sums and/or for social purposes is something that has been part of the development of today’s modern societies for quite a while and it is indeed this that led to the rising of microcredit as grants were now directed towards entrepreneurial activities more than social support in a revolving fund format. It is this revolving fund format that gave rise to the formation of microcredit groups and eventual onset of group lending mechanism (Gup, 2003).

Microcredit groups are individuals who form themselves into formal or informal groups on the basis of a common purpose. They are then encouraged to undertake regular savings which are deposited in a microfinance institution (MFI) of their choice. After operating such savings for certain duration they can then apply for a loan from that institution (Mkpado and Arene, 2007). Commonly, MFIs advance their microcredit loans through group lending mechanism. One of the principal distinctive elements is the fact that in third-world countries, microcredit is principally aimed at people and populations who are economically marginalized, but who are not
necessarily so in social terms (Alves, 2008). In economic terms, people can be poor, but they are not necessarily excluded in social terms. Such people live in communities characterized by high levels of social inclusion, at least in rural areas, where a substantial part of the population still live, a case more common in developing countries (Alves, 2008).

Group lending mechanisms refers to the different methods used for the common goal of lending to low-income households that are different from the standard loan contracts. It is the establishment of institutes or networks with a system that would utilize the societal assets of the borrowers in the absence of physical possessions (Khawari, 2004). Previous literature has also established that women and more so from rural areas are the major beneficiaries of this model (Labie & Armendariz, 2011).

Group lending mechanism and microcredit emerged around 36 years ago i.e from 1976 in Bangladesh, in the enlightened hands and mind of Prof. Muhammad Yunus the founder of Grameen bank and a Nobel peace prize winner of 2006 (Narasaiah, 2006). Today, access to financial services for the poor in developing countries is seen as a way of contributing to the achievement of the Millennium Development Goals (MDGs) in many ways (Anderson et al 2002; Mahjabeen, 2008). This mechanism is therefore being replicated by MFIs in many regions all over the world including Kenya (Mornduch & Armendariz, 2010).

1.1.1 Enterprise Development
An enterprise has been defined as a venture which makes, distributes or provides any article or service which other members of the community need and are able and willing to pay for it (Sallemi, 2009). An enterprise as defined by the European Commission, 2005 refers to any entity that is engaged in an economic activity irrespective of its legal form. However, the classification of that enterprise as to whether small, micro or medium lacks a single common global definition (Lee & Harrie, 2002). Different countries use different definitions for a variety of reasons including the level of economic development, prevailing social conditions as well as to scale the terms like small and medium to meaningful levels given the typical size of firms and level of economic activity in the country. However, a number of indexes are traditionally utilized to define SMEs like number of employees, invested capital, total amount of assets, sales volume and production capability. In Kenya, the definition of MSEs is based on employment size. This includes both paid and unpaid workers in the formal and informal sectors (Stevenson & St-Onge, 2005; GoK, 2005).

Enterprise development (ED) involves the aspect of starting, growing and maturity of an enterprise (Brown, et al 2005). Specifically, the development stages of an enterprise include existence, survival, success, take off and resource maturity (Churchill & Lewis, 1986).

The term entrepreneurial development has been defined in various dimensions (Ndechukwu, 2001; McOliver, 1998; Ameashi, 2006). However referring to the productive transformation of an enterprise, a single thread runs through all of them hence ED is the ability to identify business opportunities, the ability to be able to harness the necessary resources to use opportunities identified and the ability and willingness to initiate and sustain appropriate actions towards the actualization of business objectives (Ameashi, 2006).

Enterprise development refers to the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes. It aims to enlarge the base of entrepreneurs in order to hasten the pace at which new ventures are created. This accelerates employment generations and economic development (Ndechukwu, 2001). It focuses on the individual who wishes to start or expand a business as it concentrates more on growth, potential and innovation (Ameashi, 2006).

1.1.2 Rural Women Entrepreneurship
Rural entrepreneurship can be defined as entrepreneurship emerging at the village level which can take place in a variety of fields or endeavours such as trade, industry and agriculture (Otunga, et al. 2001). It acts as a potent factor for economic development. Research has consented that this form of entrepreneurship has a tremendous growth of potential if its peculiar challenges like access to finance are addressed (Khawari, 2004). However, in rural areas access
to finance may itself be a challenge but where MFIs are found, many rural occupants are found risk averse, or for cultural reasons do not like to venture into non-traditional activities while others have a low income perspective and simply do not have the demand for income improving services. Such problems reportedly manifest themselves more profoundly in women, whose access is further limited because of problems emanating from a male-dominated social order (Seibel, 2007).

However, despite the hurdles faced in operating enterprises, especially in the rural areas, women appear to have managed to pull through and provide basic (sometimes secondary) necessities for their families. They have also made great efforts in the development process through the formation of self-help and income-generating groups (Otunga, et al. 2001). In Kenya, most counties are still predominantly rural (Kenya county fact sheet 2011). The 1999 National MSE Baseline Survey reported that almost two-thirds of all MSEs are located in the rural areas and only one-third are found in urban areas (even when urban areas are defined to include small rural towns) (ILO, 2008).

1.1.3 Study Population
The study was conducted among micro women entrepreneurs in Kenyenya District, a rural area (Kisii County has only 23% of its population in urban areas (KNBS, 2010)) and one of the districts in Kisii County. The district is one of the most densely populated districts in the county having a total population of 107,199 and occupying an estimated area of 115.10 square kilometers (KNBS, 2010). The estimated numbers of poor individuals in the district are 67,535 hence representing a poverty level of 63% (CBS, 2007). The area derives most of its livelihood from agriculture since it has a rich agricultural hinterland producing tea, bananas and sugarcane crops meant for both subsistent and commercial purpose as well as other trade activities.

The traders in the area are mainly ancestral occupants’ with deep rooted family ties making the town less cosmopolitan. The major sources of funds among the women entrepreneurs in the district include; a microfinance institution namely Kenya Women Finance Trust (KWFT,) Government fund commonly referred to as Women Enterprise Fund which is administered through the ministry of gender and social services (MG&SS), Savings and Credit Cooperative Societies (SACCOs) namely Borabu, Wakenya Pamoja and Ogembo Tea SACCOs and a number of informal sources of financing including rotating savings and credit associations (ROSCAS).

Most of the women traders’ access credit from these sources of finance mostly through their group lending programmes. The district hosts several formal and informal activities including cereals, second hand clothes, retail shops, green grocers and M-pesa ventures among others mostly operated by women and benefits from a thriving entrepreneurial culture which has given rise to several micro, small, medium and large scale enterprises. Entrepreneurship in this district is said to play a great role on reducing dependency, generating employment opportunities, and a significant contributor to the district's economy.

1.2 Statement of the Problem
Across developing countries, micro, small and medium enterprises (MSMEs) are turning to microfinance institutions (MFIs) for an array of financial services, the most common being microcredit (CGAP, 2006). This is because microcredit is acknowledged as one of the prime strategies to achieve the 1st and 3rd Millennium Development Goals (MDGs) namely eradication of extreme poverty and hunger and promotion of gender equality and empowering women. This is because access to sustainable financial services enables enterprise owners to finance income, build assets, and reduce their vulnerability to external shocks (Ehigiamusoe, 2005). The MFIs employ group lending mechanism to meet the demands of these entrepreneurs.

According to Daniels et al, 2003, finding start-up finance for an enterprise is the biggest hurdle that many entrepreneurs go through. Even after getting started, getting sufficient finance to sustain enterprise growth, development and financial stability is also a challenge. Kulshrestha (2000) identified the lack of capital as a major constraint to the development of women owned enterprises in rural areas. However, the emergence of group lending mechanism as practiced widely by MFIs has eased the challenge of access to finance in rural areas (Anderson and Locker 2002; McKernan 2002 and Hermes et al 2005).
Given that the finance constrain among rural women entrepreneurs has been significantly eased by the emergence of group lending mechanism practiced by the MFIs (Hermes et al (2005), there exists a need therefore to establish the effects of this mechanism on the development of enterprises run by the rural women. This is indeed a challenge because most studies focusing on the aspect of group lending mechanism have their focus on the achieved performance and development of the microfinance institution (MFIs) (Chijoriga, (2000); Conford, (2001) and Pilipinas, (2002)). Whereas this is important, an understanding of the development of their (MFIs) clients is equally critical. This study therefore sought to find out the effects of group lending mechanism on women entrepreneurial development in rural areas.

