EFFECT OF MICROFINANCE SERVICES ON POVERTY ALLEVIATION IN KENYA

BY

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DECLARATION

This Research Project is my original work and has not been presented for a degree in any other university.

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This Research Project has been submitted with my approval as the University Supervisor.

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DEDICATION

This project is dedicated to my dad Michael Kipkirui and mum Sarah Kipkirui.

ABSTRACT

Microfinance institutions are increasingly publicized as one of the most successful tools for poverty alleviation. Kenya has experienced a rise in the number of the Deposit Taking and Credit Only Microfinance Institutions over the last seven years. This research looks into micro-financing in Kenya and focuses on the effect of microfinance services on poverty alleviation in Kenya. Microfinance service providers help the poor and those having smaller enterprises by giving loans or startup capital. It is one of the best ways embraced by many countries across the globe in alleviating the poverty levels.

This project provides an overview of the effect of MFIs in poverty alleviation in Kenya. The method employed in this study is descriptive survey design. Secondary data obtained from AMFI will be used in this project. Quantitative methods are used in this research to answer the research question of this project. The result of this study indicates that MFI's have played a key role in alleviating the poverty levels as well as improving the living standards for the Kenyan people.

From the findings of the study, the study recommends that MFI's should ensure they reach out to core of people leaving under poverty levels through awareness so as to decrease the poverty levels further.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Kenya, a country found in East Africa, has a coastline on the Indian Ocean with its neighboring countries being Tanzania, Somalia, Ethiopia, Uganda, and Sudan. Its surface area is 582,650 square kilometers. It has a population of 44.35 million (World Bank, 2015). The current Population Growth Rate of Kenya is 2.35%. Forty-two percent of its population of 44 million lives below the poverty line. A high percentage of the citizens depend highly on Agriculture (World Bank, 2015).

A 2005 report by the United Nations ranked Kenya at 154 out of 177 surveyed countries in terms of literacy levels, overall gross domestic product, and life expectancy. According to World Bank (2015), there are several causes of poverty in Kenya. Firstly, there is limited economic diversity. It refers to a large population depends on agriculture yet weather patterns in Kenya are not promising thus crippling in food supply and creation of jobs. Secondly, there is a lack of opportunity. Employment levels are low; hence, a high percentage is forced to rely on subsistence farming. Thirdly, there are high illiteracy levels. Even though primary education has been made free, most people cannot afford past the primary levels thus increasing illiteracy levels in the country. Further, there is unfair Tariff walls put in place by rich countries. The rich countries work best to protect their industries against competition hence discouraging importation from developing countries. Besides, there is limited access to health care in Kenya. Healthcare in the rural is a challenge as healthcare facilities are quite far and for some it is just expensive thus leads to mortality.

However, not all is thorny in Kenya. There are other positive developments over the years. They include Tourism (the biggest source of foreign income); coffee and tea farming (Kenya has been ranked fourth highest in the world); Flower industry and; Free and compulsory public education. Emphasis on infrastructure has been done as roads have improved over the years, and there is also a solid plan to improve the rail structure in the next few years.

Poverty remains a matter of growing concern across the world, especially in developing countries. Poverty is the condition in which low-income people cannot meet the basic needs of life (food, shelter and clothing), that is, they live below one dollar a day. According to Hulme and Paul (2000), poverty is the situation of not having enough money to meet basic needs of human beings.

Poverty is highly manifested among people who practice unskilled labor. The Kenya's Vision 2030 is inclined towards creating a globally competitive and prosperous nation with a high quality of life by 2030. The main objective is to transform Kenya into a newly industrializing, middle-income country that provides a high-quality life to all citizens by 2030 in a secure and clean environment. The vision is quite evident that by aiming at making Kenya a middle-income country, poverty levels will significantly reduce the quality of life for all Kenyan citizens will increase.

Microfinance gained world recognition and acceptance in the 1980's in providing financial services to the poor. There are twelve microfinance banks in Kenya licensed by Central Bank of Kenya (CBK), the first one having been licensed in the year 2009. However, the studies so far remain few in addressing the effectiveness of microfinance in poverty alleviation (Mwangi, Shisia, Mwai, & Okibo, 2014). Microfinance services have proven to be an effective tool for poverty reduction; this is quite evident in Asia. It has been widely argued that it can be used as a poverty reduction tool through the generation of employment, motivating self-development and income generating activities. Microfinance institutions have filled a gap in the formal financial system of the country as they have sources of funding to meet their lending portfolios.

Most financial facilities that offer loan facilities require security meaning you have to own an asset for it to guarantee the amount borrowed. Microfinance has come to the rescue of citizens who do not own any asset, as it offers loan facilities without an asset security but showing the repayment plan and the reality of the plan. It has made financial services accessible to people who were earlier excluded. However, microfinance has relatively high-interest rates and has not fully penetrated to the core of the poor in the society due to lack of knowledge by the people.

1.1.1 Microfinance Services

According to Vinell and Hamilton (1999), MFIs can offer their clients, both men and women who could be below or slightly above the poverty line, a variety of products and services. Formal financial institutions do not often provide these services to small informal businesses run by the lower income earners as profitable investments. Lower income earners ask for small loans and the financial institutions find it difficult to assist because of the difficulties in accessing their collateral. Hence, there remains no tangible security for the loan. The high lending cost is explained by the transaction cost theory.

The transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of a loan. The lender incurs costs which include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. Conversely, the borrowers also incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings (Brau and Woller 2004). The transaction rate is determined by the parties involved in a project. Sole responsibility to reduce the risk they may come across belongs to them (Fernando 2002).

