THE EFFECT OF MICROFINANCE LOANS ON POVERTY REDUCTION:

A CASE STUDY OF K-REP BANK.

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DECLARATION

I declare that except for the references to other people's work which have been duly acknowledged, this work is the result of my own research and that it has not been presented in part or in whole for the award of a Degree at the University of Nairobi and elsewhere.

Signed: ……………………………. **Date: ……………………….**

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This project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This research project is dedicated to my dear wife, Lilian Akinyi Ouma-Oware and to my two lovely children Bryan Ochieng’ Oware and Kimberly Alila Oware for their invaluable co-operation, support and encouragement that they have provided to see me through my studies, for this I say thank you very much and I Love you all, I would not have made it without your support. God Bless you.

ABSTRACT

This Research is about the effect of Microfinance loans on poverty reduction in Kenya. It undertakes a review of microfinance and its impact on poverty reduction. Advocates of microfinance argue that Microfinance loan is a powerful tool to alleviate poverty. The objective was to find out the role of microfinance loans in poverty alleviation or reduction. It also aims at identifying or examining the effectiveness of microfinance and its challenges.

The research design was case study which employed descriptive techniques. Quantitative procedures include the use of cross tabulation, frequency distributions and percentages. Qualitative analysis includes the identification and comparison of the responses. The simple random sampling technique was used to select respondents made up of four groups of K-Rep bank clients within the Kawangware and Kibera areas. The study revealed that microfinance loans and microfinance institutions play a crucial role in reducing poverty in the country.

The study revealed that microfinance institutions despite their importance are faced with lots of challenges; key among them is loan defaults by customers and inadequate capital to sustain and cater for the growing number of clients. The number of respondents selected was 40 with a sample of 10 from each of the 4 groups within Kibera and Kawangware areas.

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ABBREVIATIONS

CGAP	Consultative Group to Assist the Poor
JLL	Joint Liability Lending
K-REP	Kenya Rural Enterprise Program
MSE	Micro and Small Enterprise
MFI	Micro Finance Institution
NGO	Non Governmental Organization
SPSS	Statistical Package for the Social Sciences
SSA	Sub-Saharan Africa
UNDP	United Nations Development Program
WDR	World Development Report

CHAPTER ONE
INTRODUCTION

The research addresses the effect of micro finance loans on poverty reduction in Kenya, a case of K-Rep Bank. The outcome of the study was to identify positive and negative effects of micro finance on poverty reduction. Chapter one details background of the study, research problem, research objectives and value of the study.

1.1 Background of the Study

In principle, micro finance can relate to the chronic (non-destitute) poor and to the transitory poor in different ways. The condition of poverty has been interpreted conventionally as a lack of access by poor households to the assets necessary for a higher standard of income or welfare, whether assets are thought of as human (access to education), natural (access to land), physical (access to infrastructure), social (access to networks of obligations) or financial (access to credit) (World Bank 2000:34). Lack of access to credit is readily understandable in terms of the absence of collateral that the poor can offer conventional financial institutions, in addition to the various complexities and high costs involved in dealing with large numbers of small, often illiterate, borrowers. The poor thus have to rely on loans from either moneylenders, at high interest rates, or friends and family, whose supply of funds will be limited. Microfinance institutions attempt to overcome these barriers through innovative measures such as group lending and regular savings schemes, as well as the establishment of close links between poor clients and staff of the institutions concerned. As noted above, the range of possible relationships and the mechanisms employed are very wide.

The **Poverty Reduction Unit (PRU)** of UNDP Kenya is working to reduce poverty and accelerate progress towards the Millennium Development Goals (MDGs) by supporting pro-poor economic growth and inclusive market development in Kenya. UNDP Kenya's strategy on Poverty Reduction seeks to provide low-income people with the tools and resources to lift themselves out of poverty through private sector initiatives at the national and county levels. The activities incorporate low-income people, into value chains as customers, employees, producers, entrepreneurs and distributors while providing them with greater access to markets, goods and services.

The case for micro finance as a mechanism for poverty reduction is simple. If access to credit can be improved, it is argued, the poor can finance productive activities that will allow income growth, provided there are no other binding constraints, CGAP website; Robinson (2002). This is a route out of poverty for the non-destitute chronic poor. For the transitory poor, who are vulnerable to fluctuations in income that can bring them close to or below the poverty line, micro finance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself can be drawn on. A look at the area of study, the researcher was able to come up with the following and thus giving a distinction on the various terms applied:

1.1.1 Microfinance Loans

Micro Finance loans are generally one of the financial innovations that have arisen with the Grameen Bank in Bangladesh, microfinance is to expand the scope of very small loans, and aims to stimulate entrepreneurship among those who suffer from poverty to self-employment and develop their small businesses, to alleviate poverty and improve their status and social and thus improve the status of their families and their children in terms of standard of living on the one hand, and level of access to social services (such as health, education, etc) on the other according to (Rutherford, 2000). The focus here is to look at how over time micro lending has contributed to the rise of small businesses thereby improving or uplifting the living conditions of the poor within my area of study which will be mainly concentrated on Kibera and Kawangware areas in Kenya.

1.1.2 Poverty Reduction

Poverty is a broad, multifaceted and multidimensional concept that involves the economical, social, political and environmental well-being of the people (WB, 2006). It is difficult to provide a single absolute and standardized definition of poverty rather than defining it in relative terms. Different authors provide different definitions for the concept of poverty. But the widely used definition of poverty is indicated in the World

Bank Development Report (1998). The report defines poverty as an inability to attain a minimum standard of living, poverty means a shortage of having enough to eat, a low life expectancy, a higher rate of infant mortality, low educational standard, enrollment and opportunities, poor drinking water, inadequate health care, unfit housing conditions and lack of active participation in decision making process.

Poverty remains a global problem of huge proportions, which needs a great attention to reduce it. It haunts the lives of billions of people around the world. Of the worlds’ 6 billion people 2.8 billion people live on less than 2 US dollar a day and 1.2 billion on less than 1 US dollar a day (WDR, 2000/2001).

1.1.3 K–Rep Bank

K-rep Bank was the first micro finance institutions in Kenya playing an important role to help reduce poverty in the country. Microfinance encompasses the provision of financial services put together for the benefit of low income earners. Despite the important role of the institution in helping to reduce poverty, it is faced with lots of challenges that militate against it to serve its customers and reduce poverty in the country according to Fowler & Kinyanjui (2005). The study examined the effect of microfinance loans on poverty reduction in the country with focus on Kibera and Kawangware areas.

Experiences gained over the years supplemented with study and an exposure visit to Grameen Bank in Bangladesh, Latin, America, India and other countries led to the development of its first loan product JUHUDI a Kiswahili term meaning determination, this was closely followed by CHIKOLA a term borrowed from one of local language meaning merry go round in 1991.

After considering the limitations of operating as an NGO that is sustained by donor funding, K-Rep opted to establish a micro finance bank in 1999 when the Central Bank of Kenya under the Banking act licensed the K-Rep Bank as the first microfinance commercial bank in Kenya according to Kinyanjui (2005). K-Rep Bank currently boasts of a network of 35 Branches spread throughout the major towns of this country and true to its purpose of formation, K-Rep bank's headquarters was located in Kawangware area in Nairobi until August 2008 when they were relocated to the up market area of Kilimani but the bank has still retained a strong presence in Kawangware.

1.2 Research Problem

Poverty is a harsh and undesired phenomenon in mankind. Reducing, if possible eradicating poverty is unquestionable. Thus, microfinance programs have been considered as one of the main instruments in poverty reduction in recent development agenda. It has been observed that microfinance play a major role to the socio-economic development and alleviating poverty. Rural banks and micro finance institutions were established in response to the need and the demand to make institutional credit and banking services available to small-scale farmers and rural entrepreneurs. Microfinance institutions were created to operate using local initiatives and local commitment to mobilize resources locally and to lend them to deserving customers using simplified procedures and eligibility criteria.

There are studies that seem to support to some extent the relevance of microfinance in poverty reduction. Aghion & Morduch (2005) argues that microfinance has had positive effect on poverty reduction. However he is keen to add that "Even in the best of circumstances, credit from microfinance programs helps fund self employment activities that most often supplement income for borrowers rather than drive fundamental shifts in employment patterns. It (microfinance) rarely generates new jobs for others and success has been especially limited in regions with highly seasonal income patterns and low population densities according to Aghion & Morduch (2005). Other similar studies have shown that microfinance may be relevant for poverty reduction, but does not reach the poorest as often claimed. The results from these studies have identified beneficial effects to the "active poor" but argue that microfinance does not assist the poorest as it is often claimed mainly because it does not reach them according to (Hulme & Mosley 1996).

1.2.1 Research Questions

- What role does the microfinance loans play in poverty reduction?
- How K-Rep Bank loans have effected on the community in which it operates in?
- What areas need to be implemented or improved for microfinance loans at K-Rep bank to be more successful?
- What are the recommendations based on the study?

1.3 Research Objective

The objective of this study is to assess the effect of microfinance loans on poverty reduction.

1.4 Value of the Study

This study will contribute in filling the information gap by assessing the socio-economic effect of K-Rep Bank operations in Kawangware and Kibera regions at a household and enterprise level.

A study of this nature would make a significant contribution by assisting government and other stakeholders to find lasting solutions to problems facing micro financing in the country.