1.3 Overall Objective
The main objective of the study was to find out the effects of group lending mechanism on enterprise development of rural women.

1.4 Specific Objectives
This study sought to achieve the following objectives:
1. To find out the effect of joint liability on enterprise development of rural women
2. To determine the effect of group monitoring on enterprise development of rural women
3. To find out the effect of step/progressive lending on enterprise development of rural women

1.5 Research Questions
This study sought to answer the following questions:
1. What are the effects of joint liability on enterprise development of rural women?
2. How does group monitoring affect enterprise development of rural women?
3. How does step/progressive lending affect enterprise development of rural women?

1.6 Justification of the Study
This study is justified because: It will guide the microfinance institutions in designing appropriate and relevant policies aimed at improving the overall enterprise development and the entrepreneurs’ welfare. It will provide information and knowledge to the policy making organs of the Government on the possible ways that the rural women enterprises can benefit from the adopted group lending mechanism and improve their financial performance which similarly will improve the economic benefits of the country. It will be significant to scholars who will find it useful in accessing information on the effects of group lending mechanism on enterprise development of women in rural areas. It will act as a guide to the researchers on the basis upon which further studies will be carried out on the broad subject of group lending and enterprise development.

1.7 Scope
The overall objective of this study was group lending mechanism and enterprise development of rural women in Kisii County. Specifically, the study concentrated on 3 mechanisms namely; joint liability, group monitoring and step/progressive lending. The study also concentrated on the micro entrepreneurs in 5 major lines of enterprises namely; cereals, second hand merchandise, retail shop, green grocers and M-pesa (local money transfer service) enterprises. The study was conducted among micro women entrepreneurs in Kenyenya District of Kisii County in Kenya. The study was limited to the stated scope due to the limitations that the researcher experienced. These were mainly the nature and availability of the information sought and methodological challenges including pilot testing.

1.8 Limitations
The major limitations of this study included: lack of willingness among respondents to diverge information due to sensitivity of the matter, availability of the respondents due to their busy schedule was also a challenge. Methodological constraint on obtaining the most representative sample to produce generalizable results of the study was also a challenge.
To minimize the effects of these limitations, the researcher organized to meet the respondents at their enterprises during off peak days to seek for information. The researcher also verbally assured the respondents on confidentiality of the information sought besides clearly marking the same on the questionnaires. The researcher closely involved microcredit oriented group leaders for guidance and support while obtaining the appropriate respondents. Pilot testing also assisted the researcher to overcome reliability and validity challenges.

**LITERATURE REVIEW AND CONCEPTUAL FRAME WORK**

**2.1 Enterprise Development**

The concept of entrepreneurship has a wide range of meaning. It has been debated among scholars, educators, researchers and policy makers since early 1700s when it was established. It is very difficult to give unanimous definition of entrepreneurship. It is an elusive concept according to McQuaid 2002. Kearney (1996) as quoted by Afrin, et al (2008), defined an enterprise as the capacity and willingness to initiate and manage creative action in response to opportunities or changes, wherever, they appear, in an attempt to achieve outcomes of added value. These outcomes can be personal, social and cultural. Typically enterprise involves facing degrees of difficulty or uncertainty. The associated risks are not necessarily financial but may be physical, intellectual or emotional (Afrin, et al, 2008). An enterprise therefore can be defined as anything new created through value addition and devotion of time and resources to achieve monetary rewards and personal satisfaction (Navajas, et al 2000).

The common themes found in the definitions of entrepreneurship include: the entrepreneur, innovation, organization, creation, value creation, opportunity taking, profit or non-profit, growth, uniqueness, process, flexibility, dynamic, creative, and risk taking (Afrin et al, 2008; Sallemi, 2009). According to Ahmed and McQuaid (2005), these themes can be put into overlapping typologies to set out a perspective on what is meant by entrepreneurship: (i) an economic function (ii) a form of behaviour (iii) a set of characteristics (iv) a small business (v) and the creation of wealth (Ahmed & McQuaid 2005).

There are 3 broad classifications of enterprises namely micro, small and medium enterprises although this lacks a common global definition (Lee & Harrie, 2002). Countries use different definitions for a variety of reasons depending on the phase of economic development, prevailing social conditions as well as to scale the terms like small and medium to meaningful levels given the typical size of firms and level of economic activity in the country. However, a number of indexes are traditionally utilized to define SMEs like number of employees, invested capital, total amount of assets, sales volume and production capability (European Commission, 2005). In Kenya, a micro enterprise is defined as having no more than 10 employees; a small enterprise with 11-50 employees; and a medium enterprise with more than 50 employees (Stevenson & St-Onge, 2005).

According to OECD (1995) as quoted by Stevenson (2010), development is fundamentally about people releasing and harnessing their productive potential and satisfying their human need and desires. This is through diverse activities ranging from entrepreneur and financial freedom. It refers to a business sector having an enhanced competitiveness, skills and productivity (Stevenson, 2010). Enterprise development is therefore having an interaction of forces combining together to create opportunities for growth. Such forces include: markets, customers, relationships and finances (Alves, 2008).

It is evident that some definitions of entrepreneurship are concerned with business development aspects of an entrepreneur (Ahmed & McQuaid 2005). These business development aspects could be defined by seeking opportunity and taking initiative for establishing new business venture and creating wealth.
Theories of the Study

2.2.1 Theory of Group Level Pattern
This theory as advanced by Frank Young is a sociological theory of entrepreneurship aiming at expounding the sociological factors that accelerate the growth and development of entrepreneurship. According to Young, an entrepreneurial initiative is a function of group level pattern. This theory suggests a casual sequence where transformation codes are developed by the solidarity groups to improve their symbolic position in their larger structure and thus become entrepreneurs (Mohanty, 2005). Solidarity groups are the main agencies for building entrepreneurship. Young mentioned that the entrepreneurial characteristics are found in clusters, ethnic communities, occupational groups and politically oriented functions. This theory disregards the single-handed concept of entrepreneurship, that entrepreneur works single handedly or solely (Afrin et al, 2008). Entrepreneurial activity is the product of the family background, experience and exposure of an individual as a member of a group. The solidarity of the groups reduces a number of economic problems through the device of recombination of factors related to production, higher standards of labour, new technology and markets and more effective management of time and money (Mohanty, 2005).

2.2.2 Theory of Entrepreneurship Supply
This theory was advanced by John H. Kunkel. According to him, psychological and sociological variables are the main determinants for the emergence of entrepreneurs. Entrepreneurial talent can be found in minorities, religious, ethnic and displaced elites who in most cases are the ones who supply entrepreneurism in the society (Rowe, 2009). Kunkel contemplated that entrepreneurism is dependent of demand, limitation, labour and opportunity structures. He also noted that entrepreneurial supply is concerned with overtly expressed activities of individuals and their relations to the previously and presently surrounding social structure and physical conditions (Mohanty, 2005).

2.2.3 Harvard School Theory
This theory as expounded by the Harvard school is among the economic theories of entrepreneurship. Harvard school contemplated that entrepreneurship involves any deliberate activity that initiates, maintains and grows a profit-oriented enterprise for production or distribution of economic goods or services, which is in consistent with internal and external forces (Coleman, 2002). Internal forces refers to the internal qualities of the individual such as intelligence, skill, knowledge, experience, intuition, exposure e.t.c. these forces influence the entrepreneurial activities of an individual to a great extent. External forces refer to the economic, political, social cultural and legal factors which influence origin and growth of entrepreneurship in an economy. As such an entrepreneurial activity needs an environment conducive to its growth and development (Rowe, 2009; Coleman, 2002).

In connection to the concept of group lending, the Harvard School Theory emphasizes on the entrepreneurial activities whereby an entrepreneur functions like an organization through combination of resources for creating viable enterprises, a situation which is best supported through group participation especially among rural women entrepreneurs.

