THE IMPACT OF MICROFINANCE ON ECONOMIC EMPOWERMENT OF BENEFICIARY HOUSEHOLDS WITHIN KISUMU MUNICIPALITY

BY

ALPHONCE A. ALAMBO

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS (MONITORING AND EVALUATION)

DEPARTMENT OF URBAN AND REGIONAL PLANNING

MASENO UNIVERSITY

ABSTRACT

Microfinance has become very important in global poverty reduction debates. The popular assumption is that enabling poor households access to credit helps households begin micro entrepreneurship which would enable them improve their incomes and eventually escape poverty. Evidence from research so far has been scanty, and many results have been highly contested. Studying the impact of microfinance intervention is important to assess its viability on poverty reduction. The study focused on the impact of MFIs programs at household and enterprise levels within Kisumu Municipality. The study sought to examine the services offered by microfinance institutions towards economic empowerment of the poor in Kisumu Municipality; assess the nature and change of wealth in the beneficiary households as a result of the delivery of microfinance services; and examine the impact of microfinance on productivity of the enterprises in the Municipality. The study population for this study composed of the treatment group and the control group with the basic principle being to compare these two groups along different impact indicators and to identify any differences. The target population under the study constituted of 1,820 respondents from which a representative sample of three hundred of eighteen. Stratified systematic sampling was used to draw 210 and 108 representative samples from treatment and control groups respectively. The research employed the use of applied descriptive and quantitative research design. The methodology used direct observation, and both open and closed questionnaires distributed to the respondents within the study area. Secondary data were also gathered from different relevant publications. The study applied frequencies, averages and percentages as the main statistical tools. The study revealed that the services offered by microfinance institutions to clients in Kisumu Municipality included microcredit, savings, training, and monitoring and supervision. The study further analyzed the impact of microfinance to the poor clients based on economic indicators at the household and enterprise levels. The study findings revealed that microfinance programs have significantly ($p<0.01$) improved the households' income and savings, asset ownership and housing condition of the MFI clients in the Municipality at 95% confidence interval. Additionally, it significantly ($p<0.01$) increased enterprises' production capacities, net profit, and employment opportunities. However, the research findings did not show any significant impact of microfinance programs on households' access to education and household expenditure ($p\geq.05$). The study recommended that Microfinance Institutions should promote market segmentation to enable poor people to acquire more assets, increase household welfare, and to better cope with vulnerability. MFIs should further support market research for designing new and varied financial products to promote customer retention rates, client satisfaction levels and impact. The study also recommended that MFIs should establish more links with microfinance sector, academic and research institutions to disseminate key lessons learnt in the Municipality. Therefore, strengthening the operations and development of MFIs in Kisumu Municipality will be an appreciated to realize the objectives of the Poverty Reduction Strategy of the Kisumu County. The study was of great significance in highlighting the role of microfinance institutions in the empowerment of the poor through the provision of microcredit, entrepreneurial training, monitoring and supervision.

CHAPTER ONE

1.0 Introduction

1.1 Background of the Study

Microfinance is the provision of financial services such as credit (loans), savings, microleasing, micro-insurance and payment transfers to economically active poor and low income households to enable them engage in income generating activities or expand/grow their small businesses. Microfinance has evolved as an economic development approach intended to benefit the low income part of a given society (both women and men). According to the World Bank definition, the term refers to 'provision of financial services' (including saving and credit) to 'the poor'. Littlefield *et al* (2003) state "microfinance is a critical contextual factor with strong impact on the achievements of Millennium Development Goals (MDGs).

The word microfinance is being used very often in development vocabulary today. Although the word is literally comprised of two words: micro and finance which literally mean small credit; the concept of microfinance goes beyond the provision of small credit to the poor. Bateman (2010) defines microfinance as 'the means of providing a variety of financial services to the poor based on market-driven and commercial approaches' (Attimir, 2007). This definition encompasses provision of other financial services like savings, money transfers, payments, remittances, and insurance, among others. However many microfinance practices today still focus on micro-credit: providing the poor with small credit with the hope of improving their labour productivity and thereby lead to increment in household incomes.

In the global arena there is already the impression that microfinance is successful in reducing poverty. Many policy makers are therefore engaged on how to make microfinance sustainable

and available to many poor households in the future. Many stakeholders in the microfinance industry especially donors and investors argue that, "Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor households" (Bateman, 2011). The overall message in this argument is that unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from governments and donors. The main underlying assumption in this argument is that microfinance is already good for the clients, and therefore what is really urgent is to make the financial service available to as many poor people as possible.