Microfinance triangle comprises of financial sustainability, outreach to the poor, and institutional impact. Financial institutions always try to keep this cost as minimum as possible and when the lower income earners are in dispersed in different geographical areas, the cost of outreach increases. The provision of financial services to the poor is expensive and to make the financial institutions sustainable requires patience and attention to avoid excessive cost and risks (Jayo, Barbara; Rico, Silvia; Lacalle, Maricruz (2008). Deliveries of MF products and services have transaction cost consequences in order to have greater outreach. Other microfinance institutions prefer to visit their clients instead of clients going to the institution thereby reducing the cost incurred and encouraging the movement (Prior and Argandona, 2009, p. 354). For MFIs to be sustainable, it is important for them to have break-even interest rates. This interest rates need to be much higher so that the financial institution's revenue can cover the total expenditure (Berger, 2000). The break-even rate which is higher than the market rate is defined as the difference between the cost of supply and the cost of demand of the products and services. The loan interest rates are often subsidized (Brau and Woller, 2004).

Smaller enterprises are given smaller loans than larger firms but the interest rates remain the same. This indicates that, per unit cost is high for MFIs targeting customers with very small loans and possessing small savings accounts (Brau and Woller, 2004). Surprisingly, even the interest rate is high for applicants requesting very small loans, they are able to repay and even seek repeatedly for new loans. Low-income earning men and women have a serious hindrance in gaining access to finance from formal financial institutions. Clients need to be trained so as to have the skills for specific production and business management as well as better access to markets so as to make profitable use of the financial resource they receive (Berger, 2000). Some of the services provided by selected microfinance institutions include skills training, marketing, bookkeeping, and production to develop enterprises.

1.1.2 Poverty alleviation

Microfinance is an the essential vehicle in the development that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist lower income earners in expanding or establishing their businesses. It is used across the globe, but especially in developing countries where funds to improve a business proves a challenge to obtain (Rhyne &Busch, 2006). Financial intermediation is not the only service offered, some MFIs also provide social intermediation services such as the formation of groups, development of self-confidence and the training of members in that group on financial literacy and management (Mintzberg & Waters, 1985).

Various providers of microfinance services exist in the financial market and some of them are; non-governmental organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non-bank financial institutions. The target group of MFIs are self-employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith (Rhyne &Busch, 2006).

The potential mismanagement of the growth within the MFS provider will ultimately lead to higher costs for the MFS provider, less efficient service provision and thus a slower expansion of the MFS to the market as well as (probably) higher cost of operation for the MFS provider. The forgoing of growth opportunities will negatively affect the market by in many cases leaving potential clients underserved or not served. Equal attention therefore needs to be given to growth opportunity aspects as the risk factors associated with growth when discussing growth in the Micro Finance industry in large and Micro Financial Services providers in particular (Bruett 2004; Fernando 2008).

As all types of MFIs (NGO-based, commercial and all combinations alike), will need appropriate management in order to realize and manage growth, the author will make no attempt in treating self-sustainable MFIs separate from non-self-sustainable in the theoretical background, but rather look into the management for, and of, growth in more general term in hope to isolate its most crucial aspects. The author realizes and agrees that this will negatively affect the transferability of the results as different types of organizations operate under different conditions, but argues for the need of boarder conclusions rather than an in depth study, especially with background in the limited material available on the subject.

Microfinance in Kenya is not a new concept. Jayo et al (2008, p21) states that there are hundreds of MFS providers active in Africa and that some 70% of them were started in 2000 or later. Such a new and fast growing segment suggests that the methodology of microfinance is very valuable especially in the developing countries, such as Kenya, where it was mostly developed.

1.1.3 Microfinance Services and Poverty alleviation

The poor do not have access to basic savings and credit services that most people take for granted which makes it hard for the poor to break out of the vicious circle of poverty. It is therefore important that the poor get access to micro finance services in order to deposit their hard earned money and withdraw in times of need, obtain insurance through the deposits, and borrow money from the MFI's.

The poor highly depend on borrowings to make ends meet; hence MFI's has come to their rescue as they are allowed to borrow without collateral.

However, the poor at the grassroots level are yet to be reached due to a number of reasons which include ignorance and lack of meeting some requirements, e.g. attending certain meetings. The fight against poverty would be extensive if MFI's would be extended to the poorest. To alleviate poverty, MFI's are needed amongst other changes in the world.

1.1.4 Microfinance Services and Poverty in Kenya

According to World Bank (2015), there are several causes of poverty in Kenya. Firstly, there is limited economic diversity. It refers to a large population depends on agriculture yet weather patterns in Kenya are not promising thus crippling in food supply and creation of jobs. Secondly, there is a lack of opportunity. Employment levels are low; hence, a high percentage is forced to rely on subsistence farming. Thirdly, there are high illiteracy levels. Even though primary education has been made free, most people cannot afford past the primary levels thus increasing illiteracy levels in the country. Further, there is unfair Tariff walls put in place by rich countries. The rich countries work best to protect their industries against competition hence discouraging importation from developing countries. Besides, there is limited access to health care in Kenya. Healthcare in the rural is a challenge as healthcare facilities are quite far and for some it is just expensive thus leads to mortality.

Microfinance gained world recognition and acceptance in the 1980's in providing financial services to the poor. There are twelve microfinance banks in Kenya licensed by Central Bank of Kenya (CBK), the first one having been licensed in the year 2009. However, the studies so far remain few in addressing the effectiveness of microfinance in poverty alleviation (Mwangi, Shisia, Mwai, & Okibo, 2014). Microfinance services have proven to be an effective tool for poverty reduction. It has been widely argued that it can be used as a poverty reduction tool through the generation of employment, motivating self-development and income generating activities. Microfinance institutions have filled a gap in the formal financial system of the country as they have sources of funding to meet their lending portfolios.

1.2. Research Problem

Developing countries are working to reduce their national poverty based on local needs and priorities. Some of the strategies Kenya has put across include free public primary education, Youth and Women Empowerment, special rural developments programs amongst others.