2.2.4 Papanek and Harris’ Theory
Economists G.F Papanek and J.R Harris are the proponents of this theory. According to them, when certain economic conditions are favourable, entrepreneurship and economic development
will take place. Such economic incentives are the integral factors that have induced entrepreneurial activities and initiatives (Pardeshi, et al, 2007; Mohanty, 2005). Economic incentives are the basic traits which drives the entrepreneur to take up entrepreneurial activities and to bring about success and entrepreneurial development. According to Papanek and Harris, it is the inner urge coupled by the desire of an economic gain that give rise to entrepreneurial development (Mohanty, 2005).

2.3 Conceptual Framework

![Conceptual Framework Diagram]

Independent Variables | Dependent Variable
---|---
Joint Liability | Enterprise Development
Group Monitoring | 
Step/Progressive Lending | 

Fig 2-3. Conceptual Framework

Access to finance is an integral component in any enterprise. Accessing finance has been cited as a major constraint among entrepreneurs and more so women (Daniels et al, 2003; Kinyanjui & Munguti (1999) as quoted by St-Onge & Stevenson, 2005). This challenge is even more severe to women entrepreneurs in rural areas (Atieno, 2001). To address this challenge, microfinance institutions (MFIs) and microcredit programmes have developed group lending mechanism to essentially address the credit needs of the un-served and underserved entrepreneurs in the society (Ledgerwood, 1998). The ultimate goal of these institutions is to promote and enhance enterprise development in these markets (Hulme, 2000).

According to (Labie & Armendariz, 2011), group lending mechanism employs various parameters. Such features include: use of informal groups lending approach, joint/group liability, character based credit appraisal, group monitoring, step/progressive lending, structured weekly repayments and compulsory savings policy. All these features are aimed at creating an enabling environment for both the institutions and the enterprise to lend and borrow finances respectively. The MFIs employ this mechanism with an aim of enhancing enterprise growth and development.

This study however focused on 3 key characteristics of this mechanism namely: joint liability, group monitoring and step/progressive lending.

Due to lack of asset collaterals by the women entrepreneurs especially in rural areas (Mkpado & Arene, 2007), lending to them depends on the trust of the credit group members to enforce repayment. It is this dependence on all group members to enhance good loan repayments and collective collateral in form of trust and savings from the group members that is commonly referred to as joint liability. This group lending factor directly relates to enterprise development because the system creates excessive pressure and places high financial burden on members in case of default (Gine & Karlan, 2009).

Paxton et al. (2000) notes that microcredit groups are formed based on homogeneity in ethnicity, occupation, income etc. According to Wydick (1999), members’ knowledge of the individuals’ enterprise performance is the variable assumed to measure monitoring activities within groups. As the group members may lose access to future credit in case the group defaults, they have an incentive to monitor each other and to enforce debt repayments by threatening with social sanctions (Wycklam & Wedley, 2003). However, this may pose a challenge especially to groups that are constituted in a homogeneous manner and hence this aspect will directly affect their enterprise development.
In progressive lending, a typical borrower receives very small amounts at first, which increases with good repayment conduct or it links new, larger loans to past repayment (Hulmes & Mosle, 1996). This feature applies when the disbursement of additional loans is made conditional on the entrepreneur having met easily verifiable conditions directly connected to the previous project (Egli, 2004). The age of the group, savings and credit access, institutional and financial sustainability of the group are the major determinants of progressive lending (Shetty, 2009) and such directly affecting the development of an enterprise.

2.4 Joint Liability
This aspect of group lending came into practice in the 19th century through the German co-operatives. It was later introduced into the microfinance movement in the 1980s by the Grameen Bank in Bangladesh (World Bank, 2008). Joint liability, also known as group liability refers to the terms of the actual credit contract, whereby individuals are both borrowers and simultaneously guarantors of other clients’ loans in the same credit group (Armendariz de Aghion & Morduch 2005). Group liability purports to improve repayment rates by providing incentives for peers to screen, monitor and enforce each other’s loans (Hermes, et al 2005). This contract is aimed at reducing monitoring and enforcement costs and thus allowing lower interest rates among borrowers. These lower rates should reduce the repayment burden and result in less credit rationing (Hermes, et al 2005).

The term joint liability can be interpreted in several ways, which can be lumped under two categories according to Savanti and Ross (2005). First, under explicit joint liability, when one borrower cannot repay her loan, group members are contractually required to repay in her stead. Such repayments can be enforced through the threat of common punishment, typically the denial of future credit to all members of the defaulting group, or by drawing on a group savings fund that serves as collateral. Second, the perception of joint liability can be implicit. That is, borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract does not specify this punishment (Savanti & Ross, 2005).

The common idea among MFIs is that joint liability can help alleviate the major problems facing lenders. These include screening, monitoring, auditing, and enforcement through utilizing the local information and social capital that exist among borrowers. In particular, joint liability can do better than conventional banks for two reasons. First, members of a close-knit community may have more information about one another (that is, each other’s types, actions, and states) than outsiders. Second, a bank has limited scope for financial sanctions against poor people who default on a loan, since, by definition, they are poor (Hermes et al (2005). However, their neighbours may be able to impose powerful non-financial sanctions at low cost (Savanti & Ross, 2005). Joint liability may also be used as part of a screening mechanism to mitigate the problems created by adverse selection. By drawing on local information networks group lending enables the financial institutions to separate low risk from high risk borrowers (Gine & Karlan, 2009).

The emergence of innovative joint liability lending models in microfinance is celebrated as a contractual innovation that has achieved the perceptible miracle of enabling previously un-bankable or marginalized borrowers to lift themselves up by their bootstraps and create ‘social collateral’ to replace the missing physical collateral that excluded them from access to more traditional forms of financial services, like credit, savings, etc (Conning, 2000). Thus, the emergence of innovative joint liability microfinance models in financial intermediation has created new hopes for the poor, who are otherwise un-bankable in the perception of formal financial institutions besides its pitfalls and demerits (Laffont & Rey, 2000).

Besides all the merits and positive impact of joint liability tenet of microcredit, the community has learned about some of the pitfalls of group liability lending. According to the Business and Management Review Journal (Vol 1, July 2011), joint liability has the following demerits. First, clients dislike the tension caused by group liability. Excessive tension among members is not only responsible for voluntary dropouts but worse still, can also harm social capital among members, which is particularly important for the existence of safety nets. Second, bad clients can “free ride” off of good clients causing default rates to rise. In other words, a client does not repay the loan because she believes that another client will pay it for her, and the bank is near indifferent because it still gets its money back. Third, group liability is more costly for clients
that are good risks because they are often required to repay the loans of their peers. This may lead to higher dropout and more difficulty in attracting new clients. Finally, as groups mature, clients typically diverge in their demand for credit. Heterogeneity in loan sizes can result in tension within the group as clients with smaller loans are reluctant to serve as a guarantor for those with larger loans.

2.5 Group Monitoring

Microfinance institutions require this group formation as a collateral or insurance for microcredit. The effectiveness of the social networks depends on network diversity, network size and relationship strength or bonding; and social capital provides business information, resources, social supports, and professional information and advice to new or existing enterprises (Allen, 2000; Mohamed et al., 1997; Tata & Prasad, 2008). Soon after the members receive the loan, they have to monitor each other to make sure that every member has invested the loan in a safe project that will guarantee repayment by the peer. Members make use of their social ties and local networks to acquire the necessary information and create social sanctions and bring pressure on non repaying members (IFPRI, 2001).

To secure future access, members are obliged to monitor each other. The social collateral (systems) or ties constitutes a powerful device to reinforce repayment among group members (Healey, 2005). Thus in a group lending contract, the functions of screening, monitoring and enforcement of repayments are to a large extent, transferred from the financial institution to the group members.

The significance of peer monitoring in improving repayments in group credit is highlighted by a number of authors. Stiglitz (1990), for example, observes that the major problem facing MFIs is ensuring that borrowers exercise prudence in the use of the funds so that the likelihood of repayments is enhanced. Stiglitz notes that a partial solution to this problem is peer monitoring i.e giving neighbours or group members the responsibility to monitor each other. The incentive for peer monitoring comes from the fact that peers are supposed to pay loans for any defaulting group members (IFPRI, 2001) That is, responsibility of certain tasks has been shifted from lender to clients (Gine & Karlan, 2009) due to its high transaction cost (Hedges et al 2007).

