# STRATEGIES ADOPTED BY MICROFINANCE INSTITUTIONS IN NAIROBI COUNTY TO SUPPORT POVERTY REDUCTION PROGRAMS IN KENYA

**KIARIE ANTHONY GITUNGO**

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

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# DECLARATION

I, Kiarie Anthony Gitungo declare that this is my original work and has not been presented in any other University or College for Examination or Academic purposes.

Signature…………………………… Date…………………………………….

**KIARIE ANTHONY GITUNGO**

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# SUPERVISOR’S APPROVAL

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

Signature……………………….. Date……………………………………..

**DR. JAMES GATHUNGU**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS**

**UNIVERSITY OF NAIROBI**

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# DEDICATION

I dedicate this research project to my Mother Bilita Wambui Kiarie who has been a great source of inspiration and joy in my daily endeavors to better my best.

# ABSTRACT

The primary purposes of the study were to study strategies adopted by microfinance institutions to support poverty reduction programs in Kenya, a case study of Nairobi County. The target population was financial manager from each of the 52 microfinance institutions in Kenya. The results of the study were both qualitative and quantitative. Quantitative data collected using a questionnaire were also analyzed by the use of descriptive statistics using the Statistical Package for Social Sciences and presented through percentages, means, standard deviations and frequencies. The information was also represented by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives through use of Statistical Package for Social Sciences. In assessing adopted strategies and the context within which a microfinance institution operates, choice of strategy can indeed seem like a search for a myriad forces pushing and pulling an organization to change and little by way of established principles to determine what the choice should be. However, the choice of strategy is fundamental to a microfinance institution on a number of reasons. The study recommends further research on governments need to develop effective information convening platform to which the public could be reached in the microfinance sector by providing political and social economic changes in the efforts to give priority for the sector to be effective. There is need for initiatives to be taken for us to create a sustained and stable competitive strategy and for county demand to be able to adjust to foreign technologies needed in the industry. From the study there is need of adoption of strategies by microfinance institutions to support poverty reduction programs in Kenya.

**Key words:** Microcredit, microfinance institutions, development approach, comprehensive approach

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

Micro credit and micro finance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to Robinson (2001) and Otero (2008). Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programmes. When properly harnessed and supported, micro finance can scale-up beyond the micro-level as a sustainable part of the process of economic empowerment by which the poor can lift themselves. Considerable debate remains about the effectiveness of micro finance as a tool for directly improving on the economic activities and about the characteristics of the people it benefits (Chowdhury, Mosley and Simanowitz, 2004).

Government of Kenya, (2003-2004) indicated that the government has continued to direct its efforts towards fighting disease, ignorance and poverty since 1963. However, poverty levels continue to rise, with the poor increasingly being unable to afford adequate food and nutrition, access to basic services viz a vie education, health, safe water and decent housing (Poverty reduction strategy paper, pp 5-6). According to GOK (2008). In Kenya, poverty distribution differs in various regions. Poverty levels have been decreasing in Central province, but increasing in Nyanza and Coast provinces. The distribution of poverty is also uneven with majority of the poor people being in the rural areas and slums in major cities and towns. The hardest hit districts being Marsabit with an incidence of 88%, Samburu-84%, Makueni-76%, Turkana-74%, Machakos-69%, Mandera-69%, Kilifi-67% and Embu-63% respectively.

GOK (2001), states that the urban population in Kenya grew from 3.8 million in 1989 to 9.9 million in 2008, constituting 34% total population. Nairobi's population was only 120,000 in 1948 and by 2008 it was estimated at 2.3 million, women forming about 49% of the urban population. These population increases have been accompanied by a rapid rise in the level of poverty from 29% in 1992 to 52% and it is now estimated that 60% of Nairobi residents are poor and live in congested informal settlements that occupy only 5% of the residential land area (Interim Poverty Reduction Strategy Paper, pp 7-10).

### 1.1.1 The Concept of Strategy

A strategy is the outcome of some form of planning, organized process for anticipating and acting in the future in order to carry out an organizations mission (Baker, 2007). The people who drive strategy in organizations are seen to be visionaries, the entrepreneurs and innovators. They are those who take risks and try new ways of doing things. Strategy refers primarily to business strategy; which specifies how a business unit will achieve and maintain competitive advantage within an industry. Therefore, one element that we consider is the competitive capabilities (Stock, 2008). A strategy is a game plan that a firm adopts to gain competitive advantage. Without a strategy, decisions made today could have negative impact on future results. Strategy is a tool, which offers significant help for coping with turbulence confronted by business firms (Ansoff and Mc Donnel, 1990).

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences to meet the needs of markets and to fulfill stakeholder expectation

(Johnson et al., 2005). The formulation of competitive strategy in any industry involves first the comprehension of the fundamental determinants of competition. Competition is defined as the fight for market share between two or more firms. An understanding of competition helps the strategy makers in evaluating whether the degree of competition in an industry offers scope for good profitability. It promotes sound strategic thinking about how to develop the overall competitive strategy for the company. Development of competitive position helps the firm to more accurately forecast both short and long term growth and its profit potentials (Pearson and Robinson, 1997).

It can be argued that a sense of direction is very important for an organization, and strategy gives a framework to place this sense of direction in. If there is an over-emphasis on strategic planning as opposed to implementation it can also in my opinion kill creativity as the focus goes away from doing to thinking about doing.

### 1.1.2 Poverty Reduction

(United Nations Development Programme [UNDP], 1997-2006) reports that the objective proclaimed by the General Assembly in its resolution on 20$^{th}$ December 1995, is to achieve the goal of eradicating absolute poverty through national action and international cooperation. It has broadly accepted that robust economic growth that is labour-intensive and equitable, combined with larger outlays of social expenditures, especially directed towards the poor (now estimated at 1, 3 billion people), are a winning combination in the fight against poverty. Thus there has been a growth in the recognition of the importance of microcredit in empowering all people by increasing their access to all the factors of production, including credit (Eradication of Poverty, pp 15-17).

According to Calgagovski et al. (1991), it has explained that when properly harnessed, microfinance institutions offer a variety of benefits to the African people. Foremost, microfinance initiatives can effectively address material poverty, the physical deprivation of goods, services, and the income to attain them. When properly guided, the material benefits of microfinance can extend beyond the household into the community.

At the personal level, microfinance can effectively address issues associated with "non-material poverty", which includes social and psychological effects that prevent people from realizing their potential (Africa's Financing Needs, pp 126 - 129). The stated commitments to poverty alleviation by 2030 require adoption of a multi sectoral approach, incorporating harmonization of policies and strategies and joint ownership of programmes. A systematic analysis of poverty reduction efforts in the country shows that the role of institutions has neither been given attention nor examined. Little effort has been made to relate policies, institutions and poverty alleviation efforts. Policy decisions such as the enactment of the Non-Governmental Co-ordination Act in 1990 could not bear meaningful results due to lack of conducive environment for team efforts in policy formulation and implementation.

### 1.1.3 Microfinance Institution in Kenya

Microfinance refers to the provision of financial services to low income households, including the self-employed. These financial services include savings, credit, payment facilities, remittances and insurance (Ledgerwood, 1999; Wright, 1999; Christen and Rosenberg, 2000). Microfinance, therefore, encompasses microcredit, micro savings and micro insurance (Roth, 2002). With the passage of time, there has been increasing emphasis on the importance of offering a range of quality, flexible financial services in response to a wide variety of needs of the poor (Wright, 1999).

Although the Kenyan microfinance sector is one of the most vibrant in Sub-Saharan Africa with a diversity of institutional forms and a good infrastructure to serve the poor, microfinance activities were not regulated until 2006. The absence of regulation allowed innovations to take place. Institutions were set up easily without any barrier like minimum capital requirements. In this environment, the microfinance industry has developed and managed to attain reasonably high outreach. The Microfinance Act of 2006 and the supportive Deposit Taking Microfinance Regulations of 2008 have together paved the way for institutional transformation in Kenya. With the support of the Financial Sector Deepening (FSD) Kenya, Faulu and Kenya Women Finance Trust engaged in the process that led to their licensing as the pioneer deposit-taking microfinance institutions (DTMs) in Kenya. Both transformations were generally successful and have helped the two institutions to maintain their strategic positioning in the market. However, in both cases, the process required more resources and took much longer than expected. In addition, the transformations rose greater than anticipated organizational challenges. By start of 2009 when Kenya Women Finance Trust (KWFT) embarked on the transformation into a deposit-taking institution in earnest, it was the largest non-bank microfinance institution in Kenya, serving 250,000 women only clients.

### 1.1.4 Microfinance Institution in Nairobi County

The Microfinance institutions are organizations or companies whose main activity is to provide the poor in the less developed countries with tools to work them out of poverty. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises. Micro financing Institutions (MFIs) are defined as institutions whose major business is the provision of microfinance services. Their aim is to become sustainable and expand their microfinance services.

