

**THE RELATIONSHIP BETWEEN MICROFINANCE LOANS AND
HOUSEHOLD WELFARE IN BUNGOMA COUNTY-KENYA**


ANNE MOGOI OMWANGE

**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE MASTER DEGREE IN BUSINESS ADMINISTRATION (MBA),
UNIVERSITY OF NAIROBI**

2012

DECLARATION

This research project is my original work and has never been submitted to any other University for assessment or award of a degree.

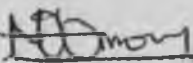
Signature..........

Date.....9-11-12.....

Anne Mogoi Omwange

D61/61062/2011

This project has been submitted for examination with your authority as the university supervisor.

Signature..........

Date.....10/11/2012.....

Mr. Nixon Omoro

Lecturer, Department of Finance and Accounting,

School of Business,

University of Nairobi

DEDICATION

This project is dedicated to my family for their financial and moral support. To my friends Val and Victoria who encouraged me to pursue the course.

ACKNOWLEDGEMENT

I thank God for enabling me to complete this Research Project. I also owe my invaluable gratitude to my supervisor Mr. Omoro for his guidance and support throughout this project. Thanks also to my Mum Pauline, my sister Irene and brothers Wycliffe, Wilfred, Geoffrey and Vincent for your prayers and support thus making the project a success.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABSTRACT	x
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the study	1
1.1.1 The concept of microfinance loans	3
1.1.2 Household Welfare.....	4
1.1.3 Relationship between microfinance loans and household welfare	4
1.1.4 Bungoma county	6
1.2 Research problem	7
1.3 Research Objective	9
1.4 Value of the study	9
CHAPTER TWO	11
LITERATURE REVIEW	11
2.1 Introduction.....	11
2.3 Theoretical review	12

2.3.1 Neoclassical growth models.....	12
2.3.2 Welfarist theory.....	13
2.3.3 The Institutionist theory.....	13
2.3.4 Empowerment theory.....	13
2.3.5 Uniting theory.....	14
2.4 Impact of Microfinance on welfare	14
2.4.1 Impact of Microfinance Household incomes.....	15
2.4.2 Relationship between Microfinance loans and household welfare.....	16
2.5 Empirical Review	18
CHAPTER THREE.....	22
RESEARCH METHODOLOGY	22
3.1 Introduction.....	22
3.2 Research Design	22
3.3 Population	22
3.4 Data collection	24
3.5 Data Validity and reliability	24
3.6 Data analysis	25
CHAPTER FOUR	27
DATA ANALYSIS, RESULTS AND DISCUSSIONS	27
4.1 Introduction.....	27
4.2 Demographic information.....	27

4.3 Relationship between microfinance loans and household welfare	30
4.4 The Impact of Microfinance loans on house hold welfare.	36
CHAPTER FIVE	41
SUMMARY, CONCLUSION AND RECOMMENDATIONS	41
5.2 Summary of Findings	41
5.3 Conclusions.....	43
5.4 Recommendations.....	43
5.5 Limitation of the study.....	44
5.6 Suggestions for further Research.....	44
REFERENCES	45
APPENDICES	51
Appendix I: Research Questionnaire	51

LIST OF TABLES

Table 4.1: Frequency Table	27
Table 4.2: Loan from microfinance	28
Table 4.3: Gender	28
Table 4.4: Age	29
Table 4.5: MFI loans assist in improving healthcare.....	30
Table 4.6: MFI loans empower women.....	31
Table 4.7: Household consumption is enhanced by MFI loans.....	32
Table 4.8: Microfinance loans enhance living standards of households	34
Table 4.9: MFI loans enhance farm produce	34
Table 4.10: MFI loans make families better off	36
Table 4.11: Model Summary	37
Table 4.12: ANOVA.....	37
Table 4.13: Coefficients.....	39

LIST OF FIGURES

Figure 4.1: Microfinance loans improve education	30
Figure 4.2: MFI loans enable people access basic needs.....	31
Figure 4.3: Families earn extra income through MFI loans	33
Figure 4.4: MFI loans help improve sanitation	35

ABSTRACT

This study was carried out to establish the relationship of microfinance loans on household welfare in Bungoma County, Kenya. The study also aimed at determining the relationship that exists between household welfare and utilization of microfinance loans in Bungoma County. The researcher adopted a survey research design in this study. Stratified sampling was applied to pick the sample size from eight urban settlements in Bungoma County. Judgmental sampling was then applied in picking the respondents. Data was collected through questionnaires from 62 respondents. The same was analysed using frequencies and percentages. A regression analysis was also conducted.

The findings indicate that utilization of microfinance loans results to improved education standards, improved healthcare, improved sanitation, enhance consumption and living standards, earning of extra income as well as reduction of unemployment by providing an avenue for self-employment. There also exists a very strong relationship between household welfare on one hand and microfinance loans. The study recommended that it will be prudent for the government to ensure that the microfinance loans are more affordable and accessible to rural households. This will enable many households to get access to the loans. Rural households who fear utilizing microfinance loans should also be adequately trained on the best ways to do so. This will encourage many households to seek microfinance loans and thus enhance their incomes.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Microfinance refers to the practice of providing specialized financial services to the poor. One component of this is microcredit, in which small loans are granted to the poor, who typically do not have access to credit and other financial services. Many microfinance practices have still continued to focus on micro-credit: By micro-credit I mean providing the poor with small loans with the hope of improving their labor productivity and thereby lead to increment in their household incomes. Microfinance definition encompasses provision of other financial services like savings, money transfers, payments, remittances, and insurance, among others (Grades, 2007).

According to Paul (2004), empowerment theory represents an expansive view of individuals and collective behavior that includes active participation of individuals and group in altering and shaping the socio-environmental context. This study will be based on the empowerment theory of microfinance which suggests that by enabling people to access microcredit, it is one of the ways of reducing global poverty and enhancing economic development.

Micro-credit evolved in the mid-1970s as part of the paradigm shift in development from top-down approach to bottom-up approach that incorporates the participation of intended beneficiaries as key participants in sustainable development (Mac Namara 1973). Using the top-down approach, western countries and international donor agencies transferred funds and material to the third world to help improve the social and economic conditions.

The bottom-top approach emerged as a result of the failure of the former, due to lack of participation by the intended beneficiaries of development projects in the process of designing, formulating and implementation of projects (Khandakar and Lutfur 2006). The Grameen bank credit program is one credit institution that followed this paradigm shift; by providing small loans of about US \$100, primarily through groups to poor rural women who have little access to conventional banking facilities. According to Yunus (2004), the founder of the Grameen bank; loans are given for the purpose of supporting income generating activities in the informal economy.

Microfinance industry in Kenya has grown over the past two decades in response to lack of access to formal financial services for most of Kenya's poor people. Currently the number of Known microfinance institutions (MFIs) operating in Kenya are approximately close to 100 serving over four million clients with an outstanding loan portfolio of more than Kshs.2.3 billion (Aron,2002). The lack of financial power is a contributing factor to most of the societal problems. Microfinance institutions therefore target the poor who are considered risky but whose repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998). The loans give people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It also broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Radio Netherlands, 2010).

1.1.1 The concept of microfinance loans

Micro financing loans are small loans granted to the poor and low-income, on the basis of the borrower's cash flow and other loans granted for their microenterprises and small businesses to enable them to raise their income levels and improve their living standards. These loans are typically unsecured but may also be secured in some cases.

Robinson (1998) has defined microfinance as an organization that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or extraordinarily poor in establishing new businesses or expanding existing business ventures. Microfinance activities are common in developing countries such as Kenya where small and medium enterprises have limited or no access to conventional banking services.

The dawn of micro financing dates back to 1983, when Muhammad Yunus of Bangladesh developed this concept as a poverty reduction tool in his home country. This led to the establishment of Grameen Bank, the first institution to realize the concept of micro financing and to operate in the microfinance business in the proper sense. This initiative won Yunus and Grameen Bank the 2006 Nobel Peace Prize award for their efforts through microcredit to create economic and social development from below (The Norwegian Nobel Committee, 2006).

In addition to provision of micro loans, Microfinance institutions provide social intermediation services such as the formation of groups, development of self-confidence and the training of members in that group on financial literacy and management. There are different providers of microfinance services and some of them are; nongovernmental

organizations, savings and loans cooperatives, credit unions, government banks, commercial banks or non-bank financial institutions. The forms of loans offered include; individual consumer loans, group loans and youth loans. The target group of MFIs is self-employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans and blacksmith (Ledgerwood, 1999).