The study is very significant because it will add to the existing literature or the research has added to the stock of books and works already written on microfinance in Kenya.

The study will help Micro Finance Institutions to put in place flexible policies and programs that will help households and individuals to access their facilities to ensure its development and expansion.

1.5 Research Scope

The research study was carried out at K-Rep Bank Headquarters' located at the K-Rep Centre, Wood Avenue, Kilimani in Nairobi. The study focused on the major beneficiaries of microfinance loans products and services, these are mostly the small scale enterprises and low income earners.

The study was carried out based on K-Rep Bank, their products and its entire Clientele, represented by a sample drawn from a population of two groups from Kawangware and Kibera each. Other factors like time and convenience were also taken into consideration**.**

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter provides information about aspects of previous works done by other researchers which relate to this study. Here we are making a survey of borrowed academic materials, which might help us in better understanding the core issue of the research project.

2.1 Theoretical Literature Review

The first wave of theoretical work on microfinance focused exclusively on joint liability. The term joint liability lending (JLL) can be interpreted in several ways, which can be lumped under two categories. First, under explicit joint liability, when one borrower cannot repay her loan, group members are contractually required to pay 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 the 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.

Ghatak & Guinnane (1999) review the key mechanisms proposed by various theories through which JLL could improve repayment rates and the welfare of credit-constrained borrowers. These all have, in common the idea that JLL can help alleviate the major problems facing lenders – screening, monitoring, auditing, and enforcement – by utilizing the local information and social capital that exists among borrowers. In particular JLL can do better than conventional banks for two reasons: First, members of a close-knit community may have more information about one another 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. An institution that gives poor people the proper incentives to utilize information about their neighbors and to apply non-financial sanctions to delinquent borrowers can do better than a conventional bank.

A more effective dialogue between theoretical and field researchers can do more than just extend the frontier of academic knowledge. It can also facilitate translating research into action. Not unlike any other field in Economics, this calls for a three way interaction between theoretical researchers, empirical researchers and practitioners. Untested theories, however insightful, are unlikely to be considered by microfinance institutions and donors, let alone influence their operations. Similarly, field experiments conducted without sound theoretical foundations have little to say about the underlying mechanisms through which a policy or program operates. Unifying theory and field experiment can help practitioners make sense of and utilize academic results to contribute to poverty reduction and other institutional aims.

2.2 Microfinance Defined

The definition of "microfinance" is less than clear. Broadly speaking, microfinance for loans (i.e., microcredit) is the provision of small scale financial services to people who lack access to traditional banking services. The term microfinance usually implies very small loans to low-income clients for self-employment, often with the simultaneous collection of small amounts of savings. How one defines "small" and "poor" affects what does and does not constitute microfinance. "Microfinance" by its name clearly is about more than just credit, otherwise we should always call it microcredit. Many programs offer stand-alone savings products, and remittances and insurance are becoming popular innovations in the suite of services offered by financial institutions for the poor. In fact, it is no longer exclusively institutions for the poor that offer microfinance services. Commercial banks and insurance companies are beginning to go downscale to reach new markets; consumer durables companies are targeting the poor with microcredit schemes, Robinson (2001). The World Bank (1998) also clarified that microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. Microfinance refers to provision of small loans and other facilities like savings, insurance, transfer services to poor low-income household and microenterprises.

Increasing the access of the poor to sustainable financial services is an important part of the World Bank Africa Region's strategy for supporting the Millennium Development Goals for poverty reduction. Convenient and affordable instruments for savings, credit, insurance, and payment transfers are essential both to cope with the economic fluctuations and risks that make the poor especially vulnerable and to take advantage of opportunities to acquire productive assets and skills that can generate increased income. Microfinance is the application of innovative methodologies that make such financial services available to relatively poor households and microenterprises in small transactions suited to their conditions. Innovative microfinance institutions have had substantial success in making financial services accessible to the poor in many parts of the world, and microfinance is increasingly provided through licensed, commercial financial institutions capable of mobilizing the funds necessary to significantly increase the scale of outreach according to (Quainoo, 1997).

2.2.1 Key Characteristics of Microfinance

It is helpful to enumerate some of the characteristics associated with what is perceived to be "microfinance." There are at least nine traditional features of microfinance: Small transactions and minimum balances (whether loans, savings, or insurance); Loans for entrepreneurial activity; Collateral-free loans; Group lending; Target poor clients; Target female clients; Simple application processes; Provision of services in underserved communities and finally Market-level interest rates.

It is debatable which of these characteristics, if any, are necessary conditions for a program to be considered microfinance. The first feature, small loans, is likely the most necessary, though lending itself is not essential; some microfinance programs focus on mobilizing savings (although few focus entirely on savings without engaging in any lending). Although MFIs often target micro entrepreneurs, they differ as to whether they require this as a condition for a loan. Some MFIs visit borrowers' places of business to verify that loans were used for entrepreneurial activities while other MFIs disburse loans with few questions asked—operating more like consumer credit lenders. In addition, some MFIs require collateral or "collateral substitutes" such as household assets that are valuable to the borrower but less than the value of the loan. Group lending, too, while common practice among MFIs is certainly not the only method of providing micro-loans. Many MFIs offer individual loans to their established clients and even to first-time borrowers. Grameen Bank, one of the pioneers of the microfinance movement and of the group lending model has since shifted to individual lending.

The focus on "poor" clients is almost universal, with varying definitions of the word "poor." This issue has been made more important recently due to legislation from the United States Congress that requires USAID to restrict funding to programs that focus on the poor. Some argue that microfinance should focus on the "economically active poor," or those just at or below the poverty level according to Robinson (2001). Others, on the other hand, suggest that microfinance institutions should try to reach the indigent (Daley-Harris 2005).

Most, but not all, microfinance programs focus on women. Women have been shown to repay their loans more often and to direct a higher share of enterprise proceeds to their families. Worldwide, the Microcredit Summit Campaign reports that 80% of microfinance clients are female. However, the percentage of female clients varies considerably by region, with the highest percentages in Asia, followed by Africa and Latin America, with the fewest women served by microfinance institutions (MFIs) in the Middle East and North Africa. This focus on the poor, and on women, along with the simple application process and the provision of financial services in clients' communities together form financial access, that is, the provision of financial services to the unbanked, those who have been excluded from financial services because they are poor, illiterate, or live in rural areas. Finally, microcredit loans are designed to be offered at market rates of interest such that the MFIs can recover their costs but not so high that they make supernormal profits off the poor. This is an important concept because institutions that charge high interest rates can be scarcely cheaper than the moneylenders they intended to replace, and institutions that charge subsidized rates can distort markets by undercutting other lenders that are attempting to recover their costs. This has implications for effect assessments because the less clients must pay in interest the more they could be expected to show in increased income. If we compare the effect of institutions that fall outside of "normal" microfinance interest rates, we could end up drawing unreasonable conclusions about the effectiveness of one program versus another, since each type of program attracts different clients and imposes different costs on their borrowers. (Parker & Pearce 2001)

2.3 Empirical Literature Review

A very limited number of empirical studies have been conducted on determinants of moral hazard in JLL schemes. Among the few attempts are studies by Ledgerwood (1999) and Saunders & Thornhill (2009). Wydick 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. Nevertheless, the study fails to assess the extent to which other key variables of group dynamics such as, dynamic incentives, sanctions and matching problems influence the incidence of moral hazard. Hermes et al (2005) study the incidence of moral hazard among credit groups from Eritrea and observe that social ties and peer monitoring are key factors influencing the likelihood of moral hazard among borrowers. The role of peer selection in mitigating adverse selection and hence moral hazard is discussed by Ghatak & Guinnane (1999). Ghatak argues that despite information asymmetry, joint liability lending allows for Pareto superior equilibrium in credit markets if group formation is conducted appropriately. Ghatak shows how groups formed through self selection will result into members with homogenous quality. Ghatak shows that through the assortative matching process, groups end up with less risk borrowers, directly reducing moral hazard, which leads to a lower equilibrium interest rate leading to a Pareto superior outcome relative to individual lending.

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: giving neighbors 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. Studying the incentive rationale for the use of group lending as a method of financing liquidity-constrained entrepreneurs, Cheston & Kuhn (2002) observes that the joint liability lowers the liquidity risk of default but creates a free-riding problem. Cheston points out that in the static setting, the free-riding problem dominates the liquidity risk effect, thus making group lending unattractive. However, when the projects are repeated over time, the joint liability feature provides the group members with a credible means of exercising peer monitoring and sanctioning, which can make the group lending attractive, relative to individual lending. In contrast to the emphasis on peer monitoring, Aryeetey (1997) argue that the monitoring by lending institutions is all that matters most when it comes to improving repayment rates. They observe that even micro lenders that are famous for the joint liability methodology such as the Grameen of Bangladesh do in fact also rely heavily upon highly motivated and locally recruited loan staff officers as monitors and organizers. Following this observation, Cooper & Schindler (2001) questions whether such delegated monitors might not be just as good at monitoring, and perhaps better at enforcing loan repayment than peer monitors, in which case joint liability clauses may be superfluous or may be serving other purposes. The role of peer pressure is discussed by Diagne & Zeller (2001), Diagne proposes a peer pressure model in which borrowers are incompletely informed about their partners' willingness to apply or tolerate social sanctions and shows how peer pressure can be used to mitigate default in situations where potential defaulters are intolerant of sanctions.

