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Financial Inclusion of Kenyan Women in Business an Analysis of Structural Effect of Monetary Policy Innovations to Access Finance

[1]Obadiah Wambua, [2]Kelly Mataiyan, [3]Jane Gatobu, [4]Mercy Maritim, [5]Nge'no Kwa

Abstract: **Small and Medium Sized Enterprises SME's especially those owned and managed by women face great challenges when it comes to sourcing for capital for growth and start up. A global Markets institute study notes that Women-owned SMEs face barriers to business entry and growth due to limited access to capital, weak property rights which manifests through lack of collateral together with discriminatory laws and customs that directly affect women in business. Also noted is that women owned enterprises faces broader challenges that results from macroeconomic and microeconomics challenges caused by national policies that are beyond the control of non-state actors. This research paper looks critically at how countries have innovated their national micro economic policies to promote the inclusion of women in finance and specifically how interest capping in the Kenyan finance sector has affected women owned SMEs to access funds for capital.**

Keywords: **Capping rate, women, Central Bank of Kenya, SMEs.**

I. INTRODUCTION

Women access to Finance and inclusion into mainstream economic systems have emerged as a global theme in an effort to elevate poverty in developing countries, women are identified as key players who are traditionally secluded, It is therefore noted that these population segment requires great policy attention. An International Finance corporation (IFC) report on G-20 Global Partnership for Financial Inclusion observes that women entrepreneurship constitutes between 32 to 39 percent of the very small segment of firms, 30 to 36 percent of small SMEs and 17 to 21 percent of medium-sized companies (International Finance Corporation , 2011).

Small and Medium Sized Enterprises SME's and other women owned businesses face great challenges, A global Markets institute study notes that Women-owned SMEs face barriers to business entry and growth due to limited access to capital, weak property rights which manifests through lack of collateral together with discriminatory laws and customs directly affects women in business (The Global Markets Institute, 2014). Further women Owned enterprises are faces broader challenges that results from Macroeconomic and microeconomics challenges caused by national policies that are sometimes beyond the control of non-state actors.

To ensure that financial inclusivity, Major policy coordination steps have emerged to address knowledge gaps on national policy formulation, Such institutions include the Global Partnership for Financial Inclusion (GPFI) that was introduces as a multilateral framework that among other things works to ensure that; consensus on a vision for financial inclusion is reached through showcasing successful practices by countries already implementing financial inclusion strategies and a commitment by those ready to follow suit. The framework further works on identifying practical and concrete steps taken on key issues that affect member countries (Alliance for Financial Inclussion , 2011). The framework is unique to Gender issues as it recognizes the need to incorporate data on women entrepreneurs with an intention of strengthening Access to Finance for Women-owned SMEs in Developing Countries and Scaling-up Access to Finance for Agricultural SMEs.

The GPFI approach has since been merged with the Addis Ababa Action Agenda (AAAA) with specific commitment by countries to promote affordable and stable access to credit for smaller enterprises (United Nations, 2015) and the Transforming our world: the 2030 Agenda for Sustainable Development focusing on goal number 6 that among other things commits countries towards Affording women equal rights to economic resources such as land and property through policy (UN General Assembly, 2015).

While such innovations have been accepted globally as the main approach towards addressing the inability of women SMEs to access finance, emerging structural problems emerge in form of Country specific fiscal and Monetary policies that appear to frustrate the realization of inclusion of women in finance.

II. HISTORY OF BANKING IN KENYA

The history of banking in Kenya dates back to early European trade on the East African Coast. The setting up of the British representative office through the imperial British East Africa (IBEA) company attracted the National Bank of India as its banking agent in the latter part of the 19th century. IBEA wound up in March 1895 and was replaced by the East African protectorate (EAP), which adopted a new system of administration ensuring direct British control by the foreign office. The construction of the railway line from Mombasa to the hinterland in the early 1900's saw the emergence of inland trading centers in Nairobi and Kisumu; prompting the National Bank of India to set up a branch in Nairobi 1904. The railway spurred economic growth and many other banks were attracted to the country which resulted in the government passing the first Banking Ordinance in 1910 to regulate their operations (Nation Media Group, 2013).