1.1.2 Household Welfare

The term welfare refers to a set of specialized programs and services designed to meet the income security, social service, and related needs of persons who are unable to provide for their own basic social and material needs these such as the poor (Estes, 2004). In order to assess improvement of household welfare as a result of microfinance loan acquisition, there are various variables such as; monthly household income, Women empowerment (Gender), improved education, healthcare, Poverty reduction, number of Small business and consumption. According to the Human Development Report (2005), 2.5 billion people, or 40 percent of the world's population, live on less than \$2 per day, and their combined income equals only 5 percent of global income; looking at the other extreme, the income of the richest 10 percent of the global population accounts for 54 percent of global income. Furthermore, the 500 richest people in the world have an aggregate income greater than that of the poorest 416 million individuals.

1.1.3 Relationship between microfinance loans and household welfare

Microfinance is the source of finance for the poor or low income populations living in developing countries. The funds obtained from microfinance institutions assist poor households to run their micro-businesses and smooth their consumption. By giving

microfinance loans to poor or low income households, it assists in bridging the financing gap that is created by conventional banking institutions that require collaterals of huge value (Yunus, 2001). Robinson (2001) asserts that microfinance loans assist low income households to improve enterprise and household management, increase productivity, smooth income flows for the households, enlarge and diversify their microenterprises as well as increase their incomes.

There are a number of indicators of House hold welfare. Jesco and Peter (1997) assert that access of the poor to basic services such as electricity, water, sewage or gas is often viewed as very important to the well-being of households. Access of a household to such services should not only be viewed as a reflection of the household's welfare standing, but also as a determinant of the latter. Basic services will in many instances be inputs into economic activities or will support them indirectly. For example, informal home-based businesses often rely on domestic power connections; time freed from fetching water or gathering wood for fuel can be diverted to income-generating activities; and potable water and sewage help to protect household members from diarrhea and other diseases. They further argue that there are other important components such as food intake, the consumption of various non-food goods and services and the consumption of housing services.

Bagchi et al. (2002) also indicates that microfinance loans have the ability to improve the level of education for the participating households. The health of the households that utilize microfinance loans is also improved by this facility. The other positive effect of

microfinance on household welfare is its ability to assist in empowering women in low income households. Once these women are empowered financially, they are able to provide for their families thus improving the living standards of the low income people in the society.

Microfinance loans have also the ability to assist in poverty alleviation among developing countries. Most developing countries have confirmed that microfinance is indeed one of the strategies that can be used to alleviate poverty. By empowering low-income households financially, governments are able to reduce the unemployment rates and improve on income per capita. The microenterprises run by low income households provide employment to many unemployed people thus improving their lives as well as those of their immediate dependants (Yunus, 2001).

1.1.4 Bungoma County

Bungoma County is in the Western Part of Kenya. It borders the republic of Uganda, Busia, Kakamega and Trans Nzoia Counties. Bungoma's capital town is Bungoma town. The area experiences high rainfall throughout the year and there are several major rivers that are used for irrigation in a small-scale proportion. Due to the local climate there, sugarcane and maize cultivation is the main economic activity that is maintained. The dominant community that resides in this area is the Bukusu who occupy most of the county. They are also very well known for livestock keeping and breeding. In addition to this many NGOs have been set up in Bungoma County including one that specializes in agricultural research and training. The major economic activities in the region include: sugarcane and maize farming, livestock keeping and breeding, some poultry farming.

There are some factories in the region such as Webuye Pan Paper Mills, Nzoia Sugar Factory, BAT Malakisi and Mastermind Kenya (Guide to Kenya, 2012).

According to Commission on Revenue Allocation (2009), Bungoma County has a total population of 1,630,934 people. In terms of population, it is ranked third in the Republic of Kenya. It is estimated that approximately 53 percent of the population of Bungoma county lives below the poverty line. 22 percent of the population of Bungoma County resides in the urban centers in the county. Bungoma is well served with financial institutions that provide microfinance loans to the local population. The banks that currently operate in Bungoma include: Co-operative Bank of Kenya, Bank of Africa, Consolidated Bank of Kenya, Kenya Commercial Bank, Barclays Bank, Equity Bank, Post Bank, Family Bank, National Bank of Kenya, Diamond Trust Bank Kenya limited and K-Rep Bank. Guide to Kenya, (2012).

1.2 Research Problem

Access to microfinance loans has been associated with higher household incomes in various countries around the globe. The assumption mostly made of all microfinance loans is that the intervention will change household welfare with regards to access to more income in a way that lead to achievement of higher household consumption of goods and services and overall socio-economic well-being. The biggest challenge in assessing the relationship between microfinance loans and household welfare is to determine whether the improvement is significant as without the loan intervention. Empowerment Theory states that enabling people to access microcredit is one of the ways of reducing global poverty and enhancing economic development Paul (2004).

In the past, many poor households in Kenya, particularly those in rural areas, typically had little or no access to formal financial services and credit because of imperfect credit markets. The poor were generally perceived as risky and unlikely to repay loans, and therefore the transaction costs were high for formal financial institutions to profitably serve the poor. However, this trend has changed in the last decade; the Kenyan economy has witnessed growth in microfinance institutions. Some of these microfinance institutions have been transformed into banks and more are following this same trend. Microfinance institutions are now spread all over the country. Bungoma County is one of the areas in Kenya where there is evidence of microfinance institutions that have been providing microfinance loans to low income households.

There is evidence of research activity on microfinance. For instance, Mugabi (2010) conducted a study on micro-credit utilization and its impact on household income. It was a comparative study of rural and urban areas in Iganga district, Uganda. Sengsourivong (2006) conducted a study on the impact of microfinance on household welfare. Odell (2010) conducted a study on measuring the impact of microfinance in selected countries including Kenya. Grades (2007) carried out a study on the impact of microfinance on rural poor households' income and vulnerability to poverty in Makueni district, Kenya. Diagne and Zeller (2001) conducted a study on access to credit and its impact in Malawi and suggested that microfinance loans did not have any significant effect on household income. This is a reverse of what other researchers had found out.

Many studies examining the impact of Microfinance loans on household welfare such as Onjala and Cook (2009) on their study on microfinance in the water supply and

sanitation sector in Kenya, have shown a positive impact on economic and social welfare on indicators, other studies such as Hospes et al. (2002) while focusing on the role of micro financing with specific reference to KWFT indicate that microfinance has played an important role even though it has made some borrowers worse than they were. These studies have not been widely conducted in Bungoma County and a number of years have passed and more changes might have come in place. This paper will address this gap by examining the relationship of microfinance loans to household welfare in Bungoma County. The study sought to answer the following question: What is the relationship between microfinance loans and household welfare in Bungoma County?

1.3 Research Objective

The objective of this study was:

To determine the relationship between microfinance loans and household welfare in Bungoma county

1.4 Value of the Study

This study will be of benefit to the following groups of people. Those in the academic realm will be able to find materials for reference as they explore more on issues related to micro financing and household welfare not only in Kenya but also in other countries.

Microfinance institutions that offer microcredit services will also benefit from this study. They will be able to understand their role in enhancing household welfare in Bungoma County. The findings will serve as a benchmark that will motivate the micro finance

institutions to enhance their services and contribute more towards improving household welfare.

The government of Kenya will be able to get information on the extent to which micro finance loans are accessible to people of Bungoma County. It will also assist the government to make better policies that can favour the development of the microfinance sector of the economy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a detailed review of the literature in microfinance loans. Among the important areas reviewed include: the concept of microfinance, microfinance loans and Impact of Microfinance on Household welfare.

2.2 Overview of Micro financing

The term microfinance was first introduced in 1990 with the specific connotation of encompassing microcredit and micro savings as well as other financial services, in response to Robert Vogel's claim that savings were the forgotten half of rural finance. While the term is new, the concept is old if not ancient, with institutional origins for instance in European countries in the 18th and 19th century, Nigeria in the 16th century and India around 1000 BC (Sygenta, 2007).

The Sygenta Foundation (2007) indicates that microfinance is that part of the financial sector which comprises formal and informal financial institutions, small and large, that provide small-size financial services in theory to all segments of the rural and urban population, in practice however mostly to the lower segments of the population. This bias is partly due to self-selection of clients and partly to the mandate of institutions according to the will of their owners or donors. Worldwide formal and semiformal Rural Micro financing Institutions (RMFIs) are in the hundreds of thousands; informal institutions are in the tens of millions. Sustainability is nothing new; without it the large numbers of informal MFIs could not have survived.