On the part of entrepreneurs, group monitoring aids access to new ideas, information and resources for business performance (Tata & Prasad, 2008) through social interactions and linkages both within and outside the group. This is a vital source of social capital whose effect on the business development of women entrepreneurs has been widely measured in the literature and found to be positive (Allen, 2000; Kickul, et al, 2007; Mohamed et al, 1997; Reavley & Lituchy, 2008).

Ghatak (2000) noted that borrowers’ use of information about each other’s projects can lead to self selection of group members and positive assortative matching in group formation (i.e. members select others of the same risk type, forming homogeneous groups). In this way, local knowledge serves as an effective screening and monitoring mechanism, where “good” borrowers can be matched up with other “good” borrowers, and interest rates obtained can be low enough to induce good types into the credit market. “The resulting improvement in the pool of borrowers is shown to increase repayment rates and welfare”. Peer screening has also been said to be the most important mechanism through which group monitoring and joint liability works (Ghatak, 2000; Cumming, 2012).

2.6 Step/Progressive Lending

The group lending mechanism works with various dynamic incentives. One such kind is the principle of progressive lending. Progressive lending is a staple of the ‘classic’ Grameen bank model. It refers to the practice of promising lager and lager loans for groups and individuals in good standings (Mornduch& armendariz, 2010). A typical borrower receives very small amounts at first, which increases with good repayment conduct or it links new, larger loans to the past
repayment (Hulmes & Mosley, 1996). Through this mechanism, loan sizes are increased over time on a condition pegged on the repayment histories (Besley & Coate, 1995). This is a strong incentive to the borrower to make her pay back her debts and thus making monitoring and screening enforcement unnecessary. Similarly, making borrowers start with small amounts makes selection process less costly for the MFI since new clients can be ‘tested’ before giving them much money. A repeated action of this aspect establishes a long-term relationship between the two parties hence developing confidence and enterprise stability over time.

The offer of future credit serves as a powerful incentive for a micro entrepreneur trying to develop her business. In this scenario, a borrower will default only if her current income is greater than her future expected profits. With a small initial loan for a beginning entrepreneurial venture, this is unlikely. To further increase the likelihood of repayment, MFIs use dynamic lending, in which the size of the loan is gradually increased with each successive loan repayment. Now, the expected future profits are almost certainly greater than current earned income because the size of the loan continues to grow.

However, this mechanism is based on the household steady and diversified income streams rather than the project itself and its particular riskiness. This therefore limits its usefulness on certain populations (Morduch & Armendariz, 2010). It can also feed a cycle of debt especially if a group member is struggling to fully repay her loan. This is because she will turn to another source e.g family, peer e.t.c to borrow and clear the existing facility with the promise of another one. This is more especially when the incentive is paired with such restraints as in group liability (Roodman, 2012).

This mechanism therefore can only work best where there is little competition and little alternative source of credit supply (Navajas et al, 2003). Further it works only as long as borrowers expect that the lender keeps working in the future and the expected group solidarity.

2.7 Empirical Framework

In the world of microfinance, microcredit plays a unique role in the war against poverty. It seems to have a greater and more direct impact on the beneficiaries, given that it fosters economic activities for revenue generation by using small amounts of money. The approaches used to get the guaranteed repayment probably represent the most innovative and original facet of microcredit compared to conventional credit risk mitigation policies (Stiglitz, 1990). Hence, microcredit has had to develop by using alternative or unconventional forms of guarantees. These include developing and transforming into collateral all those intangible assets that the poorest people have and the sense of belonging to the same community and the reciprocal solidarity. Consistent with such an idea, the main risk mitigating methodologies used are joint liability of group lending, group/peer monitoring and dynamic incentives (Hulme & Mosley, 1996).

The effect of group liability on group loan repayment has been measured and found positive (Gine & Karlan, 2009). Wydick (1999) and Hermes et al (2005) assesses the incidence of moral hazard among credit groups in Guatemala and provides evidence that joint liability works because of social cohesion and better information flow. Besely and Coate (1995) noted one potential cost of joint liability where it might sometimes lead to default. This would be instances where the whole group may fall into default because one or the few partners remaining may not be able to pay off the loans of the others and still manage their own loans and more so the incentive of future loans will not be there. Frequent repayments and small repayment amounts as brought about by progressive lending may ease off this challenge.

Diagne (2000) empirical findings from Malawi, showed a negative impact of joint liability on repayment performance of MFI programme studied in that, it is not the aspect of joint liability that ensure repayment of a facility rather it is a promise to access future facilities (progressive lending). Gine and Karlan (2009), made an analysis of individual and joint liability contracts of a large philippines’ bank clients. They found that loan repayment behaviour did not differ across the contracts. Though the borrowers were already borrowing under joint liability contract hence it can be assumed that they were already accustomed to tough aspects of the group lending.
However, Gine and Karlan (2009) concluded that removing the aspect of joint liability would not make a difference because peer screening is the most important mechanism through which joint liability works.

Morduch and Armendariz (2010) observed that MFIs in Latin America had through the principle of joint liability expounded the boundaries of financial markets in the continent. This is because the concept of moral guarantee to substitute physical collaterals where group members are accountable to one another for repayments had indeed modified the concept of creditworthiness.

In developing countries, social capital has been widely measured and found to have a positive relationship with the development of women enterprises (Brata, 2004; Lawal et al., 2009; Mkpado & Arene, 2007; Olomola, 2002). Mkpado and Arene (2007) measured social capital on microcredit groups (male and female) in Nigeria. A survey of 54 micro credit groups and two micro finance institutions were selected through purposive and then stratified random sampling in Imo State of Nigeria in 2005. Using descriptive statistics and multiple regression analysis, the study found that strong social ties aid group’s loan repayment and survival, and that savings mobilization and group’s loan repayment depends on the frequency of meetings attendance. Wydick (1999) analyzed the effect of social ties, peer monitoring and group pressure on the provision of intra-group insurance, the mitigation of moral hazard and overall group repayment performance in 137 Guatemalan groups. The success of group lending appears to be driven by peer monitoring and intra-group insurance.

Mohamed, et al (1997) measured social capital on women entrepreneurs’ performance in Malaysia and found that women entrepreneurs had high network diversity as they included men in their networking activities. It was also found that they actively participated in their networking activities, than men, to ensure business development. For example, in a space of six months, women entrepreneurs averagely discussed their business with nine people while men discussed with five people. Again, there was no difference between men and women regarding network bonding. The study showed positive effect of social capital on women entrepreneurs’ performance.

Social capital had positive impact on microcredit group performance in Nigeria (Mkpado & Arene, 2007; Olomola, 2002) and group performance in Philippines (Gine & Karlan, 2009). Social capital also had positive impact on credit access in Indonesia and Nigeria respectively (Brata, 2004; Lawal et al., 2009). There was positive impact of social capital on women enterprise performance in Malaysia, USA and Canada respectively (Mohamed et al., 1997; Tata & Prasad, 2008; Wycklam & Wedley, 2003). Wenner (1995) examined the determinants of performance of 25 Costa Rican credit groups. He found evidence that the use of ‘inside’ information on character attributes, such as credit worthiness, in credit groups reduces the incidence of default by individuals. Repayment performance was better in groups engaged in active screening and monitoring of their members (Wenner, 1995).