Standard bank of south Africa opened two branches in Mombasa and Nairobi in 1911; National Bank of south Africa (NBSA) opening shop in 1916. NBSA would in 1925 merge with the Colonial Bank and the Anglo Egyptian Bank to form Barclays Bank DCO (Dominion, colonial and overseas) Other banks including the central Bank of Netherlands, Bank of Baroda, Habib Bank, Ottoman Bank and Commercial Bank Opened offices in Kenya between 1951 and 1958, in 1958 the National Bank of India changed its name to National oversees and Grindlays Bank following a merger (Nation Media Group, 2013).

The Post Office played an important role in the Africanization of Banking in Kenya; even though the foreign banking system was flourishing, access and employment opportunities for Africans in banking took time, it was only until 1910 that banking services became available to Africans through the Post Office Savings Bank a department within the Colonial Postal service. This service was only available in areas were colonial Post Office Officials were stationed, marginalizing a large number of Africans who resided in Rural areas (Postal Corporation of Kenya, 2017).

At the time of independence the currency used by banks in East Africa (Kenya, Uganda and Tanganyika) was the East African shilling. Policy on currency was regulated by the East African Currency Board which had been set up in 1919. The first Kenyan currency notes went into circulation in 1966 after the Central Bank of Kenya was established three years after gaining independence. The bank established accounts for all commercial banks and in November 16th 1966, the Central Bank took over the operations of the Banker's Clearing House, these were the first steps of the bank for controlling and regulating the activities of Banks in the country. (Nation Media Group, 2013)

The registration of the Cooperative Bank of Kenya (Co-op bank) in June 1965 marked the beginning of locally owned local banks. In June 1968 National Bank of Kenya was established as the first fully owned bank by the government of Kenya. Co-op bank exclusively served farmers through the cooperative movement; individuals were not allowed to hold accounts, besides it lacked a national wide branch network instead relying on commercial banks as agents. The government acquired 60% stake in the National and Grindlays Bank splitting it into two, the Kenya Commercial Bank and Grindlays Bank International (Kenya). KCB took over all but two of the branches, which constituted the Grindlays Bank international (Kenya). On August 25th 1971 KCB incorporated, the Kenya Commercial Finance Company as a subsidiary and the following year, savings and Loan(S&L) taking up as its mortgage business arm, activity of which at the time central Bank did not permit commercial Banks to perform. (Nation Media Group, 2013)

In the early 80's the minimum capital required to establish a bank was two million Shillings, and half a million for non-banking financial institutions. However new banks began to experience cash flow problems prompting the central bank to raise the minimum capital to 15 million by the 90's. In 1989 the government enforced the Banking Act 1989 after a series of institutions collapsed, which included tightening requirements for licensing of new banks and non-banking financial institutions, increased the minimum capital requirement, mandatory Insurance deposit and prohibition of over lending and earning interest on non-performing loans was prohibited, the government set up a deposit Protection Fund board to protect depositors and oversee bank liquidation. (Nation Media Group, 2013)

In December 1989 assets of nine banks were combined to form the consolidated Bank which was mandated to reimburse the deposits of the collapsed banks. These banks included: citizens Building society, Union Bank, Jimba Credit Corporation, Estate Finance, Estate Building Society, Business Finance, Nationwide Finance, Kenya savings and Mortgages, Home savings and Mortgages. Despite the government's efforts in regulating the industry, there was another wave of bank collapses between 1993 and 1995 affecting 19 institutions. The third wave of bank failures in 1998 affected: Bullion Bank, Fortune Finance, Trust Bank, City Finance, Prudential Bank and Reliance Bank, between 2000 and 2005 five more banks and non-banking financial institutions Collapsed. (Nation Media Group, 2013)

Foreign owned banks dominated the sector until the 1990's when local banks tapped into the market with innovative products and services targeting Kenyans in the lower-middle and low income classes which resulted in unprecedented growth in the banking sector. These included Kenya women's Finance Trust (KWFT) Jamii Bora, Family Bank, Equity Bank, NIC among others. The market has further seen the entry of Islamic Banking, with two banks namely, First Community Bank and Gulf African Bank offering Sharia – compliant banking . This resulted in the foreign banks having to adopt new measures to remain relevant in the market. (Nation Media Group, 2013).

3. KENYAN BANKING SYSTEM AND WOMEN

Kenya's financial sector is fast developing into a model for Sub-Saharan African region, indicated in the Regional Economic outlook Report of the International Monetary Fund (IMF) 2014. Besides boasting of a well-developed banking system, Kenya's micro-finance institutions has been praised for their role in deepening financial inclusion among groups such as women and youths who have traditionally been left out of the financial system.