The Microfinance industry in Nairobi has experienced major transformations over the past twenty years, growing from a fledgling concern dominated by a few donor and church-based NGOs to a vibrant industry increasingly driven by commercial sustainability. Generally, the providers of microfinance services in Kenya can be clustered into three broad categories, notably; formal, semi-formal and informal institutions - with the level of formality defined by the degree of regulation. Under the formal category are commercial banks and the Post Office Savings Bank. The semiformal category includes SACCOs and Microfinance institutions, while ASCAS and ROSCAs dominate the informal (KEMCAMP, 2008). In the past, microfinance institutions (MFIs) established using either an NGO or a savings and credit co-operative societies framework have been important sources of credit for a large number of low-income households and MSEs in the rural and urban areas of Kenya. The MFIs had, however, operated without an appropriate policy and legal framework until 2006 when Micro finance Act was enacted for their regulation and operation.

### 1.2 Research Problem

To alleviate poverty a lot of strategies have been adopted such as integrated rural development, basic needs approach, growth with equity, popular participation. These strategies did not achieve the desired result nor were they sustained because they were initiated, designed and implemented without actively involving the poor in the development and implementation of these strategies (Maanen, 2004). As a result of this and continued increasing in the number of population below poverty line, some non-governmental organizations have stood up to serve as financial intermediaries to reverse the situation. These micro-financial institutions have developed strategies that allow the poor to have access to credit for micro-enterprises developments and other related poverty alleviation programmes (Maanen, 2004)

According to Kenya Rural Enterprise Bank (2008), revealed the existence of some 1.3 million SMEs employing as many as 2.4 million Kenyans. Other studies have shown that the sector is very dynamic, as evidenced by the rapid rate of investment and enterprise growth. The development of the sector is therefore critical in reducing poverty in Kenya. The role of Micro Credit shows that there has been a growth in the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. It is in that context that micro finance has recently assumed a certain degree of prominence. It is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with easy access of small-scale loans which would introduce them to the small-enterprise sector.

Studies done on microfinance contributes poverty reductions are; Wright 2000, Simanowitz and Walter 2002, Cherston and Kuhn 2002; the studies found that microfinance contributes to increased income, consumption smoothing, better health and nutrition, improvement in school attendance and empowerment. All of these benefits are interconnected; the improvement of one will invariably have a positive effect on the others. Whereas local studies done are; Maingi (2012), impact of microfinance on poverty alleviation in Kakamega county, Maswari (2011), the impact of microfinance services on poverty alleviation in Kisii County, Mwawana (2011), the role of microfinance in alleviating poverty among women groups in Kisauni district, Kenya, Karuri (2008) impact of microfinance services on poverty alleviation. The study support that microfinance has positive economic and social impacts on the poor, others argued that microfinance has negative impacts on the poor clients.

No known study has been done on strategies adopted by microfinance institutions on poverty reduction in Kenya. This study therefore seeks to fill in this gap by investigating strategies adopted by microfinance institutions on poverty reduction in Kenya. What are the strategies adopted by microfinance institutions to support poverty reduction programs in Nairobi County, Kenya?

### 1.3 Research Objective

The objective of the study is to investigate on the strategies adopted by microfinance institutions in Nairobi County to support poverty reduction programs in Kenya

### 1.4 Value of the Study

This study will add on to the growing body knowledge of strategic management. Additionally, the study will be important in explaining strategies adopted by microfinance institutions to support poverty reduction. Scholars often have different opinions about the criteria influencing the choice of entry mode. Different samples, different time period.

Secondly, the research findings will be useful to potential investors in the sector. They will be informed on the challenges faced by the institutions already operating and therefore prepare themselves accordingly before entering the industry. The research findings will be useful to the government by informing them on the role and contribution made by microfinance institutions. Areas of unfair competition that require streamlining through policy guidelines shall be articulated. The findings of this study will also be useful to the management teams of microfinance organizations in tailoring their programs for the poor. Most of the programs offered by micro finance institutions fail to favour the poor people hindering their access to credit for instance, by asking for high collateral, charging high interest rates on small loans.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter presents the information from other researchers who have carried out their research in the same field of study. This chapter reviews the basic concepts of strategies, poverty and microfinance and establishes the analytical framework used in this research. The first part starts with the concept of poverty. The second part deals with the concept, evolution and approaches of microfinance. The third part includes the link between microfinance and poverty reduction. Finally, the analytical framework is discussed based on three major components namely: institutional design, achievements and impact.

## 2.2 Theoretical foundation of the Study

Strategic balancing theory is based on the principle that the strategy of a company is partly equivalent to the strategy of an individual. Indeed, the performance of companies is influenced by the actors' behaviour, including the system of leaders' values, Further to an empirical study on technological alliances, Aliouat deduced the principle of the strategic balancing according to which a technological alliance generates paradoxes and lives by its paradoxes. An alliance wavers between multiple antagonistic poles that represent cooperation and competition. This gives room to various configurations of alliances, which disappear only if the alliance swings towards a majority of poles of confrontation.

The strategic balancing gathers three models, namely the relational, symbiotic and deployment models. Competition proves to be part of the relational model and the model of deployment. It can be subject to alternation between the two antagonistic strategies, the one being predominantly cooperative as described by the relational model and the other being predominantly competing as characterized by the model of deployment. The company can then take turns at adopting the two strategies in order to keep their alliance balanced. This idea is very close to that of Bengtsson and Kock (2000), according to whom there are three types of competitive relationships: competition-dominated, cooperation-dominated, and equal relationships. The latter is similar to the alternation between the relational model and the model of deployment described by Aliouat, (2006).

## 2.3 Concept of Strategy

Strategy can be defined as the direction and scope of an organization that ideally matches the results of its changing environment and in particular its markets and customers so as to meet stakeholder expectation (Johnson and Scholes, 2002). According to Greenley (2006), strategy is a unified and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.

There is no single universally accepted definition of strategy. Different authors and managers use the term differently (Mintzberg, 1993). Greenley (2006) defines strategy as the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. He goes further to state that a well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

Strategy can be formulated on three different levels, namely: corporate, business unit and operational level. While strategy may be about competing and surviving as a firm, one can argue that products and not organizations compete. Products are developed by the business units. The role of the organization then is to manage its business units and products so that each is competitive and so that each contributes to the organization's purposes (Porter, 1980).

The purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Pearce and Robinson, 2007). Strategy helps to position a firm in the wider external environment. It also defines the obligation of the firm to its stakeholders (Johnson and Scholes, 2008). Strategy helps to define the specific business of the firm in terms of products, markets and geographical scope. Strategy can also be considered as a firm's game plan that enables the firm to create competitive advantage (Pearce and Robinson, 2000). The firm needs to look at itself in terms of what the competitions are doing. This is critical because firms in the same industry tend to compete for the same customers. Ansoff and Mc Donnell (1990) define strategy as a set of decision making rules for guidance of organizational behavior.

## 2.4 Strategies Adopted to Support Poverty Reduction Programs

According to Amis and Rakodi (1994), there are two main approaches to define poverty: one which emphasizes the absolute nature of poverty, while the other focuses on relative deprivation. In the absolute approach a minimum or basic poverty level is established and individuals below this level are designated to be in conditions of poverty.

The above two measures use income or consumption based approach to poverty. Income measure of poverty, however, is criticized because it does not consider peoples' access to basic services such as education, health care, adequate quality housing with basic services. A different view on poverty is the entitlement approach. The approach explains deprivation not in terms of an overall lack of resources, but in terms of household's ability to command such resources by means of mechanisms called entitlements (Amis and Rakodi, 1994).

The definition of poverty by the World Bank (World Development Report, 2000/2001) also extended the conceptual dimension beyond the conventionally held ideas of income to a more comprehensive notion of lack of opportunities, capabilities, sense of voiceless-ness and vulnerability to external shocks. Thus, poverty reduction strategies aimed not only to create income-earning opportunities, but also must ensure improved capabilities, empowerment of the poor.

Poverty cannot be captured in terms of money and income alone. If poverty is seen as a lack of opportunity to acquire lasting control of resources in order to strengthen one's capacity to acquire the basic necessities of life-water, energy, food, a safe place to eat, rest, sleep, wash, have sex and go to school, basic health services and medicine in case of illness, all that requires more than money, more than an income. It requires assets or entitlements, the value of which cannot be easily estimated in financial terms (Maanen, 2004)

The poor are heterogeneous group which can be categorized into different levels according to their poverty status (Sebstad and Cohen 2001). In consideration of poverty line, people in countries of the world can broadly be divided into two categories: namely, poor and non-poor. The non-poor are living above and the poor are living below the poverty line. The poor may be further divided into destitute, extreme poor and moderate poor. However, in this research the category of poor and non poor are used.