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With the introduction of the MFI's is viewed as one of the best alternative sources of financial services for low-income earners as a means of raising their income and bettering their living standards hence reducing the poverty levels. For anything that has positives also has negatives and MFI's are no exception. MFI's are faced with some challenges while executing their mandate and services that include poor organization structure, limited coverage, forfeiters of loans, etc.

Poverty remains a matter of growing concern across the world, especially in developing countries. Poverty is the condition in which low-income people cannot meet the basic needs of life (food, shelter and clothing), that is, they live below one dollar a day. According to Hulme and Paul (2000), poverty is the situation of not having enough money to meet basic needs of human beings.

The poor do not have access to basic savings and credit services that most people take for granted which makes it hard for the poor to break out of the vicious circle of poverty. It is therefore important that the poor get access to micro finance services in order to deposit their hard earned money and withdraw in times of need, obtain insurance through the deposits, and borrow money from the MFI's.

With the high poverty levels and the emergence of MFI's, one would like to know by how much MFI's have helped in reducing the poverty levels through their services.

This research therefore seeks to answer to the following question:

What is the Impact of Microfinance Services on Poverty alleviation in Kenya?

1. 3. Research Objectives

The study examines the effect of microfinance services on Poverty alleviation in Kenya using the following objectives:

a) Examining the role microfinance institutions play as far as reducing the poverty level is concerned.

b) Assess the number of active borrowers in MFI's over the years.

c) Assess loans disbursed to clients by the MFI's over the years.

1.4 Value of the Study

Microfinance is an effective tool for tackling poverty issues in the country. By tackling poverty, living standards will be raised, illiteracy level will be reduced, healthcare will be more accessible, and self-improvement will be experienced within the people hence contributing to Kenya's Vision 2030.

The researcher will have satisfied the condition of the ministry of education and Nairobi University after successful completion of this study. It will also equip the researcher with other necessary skills and acquired knowledge in conducting research in the future.

The study shows how microfinance has reduced the gap earlier created by banks where the poor could not access formal financial services. Through the research, the researcher highlights how microfinance institutions have given the poor the chance to improve their livelihoods economically. Initially, the banks had restrictions in that one had to have assets to secure loans while the poor had no collateral to secure the same. Therefore, the research has filled this gap by highlighting the efforts of MFIs in providing financial services to the poor who own no assets.

The current and potential investors will benefit from this information derived from the research, a key feature in making viable investment decisions.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter focuses on the view of literature review to this research. This is done with a view of collecting views, perspectives and opinions on the related field of study. The views depend on the theoretical literature; books, research papers and information from the internet. It also includes critical reviews, summary and conceptual framework.

2.2 Review of Theories

There are theories formulated to explain microfinance and its services. The models are as discussed below.

2.2.1 The Grameen Model

It started in Bangladesh using the group concept- informal lending to the poor. It was started to assist landless people to obtain credit which was unobtainable from the formal commercial banks. The loans provided were not secured by assets. It used social collateral through peer monitoring and pressure to enforce repayments. Repayments by each member gave access to the next obtainable loan. However, if a member within the group defaulted, no other member of the group was eligible to receive further loan. Thus people were encouraged to repay in order to get more access to loans. This model operates using collective guarantee, close supervision and peer pressure from the group members. This model has been quite successful among the poor and in turn has improved their living standards.

2.2.2 The Rosenberg Scale Model

This model aimed at modeling the development and transformation of an NGO MFS provider into a suitable financial institution.

Initially on the Rosenberg scale, the small NGO loses money due to not being able to apply the economies of scale to their operation thus leverage is negative and their operation if not sustainable. Therefore donations are crucial if the organization is allowed to progress. The organization can, with the addition of the capital, create debt capacity together with the healthy operating results provide a cushion against loss that will attract borrowed money or commercial investments which in turn will be used for loans to clients. The grant is used as leverage towards the debt, which in turn allows for the MFS provider to expand its operation further thus can lend more. If this process continues, the NGO may be able to evolve into a bank while remaining dedicated to serving clients outside the traditional financial system.

The growth and transformation of an NGO microfinance is however never easy.

2.2.3 The Banco Sol Model

This model was developed in Bolivia to address the problem of urban unemployment and provide credit facilities to the cash-strapped informal sector. This model combines both group and individual lending. Like Grameen model, it targets the poor in the society and group formation. Micro lenders are flexible about collateral and lend loan to group and individuals. Many MFIs are now adopting the approach because it is very helpful in areas with low population densities or highly diverse population where group formation is not easy due to different ratio of safety and risky borrowers.

2.3 Determinants of Poverty Alleviation

Determinants of poverty alleviation are the things that decide whether or how poverty will be alleviated. The determinants include:

Decreased Illiteracy levels; since free primary education was enrolled, more people have been able to access education thus has in turn led to decrease in illiteracy levels. This simply means that people are able to think more broadly and hence improve their decision making skills.

Access to Healthcare facilities; with the healthcare facilities being established at the interior means more people can access healthcare services. There are mobile clinics being rolled out all over the country to ensure that people can easily access such services and hence reduce the mortality rate.

Decreased Unemployment levels; the country has taken initiative in creating jobs for its citizens and giving priority to youth, women and persons with disability. This will lead in decreased unemployment and in turn decrease the dependency ratio within the country.

Economic diversity; in the past, most people have been relying on subsistence crop farming. But with the increased sensitization and MFI support, people have been able to venture into large scale farming and other business ventures.

2.4 Review of Empirical Studies

The performance of MFIs is typically measured using four critical measurable parameters. They include outreach, financial sustainability (profitability), portfolio quality and efficiency. These core indicators are categorized into two groups; financial and social performance. Sustainability, efficiency and portfolio quality are indicators of financial performance. On the other hand, outreach captures the social performance of MFIs. The indicators, on the other hand, do not capture all the relevant aspects of performance for internal management but they ideally represent the minimum performance areas for the basic investigations of external investors.