Microfinance institutions can offer their clients, who are mostly men and women who are slightly below or above the poverty line, a variety of products and services. The most prominent of their services is financial, that they often render to their clients without tangible assets and these clients mostly live in the rural areas, a majority of whom may be illiterate. Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterate and cannot express themselves or because of the difficulties to access their collateral (farms) due to distance (CIDA, 2002).

2.3 Theoretical Review

There are a number of theories that try to explain the concept of microfinance.

2.3.1 Neo-classical growth models

This theory emphasizes the importance of saving in order for a country's economy to grow. Todaro et al. (2003) found out that one of the main constraints for poor households in developing countries is the lack of access to financial services, which is a consequence of poorly developed financial markets and commercial banks tending to offer their services almost exclusively to medium and large companies that are thought to be credit worthy. Hence, implying that the accumulation of capital is hampered and the growth of the country's economy is restrained.

2.3.2 Welfarist theory

The Welfarist theory focuses on credit as a tool of reducing poverty. According to Robinson (2001) credit is provided to poor borrowers at below market interest rates in order to reach the extremely poor to help overcome poverty and empower them. The performance of the Microfinance institutions are measured through household studies with focus on the number of saving accounts, number of loans, productivity improvement, incomes, capital accumulation, social services such as education and health as well as food expenditures. (Congo, 2002)

2.3.3 The institutionist theory

This theory focuses on creating financial institutions which serve clients who are underserved by the formal financial institutions. The aim of this theory is to achieve institutional self-sufficiency. The theory, suggest that the Micro financing Institutions should operate according to the conditions of the market, where by high interest rates are charged due to high costs in order to operate in a sustainable manner. (Elsa and Stina, 2006)

2.3.4 Empowerment Theory

The empowerment theory has a more bias view since it advocates for empowerment of women. Proponents of the theory argue that women account for nearly 74 percent of the 19.3 million of the world's poorest people who are being served by microfinance institutions. Most women are able to access credit in order to invest in businesses that they own. Most of them have good credit history, in spite of the challenges they face,

hence they have come out strongly to show that it is a good idea to lend to the poor (Cheston and Kuhn,2002).

2.3.5 Uniting theory

This theory advocates for joint liability in the repayment of microfinance loans. The aim of this theory is to improve repayment rates and the welfare of credit-constrained borrowers. In joint liability, when one borrower cannot repay a loan, group members are contractually required to repay for one of their members if he or she defaults to pay for his or her monthly installment. Borrowers believe that if a group member defaults, the whole group will not be allowed to access future loans even if the lending contract does not specify this punishment (Ghatak and Guinnane, 1999).

2.4 Impact of Microfinance on welfare

The microfinance program has been designed in a way to reach the poor who are left out of the formal financial system. In addition to providing financial services, MFIs typically provide information related to basic education, health, child immunization, and environment. Microfinance is very important in poverty reduction as it raises income and consumption of poor households (Khandker, 2005). The multifaceted approach adopted by MFIs has a larger effect on any society in terms of achieving Millennium Development Goals (MDGs). The eight goals of MDGs are: poverty and hunger reduction, universal primary educations, female empowerment and gender parity, improvement of maternal health, reduction of child mortality, combating diseases, like HIV/AIDS, malaria and environmental sustainability.

Accelerated human development can take place through financial and social empowerment of the poor, specifically, women. Microfinance programs are mainly directed towards women. Evidence shows that through microfinance women are empowered in terms of decision making, asset ownership and political and legal awareness (Cheston & Kuhn, 2002). This eventually enables women to make decision regarding the education and health of their children, specifically, of female children. Studies have found that the children of these women are guarded against starvation, disease and illiteracy (Afrane, 2002).

2.4.1 Impact of Microfinance Household Incomes

Micro-loans that are advanced by Microfinance institutions in various continents have experienced explosive growth in the last three decades. It has been discovered that they have the potential to alleviate poverty among poor populations especially in the rural areas. Micro-credit is an essential input to increase productivity at household level. It has been argued that micro loans have the ability to boost income levels and increase employment of household members Okurut *et al* (2004).

Ross (2002) argues that the impact of micro-credit on household income remains only partial and contested. He further argues that micro-credit has very beneficial economic and social impacts of the household. Navajas *et al* (2000) asserts that the professed goal of micro-credit is to improve the welfare of the poor. However, Burger (1989) observed that microfinance tend to stabilize rather than increase income and tend to preserve rather than create jobs. In addition, Mosley and Hulme (1998) in their study of 13 MFIs in

seven developing countries concluded that household income tended to increase at a decreasing rate, as the debtors income and asset position improve.

Microfinance loans assist households to be able to start small and medium enterprises thus propelling the growth of micro enterprises but also fueling the expansion of suppliers and vertical infrastructure needed by larger businesses. Because microfinance creates increased wealth for low-income individuals, it also creates new consumers and markets for businesses of all sizes. Financial sector access and microfinance loans and services are essential for growth in impoverished rural areas (UN, 2005).

2.4.2 Relationship between Microfinance Loans and Household Welfare

Microfinance institutions are well positioned to assist entrepreneurs and their households increase the amount, accessibility and security of accumulated savings. Evidence from Faulu Kenya and Faulu Uganda, microfinance institutions operating in East Africa, praides understanding of possible options and constraints. Both institutions require clients to make deposits into a mandatory savings account. Many clients deposit additional, voluntary savings. A trial was developed at Faulu Uganda to test the impact of increased access to the mandatory savings account. Clients responded favorably. There was some increase in the amount deposited. There was not a significant influx of additional withdrawals. Clients tend to use the account as a means for achieving long-term household objectives (Gudz, 1999).

Household welfare is approximated by real consumption of individual goods, which should be measured at the same price across households and individuals. Further, this

price should reflect the average marginal utility to the consumer. Rationed markets, in which the observed price differs from the marginal utility to the consumer, thus require adjustments to arrive at correct welfare rankings of households (Jesco and Peter, 1997). Markets which are subsidized only require adjustments if they lead to rationing. When households are able to access services such as electricity, water, sewage system or gas is often viewed as very important to the well-being of households. This is not only viewed as a reflection of the household's welfare standing, but also as a determinant of the latter. Basic services will in many instances be inputs into economic activities or will support them indirectly. For example, informal home-based businesses often rely on domestic power connections; time freed from fetching water or gathering firewood can be diverted to income-generating activities; and potable water and sewage help to protect household members from diarrhea and other diseases (Jesco and Peter, 1997).

Both micro-credit and micro-savings increase the levels of poor people's savings and clients' consumption and accumulation of assets. There is some evidence that microfinance enables poor people to be better placed to deal with shocks, but this is not universal. Further both microcredit and micro-savings have a generally positive impact on the health of poor people, and on their food security and nutrition, although the effect on the latter is not consistent. The evidence of the impact of micro-credit and micro-savings on education is varied; with limited evidence for positive effects and considerable evidence that micro-credit may be leading to fewer clients' children enrolled in school. It seems that children are being taken out of school because clients have difficulties paying school expenses. While businesses can benefit from micro-credit, the longer clients remain within a micro-credit scheme, the less likely their business is to succeed. There is

some evidence that micro-credit is empowering women; Todaro et al. (2003) has included the aspect of the women and their empowerment. He states that the women often bear the heaviest part of the poverty, with no education, no job, an income in the formal sector and limited social mobility. If the women could achieve a better education, health and economic wellbeing, their status would improve in both the family and in the society. However, this is not consistent some people are made poorer, by microfinance – particularly micro-credit clients. This seems to be because they consume more instead of investing in their future, their businesses fail to produce enough profit to pay high interest rates their investment in other longer-term aspects of their futures is not sufficient to give a return on their investment, Stewart, R. et al. (2010)

Microfinance institutions provide health programmes that have a positive impact on leading causes of death due to under nutrition, research has shown MFIs are capable of contributing to improving health care capacity and healthcare outcomes by educating clients, providing health financing options such as loans, savings and micro insurance. Leatherman et al. (2009).