According to Meagher (2002), microfinance is defined as ‘lending small amounts of money for short periods with frequent repayments’. However, this definition equates the concept with micro-credit, which is rather a part of microfinance service. For Van Maanen, ‘microfinance is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral’ (Maanen, 2004).

From the 1950s onwards, governments and international donors have been assisting subsidized credit for small holder farmers in developing countries with the aim to increase agricultural productivity (Beshir, 2005). Development financial institutions such as agricultural development banks were established to deliver subsidized credit to those farmers. Unfortunately, ‘the failure of state implemented credit schemes has been more the rule than the exception’ (Sida, 2004). In the 1960s and 1970s the supply- led credit approach ended up with failure, despite the middle and upper class farmers benefited in increasing agricultural productivity through intensive use of inputs. Main reasons for state failure of credit provision were rapid disbursement of funds with greater political emphasis, failure to collect loans stemming from lack of proper institutional arrangement and clients’ attitude towards loan as grant money (Assefa et al, 2005). Robinson describes in The Microfinance Revolution, the 1980s demonstrated that ‘microfinance could provide large-scale outreach profitably,’ and in the 1990s, ‘microfinance began to develop as an industry’ (Robinson, 2001).

## 2.5 Strategies Adopted By Microfinance Institutions on Poverty Reduction

In the year 2000, the United Nations drew up a list of Millennium Goals which aim to spur development and eradicate extreme poverty. In 2002, Murdoch and Haley were authorized to determine the impact that microfinance has on the realization of the seven Millennium Goals. In an extensive work, Murdoch and Haley concluded that 'there is ample evidence to support the positive impact of microfinance on poverty reduction as it relates to the first six of the seven Millennium Goals' (Murdoch and Haley, 2002).

In broader understanding, Ledgerwood (2008), conceived that financial services generally include savings and credit; however, some MFIs also provide credit cards, payment services, money transfers, and insurance services. Besides, many MFIs undertake social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. The concept of microfinance often includes both financial and social intermediations (Ledgerwood, 2008).

### 2.5.1 Development Approach

The prime objective of MFIs is the provision of basic financial services to the poor. However, the service provision depends on their approaches. There are two contesting approaches among microfinance supporters: business approach and development approach. According to Van Maanen (2004), business approach primarily focused on organizational achievements such as repayment, cost recovery and profitability.

On the other hand, development approach emphasises more on break-even, impact on credit and on how the client is doing rather than profitability. Supporters of this approach argue that the clients should participate in awareness and capacity building programs before taking the loans. The basic difference seems to be whether the MFI should be seen as a business, be it with a development mission, or as a development body, be it with a business character. The answer depends on the type of clients the MFI wants to serve: if the MFI aims at clients deep down the poverty pyramid, the approach of the development should prevail. If they look for clients who could eventually "graduate" to the formal sector, the sound business approach is more logical (Maanen, 2004).

Since the development approach gives emphasis not only to building institutions for sustainable provision of services, but also empowering the poor people to get the most out of the services delivered, this research paper adopts the development approach to analyze the functioning of ACSI and Wisdom MFI. The next approaches give an indication of financial products/services and their integration with non-financial services.

### 2.5.2 Lending Methodologies

MFIs are using different models to provide financial services to the poor. Robert Cull et al, in their global analysis of lending micro banks, found three main categories: Group, Individual, Village Banking Models (Cull et al, 2007). The rationale of group lending is that 'if a member is having difficulty with repayments, others in the group will put pressure on that member to repay. Further, that if this pressure fails and the member defaults on the loan, the whole group will repay the loan on behalf of the members' (Johnson and Rogaly, 1997). While many schemes use groups, Hulme and Mosley (1996) concluded that groups are not always a crucial feature of scheme design. Attending group meetings and monitoring group members can be too costly, especially where houses are not close together. Group formation may exclude some poor people, especially when the group is formed based on religion, ethnicity, sex, etc (Vigenina and Kritikos, 2004). As a result, clients may prefer other models like individual and village banking.

Individual lending is defined as 'the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment' (Ledgerwood, 2008). It requires frequent and close contact with individual clients to provide credit products tailored to the specific needs of the business. Village banking was designed in the early 80s in Latin America by John Hatch and his associates at the Foundation for International Community Assistance (FINCA) to provide asset building loans to poor women in Bolivia. Village banking group is a support group of 10-35 members-usually women-who meet weekly or biweekly to provide themselves with three essential services: small self-employment loans to start or expand their own businesses; an incentive to save, and a means of accumulating savings and a community-based system that provides mutual support and encourages personal empowerment.

### 2.5.3 Institutional Design for the Poor

Microfinance interventions have made use of a range of design features (Johnson and Rogaly, 1997). Although there are different design features, this research focuses on three design features: targeting, lending methodology and products/services. The following section discusses these three design elements and the ways that they operate.

According to Ledgerwood, targeting the poor clients depends on the objectives of the microfinance service provider and the perceived demand for financial services. These objectives include: to reduce poverty, to empower women or other disadvantaged population groups, to create employment, to help existing business grow or diversify their activities, to encourage the development of new businesses (Ledgerwood, 2008). Ledgerwood (2008), targeting the poor may be direct or indirect. Direct targeting refers to the allocation of a specific amount of funds to provide credit to a particular sector of the economy or population like poorest of the poor, women, the indigenous population or the economically active poor whereas indirect targeting is when the service is designed to exclude the non poor through relatively high interest rates, small loan sizes, group guarantees and the holding of compulsory regular meetings to qualify for loans and to make repayments.

Dunford and Denman (2000) argued that the small loan size, high interest rate, short loan duration, the frequent repayments, and dependence on group guarantees and weekly attendance at group meetings are all factors assumed to make the program unattractive to people who have other sources of credit as an indirect method. However, when easier finance options are not available to the not-so-poor, the demand for credit may be so high that even they are willing to tolerate the unattractive features of group-based poverty lending.

MFIs target women more than men clients because women almost always make up the poorest segments of society and are responsible for child rearing, and they often have fewer economic opportunities than men (Ledgerwood, 2008). It has been argued that an increase in women's income benefits the household and the community to a greater extent than a commensurate increase in men's income. Johnson and Rogaly (1997) argued that 'microfinance interventions may lead to empowerment for women by increasing their incomes and their control over that income, enhancing their knowledge and skills in production and trade, and increasing their participation in household decision making. As a result social attitudes and perceptions may change and women's status in the household and community may be enhanced (Johnson and Rogaly, 1997).

### 2.5.4 Minimalist and Comprehensive Approach

Poverty reduction focused microfinance service providers are divided into two approaches in terms of their view on microfinance products/services: Minimalist and integrated. Minimalist approach emphasises, often exclusively, on credit access, which it sees as the missing piece for poverty reduction (Sabharwal, 2000). Advocates of this approach restrict their service only to the provision of credit and savings facilities making the client responsible to make the best out of the loan delivered. Most governments and donor agencies agree that MFIs can contribute to poverty reduction. However, there is less consensus about the degree to which, how and when poverty can be reduced through microfinance. According to Gulli and Berger (2008), there are two main camps regarding microfinance and poverty reduction: the financial systems approach and the poverty lending approach. The financial system approach states that the overall goal of microfinance is to provide sustainable financial services to low-income people, but not necessarily to the poorest among them.

The Poverty lending approach, on the other hand, claims that the overall goals of microfinance should be poverty reduction and empowerment. According to this approach, MFIs should target the poor, conduct impact assessment studies to prove the poverty-reducing effect of their activities and provide complementary services such as business development services in order to contribute to poverty reduction. As opposed to the financial systems approach, credit is seen as a powerful tool for poverty reduction (Woller et al, 2008).

In contrast, integrated approach refers to the provision of non-financial services such as training in health, literacy, social action and environmental awareness besides financial services (Hickson, 2001). The supporters of this approach acknowledges that credit alone may not be enough to ensure stable employment and productivity for the reason that the causes of poverty at the grassroots level are multidimensional ranging from economic and social problems to lack of marketable skills and resource management know how (Amha, 2003).

### 2.5.5 Products and Services

According to Ledgerwood (2008) there are four broad categories of products/services that may be provided to microfinance clients: namely, Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards and payment services, Social intermediation or the process of building the human and social capital required by sustainable financial intermediation for the poor, Enterprise development services, nonfinancial services that assist micro entrepreneurs include business training, marketing and technology services, skills development and subsector analysis; Social services or non-financial services that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, education and literacy training. However, the degree to which an MFI provides each of these services depends on whether it takes a minimalist or integrated approach.