2.4 Grameen Case-Healthcare for the Poor

Research done on Grameen bank in Bangladesh showed that the poor have very poor health. As they improve their income they spend on one of the priority items-health. But the health services they buy with their hard earned money is not only unreliable; most often they lead to more serious health hazards. Eventually they end up buying more health troubles with their money rather than overcoming them.

Grameen decided to enter into this market and provide modern health services on cost recovery basis to all villagers, both Grameen borrowers and non-Grameen villagers. Grameen borrowers pay $1.25 per family per year as premium to a health insurance programme. They pay a nominal amount $0.02 each time they see a doctor, medicines are available at a discount .Non Grameen villagers pay a higher fee according to Yunus (1998). From the Grameen experiment it is possible to run a modern health-care programme on cost-recovery basis. If such a model can be replicated everywhere, we could have strong, competitive, sustainable pro-people social medical insurance schemes all over.

2.5 Credit as a Human Right

The word "credit" is supposed to mean "trust". But credit institutions have designed their procedures on distrust. In the process, credit institutions have created a caste system for the whole world whereby if you have money or property you are treated as the "sacred" but if you don't have money you belong to the case of "untouchables". The banks doors remain closed to you forever. You can go and rot.

Conventional banks are based on the principle that the more you have, the more you can get; if you have nothing you get nothing. They argue that banking is a business and thus it cannot indulge in charity for the poor. Grameen bank in Bangladesh has actually redefined this principle to; "the less you have the higher priority you get in receiving loans from Grameen". If you have nothing you get the highest priority.

Yunus (1998) argues that if there is one single action which will enable the poor to overcome their poverty, then it is credit. Credit should be accepted as a human right. If financial institutions can come up with a system which allows everybody access to credit while ensuring excellent repayment, then poverty will not last long.

2.6 A Critical Assessment of Microfinance as a Poverty Reduction Tool

Chowdhury & Bhuiya (2009) argue that there exists conflicting opinions and very few credible studies that have analyzed to what degree microfinance loans reduce poverty. He further argues that effect analysis in a limited number of previous studies has shown that microcredit loans do not decrease poverty. Instead, results show that, "a vast majority of borrowing households with starting incomes below the poverty line actually ended up with less incremental income after getting micro-loans, as compared to a control group which did not get such loans." However, he points out that credit is not the sole factor at play when determining microfinance's success in boosting household income. There are, in fact, a plethora of complementary factors that are essential for microcredit loans to be more effective. On the supply side, these micro-loans are more beneficial when MFIs also offer services for management, entrepreneurial, and basic education training. On the demand side, which still remains largely unrealized in the sector, small businesses require "a vibrant, well-functioning domestic market that encompasses enough people with enough money to buy what these enterprises have to sell." Thus, microfinance loans, by themselves, cannot simply make poor households successful. Rather, they are most effective when combined with innovative complementary factors.

Despite such skepticism towards the effectiveness of microfinance programs, Chowdhury & Bhuiya (2009) contends that microfinance has proven to be successful in encouraging consumption-smoothing behavior, and in providing a risk-coping safety net for those most susceptible to vulnerability shocks. It has also helped distribute financial power away from local loan sharks, empower especially female borrowers, and boost clients' self-esteem.

Chowdhury & Bhuiya (2009) argues that borrowers who hold advantages, such as business skills, entrepreneurship abilities, and education, are the borrowers that are most likely to succeed in rising above the poverty line. Thus, he suggests that microcredit loans ought to be geared toward small businesses in the informal sector, rather than toward those who lack assets and entrepreneurship abilities. Finally, for such schemes to make a significant effect in poverty reduction, the author recommends that public policies ought to focus more on broad growth programs that intend to increase overall productivity and levels of employment. He calls to attention the importance of government involvement in designing and operating financial schemes, and believes that only through the combined efforts of the financial sector and government can poverty reduction be realized.

2.7 Challenges of Micro Financing

In spite of the progress made so far by micro finance institutions in different parts of Africa, both the formal and informal micro finance providers face real challenges in their attempt to extend financial services to the poor.

A general challenge for many MFIs and other financial serving the sector is that they are operating without an agreed upon definition of what poverty is in the micro finance context. The question is how they can deepen and maintain outreach to a target that they do not truly know.

Rhyne & Otero (2006) noted, the micro finance field knows very little about the poverty level of clients in various microfinance programs. Morduch (2005) observes that few microfinance programs have received the rigorous statistical evaluations to address this question.

Some of the challenges faced by micro finance institutions when financing MSEs include:-

i) Limited capital and funding sources

Shortage of funds for on-lending and capacity building has been cited as a constraint by several studies done in this sector according to Dondo (1998). Many MFIs especially those that are not regulated are facing real difficulties raising funds due to scarce donor resources and lack of conventional security to borrow funds from the commercial sector.

ii) Competition and increasing loan delinquency

MFIs are increasingly facing competition especially in the area of savings mobilization. Banks are slowly moving back into rural areas after widespread withdrawal during the years of financial restructuring. Also some of the commercial banks are moving towards the medium and small savers where they are setting up deposits mobilization retail outlets right into the low-income but highly populated areas and since they are perceived to be safer than the new comers (MFIs), they tend to be more successful in building up deposit bases more easily than even the newly regulated micro finance programs. Clients will therefore borrow an MFI but place and manage their loan funds through a commercial bank which is considered more stable and safer.

iii) Clients drop-outs

Dondo (2001) noted that one of the biggest challenges in the provision of financial services to micro and small entrepreneurs is the inability by many programs to design appropriate products reflecting an understanding of the reality of this market. This is not a challenge that has been met by most MFIs. The results are that clients are forced to accept products that in most instances do not answer to their needs, but on the other hand is the only product available.

Clients drop outs is costly to an organization in many ways, in terms of investments in training, opportunity costs of losing the older, more experienced members most likely to take larger loans. The new entrants are more risky than those who would otherwise have developed and build loyalty to the institutions. The affected MFIs lose because they have to repeatedly offer small size and riskier loans which provide much lower returns. Consequently they are unable to expand their programs to reach more clientele, make more profits and therefore the cycle continues.

iv) Lack of informational technological solutions.

High transaction costs are one of the major factors limiting the expansion of MFIs especially rural financial services. Many MFIs operate manual and semi-annual management information systems which lead to high cost in processing of a larger number of generally small transactions and maintaining a quality loan portfolio sometimes spread over a broad geographical area.

Lack of appropriate technology based solutions and the high cost of processing dissuades the affected programs to increase their outreach within their operational areas, whether urban or rural. Small transactions in general require nearly as much oversight as larger ones, while providing a much smaller return.

v) Assessment and Management of Risks.

Proper assessment and management of business risk poses a challenge to MFIs service delivery. Some MFIs staff are not well trained, they lack relevant skills to enable them make good loan decisions. This situation is further complicated by lack of business records, entrepreneurial and management capacities by the larger clientele as the MFIs staff are not able to impart the required skills to their clientele.

2.8 Principles of Microfinance Programs

Principles of microfinance are seen as the basic building blocks of most successful microfinance programs. They are perhaps seen not as irresolvable rules but rather as essential elements that should be incorporated into group based microfinance system design whenever possible.

These principles include but not limited to the following:

i) MFI’s should seek to establish permanent institutions and sustainable systems that deliver quality financial services for beneficiaries. Optimizing financial services and the system to deliver them is best done through an investment in pilot testing. It should be noted that government institutions are rarely able to implement successful savings and loan programs-credit is too easily politicized and NGO workers are generally motivated to work with the poor.

ii) MFIs should prompt savings before they issue loans. This promotes discipline and provides some of the capital necessary to finance the loan portfolio. Open accessible savings facilities which will also provide an important service to the adverse poor and will result in the MFIs attracting a large number of better satisfied customers.

iii) Loans should be delivered at full cost. An individual (not group) basis but using a group guarantee mechanism (while reorganizing the time bound limitations of group mechanisms). Repayments should be scheduled in small regular basis often weekly. Loans should be given short-term periods, rarely for more than one year.

iv) Loan size-The loan size should be kept low so as to minimize exposure and attract many customers.

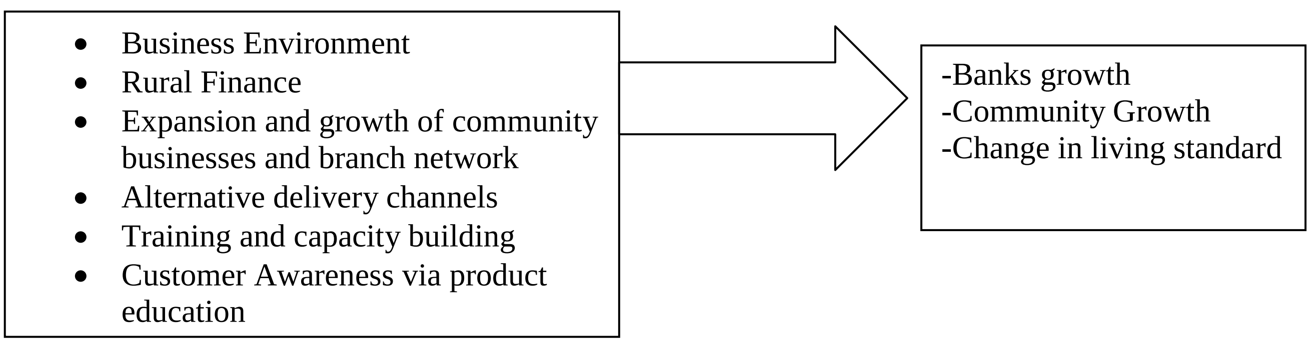
v) Just as with conventional banks, credit history should give customers access to larger loans over time, this is often an important incentive to repay.