2.5 Empirical Review

Sengsourivong (2006) conducted a study on the impact of microfinance on Household welfare in Lao. The research was a case study of a savings group in Lao PDR. The study was carried out on understanding that the government of Lao considers microfinance as the main strategy towards improving household welfare. The study was conducted in six villages in a semi urban area of Laos between 2005 and 2006. The villages had savings groups that had been in operation for some period of time. The study included members

of the savings groups and non-members as respondents for the study. The findings indicated that there was an increase in household income, expenditure, and education expenses for the households participating in the saving group programme.

Tilakaratna (2005) also conducted a study on the impact of Microfinance in Sri – Lanka. The study was an analysis of outreach of microfinance and impact on poverty in Sri-Lanka. The study found out that microfinance in Sri-Lanka has a wide outreach to low income people. It was also established that microfinance has assisted the poor people to smooth their income and expenditure. It was also clear that even though microfinance is meant to assist the poor, majority of those who had positively benefited from microfinance were non poor people from Sri-Lanka.

The ADB (2007) carried out a special evaluation on the effect of microfinance operations on poor rural households and the status of women. The main objective of evaluation study was to assess the extent to which selected Asian Development Bank (ADB) microfinance projects have reduced the poverty of rural poor households and improved the socioeconomic status of women in developing member countries. Bangladesh, Philippines, and Uzbekistan were selected for the study, representing three of the five operational regions of ADB. The projects selected for in-depth review were: Rural Microenterprise Finance Project in the Philippines; Participatory Livestock Development Project in Bangladesh; Second Participatory Livestock Development Project in Bangladesh; Rural Livelihood Project in Bangladesh; and Small and Microfinance Development Project in Uzbekistan. The results of the evaluation study show that the availability of microcredit loans had positive and mildly significant impacts on the per

capita income of the beneficiaries. The income of those that received microcredit loans increased compared with those that did not receive a loan (ADB, 2007).

Nghiem et al., (2007) conducted a quasi-experiment survey on the welfare effects of microfinance in Vietnam. The study analyzed the effects of microfinance programs upon household welfare in Vietnam. Data on 470 households across 25 villages was collected using a quasi-experiment survey approach to overcome self-selection bias. In the study's econometric analysis, the welfare effects of microfinance are substituted using measures of household income and consumption. The empirical results indicate that participation in microfinance has a positive effect upon household welfare, with the size of the effect increasing at a decreasing rate as a household spends more time in the microfinance program.

Another study was also carried out by Kondo et al., (2008) on the impact of microfinance on rural households in the Philippines. The study established that the impact of the availability of microfinance loans on per capita income is shown to be positive and marginally significant. This is also true for per capita total expenditure and per capita food expenditure. But it was also found that this impact is insignificant for poorer households and becomes only positive and increasing with richer households. It was also established that microfinance kept clients economically active with more enterprises and more employees. The study recommended that for microfinance to be an effective poverty-alleviation tool there is a need to review targeting procedures to know whether these are correctly identifying the intended beneficiaries.

Mahjabeen (2008) conducted a study on the micro financing in Bangladesh. The objective of the study was to assess the impact on households, consumption and welfare. The main findings of the study indicate that MFIs raise income and consumption levels of households reduce income inequality and enhance welfare. This implies that microfinance is an effective development strategy and has important policy implications regarding poverty reduction, income distribution and achievement of millennium development goals.

2.6 Conclusion

Most studies have linked microfinance with positive impact on household welfare. This explains the reason why it is gaining popularity in most countries as one of the strategies of uplifting household welfare. However, there are also negative effects of the same. Some recipients of microfinance loans have indicated that the loans were used for consumption instead of directing the funds to income generating activities. Loans are also taken from one lender to repay another thus creating a vicious circle. The loans have also left most women in abject poverty especially where they have been used as conduits by male counterparts who run away with the funds leaving the women to pay (Odell, K. 2010).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design that was used to conduct the study, the population that is targeted, the sample size that was involved in the study and the sampling design that was used to arrive at the required sample size. The study also examines at the type of instruments that was used to collect data and how the same was analyzed and presented.

3.2 Research Design

This study applied survey research design in establishing the relationship between microfinance loans and household welfare in Bungoma County. According to Mugenda and Mugenda, (2003) survey research design is connected with providing solutions to the problems. It simply portrays an accurate profile of organizations, events, situation or any phenomena. It describes conditions or relationship that exists, opinion that are held, process that are going on, effects that are evidence or trends that are developing. It is the fact finding operation design to search for information. Investigators collect, classify and correlate data to describe that exists. But it does not answer why phenomena behave as they do. It is appropriate in determining the degree of to which variables are associated.

3.3 Population

The study population consisted of all the people residing in the urban centres of Bungoma County, who have been advanced microfinance loans and are still servicing the loans

from 2009. According to the Revenue Allocation Commission (2009), the total population of urban centres in Bungoma county was approximately 228, 630 as per the National census of 2009. The population was broken further into the following major urban centres of Bungoma County: Kimilili 94, 927, Bungoma 55, 867, Webuye 41, 344, Malakisi 17, 083, Chwele 7, 206, Kapsokwony 6, 152, Cheptais 3, 152 and Tongaren 2, 899.

3.4 Sample Design

The sample size was derived as follows; $n = \frac{Z^2 Pq}{d^2}$

Where:

n = the desired sample size (if target population is greater than 10,000); z = the standard normal deviate at the required confidence level. ; P = the proportion in the target population estimated to have characteristic being measured; $q = 1-p$; d = the level of statistical significance set. We assumed 95 percent of the population will have the characteristics being measured, $q=1-0.95$. We also assumed the desired accuracy at 0.05 level. Where the Z-statistic is 1.96 at this level.

Therefore $n = (1.96)^2(0.95)(.05)/(0.05)^2 = 72$.

n = the desired sample size when population more than 10,000.

N = the estimate of the population size (Mugenda and Mugenda, 2003)

From the 8 stratas, a total sample size of 72 people was selected; the researcher then picked respondents through judgmental sampling from each of the strata.

3.4 Data collection

The study made use of primary data. The data was collected from households who have taken microfinance loans from microfinance institutions in Bungoma County. Those involved in the study included men and women who were the heads of the households and who had accessed microfinance loans for over three years. Information was sought on the socioeconomic characteristics of households of Bungoma County, their sources and level of access to micro-finance loans. The researcher engaged microfinance officers in order to identify these households. The researcher was able to meet with the respondents face to face to collect the data and explain some of the concepts to them.

3.5 Data Validity and reliability

Validity measures the accuracy of the research instrument methods according to the purpose of the study. The instrument was tested to verify that it measured what it was supposed to. The self-administered questionnaire was validated using the content validity, which is a process of logical analysis that involves careful and critical examination of items in the questionnaire. The credit officers of the microfinance institutions were interviewed to validate the questionnaire. Reliability implies that a measuring instrument should be able to give reliable and stable results. If it is reliable other researchers should be able to come to the same results if they use the same method. To determine the reliability, a pre-test was done in all the microfinance institutions.

A primary focus of this paper was to estimate the impact of microfinance loans on various household welfare activities such as consumption, education, and health and women empowerment.

3.6 Data analysis

Descriptive statistics and Regression model were used in the analysis of the data. The descriptive statistical method was used to explain the socio- economic characteristics of the households. This involved the use of frequency tables and percentages. The regression model was used to identify the determinants of the use of micro finance loans by the households. It measured the parameters of the probability of having access to required funds and the effects of the marginal changes in explaining variables on the micro finance status of the households.

The model was expressed as; $H_w = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + \epsilon_i$

H_w = Household welfare which was measured through ability to earn extra income, access to better healthcare and education; a = y intercept when x is at zero value; $b_1, b_2, b_3, b_4, b_5, b_6$ and b_7 are the weights associated with the independent variables; x_1 = Total monthly household income which was measured by evaluating income before and after use of microfinance loans; x_2 = Women empowerment which was measured by the rate of women seeking microfinance loans and its ability to enable them provide for their families; x_3 = improved education and healthcare which was measured by the ability of respondents to access healthcare and education before and after use of microfinance loans; x_4 = Poverty reduction by evaluating the general living standards of the before and after use of microfinance loans ; x_5 = No of Small business/self-employment (no of employed persons in household) ; x_6 = Total consumption which was measured through evaluating the level of household consumption enhanced by use of microfinance loans; x_7

- Improved housing measured by better housing due to microfinance loans and ϵ_i = Error term.

