IMPACT OF MICROFINANCE SERVICES ON POVERTY ALLEVIATION AT THE HOUSEHOLD LEVEL

BY

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DECLARATION

This research project is my original work and has not been submitted for examination in any other university.
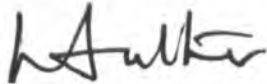
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This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this work to family for the sacrifice they made for me to complete this project. Their love, care, concern, support, encouragement and enthusiasm inspired me to achieve this goal.

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ABSTRACT

Microfinance programs are increasingly publicized as one of the most successful tools for development with the ability to positively affect its participant's economic and social status. Measuring this impact can be difficult, and the programs have been criticized for not reaching the poorest of the poor. Various approaches to advance credit for micro and small enterprises have been tried in Kenya by different institutions with varying degrees of success or failure. Major approaches include: minimalist versus integrated approaches; group-based lending versus lending to individuals; village banking and linkage programs. Microfinance is becoming one of the most popular tools for development. It is important to understand the effects of microfinance programs are participants, but also its possible effects at reducing poverty and leading development.

The objective of this study was to evaluate the effects of microfinance programmes on poverty alleviation at the household level. This research study employed a survey research method to achieve the set objectives. The population of the study consisted of beneficiary households of microfinance programmes in Kisumu. This research study used purposive sampling to select households to be studied. A sample of 50 households who have benefited from microfinance programmes was selected and another 50 households who have not benefited from microfinance programmes were picked for comparison. The primary data was collected using structured questions and unstructured questions. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables.

From the findings of the study the study recommends that MFIs should ensure speedy processing of loans to customers and increase monitoring of income generating activities to see their progress and challenges. MFIs should ensure that they reach out many rural poor and increase awareness of their products to community level and also provide soft loans for their customers. MFIs should introduce entrepreneurial training in the rural-urban areas to enlighten people on microfinance programmes.

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CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter outlines the basic process that the study will follow. It starts with background information on Micro finance institutions. The chapter describes Micro finance institutions services.

1.1 Background of the study

1.1.1 Micro finance services

Micro finance institutions provide services to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. According to Germidis, (1991) Micro financing by the Micro finance institutions refers to the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. This is a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers. Those who promote microfinance generally believe that such access will help poor people out of poverty.Ultimately; the goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance. Microfinance refers to the small-scale financial services that involve mainly credit and savings services to the poor (Robinson, 2001). Microfinance has evolved to also include the provision of insurance, housing and investment services for low-income people. Globally, MFIs provide an avenue for the poor to enrich their livelihoods and to have a greater impact on their countries' economic growth. However, despite the exponential growth of the microfinance institutions, its demand remains largely untapped. Micro-finance institutions (MFIs) offer loans and/or technical assistance in business development to low-income community in developing countries. Therefore, MFI should be an effective development agent and alleviate poverty (OECD, 1996).

Improving access to financial services and products for many more Kenyans remains a great challenge to microfinance institutions. By December 2006, there were only 3.3 million bank accounts, for a population of about 34 million Kenyans. The percentage of Kenyans holding bank accounts still remains low by international standards (World Bank, 2008).

Micro and small-scale enterprises (SMEs) have generated a demand for credit and savings services that has resulted in the formation of over 100 microfinance organizations, half of which are non-governmental organizations (NGOs) practicing some form of micro lending across Kenya (Association of Microfinance Institutions of Kenya, 2007). Mosley and Hulme, (1998) Micro enterprise finance has generated enormous enthusiasm among aid donors and non-government organizations (NGOs) as an instrument for reducing poverty in a manner that is financially self-sustaining. Although something of a consensus has emerged concerning the principles by which such institutions should be designed, however, we know little about their impact. The impact of lending on the recipient household's income tended to increase, at a decreasing rate, as the recipient's income and asset position improved, a relationship which can easily be explained in terms of the greater preference of the poor for consumption loans, their greater vulnerability to asset sales forced by adverse income shocks and their limited range of investment opportunities.

Microfinance institutions promote the culture of saving and investing in society. The money invested in small businesses would probably have been allocated to consumption expenditure if small firms have not been established or sought for it (Swope, 2005). This nature of propensity to save and invest, induced by the development of MFIs, can directly contribute to the overall savings ratio of a given population. Enhancing the poverty alleviation potential of small firms through financial, regulatory and managerial assistances will eventually reduce dependency on foreign markets. This will not only save foreign exchange but also reduce the impact, which fluctuations of foreign exchange receipts will have domestically. The promotion of the development of Mfis will, therefore, have a long run effect of economic independence, and sustained sovereignty and autonomous development.

Microfinance institutions participate in the integration of agriculture which is an important engine for economic growth in developing countries. Rural microenterprise is critical to that growth. The microenterprise sector (small farmers, small-scale traders, artisan producers) needs access to financial services, including credit and savings products, which should be provided through a professional and dynamic microfinance sector. The microfinance industry sector is essential in both connecting urban and rural economies and industries of different types and sizes. It needs a very specific blend of financial instruments and business support.

Microfinance institutions can be instrumental in spreading awareness about the poverty-environment linkage, educating poor people about environmentally friendly practices and managing their natural resources so as to get maximum return from them while maintaining them. They can collect data about cause and effect, propose policy changes, instigate a revolution in the way poor think, enforce environment management and set the path for a sustainable growth. MFIs are in a position to influence and enforce environmentally friendly decisions by the poor. They can make environmental management a prerequisite for their clients to meet a minimum environmental criteria and most importantly, involve the poor in environmental planning by coming up with innovative projects that provide employment in this area, (Westover, 2008).

1.1.2 Micro finance institutions in Kenya

As an industry, micro finance is a relatively new phenomenon in Kenya, with a few agencies starting about 20 or so years ago but the sector gaining the status of an industry only in the last 10 years. The Government of Kenya (GoK) has indirectly provided a boost to the microfinance sector. During 1992-1994, the GoK has been implementing a Structural Adjustment Program which has resulted in the liberalization of the economy. To counter the possible initial negative social impacts of the liberalization process, the Government of Kenya identified areas and project needing external donor support, including small-scale and micro enterprises. Lack of access to credit was considered a major bottleneck for entrepreneurial development. The international donor community responded generously. Microfinance agencies (in particular client-based ones) became donor darlings. A conservative estimate is that the micro-finance industry has received a total of USD 80 million.

Government policy or development philosophy was not unambiguous. It is also said that the GoK wanted to promote the small-scale and enterprise sector as a means of accelerating economic growth and generating employment opportunities. In this view the small-scale and enterprise sector is seen as a motor of economic development, rather than a social safety net for micro entrepreneurs to make a living. Kenya Rural Enterprise Programme (K-REP) can be considered the pioneer of NGO micro-finance in Kenya. The experimental and financing activities of K-REP have had far-reaching consequences, influencing the outreach modalities and

outreach of quite some other NGO-MFAs and maybe even the forms of assistance given by Dutch CFAs to micro-finance programmes in Kenya.

With generous support from USAID, K-REP was designed as an intermediary NGO in 1984 to provide credit and technical assistance to other NGOs in Kenya. In the early 1990s, K-REP recognized a potential danger in combining the provision of financial services (loans and deposits) with non-financial services (training and technical assistance). This problem arose from the difficulty in assessing the cost of non-financial services, leading to such costs undermining the financial sustainability of the institution. This resulted in the organization adopting a minimalist approach (loans without training or technical assistance). The targeting philosophy of this approach was to offer financial services to existing entrepreneurs, not people that could be trained to become an entrepreneur. The minimalist approach was one of the main results of the adoption of a business-oriented approach as opposed to the integrated approach, in which financial service provision was only a minor and often ill-defined part of a wide range of programmes and services. Driven by the motivation of self-sustainability, K-REP reduced the number of NGOs it supported from twelve to four. The number was subsequently increased to five with the addition of KWFT. These five all promoted the minimalist approach.
For donors, including Dutch CFAs, this meant that there was little scope for them to finance non-financial services of micro-finance agencies.

The only remaining subsidy object was product development or financial institutional innovation. This happened to be a core activity of K-REP from its very start Due to the pioneering and supportive roles of K-REP as well as donors much appreciating NGOs imitating the Grameen Bank approach, Kenya witnessed the emergence of quite some NGO-micro-finance agencies in the 1990s, using adapted versions of the Grameen Bank group-lending model. In this connection, one might say that Kenya evolved as the Bangladesh of Africa.

1.2 Statement of the Problem

Microfinance programs are increasingly publicized as one of the most successful tools for development with the ability to positively affect its participant's economic and social status. Measuring this impact can be difficult, and the programs have been criticized for not reaching

the poorest of the poor. Various approaches to credit for micro and small enterprises have been tried in Kenya by different institutions with varying degrees of success or failure. Major approaches include: minimalist versus integrated approaches; group-based lending versus lending to individuals; village banking and linkage programs. Microfinance is becoming one of the most popular tools for development. It is important to understand the effects of microfinance programs are participants, but also its possible effects at reducing poverty and leading development. Institutions that practice microfinance generally aim to fill in the gap between commercial banks who lend to the wealthy or middle class and money lenders who lend to the poor at exorbitant interest rates. Many of the poor who lack credit and collateral have no access to financial markets, although they could benefit greatly from savings, investment and loans. Microfinance has also been targeted as one of the few successful kinds of programs for developing countries.

In spite of Kenya's relatively large financial services sector and the mushrooming of microfinance schemes among NGOs in the 1990s, it is hard to find reliable, more or less comprehensive and analytical reports on the financial landscape of Kenya. It is generally said that the bulk of the poor, most of whom live in the rural areas, have no access to formal financial services. The explanation is that most formal financial agencies do not exist in rural Kenya because of high transaction costs and perceived risks. As a result, most people in the rural areas cannot afford the time and money for a journey to a bank located in the major towns.

Previous studies have not concentrated on the impact of microfinance programmes on poverty alleviation in Kenya for example; Wambugu (2007) for instance did a study on the financial and social impact of microfinance lending: A case study of K-Rep bank's Juhudi credit scheme in Kawangware region. Mushimiyimana (2008) did an analysis of access to the microfinance institutions loans by female entrepreneurs and impact on their business in the Nairobi Business District. Kamau (2008) did a study on determinants of profitability of microfinance institutions in Kenya. It is against this background that an evaluation of the impact of microfinance programmes on poverty alleviation in Kenya is necessary.

1.3 Objectives of Study

1.3.1 General Objectives of the Study
To evaluate the effects of microfinance programmes on poverty alleviation in Kenya

1.4 Importance of the Study
The results of this study were expected to play an important role by providing the information necessary in the following areas:

The management; The management of micro finance institutions will be able to determine the major effects encountered in their financing thus making informed decisions on new investments.

The scholars and Academicians; As new challenges and opportunities emerge in the finance sector, change is inevitable. This calls for continuous research to ascertain the actual situations rather than living on assumptions. The findings of this study therefore will prove useful to scholars and academicians who may wish to use them as a basis for further research on this subject area and other related aspects of this study.