2.9 Conceptual and Theoretical Frameworks

2.9.1 Conceptual Framework

Independent Variable **Dependent Variable**

Figure: 1 Conceptual frame work



The state of the physical business environment determines to a great extent the success of how the MFI's will perform in the economy, Factors like political stability or risk perception of the local people will determine whether the MFI's will continue operating in the business environment and this will lead to improvement in the living standards of the local people, the banks will also expand the outreach in the established areas so as to be increasingly accessible and meet the demands of the population.

Alternative Delivery Channels, through development of innovative and alternative channels for delivering financial services, including ATMs, point-of-sale devices and mobile banking.

Rural Finance will be achieved by MFIs through diversification of loan portfolios and implementation of strategies to expand outreach into rural and underserved areas.

Client Education through delivery of financial literacy modules to educate clients on managing their personal finances and on using financial services effectively; design of business training modules to educate clients on operating more efficient businesses**.**

Expansion of branch network of the MFI's brings financial services closer to the low income and poor people and thus they are encouraged to save and borrow wisely as well as receive training on how to effect useful skills in running their businesses leading to the growth of their businesses and thus increasing their income leading to better living standards for them and their families.

2.9.2 Theoretical Framework

Micro finance has had an effect on the transformation of lives in the community it operates in. Those individuals who accessed MFI loans experienced increased income which in turn transformed to better health, improved nutrition, better education, high productivity among others.

2.10 Summary

In this chapter, the researcher examined effects of microfinance loans over the years and the effect of the models that exist today. The role of Microfinance loans in development, specifically in relation to alleviating poverty was also examined. Key challenges facing Microfinance Institutions today that are affecting their effect on poverty alleviation were seen to be an over-emphasis on financial sustainability over social objectives.

The effects of microfinance loans on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up in general to its expectation, according to Hulme and Mosley (1996). However, when implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive effects, not just on clients, but on their families and on the wider community. There is however a need for greater assessment of these wider effects if the true value of microfinance to development is to be understood says Zohir and Matin (2004). One such tool for measuring wider effect is a livelihood security analysis based on a livelihoods framework which analyses how a project effects on the livelihoods of beneficiaries.

Empirical indications are that the poorest can benefit from microfinance from both an economic and social well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the Microfinancing institutions. While there are many biases presented in the literature against extending microfinance to the poorest, there is little empirical evidence to support this position. However, if microfinance is to be used, specific targeting of the poorest will be necessary. Without this, Microfinance institutions are unlikely to create programs suitable for and focused on that group.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the methodology adopted in conducting the study. The chapter is organized as follows; research design, population of study, sample design, research instrument (data collection technique), and analysis of data. Research may include describing, explaining, criticizing and analyzing. Ghauri & Gronhaugh (2005), Yin (2009) identified three different categories of research purposes; explanatory, descriptive and exploratory.

Based on the description of all the three research categories mentioned above, this project was based mainly on descriptive study since the study was to focus on an accurate event trying to answer what, where, how, who and when questions through the use of different sources, information and already existing theories.

3.2 Research Design

The research was based on the effect of microfinance loans on poverty reduction. The design was a case study which uses descriptive research design to determine the relevance and challenges associated with microfinance. The study was based on the use of questionnaires. This approach was used because it is a satisfied tool for collecting data for the sample population.

3.3 Population of Study

The target population of study was in Kibera and Kawangware slums two groups of 30 members each. 30 members of the Ngecha Njokerio, Mugwatithania, Jamii and Neema groups was the targeted population with a total population of 120 members. This was where the micro enterprises are based and operates.

3.4 Sample Design

Collection of data was from a random sample of units which have been selected with known probabilities of selection from among all units in the target groups as per table below. In this case no assumptions about representativeness are needed in estimating totals or averages for the target universe and, in addition, there are well known techniques for determining the precision of these estimates.

Table 1 Table showing Target Population sample

Community	**Group Name**	**Target population(members)**	**Sample**
Kawangware	Ngecha Njokerio	30	10
Kawangware	Mugwatithania	30	10
Kibera	Jamii	30	10
Kibera	Neema	30	10
	Total	**120**	**40**

Source; Author (2012)

3.5 Data Collection

Primary data was used in conducting the research. In order to collect reliable and valid information, the researcher contacted some departmental heads within the microfinance institution in Kawangware and Kibera. The managers, Operation officers and employees from the various levels in the organization were contacted and data collected. The method used in collecting the primary data was made up of questionnaires.

3.6 Data Analysis

The method of analysis used in the study was descriptive statistics. It includes the comparison of income, asset ownership, housing condition, nutrition, health, education, decision-making (empowerment), business growth and employment opportunities between active clients and incoming clients in the areas of study. To measure the poverty index, the method or model used to determine the desired sample size was formulated as:

$$n = \frac{z^2pq}{d^2}$$

where: n = sample size

z = the standard normal deviation usually set at 1.96 which corresponds to the 95 percent confidence interval

p = proportion in the target population estimated to have a particular characteristics

q =1-p

d = degree of accuracy usually set at 0.05 or occasionally at 0.01.

The independent variables for the microfinance loan are Business Environment; Expansion and growth of business in the locality; Expansion of Microfinance branch network and Customer awareness. The dependent variable was poverty reduction which includes bank growth, change in living standard and community growth.

Descriptive and inferential statistics were used to analyze the data and presented by use of tables and graphs. Computer data analysis such the statistical programme for social scientist (SPSS) the latest version was the main tool used to process the raw data in order to help interpret results. SPSS was also used to analyze the pre-coded questions. This package was used to compute the percentages because it is easier to use. It can also be used to make tables needed for discussions of the results. Also Ms Excel was used to draw the graphs for the computed data. This was used by the researcher because of the ease in using Ms excel for this purpose over the other software. The other questions that were open-ended were analyzed by listing all the vital response given by the respondents. They were then considered based on their relevance to the research.

CHAPTER FOUR
PRESENTATION OF DATA AND ANALYSIS

4.1 Introduction

This chapter explains information gathered from the field through questionnaires. These are analyzed to emphasize response from respondents using various forms of graphical representations. This chapter is also divided into sub-headings to throw more light on questions asked on the field and in relation with the objectives of the research. The study investigated the effect of Microfinance loans on poverty reduction. The study focused on K-Rep Bank and how its micro lending has led to poverty reduction. The study also had some objectives that include; identifying the achievements that microfinance loans have done to the individuals and community growth in general and how loan policies can be improved to better serve the sector and enhance the faster growth of K-Rep Bank.

4.2 Data Collection

A questionnaire was used to obtain qualitative data from the customers who are members of group lending programs of the bank. These are the people who are directly affected by the loan policy that is set in the institution. The table below represents the findings from respondents.

Table 2 below shows the actual respondents from the target sample size, with the highest being Ngecha Njokerio with 90% response rate and the lowest, Jamii with 70% response rate, from this statistics, the response rate was very good to enable the researcher come out with a well balanced report.

Table 2: Questionnaire response rate

Community	Group Name	Sample Size (Target)	Respondents (Actual)	Percentage %
Kawangware	Ngecha Njokerio	10	9	90
Kawangware	Mugwatithania	10	8	80
Kibera	Jamii	10	7	70
Kibera	Neema	10	8	80
	Total	**40**	**32**	**80**

Source: Research findings

Table 3 below represents the actual number of respondents by gender interviewed for the study and from the statistics women were more willing to give information required as compared to their male counterparts.

Table 3: Gender Analysis

Response Population Gender Table					
Group Name	**Respondents (Actual)**	**Male**	**Percentage (%)**	**Female**	**Percentage (%)**
Ngecha Njokerio	9	3	33.33	6	66.67
Mugwatithania	8	3	37.50	5	62.50
Jamii	7	3	42.86	4	57.14
Neema	8	4	50.00	4	50.00
Total	**32**	**13**	**40.92**	**19**	**59.08**

The attribute of gender was used in the research to establish how the micro loans affect the lifestyles of the respondents .This is because the researcher wanted to find out if the loan policies in place favor one sex to the other and how the respondents feel about it. This showed that more female (59%) than male (41%) obtained micro-credit from K-Rep Bank.

Table 4 below shows the age bracket of respondents from below 25yrs and above 45yrs as the target sample. Most active response was achieved in the 26-35yrs category, contributing to 50% of the total response, with the lowest response received from above 45 years of age bracket, scoring a paltry 6.25% of the total. Thus the level of activity can be deduced to be highest within the 26-35 years of age bracket.