The significance of the above regression model was tested using the R^2 value. A higher percentage meant that the coefficients explained well the dependent variable while a low percentage would be the reverse. In this case therefore an R^2 value of more than 70% was significant to explain the dependent variable. In order to operationalise the variables, the researcher regressed the dependent variable (Responses on whether or not people had taken loans) against the above dependent variables.

CHAPTER FOUR

DATA ANALYSIS RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings on the relationship between microfinance loans and household welfare in Bungoma County. Data was successfully collected from 62 respondents out of the sample size of 72. This was a response rate of 86 percent which was considered to be enough for this study.

4.2 Demographic information

Table 4.1: Frequency Table

Name of urban centre

	Frequency	Percent	Valid Percent	Cumulative Percent
Kimilili	23	37.1	37.1	37.1
Bungoma	18	29.0	29.0	66.1
Webuye	13	21.0	21.0	87.1
Malakisi	4	6.5	6.5	93.5
Chwele	2	3.2	3.2	96.8
Cheptais	1	1.6	1.6	98.4
Tongaren	1	1.6	1.6	100.0
Total	62	100.0	100.0	

The researcher sought to establish the number of respondents that were from each of the eight urban settlements in Bungoma County. It is evident that from the findings tabulated above that most of the respondents were from Kimilili. Bungoma had the second highest

number of respondents at 29 percent. Webuye came in third with 21 percent of the respondents who participated in the study.

Table 4.2: Loan from microfinance

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	53	85.5	85.5	85.5
No	9	14.5	14.5	100.0
Total	62	100.0	100.0	

The study sought to investigate whether the respondents had taken any loan from microfinance institutions. It can be observed from the findings in Table 4.2 above that 85.5 percent of the respondents agreed that they had taken loans from microfinance institutions. This is an indication that many rural households are making use of microfinance loans.

Table 4.3: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	30	48.4	48.4	48.4
Female	32	51.6	51.6	100.0
Total	62	100.0	100.0	

The study also established that majority of the respondents who participated in the study were females. They were represented by 51.6 percent of the respondents who took part in the survey. Male respondents constituted 48.4 percent of the respondents who

participated in the survey. This is an indication that women are making use of microfinance loans more than men.

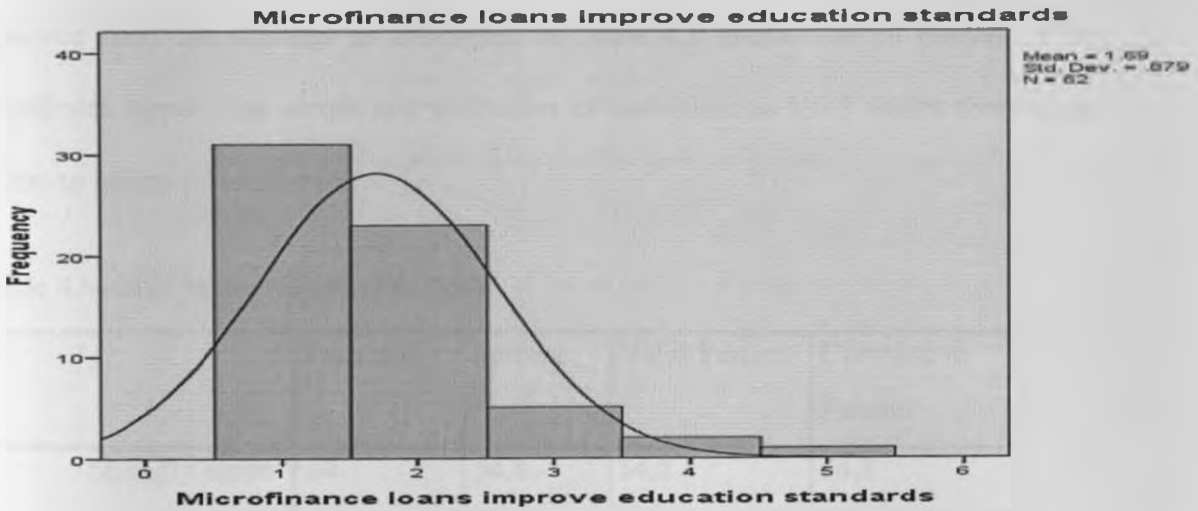
Table 4.4: Age

	Frequency	Percent	Valid Percent	Cumulative Percent
21-30 years	21	33.9	33.9	33.9
31-40 years	31	50.0	50.0	83.9
41-50 years	8	12.9	12.9	96.8
Above 50 years	2	3.2	3.2	100.0
Total	62	100.0	100.0	

The age distribution of the respondents was also of interest to the researcher. The main interest was to find out the age distribution among the respondents who took part in the study. It is evident from the findings in table 4.4 above that approximately 50 percent of the respondents were between the age brackets of 31-40 years. This shows that these are people who are at their prime and energetic age. They are also people who are either unemployed and therefore try self-employment by starting businesses financed by microfinance loans.

4.3 Relationship between microfinance loans and household welfare

Figure 4.1: Microfinance loans improve education



The respondents were required to give their views on whether microfinance loans improve education. The findings in the graph above indicate that most of the respondents agreed that microfinance loans assist rural households to improve education standards. This happens mainly when rural households who successfully start businesses are able to earn extra income to pay fees for their children.

Table 4.5: MFI loans assist in improving healthcare

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	10	16.1	16.1	16.1
Agree	31	50.0	50.0	66.1
Neutral	14	22.6	22.6	88.7
Disagree	7	11.3	11.3	100.0
Total	62	100.0	100.0	

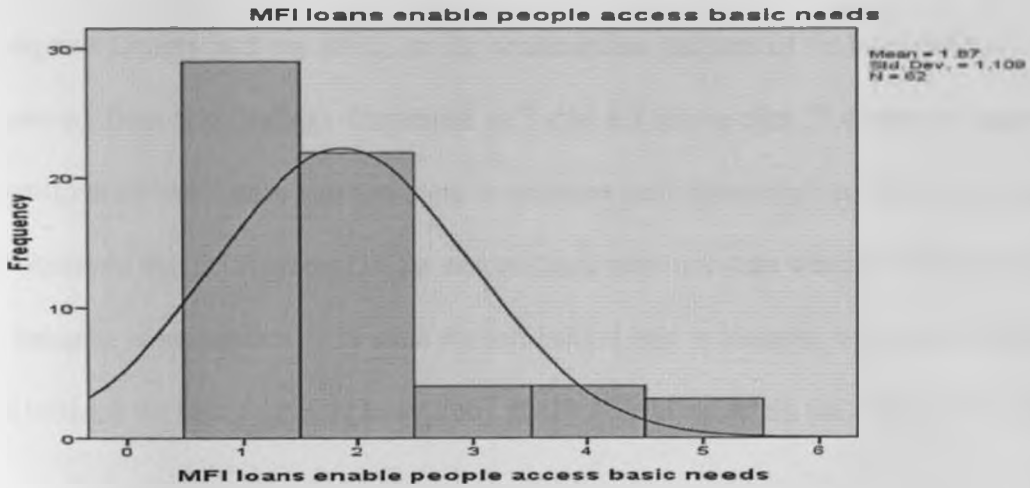
The researcher wanted to find out from rural households in Bungoma County whether access to microfinance loans enables them to get access to improved healthcare. It can be observed from the findings as illustrated in Table 4.5 above that 50 percent of the households agreed that access and utilization of microfinance loans assists them to get access to improved healthcare.

Table 4.6: MFI loans empower women

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	34	54.8	54.8	54.8
Agree	20	32.3	32.3	87.1
Neutral	7	11.3	11.3	98.4
Disagree	1	1.6	1.6	100.0
Total	62	100.0	100.0	

Empowerment of women is usually considered as one of the strategies of poverty alleviation. The study sought to find out whether provision of microfinance loans is one of the ways of empowering women. It is clear from the findings as tabulated above that 54.8 percent of the respondents are certain that MFI loans have played a significant role in empowering women. This is possible when women are able to start income generating activities that place them in a position of providing for themselves and other members of the family.