Many MFIs provide savings and credit services without getting involved in related development activities. However, many scholars argues that integrating financial with non-financial services is usually seen as essential in addressing the causes of poverty identified in a particular area or by a particular group of people; it is rarely the case that savings and credit activities alone will reduce poverty (Johnson and Rogaly, 1997; Ledgerwood, 2008).

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter presents research methodology that was used in this study. It focused on the research design, population of study, sample and sampling techniques, data collection methods and comes to a conclusion with the data analysis and data presentation methods that were used in this study.

## 3.2 Research Design

The study adopted a cross section research design. This design was preferred because it allowed collection of information in the entire population. A descriptive survey attempts to describe or define a subject often by creating a profile of a group of problems, people or events through the collection of data and tabulation of the frequencies on research variables or their interaction as indicated. Singleton (1988) describes a descriptive cross-sectional survey as a comprehensive design that enables large and diverse amounts of data to be collected within a short time frame and analysed quantitatively, giving a credible presentation of results.

The research was on strategies adopted by microfinance institutions on poverty reduction in Kenya. This design is most appropriate for a single unit of study because it offered a detailed in depth analysis that will give valuable insights to phenomena since managers across the board were interviewed.

## 3.3 Target Population

According to Cooper and Schindler (2000), population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions. The study used census design for all 52 microfinance institutions.

Population is defined as all the members of a real or hypothetical set of people, events or objects to which a researcher wishes to generalize the results of the research study (Borg and Gall, 1989). The target population of the study was 52 microfinance institutions in Nairobi County as at June 2012 as show in appendix II.

## 3.4 Data Collection

The study heavily relied on primary data which were collected through administering structured questionnaire. The structured questionnaire were divided into two parts where Part A which covers general demographic data of the respondents, part B focuses on strategies adopted by microfinance institutions on poverty reduction in Kenya.

The respondents were financial manager from each of the 52 microfinance institutions in Kenya since the respondents were expected to give an insight on strategies adopted by microfinance institutions to support poverty reduction. The questionnaires were administered through drop and pick as well as distribution through email.

### 3.5 Data Analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected. It involves examining what has been collected and making deductions and inferences (Kombo and Tromp, 2006).

The study used primary and secondary data. Primary data was collected using questionnaires, which, was well structured and detailed to address the research question. The target respondents were the financial managers from each of the 52 microfinance institutions in Nairobi. Secondary data was sourced from relevant journal, academic books, articles and unpublished projects. The questionnaire was administered based on drop-and-pick method.

The data collected from the respondents was analyzed using simple statistical tools. Data analysis is the way in which to handle raw data in order to facilitate understanding and reporting of findings to meet the objectives of the study. The data collected was qualitative and quantitative in nature. The complete questionnaires were edited for completeness and consistency; this determined the usefulness, credibility and adequacy of the data collected. The responses from the questionnaire was tabulated and coded and the results were presented in graphs, charts, mean and percentages to summarize the data.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter provides an analysis of data collected from the field on strategies adopted by Microfinance institutions to support poverty reduction programs in Kenya. The results are presented in tables to highlight the major findings. They are also presented sequentially according to the research questions of the study. Mean scores and standard deviations and regression analysis was used to analyze the data collected. The raw data was coded, evaluated and tabulated to depict clearly the results of strategies adopted by microfinance institutions to support poverty reduction programs in Kenya, a case study of Nairobi County. The research was conducted on a sample of 52 respondents from different regions to which questionnaires were administered. Out of the issued questionnaires, only 44 were returned duly filled in making a response rate of 84.6% which is an adequate response rate for statistical reporting.

## 4.2 Demographic Characteristics

The study sought to establish the information on the respondents employed in the study with regards to the gender, age, the level of education and duration of work in that industry. These bio data points at the respondents' appropriateness in answering the questions and also looks at the Strategies adopted by Microfinance Institutions on poverty reduction. The results of the study are presented in the tables below.

### 4.2.1 Gender

The respondents were asked to show their gender, this was expected to guide the researcher on the conclusions regarding the degree of congruence of responses with the gender characteristics on strategies adopted by microfinance institutions to support poverty reduction programs in Kenya, Nairobi County.

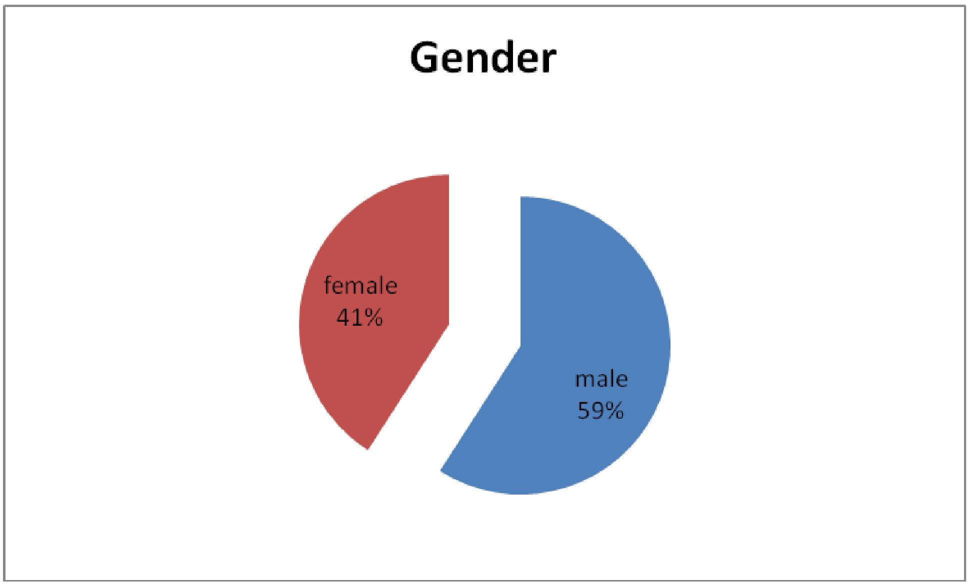


**Figure 4.1: Gender**

Figure 4.1 shows that 59% were males while 41% were females. The findings therefore indicate that majority of the financial manager in microfinance institutions of Nairobi County are males.

### 4.2.2 Respondents' age category

This area of the study, the researcher sought to know the age category of the respondents. This was expected to guide the researcher on understanding the most active age group in regards to strategies adopted by microfinance institutions to support poverty reduction programs in Kenya, Nairobi County. The figure below shows the study findings.

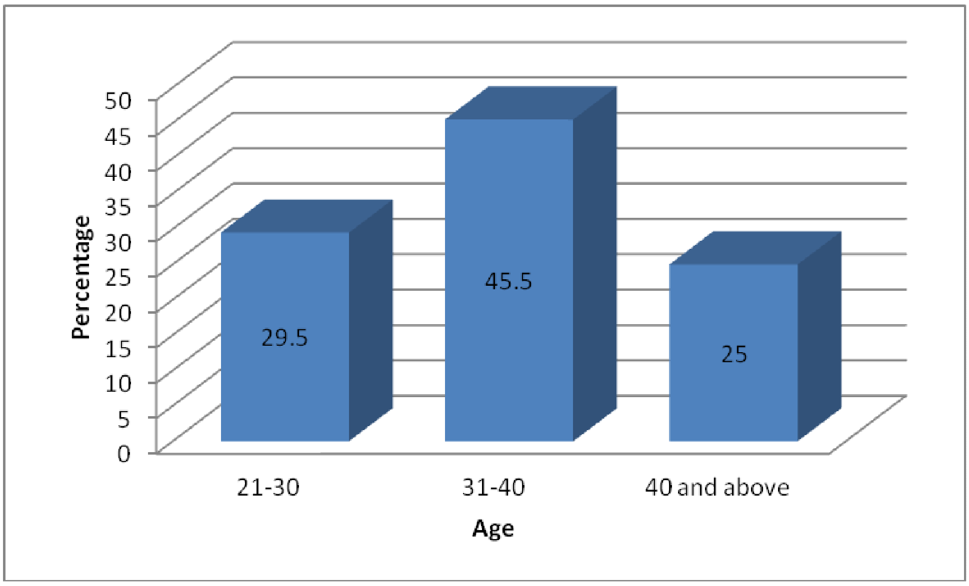


**Figure 4.2: Age category**

Figure 4.2 indicates that 29.5% of respondents were aged between 21-30 years, 45.5% were aged 31-40 years and 25% were aged above 40 years. From these findings, most of the financial managers in microfinance institutions of Nairobi County belong to an age category of 31-40 years. This is the most active age group hence they are actively involved in financial management, therefore they had rich experiences, could also appreciate the importance of the study.

### 4.2.3 Level of education

Figure 4.3 indicates the study results of the respondents' level of education. This was to help the researcher understand the level of education of the financial managers who were employed in microfinance institutions of Nairobi County.