The causes, missions and methodology of MFS provision vary greatly between the different actors in the industry. The types of services also vary, with the credit or loans as a base product that most offer. Put broadly the provision of financial services in small amounts is valid for all and this sets it apart from for example financial aid through some requirement of repayment of the obtained funds. The providers greatly vary from religious groups, NGOs and charity organizations to governmental agencies, economic development institutions, and private as well as commercial banks (Prior and Argandona, 2009, p. 354)

The causes for operations in similar fashion stretch from humanitarian initiatives to provide the poor with a higher standard of living in a sustainable fashion to pure profit seeking. Even if the local economic development and increased welfare effects has been the most publically discussed aspects of MFS provision one must not forget that the segment of the poor represents a potentially enormously profitable target market for financial services providers as it is at the least underserved, and in many cases not served at all. Further, as an example, studies show that the failure to pay rate of micro-loans is significantly lower than for provision of traditional credit

(Vinell and Hamilton, 1999). This should alert any profit seeking capitalist with half a business whit of the potentials with the provision of a full spectra of financial services to the poor.

Micro financial services, in the form we are discussing them today, differ from traditional financial services, both in terms of what services provided, and, most importantly, also under what conditions the services are given.

Table 2.1 Distinctive Features of Microfinance

Distinctive Features of Microfinance

AREA	Traditional Finance	Microfinance
Lending Methodology	(1) based on collateral (2) more documentation (3) less labor intensive (4) Loans are usually serviced monthly, quarterly, or yearly	(1) based on character (2) less documentation (3) more labor intensive (4) Loans are usually serviced/repaid in weekly or bi-monthly installments
Loan Portfolio	(1) fewer loans (2) loans larger in size (3) collateralized (4) longer maturity (5) more stable delinquency	(1) more loans (2) loans smaller in size (3) uncollateralized (4) shorter maturity (5) more volatile delinquency
Institutional Structure and Governance (of regulated financial institutions)	(1) Profit maximizing institutional and individual shareholders (2) Creation by spin-off from existing regulated institution (3) Centralized organization with branch offices located in cities	(1) Mainly non-profit institutional shareholders (2) Creation by conversion from NGO or formation of new entity (3) Decentralized set of small units in areas with weak infrastructure

Sources: Adapted from Rock & Otero, 1996; and Behrenbach & Churchill, 1997.
Table copied from Berger (An Emerging Market within the Emerging Markets-Draft verison)

The MFS industry started offering loans and has since then been expanded with other financial services, often in combination with basic economic education and economic guidance of the clients Brau and Woller, (2004 p10). The most common product is so called enterprise loans Nourse (2001), granted to establish, or grow, commercial activity that is thought to render a positive financial return in the future. The Enterprise loans should be kept separate from emergency/consumption loans that are extended to provide basic necessities to the very poorest in order for them to be able to focus energy on generating income. Thus the loan itself will not generate a direct return. Since the start of the industry the product portfolio has increased enormously with most MFS providers and the largest and most developed are today providing a full range of financial products, including deposits, insurance, leasing, auditing and other services.

The most distinct features that distinguishes Micro Financial Services from regular Financial services can be found in the three areas pointed out in the table above; Lending Methodology, Loan Portfolio and Institutional Structure and Governance. Firstly, regarding the Portfolio, the loans, or other services provided through a Micro Financial Services provider, are, as the name suggests, smaller in size and more in numbers, compared to a regular financial institution. This can be said to directly affect the Methodology, as more loans of small sizes leads to a higher administrative cost per dollar lent, due to a higher number of fixed costs to obtain a loan, but also due to the higher administrative burden from the Micro loans being serviced more frequently and in smaller values. In terms of risk assessment, micro loans are also not as straight forward as loans are not collateralized in the same way as traditional loans are. This implies a somewhat abstract assessment based on character for each of the microloan-takers in order to compile the overall portfolio risk instead of assessment of the collateralized capital goods, real estate or financial guarantor behind the loans in the case of traditional loans. As the micro loans are (mostly) based on character, which is naturally hard to quantify in terms of risk, the delinquency, or the failure to pay, of the loan takers are more volatile than for traditional loans Berger (2000).

The differences between traditional financial services and Micro Financial Services in terms of Institutional Structure and Governance are hard to precisely define due to the shift in institutional structure that is often a necessity to foster continued growth with an MFS provider, but in general it can be said that most MFS providers have alternative motives for their operations (such as poverty alleviation), at least parallel to the goal of profits. Further, it has historically been rare that MFS providers are created through spinoffs from established regulated institutions, although some international banks have been known to do so (often in collaboration with an NGO or a smaller MFS-providing organization). The more traditional creation and development of an MFS provider is through a small local NGO. This often implies a fundamental difference in governance, as the organizational informality of a local NGO is a lot higher than for a spinoff from an established regulated institution. Finally, and a contributing reason to the informality and difference in governance, MFS providers are most often decentralized and represented in remote locations without efficient infrastructure, compared to regular financial institutions that are centralized and represented in densely populated cities with convenient access to large numbers of potential clients.

According to the scholars Chaudhry, (2009); Roslan & Abd Karim, (2009); Taylor & Xiaoyun, (2012); Yusuf, Shirazi, & MatGhani, (2013), the major causes of poverty are variables like inflation, age, household size, health problem, lack of savings and inadequate assets. Many countries have therefore taken action to reduce poverty using microfinance, for example, Bangladesh with the commencement of Grameen Bank project in 1974 and inauguration of Amanah Ikhtiar Malaysia (AIM) on September 17 1987 with the main aim of reducing poverty and increasing income of Bumiputera and Malays in particular, through microcredit called Ikhtiar financing scheme for poor households in rural areas.