Table 4: Age of the respondents

Response Population Age Table					
Group Name	**Below 25 years**	**26-35 years**	**36-45 years**	**Above 45 years**	**Respondents Total**
Ngecha Njokerio	1	4	3	1	9
Mugwatithania	2	4	2	0	8
Jamii	1	4	2	0	7
Neema	0	4	3	1	8
Total	**4**	**16**	**10**	**2**	**32**
Percentage	**12.50%**	**50.00%**	**31.25%**	**6.25%**	**100.00%**

Chart 1 below shows that most of the respondents had business experience of 10 years; this means that most of the respondents had ventured into business immediately after completing secondary education since the majority of the respondents fall in the age bracket of 26-35 years.

Chart 1: Graphical distribution of population by Age

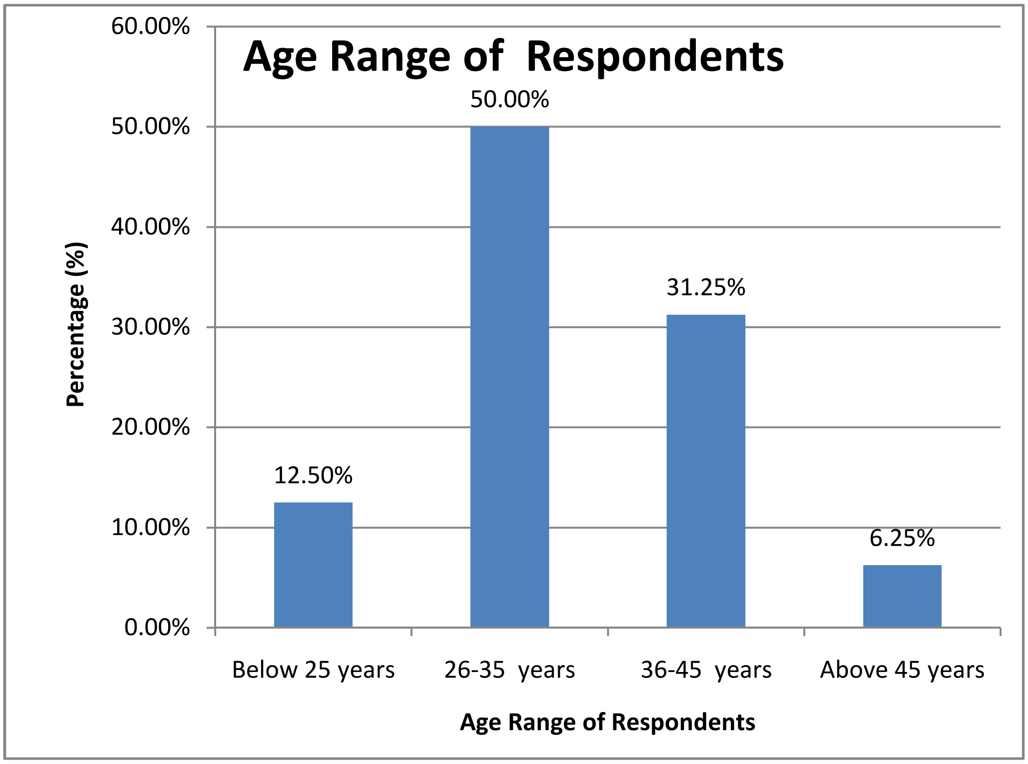
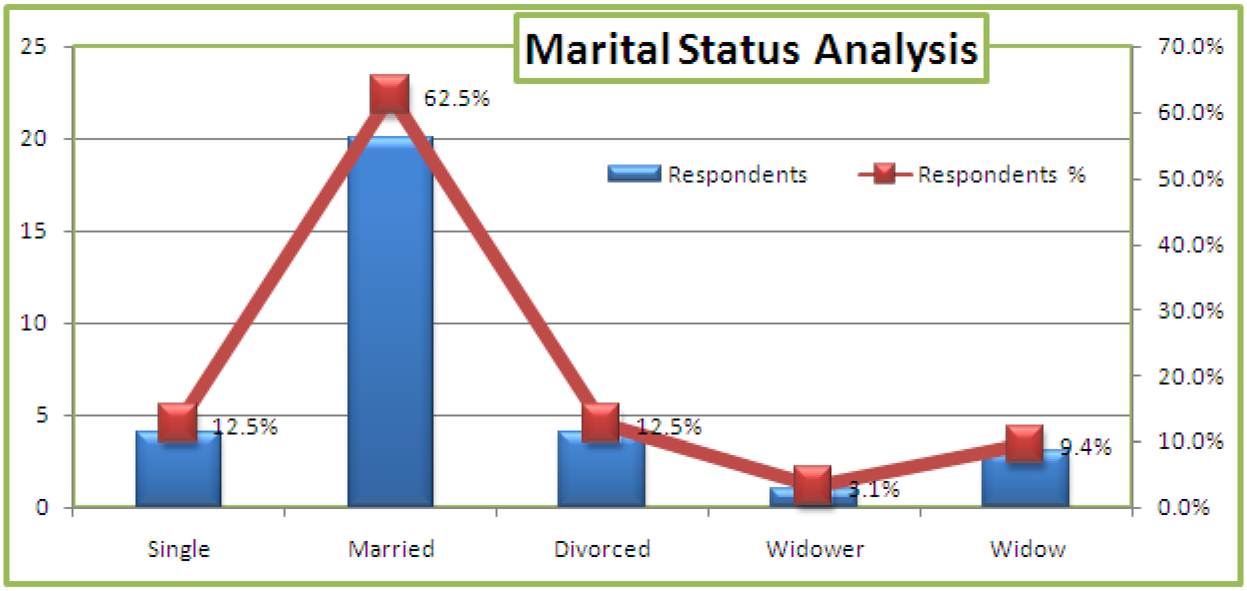


Table 5 below indicates the marital status of the respondents interviewed, from this, married respondents had the highest response rate of 62.5% from a total of 32 respondents with the lowest being the widowers with a respondent rate of 3.13%.

Table 5: Marital Status of the Respondents.

Status	**Respondents**	**Respondents %**
Single	4	12.50
Married	20	62.50
Divorced	4	12.50
Widower	1	3.13
Widow	3	9.38
Total	**32**	**100.00**

Chart 2: Graphical Presentation of Marital Status of Respondents



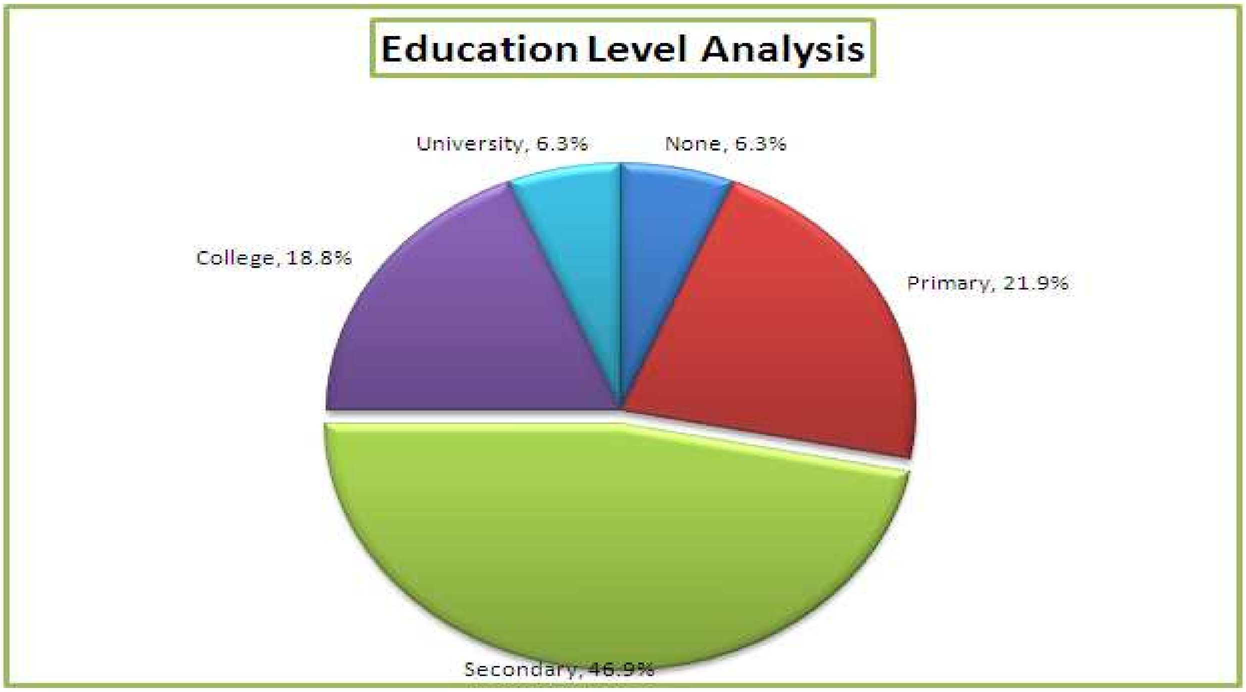
Results show that 62.5% of respondents were married, 12.5% single, 12.5% divorced, 3.1% widowers and 9.4% widows.

Table 6 shows that out of the 32 respondents, the highest was 15 with high school level of education representing 46.9% and the lowest of 2 respondents at 6.3% with no education and university level of education. The university level could have probably opted for better jobs and thus unavailable for microfinance business.

Table 6: Educational level of Respondents.