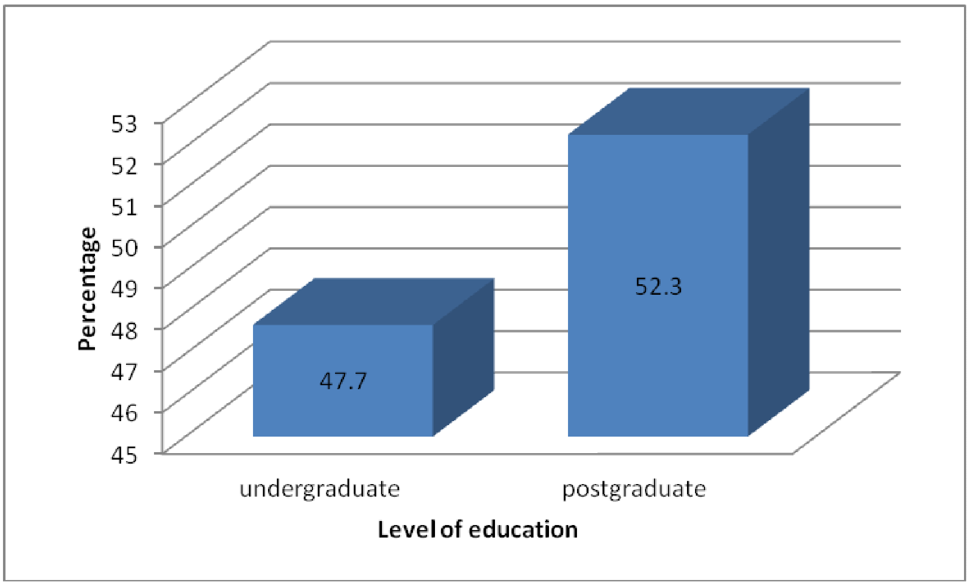


**Figure 4.3: Level of education**

Figure 4.3 indicates that 47.7% of the respondents are undergraduates and the rest i.e. 52.3% are postgraduate degree holders. All financial managers in microfinance institutions of Nairobi County were found to be degree holders therefore, provided information based on the academic knowledge, skills and experience they have gain in financial management.

### 4.2.4 Working experience from the institution

The respondents were asked to indicate the number of years they had worked in the institution. This was expected to help the researcher know the kind of experience the financial managers had and how effective they would be able to give information about the institution. The results are shown in figure below.

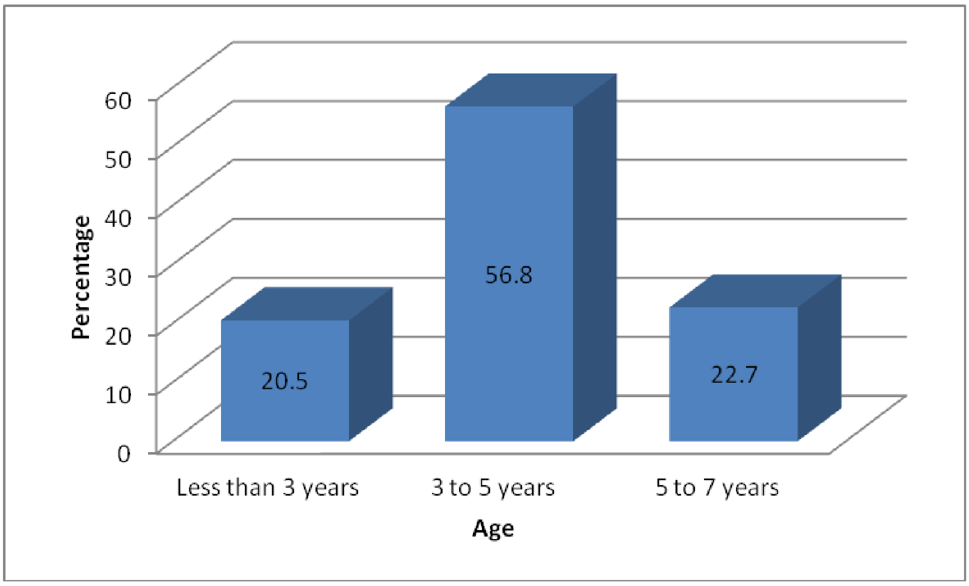


**Figure 4.4: Working experience from the business**

Figure 4.4 shows that 20.5% of the respondents have been it the institution for less than 3 years, majority of the respondents (56.8%) had worked in the institution between 3 to 5 years, while 22.7% had worked for 5 to 7 years. The findings therefore indicated that majority of the financial managers had worked in the institution for a considerable period of time and thus were familiar about the strategies adopted by microfinance institutions to support poverty reduction programs in Kenya.

### 4.2.5 Working experience in industry

The respondents were asked to indicate the number of years they had worked in the industry. This was expected to help the researcher know the kind of experience the financial managers had and how effective they would be able to give information about the industry. The results are shown in figure below.

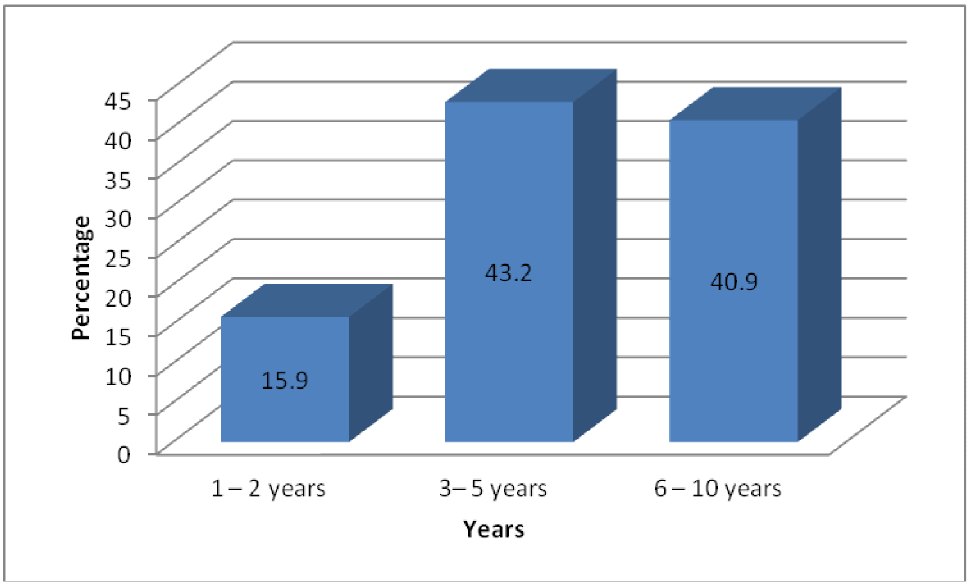


**Figure 4.5: Working experience in industry**

Figure 4.5 indicates that 15.9% of the respondents have been it the industry for between 1 and 2 years, majority of the respondents (43.2%) had worked in the industry between 3 to 5 years, while 40.9% had worked in the industry between 6 to 10 years. The findings therefore indicated that majority of the financial managers had worked in the industry for a considerable period of time and thus were familiar about the strategies adopted by microfinance institutions to support poverty reduction programs in Kenya.

## 4.3 Strategies adopted by Microfinance Institutions on poverty reduction in Kenya

### 4.3.1 Strategies adopted on ddevelopment approach

The study in this part aimed at identifying the strategies adopted by Microfinance Institutions on poverty reduction in Kenya using development approach. The factors were rated using a Likert 1-5 scale, to what extent were the following strategies adopted by microfinance institutions on poverty reduction in Kenya. With 1 being to no extent at all, 2 being to a small extent 3 being to some extent, 4 being 'to a high extent' and 5 being to a very high extent

**Table 4.1: Strategies adopted on development approach**

| Descriptive Statistics | Response | Frequency | Percent | Mean | Standard deviation |
|---|---|---|---|---|---|
| Microfinance institutions approach primarily focused on organizational achievements such as repayment, cost recovery and profitability | to no extent | | | 4.0909 | 0.98402 |
| | to a small extent | 4 | 9.1 | | |
| | to some extent | 7 | 15.9 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 19 | 43.2 | | |
| Microfinance institutions looks on how the client is doing rather than profitability | to no extent | | | 3.5000 | 0.66473 |
| | to a small extent | | | | |
| | to some extent | 26 | 59.1 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 4 | 9.1 | | |
| Microfinance institutions emphases on empowering the poor people to get the most out of the services delivered | to no extent | | | 3.7500 | 0.61474 |
| | to a small extent | | | | |
| | to some extent | 15 | 34.1 | | |
| | to a high extent | 25 | 56.8 | | |
| | to a very high extent | 4 | 9.1 | | |
| Making small base loans flexible to reflect changes in value of money | to no extent | | | 4.3182 | 0.70785 |
| | to a small extent | | | | |
| | to some extent | 6 | 13.6 | | |
| | to a high extent | 18 | 40.9 | | |
| | to a very high extent | 20 | 45.5 | | |
| Increasing loan grace periods and reducing frequency of repayment | to no extent | | | 4.0682 | 0.66114 |
| | to a small extent | | | | |
| | to some extent | 8 | 18.2 | | |
| | to a high extent | 25 | 56.8 | | |
| | to a very high extent | 11 | 25.0 | | |