2.5 Summary of Literature Review

From the review of the models and the empirical studies, we can see that a lot has been done in addressing poverty alleviation through microfinance services. Many countries have undertaken microfinance services to address issue of poverty and women empowerment including Kenya. However, not enough and specific studies have been done in Kenya to address the impact of MFS's on poverty alleviation thus the formulation of our research study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter targeted to explain the research design and data collection method employed. It comprised of research design, target population, sample, data collection, data analysis and data validity and availability.

3.2 Research Design

The method employed in this study was descriptive survey design. Descriptive research is used to describe characteristics of a population being studied and answers questions about how, when or why the characteristics occurred. A survey is defined as research strategy or method that is used to collect information about items from a large population Bogdan &Taylor (1984). Descriptive research design was chosen for this research because it is best suited to obtain information concerning microfinance services impact on poverty alleviation in Kenya. Using the design, we will establish the relationship of Microfinance Services on Poverty Alleviation, to development studies which seek to determine changes over time.

3.3 Population

The target population is Kenya as a whole. This research depended on secondary data collected in Kenya. The data was collected from Association of Microfinance Institutions-Kenya, The Kenya Institute for Public Policy Research and Analysis (KIPPRA), World Bank, Kenya Economic Report and Kenya and Kenya National Bureau of Statistics. The data gathered was a representative of the situation in Kenya.

3.4 Sample

The research would not work with a sample since it borrowed data from secondary sources.

3.5 Data Collection

This research would rely on secondary data due to the nature of the study. The Microfinance Services measures on impact were identified. The various microfinance services aspects were observed during a specified period of time. The data collected from Association of Microfinance Institutions-Kenya, The Kenya Institute for Public Policy Research and Analysis (KIPPRA), World Bank, Kenya Economic Report and Kenya and Kenya National Bureau of Statistics were used to get findings as per the research topic.

3.6 Data Analysis

Data analysis seeks to fulfill research objectives and provide answers to the research questions (Bryman & Cramer, 1997). By considering the objective of the study, the two variables of major interest are (i) impact of microfinance services on (ii) poverty alleviation. Determinants of microfinance services were the various indicators of microfinance services and they were measured using descriptive research of dependent and independent variables. A correlation was drawn between these two variables of interest.

3.6.1. Analytical Model

Analytical models are mathematical models that explain the solution to the equations used to describe changes in a system can be expressed as a mathematical analytic function. A multiple regression model was used to establish the relationship between the impact of microfinance services measures and poverty alleviation.

The findings were coded, summarized, analyzed and presented using relevant graphical representations including graphs and tables. The Statistical Package for Social Sciences (SPSS) tool was used to analyze the statistical data that was collected for the purpose of this study. The figures were standardized to percentage as the poverty alleviated will be reported in percentage. This study used data collected for the last 4 years on a monthly basis.

The model is;

$$\mathbf{Y_t = \beta_0 + \beta XI_t + \beta XB_t + \beta XF_t + e}$$

Where;

$\mathbf{Y_t}$ is the poverty alleviated in year t.

$\mathbf{XI_t}$ is Loans disbursed by Microfinance Institutions in year t.

Loans disbursed were extracted from Association of Microfinance Institutions-Kenya.

$\mathbf{XB_t}$ is Savings received by MFI in year t.

Savings were extracted from Association of Microfinance Institutions-Kenya.

$\mathbf{XF_t}$ are the Deposits received by the MFI's in year t

Deposits were extracted from Association of Microfinance Institutions-Kenya.

$\mathbf{B_0}$ is the Control Factor as measured interest rates of the Microfinance Institutions in Kenya.

e is the error term.

3.6.2. Test of Significance

The significance level for a given hypothesis test is a value for which a P-value less than or equal to is considered statistically significant. Typical values for are 0.1, 0.05, and 0.01. These values correspond to the probability of observing such an extreme value by chance as captured in the findings of this research. The test of significance tells us what the probability is that the relationship we think we have found is due only to random chance. They tell us what the probability is that we would be making an error if we assume that we have found that a relationship exists. In this research Analysis of Variance (ANOVA) and R^2 tests will also be used to test significance.

3.7 Data validity and reliability

Data validity is concerned with whether the findings acquired are really as they appear on the ground, thus it highly translates to the credibility of the research. The main aim of this it to determine whether the research has truly answered the research question projected. I believe that the statistical tool used to analyze data is the most appropriate one as it addresses the question of the research. Reliability refers to the extent to which the secondary data used yielded findings which are consistent and true. Reliability attempts to answer the following questions: 1. is there transparency in how raw data has been used to reach the conclusions? 2. Will similar observations be reached by other observations? I believe that the results of this study are reliable as the secondary data sources are reliable. I also believe that the data was authentic hence yielding to authentic results.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the data analysis, findings and interpretations of the study based on the research objectives. The results were presented in form of frequency tables, charts and graphs. Various statistical techniques were used to analyze the data to answer the research question.

4.2 Descriptive Statistics

This summarizes the population characteristics between poverty alleviated with the specifics aspects of MFI's. The results of tests on the differences in means of all variables used in measuring level of poverty alleviated were considered i.e. loans disbursed, savings received and deposits received. Their mean, median, maximum, minimum and standard deviation was considered. The findings were as indicated in table 4.1

Table 4.1 Descriptive statistics of poverty alleviated and MFI's aspects (loans disbursed, savings received and deposits received).