The investors; Investors may need to know the challenges of financing MFIs for them to make informed choices. This study will prove important in providing such information to the investors. Microfinance institutions have undergone some difficulties and challenges in their way to achieving their goals. There has been a challenge to complete the metamorphosis from mostly donor-dependent collection of programs to a mature industry capable of growing sustainably. Other difficulties has been Poor regulation and supervision of deposit-taking, the issue of meeting the needs for savings, remittances or insurance, Limited management capacity and the need for more dissemination and adoption of rural, agricultural microfinance methodologies. The Micro finance industries are also faced by similar difficulties in the execution of their services.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the past studies done on the impact of micro finance programs on poverty alleviation. In this chapter emphasis was on micro finance activities performed by MFIs for Poverty alleviation, impact of microfinance activities on poverty alleviation and contribution of microfinance programmes in poverty alleviation. This chapter also presented a review of the theories guiding the study and service delivery approaches in microfinance institutions.

2.2 Empirical review

Microfinance has also been targeted as one of the few successful kinds of programs for developing countries. Recently, Muhammad Yunus won the Nobel Peace Prize jointly with the Grameen Bank, widely recognized as one of the first microfinance banks established (NYT, 2006). Hernando De Soto, (2000) argues that the poor are asset rich, but lack the means to convert these assets into investment and capital because of their inability to access the credit market. De Soto suggested property rights as a solution, but Galiani and Schargrodsky, (2005) found that in a natural experiment in Argentina even with property rights the poor could not use this property as collateral to gain access to financial markets. Microfinance banks have been proposed to bridge the gap and provide the poor with small loans and savings.

According to Hulme *et al.* (1996) most institutions regard low-income households as "too poor to save". In order to generate higher incomes, savings and more investment, there is need to inject capital in the form of microfinance. However capital is only one ingredient in the mix of factors necessary for a successful enterprise12.Most importantly it requires entrepreneurial skills and efficient markets to reduce poverty.

According to Ismawan (2000) the real idea of microfinance is to help the weakest member of civil society who in this case is the poor. However Roth (1997:6) has another view. He argues that microfinance programmes often treat the symptoms and not the causes of poverty. Poverty is frequently the result of powerlessness. The proponents of microfinance programmes as a panacea

of poverty ignore the complex matrix of power relations that circumscribe the capacities of the poor to run micro enterprises.

However Roth (1997) argues that credit is only one ingredient in the mix of factors necessary for a successful enterprise. He is critical of the microfinance evangelists who create a vision of the rural poor as a collection of budding entrepreneurs, waiting for salvation from credit agencies, which on receipt of credit, will develop successful micro enterprises and leave poverty forever. Their promotional activity gives rise to worrying spectre of a return to a "blueprint", implicit in the new microfinance approach to development. To respond to a potential demand for a good or service, a rural micro-entrepreneur may need access to one or more of the following: transport, communications, power, water, storage facilities, a legal system for enforcing contracts and settling disputes. Apart from infrastructure, micro entrepreneurs need access to information about market trends and skills to run their macro enterprises.

Ismawan (2000) calls for differentiation between two categories of the poor. Some are able to increase their income by themselves, create activities that would enable them to move closer to or above the poverty line. Those in the second category are unable to do so and would need permanent financial support from microfinance. The latter category would include the poor who have no capacity to undertake any economic activity, either because they lack personal skills or because they are so destitute that they are in no position to develop any meaningful economic activity in the environment in which they live. Those in the first category are described as the "entrepreneurial poor". The entrepreneurial poor do not need assistance for themselves, but they do need help in setting up an activity that will eventually increase their income. In particular they need assistance in accessing the resources to develop this activity, and to some extent managerial assistance. The non-entrepreneurial poor require direct assistance to survive.

According to Ferrand, et al (2004) he argues that functioning markets is critical for poverty alleviation. The danger is that it does not work effectively for the poor. Ferrand outlines three steps for the markets to work namely, understanding markets, focusing on factors that inhibit their improved performance and opportunities for their development, developing a vision of the future, a picture of how markets can work effectively, and acting to build markets, to make markets more effective and inclusive.

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According to Copestake (2002) microfinance has a polarizing effect as there is discrimination in favour of richer clients, who benefit from better access to credit, and exclusion of poorer people. If one of the aims of microfinance is to assist the "poorest of the poor" the microfinance is not always the most appropriate intervention16.

Marek (2003) in his research on how the social capital findings relate to microenterprise development and specifically to microfinance used Robert Chambers (1983) literature to help him to put together the "poverty trap". Marek argues that poverty is a complex web of disempowering relationships, which don't work. Households trapped in this spider's web suffer from material poverty, vulnerability, powerlessness, physical weakness, isolation and spiritual poverty. Therefore, addressing the problem of material poverty through microfinance services is vital and critical, but it will not be enough for the poor households to escape from the poverty trap. Marek argues that it is not possible to neglect other aspects of human nature and the multi-sided nature of poverty.

This is related to this issue of whether microfinance is the type of development tool that can reduce poverty or instead is only useful for those who already possess a certain degree of entrepreneurial talent and drive to succeed. Lazear, (2004) found that entrepreneurs tend to be individuals who excel at a variety of skills rather than focus on one. However, the study also found that an endowment of broad skills sets could be matched by a human capital investment in a broad range of areas. This applies to microfinance in that it is possible that some people are not naturally suited to being entrepreneurs, however with the right human capital investment they may be able to gain the skills to succeed as one.

Another major issue though in judging whether microfinance can make a difference in poverty is difficulty in measuring impact. In more recent years, there has been a push from the research community to shift microfinance institutions into being more focused on the individual needs of its clients. This desire for change comes primarily from the entrance of commercial banks into the microfinance industry, which will be discussed further in the next section. Many of these mainstream financial institutions, and nonprofits that choose to function more similarly to commercial banks, center too heavily on loans and do not put enough energy into additional services that may benefit their borrowers (Woller 2002). There is a great deal of literature that

supports the idea that microfinance is more effective when institutions create services that are tailored to the needs of their borrowers (Nourse 2001; Eyiah 2001). First, in order to truly enable the poor to grow out of poverty, the tools and services provided for them should meet their needs. Sebstad and Nourse (2001) argue that there are three key elements that must be matched to the needs of clients in order for microfinance institutions to truly benefit the borrowers: products, repayment amounts and cycles, and loan size.

Additionally, several studies show the ways in which client-focused practices benefit the institutions as well (Woller 2002; Dunn 2002). Woller (2002) suggests that although there is a massive population in the world that is living in poverty, unless the individuals see value in the services and products that the microfinance institutions are providing, they will be unwilling to take part in the programs. Dunn (2002) takes this idea further by showing that through generating value for the clients via more appropriate services, the institutions increase their sustainability and competitiveness within the microfinance. Several studies have been performed on the group lending aspect of microfinance, and most research shows it to be an effective method. Woolcock (2001) builds on the theory that group lending leads to improved performance by the borrowers. He explains that in additional to the support and guidance from the group, there is also a strong incentive for each individual to operate effectively due to one's personal reputation within the group. Furthermore, since groups generally are formed of members from the same village or community, repaying loans on time and in full affects a borrowers standing within the community at large, not limited to the lending group. However, while this social effect can produce positive outcomes for the microfinance institutions, some researchers believe that it can lead to an unhealthy social environment. Islam (1995) examines the effect of lending groups from the perspective of the microfinance institutions. His study finds that group lending provides a strong system of peer monitoring, which in turn provides the institutions with the ability to be more flexible with their finances, either charging lower rates than other lenders or charging the same rate and receiving higher rates of repayment with lower risks. Although most of the research on joint lending finds positive effects, an empirical study of microfinance institutions and borrowers concluded that, contrary to conventional understanding, joint lending does not have a significant effect, either positive or negative, on the repayment of loans (Kaboski and Townsend 2005) Industry.

2.3 The Structure of the Microfinance Sector in Kenya

The Microfinance sector in Kenya is regulated by the Central Bank of Kenya, through the Microfinance Act which was enacted by the Parliament of Kenya on December 30, 2006. The Act applies mainly to deposit-taking institutions, although some parts of the Act may be declared applicable to non-deposit taking institutions.

In addition to the Microfinance Act, there are full-fledged microfinance units in the Ministry of Finance (the Treasury) and the Central Bank of Kenya to formulate policies and procedures to address the challenges of microfinance institutions, particularly in the rural areas, and to build a database to facilitate better regulation and monitoring of their operations (Omino, 2005).

According to Omino (2005), over 100 organisations in Kenya, including about 50 NGOs, practice some form of microfinance business. About 20 of the NGOs practice pure microfinance activities, while the rest practice microfinance alongside other social welfare activities. Major players in the sector include: Faulu Kenya, Kenya Women Finance Trust (KWFT), Pride Ltd, Wedco Ltd, Small and Medium Enterprise Programme (SMEP), Kenya Small Traders and Entrepreneurs Society (KSTES), Ecumenical Loans Fund (ECLOF) and Vintage Management (Jitegemee Trust). The Kenya Post Office Savings Bank (KPSOB) is also a major player in the sector but only to the extent of providing savings and money transfer facilities.

According to Dondo, (2005), the microfinance sector in Kenya comprises of organisations which can be categorised into three "sub-systems": the informal system, the formal subsidized system and the formal non-subsidized system.

The informal system: "financial arrangements between relatives and friends, traditional money lenders, Accumulating Savings and Credit Associations (ASCAs) and Rotating Savings and Credit Associations (ROSCAs)" (Dondo 2005).

Credit from friends and relatives constitute an important source of start up capital for many micro enterprises in urban areas. Informal financial arrangements are deeply rooted in the cultures of many ethnic communities. The popularity of these informal arrangements has been due to geographic proximity between lenders and borrowers, friendlier credit terms, and fewer

requirements. Repayment arrangements tend to be open-ended and are based on reciprocity (Dondo, 2005).

In Kenya, informal groups or ROSCAs are generally referred to as *chamas*. There are thousands of *chama's* and they typically allow their members to save using a 'merry-go-round' system and can also offer a variety of other financial services including loans and investments. ROSCAs and ASCAs provide credit to those who would otherwise be ineligible to borrow from formal sources. They also mobilise savings, serve as a social function, and provide a form of insurance.

Ismail et al. (2003), in their study of successful community-based food and nutrition programmes, show that various Kenyan communities also have informal women's groups that are a key vehicle for pooling of funds. The Akamba culture for instance, requires that every woman, of any age, religion, or social class be a member of a group with at least 10 to 15 others. These groups are known as *Mwethya Groups*. These groups are exclusively for women to help each other in the social and economic problems faced by their families. Generally, groups meet once every month or two months and contribute money at each meeting, to be given to the needy members, or saved for hard times (Ismail et. al. 2003). These *Mwethya* groups are well organised groups that are registered with the Ministry of Culture and Social Services. According to Nzioka (2000), a Drylands Research associate, these groups are also used for farm activities such as bush-clearing, cultivation and terracing.

The formal subsidized system: According to Dondo (2005), the formal subsidized system comprises of institutions that provide financial services and receive subsidies. The main actors are Microfinance NGOs with special credit programs for SMEs who benefit from foreign aid agencies (Dondo, 2005). The Microfinance organisations range from small charitable organisations operating in a limited geographical area to large institutions in several regions of the country. Some examples are Plan International's partnership with Business Initiatives and Management Assistance Services (BIMAs) and World Vision Kenya's KADET (Kenya Agency for Development of Enterprise and Technology).