**Source: Research Data (2013)**

Table 4.1 represents the descriptive statics on strategies adopted by Microfinance Institutions on poverty reduction in Kenya using development approach. The results show that respondents only agreed to a very high extent to the statements that Microfinance institutions approach primarily focused on organizational achievements such as repayment, cost recovery and profitability and making small base loans flexible to reflect changes in value of money with means of 4.0909 and 4.3182 and standard deviations of 0.98402 and 0.70785 respectively. The respondents agreed to a high extent on; Microfinance institutions looks on how the client is doing rather than profitability, microfinance institutions emphases on empowering the poor people to get the most out of the services delivered and increasing loan grace periods and reducing frequency of repayment with an average mean of above 3.5000 and standard deviation between 0.61474 and 0.70785. This findings indicates that majority of the respondents were in agreement to the statements regarding the above factors on strategies adopted by Microfinance Institutions on poverty reduction in Kenya using development approach.

### 4.3.2 Strategy adopted on lending methodologies

The respondents were asked to indicate whether there existed any form of strategy adopted by Microfinance Institutions on lending methogologies. The respondents were asked to rank factors on the degree of agreement or disagreement. The study results are shown in table below.

**Table 4.2: Strategy adopted on lending methodologies**

| Descriptive Statistics | Response | Frequency | Percent | Mean | Standard deviation |
|---|---|---|---|---|---|
| When member are having difficulty with repayments, others in the group will put pressure on that member to repay | to no extent | | | 3.7273 | 0.84533 |
| | to a small extent | 3 | 6.8 | | |
| | to some extent | 14 | 31.8 | | |
| | to a high extent | 19 | 43.2 | | |
| | to a very high extent | 8 | 18.2 | | |
| Microfinance institutions encourage Group leading | to no extent | | | 4.4091 | 0.81606 |
| | to a small extent | | | | |
| | to some extent | 9 | 20.5 | | |
| | to a high extent | 8 | 18.2 | | |
| | to a very high extent | 27 | 61.4 | | |
| Microfinance institutions facilities Individual leading | to no extent | | | 4.0455 | 0.74567 |
| | to a small extent | | | | |
| | to some extent | 11 | 25.0 | | |
| | to a high extent | 20 | 45.5 | | |
| | to a very high extent | 13 | 29.5 | | |
| Microfinance institutions offer small self-employment loans to start or expand their own businesses | to no extent | | | 4.5000 | 0.62877 |
| | to a small extent | | | | |
| | to some extent | 3 | 6.8 | | |
| | to a high extent | 16 | 36.4 | | |
| | to a very high extent | 25 | 56.8 | | |
| Microfinance institutions offers an incentive to save | to no extent | | | 4.3864 | 0.68932 |
| | to a small extent | | | | |
| | to some extent | 5 | 11.4 | | |
| | to a high extent | 17 | 38.6 | | |
| | to a very high extent | 22 | 50.0 | | |

**Source: Research Data (2013)**

Table 4.2 indicates that Microfinance institutions encourage Group leading, microfinance institutions offer small self-employment loans to start or expand their own businesses and microfinance institutions offers an incentive to save were given a very high extent response of means 4.4091, 4.5000 and 4.3864, and standard deviation of between 0.68932 and 0.81606 respectively.

When member are having difficulty with repayments, others in the group will put pressure on that member to repay and microfinance institutions facilities individual leading were agreed to a high extent response of means 3.7273 and 4.0455 and standard deviations of 0.84533 and 0.74567 respectively.

### 4.3.3: Strategies adopted by microfinance institutions on Institutional design for the poor

The study sought to establish strategies adopted by microfinance institutions to support poverty reduction programs in Kenya on Institutional design for the poor. The respondents were asked to rank the statements according to the level of importance. Study findings are shown in the table 4.3.

**Table 4.3**: **Strategies adopted by microfinance institutions on Institutional design for the poor**

| Descriptive Statistics | Response | Frequency | Percent | Mean | Standard deviation |
|---|---|---|---|---|---|
| Microfinance institutions in targeting the poor to reduce poverty | to no extent | | | 4.2045 | 0.63170 |
| | to a small extent | | | | |
| | to some extent | 5 | 11.4 | | |
| | to a high extent | 25 | 56.8 | | |
| | to a very high extent | 14 | 31.8 | | |
| Microfinance institutions empowers women or other disadvantaged population groups | to no extent | | | 4.5000 | 0.66473 |
| | to a small extent | | | | |
| | to some extent | 4 | 9.1 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 26 | 59.1 | | |
| Microfinance institutions create employment businesses | to no extent | | | 4.1818 | 0.81477 |
| | to a small extent | | | | |
| | to some extent | 11 | 25.0 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 19 | 43.2 | | |
| Microfinance institutions help existing business grow or diversify their activities, to encourage the development of new | to no extent | | | 4.4091 | 0.72555 |
| | to a small extent | | | | |
| | to some extent | 6 | 13.6 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 24 | 54.5 | | |
| Microfinance institutions help group meetings to make the program unattractive to people who have other sources of credit as an indirect method | to no extent | | | 4.0455 | 0.48005 |
| | to a small extent | | | | |
| | to some extent | 4 | 9.1 | | |
| | to a high extent | 34 | 77.3 | | |
| | to a very high extent | 6 | 13.6 | | |
| Microfinance institutions lowers interest rates to an optimum level | to no extent | | | 4.6364 | 0.48661 |
| | to a small extent | | | | |
| | to some extent | | | | |
| | to a high extent | 16 | 36.4 | | |
| | to a very high extent | 28 | 63.6 | | |

**Source: Research Data (2013)**

Table 4.3 shows that the mean are above 3.0 for all the indicators that strategies adopted by microfinance institutions to support poverty reduction programs in Kenya on Institutional design for the poor were agreed to high extent with means of 4.0455, 4.1818, 4.2045, 4.4091, 4.5000 and 4.6364 from the lowest to highest respectively and standard deviations of between 0.48005 and 0.81477. In this order; Microfinance institutions help group meetings to make the program unattractive to people who have other sources of credit as an indirect method, microfinance institutions create employment businesses, microfinance institutions in targeting the poor to reduce poverty, microfinance institutions help existing business grow or diversify their activities, to encourage the development of new, microfinance institutions empowers women or other disadvantaged population groups and microfinance institutions lowers interest rates to an optimum level. Therefore the statistics indicates that Institutional design for the poor is a significant strategy adopted by microfinance institutions.

### 4.3.4: Strategies adopted by microfinance institutions on minimalist and comprehensive approach

The study sought to establish the extent in which microfinance institutions employ minimalist and comprehensive approach strategy. The table 4.4 shows the study findings.

**Table 4.4: Strategy of minimalist and comprehensive approach**

| Descriptive Statistics | Response | Frequency | Percent | Mean | Standard deviation |
|---|---|---|---|---|---|
| Microfinance institutions provides credit and savings facilities making the client responsible to make the best out of the loan delivered | to no extent | | | 4.4091 | 0.72555 |
| | to a small extent | | | | |
| | to some extent | 5 | 11.4 | | |
| | to a high extent | 25 | 56.8 | | |
| | to a very high extent | 14 | 31.8 | | |
| Microfinance institutions provide sustainable financial services to low-income people, but not necessarily to the poorest among them | to no extent | | | 4.0455 | 0.64536 |
| | to a small extent | | | | |
| | to some extent | 4 | 9.1 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 26 | 59.1 | | |
| Improving infrastructure and introducing trade exhibitions for micro and small enterprises | to no extent | | | 4.5682 | 0.62497 |
| | to a small extent | | | | |
| | to some extent | 11 | 25.0 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 19 | 43.2 | | |
| Microfinance institutions reduces poverty at the grassroots level are multidimensional ranging from economic and social problems to lack of marketable skills | to no extent | | | 4.5227 | 0.50526 |
| | to a small extent | | | | |
| | to some extent | 6 | 13.6 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 24 | 54.5 | | |

**Source: Research Data (2013)**

Table 4.4 shows that 44 respondent were interviewed the extent in which microfinance institutions employ minimalist and comprehensive approach as a strategy to support poverty reduction programs in Kenya, from the table the means ranges from 4.0455 to 4.5682 meaning that minimalist and comprehensive approach strategy are used in the microfinance institutions, while the standard deviation support since all the indicators have smaller values of 0.50526 to 0.72555.