Until very recently much of the enthusiasm about the positive impact of microfinance had been a matter of assumption. Most of the excitement was based on the great stories on the benefits and success of microfinance that have been told from around the globe and have gone a long way to turn microfinance from a few scattered programs in to a global movement. For example, there are the ever repeated stories of women and their families living at the verge of poverty and desperation, then eventually the lives of the household members take a turn for the better once these women are given the opportunity to access credit. The women usually do not get in to very sophisticated enterprises but rather they may buy some yarn and other sawing supplies, or start any other such humble business venture, and they are already off in to a route course that will see their households lifted out of poverty and can afford better nutrition, health and education for their children (Cheruiyot and Kioko, 1999).

AIMS (2008) observe that great anecdotes like these should not be substitutes for careful statistical investigations; there is need to have statistical information if indeed the success stories generally apply to most of the microfinance clients across the board. It is important to understand

that these great stories are generally meant to illustrate the potential of microfinance while statistical investigations and analysis are meant to show typical impacts across the board. To many policy makers and donors, anecdotes like the ones described above, coupled with the fact that poor client are able to borrow and repay imply that whatever investments that the poor are involved in are good enough and therefore benefiting them.

Rigorous empirical analysis in the issue of statistical impact of microfinance began in the 1990s. The studies so far remain few and the results of these studies are highly provocative. The first school of thought questions the relevance of microfinance as a poverty reducing policy in the first place. Cheruiyot and Kioko (1999) argued that "debt is not an effective tool for helping most poor people to enhance their economic condition be they operators of small farms or micro entrepreneurs". The main argument of Cheruiyot and Kioko (1999) is that there are other more important constraints that face small agricultural households and they include product prices, land tenure, technology, market access and risk. In a close rejoinder Hulme and Mosley (2006) argue that the logical assumption of virtuous spiral of economic empowerment to the household due to microfinance does not in reality exist. This is particularly so given that there exists gender relations in society in relation to loan uses- a scenario that more often than not leaves poor women borrowers highly indebted (Hulme and Mosley, 2006).

Rigorous studies have shown that micro entrepreneurs below the poverty line experience lower percentage income increases after borrowing than those above the poverty line. Studies have also demonstrated that households below the poverty line tend to use the loans for consumption purposes to a greater extent than households above the poverty line; thus their income should be expected to increase less (ACCION International, 2010). Research findings that poor households

are likely to use micro credit loans for consumption purposes yet their loan repayments rates are higher than repayment rates for the formal financial institution, which are normally used by the well off in society (Ghokale *et al* 2009) is quite intriguing.

As though to counter the negative arguments against the impact of microfinance on poverty reduction, other studies have found that microfinance is relevant to poverty reduction not just for the beneficiaries but also there are positive spillover effects to the rest of the community (Chowdhury and Buhia, 2006). In their study Chowdhury and Buhia (2006) use a panel household survey from Bangladesh and observes that access to microfinance contributes to poverty reduction, especially for female participants, and to the overall poverty reduction at the village level. Littlefield *et al* (2003) found, using data from three programs in rural Bangladesh, that borrowing from group-lending schemes increased consumption of poor households. However, Wolday (2000) has argued that Littlefield *et al*'s result reflect program selection effects rather than the impact of borrowing per se.

There are also other studies that seem to support to some extent the relevance of microfinance in poverty reduction. Wolday (2003) argues that microfinance has had positive impact on poverty reduction. However, he is keen to add that "Even in the best of circumstances, credit from microfinance programs helps fund self employment activities that most often supplement income for borrowers rather than drive fundamental shifts in employment patterns. It (microfinance) rarely generates new jobs for others and success has been especially limited in regions with highly seasonal income patterns and low population densities (Wolday, 2003)".

1.2 Statement of the Problem

Alleviation of poverty, the core of all developmental efforts, has remained a very complex and critical concern for developing countries. Several studies have shown that many of the poverty alleviation programmes have not achieved the expected success. In Getahun's (2009) study, many poor women borrowers dropped out of the borrowing programs citing the size of loans as too small to make any significant investments that that can significantly improve their incomes. Kitili (2005) argues that microfinance tends to indebt too poor women leaving them more vulnerable and exposed. The poor households depleted livelihood assets in the course of loan repayment since the income generating activities were not raising enough profits to repay the loans on time. In spite of considerable improvement in the status of the poor in the city, they still comprise the largest section of deprived population since severity of poverty escalates for worse year-in-year-out.