There are also government agencies that have been developed to offer financial support for micro-enterprises in order to economically empower Kenyan communities that have limited or no access to credit facilities. The principle government agencies are: (i) Industrial and

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Commercial Development Corporation (ICDC), (ii) Kenya Industrial Estates (KIE), (iii) District Joint Loan Boards, (iv) Kenya Tourist Development Corporation (KTDC), (v)Youth Enterprise Development Fund (YEDF), and (vi) the Women Enterprise Development Fund.

The formal, non-subsidized system: Dondo (2005) suggests this as the final sub-system. The formal non-subsidized institutions include commercial banks, non-bank financial institutions, and Savings and Credit Co-operative Societies (SACCOs). Those institutions that provide microfinance services include Equity Bank, Family Bank, Faulu Kenya, K-Rep Bank and the Co-operative Bank of Kenya.

The government regulates the institutions within the financial sector with the aim of protecting customers (Central Bank of Kenya, 2009). The regulatory framework for the financial sector in Kenya consists of various independent regulatory bodies, each charged with the supervision of their various sub-sectors. Their general enforcement powers consist of requiring information to be provided, assessing and ensuring the integrity and honesty of owners and managers of regulated entities, inspection of operations, intervention in operations of regulated entities including removal of managers, revocation of licenses and sanctioning of entities and individuals (Mutuku, 2008).

2.4 Effects of Microfinance programs

Measuring impact can also help improve operations. Getting the answer right can provide practitioners, donors, investors, and policymakers with critical information about what types of services are effective, helping them to design good programs and allocate scarce resources toward interventions that work. Many of the programs are not designed in a way that lends itself to credible research and lack control groups. Anecdotal evidence is plentiful in describing the stories of the poor turning into budding entrepreneurs starting grocery stores, handicraft shops, and other businesses as a result of microfinance loans. However, as Armendariaz and Morduch 2005 explain, anecdotes highlight the most successful stories of participants and cannot give an overall picture of the program's impact (The Economics of Microfinance, 2005). The issue of problems in evaluating impact is well illustrated by Khandker, (2003) and Morduch 1998 who used the same data from microfinance programs in Bangladesh and found opposing results.

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Khandker 2003 found a positive result in reduction of poverty among program participants as well as a positive spillover effect on the program community.

Murdoch, (1998) found no significant results on poverty reduction between control and participant groups using a difference-in-difference method of statistical analysis Thus, measuring impact of programs on poverty reduction is an ongoing problem. There are also several other criticisms of microfinance including serious questions about sustainability of the programs and the role of subsidies, the imbalance of gender participation in programs in favor of females, and the issue of whether these institutions can or should make a profit (Murdoch 2005, McKernan 2002). There are also other benefits of microfinance which include empowerment of women, positive effects on children of participants, and increases in incomes of participants (Murdoch 2005, UNCDF, 2006, McNelly 1998). Many microfinance programs couple their loans and savings with education on business or nutritional training. There is a need for more research aimed at discovering the impacts of the variety of microfinance programs to determine the best type of structure.

This is true both for impact evaluations of an entire program (e.g., testing the impact of expanding access to credit), and impact evaluations of program innovations (e.g., testing the impact of one loan product versus another loan product, or of providing add-on services such as entrepreneurship or health training). Thus, impact evaluations are not simply about measuring whether a given program is having a positive effect on participants. The microfinance industry, like many industries, is often driven by a set of assumptions about the "right way" to do business. For example, until fairly recently group liability was widely considered the "best practice" way to offer collateral-free loans because the group guarantee was essential to ensure repayment. It took a maverick lender (ASA, Bangladesh) to show other MFIs it was possible to offer collateral-free individual loans to the poor. Impact evaluations could have simplified the process, in a transparent and controlled way, by individually testing assumptions about how to offer financial services to the poor.

Measuring the counterfactual is the key to determining the impact of the program, and how well the design allows the researcher to measure it is one critical difference between a reliable and an unreliable evaluation. The typical strategy for creating the counterfactual is to compare clients to

a group of non-clients, and to attribute any differences between the groups to the impact of the program. This will only work if the two groups were otherwise similar at the outset of the program. MFIs that have not reached sustainability are often under pressure to deliver primarily to that goal such that gender dimensions take a background role. Lip service is paid to this discussion regardless of the other compelling factors that suggest that gender-sensitive financial products can actually improve the bottom line of the institution.

2.5 Theoretical Framework

2.5.1 Poverty as cultural characteristics

Development plays a central role to poverty reduction in third world countries. Some authors feel that the national mindset itself plays a role in the ability for a country to develop and to thus reduce poverty. Mariano (2000) outlines twenty "cultural factors" which, depending on the culture's view of each, can be indicators as to whether the cultural environment is favorable or resistant to development. In turn Lawrence (2000) identifies ten "values" which, like Grondona's factors, can be indicative of the nation's developmental environment. Finally, Stace (2000) claims the differences between development-prone and development-resistant nations is attributed to mental models (which, like values, influence the decisions humans make). Mental models are also cultural creations. Grondona, Harrison and Lindsay all feel that without development orientated values and mindsets, nations will find it difficult if not impossible to develop efficiently, and that some sort of cultural change will be needed in these nations in order to reduce poverty.

2.5.2 Poverty as a label

Various theorists believe the way poverty is approached, defined, and thus thought about, plays a role in its perpetuation. Maia (2006) explains that modern development literature tends to view poverty as agency filled. When poverty is prescribed agency, poverty becomes something that happens to people. Poverty absorbs people into itself and the people, in turn, become a part of poverty, devoid of their human characteristics. In the same way, poverty, according to Green, is viewed as an object in which all social relations (and persons involved) are obscured. Issues such as structural failings (see earlier section), institutionalized inequalities, or corruption may lie at

the heart of a region's poverty, but these are obscured by broad statements about poverty. Arjun (2004) writes of the "terms of recognition", which are given the poor are what allows poverty to take on this generalized autonomous form. The terms are "given" to the poor because the poor lack social and economic capital, and thus have little to no influence on how they are represented and/or perceived in the larger community. Furthermore, the term "poverty", is often used in a generalized matter. This further removes the poor from defining their situation as the broadness of the term covers differences in histories and causes of local inequalities. Solutions or plans for reduction of poverty often fail precisely because the context of a region's poverty is removed and local conditions are not considered.

2.5.3 Poverty as restriction of opportunities

The environment of poverty is one marked with unstable conditions and a lack of capital (both social and economical) which together create the vulnerability characteristic of poverty. Because a person's daily life is lived within their environment, a person's environment determines daily decisions and actions based on what is present and what is not. Dipkanar (2006) argues that the poor's daily practice of navigating the world of poverty generates a fluency in the poverty environment, but a near illiteracy in the environment of the larger society. Thus, when a poor person enters into transactions and interactions with the social norm, their understanding of it is limited, and thus decisions revert to decisions most effective in the poverty environment. Through this a sort of cycle is born in which "the dimensions of poverty are not merely additive, but are interacting and reinforcing in nature."

2.6 Service delivery approaches

Various approaches to credit for micro and small enterprises have been tried in Kenya by different institutions with varying degrees of success or failure. Major approaches include: minimalist versus integrated approaches; group based lending versus lending to individuals; village banking and linkage programs.

Minimalist approaches and group-based lending have been very popular and much tried by leading NGOs in the field of micro-finance, like K-REP, KWFT and Faulu. Minimalist approaches basically concentrate on the provision of loans, giving no or at most some functional

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attention to training or technical assistance (Pederson and Kiiru, 2003). Group-based lending schemes have been very often based on the Grameen Bank method. This method has been designed and developed in Bangladesh with a view to deliver financial services to the poor, who have no access to formal banking services. Key features of the Grameen Bank method as applied in Kenya are:

Group-lending approach: organization of clients into groups or use of informal groups for purposes of attaining economies of scale from the small sized transactions and instituting group guarantee mechanisms;

Character-based credit appraisal: credit appraisal is based on character assessment, rather than traditional collateral (ownership of land or other assets) and viability of projects to be financed;

Focus on micro-enterprises: a special focus on financing very small businesses and the poor.

A number of NGOs have also promoted Self Help Groups (SHG) registered under the Department of Culture and Social Services. These groups have been formed with the objective of developing inter-group associations and linkages with banks.

In the last three years, K-REP has introduced a new type of agency, based on membership in order to diversify its clientele and increase outreach in rural areas: Financial Services Associations (FSAs). These assocations were started in poor rural areas that were neither covered by the solidarity credit systems of the Grameen model (as, for instance, practised by KWFT) nor by the SACCOs that mainly operate in cash-crop areas. FSAs are based on internal resources of members who buy shares to form a credit fund. Although they are still at the experimental stage, the low cost of their establishment and running indicates that they might achieve autonomy despite the weak economic environment. The evaluation study of Miller (2000), however, rather suggests the contrary.

Post Bank has five regional offices in Nyeri, Mombasa, Kisumu, and Nakuru, with its head office based in Nairobi. Post Bank is currently collaborating with MicroPED and MicroSave-Africa, two of the major microfinance support organizations in the country, in training a broad range of its staff in microfinance, conducting research on new products, and developing a strategy for marketing these services. The bank is a founder member of the

Kenyan Association of Micro Finance Institutions (AMFI), a voluntary network of leading MFIs deeply involved in developing a legal framework for licensing, regulation, and supervision of the evolving microfinance industry.

2.6.1 Savings services

Only MFAs registered under the Banking Act can legally mobilize deposits. Consequently, NGOs operating MFAs do not offer savings as an independent product and it is only banks that offer savings products. The most common kind of savings in MFAs is compulsory. Its function is to act as security (or collateral) for loans (Lumpkin, 2001). A set sum has to be deposited at a set interval and there are penalties for failing to do so. The savings are held for a given period (or succession of periods) because savings cannot normally be drawn down until a loan is fully paid (with repayment periods varying from 16 to 52 weeks). Whether in line with banking regulations or not, MFA savings schemes often are very appealing to poor people. By keeping their savings locked in the MFAs, they safeguard themselves from trivial expenditure. Most MFA clients join these schemes in order to save for a major expenditure, like purchasing a plot of land or a building, paying wedding ceremonies or school fees. At the same time, many of them feel dissatisfied about the rigidity of weekly meetings and savings, and the lack of a special, customer-led and flexible savings policy of the MFAs:

They have no control over the volume of savings. In most MFAs the weekly deposit is either fixed or is a fixed fraction of the current loan. They have no control over the frequency of savings deposits since deposits must be made, in the weekly MFA meeting schedule. There is uncertainty over the term of the savings. If other clients in the group are overdue in their loan repayments, release of savings can be held up for an unpredictable period (Legovini, 2002). The mechanism for releasing savings is unsatisfactory, since in most cases clients have to forgo the right to make future savings (and the right to take loans) by leaving the MFA in order to access their savings. In some MFAs, reentry is either forbidden or troublesome (since the client has to go through the training and waiting period again). Savings are at risk. Although there is little danger of the MFA failing, all compulsory savings are at risk of being confiscated by the group (or the MFA) to make up arrears (of both loan capital and interest) of defaulting fellow members. Transaction costs are high. For those primarily interested in saving, attendance of the weekly

meeting (which can last from one to three hours and is normally held during working hours) is costly. Carrying out MFA rules, like recruiting new members when other members exit, or inspecting the businesses of prospective members, can be very time consuming, especially for group officials.