Status	Respondents	Respondents %	Cumulative %
None	2	6.3%	6.3%
Primary	7	21.9%	28.1%
Secondary	15	46.9%	75.0%
College	6	18.8%	93.8%
University	2	6.3%	100.0%
Total	**32**	**100%**	

Chart 3: Graphical Presentation of Education Level of Respondents



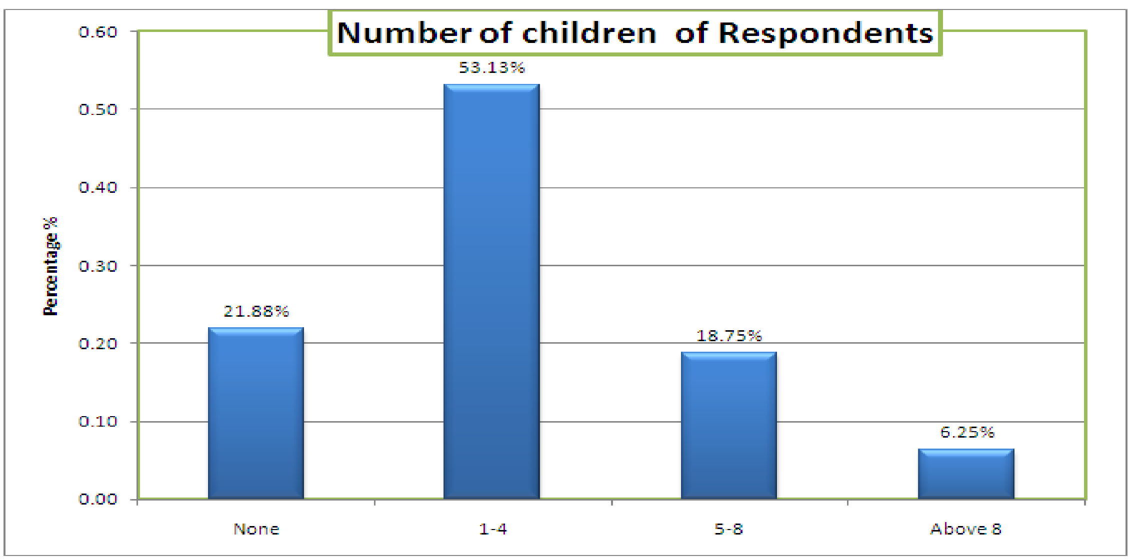
Over 70% of the respondents have gone up to Secondary school and beyond in their education. Also the fact that over 70% have secondary education and beyond in their education means that probably due to the harsh economic situation, they may have resorted to venture into self employment.

Table 7 indicates that majority of the families had 1-4 children which represented 53.13% of the actual respondents; the lowest on the other hand were those with above 8 children, representing 6.25% of the total respondents. From the statistics most families preferred fewer numbers of children that they could cater for due to poverty.

Table 7: Number of Children of Respondents.

Number of children of the Respondents		
Status	**Respondents**	**Percentage %**
None	7	21.88%
1-4	17	53.13%
5-8	6	18.75%
Above 8	2	6.25%
Total	**32**	**100%**

Chart 4: Graphical Presentation of Number of Children of Respondents



Results showed that 53.13 % of the respondents had children ranging from one to four, 21.88% had no children at all, 18.75% had five to eight children and 6.25% had more than eight children.

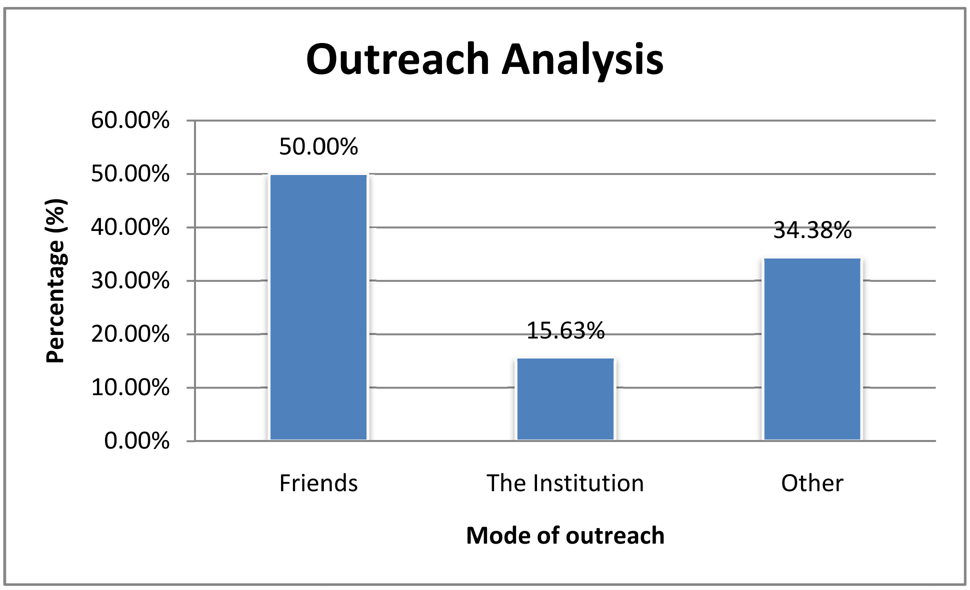
This shows that due to the harsh economic times most individuals had preferred to have small families.

Table 8 below shows that information about microfinance loans was highly spread through friends, with 16 respondents in this category, representing half of the total respondents. The institution in this case scored very low as very little information was received from it with only 5 respondents representing 15.63%, while other sources, which could be magazines, electronic and print media, scored favorably at 34.38% represented by 11 respondents.

Table 8: Outreach Analysis.

Outreach Analysis		
	Respondents	**Percentage %**
Friends	16	50.00%
The Institution	5	15.63%
Other	11	34.38%
Total	**32**	**100.00%**

Chart 5: Graphical Presentation of Outreach Analysis



As per the questionnaire, 50% of the respondents disclosed that they became aware of the bank through their friends, 34.38% through other sources while only 15.63% through the institution itself.

4.2.1 Effect of Financial credit to personal life and poverty reduction

Analysis on the question: "whether you agree that access to financial credit has made a positive effect in your life and the community around you."

From table 9 below 56.25% of the respondents agreed with this statement, while 6.25% strongly disagreed, at 18 and 2 respondents from each category respectively. This is graphically represented by the bar graph below on chart 6.

Table 9: Analysis on positive effect on financial credit in the community on poverty reduction.

Assessing Whether Micro Finance Loans have made an Effect in poverty Reduction		
Response	**Respondents**	**Percentage %**
Strongly Agree	8	25.00%
Agree	18	56.25%
Strongly Disagree	2	6.25%
Disagree	4	12.50%
Total	**32**	**100.00%**

Chart 6: Graphical presentation of effect of microfinance loans on poverty reduction.

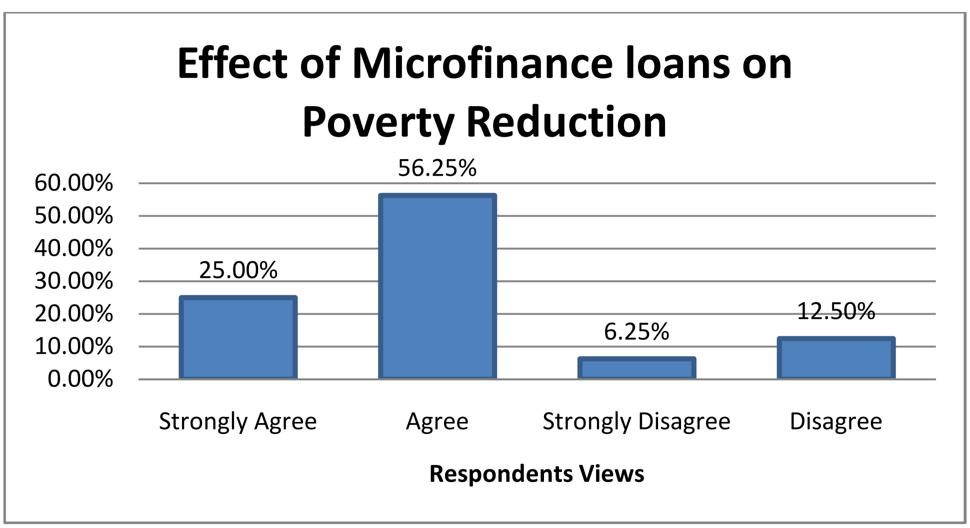


Table 10: Analysis on positive effect of financial credit in the community.

Improvement in Lifestyle since joining Micro Finance Movement		
Response	**Respondents**	**Percentage %**
Yes	25	78.13%
No	7	21.87%
Total	**32**	**100.00%**

From table 10 above, close to 80% of the respondents agreed that access to financial credit has effected positively in their personal lives and the community at large.This was due to the ability of the respondents to access loans which further led them to expand their businesses which wouldn't have been the case if they had no access to micro finance loans.

Table 11: Analysis on number of clients who have received business training from the bank.