Lack of financial resources is one of the major problems facing poor households within Kisumu Municipality. Studies have shown that microfinance may be relevant for poverty reduction, but does not reach the poorest as often claimed. The results from these studies have identified beneficial impacts to the "active poor" but argue that microfinance does not assist the poorest as it is often claimed mainly because it does not reach them (Kiiru and Mburu, 2007). This group of studies often report mixed results suggesting the possibility of both positive and negative impacts for different households. Hulme and Mosley (2006), observe that microfinance can make a real difference in the lives of those served, but microfinance is neither a panacea nor a magic bullet against poverty, and it cannot be expected to work everywhere and for everyone. Much as there have been mixed statistical impacts of microfinance, there also has been no widely acclaimed study that robustly shows strong impacts. More research should therefore be directed towards not

just specific results but also the context within which particular results are expected. This kind of focus for future research will contribute more to knowledge, for the purposes of policy. As the microfinance institutions have been in operation in Kisumu since 2006, it is necessary to analyze their performance and to establish how far it has succeeded in empowering the poor populations through the microfinance services.

1.3 Objectives of the Study

The purpose of this study was to assess whether microfinance programs have reduced poverty through economic empowerment of the individuals at the household and enterprise levels within Kisumu Municipality.

1.3.1 Specific Objectives

The specific objectives of the study are to:

i. Examine the services offered by microfinance institutions towards economic empowerment of the poor in Kisumu Municipality.

ii. Assess the nature and change of wealth in the beneficiary households as a result of the delivery of microfinance services in Kisumu Municipality,

iii. Examine the impact of microfinance on productivity of the enterprises in the Municipality,

1.4 Research Questions

The study sought to answer the following research questions

i. What are the services offered by microfinance institutions towards economic empowerment of the poor populations in Kisumu Municipality?

ii. What are the nature and magnitude of economic changes in the lives of people served by microfinance institutions at the household level as a result of their

increased access to the microfinance services?

iii. What are the impacts of microfinance on production capacities of the enterprises?

1.5 Significance of the Study

Empowerment of the poor (those living on less than a dollar per day) is considered as an important responsibility of the every government as formed by the United Nations Millennium Development Goals. Till recently very little attention has been given to empowerment issues or ways in which both empowerment and sustainability aims could be accommodated. The poor's access to savings and credit facilities gives them greater economic role in decision making through their decisions regarding savings and credit. When the poor masses control decisions regarding credit and savings, they optimize their own and the household's welfare. In addition to the influence of the project in raising incomes and encouraging poor households to enter the market economy, it also serves as an entry point for the comprehensive community and human development.

A study on the Microfinance institutions could enable us to know the role of this microcredit programme in the empowerment of the poor though micro financing. It may also help us in locating the strengths, weaknesses, opportunities and threats of the project and to gives suggestions for the improvement and remedial measures wherever necessary. Although there are a large number of studies related to the microfinance and empowerment of the economically deprived populations, empowerment of the poor through Microfinance institutions has not received much attention so far. Hence, this study assumes great importance.

1.6 Scope and Limitation of the Study

The scope of the study was to analyze the progress of Microfinance institutions in Kisumu Town, in order to know how far microfinance institutions had achieved their objectives in empowering the poor through microfinance services. This study was limited to the households whose members are participating in micro-financing programs in Kisumu Municipality. The study was faced with time and financial constraint because it was time and finance bounded as compared to the wideness and intensiveness of the work. There was also the problem of getting reliable information from respondents. Due to absence of a baseline survey before the implementation of the microfinance programs within the study area, respondents would not recall the situations before taking loans properly.

Despite the above limitations, the samples selected from the treatment and control groups were considered representative enough. It was believed that, the systematic stratified sampling would help in making reasonable analysis and conclusion on assessing the impact of microfinance institutions on economic empowerment and poverty reduction in both urban and rural areas in Kisumu Municipality.

CHAPTER TWO

2.0 Literature Review

2.1 Introduction

This chapter discusses summaries of recognized authorities and previous researches done on the impacts of microcredit at the household and enterprise levels. The sections of this chapter look at the concept of microfinance and economic empowerment, and the impacts of microfinance at the household and enterprise levels. Moreover, the chapter also looks at how microcredit programs can bring about economic empowerment of the deprived populations.