2.6.2 Loan products

Loans are provided by all the formal and informal providers of financial services and they all levy an interest. Interest rates are quoted in many different ways. The standard banking way is to quote annual interest rates based on the reducing balance method. Non-bank financial institutions and parastatals also use this method. However, NGO-MFAs and moneylenders tend to quote their interest rates based on monthly flat rates. This tends to reflect their interest rates as lower than the formal providers of financial services, although this is not in fact the case (Ochanda, 2003).

It has been observed that MFA clients with substantial businesses may take loans and invest them in businesses that prosper and grow, because they have means to satisfy their remaining needs for lump sums of cash. However, for the majority of poor clients, it makes sense to use a borrowed lump sum for whatever is the most pressing need at the time, and to repay it out of whatever capacity they have to save out of their normal cash flow. Clients' attitudes to NGO-MFA loan products are varied. While many are appreciative, the following reservations are usually expressed, often related to aspects of the group-lending approach: They dislike the group guarantee system. It is unnerving to have to take into account the behavior of others, whom you scarcely know, when planning your finances and embarrassing to have to harass your friends about their business. Some clients dislike weekly meetings; most dislike the time it absorbs, older clients dislike being told what to do young credit officers, and no one likes it when there are repayment difficulties that have to be resolved (Kothari, 2004). Most would like more control over the size, timing and term of the loans. Some find the price of the loans high in relation to other devices, such as ROSCAs. As a result, quite some experienced NGO-MFAs now try to develop products tailored to individual situations and needs. Though there is certainly a demand and market for individual loans, it remains to be seen whether, under what conditions and with

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what technologies, lenders can control transaction costs and keep up high repayment rates (Ledgerwood, 2006).

2.7 Impacts of Microfinance Programs

Microfinance programs can be an effective way to provide low cost financial services to poor individuals and families (Miller and Martinez, 2006; Stephens and Tazi 2006). Such programs have been shown to help in the development and growth of the local economy as individuals and families are able to move past subsistence living and increase disposable income levels (Khandker, 2005). In addition, many studies (primarily microfinance institution impact studies and academic researcher qualitative or case studies) have shown that microfinance programs are able to reduce poverty through increasing individual and household income levels, as well as improving healthcare, nutrition, education, and helping to empower women. For example, standard of living increases, which help to eradicate extreme poverty and hunger, have occurred at both the individual and household levels as a result of microfinance programs (Khandker, 2005). Furthermore, it has been demonstrated by some research that microfinance programs increase access to healthcare, making preventative healthcare measures more affordable to the poor. In addition, more children are being sent to school and staying enrolled longer (Morduch, 1998). It has been shown that such programs can help borrowers to develop dignity and self confidence in conjunction with loan repayment, and self sufficiency as a means for sustainable income becomes available. Since microfinance services are primarily focused on women, it is argued that this leads to the empowerment of women and the breaking down of gender inequalities, through providing opportunities for women to take on leadership roles and responsibilities (Goetz and Gupta, 1995).

In contrast to the various positive impacts and strengths of microfinance programs listed above, other studies (more quantitative, with appropriate treatment/control frameworks and comparisons made across larger samples) have found several key problems and negative impacts produced by the implementation of microfinance programs in poor and impoverished areas of the world. First, some studies have shown that microfinance programs benefit the moderately poor more than the destitute, and thus impact can vary by income group (better-off benefit more from microcredit) (Copestake et al., 2001; Morduch, 1998; Dugger, 2004). Second, most microfinance programs

target women (due to higher repayment rates), which may result in men requiring wife to get loans for them (Goetz and Gupta, 1995). Third, examples exist of a vicious cycle of debt, microcredit dependency, increased workloads, and domestic violence associated with participation in microfinance programs (Copestake et al., 2001; Morduch, 1998). Fourth, studies have shown that there are low repayment rates in comparison with traditional financial institutions (Miller and Martinez, 2006; Stephens and Tazi, 2006), thus possibly contradicting one of the key strengths listed above, that such programs can lead to empowerment and increased self confidence through responsible loan repayment. Fifth, there have been reports of the use of harsh and coercive methods to push for repayment and excessive interest rates (Business Week, 2005; The Financial Express, 2005). Finally, concerns have been raised that the reliance on microfinance programs to aid the poor may result in a reduction of government and charitable assistance.

2.8 Contribution of microfinance programs in Kenya

2.8.1 Poverty alleviation

With the vast majority of the hundreds of thousands of people lacking any kind of formal banking facilities, micro-finance groups such as Msingi Bora fill the gap, providing members with credit they would otherwise not have access to (Brau, 2004). In Kibera, for instance, while some groups are initiated and established by the slum dwellers on their own, some groups, such as Msingi Bora, have the backing of national and international organizations that provide training and psychosocial support. CARE International, through a community-based organization known as the Kibera Slum Education Programme, supports Msingi Bora and dozens of other such groups by providing training, capacity-building, resource mobilization as well as sub-granting for projects such as the education and care of orphaned and vulnerable children (Botten, et al,. 2006).

2.8.2 Curbing unemployment

Micro Finance is a way of supplying loans and small credits to finance small projects to help the poor have an income through forming their own small scale business to earn their daily bread and better their living. This term is often confused with microcredit which means that banks

gives small loans to their clients. Most of the poorest people in the world have no access to banking services and even so most of them still don't have stable income to be saved in a bank. Microfinance comes to back up the UN mission for the millennium to eradicate poverty.

Most of these projects are highly encouraged by the UN. However, many international NGOs have been successful and even somewhat faced some unpromising circumstances. It should be noted that currently there exists many microfinance organizations which give loans to the locals ranging from 20 to 200 dollars (Anyanzwa, and Adero, 2008). The locals on the other side have to start their own businesses and to pay off the loan in a very acceptable manner. Many people especially in Kenya rely on this for their daily lives. With the continuing high cost of living, 70% of the population struggles to put bread on their tables each day and they struggle to make ends meet. These are people and families with children going to school and some are in high school and with the ongoing high school fees to pay each term (semester). Many international organizations have landed in Kenya with the help in hand but still they face some difficulties. The Kenyan government is not left behind in promoting the economic growth and encourages and finances soft loan banks to make credit be easily accessible to the deserving. For example Equity Bank of Kenya. However, most of this micro finance projects are mostly in the urban areas in places like the Nairobi slums e.g. Kibera and Mathare slums. Women are mostly the recipients and this generates employment and helps them gain self-confidence in return. The benefiting population set up different types of business ranging from grocery, paraffin pumps to opening stalls for both new and second hand clothes (Aiken and Sullivan, 2002).

2.8.3 Retain and strengthen the capacity of field trainers

The village-level recruited field trainers have an important role to play in the development and continued existence of microfinance programs. The microfinance programs need trainers and technical support providers like any other MFI in order to address dropouts and complexity of operation as the number and size of business transactions increases. The field trainers can also perform an oversight function which is a necessary element for any financial institution, big or small, formal or informal. A mechanism to keep ongoing training (by providing a service which is paid for) needs to be part of the exit strategy to achieve sustainability.

2.9 Conclusion

The services offered by microfinance institutions in Kenya include loan products and savings services. Microfinance programs provide effective ways to provide alleviate poverty in Kenya. These programs have been shown to help in the development and growth of the local economy as individuals and families are able to move past subsistence living and increase disposable income levels. Despite the importance of effects of micro finance programs on poverty alleviation, none of the reviewed studies has researched on it. This study aims at filling the gap by evaluating the effects of micro finance programs on poverty alleviation in Kenya.

2.10 Variables of the study

The variables of this study include poverty alleviation as a dependent variable, profit/business expansion, housing and shelter, income/ resource/ saving, expenditure on education, healthcare/ medicine and better clothing.

By taking micro finance, the loanees could have increased profit of the business. Micro finance contributes to business expansion. Most studies and researches conclude that improvement in housing quality or shelter is an important parameter of poverty alleviation. After taking micro finance, the income of the borrower, their resources and marginal propensity to save have been increased. Education is another important requirement for poverty alleviation. Healthcare and medicine represents the ability of the loanees to spend required amount on medicine and other health care facilities. Better Clothing indicates the improvement in standard of living of an individual.