Mobile banking has been highly embraced in the country with money transfer playing a critical role to this end. It is possible for customers to get loans and re-pay them using their mobile phones. Other Sub-Saharan African countries could benefit from Kenya's successful experience in diversifying financial systems and services through microfinance institutions for example Kenya Women Finance Trust (KWFT), a micro finance bank which offers micro credit to women and singles out the use of private firms to deepen financial inclusion. (IMF, April 2014)

3.1 Uwezo Fund:

This is a vision 2030 flagship program, which was launched by His Excellency president Uhuru Kenyatta on 8th September 2013 and enacted a legal notice No. 21 of the Public Finance Management Act, 2014, and published on 21st February, 2014. The main aim of the fund is to enable women, youth and persons with disability access fiancé to promote business and entrepreneurship at the constituency level. These are in adherence to the Millennium Development Goals No.1 (eradicate extreme poverty and hunger) and 3 (promote gender equality and empower women. (Kenya, 2014)

3.2 Women's enterprise Fund:

This is a fund in the ministry of public service; youth and gender affairs established in August 2007 to provide affordable, accessible credit to support women in business expand and create employment. It is the government's commitment to the realization of sustainable development goals on gender equality and women empowerment. (Government of Kenya, 2007)

Products: Tuinuke Loan, Jiimarishe, LPO financing and Bond Financing.

3.3 Management of Financial inclusion in Kenya:

This efforts by government and the private sector are informed by legal frameworks, laws and regulations, In the Kenyan financial system commercial banks and Microfinance are regulated by the Central Bank of Kenya. In the year 2016, the government of Kenya introduced a law that capped interest rates, key provisions of the law include capping lending rates at 4.0% above Central Bank Rate (CBR) and (ii) a floor on the deposit rates at 70% of the CBR.

3.4 Interest rates capping:

The passing of the law introduced a debate in academia as well as industry on the impact this capping might have to the economy, Most of the analysis done is centered on a more generalized market effect (Olaka, 2017) noted that interest rates capping will discourage innovations aimed at high risk/low scale credit segments. As noted earlier in this research paper, the inability of women to access collaterals makes them high risk borrowers, the law while meaning well will frustrate such efforts as KWFT, Women Enterprise Fund among other mechanisms developed overtime from adequately financing women enterprises.

Olaka (2017) further notes that through the introduction of this law, banks will prefer to lend to government rather than households and businesses. This will lead to credit rationing and distortions at the detriment of small and medium enterprises, low income and first time borrowers, Further this law will have an effect of discouraging supply of funds to the financial system, thus encouraging informal mechanisms making available alternatives such as Non-financial market players increase sales through credit under more stringent terms generally making cost of doing business way expensive to the affected population. This will negate that strides that the Kenya has made in enhancing financial inclusion through formal systems. Further Banks will be tempted to introduce additional fees or modify terms of credit to increase to expand their income base, credit concentration will further shift to large borrowers, which in the long run will give large corporations market advantage leading to an ultimate shrinking of SMEs.

In the long run capping interest laws will create a credit unavailability for small and medium enterprises. (Schwarcz, 2017) Creates a link between credit unavailability and declining economies that leads to financial crisis. Borrowing from the experience of the decline in housing sector in the United States, Schwarcz argues that high credit costs sustained the fragile financial market. Lending to high risk lenders is only viable where the high interest covers the risk of defaulters, In the US housing crisis for example when homes prices begun to decline banks profitability was affected, this was caused by high number of defaulters and an inability of borrowers to refinance their loans resulting to low investments and back to the poverty cycle (Schwarcz, 2017).

4. CONCLUSION

The Kenyan financial infrastructure has indeed developed since independence in 1963 and has continued to grow towards the realization of gradual financial inclusion and adoption of best practices, Innovation on financial inclusion however introduces key challenges that tend to frustrate or rather reverse the gains made. Challenges such as credit unavailability, high cost of doing business resulting from interest rates capping that leads to low investments forces policy makers to rethink adopted policies.

To counter this challenge there is need for policy makers to design regulations that do not alter credit availabilities, This is can be achieved through consulting widely within industry and academia to realize well informed legal framework.

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