	N	Minimum	Maximum	Mean	Std. Deviation
GDPCHANGE	48	2	14	6.52	4.652
SAVINGS	48	389	1232	758.64	253.317
LOANSDISBURSED	48	1990	4413	3071.61	842.391
DEPOSITS	48	537.20	1897.30	1149.9313	455.68783
Valid N (listwise)	48				

The results in table 4.1 show tests on the differences in means of all variables of the effect of MFI services on poverty alleviation. The GDP change showed a mean of 0.0652 and std deviation of 0.04652, Savings showed a mean of 7.5864 and std deviation of 2.533, Loans disbursed showed a mean of 30.71 and std deviation of 8.42 and Deposits received showed a mean of 11.49 and std deviation of 4.55. The positive values imply that the variables under the model are significant in determining the effect of MFI services on poverty alleviation.

4.3 Correlation Analysis

The study further determined the correlation between the independent variables used in the study i.e. Loans disbursed, Savings Received and Deposits Received against the dependent variable i.e GDP change. For this analysis, Pearson correlation was used to determine the degree of association within the independent variables and also between the independent variables and dependent variable. Refer to table 4.2 where the level of significance was calculated at 95% level. The study findings indicate that the variables are statistically significant to influencing the poverty alleviated using the MFI's aspects as indicated by positive and strong Pearson correlation coefficients.

Table 4.2 Correlation analysis table

		GDPCHANGE	LOANSDISBURSED	SAVINGS	DEPOSITS
Pearson Correlation	GDPCHANGE	1.000	.398	.211	.440
	LOANSDISBURSED	.398	1.000	.964	.996
	SAVINGS	.211	.964	1.000	.958
	DEPOSITS	.440	.996	.958	1.000
Sig. (1-tailed)	GDPCHANGE	.	.003	.075	.001
	LOANSDISBURSED	.003	.	.000	.000
	SAVINGS	.075	.000	.	.000
	DEPOSITS	.001	.000	.000	.
N	GDPCHANGE	48	48	48	48
	LOANSDISBURSED	48	48	48	48
	SAVINGS	48	48	48	48

DEPOSITS	48	48	48	48

A Pearson coefficient of 0.075 and p-value of 0.000 shows a strong, significant and positive relationship between effects of MFI's services on poverty alleviation. Therefore basing on the findings the study rejects the null hypothesis that there is no effect of MFI services on poverty alleviation and accepts the alternative hypothesis that there is effect of MFI services on poverty alleviation.

4.4 Regression Analysis and ANOVA Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18.619	4.529		4.111	.000
	LOANSDISBURSED	-.012	.005	-2.103	-2.379	.022
	SAVINGS	-.042	.005	-2.298	-8.274	.000
	DEPOSITS	.048	.008	4.735	5.766	.000

As per the R generated table above, the equation $\mathbf{Y_t = \beta_0 + \beta XI_t + \beta XB_t + \beta XF_t + e}$

Becomes;

$Y = 18.619 + \mathbf{(-0.012)\,XI_t + (-0.042)\,XB_t + 0.048XF_t + 4.529}$

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	772.934	3	257.645	46.411	.000[b]
	Residual	244.263	44	5.551		
	Total	1017.197	47			

a. Dependent Variable: GDPCHANGE

b. Predictors: (Constant), DEPOSITS, SAVINGS, LOANSDISBURSED

4.5 Summary and Interpretations of the Findings

In data analysis and presentation of results both descriptive and inferential statistics were employed specifically using correlation, regression and ANOVA to establish the significance/fitness of the model and also to establish the link between MFI services and poverty alleviation. The results of tests on the differences in means of all variables were considered, i.e. GDP change, loans disbursed, savings received and deposits received.

Their mean, maximum, minimum and standard deviations were considered. The GDP change showed a mean of 0.0652 and std deviation of 0.04652, Savings showed a mean of 7.5864 and std deviation of 2.533, Loans disbursed showed a mean of 30.71 and std deviation of 8.42 and Deposits received showed a mean of 11.49 and std deviation of 4.55. The positive values imply that the variables under the model are significant in determining the effect of MFI services on poverty alleviation. The positive values imply that the variables under the model are significant in determining the effect of MFI services on poverty alleviation.

The study further determined the correlation between the independent variables used in the study. For this analysis Pearson correlation was used to determine the degree of association within the independent variables and also between independent variables and the dependent variables. The analysis of these correlations seems to support the hypothesis that each independent variable in the model has its own particular informative value in poverty alleviation.

According to the regression equation established taking all factors into account (GDP change, Loans disbursed, Savings received and Deposits received) measured will be 18.619. The data findings analyzed also shows that keeping all other independent variables at zero, a unit decrease in loans disbursed will lead to a 0.012 decrease in poverty alleviated, a unit decrease in savings received will lead to a 0.042 decrease in poverty alleviated and a unit increase in deposits received will lead to a 0.048 increase in poverty alleviated.

The standardized Beta Coefficients give a measure of the contribution of each variable to a model. A large value indicates that a unit change in this predictor variable has a large effect on the criterion variable. The t and Sig (p) values give a rough indication of the impact of each predictor variable, a big absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable. At 5% level of significance and 95% level of confidence, loans disbursed had a 0.022 level of significance, savings received had a 0.000 level of significance and deposits received had a 0.000 level of significance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The results of both descriptive and inferential statistics were employed specifically using correlation, regression and ANOVA to establish the significance/fitness of the model and also to establish the link between MFI services and poverty alleviation. The results of tests on the differences in means of all variables were considered, i.e. GDP change, loans disbursed, savings received and deposits received.

The findings showed the correlations between the independent variables considered in the regression i.e. loans disbursed, savings received and deposits received. The significance of the coefficients was calculated at 95% level. The study findings indicate that the independent variables are statistically significant to influencing poverty alleviation indicated by positive and strong Pearson correlation coefficients. This implies that the MFI services affect poverty alleviation as shown by their strong and positive correlation coefficients.