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2.11 Conceptual Framework

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┌─────────────────┐              ┌─────────────────┐
│ Households who  │        ┌───→ │    Business     │ ───┐
│ are beneficiaries│       │     │    expansion    │    │
│ of microfinance │ ──┐    │     └─────────────────┘    │
│   programmes    │   │    │                            │
└─────────────────┘   │    │     ┌─────────────────┐    │
                      │    ├───→ │ Level of income │ ───┤
                      │    │     │   or savings    │    │
                      │    │     └─────────────────┘    │
                      │    │                            │     ┌──────────────┐
                      │    │     ┌─────────────────┐    │     │              │
                      │    ├───→ │   Housing and   │ ───┤ ──→ │   Poverty    │
                      │    │     │     shelter     │    │     │  Alleviation │
                      │    │     └─────────────────┘    │     │              │
                      │    │                            │     └──────────────┘
                      │    │     ┌─────────────────┐    │
                      │    ├───→ │  Expenditure on │ ───┤
                      │    │     │    education    │    │
                      │    │     └─────────────────┘    │
┌─────────────────┐   │    │                            │
│ Households who  │   │    │     ┌─────────────────┐    │
│    are not      │   │    ├───→ │   Healthcare    │ ───┤
│ beneficiaries of│ ──┘    │     └─────────────────┘    │
│   microfinance  │        │                            │
│   programmes    │        │     ┌─────────────────┐    │
└─────────────────┘        └───→ │    Clothing     │ ───┘
                                 └─────────────────┘
```

Independent variables   Dependent variable
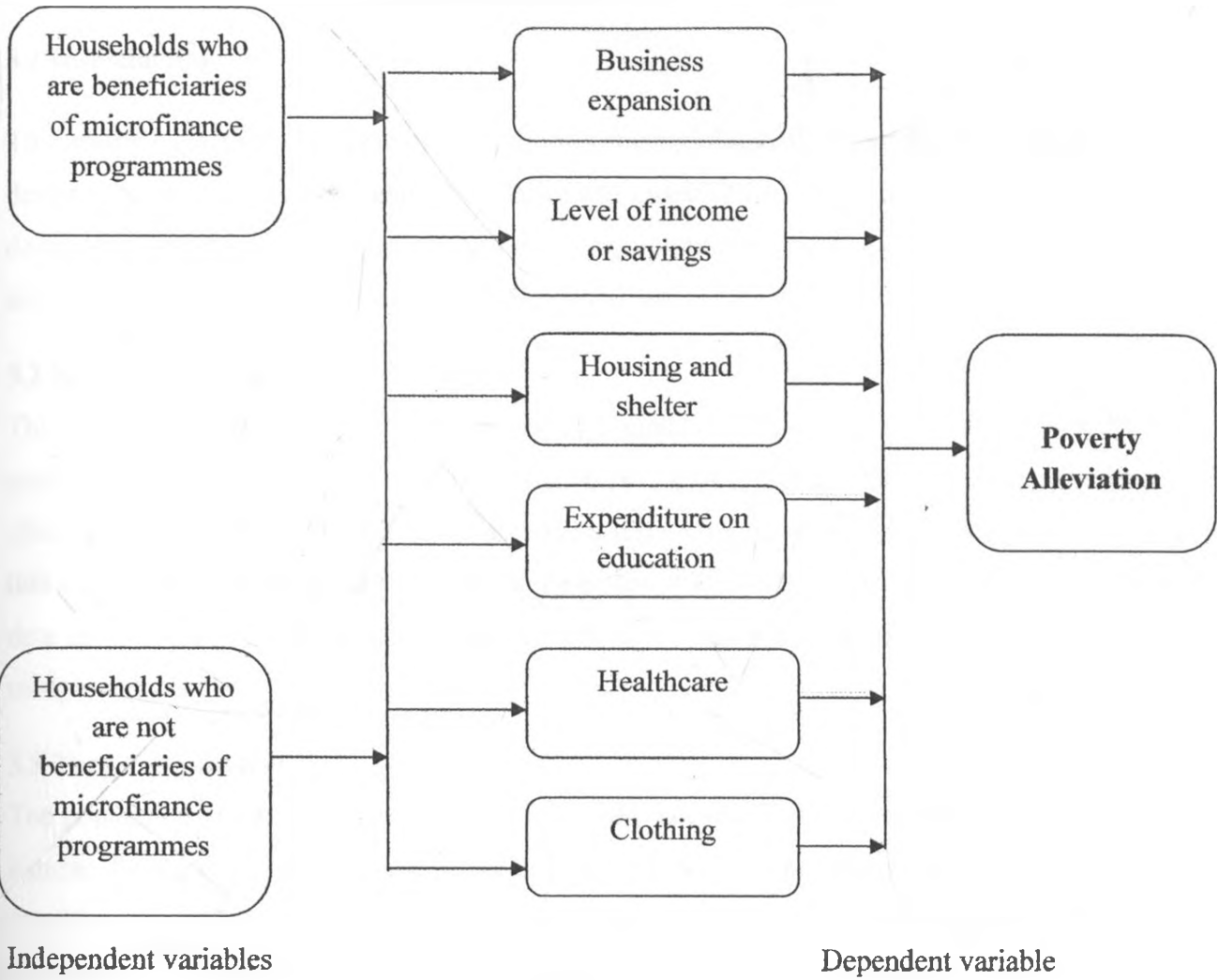
Source (Author, 2010)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design and methodology of the study; it highlights a full description of the research design, the research variables and provides a broad view of the description and selection of the population. The research instruments, data collection techniques and data analysis procedure have also been pointed out.

3.2 Research Design

This research study employed a survey research method. The survey method involves, asking participants questions on how they feel, what their views are, and what they have experienced (Babbie, 2002). Survey method is useful when a researcher wants to collect data on phenomena that cannot be observed directly. Its advantage is that, it allows the collection of large amounts of data from a sizeable population in a highly effective, easily and in an economical way, often using questionnaires.

3.3 Target population

The population of the study consisted of beneficiary households of microfinance programmes in Kenya. Two groups, the first was a control group who have not benefited from microfinance programmes and the second group (experimental group) which has benefited from microfinance programmes in Kisumu. The choice of Kisumu as the study area was informed by high number of poverty levels. It is the major urban port of Nyanza Province, with one of the highest poverty indices in Kenya. Due to rising poverty levels Kisumu Town suffers unique social and developmental challenges.

3.4 Sample size and sampling technique

This research study used purposive sampling to select households to be studied. Purposive sampling method is a deliberate non-random method of sampling which aims at selecting a sample of people, settings or events with predetermined characteristics. A sample of 50 households who have benefited from microfinance programmes was selected and another 50 households who have not benefited from microfinance programmes were picked for comparison.

3.5 Data collection instruments

Mugenda and Mugenda (2003) observed that, the pre-requisite to questionnaire design is definition of the problem and the specific study objectives. The primary data was collected using structured questions and unstructured questions. The questionnaire provided more comprehensive view than any other research tool. All the respondents were asked the same questions in the questionnaire considering both open ended and closed ended questions. Drop and pick method was used to distribute the questionnaires.

3.6 Data analysis

The collected data was thoroughly examined and checked for completeness and comprehensibility. The data was then be summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data. Data was coded and entered into the Statistical Package for Social Sciences (SPSS) version 17 for analysis. SPSS was used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics such as tables. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information is clearly understood. The results were presented in percentages, tables and figures. Qualitative data from open questions were presented in prose form.

A multivariate regression model was applied to determine the relative importance of each of the six variables (profit/business expansion, housing and shelter, income/ resource/ saving, expenditure on education, healthcare/ medicine and better clothing) with respect to poverty alleviation.

The regression model was as follows as follows:

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e$$

3.7 Data reliability and validity

Piloting was carried out to test the validity and reliability of the instruments. Validity indicates the degree to which the instrument measures the constructs under investigation (Mugenda and Mugenda, (1999). There are three types of validity test which include content, criterion and

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related construct validity. This study used content validity because it measured the degree to which the sample of the items represents the content that the test is designed to measure.

A pilot study was conducted by the researcher taking some questionnaires to the MFI headquarter in Nairobi which was filled by some respondents at random. From this pilot study the researcher was able to detect questions that need editing and those that are ambiguous. The final questionnaire was then be printed and used to collect data to be used for analysis.

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CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The objective of this study was to evaluate the effects of microfinance programmes on poverty alleviation in Kenya. This chapter focused on data analysis, interpretation and presentation. The researcher made use of frequency tables, graphs, charts and percentages to present data.

The Response Rate

The researcher targeted a sample of 100 respondents' from households which had benefited from microfinance programs and those which had benefited from microfinance programs out of which 50 respondents filled and returned the questionnaires. This represented a 50% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis.
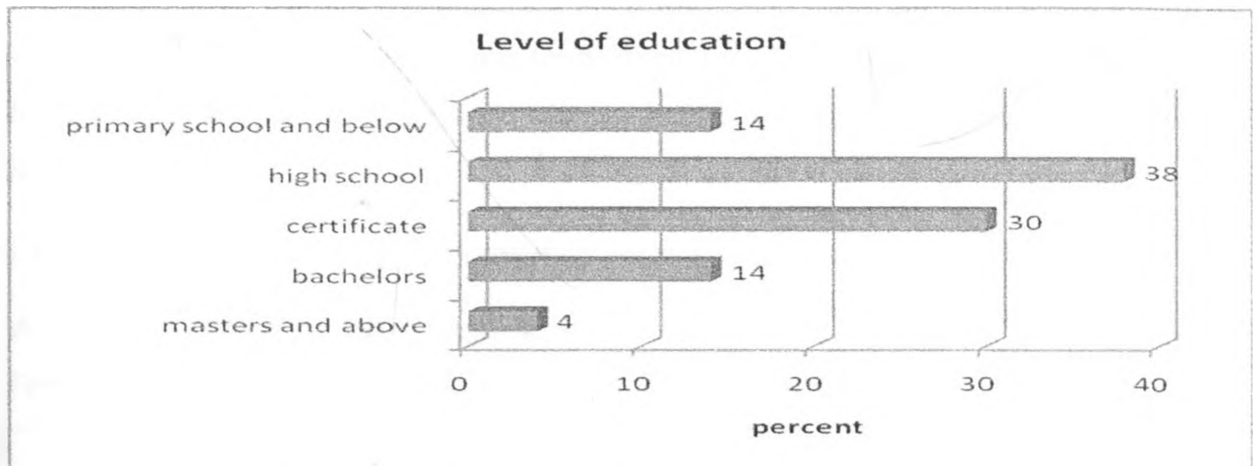
4.2 General information

Gender of the respondents
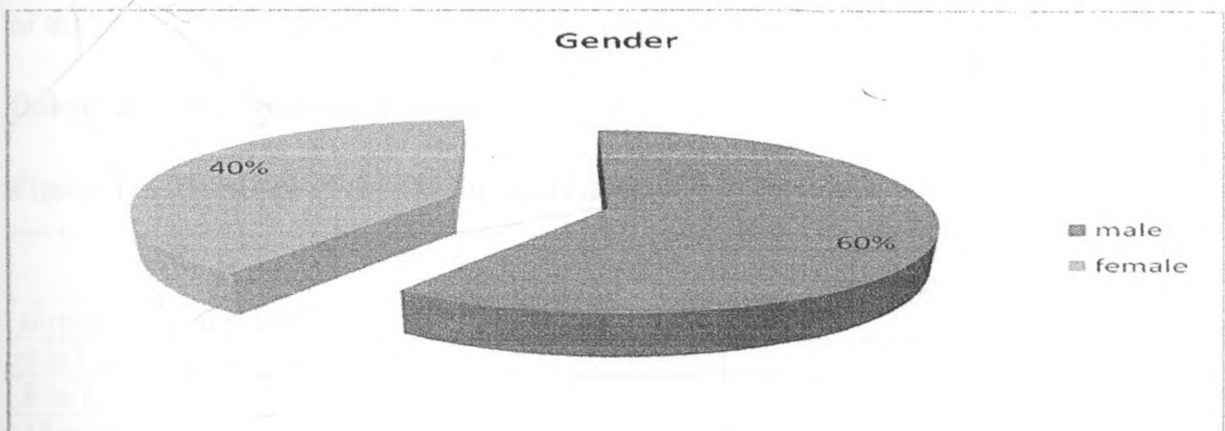
Figure 4. 1: Gender of the respondents

Figure 4.1 above show the gender of the respondents. From the findings 60% of the respondents were male while 40% were female. This shows that majority of the respondents were male.

Level of education

Level of education

primary school and below	14
high school	38
certificate	30
bachelors	14
masters and above	4

percent (axis: 0, 10, 20, 30, 40)

Figure 4. 2: level of education

On the level of education as shown by table 4.2 above, 14% of the respondents indicated that they had primary school level of education and below, 38% indicated that they had high school level of education, 30% indicated that they had certificate level of education, 14% indicated that they had bachelors and 4% had masters and above. From these findings the study can deduce that majority of the respondents had high school level of education. This clearly shows that majority of the respondents were aware of microfinance programs in their region.

Duration of time in the study area