### 4.3.5 Strategies adopted by microfinance institutions on products and services

The respondents were asked to show extent of agreement with statements on Strategies adopted by microfinance institutions on products and services i.e. clients' business skills, provision of financial products and services such as savings, credit, insurance, credit cards and payment services, the process of building the human and social capital required by sustainable financial intermediation for the poor, nonfinancial services that assist micro entrepreneurs, skills development and subsector analysis and Social or non-financial services that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, education and literacy training. Study results are shown in table 4.5.

**Table 4.5: Strategies adopted by microfinance institutions on products and services**

| Descriptive Statistics | Response | Frequency | Percent | Mean | Standard deviation |
|---|---|---|---|---|---|
| Microfinance institutions restructuring MFIs' training content to include improving their clients' business skills | to no extent | | | 4.2045 | 0.63170 |
| | to a small extent | | | | |
| | to some extent | 5 | 11.4 | | |
| | to a high extent | 25 | 56.8 | | |
| | to a very high extent | 14 | 31.8 | | |
| Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards and payment services | to no extent | | | 4.5000 | 0.66473 |
| | to a small extent | | | | |
| | to some extent | 4 | 9.1 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 26 | 59.1 | | |
| Social intermediation or the process of building the human and social capital required by sustainable financial intermediation for the poor | to no extent | | | 4.1818 | 0.81477 |
| | to a small extent | | | | |
| | to some extent | 11 | 25.0 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 19 | 43.2 | | |
| Enterprise development services, nonfinancial services that assist micro entrepreneurs include business training, marketing and technology services, skills development and subsector analysis | to no extent | | | 4.4091 | 0.72555 |
| | to a small extent | | | | |
| | to some extent | 6 | 13.6 | | |
| | to a high extent | 14 | 31.8 | | |
| | to a very high extent | 24 | 54.5 | | |
| Social services or non-financial services that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, education and literacy training | to no extent | | | 4.0455 | 0.48005 |
| | to a small extent | | | | |
| | to some extent | 4 | 9.1 | | |
| | to a high extent | 34 | 77.3 | | |
| | to a very high extent | 6 | 13.6 | | |

**Source: Research Data (2013)**

Table 4.5 shows that the mean are above 3.0 for all the indicators that strategies adopted by microfinance institutions to support poverty reduction programs in Kenya on products and services were agreed to high extent with means of 4.0455 to a highest of 4.5000. The standard deviation also supports that with values of between 0.48005 and 0.81477.

**4.5 Discussion**

From the literature review findings it was established that the strategies adopted by microfinance institutions to support poverty reduction programs in Kenya, a case study of Nairobi County include development approach whereby Microfinance institutions approaches are primarily focused on organizational achievements such as repayment, cost recovery and profitability, lending methogologies where Microfinance institutions encourage both group leading and individual lending, microfinance institutions empowers women or other disadvantaged population groups to reduce poverty, microfinance institutions employ minimalist and comprehensive approach strategy by providing credit and savings facilities, improving infrastructure and introducing trade exhibitions.

According to Greenley (2006), strategy is a unified and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization. Last but not least are products and enterprise development services, nonfinancial services that assist micro entrepreneurs include business training, marketing and technology services, skills development and subsector analysis.

From the study findings on development approach as a strategy adopted by Microfinance Institutions on poverty reduction in Kenya, the results show that respondents agreed to a very high extent that development approach emphasises more on break-even, impact on credit and on how the client is doing rather than profitability. Supporters of this approach argue that the clients should participate in awareness and capacity building programs before taking the loans. The basic difference seems to be whether the MFI should be seen as a business, be it with a development mission, or as a development body, be it with a business character. The answer depends on the type of clients the MFI wants to serve: if the MFI aims at clients deep down the poverty pyramid, the approach of the development should prevail. If they look for clients who could eventually “graduate” to the formal sector, the sound business approach is more logical

On lending methogologies respondents agreed to very high extent the on the provision of credit to individuals members of a group that is jointly responsible for loan repayment’. It requires frequent and close contact with individual clients to provide credit products tailored to the specific needs of the business. Village banking was designed to provide asset building loans to poor women in Kibera. Village banking group is a support group of 10-35 members-usually women-who meet weekly or biweekly to provide themselves with three essential services: small self-employment loans to start or expand their own businesses; an incentive to save, and a means of accumulating savings and a community-based system that provides mutual support and encourages personal empowerment. Ledgerwood (2008), conceived that financial services generally include savings and credit; however, some MFIs also provide credit cards, payment services, money transfers, and insurance services.

From the descriptive statistics on Institutional design for the poor as a strategy adopted by microfinance institutions to support poverty reduction programs in Kenya were agreed to high extent that MFIs target women more than men clients because women almost always make up the poorest segments of society and are responsible for child rearing, and they often have fewer economic opportunities than men. It has been argued that an increase in women's income benefits the household and the community to a greater extent than a commensurate increase in men's income. Microfinance interventions may lead to empowerment for women by increasing their incomes and their control over that income, enhancing their knowledge and skills in production and trade, and increasing their participation in household decision making. As a result social attitudes and perceptions may change and women's status in the household and community may be enhanced. The prime objective of MFIs is the provision of basic financial services to the poor. However, the service provision depends on their approaches. There are two contesting approaches among microfinance supporters: business approach and development approach. According to Van Maanen (2004), business approach primarily focused on organizational achievements such as repayment, cost recovery and profitability.

The study findings on minimalist and comprehensive approach strategy claimed that the overall goals of microfinance should be poverty reduction and empowerment. According to this approach, MFIs should target the poor, conduct impact assessment studies to prove the poverty-reducing effect of their activities and provide complementary services such as business development services in order to contribute to poverty reduction. As opposed to the financial systems approach, credit is seen as a powerful tool for poverty reduction.

From the descriptive statistics on products and services as a strategy adopted by microfinance institutions to support poverty reduction programs in Kenya it was agreed to high extent that many MFIs provide savings and credit services without getting involved in related development activities. However, many scholars argues that integrating financial with non-financial services is usually seen as essential in addressing the causes of poverty identified in a particular area or by a particular group of people; it is rarely the case that savings and credit activities alone will reduce poverty. Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards and payment services, Social intermediation or the process of building the human and social capital required by sustainable financial intermediation for the poor, Enterprise development services, nonfinancial services that assist micro entrepreneurs include business training, marketing and technology services, skills development and subsector analysis.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents summary of findings as discussed in chapter four and interpretations of the data analysis, conclusions and recommendations based on the findings.

## 5.2 Summary

The research was conducted on a sample of 44 respondents from the selected institutions to which questionnaires were administered. The study targeted microfinance institutions that support poverty reduction programs in Nairobi County, owing to the act that Nairobi County is the country commercial hub, infrastructure and industry centre. The study main objective was to establish and investigate on the strategies adopted by microfinance institutions to support poverty reduction programs in Kenya, Nairobi County.

Poverty reduction is a critical factor in elevating the economy of the county. The finding identified that there is growing interest in incorporating Microfinance institutions by empowering the women and the less advantaged population to get the most out of the services delivered was agreed to the most effective way of poverty reduction. Each segment in the institution may develop highly specific performance measurement information for its own operations and this will allow that segment to operate effectively.

The research found out that factors that are critical in micro financing management include Microfinance institutions looks on how the client is doing rather than profitability, institutions emphasizing on empowering the poor people to get the most out of the services delivered, increasing loan grace periods and reducing frequency of repayment and microfinance institutions lowers interest rates to an optimum level. It was established that the main factors affecting micro financing institutions were size of the population. It was noted that there is only a small population benefitting from the money lending institutions. The market for financial institutions was seen to be growing at a moderate pace. This slow pace is a result of Kenya not being able to effectively inform the needy in the society the need to get loans from micro financial institutions. Due to inflation the prices are high and thus a small market for the high priced products.

The investment climate is not conducive as a result of inflation and high exchange rates of currencies. Political instability has affected trade between counties thus resulting to trade barriers which affect the sector greatly as most of the products are exported since the countries own market is not sufficient.

The strategies adopted by Microfinance Institutions on poverty reduction influencing performance include difficulty of members' repayments, rich people are beneficiaries instead of the poor, institutions making the program unattractive to people who have other sources of credit as an indirect method and Microfinance institutions provide sustainable financial services to low-income people, but not necessarily to the poorest among them. It was also seen that there lacks good infrastructure and the level of technology are low; distribution and transport costs were also noted to be very high thus limiting performance in the sector.

## 5.3 Conclusion

In conclusion the performance of the Microfinance institutions has been affected by lack of large market by women groups, individuals and other beneficiaries of the loans for their products and a slow growth rate of the market. High inflation pushing prices up thus results to a small market for high priced products. There is need to improve on the performance in the Microfinance institutions in areas like infrastructure, technology and hiring of skilled labour to enhance performance in the sector.