The regression equation established taking all factors into account (GDP change, Loans disbursed, Savings received and Deposits received) measured will be 18.619. The data findings analyzed also shows that keeping all other independent variables at zero, a unit decrease in loans disbursed will lead to a 0.012 decrease in poverty alleviated, a unit decrease in savings received will lead to a 0.042 decrease in poverty alleviated and a unit increase in deposits received will lead to a 0.048 increase in poverty alleviated.

At 5% level of significance and 95% level of confidence, loans disbursed had a 0.022 level of significance, savings received had a 0.000 level of significance and deposits received had a 0.000 level of significance.

5.2 Conclusions

The results showed tests on the differences in means of all variables of the financial performance model considered. The positive values implied that the variables under the model are significant in determining the effect of MFI services on poverty alleviation.

A Pearson coefficient of 0.075 and p-value of 0.000 shows a strong, significant and positive relationship between effects of MFI's services on poverty alleviation. Therefore basing on the findings the study rejects the null hypothesis that there is no effect of MFI services on poverty alleviation and accepts the alternative hypothesis that there is effect of MFI services on poverty alleviation.

The study findings indicate that the variables are statistically significant to influencing the effect of MFI services on poverty alleviation as indicated by the positive and strong Pearson correlation coefficients. This implies that the MFI's services actually influence poverty alleviation in the country as shown by their strong and positive correlation coefficients. According to regression equation established, taking all factors into account loans disbursed, savings received and deposits received measured will be 18.619.

The standardized Beta Coefficients give a measure of the contribution of each variable to a model. A large value indicates that a unit change in this predictor variable has a large effect on th criterion variable. The t and Sig (p) values give a rough indication of the impact of each predictor variable, a big absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable.

The higher Pearson coefficient showed a strong, significant and positive relationship on effect of MFI services on poverty alleviation. The study findings indicate that the independent variables are statistically significant to influencing poverty alleviation indicated by positive and strong Pearson correlation coefficients. This implies that the MFI services affect poverty alleviation as shown by their strong and positive correlation coefficients.

5.3 Recommendations to Policy and Practice

This study found that MFI services have an effect on poverty alleviation in Kenya. This study therefore recommends MFI's should put in place more measures in ensuring that more people are reached through awareness especially people living at the core of the poverty levels. It is evident from table 5.1 and 5.2 that the number of clients and borrowers has increased over the years but more can be done to double the numbers and hence lead to higher levels of poverty alleviation.

It was also evident that interest rates charged on MFI' s loans in slightly higher than other loans in the market hence may be the reason why people shy away from borrowing form MFI. This study therefore recommends that interest rates charged by MFI be standardized to avoid suppressing the already poor individuals.

The findings of this study may not be generalized to all MFI's but can be used as a reference to MFI's in developing countries since they face almost the same challenges due to the same prevailing economic situations. Thus this could be the beginning of MFI's to ensure that part of their goal should be to eliminate the poverty levels in the country.

The independent variables keep changing from time to time due to certain reasons e.g. interest rates charged on loans and this aspect was not captured in this study hence a limiting factor. The MFI's should work on ensuring that their interest rates do not fluctuate as much so as to cushion its borrowers. This will lead to people not shying away from borrowing which will in turn lead to more borrowings and hence lead to poverty alleviation.

MFI's should incorporate more awareness done to sensitize the citizens. The awareness carried to by MFI's is a key element in ensuring the poor are reached hence extending their services to them. Thus the results will be conclusive in the sense that awareness aspect will be taken care and this will in turn lead to poverty alleviation.

There is need to measure the perception the poor have on MFI's. The perception would help the MFI perform better in eliminating/addressing any negative perception the citizens have on MFI and in turn address poverty levels as they will have built confidence levels of the borrowing from the poor.

5.4 Limitations of the Study

The main purpose of this study was to study the effect of microfinance services on poverty alleviation and information was gathered from AMFI – Kenya's secondary data. Getting this data was an uphill task as it proved to be sensitive but intentions of this study were made known to the organization. The data was availed after several visits to their offices.

The findings of this study may not be generalized to all MFI's but can be used as a reference to MFI's in developing countries since they face almost the same challenges due to the same prevailing economic situations. Some MFI's may not report the same findings as reported in this research due to other factors caused by diseconomies of scale thus not generalized to all MFI's.

The independent variables keep changing from time to time due to certain reasons e.g. interest rates charged on loans and this aspect was not captured in this study hence a limiting factor. The study did not measure the sensitivity of the independent variables on such factors as the interest rates thus the study may be limiting as the fluctuations in rates charged were not captured.

The interest charged on MFI loans was kept constant in this study. This is limiting to the study because the aspect of interest rates was not captured yet it is a key feature in MFI services. Changes in interest rates charged influences the amount people will borrow thus an important aspect but this study chose to keep it constant to measure other variables.

5.5 Recommendations for further Studies

There is need for further studies to carry out similar study for a longer period of time. Longer period of time will be able to measure the trend of MFI services on poverty alleviation until the rate is constant. This will eliminate the effect of external factors on the results obtained when reporting the findings.

A similar study should be carried out on the effect of microfinance services on poverty alleviation in Kenya incorporating the awareness done by MFI's. The awareness carried to by MFI's is a key element in ensuring the poor are reached hence extending their services to them. Thus the results will be conclusive in the sense that awareness aspect will be taken care of in the model thus leading to conclusive report.

Further studies should be done which will take into consideration the prevailing macroeconomic situation in the country, i.e. inflation rates. With the rapid changes in inflation in Kenya, it should be accounted for in the model as it is a key feature and it influences the purchasing power of every citizen.

Last but not least, there is need to measure the perception the poor have on MFI's. The perception would help the MFI perform better in eliminating/addressing any negative perception the citizens have on MFI and in turn address poverty levels as they will have built confidence levels of the borrowing from the poor.