Figure 4. 3: Duration of time in the study area

Duration	Frequency	Percent
three years and below	8	16.0
4 to7 years	14	28.0
8 to 11 years	9	18.0
12 to 15 years	7	14.0
16 to 19 years	2	4.0
20 years and above	10	20.0
Total	50	100.0

The researcher requested the respondents to indicate the duration of time they had lived in the study area. From the findings as shown by table 4.3 above, 16% of the respondents had lived in the study area for three years and below, 28% had lived in the study area for between 4 and 7 years, 8% had lived in the study area for between 8 and 11 years, 14% had lived in the study area

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for between 12 and 15 years, 4% had lived in the study area for between 16 and 19 years and 20% had lived in the study area for 20 years and above. This shows that majority of the respondents had lived in the study area for between 4 and 7 years. From these findings we can deduce that majority of the respondents were aware of microfinance programs meant to alleviate poverty in the study area.

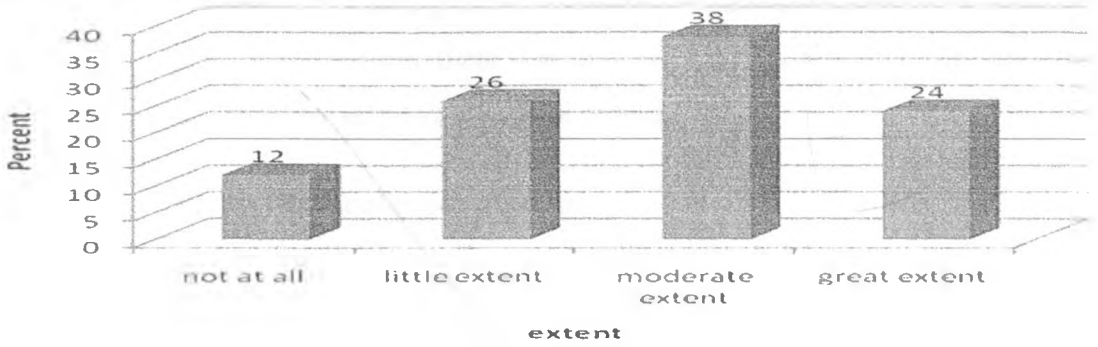### 4.3 Effects of microfinance programmes on poverty alleviation

Ways that MFIs use to deliver financial services

Table 4. 1: Ways that MFIs use to deliver financial services

	yes	no
Collaboration with other partners	54	46
Technical assistance	18	82
Use of technology	10	90
Post offices and retail outlets to extend financial services into neighborhoods	18	82

Figure 4.4 above shows the ways that the MFIs were using to deliver financial services. 54% of the respondents indicated that MFIs were collaborating with other partners while 46% disagreed. 18% agreed that they were using technical assistance while 82% disagreed, use of technology as a way used to deliver financial services was agreed by 10% of the respondents while 90% disagreed. 18% of the respondents also indicated that MFIs were using post offices and retail outlets to extend financial services into neighborhoods while 82% disagreed. From the results, this study deduce that MFIs were collaborating with other partners as a as a way of delivering financial services.
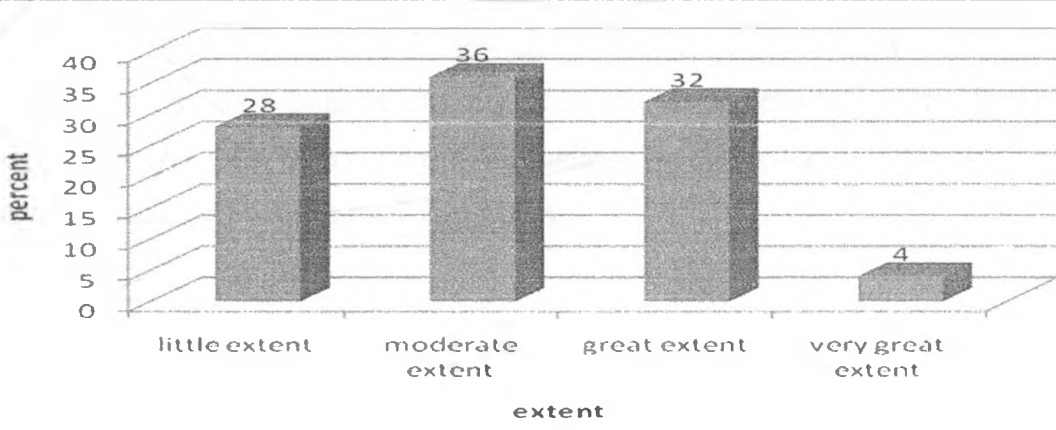
Financial services and increased household income levels

Figure 4. 4: Financial services and increased household income levels

Figure 4.4 above shows the extent to which financial services had increased the respondents' household income levels. From the findings, 12% of the respondents indicated that financial services did not affect their household income levels, 26% indicated that financial services affected household income levels to a little extent, 38% indicated that it affected their household income levels to a moderate extent and 24% indicted that it affected household income levels to a great extent. From these findings we can deduce that financial services had increased the respondents' household income levels to a moderate extent.

MFI products and services help alleviate poverty

Figure 4. 4: Financial services and increased household income levels

The researcher requested the respondents to indicate the extent to which they thought MFI products and services help in alleviating poverty. From the findings as shown by figure 4.4, 28% of the respondents indicated that MFI products and services were not helping in alleviating poverty, 36% indicated that they helped alleviating poverty to a moderate extent, 32% indicated

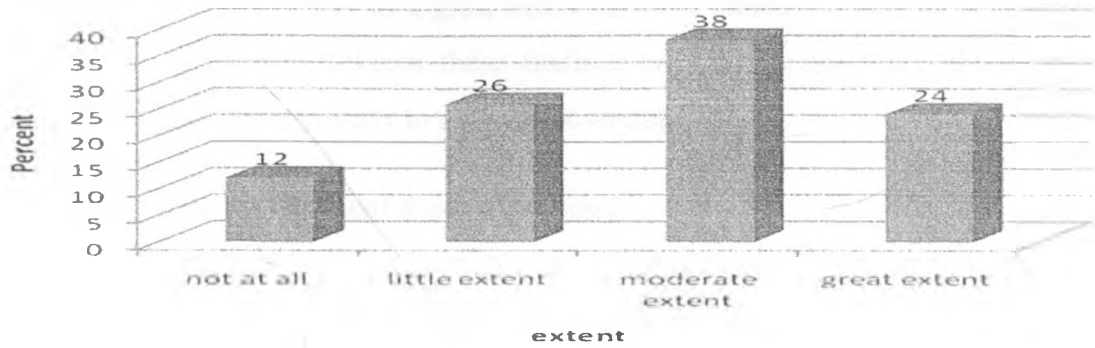**Figure 4. 4: Financial services and increased household income levels**

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MFI products and services help alleviate poverty

Figure 4. 4: Financial services and increased household income levels
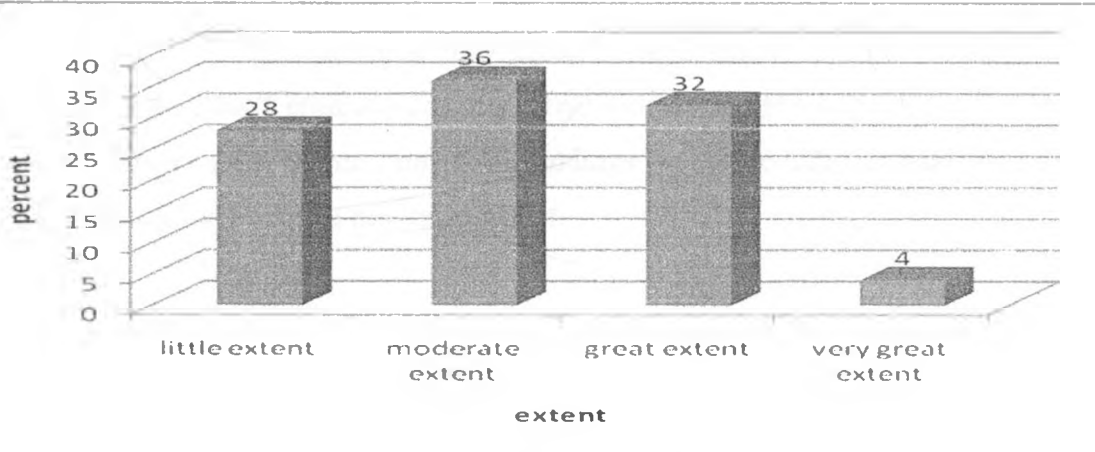
The researcher requested the respondents to indicate the extent to which they thought MFI products and services help in alleviating poverty. From the findings as shown by figure 4.4, 28% of the respondents indicated that MFI products and services were not helping in alleviating poverty, 36% indicated that they helped alleviating poverty to a moderate extent, 32% indicated

31

that they helped alleviate poverty to a great extent and 4% indicated that they helped alleviate poverty to a very great extent. From these findings we can deduce that MFI products and services helped in alleviating poverty to a moderate extent.

MFI programs create employment among the poor
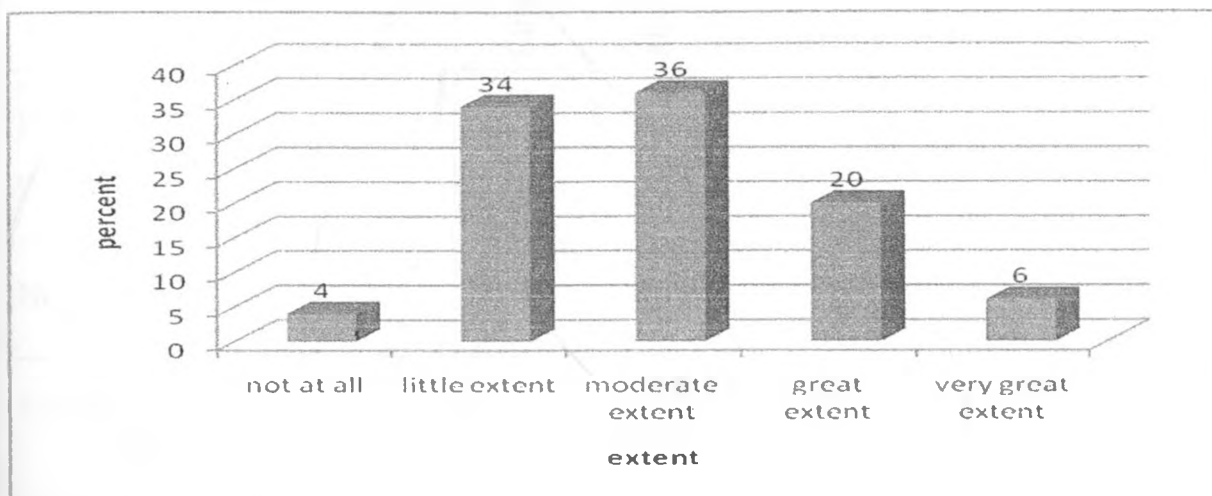
Figure 4. 5: MFI programs create employment among the poor

On the extent to which MFI programs create employment among the poor, 4% of the respondents indicated that they did not create employment at all, 34% indicated that they created employment to a little extent, 36% indicated that they created employment to a moderate extent, 20% indicated that they created employment to a great extent and 6% indicated that they created employment to a very great extent. From these findings we can deduce that MFI programs create employment among the poor to a moderate extent.

Result of MFI programs

Table 4. 2: Result of MFI programs

Item	Not at all	Little extent	Moderate extent	Great extent	Very great extent	Mean	Std dev
Profit/ business expansion	8	28	24	34	6	3.02	1.1
Healthcare	22.4	18.4	38.8	12.2	8.2	2.65	1.2
Nutrition	20.4	8.2	44.9	20.4	6.1	2.84	1.16
Education	18	14	32	22	14	3.00	1.29
Housing and shelter	22.4	20.4	20.4	20.4	16.3	2.88	1.41
Increased living standards of living (better clothing)	20	24	34	16	6	2.64	1.16
Income/resource/savi ng	4	26	40	18	12	3.08	1.05

Table 4.2 above shows the extent to which the different factors improved as a result of MFI programs. A five-point Likert scale was used to interpret the respondent's extent. According to the scale those factors which were not considered at all were awarded 1 while those which were considered to a very great extent were awarded 5. Within the continuum are 2 for low extent, 3 for moderate extent and 4 for great extent. Mean and standard deviation were used to analyze the data. According to the researcher those factors with a mean close to 3.5 were rated as to a very

great extent while those with a mean close to 3.0 were rated to a low extent or even not considered at all. On the same note the higher the standard deviation the higher the level of variations or dispersion among the respondents. The respondents agreed with a mean of 3.02 and standard deviation of 1.1 that profit/ business expansion had improved great extent, they also agreed with mean of that health care had improved to a moderate extent. Improvement of nutrition had improved to a moderate extent as agreed with a mean of 2.84 and a standard deviation of 1.16, education improvement was agreed with a mean of 3.00 and a standard deviation of 1.29, housing and shelter improvement was agreed with a mean of 2.88 and a standard deviation of 1.41, Increased living standards of living (better clothing) improvement was agreed with a mean of 2.88 and a standard deviation 2.64 and a standard deviation of 1.16 and income/resource/saving improvement was agreed with a mean of 3.08 and a standard deviation of 1.05.

Respondents' annual expenditure

Table 4. 3: Respondents' annual expenditure

Item	Mean	Minimum	Maximum	Std dev
Healthcare	30000	Below 1000	Over 100000	1.2
Nutrition	20000	Below 1000	Over 100000	1.16
Education	20000	Below 1000	Over 100000	1.29
Housing and shelter	30000	Below 1000	Over 100000	1.41
Increased living standards of living (better clothing)	20000	Below 1000	Over 100000	1.16

Income/resource/saving	30000	Below 1000	Over 100000	1.05

Table 4.3 above shows the respondents expenditure on healthcare, nutrition, education, housing and shelter, increased living standards of living and income/resources and savings. From the findings, the respondents were using an average of ksh 30000 on healthcare annually, 20000 on nutrition, 20000 on nutrition, 30000 on housing and shelter, 20000 on improved living standards and 30000 on income/resource/saving.

Opening of a new venture in the last one year

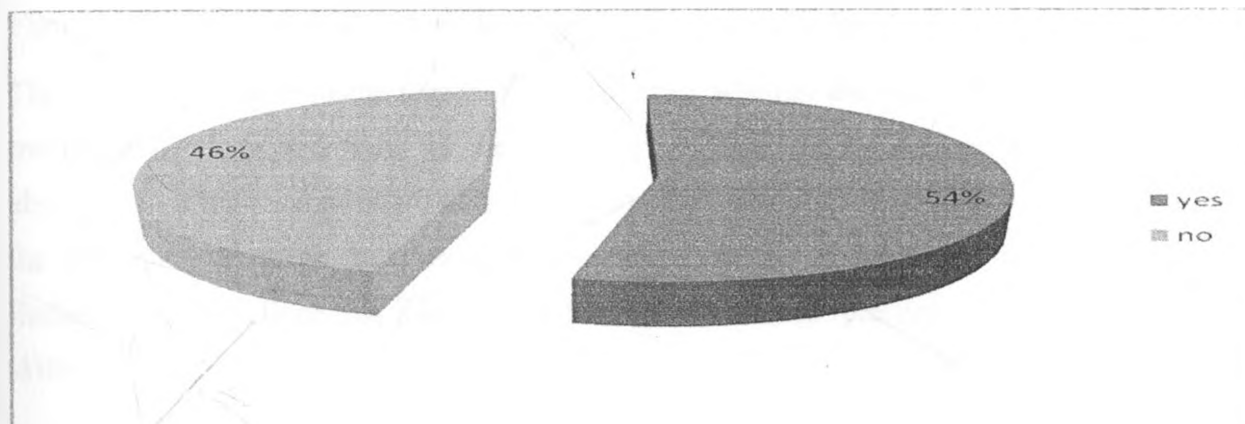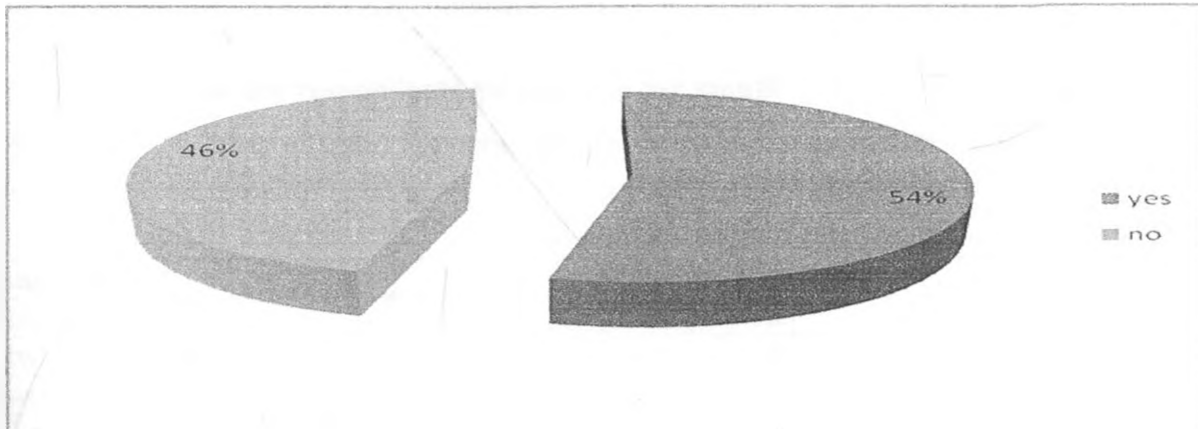
Opening of a new venture in the last one year