For improved performance there will be need to expanding Nairobi County and the entire country markets for produce, integrating the bulk of the county's investors into profitable supply chains that satisfy these markets, and ensuring consumers of a growing supply of produce with falling real prices and improving quality will require investment in three key areas: technical production constraints, public market infrastructure, and the legal and regulatory environment.

## 5.4 Recommendations

These recommendations are mainly to the Kenyan government.  Kenya needs to expand Microfinance institutions for effective poverty reduction by integrating the bulk of the country's small scale investors into profitable supply chains that satisfy these markets, and ensuring consumers of a growing supply of their produce with falling real prices and improving quality will require investment in areas of technical production, public market infrastructure, and the legal and regulatory environment.

There is need to address the finance institution's critical constraints that require the government to adopt an overarching vision of partnering with private sector and donors to expand demand and value added within the sector and facilitate greater investors' participation in this growth. Government must see its role as a facilitator and not a controller of economic activity.

The government needs to develop effective marketing systems in the Microfinance institutions by providing political and social economic changes in the efforts to reduce poverty. There is need for initiatives to be taken for us to create a sustained and stable market and for women and disadvantaged population groups to be able to adjust to foreign technologies needed in organizational achievements and marketing. There is need to establish improved interest rates to an optimum level on handling systems which will minimize loses and enhance market performance of Kenya's microfinance products in the liberalized domestic and competitive export markets.

### 5.5 Limitations of the study

The study cannot be used in general since it only covers one area of Kenya while Microfinance institutions is widely practiced in Kenya and there could be other factors limiting performance in the sector. A recommendation is for studies to be done on other parts of the country.

Due to time limitations the study was not able to identify all the policies in place in regards to poverty reduction. The bias in this study is on local market. Since the sector deals with export there could be some limiting policies that needs to be identified and can help the stakeholders as well as the government in coming up with effective policies to be put in place to increase performance.

### 5.6 Suggestions for further research

Finally further studies should focus on the challenges and constraints that Microfinance institutions face that result to not participating competitively in the strategies adopted by Microfinance Institutions on poverty reduction in Kenya using development approach. This study will help in exploring the possibility of more rapid growth in domestic demand and foreign demand of all products. These will also asses the competitiveness of local production and marketing systems in place.

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**APPENDICES**

**APPENDIX I: LETTER OF AUTHORIZATION**

**UNIVERSITY OF NAIROBI**

SCHOOL OF BUSINESS

MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 27/09/2013

**TO WHOM IT MAY CONCERN**

The bearer of this letter KIARIE ANTHONY GITUNGO

Registration No. D61/73323/2009

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
27 SEP 2013
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

## APPENDIX II: QUESTIONNAIRE

The information provided will only be for the purpose of this study. Read carefully and give appropriate answers by ticking or filling the blank spaces. The information will be treated as confidential.

**PART A: GENERAL DEMOGRAPHIC DATA**

1) What is your gender?

   Male [ ] Female [ ]

2) Age(tick one)

   Below 20 [ ] 21 -30 [ ] 31- 40 [ ] 40 and above [ ]

3) What is your academic background

   Certificate [ ] diploma [ ] undergraduate [ ] postgraduate [ ]

4) How long have you been running the business?

   Less than 3 years [ ] 3 to 5 years [ ] 5 to 7 years [ ] Over 7 years [ ]

5) How long have you worked for the industry?

   1 – 2 years [ ] 3– 5 years [ ] 6 – 10 years [ ]

   10 – 15 years [ ] Over 15 year [ ]

**PART B: STRATEGIES ADOPTED BY MICROFINANCE INSTITUTIONS ON POVERTY REDUCTION IN KENYA**

6. Using a Likert 1-5 scale, with 1 being 'to no extent at all', 2 being 'to a small extent' 3 being 'to some extent', 4 being 'to a high extent' and 5 being 'to a very high extent', to what extent were the following strategies adopted by microfinance institutions on poverty reduction in Kenya? Please tick (✓) all as appropriate

| **STRATEGIES** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| **DEVELOPMENT APPROACH** | | | | | |
| Microfinance institutions approach primarily focused on organizational achievements such as repayment, cost recovery and profitability | | | | | |
| Microfinance institutions looks on how the client is doing rather than profitability | | | | | |
| Microfinance institutions emphases on empowering the poor people to get the most out of the services delivered | | | | | |
| Making small base loans flexible to reflect changes in value of money. | | | | | |
| Increasing loan grace periods and reducing frequency of repayment | | | | | |
| **LENDING METHODOLOGIES** | | | | | |
| When member are having difficulty with repayments, others in the group will put pressure on that member to repay | | | | | |
| Microfinance institutions encourage Group leading | | | | | |
| Microfinance institutions facilities Individual leading | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Microfinance institutions offer small self-employment loans to start or expand their own businesses | | | | | |
| Microfinance institutions offers an incentive to save | | | | | |
| **INSTITUTIONAL DESIGN FOR THE POOR** | | | | | |
| Microfinance institutions in targeting the poor to reduce poverty | | | | | |
| Microfinance institutions empowers women or other disadvantaged population groups | | | | | |
| Microfinance institutions create employment businesses | | | | | |
| Microfinance institutions help existing business grow or diversify their activities, to encourage the development of new | | | | | |
| Microfinance institutions help group meetings to make the program unattractive to people who have other sources of credit as an indirect method | | | | | |
| Microfinance institutions lowers interest rates to an optimum level | | | | | |
| **MINIMALIST AND COMPREHENSIVE APPROACH** | | | | | |
| Microfinance institutions provides credit and savings facilities making the client responsible to make the best out of the loan delivered | | | | | |
| Microfinance institutions provide sustainable financial services to low-income people, but not necessarily to the poorest among them. | | | | | |
| Improving infrastructure and introducing trade exhibitions for micro and small enterprises | | | | | |
| Microfinance institutions reduces poverty at the grassroots level are multidimensional ranging from economic and social problems to lack of marketable skills | | | | | |

| PRODUCTS AND SERVICES | | | | | |
|---|---|---|---|---|---|
| Microfinance institutions restructuring MFIs' training content to include improving their clients' business skills | | | | | |
| Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards and payment services | | | | | |
| Social intermediation or the process of building the human and social capital required by sustainable financial intermediation for the poor | | | | | |
| Enterprise development services, nonfinancial services that assist micro entrepreneurs include business training, marketing and technology services, skills development and subsector analysis | | | | | |
| Social services or non-financial services that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, education and literacy training | | | | | |

## APPENDIX III: MICROFINANCE INSTITUTIONS IN KENYA

| | | | |
|---|---|---|---|
| 1 | AAR Credit Services | 27 | Kenya Women Finance Trust |
| 2 | ADOK TIMO | 28 | Kenya Women Holding |
| 3 | Agakhan First Microfinance Agency | 29 | Kilimo Faida |
| 4 | Barclays Bank of Kenya Ltd | 30 | Mega Microfinance Limited |
| 5 | Biashara Factors Limited | 31 | MESPT |
| 6 | BIMAS | 32 | Micro Africa Limited |
| 7 | Blue Limited | 33 | Microensure Advisory Services |
| 8 | Canyon Rural Credit Limited | 34 | Molyn Credit Limited |
| 9 | Chartis Insurance | 35 | Muramati SACCO Society Ltd |
| 10 | CIC Insurance | 36 | Oikocredit |
| 11 | Co-operative Bank | 37 | One Africa Capital Limited |
| 12 | ECLOF Kenya | 38 | Opportunity International |
| 13 | Elite Microfinance | 39 | Programme (PAWDEP) |
| 14 | Equity Bank | 40 | Rafiki Deposit Taking Microfinance Ltd |
| 15 | Faulu Kenya DTM Limited | 41 | Remu DTM Limited |
| 16 | Fusion Capital Ltd | 42 | Assistance |
| 17 | Greenland Fedha Limited | 43 | Rupia Limited |
| 18 | Jamii Bora Bank | 44 | Select Management Services Limited |
| 19 | Jitegemea Credit Scheme | 45 | SISDO |
| 20 | Jitegemee Trust Limited | 46 | SMEP DTM Limited |
| 21 | Juhudi Kilimo Company Limited | 47 | Swiss Contact |
| 22 | K-Rep Bank Ltd | 48 | Taifa Option Microfinance |
| 23 | K-Rep Development Agency | 49 | U & I Microfinance Limited |
| 24 | KADET | 50 | Uwezo DTM Limited |
| 25 | Kenya Entrepreneur Empowerment Foundation | 51 | Yehu Microfinance Trust |
| 26 | Kenya Post Office Savings Bank | 52 | Youth Initiatives - Kenya (YIK) |

**Source: Association of Microfinance Institutions of Kenya-2010**