Training received	**Respondents**	**Percentage %**
Yes	21	65.63%
No	11	34.38%
Total	**32**	**100.00%**

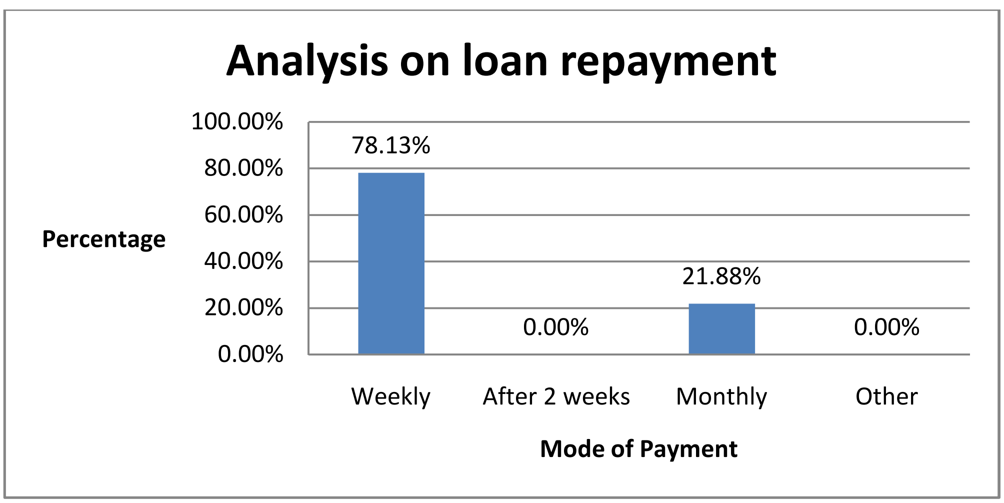
Table 11 above shows the percentage of clients who admitted to have received business training from the bank with 65.63 % stating to have received training while 34.38 % indicating that they had received no training at all from the bank. This can be deduced to say that the level of competence on respondents business management can be improved/increased if they receive regular trainings from the bank.

Table 12 below indicates that majority of respondents prefer weekly loan repayments as opposed to Bi-weekly or other methods given by the bank. The weekly respondents scored a high of 78.13% represented by 25 respondents, while the Bi-weekly and other methods had a null score. However still, some respondents prefer monthly, scoring 21.88% on 7 respondents. This is mainly articulated by payment system of the respondents, majority are casual labourers thus paid weekly wages and a few could be on payroll receiving monthly salaries.

Table 12: Analysis of loan repayment mode.

Mode of Payment	**Respondents**	**Percentage %**
Weekly	25	78.13%
After 2 weeks	0	0.00%
Monthly	7	21.88%
Other	0	0.00%
Total	**32**	**100.00%**

Chart 7: Graphical Presentation of loan repayment mode



More than 78% of the respondents repay their loans on a weekly basis as compared to 21.88% who indicated that they were repaying their loans on a monthly basis. This is reflected by the nature of work engagement. The respondents with zero scores could be the unemployed with no source of income at all.

4.2.2 Strictness of loan policies

Analysis on the statement that, “loan policies in the bank are strict thus making it hard for customers’ to get loans”.

Table 13: Analysis on how clients perceive strictness of loan policies.

Analysis of response on strictness of loan policies		
Response	**Respondents**	**Percentage %**
Strongly Disagree	4	12.50%
Disagree	6	18.75%
Strongly Agree	14	43.75%
Agree	8	25.00%
Total	**32**	**100.00%**

More than 75% of the respondents admitted that it was not easy for them to get loans from the bank. This is because the customers had to build trust amongst them so as to be able to access the group loans and yet these members are not related and some view each other with suspicion.

Many cited very long vetting processes such that most of the applicants have nearly given up half way leading to some of them opting for informal sources like borrowing from friends or relatives and also the use of shylocks.The turnaround time should be shortened to ensure that customers get the loans applied for immediately.

Table 14: Analysis on how clients perceive interest rates.

Analysis on interest rates		
Perception	**Respondents**	**Percentage %**
Low	4	12.50%
High	21	65.63%
Fair	7	21.88%
Total	**32**	**100.00%**

From table 14 above, more than 65% of the respondents had the views that the interest rates they were paying on their loans were way too high while 21.88% saying the rates were fair and only 12.5 % indicating that they felt that the rates were low. This could have been attributed by the amount of loan one had taken and thus looking at the repayment amount and one's capacity to repay the loans as and when they fall due.

4.2.3 Customization of loan products

Analysis on the statement that, "loans are customized to meet customers' needs".

From table 15 below, majority of the respondents were in agreement with this statement, with 14c respondents out of the actual 32 agreeing representing 43.75%, while the least respondents were in disagreement at 12.50% represented by 4 respondents that the loans are not tailor made to their specific needs, and the bank therefore needs to address this clientele.

Table 15:Analysis on whether loans are customized to meet customers needs

Response	**Respondents**	**Percentage %**
Strongly Agree	6	18.75%
Agree	14	43.75%
Strongly Disagree	8	25.00%
Disagree	4	12.50%
Total	**32**	**100.00%**

Out of the total 32 respondents from the research carried out and on the many various factors that the researcher was looking at, including, population gender, age of the respondents, marital status, educational level, number of children of respondents, Outreach analysis, the effect on these loans to personal life and poverty reduction and analysis of loan repayment and loan policies. A direct relationship from all the above is realised.

From discussion of the researchers findings, it is noted that more female participated in the research compared to male and that one’s income and family size is directly related to the success of his or her venture after taking the loan. Respondents with few children are more likely to utilise the loan on its intended purpose and thereby finding that the loans goes along way in improving their living conditions. Educational level can also be used to deduce the level of ones success, for example majority of the respondents are having secondary level of education, this is good enough for them to understand the basic business fundamentals and use their full potential to convert the business into a fruitful venture. Less of university level of education respondents were captured due to the fact that the majority could be in white color jobs and the few available in microfinance business are either there by choice as oppossed to the former.

The researcher on looking at the various category of loan products, is able to deduce that different products could be priced differently based on various factors like amount of loan, type of collateral, risk factor and the duration. Therefore loan products could be tied to interest rates by the researcher.

CHAPTER FIVE
SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter is to round off the study with summary of study, conclusion and recommendations. The conclusions would be made from the analysis and the literature review. The summary of findings gives an in-depth explanation of the effect of Micro finance Loans to poverty reduction through empowering the poor by giving them loans to further their businesses.

5.2 Summary of Findings

The findings were obtained from the research questions posed to the respondents. The study found that micro finance is a very strong tool in poverty reduction. It empowers the poor, enables them to cope with and overcome many of the problems that they face. Micro finance loans have led to establishment and expansion of micro-businesses through which all kinds of assets are built leading to opening up of opportunities for the poor to improve their living standards and also that reduce poverty within their families hence enhancing poverty reduction.

Women are the greatest beneficiaries of micro finance programs as they have fewer assets and opportunities as compared to men. This has led to women becoming empowered both socially and economically. Micro finance has helped build the capacity of small enterprises through training in business management especially in the groups, record keeping and also enabling the small enterprises owners open bank accounts. This progress in the businesses has resulted to employment creation, enhance capacity of the poor to acquire assets, educate their children, improved nutrition, better housing and entailing a culture of saving.

Results have also shown that age and a minimum level of education are necessary to be able to run small businesses. Basic education complemented by training received either from the bank or through formal business management training is essential for the success and continued growth of these businesses.

The banks interest rates were perceived to be high by the borrowers and this may not be good for the institution as clients may shift to other sources which they think are cheaper. There is a general belief that loans from MFIs are issued at a lower rate than formal loans issued by commercial banks. In fact the case is opposite, because whereas commercial banks issue loans at an average of 15% per annum MFIs rates range from 17-22% per annum. Also loans issued by MFIs like K-Rep bank require weekly payments while commercial banks repayments are made on a monthly basis hence a small trader can plan well on how to be repaying a monthly loan than a weekly one.

5.2.1 The Role(s) of Microfinance Loans in Poverty Reduction in the Country

The research revealed that microfinance plays a crucial role in helping reduce poverty in the country. It was realized that microfinance institutions help in poverty reduction by providing financial services to low income earners or those in the informal sector to help them improve upon their business. Microfinance institutions also provide avenues for people to save daily or weekly for the future. All these go a long way to help improve upon the lives of those involved especially low income earners and those in the informal sector. Once again microfinance institutions provide entrepreneurial advice, monitor and evaluate their clients to ensure they use funds for the intended projects which would help improve upon their lives.

5.2.2 Effect of Microfinance Loans on Poverty Reduction

It was realized from the study that microfinance loans have great impact on the lives of people and help reduce poverty, it was revealed that those who had assistance from microfinance have been able to help improve upon their businesses as they can now buy more and sell more, which in the end brings them more profit for their benefit and family. It was also realized that microfinance has helped improve the homes of those involved by catering for the basic needs of the house and for their children. That school fees, clothes and other bills are catered for. The standard of living of most respondents is now high compared to some time or years ago.

5.2.3 Challenges Faced by Microfinance Institutions in the Country

Aside from the important role microfinance plays in the country, it is faced by lots of challenges, the major challenge of microfinance institutions in the country is the recovery of loans and other facilities, this stems from the fact that most customers default the payment of loans while others take long periods of time before payments are made.

Another challenge faced by microfinance institutions in the country is inadequate capital to sustain and carter for the growing number of clients, this therefore leads to delays in the release of funds while most banks are not prepared to deal with microfinance institutions.