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SECONDARY DATA

Source from AMFI – Kenya (2010 – 2014)

YEAR	MONTH	POVERTY ALLEVIATED/CHANGE IN GDP PER CAPITA (USD)	LOANS DISBURSED	SAVINGS RECEIVED	DEPOSITS RECEIVED
2010	JAN	4.0142	1989.9	389.2	537.2
	FEB	4.0142	2009.1	401.2	559.8
	MAR	4.0142	2118.3	444.6	569.9
	APR	4.0142	2201.2	489.7	586.3
	MAY	4.0142	2213.4	497.3	601.7
	JUN	4.0142	2216.9	512.9	649.5
	JUL	4.0142	2269	547.3	668.1
	AUG	4.0142	2273.2	578.4	695.3
	SEP	4.0142	2283.3	594.5	737.3
	OCT	4.0142	2307.4	648.3	762.6
	NOV	4.0142	2341.2	696.7	801.2
	DEC	4.0142	2380.7	703.8	848.5
2011	JAN	1.7067	2286.3	527.4	761.2
	FEB	1.7067	2312.1	539.5	768.2
	MAR	1.7067	2361.2	548.4	791.2
	APR	1.7067	2387.6	567.5	806.7
	MAY	1.7067	2415.8	589.1	824.3
	JUN	1.7067	2442.4	600.2	831.5
	JUL	1.7067	2491.2	618.6	835.8
	AUG	1.7067	2519.1	636.2	842.4
	SEP	1.7067	2592.3	645.3	859.2
	OCT	1.7067	2612.3	656.5	870.3
	NOV	1.7067	2645.2	678.7	889.1
	DEC	1.7067	2687.3	695.6	898.5
2012	JAN	13.9567	3097.2	617.3	1189.4
	FEB	13.9567	3117.6	621.7	1201.3
	MAR	13.9567	3148.6	647.2	1219.7
	APR	13.9567	3169.2	669.2	1239.8
	MAY	13.9567	3189.2	709.5	1267.2
	JUN	13.9567	3219.2	725.9	1283.5
	JUL	13.9567	3243.2	734.1	1297.3
	AUG	13.9567	3278.3	759.2	1313.8
	SEP	13.9567	3299.5	784.6	1331.1
	OCT	13.9567	3350.3	801.7	1342.4

	NOV	13.9567	3394.1	813.6	1351.2
	DEC	13.9567	3412.5	827.5	1363.6
2013	JAN	6.3975	4259.7	1059.3	1729.2
	FEB	6.3975	4283.8	1077.1	1743.2
	MAR	6.3975	4301.3	1109.2	1764.4
	APR	6.3975	4311.7	1121.7	1784.3
	MAY	6.3975	4329.5	1138.8	1802.6
	JUN	6.3975	4339.8	1158.1	1811.7
	JUL	6.3975	4367.1	1169.5	1828.3
	AUG	6.3975	4379.2	1186.4	1831.1
	SEP	6.3975	4382.1	1197.1	1855.6
	OCT	6.3975	4391.2	1219.3	1869.7
	NOV	6.3975	4403.2	1228.2	1883.2
	DEC	6.3975	4413.3	1231.7	1897.3

Change in GDP per capita (USD) – measure of poverty alleviated

2009	2010	2011	2012	2013
929.61	977.78	998.26	1,165.74	1,245.51

List of tables

Table 2.1 Distinctive Features of Microfinance

Table 4.1 Descriptive statistics

Table 5.1 Number of Active clients

Number of Active clients	**2010**	**2011**	**2012**	**2013**
Credit only MFI's	208,080	264,658	330,547	368,740
Growth	N/A	27.2%	24.9%	11.6%
DTM's	575,121	562,275	584,312	693,881
Growth	N/A	-2.2%	3.9%	18.8%
TOTAL	**783,201**	**826,933**	**914,859**	**1,062,621**

Table 5.2 Number of Active borrowers

Number of Active borrowers	**2010**	**2011**	**2012**	**2013**
DTM's	N/A	605,314	652,878	670,557
Credit only MFI's	N/A	221,902	267,369	279,825
TOTAL	**------**	**827,216**	**920,247**	**950,382**

Table 5.3 Gross Loan Portfolio

Gross Loan Portfolio	2010 Amount(KES mIn)	2011 Amount(KES mIn)	2012 Amount(KES mIn)	2013 Amount(KES mIn)
DTM's	20,779.1	23,115.9	29,746.1	40,191.
Credit only MFI's	5,824.5	6,636.9	9,172.8	11,970.9
TOTAL	**26603.6**	**29752.8**	**38918.9**	**52161.9**

Table 5.4 Clients Deposits

Clients Deposits	2010	2011	2012	2013
DTM's	8017.4	9978.4	15,400.3	21,800.6
TOTAL	**8017.4**	**9978.4**	**15400.3**	**21800.6**

Table 5.5 Clients Savings/Equity

Clients Savings	2010	2011	2012	2013
DTM's	4328.0	5015.6	6345.9	9,614.8
Credit only MFI's	2175.9	2287.4	2365.6	4281.6
TOTAL	**6503.9**	**7303**	**8711.5**	**13896.4**

List of Abbreviations

MFI – Microfinance Institution

DTM – Deposit Taking Microfinance Institutions

AMFI – Association of Microfinance Institutions – Kenya

CBK – Central Bank of Kenya

NGO – Non Governmental Organization

MFS – Microfinance Services

List of MFI's as per AMFI

Jitegemee Trust

OIKOCREDIT

MESPT

Women Enterprise Fund

Stromme Microfinance East Africa Ltd

Kenya Women Finance Trust – DTM

Rafiki Deposit taking Microfinance Ltd

Faulu Kenya DTM

SMEP DTM

Remu DTM Ltd

Uwezo DTM Ltd

Century DTM ltd

Sumac Credit DTM Ltd

U&I Deposit Taking Microfinance Ltd