

The role of informal credit schemes in mobilising funds for micro-enterprises in Kenya

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Abstract:

Micro and Small Enterprises (MSEs) play an important economic role in many countries. In Kenya, for example the MSE sector contributed over 50 percent of new jobs created in 2010, but despite their significance, the majority of entrepreneurs in this sector are considered uncreditworthy by most formal credit institutions and often struggle with accessing financial capital to start small businesses, with past statistics indicating that three out of five fail within the first few months. Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy by Kenya's Vision 2030. Informal credit schemes have been noted to play a major role in funds mobilisation for micro-enterprises. These schemes may not have provided the services to the expectations of the government and the micro-enterprises, but they have the potential as a means of successfully increasing outreach and multi-dimensional role in economic and social life. The main objective of the study is to investigate the role of informal credit schemes in mobilising funds for micro-enterprises in Kenya. The specific objectives are to determine how demographic and socio-economic factors of the micro-enterprises influence their access to informal funds; assess the eligibility of micro-enterprises to access loans through credit guarantees and network arrangements; examine how the features adopted by informal schemes in savings mobilization affect credit access to micro-enterprises and draw policy implications for financial services to micro-enterprises in Kenya. A cross sectional survey design will be chosen for the study. A sample population of 73 respondents will be drawn from the target population of 729. The Cluster sampling technique will be used to pick respondents for in-depth analysis. Primary data will be collected using structured questionnaires and interviews, while secondary data will be obtained through literature review. The quantitative data will be analysed using descriptive statistics such as frequencies, mean, mode and percentages, while qualitative data will be analysed by means of content analysis. The analyzed data will be presented by way of tables and graphs. This assessment is important for policy purposes not only because it can serve as a guide for the allocation of scarce resources to the numerous policy instruments competing for the same funds, but it also establishes the relative importance of the various micro-enterprises socio-economic factors that determines the accessibility of funds from informal credit schemes.