2.2 Services Offered by Microfinance Institutions

Microfinance is the provision of financial services such as credit (loans), savings, microleasing, micro-insurance and payment transfers to economically active poor and low income households to enable them engage in income generating activities or expand/grow their small businesses. Microfinance has evolved as an economic development approach intended to benefit the low income part of a given society (both women and men). According to the World Bank definition, the term refers to 'provision of financial services' (including saving and credit) to 'the poor'. Littlefield *et al* (2003) state "microfinance is a critical contextual factor with strong impact on the achievements of Millennium Development Goals (MDGs).

These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. "Microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the poorest people." Many associate

microfinance with the provision of small loans to the poor. Both the products (loans) and the market (the poor) fall within the preview of microfinance but they are more of its origins than its present and future. Today microfinance has grown to cover a broader range of products and services, from credits and savings, to insurance and money transfers. Today many agree in the definition of microfinance as provision of financial services to those excluded from the formal financial system in broader terms (SUM, 2002).

Microfinance programs which focused on the delivery of financial services to the poor gained a worldwide acceptance and popularity since 1980's.The developments in the 1980's represented as a turning point in the history of microfinance development. As cited by Robinson (1995) worldwide survey of 206 microfinance institutions that are opened in or before 1992 found that, only 7 percent had been in operation before 1960; and 48 percent had been founded between 1980 and 1989. Microfinance provided large-scale outreach and profitability in 1980's for the first time. In 1990's it began develop as an industry (Robison, 2001).

Recent studies recognize that poor and low-income people slip from one poverty category to another as the opportunities and risks change. These studies helped shed light on the levels of poverty at which more poor people are reached by today's successful microfinance intuitions. It is being considered as a preferred vehicle for extending access to the poorest in many countries (Kumar, 2005). The survey conducted at the end of 2002 by Credit Summit Campaign cited in Wolday (2005) revealed that more than 67.6 million clients around the globe have been benefited, of which about 41.6 million are the poorest. According to the Micro-credit Summit estimate at the end of 2005, microfinance institutions are reaching to 100 million poorest people in the world. The UN declared 2005 as a year of micro-credit to bring the microfinance into forefront and integrate with the formal financial system.

The Canadian International Development Agency (CIDA) defines microfinance as, "the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions. The concept of micro financing and self-employment activities in rural areas has developed considerably over the last two decades (SUM 2002). It is working neither on donation/charity not on subsidy. It is basically rotational investment done to motivate the poor to empower themselves and practice the dictum 'save for the future and use those resources during the time of need.' theoretically, microfinance also known as microcredit or micro lending means making provisions for smaller working capital loans to the self-employed or self-employment seeking poor.

Schreiner and Colombet (2001, p.339) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks". Asian Development Bank (ADB) defines Microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low-income households and their micro enterprises (ADB 2000). Microfinance is "the provision of financial services to low-income poor and very poor self-employed people" (Otero 1999, p.8).

2.3 Microfinance and Economic Empowerment of Households

Microfinance is the provision of financial services such as credit (loans), savings, microleasing, micro-insurance and payment transfers to economically active poor and low income households to enable them engage in income generating activities or expand/grow their small businesses. Microfinance has evolved as an economic development approach intended to benefit the low income part of a given society (both women and men). According to the World Bank definition, the term refers to 'provision of financial services' (including saving and credit) to 'the poor'.

Littlefield *et al* (2003) state "microfinance is a critical contextual factor with strong impact on the achievements of Millennium Development Goals (MDGs).

Hulme and Mosley (2006, p.339) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks". Asian Development Bank (ADB) defines Microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low-income households and their micro enterprises (ADB 2000). Microfinance is "the provision of financial services to low-income poor and very poor self-employed people" (Otero, 1999, p.8).

These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. "Microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the poorest people."

However, some schools of thought remain skeptical about the role of micro-credit in development. For example, while acknowledging the role micro-credit can play in helping to reduce poverty, Hulme and Mosley (1996) concluded from their research on micro-credit that "most contemporary schemes are less effective than they might be" (1996, p.134). The authors argued that micro-credit is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse-off. This notwithstanding, microfinance has emerged globally as a leading and effective strategy for poverty reduction with the potential for far-reaching impact in transforming the lives of poor people. It is argued that microfinance can facilitate the achievement of the MDGs as well as national policies that target poverty reduction,

empowering women, assisting vulnerable groups, and improving standards of living. As pointed out by the former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit

(2005). "...*Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs." (Kofi Annan, December 2003)."*

One of the attractions of the microfinance movement is the possibility of a more fundamental "empowering" effect that goes beyond increased economic returns. According to Deshmukh-Ranadive and Murthy (2005), the stimulus for empowerment as a process comes when something alters in a person's life that expands spaces. Empowerment refers to increasing the spiritual, political, social and economic strength of individuals, households, societal and communities. Proponents of village banking and similar group-based lending were intrigued by the possibility that success with their groups could help members transform an attitude of "I can't" to "I can." Empowerment in its broadest sense refers to an individual's or group's increased "power." In a development context, it refers both to "internal" change within an individual's sense of self and autonomy, and "external" change in social status and basic power relationships in society.