According to Morduch (1999), progressive lending is the distinctive feature for leading microfinance programs in the world like Grameen Bank, Banco-Sol, Bank Rakyat, Badan Kredit Desa, and FINCA Village Banks. The empirical results from these programmes showed that progressive lending not only exists, but loans also seem to increase substantially over time. The study by Kevane and Wydick (2001) on Guatemala’s Fundacion para el Desarrollo Integral de Programas Socioeconomicos (FUNDAP) reported that the mean loan size increased from US$ 1,033 for the first loan to US$ 1,916 for the last loan among the respondents. A field study by Robinson (2001) carefully described the features of 18 loans in different countries and programmes. Twelve of these projects showed progressive lending, with amounts rising up to 200% of the initial loan. The practice of repeat loans with higher doses of credit is followed by SHGs in their group lending thereby enticing prompt repayment. Robinson (2001) observed that across the loan cycles, the average loan amount increased showing that groups not only accessed a continuing series of loans but also the size of the loan increased over the loan cycles. In India for example, for the total sample collected the mean loan size increased from Indian Rupees (Rs.) 17,560 for the first loan cycle to Rs. 1,22,640 for the sixth loan cycle. Hulme and Mosley (1996) established the relationship between group lending features and repayment rate based on a survey sample of 13 MFI programmes. Through regression analysis, they noted that progressive lending has appositive impact on repayment performance. Edgecomb
and Barton (1998) argue that higher loan sizes and term not only permit to develop the borrower repayment ability but are also more valuable for his/her economic projects as they tend to develop a more sophisticated relationship between the microfinance programme and its clients.

2.8 Critique of the Review

From the review of literature that relates to the study, it has been noted that a lot of knowledge has been neglected or over emphasized. Much of the available literature has pointed out that group lending mechanism is meant for the absolute poor communities, where borrowers are extremely poor. This could be misleading since other borrowers opt to join the programme as they lack physical requirements like collateral that mainstream financial institutions often require or the timely access of funds tied to the group lending mechanism. Similarly, most of the studies focus on the effect of group lending mechanism on the repayment of the facilities sought and not any other aspect of the enterprise like growth and development or the entrepreneur herself. It is also worth noting that most authors focus on the performance of MFIs i.e the effect of group lending mechanism on the performance of MFI programmes and hence being imbalanced since their clients (entrepreneurs) are of no much concern.

In most studies, a number of authors do not differentiate on different group lending mechanism and so refer to them collectively under joint liability only hence causing confusion and a mix up where these different aspects are meant to be interchanged. Similarly, more emphasis is placed on certain aspects of group lending mechanism namely joint liability and progressive lending, the other aspects have had little or no much review about them both theoretically and empirically. There is also notable much emphasis on financial aspect of microfinance as compared to other aspects like savings and insurance yet much reference is on MFI institutions. This therefore leads to the aspect of microcredit being given more concern. The term microcredit has also been widely interchanged with the term microfinance which actually is a broader concept.

It has been observed that there exists much literature on the whole of aspect of group lending methodology in the early years i.e 1990s upto 2005. Many authors concentrated their review around this period. However, it has been noted that thereafter much focus is moving to individual lending contracts especially in semi-urban areas. Similarly, there has been noted flexibility in repayment terms of credit under this mechanism where previous weekly repayments have advanced to even bi-weekly or monthly repayments for higher amounts advanced through progressive lending.

2.8.1 Research Gaps

It is evident from the most of the studies conducted on group lending mechanisms have their focus on the achieved development of the micro finance institution (MFIs) that offer microcredit. Whereas this is important, an understanding of the development of their (MFIs) clients is critical. This is because the success and sustainability of the programme would depend on its evidenced impact on the beneficiaries.

It has also been noted that most of the studies conducted on the joint liability mechanism of group lending mostly focus on its ability to enhance repayment of loans. Similarly, more studies documented regarding joint liability focus on its negative effect to the individual group member. Very few known studies have been conducted on joint liability as a reliable and efficient manner of accessing microcredit among rural women entrepreneurs. In some studies, there has been no clear distinction between the principles of joint liability and group monitoring even in the definition.

Finally, according to most studies, microcredit programmes are a target to the poor and mainly aim at alleviating poverty. To the researcher’s knowledge, very few studies have been conducted to determine the effect of microcredit programmes on the rural women entrepreneurs whose challenge may not only be poverty but they are also geographically and culturally challenged.
RESEARCH METHODOLOGY

3.1 Research Design
The study employed the survey research design. This research design was appropriate for the study as it aided the researcher to collect original data from a very representative and objective sample drawn from a large population hence drawing correct conclusions. According to Mugenda and Mugenda (2003), a survey is an attempt to collect data from the members of a population in order to determine the current status that is, behaviour, perception and attitude of that population with respect to one or more variables. It is the best method of collecting original data for the purposes of describing the population which is too large to observe directly ((Mugenda & Mugenda, 2003).

3.2 Population
The target population of the study included rural women entrepreneurs running both formal and informal enterprises in Kisii County. The study population was the rural women running cereals, second hand clothes, wholesale/retail, green grocers and M-pesa (Local money transfer service) micro enterprises in Kenyenya District of Kisii County. According to the data gotten from the County Council of Gusii, there are approximately 27,993 entrepreneurs in Kisii County. Data gotten from the ministry of gender and social services, Kisii County estimates that there are approximately 216 women groups which are entrepreneurial oriented in the County (MG&SS). In Kenyenya district, there are a total number of 64 registered women groups. Out of these, 17 groups are engaged in non-entrepreneurial activities. The study therefore targeted 47 women groups in Kenyenya district whose mandate is entrepreneurial development. The distribution of women groups in Kenyenya district is tabulated in table 3-2.

Table 3-2 Distribution of Women Groups in Kenyenya District

<table>
<thead>
<tr>
<th>Group mandate</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial oriented groups</td>
<td>47</td>
<td>73</td>
</tr>
<tr>
<td>Women welfare oriented groups</td>
<td>17</td>
<td>27</td>
</tr>
<tr>
<td>Total no. of Women groups</td>
<td>64</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Ministry of Gender and Social Services, Kenyenya District

3.3 Sample and Sampling Technique
As indicated in table 3-2, there are 47 women entrepreneurial oriented women groups in Kenyenya district. Each of these women group is estimated to have 15 members on average. However, data gotten from the group leaders indicated that on average 4 members in a group engage in entrepreneurial businesses that are not among the stratified ones. The study population therefore targeted 517 women entrepreneurs in Kenyenya district.

The researcher took 10% of the study population to comprise the sample size. This resulted to a total sample of 52 respondents who were among the cereals, second hand clothes, wholesale/retail, green grocers and telecommunication micro entrepreneurs in the district. This was so because according to Mugenda and Mugenda (2003), a representative sample is one that is at least 10% to 20% of the study population.

The researcher employed the probability sampling method where the stratified random sampling technique was used to select the respondents. The use of this technique was aimed at allowing all elements in the population equal chances of inclusion in the resultant sample (Dillion & Hardaker, 1993) and also helping in eliminating bias (Kothari, 2009). This sampling technique also enabled the researcher to generalize the findings and draw conclusions.
### Table 3-3 Sample Size

<table>
<thead>
<tr>
<th>Entrepreneurial activity</th>
<th>Target population</th>
<th>Sample size</th>
<th>Sample size%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>141</td>
<td>14</td>
<td>27</td>
</tr>
<tr>
<td>Second hand clothes</td>
<td>104</td>
<td>11</td>
<td>21</td>
</tr>
<tr>
<td>Wholesale/retail</td>
<td>113</td>
<td>11</td>
<td>21</td>
</tr>
<tr>
<td>Green grocers</td>
<td>90</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>69</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total no. of Women groups</strong></td>
<td><strong>517</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

### 3.4 Data Collection Method

The study used the data collected from both primary and secondary sources. The main primary source was a questionnaire administered to the respondents. The questionnaire used in the study was designed to include both structured and non-structured questions. This was aimed at easing the analysis of collected data as well as permitting a greater depth of response (Mugenda & Mugenda, 2003). The primary data was sought due to its nearness to the truth and ease of control over errors (Copper & Schindler, 2003). Secondary sources on the other hand included information and data gotten from the journals, books and internet, ministry of gender and social services and county council offices.

### 3.5 Pilot Study

Pilot study is a component in the data collection process and a crucial element of a good study design. It is a small-scale trial run of all the procedures planned for use in the main study (Monette et al., 2002) as well as the specific pre-testing of the research instrument to be used in the study. This study was necessary for it was an opportunity to test hypotheses; it gave an allowance for checking statistical and analytical procedures; it was a chance to reduce problems and mistakes in the study and led to the reduction of costs incurred by inaccurate instruments (Isaac & Michael, 1995). Moreover, the researcher did seek information from the participants in the pilot study to determine the degree of clarity of questions and to identify problem areas that need attention (Neuman, 1997).