Figure 4.2: MFI loans enable people access basic needs



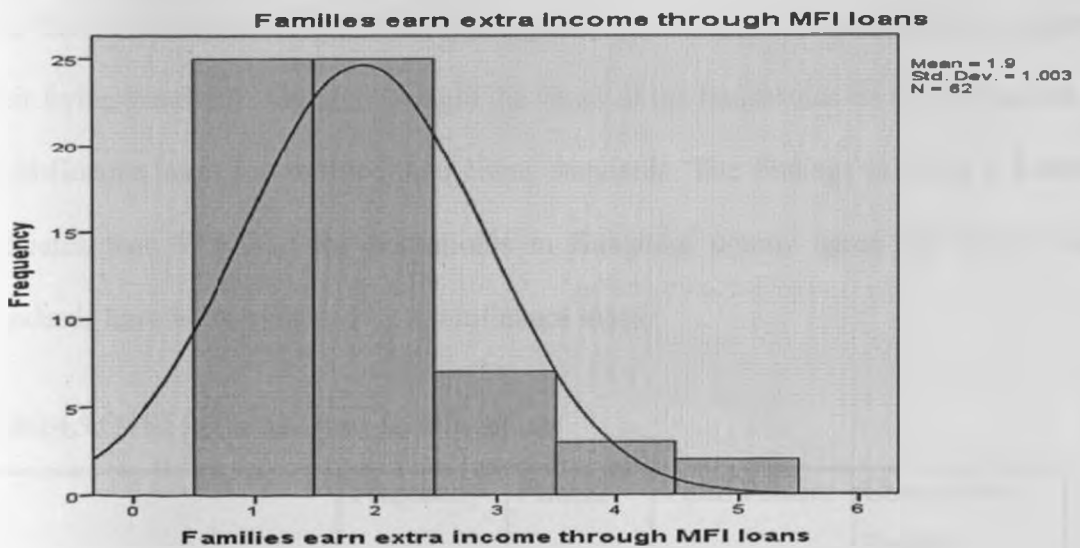
The respondents were required to indicate whether microfinance loans play any role in enabling rural households in Bungoma County to access basic needs. The findings presented in Figure 4.2 above confirm that majority of the respondents agree that microfinance loans assist rural households to afford basic needs. This is made possible when rural households are able to earn extra income once they utilize microfinance loans to engage in income generating activities.

Table 4.7: Household consumption is enhanced by MFI loans

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	15	24.2	24.2	24.2
Agree	17	27.4	27.4	51.6
Neutral	16	25.8	25.8	77.4
Disagree	6	9.7	9.7	87.1
Strongly disagree	8	12.9	12.9	100.0
Total	62	100.0	100.0	

The study also investigated whether access to microfinance loans by rural households in Bungoma County had any effect on the consumption patterns of the households. It can be observed from the findings illustrated in Table 4.7 above that 27.4 percent agreed that microfinance loans have assisted them to enhance their consumption. However it can also be observed that 25.8 percent of the respondents were not sure whether the loans are able to enhance consumption. The main reason behind this is because some households have not utilized the loans for long hence may not be able to ascertain the effects of the loan.

Figure 4.3: Families earn extra income through MFI loans



When the respondents were asked to state whether the utilization of microfinance loans have enabled the house holds in Bungoma county to earn extra income. As can be observed from the graph above, majority of the respondents confrimed that microfinance loans have enabled them to earn some extra income. This income is mainly from the businesses that are financed by the microfinance loans.

Table 4.8: Microfinance loans enhance living standards of households

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	23	37.1	37.1	37.1
Agree	18	29.0	29.0	66.1
Neutral	12	19.4	19.4	85.5
Disagree	3	4.8	4.8	90.3
Strongly disagree	6	9.7	9.7	100.0
Total	62	100.0	100.0	

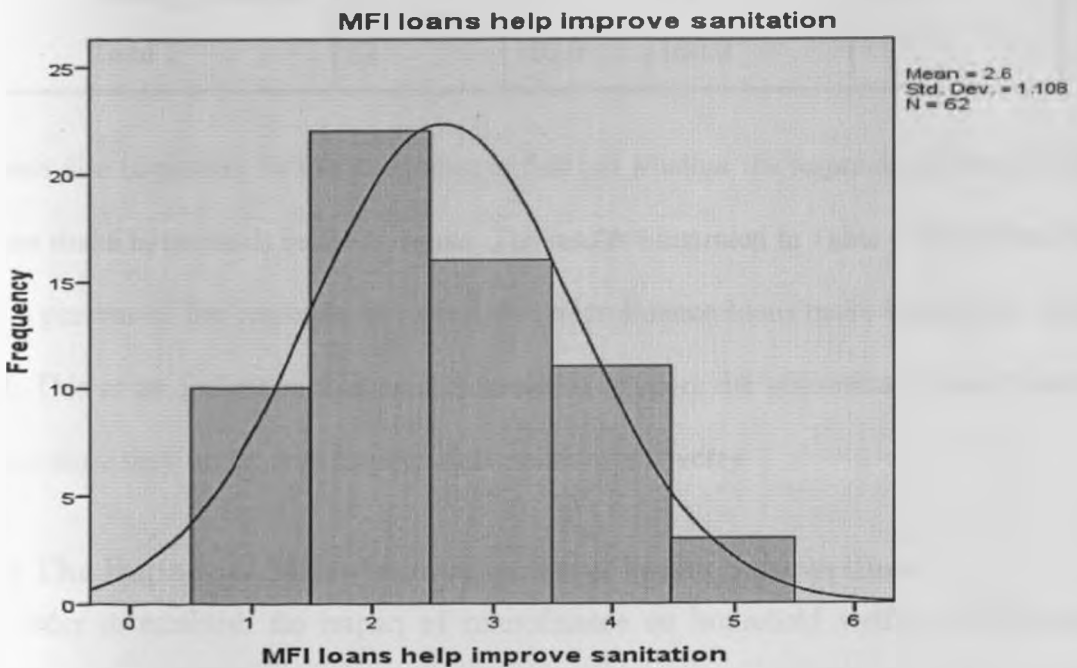
The use of microfinance loans has the capacity to transform households and improve their living standards. The study sought the views of the households on whether access to microfinance loans has uplifted their living standards. The findings in Table 4.8 above indicates that 37.1% of the households in Bungoma county agree that their living standards have been enhanced by microfinance loans.

Table4.9: MFI loans enhance farm produce

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	19	30.6	30.6	30.6
Agree	18	29.0	29.0	59.7
Neutral	8	12.9	12.9	72.6
Disagree	13	21.0	21.0	93.5
Strongly disagree	4	6.5	6.5	100.0
Total	62	100.0	100.0	

It was also established from the study that access to microfinance loans by rural households in Bungoma County has positive effects on the level of farm produce. More than 30% of the respondents indicated that their farm produce has been enhanced by utilization of microfinance loan. When farm produce is enhanced then rural households are able to overcome the challenges of food security.

Figure 4.4: MFI loans help improve sanitation



The researcher wanted to find out from the households in Bungoma county whether their sanitation has improved as a result of utilization of MFI loans. It is evident from the findings in Figure 4.4 above that more than 20 percent of the respondents agreed that MFI loans have assisted that households to improve their sanitation.

Table 4.10: MFI loans make families better off

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	18	29.0	29.0	29.0
Agree	30	48.4	48.4	77.4
Neutral	7	11.3	11.3	88.7
Disagree	4	6.5	6.5	95.2
Strongly disagree	3	4.8	4.8	100.0
Total	62	100.0	100.0	

It was also important for the researcher to find out whether the respondents thought MFI loans make households better or worse. The results illustrated in Table 4.10 confirm that 48.4 percent of the respondents agreed that microfinance loans make households better off. This is an indication that most households support the utilization of microfinance loans since they understand its potential to eliminate poverty.

4.4 The Impact of Microfinance loans on house hold welfare.

In order to establish the impact of microfinance on household welfare in Bungoma County, a regression analysis was conducted. Household welfare was the dependent variable, while MFI loans enable people access basic needs, MFI loans assist rural households start businesses, Microfinance loans improve education standards, MFI loans empower women, MFI loans assist in improving healthcare, Household consumption is enhanced by MFI loans, Microfinance loans enhance living standards of households and Families earn extra income through MFI loans were the predictors or independent

variables. The study adopted the following regression equation to illustrate the above explained relationship: $H_w = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + \epsilon_i$

Table 4.11: Model Summary^b

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.895 ^a	.801	.771	.503

a. Predictors: (Constant), MFI loans enable people access basic needs, MFI loans assist rural households start businesses, Microfinance loans improve education standards, MFI loans empower women, MFI loans assist in improving healthcare, Household consumption is enhanced by MFI loans, Microfinance loans enhance living standards of households, Families earn extra income through MFI loans

b. Dependent Variable: Household welfare

It can be observed from the above Model summary table that the R square figure is 0.801. This value when converted into a percentage will be 80.1 percent. This therefore implies that the eight predictor variables mentioned above contribute or explain up to 80.1 percent of the variance in household welfare in Bungoma County. This therefore means that 19.9 percent is explained by variable that are outside this study.