On whether the respondents had opened a new venture in the last one year, 54% agreed while 46% disagreed. This shows that majority of the respondents had opened a new venture in the last one year

Entrepreneurial training or work related skills for the last one year

Figure 4. 7: Entrepreneurial training or work related skills for the last one year

The researcher requested the respondents to indicate whether they had received entrepreneurial training or work related skills for the last one year. From the findings as shown by figure 4.7 above 54% of the respondents indicated that they had received training or work related skills in the last one year while 46% indicated that they had not received any training. From these findings we can deduce that majority of the respondents had received training or work related skills.

Source of training

	Percent
MFI	51.9
government	11.1
Donors	25.9
collaboration of stakeholders	7.4
all the above	3.7
Total	100.0

Table 4. 4: Source of training

From the respondents who had indicated that had received entrepreneurial training or work related skills for the last one year the researcher also requested them to indicate who offered them the training. From the findings as shown by table 4.4, 51.9% of the respondents indicated that they received training from MFIs, 11.1% indicated that they had received training from the government, 25.9% indicated that they had received training from donors, 7.4% indicated that

they had received training from collaboration of stakeholders while 3.7% indicated that they had received training from MFIs, government, donors and collaboration of stakeholders.

Number of times the respondents get training per month

Table 4. 5: Number of times the respondents get training per month

	Frequency	Valid Percent
not at all	19	45.2
once	12	28.6
twice	5	11.9
weekly	6	14.3
Total	42	100.0

Table 4.6 above shows the number of times the respondents get training per month. 45.2% of the respondents indicated that they had not received any training, 28.6% of the respondents had received training once, 11.9% indicated that they received the training twice a month and 14.3% had received training weekly. From these findings we can deduce that majority of the respondents had received training once a month.

Technical assistance on business venture
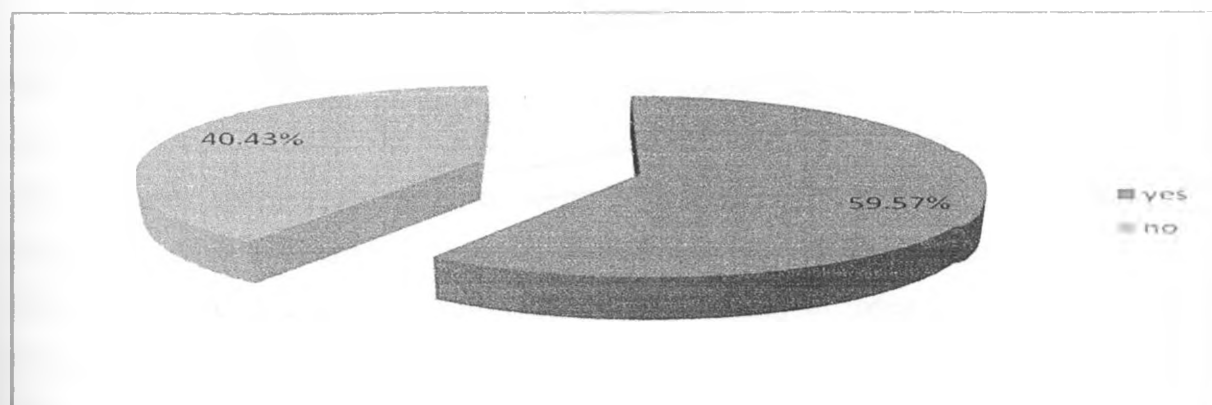
Figure 4. 8: Technical assistance on business venture

Figure 4.8 above shows the response on whether the respondents received technical assistance on their business venture. From the findings 59.57% of the respondents indicated that they had received technical assistance on their business venture while 40.43% disagreed. From these

findings we can deduce that majority of the respondents had received technical assistance on their business venture.

Future prospects for microfinance programmes

Figure 4. 9: Future prospects for microfinance programmes

On the future prospects of microfinance programs, 16% of the respondents indicated that they were not sure, 80% indicated that it was good while 4% indicated that it was bad. These results show that the future prospect for microfinance programmes was good.
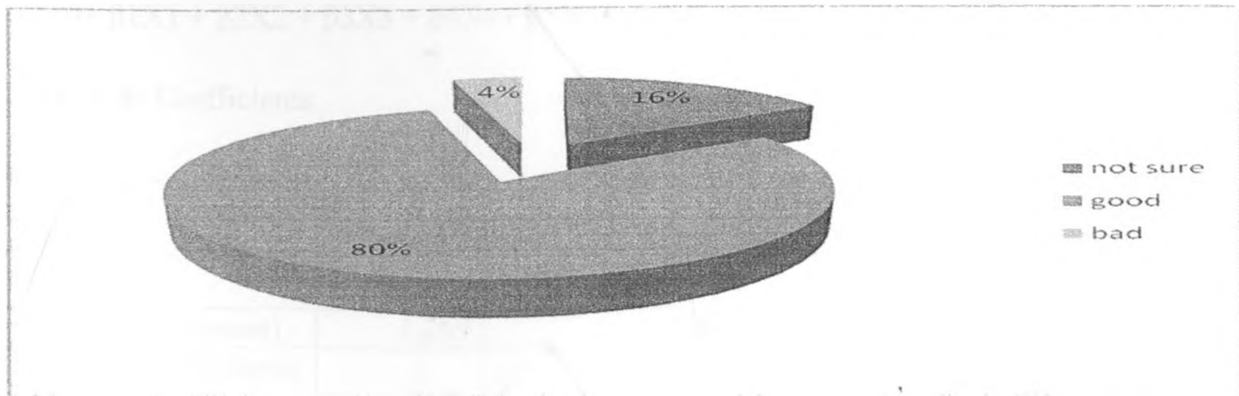
Recommendations to make microfinance programmes work better

On the recommendations for the microfinance programmes to wok better the respondents indicated the following; MFIs should educate people more on their services and proper managerial skills, reduce their interest rates, spread their services up to the local areas, they should ensure speedy processing of loans to customers and increase monitoring of income generating activities to see their progress and challenges, they should ensure that they reach out many rural poor who have no information of availability of loans to the needy people, they should increase awareness of their products to community level and also provide soft loans for their customers, MFIs should introduce entrepreneurial training in the rural-urban areas to enlighten people on microfinance programmes.

4.4 Regression analysis

The researcher conducted a multiple linear regression analysis so as to determine the relationship between the poverty alleviation and the 6 independent variables; profit/business expansion,

housing and shelter, income/ resource/ saving, expenditure on education, healthcare/ medicine and better clothing.

The regression model was as follows as follows:

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e$$

Table 4. 6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.269	.489		2.594	.013
	Profit/business expansion	.180	.124	.222	1.453	.154
	Healthcare	.189	.106	.253	1.789	.081
	education	-.017	.102	-.025	-.168	.868
	Housing and shelter	.095	.110	.152	.868	.391
	Better clothing	.129	.114	.167	1.135	.263
	Income/resource/saving	.071	.134	.087	.532	.597

According to the results above the regression equation will be as follows;

$$y = 1.27 + 0.18X_1 + 0.19X_2 - 0.017X_3 + 0.095X_4 + 0.129X_5 + 0.017X_6 + e$$

From the regression equation established, taking all factors (profit/business expansion, housing and shelter, income/ resource/ saving, expenditure on education, healthcare/ medicine and better clothing) constant at zero, the poverty alleviation was 1.27. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in profit/business expansion would lead to 0.18 increase in poverty alleviation, a unit increase in healthcare would lead to 0.189 increase in poverty alleviation, a unit increase in education would lead to a 0.017 decrease in poverty alleviation, a unit increase in housing and shelter would lead to a 0.095 increase in poverty alleviation, unit increase in clothing would lead to a 0.129 increase in poverty alleviation and a unit increase in income/resource/saving would lead to a 0.071 increase in

poverty alleviation. This shows that there is a positive relationship between poverty alleviation and profit/business expansion, healthcare, housing and shelter, better clothing, income/resource/savings and a negative relationship between poverty alleviation and education.

CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of this study was to evaluate the effects of microfinance programmes on poverty alleviation in Kenya.

5.2 Discussions of Key Findings

This study found that MFIs were collaborating with other partners as a way of delivering financial services and that financial services had increased the respondents' household income levels to a moderate extent. The results also show that MFI products and services helped in alleviating poverty to a moderate extent. Khandker (2003) found a positive result in reduction of poverty among program participants as well as a positive spillover effect on the program community in Bangladesh. This study revealed that MFI programs create employment among the poor to a moderate extent. Adero (2008) indicated that most of the poorest people in the world have no access to banking services and even so most of them still don't have stable income to be saved in a bank and hence microfinance comes to back up the UN mission for the millennium to eradicate poverty. According to Miller and Martinez, (2006) microfinance programs can be an effective way to provide low cost financial services to poor individuals and families.

On the factors improved as a result of MFI programs the found that they were; profit/ business expansion, health care, education, housing and shelter, Increased living standards of living (better clothing) and income/resource/saving. Khandker (2005) argued that many studies (primarily microfinance institution impact studies and academic researcher qualitative or case studies) have shown that microfinance programs are able to reduce poverty through increasing individual and household income levels, as well as improving healthcare, nutrition, education, and helping to empower women.

From the findings, the respondents were using an average of ksh 30000 on healthcare annually, 20000 on nutrition, 20000 on nutrition, 30000 on housing and shelter, 20000 on improved living

standards and 30000 on income/resource/saving. Majority of the respondents had opened a new venture in the last one year.