The researcher carried out a pilot study through administering the research questionnaire to 10 randomly sampled respondents who were not among the sample in the actual study respondents. This sample size was justified because Hertzog (2008) and Hill (1998) suggested that 10 to 30 participants are sufficient for pilot study in survey research. The data collected was then analyzed qualitatively. To check the reliability and validity of the collected data, the data collection instrument was piloted again after rectification and modification to the same respondents of the pilot sample (Mugenda & Mugenda 2003).

### 3.6 Data Analysis and Presentation

Planning on how to analyze data, determining a coding system, data cleaning and tabulation were carried out as part of the pre-analysis activities. This was meant to ensure that data is presented in a desired and appropriate manner, help keep track of the processed questionnaires as well as aid in speeding up the data entry process (Bogdam & Bilken, 1999). The final data was then analyzed both qualitatively and quantitatively.

The study data was analyzed through the Excel computer application packages. The results were then presented using frequency distribution tables, percentages and bar charts so as to clearly show the trend of the distribution (Mugenda & Mugenda 2003).
DATA ANALYSIS, PRESENTATION AND RESULTS

4.1 Background Information
1. The data obtained through the questionnaire was first checked for completeness. The 52 filled questionnaire were coded and all the data and analyzed through the Excel computer package to generate results. Visual aids in form of frequency tables, Bar graphs and pie charts were used to present the results.
2. The study data was analyzed under three key categories which consequently constituted the objectives and variables for the study; these categories were joint liability, group monitoring and step/progressive lending and their effects on business development.

4.2.1 Business Type
1. As illustrated in figure 4-2-1, a majority of the respondents (27%) operates cereals businesses while 17% of the respondents operate green groceries. The retail shop and second hand merchandise entrepreneurs each consisted of 21% of the respondents. M-pesa (local money transfer service) business consisted of the least number of respondents at 14%.
2. The area of study is generally a rural area with a rich agricultural hinterland. Cereals and green grocery enterprises had a higher number of respondents given this geographic location. However, trading enterprises are also in existence to support a harmonious living environment.

![Figure 4-2-1: Distribution of Women Enterprises in Kenyenya District](image)

4.2.2 Business Experience
1. The study as illustrated in figure 4-2-2 indicate that, a majority of respondents involved in group lending mechanisms (42%) have been in business for a period between 1-2 years. 37% of these women entrepreneurs have 3-5 years business experience while 15% have been in business for over 5 years. Only 6% of the respondents had less than 1 year experience in business.
2. Most of the women entrepreneurs in Kenyenya district start from a humble beginning. After the start-up stage, the women then seek funds to develop their enterprises as they now have their business plans in place. As they age in business (above 5 years), their enterprises also grow to small and even medium enterprises. At this point, the study found out that many women entrepreneurs outgrow the group lending mechanism leaving it to the micro and or inexperienced entrepreneurs.
3. These findings confirm that majority of the women turn to MFIs to seek for microcredit with an aim of developing their already existing enterprises which are already past the start-up stage since they already have the confidence in them and are ready to embrace the next stage of enterprise growth (Churchill & Lewis, 1983).
4.2.3 The Effect of Group Membership on Access to Microcredit

1. The study found that 96% of the women in entrepreneurial groups attributed their access to microcredit due to the affiliation to the microcredit groups. 4% of the women however felt that their membership in a group did not contribute to their access to credit. The respondents felt that the various mechanisms of group lending were attainable and straightforward hence easing their access to funds as opposed to individual borrowing requirements that they deemed to be stringent.

2. These findings are in line with the findings of Conning (2000) who found the group lending mechanism to be a contractual model that enables previously marginalized entrepreneurs to use their social collateral as a means of financial empowerment.

4.2.4 Preferred Sources of Microcredit

1. Results of the study, as presented in Figure 4-2-4 found that the bulk (78.84%) of women entrepreneurs in Kenya district had accessed their business funds from MFIs. Despite being the second most preferred microcredit institution as per the findings of this study, SACCOs popularity among group members was noticeably dismal, their stake being 9.62% of the aggregate women borrowing. ROSCAS (chamas) and mainstream banks were the least preferred institutions at 5.77% and 3.85% respectively.

2. These results are a manifestation that MFIs understand the needs of small borrowers far much better compared to other financial institutions and are able to satisfy them as compared to other sources of finance. The formal commercial banks seem not be able to satisfy the needs of the rural women entrepreneurs due to their stringent and formal requirements not befitting the rural women. Similar findings were reported in Nigeria by Mensah (2006) and in India by Nishal (2008) where, MFIs were found to be immensely popular among low income earners.
The Effect of Joint Liability Mechanism on Enterprise Development

4.3.1 Probability of Accessing Funds

Research findings as presented below indicate that 94% of group members had experienced improved chances of accessing funds due to the aspect of joint liability in their group borrowing. A minority (6%) were however undecided on whether the mechanism had contributed to their increased probability of accessing funds.

Kenyenya district is less cosmopolitan given its rural settings. Micro women entrepreneurs therefore still face the challenge of male dominance and so many lack the tangible collateral required by formal financial institutions. The joint liability mechanism is easily adopted among them due to the homogeneity in the entrepreneurial groups. It is this mechanism that the women appreciate to have increased their probability of accessing funds that otherwise would not be attainable given the rich cultural inclination.

Similar findings have been documented by Conning (2000) who noted that joint liability lending models in microfinance is a celebrated contractual innovation that has achieved the perceptible miracle of enabling previously un-bankable or marginalized borrowers to lift themselves up by their bootstraps and create ‘social collateral’ to replace the missing physical collateral that excluded them from access to more traditional forms of financial services, like credit and savings (Conning 2000).

Table 4-3-1: The Effect of Joint Liability Mechanism on the Probability of Accessing Funds

<table>
<thead>
<tr>
<th>Joint liability mechanism increases the probability of accessing funds</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>49</td>
<td>94</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

Fig 4-2-4: Preferred Sources of Microcredit
4.3.2 Provision of Social Support and Timely Access to Resources

Findings of the study, as shown in Table 4-3-2 indicate that all women entrepreneurs (100%) were in agreement that through this mechanism, they had accessed social support and timely access to resources needed for the development of their enterprise. The study found out that the mechanism was well stated on the required requirements of accessing funds. Each entrepreneur therefore has the full knowledge of her expectations right from the contract stage. This systematic and transparent programme enabled the women entrepreneurs to plan and access funds as and when they are in need. These results are in line with studies done in many developing countries including Nigeria and Philippines, where social support which is a form of social capital has been widely measured and found to have a positive relationship with the performance of women enterprises who were engaged in group lending methodology (Brata, 2004; Lawal et al., 2009; Mkpado & Arene, 2007; Olomola, 2002). Gine and Karlan (2009) also noted that there has been a shift of responsibilities from lender to the group leaders hence reducing the processing time and eventual access to credit among group borrowers.

Table 4-3-2: The Effect of Joint Liability mechanism on Providing Social Support and Access to Resources

<table>
<thead>
<tr>
<th>Joint liability mechanism offers social support and timely access to resources</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>52</td>
<td>100</td>
</tr>
<tr>
<td>Undecided</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3.3 Utilization of Enterprise Funds

Analysis of the study as evident below show that an overwhelming proportion (90%) of women considered the joint liability mechanism as an effective mechanism of ensuring that borrowed funds were appropriately utilized mainly towards the development of their enterprises. Few (10%) respondents were however undecided on whether this mechanism had an influence in the manner in which they utilized their borrowed funds. The study found out that it was a requirement among the women in Kenyenya district to spell out their intended use of funds for the group members to actually ratify their credit application. This was aimed at ensuring that the funds will be used in an entrepreneurial venture that will lead to business development and eventual successful payment of the facility sought through collective responsibility. These findings correlate with those of Bezanko’s (2010) study on the effects of group borrowing on SMEs growth in Rural Senegal. In his research, 83% of entrepreneurs admitted to actively keeping vigil on the funds affairs of their fellow group members. This was prompted by the fact that all group members were collectively responsible for loan repayment deficits caused by defaulting members (Bezanko, 2010).
Table 4-3-3: The Effect of Joint Liability Mechanism on Utilization of Enterprise Funds

<table>
<thead>
<tr>
<th>Joint liability ensure that funds are used for the intended purpose only</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>47</td>
<td>90</td>
</tr>
<tr>
<td>Undecided</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100.00</td>
</tr>
</tbody>
</table>

4.3.4 Business Linkages and Partners/Networks

The results of the study as shown in Table 4-3-4 established that majority of women 94% had acquired various business linkages and networks due to the joint liability aspect in their microcredit groups. Few of the women (4%) however did not seem to have benefitted from the same.