Table 4.12: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	54.013	8	6.752	26.690	.000 ^b
	Residual	13.407	53	.253		
	Total	67.419	61			

a. Dependent Variable: Household welfare

b. Predictors: (Constant), MFI loans enable people access basic needs, MFI loans assist rural households start businesses, Microfinance loans improve education standards, MFI loans empower women, MFI loans assist in improving healthcare, Household consumption is enhanced by MFI loans, Microfinance loans enhance living standards of households, Families earn extra income through MFI loans

From the Anova table above, it is evident that the significance of our regression model is 0.000 and indication that there is a very strong relationship that exists between the dependent and predictor variable on this study. It therefore means that our model is a reliable one that can be used to establish household welfare in Bungoma County.

Table 4.13: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.122	.196		.622	.537
Families earn extra income through MFI loans	.137	.179	.131	.767	.447
MFI loans empower women	.212	.169	.153	1.258	.214
Microfinance loans improve education standards	.267	.140	.223	1.901	.063
MFI loans assist in improving healthcare	-.011	.175	-.009	-.063	.950
Microfinance loans enhance living standards of households	-.193	.136	-.232	-1.419	.162
MFI loans assist rural households start businesses	.383	.104	.393	3.672	.001
Household consumption is enhanced by MFI loans	.022	.121	.028	.183	.855
MFI loans enable people access basic needs	.340	.127	.359	2.671	.010

a. Dependent Variable: Household welfare

The above table of coefficients gives the weights that are associated to the eight independent variables that explain the variance in household welfare in Bungoma County. The constant value of 0.122 is the value assumed by household welfare when x has a value of Zero. Based on the above weights, the study came up with the following multiple regression equation that can be used to explain the impact of microfinance loans on household welfare: $H_w = 0.122 + 0.137x_1 + 0.212x_2 + 0.267x_3 - 0.011x_4 - 0.193x_5 + 0.383x_6 + 0.022x_7 + 0.340x_8 + 0.196$

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings on the impact of microfinance loans on household welfare in Bungoma County, Kenya. The chapter also presents the conclusions, recommendations made by the researcher based on the findings as well suggestions for further academic research on this topic.

5.2 Summary of Findings

The study established that most of the households had taken microfinance loans from MFI institutions. A greater percentage of those who have taken these loans were found to be women. Men who make use of microfinance loans are fewer compared to the women who do the same in Bungoma county. Among the eight urban settlements of Bungoma County, Kimilili had the highest number of respondents who had taken microfinance loans. Majority of those taking microfinance loans were found to be between the ages of 31-40 years. This is considered the prime age when people are willing to engage in income generating activities in order to avoid the challenges of unemployment.

It was clear from the study that microfinance loans have several effects on the wellbeing of households in Bungoma County. The study findings revealed that improvement of education standards is one of the effects of utilizing microfinance loans. The other effect of microfinance loans on household welfare in Bungoma County is the improvement of

healthcare. When households make use of microfinance loans, they are likely to earn extra income that can assist them get access to better healthcare and education. It was also found out that women are the ones who benefit most from utilization of microfinance loans since this is one way of empowering them.

The study established that when rural households utilize microfinance loans especially in starting income generating projects, it gives them an opportunity to earn some extra income. Extra income in the hands of households enables them to afford the basic needs, enhance their consumption patterns as well as improve the living standards of the households. Most of the households in this study agreed that their living standards had largely improved courtesy of the microfinance loans they had put into good use. Majority of the households also indicated that their consumption had been enhanced by the utilization of microfinance loans.

It was also discovered that households who have utilized microfinance loans have access to improved and better sanitation. The other area where microfinance loans have assisted to improve is farm produce. The households who participated in this study confirmed that the use of microfinance loans in farming has assisted them to increase farm produce hence creating food security for them. The respondents summed up the effects of microfinance loans on household welfare by confirming that they make families well off.

From the regression analysis results conducted with household welfare being the dependent variable and MFI loans enable people access basic needs, MFI loans assist rural households start businesses, Microfinance loans improve education standards, MFI loans empower women, MFI loans assist in improving healthcare, Household

consumption is enhanced by MFI loans, Microfinance loans enhance living standards of households and Families earn extra income through MFI loans being the predictors or independent variables, it was established that there is a strong relationship between the variables. The independent variables are able to explain a larger percentage of the variance on household welfare. The study therefore adopted the following regression equation that can be used to explain the impact of microfinance loans on household welfare in Bungoma County: $H_w = 0.122 + 0.137x_1 + 0.212x_2 + 0.267x_3 - 0.011x_4 - 0.193x_5 + 0.383x_6 + 0.022x_7 + 0.340x_8 + 0.196$

5.3 Conclusions

Utilization of microfinance loans by households in Bungoma County has varied effects on the welfare of the participating households. Some of these effects include: improved education standards, improved healthcare, improved sanitation, enhance consumption and living standards, earning of extra income as well as reduction of unemployment by providing an avenue for self-employment. There also exists a very strong relationship between household welfare on one hand and various variables mentioned in 5.2 above.

5.4 Recommendations

Due to the evidence gathered from the study that microfinance loans enhance household welfare, it will be prudent for the government to ensure that the microfinance loans are more affordable and accessible to rural households. This will enable many households to get access to the loans.

Rural households who fear utilizing microfinance loans should be adequately trained on the best ways to do so. This will encourage many households to seek microfinance loans and thus enhance their incomes.

5.5 Limitation of the study

This study was limited to households who had taken microfinance loans from microfinance institutions within Bungoma County. The responses may therefore not be able to capture the views of all households who have taken loans in all the counties within Kenya.

5.6 Suggestions for further Research

From the regression results, there is a variance of 19.9% that is not explained by the independent variables in this study. It will be important to carry out a study to establish the other factors that can explain this variance as far as household welfare in Bungoma County is concerned.

It will also be significant to conduct a comparative study with other counties in Kenya so as to establish the similarities and differences that may exist. A comparative study will shed more light whether the impact of microfinance loans on household welfare is uniform across the country.

REFERENCES

- ADB (2007) *Effect of Microfinance Operations on Poor Rural Households and the Status of Women*. Special Evaluation Study, Reference Number: SST: REG 2007-19
- Afrane, S. (2002). *Impact assessment of microfinance interventions in Ghana and South Africa: A synthesis of major impacts and lessons*. Journal of Microfinance, 4(1), 41–57.
- Aron, J. (2002) *Building Institutions in Post Conflict African Economies*. World Institute for Development Economics, Research.
- Bagchi et al (2002) *Market Research Study: A sector analysis Update for Microfinance in Lao PDR*, Concern Worldwide.
- Burger, M. (1989) *Giving Women Credit: The Strengths and Limitations of Credit as a Tool for Alleviating Poverty*. World Development 17 (7): 1017-1032.
- Cheston, S., & Kuhn, L. (2002). *Empowering women through microfinance*. New York: UNIFEM.
- CIDA (2002) *Poverty Reduction Approach*, Policy Branch, October 2002
- Congo, Y., *Performance of Microfinance Institutions in Burkina Faso*, Discussion Paper No. 2002/01, UNU World Institute for Development Economics Research Helsinki, Finland
- Diagne, A. and Zeller, M. (2001) *Access to Credit and its Impact in Malawi*. Research Report No. 116 Washington D.C USA: International Food Policy Research Institute (IFPRI).
- Elsa A. and Stina K. (2006) *Microfinance in Burkina Faso An Evaluation of the Credit with Education program*. Vaxjo University, Burkina Faso

Estes J. Richard (2004) *Public and private contributions to social and economic security: A Public lecture*. University of Pennsylvania, Philadelphia

Frankfurt School of Management (2012)

Ghatak, M. and Guinnane, T (1999) *The economics of lending with joint liability: theory and practice*. Journal of Development Economics Vol. 60, 195–228.