The study also realized that majority of the respondents had received training or work related skills. From the respondents who had indicated that had received entrepreneurial training or work related skills for the last one year the researcher also requested them to indicate who offered them the training. From the findings the respondents had received training from MFIs, government, donors and collaboration of stakeholders after duration of one month. This is in line with the literature since Sullivan (2002) had indicated that microfinance programs need trainers and technical support providers like any other MFI in order to address dropouts and complexity of operation as the number and size of business transactions increases.

The findings also show that majority of the respondents had received technical assistance on their business venture. On the future prospects of microfinance programs the study found that it was good.

On the recommendations for the microfinance programmes to work better the respondents indicated the following; MFIs should educate people more on their services and proper managerial skills, reduce their interest rates, spread their services up to the local areas, they should ensure speedy processing of loans to customers and increase monitoring of income generating activities to see their progress and challenges, they should ensure that they reach out many rural poor who have no information of availability of loans to the needy people, they should increase awareness of their products to community level and also provide soft loans for their customers, MFIs should introduce entrepreneurial training in the rural-urban areas to enlighten people on microfinance programmes.

This also revealed that there is a positive relationship between poverty alleviation and profit/business expansion, healthcare, housing and shelter, better clothing, income/resource/savings and a negative relationship between poverty alleviation and education.

5.3 Conclusions

The study concludes that MFIs were collaborating with other partners as a way of delivering financial services and that financial services had increased the respondents' household income

levels to a moderate extent, MFI products and services helped in alleviating poverty to a moderate extent and MFI programs create employment among the poor to a moderate extent. There is improvement in profit/ business expansion, health care, education, housing and shelter, increased living standards of living (better clothing) and income/resource/saving on implementation of microfinance programs.

Majority of the respondents had received training or work related skills from MFIs, government, donors and collaboration of stakeholders after duration of one month. In this study the future prospects of microfinance programs was to be good. This also revealed that there is a positive relationship between poverty alleviation and profit/business expansion, healthcare, housing and shelter, better clothing, income/resource/savings and a negative relationship between poverty alleviation and education.

5.4 Recommendations

This study recommends that;

- MFIs should ensure speedy processing of loans to customers and increase monitoring of income generating activities to see their progress and challenges.

- MFIs should ensure that they reach out many rural poor and increase awareness of their products to community level and also provide soft loans for their customers.

- MFIs should introduce entrepreneurial training in the rural-urban areas to enlighten people on microfinance programmes.

5.5 Recommendations for further research studies

From the study and related conclusions, the researcher recommends further research in the area factors contributing to poverty alleviation in Kenya and the effects of microfinance programs on poverty alleviation. .

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APPENDICES

Appendix I: Questionnaire

SECTION A: PERSONAL INFORMATION

1. What is your gender?

   Male   ☐

   Female   ☐

2. What is your highest level of education?

   Masters and above   ☐

   Bachelors   ☐

   Certificate/Diploma   ☐

   High school   ☐

   Primary school and below   ☐

3. How long have you been living in this area?

   Three years and below   ☐

   4-7 years   ☐

   8-11 years   ☐

   12-15 years   ☐

   16-19 years   ☐

   Twenty years and above   ☐

4. Which of the following ways do MFIs use to deliver financial services?

Collaboration with other partners   [ ]

Technical assistance   [ ]

Use of technology   [ ]

Post offices and retail outlets to extend financial

services into neighborhoods   [ ]

5. To what extent do you think these financial services have increased your household income levels?

Not at all   [ ]

Little extent   [ ]

Moderate extent   [ ]

Great extent   [ ]

Very great extent   [ ]

6. To what extent do you think the MFI products and services have helped alleviate poverty?

Not at all   [ ]

Little extent   [ ]

Moderate extent   [ ]

Great extent   [ ]

Very great extent   [ ]

7. To what extent have MFI programs created employment among the poor?

Not at all   [ ]

Little extent   [ ]

Moderate extent   [ ]

Great extent   [ ]

Very great extent   [ ]

8. Kindly indicate to what extent the following has improved as a result of MFI programs. Rating is in the range of 1-5 where 1 is least extent and 5 most extent.

Item	1	2	3	4	5
Profit/ business expansion					
Healthcare					
Nutrition					
Education					
Housing and shelter					
Increased living standards of living (better clothing)					
Income/resource/saving					

9. Kindly indicate how much in KShs. is your expenditure on the following:

Item	Amount
Healthcare	
Nutrition	
Education	
Housing and shelter	
Increased living standards of living (better clothing)	
Income/resource/saving	

10. Have you opened a new venture in the last one year?

Yes   [ ]

No   [ ]

11. Have you receive entrepreneurial training or work related skills for the last one year?

Yes   [ ]   No   [ ]

12. If yes, who offered the training?

MFI   [ ]

Government   [ ]

Donors   [ ]

Collaboration of stakeholders   [ ]

All of the above   [ ]

Any other (specify) ....

13. How many times do you get this training per month?

Not at all   [ ]

Once   [ ]

Twice   [ ]

Weekly   [ ]

14. Do you receive technical assistance on your business venture?

Yes   [ ]   No   [ ]

15. In your own opinion, what are the future prospects for microfinance programmes?

Not sure   [ ]

Good   [ ]

Bad   [ ]

16. What recommendations would you give to make microfinance programmes work better?

....
....
....

Appendix II: List of MFIs in Kisumu

ADOK TIMO

Kisumu City
Sifa House, Ground Floor, Mission Rd.
Off Kakamega Rd. Opposite Kibuye
Market. KISUMU.
P.O. Box 3650-40100

Co-operative Bank

Co-operative Bank House
P.O BOX 48231-00100, NAIROBI

Equity Bank

NHIF Building Upper Hill
P.O BOX 75104-00200 NAIROBI

Faulu Kenya DTM Limited

Ngong Lane, Off Ngong Road
P.O BOX 60240-00200 NAIROBI

Fusion Capital Ltd

View Park Towers 10th Floor

Juhudi Kilimo Company Limited

P.O Box 10528 - 00100, Nairobi Kenya
K-Rep Centre, Wood Avenue

K-rep Bank Ltd

Opposite Precious Blood Girls Sec School.
Naivasha Rd -Kawangware
P.O BOX 25363-00603 NAIROBI

K-rep Development Agency

Next to Kileleshwa Police station
P.O BOX 39312 NAIROBI
KADET

Capital Hill Towers
P.O BOX 1676-00200 NAIROBI
Kenya Eclof

Rhapta Road, Plot No.47 next to Liza
Apartments
P.O BOX 34889 NAIROBI

**Kenya Entrepreneur Empowerment
Foundation (KEEF)**

Mapa House, 3rd Floor, Kiambu road
P.O Box 648, Kiambu
Tel: 020 3535617
Tel: 020 2046423
Tel: 061 214611

Kenya Post Office Savings Bank

Post Bank House Banda Street
P.O BOX 30311-00100
NAIROBI.
Kenya Women Finance Trust

Muchai Drive Off Ngong Road
P.O BOX 55919 NAIROBI.

MIC Microcredit limited

1 st Floor, Ojijo Plaza
Ojijo Road - Parklands
P.O Box 7650-00100, Nairobi Kenya

Micro Africa

Off Lenana Road
P.O BOX 52926 NAIROBI

OIKO CREDIT

Methodist Ministries centre, Oloitoktok Rd.
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P. O. Box 30328-00100
Nairobi, Kenya

Opportunity International

Oginga Odinga Street
P.O BOX 6711-40103 KISUMU

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SMEP

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