The joint liability mechanism works in a manner that women have joint and consistent meetings throughout the programme. It is through such forums and interactions that the women develop friendship bonds with other group members. These interactions have led to forging of new business linkages and network that enlighten and develop the entrepreneurs over time along their line of businesses and even leading to business diversification.

The foregoing results are a proof that besides providing easy access to credit, microcredit groups acts as a platform for business socialization as well due to their increased and in-depth interactions. These groups bring scores of entrepreneurs with diverse experiences together thus allowing them to learn from one another and in some cases to forge new business partnerships (Mohanty, 2005).

Table 4-3-4: The Effect of Joint Liability Mechanism on Increasing Linkages and Business Partners/Networks

<table>
<thead>
<tr>
<th>increases Linkages and partnerships/ networks</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>49</td>
<td>94</td>
</tr>
<tr>
<td>Undecided</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

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The Effect of Group Monitoring Mechanism on Enterprise Development

4.4.1 Motivating Entrepreneurs to Work Hard for Entrepreneurial Success
The study as shown in Table 4-4-1 did establish that 94% of women were in agreement that this mechanism had motivated them to work hard for the success and development of their businesses. Several members (4%) were undecided, whereas an even fewer members (2%) denied having acquired any measure of motivation through this mechanism.

The women in Kenyenya district submitted that the mechanism of group monitoring after they had accessed the funds indeed kept their motivation on check. They carried out their entrepreneurial activities in a more enthusiastic and energetic manner leading to continued enlargement and prosperity of their enterprises as well as enabling their repayment ability. These results suggest that the entrepreneurs learn and are motivated as well as challenged to keep up with the expectations brought about by the group monitoring aspect. This aimed at making the entrepreneurs to grow even as the group and other members continues to grow and develop through sharing of new ideas, information and resources for business performance (Kickul, et al, 2007).

<table>
<thead>
<tr>
<th>Group monitoring mechanism provides motivation to work hard for business success</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>49</td>
<td>94</td>
</tr>
<tr>
<td>Undecided</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.2 Nurturing Personal Initiative towards Enterprise Development
The analysis of the study as presented in Table 4-4-2 established that 88% of the respondents considered their groups to have played a key role in nurturing their personal initiative to grow and develop their enterprises. 6% however were undecided while an equal number (6%) disagreed that through the mechanism they had increased their initiative to develop their businesses.

The women entrepreneurs in Kenyenya district confirmed that they get into entrepreneurship with an innate passion and drive. They admitted that the mechanisms of group monitoring only educates and enlightens them in entrepreneurial matters but they always take it upon themselves on daily basis to develop and grow their enterprises without any external coercion.

These findings suggest that the entrepreneur herself takes it upon herself to nurture the growth and development of her enterprise with or without any coercion. This is so because it is a vital requirement of an entrepreneur to base her entrepreneurship on purposeful and systematic innovation in order to meet the ever changing requirements of the business (Schumpeter as quoted by Saleemi, 2009).
Table 4-2-2: The Effect of Group Monitoring Mechanism on Nurturing Personal Initiative towards Enterprise Development

<table>
<thead>
<tr>
<th>Group monitoring mechanism nurtures one's personal initiative to develop the business</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>46</td>
<td>88</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.3 Cultivating an Entrepreneur’s Personal Supervision and Administration Traits

Results of the study as shown in Table 4-4-3 found that an overwhelming majority (94%) of respondents held the view that the mechanism of group monitoring had instilled self-supervisory skills and administration traits, the outcome of which had increased the success of their enterprises. On the contrary, 4% were undecided while 2% did not agree that this mechanism had cultivated such traits in them.

The women entrepreneurs in Kenya's district submitted that they have an innate drive to develop their enterprises. However, through the group monitoring mechanism, they had learnt and improved other complementary skills. This is because as they practiced supervision on their fellow group member’s, they also implemented the same in their own enterprises hence enhancing the development of their enterprises.

These results correlate with Tucker’s findings in his 2006 research on economic gains of micro-credit groups in Mexico City. In his study, scores of microcredit members were found to possess increased levels of self discipline and better management and administrative skills including the ability to appropriately manage credit, the capability to mobilize necessary resources, and the acumen to forecast future economic conditions more accurately (Tucker, 2006).

Table 4-4-3: The Effect of Group Monitoring mechanism on Cultivating an Entrepreneur’s Personal Supervision and Administration Traits

<table>
<thead>
<tr>
<th>Cultivates personal supervision and administration traits</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>49</td>
<td>94</td>
</tr>
<tr>
<td>Undecided</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.4 Business Knowledge and Information

Findings of the study as indicated in Table 4-4-4 show that 90% of the women respondents were in agreement that through the group monitoring aspect of group lending, they had gained new business knowledge and diverse information which was beneficial to the development of their enterprises. Several members (8%) were however undecided on the effect of this aspect, whereas a dismal proportion (2%) did not agree to experiencing beneficial and substantial business knowledge dissemination from within the group members through this mechanism.
The respondents to the study stated that the mechanism of group monitoring ensured that they meet regularly before and after accessing the funds. It is through these meetings that the women establish symbiotic relationships that lead to exchange of knowledge and information as well as a forum of learning from each other. These findings are in correlation with Tata and Prasad (2008) assertion that group membership provides access to new ideas, information and resources for business performance. This is normally achieved through social interactions and linkages both within and outside the group.

Table 4-4-4: The Effect of Group Monitoring Mechanism on Entrepreneurial Business Knowledge and Information

<table>
<thead>
<tr>
<th>Group monitoring mechanism increases one's business knowledge and information</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>47</td>
<td>90</td>
</tr>
<tr>
<td>Undecided</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

The Effect of Step/Progressive Lending on Enterprise Development

4.5.1 Enterprise Stability and Development over Time

The findings of the study as shown in Table 4-5-1 indicate that 96% of members considered the mechanism of step lending as the main contributor of their enterprise stability and development. A few respondents (4%) were however undecided on whether the same had been attained due to the effect of this mechanism. The women entrepreneurs in Kenyenya district informed the study that the progressive access of funds had provided an opportunity to develop their enterprises gradually over time. This ensured progressive growth and development as well increased enterprise stability. This is because the mechanism ensures that the entrepreneurs who clearly understand their business needs satisfy them effectively and progressively hence the stability of their enterprises.

Faced by similar findings in 2007, Mkpado and Arene concluded that, the increased stability in enterprises owned by entrepreneurs who engage in group lending methodology arose from collective monitoring, collective supervision and consistent access of funds gradually (Mkpado & Arene, 2007).
Table 4-5-1: The Effect of Step/Progressive Lending On Enterprise Stability and Development

<table>
<thead>
<tr>
<th>Step/progressive lending mechanism</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>enterprise stability and development</td>
<td>50</td>
<td>96</td>
</tr>
<tr>
<td>Agree</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undecided</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5.2 Enterprise Planning and Accountability

Analysis of the study as presented in Table 4-5-2 show that 90% of the respondents considered themselves as having acquired and improved their planning and accountability traits through this mechanism of progressive lending. Few of the women (4%) did not agree with this view. The women entrepreneurs in Kenyenya district hailed the progressive lending mechanism to have cultivated their planning and accountability skills though not immensely. This is so because one has to effectively plan on the utilization and expected returns beforehand hence determining the viability of accessing higher amounts. Similarly, women entrepreneurs need to be accountable not only to the group members but to themselves also on the effect of more funds. The mechanism therefore dictated that the entrepreneurs had to enhance their planning and accountability skills.