Grades, E. (2007) *The Impact of Microfinance On Rural Poor Households' Income And Vulnerability To Poverty: Case Study Of Makueni District, Kenya*. Inaugural – Dissertation

Gudz, S. (1999) *The Potential Role Of Microfinance Institutions In Mobilizing Savings: Lessons From Kenya And Uganda*. Working Paper 99-16

Hospes, O. Musinga, M. and Ongoayo, M. (2002) *An Evaluation of Micro-Finance Programmes in Kenya as Supported through the Dutch Co-Financing Programme With a focus on KWFT*. Steering Committee for the Evaluation of the Netherlands' Co-financing Programme

Human Development Report (2005). “*Human Development Report 2005: International Cooperation at a Crossroads, Aid, Trade and Security in an Unequal World*.” United Nations Development Programme. New York.

<http://www.creditkenya.com/2011/03/under-microscope-microfinances-latest.html>

Jesco, H. and Peter, L. (1997) *Household Welfare Measurement and the Pricing of Basic Services*. World Bank, Washington D.C

Khandker, S.R. (2005). *Micro-finance and poverty: Evidence using panel data from Bangladesh*. The World Bank Economic Review, 19(2), 263–286

- Kondo, T. Orbeta, O. Dingcong, C. and Infantado, C. (2008) *Impact of Microfinance on Rural Households in the Philippines*. Network of Networks on Impact Evaluation (NONIE) Working Paper No. 4.
- Khandakar, Qudrat-1 Elahi and Lutfor, Rahman. M. 2006. “*Micro-Credit and Microfinance Functional and Conceptual Differences*”. Development in Practice. 16 (5).
- King, E. M., Mason, A. D., (2001) *Engendering Development through Gender Equality in Rights, Resources and Voices*, The World Bank, Oxford University Press, 2001
- Ledgerwood, J. (1999) *Microfinance handbook: An institutional and financial perspective*. World Bank (Washington, D.C.)
- Mac Namara, Robert, 1973. “*Address to the Board of Governor*” Washington D.C: 25 September, World Bank.
- Mosely, P. and Hulme, D. (1998) *Microenterprise Finance: Is there a Trade off Between Growth and Poverty Alleviation*. PRUS Working Paper No.3, Workshop Proceedings: Recent Research on microfinance: Implication for Policy> 1-12
- Martin, Sinha. WITH, P. Alexander (eds) Brighton, Sussex, UK. University of Sussex, Poverty Research Units at Sussex (PRUS).
- Mugabi, N. (2010) *Micro-credit utilization and its impact on household income: A comparative study of rural and urban areas in Iganga district*. Master Thesis Makerere University.
- Mugenda O. M. & Mugenda A.G.(2003) *Research Methods, Quantitative & Qualitative Approaches*, Acts Press Publication.
- Navajas, et al (1999) *Micro-credit and the Poorest of the Poor: Theory and Evidence from Bolivia*. World Development 28(2): 333-346.

- Nghiem, H.S, Coelli,T. and Rao, P. (2007) *The Welfare Effects Of Microfinance In Vietnam: Empirical Results From A Quasi-Experiment Survey*. Paper contributed to the 51st Annual Conference of the Australian Agriculture and Resources Economics Society 13-16 February 2007, Queenstown, New Zealand
- Odell, K. (2010). *Measuring the impact of microfinance: Taking another look*. Washington, DC: Grameen Foundation.
- Okurut, et al. (2004) *Microfinance and Poverty in Uganda*. Research Series (41) Economic Policy Research Centre. Kampala. Makerere University.
- Onjala, J. and Cook, J. (2009) *Microfinance in the Water Supply and Sanitation Sector in Kenya*. Global Water Challenge.
- Paul, L. (2004) *Action, Belief, and Empowerment*. Philosophy, Psychiatry, and Psychology 11 (2):119-123.
- Radio Netherlands (2010),“*microfinance*” Speech by Minister for Development Cooperation Bert Koenders - Peace Palace in The Hague.Radio Netherlands, Speech by Minister for Development Cooperation Bert Koenders on microfinance - given at the Peace Palace in The Hague, 25 January.
- Revenue Allocation Commission (2009) *County Details and Demographic Information*, Government Press, Nairobi.
- Robinson Marguerite S (1998): “*The Paradigm Shift From credit Delivery to Sustainable Financial Intermediation,*” In Mwangi S Kimenyi, Robert C Wieland and J D Von
- Robinson, M. S. (2001). *The Microfinance Revolution: Sustainable Finance for the Poor*. Washington, D.C., The World Bank.
- Ross, M. (2002) *Implementing and Evaluating Micro-credit in Bangladesh*. Development in Practice 12(2): 153-163.

- Sheila Leatherman and Christopher. 2009. *Linking health to microfinance to reduce poverty*. Bulletin of the World Health Organization. United States of America
- Sengsourivong Kongpasa (2006). *The impact of Microfinance on Household Welfare: Case study of a Savings Group in Lao PDR*
- Stewart, R. et al., 2010, '*What is the Impact of Microfinance on Poor People? A Systematic Review of Evidence from sub-Saharan Africa*', Technical Report, EPPI-Centre, Social Science Research Unit, University of London
- Svensson, E. (2007) *Microfinance, Financial Systems and Economic Growth: A Theoretical framework and findings from Bolivia*. A postgraduate thesis, Lund University.
- Syngenta Foundation (2007). *The Role of Microfinance in Rural Microenterprise Development*. Syngenta Foundation for Sustainable Agriculture WRO.
- Tilakaratna, G. (2005) *Microfinance in Sri-Lanka: A household Analysis of Outreach and Impact on Poverty*. Institute of Policy Studies of Sri-Lanka.
- The Norwegian Nobel Committee (2006); *Nobel Peace Prize 2006*. nobelpeaceprize.org/GB/laureates/laureates-2006, retrieved on February 4, 2012.
- Todaro, M. P., Smith, S. C, *Economic Development*, Pearson Education Limited, Harlow, England, 2003
- UN (2005) *Microfinance and the Millennium Development Goals*. A reader's guide to the Millennium Project Reports and other UN documents
- www.guide2kenya.com/events_in_Kenya
- Yunus, M. (2001) *Banker to the Poor: The Autobiography of Mohamed Yunus, Founder of Grameen Bank*, Dhaka, Bangladesh. The University Press Limited.

Yunus, M. (2004); *Creating a World without Poverty*. Social Business and the Future of Capitalism; New York (NY): Public Affairs.

Zeller, M. & Sharma, M. (1998), "*Rural Finance and Poverty alleviation*" Washington, DC. USA: International Food Policy Research Institute (IFPRI).

APPENDICES

Appendix I: Research Questionnaire

PART A: Demographic information of Respondents

1. Name of your urban centre within Bungoma County
 - (a) Kimilili (b) Bungoma (c) Webuye (d) Malakisi (e) Chwele (f) Kapsokwony
 - (g) Cheptais (h) Tongaren

2. Have you ever taken a loan from a Microfinance institution?
 - i.) Yes
 - ii.) No

- 3 Your Gender
 - a) Male
 - b) Female

4. Age
 - a) 21-30 years
 - b) 31-40 years
 - c) 41- 50 years
 - d) Above 50 years

PART B: Relationship between microfinance loans and household welfare

Kindly rate the following statements according to the microfinance loans contribution to household welfare

NO.	Relationship	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Microfinance loans assist in improving education standards.					
2	MFI loans assist people to					

	improve their healthcare.					
3	MFI loans financially empower women in the society.					
4	MFI loans have made it possible for the accessibility of basic needs such as; food, clothing and shelter.					
5	Consumption of households is enhanced by MFI loans.					
6	MFI loans assist families to earn extra income.					
7	Through MFI loans, the living standards of households have been enhanced.					
8	MFI loans have enabled farmers to produce more thus alleviating hunger.					
9	MFI loans have assisted households to access better sanitation.					
10	Households are better off with microfinance loans than without.					

PART C: Impact of microfinance loans on household incomes

To what extent do microfinance loans enhance the following factors to improve on household welfare? Use a scale of 1-5 where 1= Very great extent and 5= not at all

NO.	Impact	1	2	3	4	5
1	MFI loans enable rural households to start businesses hence earning extra income.					
2	Training offered by MFI assists people to start and manage income generating activities.					
3	MFI loans enable women earn some income.					
4	The youth are able to start income generating activities through MFI loans.					
5	MFI loans have no effect on household incomes.					
6	MFI loans assist families to earn extra income.					
7	It is not possible to confirm the impact of MFI loans on Household income.					
8	MFI loans make households more poorer than before.					