Poor collaboration between most microfinance institutions in the country is another challenge faced by microfinance institutions in the country. It was realized from the analysis that most microfinance institutions due to competition, keep to themselves without seeking help from the others.

Aside from these, some of the challenges faced by customers or the public with microfinance institutional loans include high interest rates, collateral and the repayment of loans. In comparison to other research findings, the researcher found out the following similarities and differences:

a. Capital inadequacy still poses a great challenge to all MFIs and thus unable to fulfill the needs of all

b. Women in particular play a big role in micro financing as they are able to easily come together by pulling their resources to achieve a set target

c. Microfinance loans does not fully benefit the very poor but the semi poor and as such would take a long time to reduce poverty

d. Pricing of microfinance loans is a big challenge all over the world and because of competition, the poor end up being disadvantaged, left out with no choice but to borrow at high rates.

e. The statement that credit is a human right is not applicable to all and thus the challenge is that the microfinance loans are only awarded based on ones capacity to repay and relationship with other group members where group lending mechanism is concerned.

5.3 Conclusion

Microfinance is an effective method of poverty alleviation. MFIs have developed many unique and innovative practices to account for the difficulties of providing credit to the poor. Trust and group lending practices encourage the poor to collaborate in mutual trust and friendship and to offer support for community loans and small businesses. Focus on female entrepreneurs allows marginalized women to gain access to the economic opportunities that they need to empower themselves. Qualified leadership assures that microfinance will continue its success and innovation in critical years to come.

From the literature review and the analysis, it was realized that the contributions of microfinance to the development of the country and in reducing poverty is very enormous and as such their continuous growth is of prime importance to the country as a whole. They provide financial services to those in the informal sector, the poor and those who earn little. This help those in the informal sector improve upon their services and help improve their standard of living.

The benefits of microfinance are not only felt by those who directly participate, but by their families and entire communities as well. Some of these benefits include: an increase in household income, capacity to sustain gains over time, better nutrition and health, higher education and school attendance, female empowerment, and the ability to completely break free from the bonds of extreme poverty.

Microfinance has achieved its success and popularity through its recognition of the poor as agents of change. However, microfinance is not a miracle solution. It is not for everyone and is not solely responsible for poverty alleviation. Microfinance must also be coupled with other social programs that are flexible to meet the diverse needs of destitute families. A MFI should also be sure to incorporate the customs and practices of the people into its programs. But through a holistic approach to fighting poverty and a recognition of the importance of the poor as agents of change, the battle against extreme poverty can be fought and won.

Conclusively, the importance of microfinance loans in poverty reduction is of immense benefit to the country as a whole. There is therefore the need to help sustain MFIs and help its growth as its role to the development of the country is very good.

5.4 Recommendations

From the study it is realized that microfinance loans plays an integral part in the economy of the country by helping reducing poverty, though an integral part its operations and challenges leaves much to write home about. These recommendations are therefore made to help microfinance in its operations and survival.

The researcher recommends that in order for the bank to expand its outreach, it should effectively market itself and also fasten on service delivery as in the case of ensuring that loans applied for are disbursed on time. MFIs should review their loan processing periods and reduce it to the minimum possible because after all they do not disburse a lot of money which should not warrant a delay in processing .They should also adjust their interest rates downwards so as to encourage increased borrowing with more frequency.

MFIs should design appropriate products reflecting an understanding of the reality of the market they are operating in, lack of customizing products as to the desires of the clients leads to the customers being forced to accept products that in most instances do not answer to their needs, but they have to take it as it is the only product available.

People with disabilities and impairments do not have products and services designed to meet their needs and also are not adequately served by existing microfinance funds and services. This target group in particular could benefit from complementary skills training programmes. The existing skills training and funding arrangements for women do not seem to be market-driven. Thus, specific services and products that target women for entrepreneurship development to enable them engage in economic activities and become more self-reliant need to be more coherent. Young people aged 15-24 years account for about a third of the population of Kenya and constitute over half of the unemployed population. There is a need for special microfinance, grant and training programmes that target the youth for entrepreneurial development. The Government having though embarked on the youth programme, need to put stringent measures to curb vices like corruption that has infiltrated the programme.

Clients should be trained in skills that can add value to their ability to run the businesses they own more efficiently. This can be done by the relevant MFIs credit officers or Business Development Officers. Since all clients have different knowledge gaps, the researcher suggests that a thorough assessment be carried out to know exactly which areas an entrepreneur requires further skills.

5.5 Limitations of The Study

This case study has focused on the financial support of K-Rep bank to the individuals towards poverty alleviation and this is information that has been reserved for the board of directors, the management, the community and donors hence for the researcher it had to be a process of authorization.

Confidentiality clauses and policies have restricted access to much of the information with regard to financials which includes the company loan book. This has caused delays and since special authorization from the management to carry out the survey had to be done. Otherwise the project has been within the time frame despite the limitations.

The attitude of the interviewees and respondents towards the research was quite surprising, most of the respondents have never appreciated the values and benefits of research and regrettably, most of them see the exercise as a waste of time this led to difficulty in accessing the information from the clients/customers some of whom were not able to submit back the required questionnaires.

Constraint of the time always denied the researcher an opportunity to return to the respondents to either seek more information and clarification or even pursue the defaulting respondents. Due to use of the questionnaire to collect primary data, the inherent weaknesses associated with this technique cannot be ruled out.

5.6 Suggestion for Future Research

The research has brought to fore the role of microfinance loans on poverty reduction in the country. To enhance this development more of such research should be conducted to bring to public domain the importance of microfinance, the challenges and the way forward.

Furthermore the population size should be increased to cover most of clients and the general public with regards to the relevance and challenges since larger samples are more representative of the population than a smaller sample.

There are also many factors that affect transformation of microfinance institutions to commercial banks. The study findings were confined within the scope of the factors that were addressed by the specific objectives and this limited the study to explore other transformation factors. Suggestion for further studies is hence advisable to assist in identification of more other factors that limit microfinance institutions to fully transform into commercial banks. Further studies should also help in implementation of effective measures that will contribute towards effective poverty eradication and aims and average standard of living hence poverty reduction.

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APPENDIX: RESEARCH QUESTIONNAIRE

This questionnaire is designed to gain an understanding of the effect of microfinance loans on poverty reduction. Kindly complete this questionnaire as objectively as possible. The information given out is solely for academic purpose and would be treated as confidential. Thank you.

SECTION A: - Respondent Profile (background information)

Write or tick (√) the appropriate response to each of questions.

1. Gender of respondent.

   Male [ ] Female [ ]

2. Age Range Below 25[ ] 26-35 [ ] 36-45[ ] Above 45[ ]

3. What is your marital status?

   Single [ ] Married [ ]

   Divorced [ ] Widower [ ]

   Widow [ ]

4. How many children do you have?

   None [ ] 1-4 [ ] 5-8 [ ] Above 8[ ]

5. What Level of education did you attain?

   None [ ] Primary [ ]

   Secondary [ ] College [ ]

   University [ ]

SECTION B:

6. What was your household size after the loan?

   None [ ] 1-4 [ ] 5-8 [ ] Above 8[ ]

7. Are you a participant of K-Rep Bank credit program? [ ] Yes [ ] No

   (a) If yes, from whom did you get to know about K-Rep Bank and its products and services?

   [ ] Friends [ ] Institution itself [ ] other sources

8. Before taking any loan, did you receive any business training from K-Rep Bank?

   [ ] Yes [ ] No

9. Did you participate in saving programme at K-Rep Bank? [ ] Yes [ ] No

   (a) If yes, how much was your current savings amount?

   [ ] Amount in KES______________ [ ] Does Not Know [ ] No response

10. Do you think that the financial credit from the bank has made a positive impact towards poverty reduction?

    [ ] Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree

11. How did you take the loan?

    [ ] By forming a group [ ] individually [ ] others (specify) _________________

12. Do you think your lifestyle has improved after the loan? [ ] Yes [ ] No

13. What is the current mode of your loan repayment?

    [ ] Weekly [ ] After two weeks

    [ ] Monthly [ ] Other

14. K-Rep Bank is very strict on its loan policies. Do you agree?

    [ ] Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree

15. Do you have access to credit from other sources other than K-Rep Bank? [ ] Yes [ ] No

(a) If yes, from what sources?

[ ] Banks [ ] Relatives [ ] Friends [ ] Shylocks

[ ] Others (specify)________________________________

16. What do you think about the lending interest rate at K-Rep Bank?

[ ] High [ ] Fair [ ] Low

17. What do you think about the repayment period of the loan?

[ ] Short [ ] Satisfactory [ ] Long [ ] Does not know [ ] No response

18. Did you have a source of income for your household before the loan? [ ] Yes [ ] No

If yes, specify the average monthly income in KES______________

19. What is your average monthly income after taking the loan? Specify in KES___________

20. What was the average monthly expenditure of your household before the loan?

[ ] Below KES 1000 [ ] Between KES 1001 – 3000 [ ] Between KES 3001 – 5000

[ ] Between KES 5001 – 10000 [ ] Above KES 10000

21. Do you agree that the loans at K-Rep Bank are customized to meet customer needs?

[ ] Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree

22. Has loan experience led to a feeling of being more capable of handling money and making economic decision? [ ] Yes [ ] No

Thank you for taking your time to respond.