The mechanism of step/progressive lending engages the disbursement of additional funds conditionally on the entrepreneur having met easily verifiable conditions directly connected to the project. Consistent adherence to such conditions requires high degrees of planning and accountability on the part of the borrower (Egli, 2004).

Table 4-5-2: The Effect of Step/Progressive Lending on Enterprise Planning and Accountability

<table>
<thead>
<tr>
<th>Step/progressive lending increases one's planning and accountability traits</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>47</td>
<td>90</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5.3 Creativity and Innovation in Entrepreneurship

Results of the study as presented in Table 4-5-3 indicate that 92% of members held the view that the step lending mechanism had helped them to enhance enterprise related creativity and innovation leading to increased enterprise development. 6% of the respondents were undecided whereas the rest, constituting 2% disagreed to have experienced improved enterprise creativity and innovation by virtual of being involved in this mechanism.
The respondents informed the study that progressive mechanism ensures that they enhance their innovation and creativity skills. As an enterprise develops and grows, there is need to access more funds. The entrepreneur has to be innovative in the utilization of these funds in order to ensure repayment as well as growth towards the maturity stage. The respondents reckoned that the mechanism indeed ensured increased level of creativity and innovation and so providing their enterprises with a competitive edge. These results are in line with Verma’s (2004) findings in his study on the effects of group dynamics on individuals’ levels of creativity. Verma found that, individuals who had affiliations to self improvement groups posted significantly higher levels of creativity compared to their counterparts who preferred secluded lifestyles. The findings were attributed to competitive and information sharing aspects of groups in an effort to catch up and validate themselves in the eyes of their perceived “well-off peers” as well as gradual access to funds hence the need to be creative and innovative even as the enterprise enlarges (Verma, 2004).

Table 4-5-3: The Effect of Step/Progressive Lending On Business Related Creativity and Innovation

<table>
<thead>
<tr>
<th>Step/progressive lending mechanism enhances business related creativity and innovation</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>48</td>
<td>92</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Totals</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

4.6 Group Lending Mechanisms and General Enterprise Performance

Results of the study, as shown in Figure 4-6 found that 94% of the respondents felt that the group lending mechanism had an influence on the general and overall success of their enterprises. A few members (6%) had not however observed any correlation between these mechanisms and the success of their enterprises.

Fig 4-6: General Enterprise Performance Based On Group Lending Mechanisms

This is due to the fact many respondents felt that through the group lending mechanisms, their chances of accessing funds had greatly increased and they also timely accessed the business funds. The mechanisms had also instilled various skills including supervision, administration, creativity and innovation that have ensured good management of their enterprises and eventual development given the rate of expansion of women based enterprises in Kenyanya district.
However, the respondents felt that the MFIs could do more rather than sticking to a fixed mechanism. There were suggestion that the institutions should introduce more activities like capacity building and regular entrepreneurial trainings. They should also incorporate women in those groups while formulating policies so that such issues like starting amounts and repayment periods maybe made favourable and appropriate to the enterprise needs. The MFIs should also broaden their mandate to offering more empowerment products to women e.g mortgage and land after their enterprises have fully stabilized.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary
In view of data analysis and results presentation, the findings are hereby summarized as per the objectives of the study.

This study sought to find out the effects of group lending mechanisms on enterprise development of rural women. This was done in line with 3 key major mechanisms including: joint liability, group monitoring and step/progressive lending mechanism. The study therefore sought to achieve the following objectives: to find out the effects of joint liability on enterprise development of rural women, to determine the effects of group monitoring on enterprise development of rural women and to find out the effects of step/progressive lending on enterprise development of rural women.

The study also reviewed a lot of literature on the stated objectives and found out that many researchers who wrote on the broad subject of group lending methodology agreed that it is an innovative way that was founded to liberate women entrepreneurs and more so rural women from the challenge of lack of finances due to the available and verifiable mechanism that the MFIs have put in place through this programme. The study employed a survey research design targeting micro women entrepreneurs in Kenyenya district who were involved in the group lending methodology through their entrepreneurial oriented groups. The data collected from the 52 respondents was then analyzed quantitatively and presented through descriptive tools.

The findings of the study seemed to be in agreement with the study objectives. Majorly, most of the respondents access their business funds from the MFIs. They were in agreement that through the various group lending mechanisms, access to finances has been made easier and faster. These mechanisms have also enabled them to learn and develop critical entrepreneurial skills including supervision, innovation, administration and enhanced creativity. The women have also been able to forge new business partnerships and increased linkages as evidenced by the increased number of women who are expanding their businesses in the district. The mechanism has also been found to provide a platform for sharing business knowledge and information as well as providing social support and entrepreneurial motivation among women entrepreneurs in the district.

From the findings, the mechanisms of group lending have been noted to have the following strong effects on the development of women enterprises: majority of the women agreed that the joint liability mechanism had increased their probability of accessing funds and all women agreed that the mechanism enables them to timely access these funds for the eventual success of their enterprises. Similarly, majority of women felt that it is their own personal initiative to ensure that their business succeed and develop; it is also a vital entrepreneurial trait even while starting up and this trait is mostly not cultivated by the group monitoring aspect of group lending. The women were in agreement that the mechanism of step/progressive lending had greatly contributed to their enterprise stability and enlargement over time even as the women also advanced in their experiences and traits.

5.2 Conclusion
Based on the findings of this study, it was confirmed that joint liability as a component of group lending mechanism had enhanced the development of women based MSEs in Kenyenya district. Key ways in which joint liability led to improved performance were through increasing the probability of women to access funds, the provision of social support and timely access to
resources, the provision of business linkages and networks to women entrepreneurs and ensuring that the women utilized the funds according to the intended purpose. The study established that group monitoring as a component of group lending mechanism had improved the development of women based MSEs in rural areas. Various ways in which group monitoring had positively affected enterprise development were: through motivating women to work hard for the success of their enterprises, cultivating their personal supervision and administration skills even in their own enterprises as well as increasing their business knowledge and information which led to more entrepreneurial productivity among women MSEs in Kenyanya district.

The study confirmed that step/progressive lending as a component of group lending mechanism had improved the development of women based MSEs in Kenyanya district in the following ways: it had contributed to the stability and enlargement of the women enterprises in Kenyanya district over time, inculcating planning and accountability traits among the rural women and also enhanced business related creativity and innovation that led to business profitability and growth among their enterprises. Additionally, the research did establish that despite the positive effects of group lending mechanism on enterprise development in Kenyanya district, the mechanism were ineffective in various ways: joint liability mechanism was unable to oversee the full utilization of funds among the women, the group monitoring mechanism does not contribute towards an entrepreneur’s initiative to grow and develop her business and the step/progressive lending mechanism had not resulted in greatly improving planning and accountability among women in Kenyanya district.

5.3 Recommendations

Based on the stated conclusions, the study recommends that the joint liability mechanism continue to be employed among the rural women entrepreneurs as it has greatly uplifted the challenge of accessing finance. The study also recommends that the MFIs should not delegate all the tasks to the group leaders’ including basic entrepreneurial training/coaching and business plan as this may not always be effectively carried out especially among the entrepreneurial groups formed in a homogeneous manner.

While group monitoring is essential for effective repayment of loans it is recommended that the individuals should be given some autonomy and trust. This will lead to continued loyalty to the financial institution and increase an entrepreneur’s self initiative. Increased autonomy to the entrepreneurs will also ensure that they guard their business secrets that may be crucial to the development of their enterprises.

5.4 Areas for further research

From the findings of the study, there is need for further research to determine if the same will be replicated in other regions including urban areas. The study also noted a strict adherence of the step/progressive lending mechanism on the previous borrowings and not on the current performance of an enterprise. There is need for further research therefore to determine the effect of this mechanism on the development of rapidly growing enterprises.
References


Ong’ayo, M. et al. (2009). An evaluation of microfinance programmes in Kenya as supported through the Dutch co-financing programme: with a focus on KWFT. A study commissioned by the steering committee for the evaluation of the Netherlands co-financing programme.