Kabeer, quoted in Mosedale (2003, p.2) states that the poor need empowerment as they are constrained by "the norms, beliefs, customs and values through which societies differentiate between the poor and the rich". She also states that empowerment refers to the "process by which those who have been denied the ability to make strategic life choices acquire such an ability", where strategic choices are "critical for people to live the lives they want (such as

choice of livelihood, whether and who to marry, whether to have children, etc)" (Kabeer, 1999, p.437). Therefore MFIs cannot empower the poor directly but can help them through training and awareness-raising to challenge the existing norms, cultures and values which place them at a disadvantage in relation to the privileged, and to help them have greater control over resources and their lives.

By offering poor households access to formal or semi-formal financial services, microfinance has the potential to empower its clients in a variety of ways. First, income-generating opportunities can provide greater economic security and power to clients. Second, group formation and management can link clients with networks beyond their neighborhood or community. Microfinance programs that target the poor in particular are thought to have the greatest empowering potential because the poor are less likely to have had access to financial services and because, in general, they tend to be more marginalized (Kabeer 2003).

Through financial services, the poor have greater potential to increase their earnings, which fosters *internal* attitudes (self-reliance, self-confidence and self-worth) which can translate into *external* changes (greater bargaining power within the household and leadership in the community). Microfinance services that foster group formation and self-management by the poor have additional potential to empower the poor through exposure to new ideas, mutual support, fostering an identity beyond the family and the opportunity to cultivate leadership roles and responsibilities (Khandker, 2008).

It is commonly believed that higher food prices push millions of people deeper into poverty. This is especially so among the urban poor who have few opportunities to grow their own food. However, among the rural poor higher farm-gate prices are a boon (MoFED 2002b). Microfinance has enabled even the poorest agricultural households to reap the benefits of higher

farm gate prices, financing the valuechains that connect poor rural households with new markets and enabling them to diversify into higher-valued produce (Khandker, 2008). Much more must and can be done along these lines to assist the extreme poor. This kind of trend is consistent with reduced unemployment, fewer low-paying jobs among poor villagers, and more opportunities for the extreme poor to find better-paid jobs in less risky areas of production.

These improvements are where microfinance has a unique role to play and significant unrealised potential. Hunger and low incomes are both a cause and a consequence of chronic poverty (MoFED, 2002b). If the number of hungry people in the world is to be cut by half by 2015, microfinance services must be provided to give people the means either to grow their own food or to earn enough to purchase from those with a surplus to sell (Khandker, 2008). Where the root cause of low agricultural productivity is that farmers cannot afford the items they need to do better, microfinance production loans (complemented where needed with training and appropriate technology transfers) can bring about sustainable, hunger-free livelihoods (MoFED, 2002a). Among the landless poor, on the other hand, microfinance has already demonstrated its capacity to pave the way for new and better quality livelihoods.

Littlefield *et al* (2003 p.4) state that access to MFIs can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities. However, they also state that just because women are clients of MFIs does not mean they will automatically become empowered.

Hulme and Mosley (1996 p.128) also make this point when they refer to the "naivety of the belief that every loan made to a woman contributes to the strengthening of the economic and social position of women". However, with careful planning and design women's position in the household and community can indeed be improved. According to Littlefield *et al* (2003), the

Women's Empowerment Program in Nepal found that 68% of its members were making decisions on buying and selling property, sending their daughters to school and planning their family, all decisions that in the past were made by husbands. They refer to studies in Ghana and Bolivia, which indicated that women involved in microfinance projects, had increased self-confidence and had an improved status in the community.

Hulme and Mosley (1996) state that microfinance projects can reduce the isolation of women as when they come together in groups they have an opportunity to share information and discuss ideas and develop a bond that wasn't there previously. From studies of the Grameen Bank and BRAC they show that clients of these programmes suffered from significantly fewer beatings from their husbands than women who do not participate in MFI programs. Lending programs of the MFI increased income, improved women's lives, control over fertility, sustainable environment, decreased mortality, decreased morbidity and increased nutritional status (Chowdhury and Bhuiya, 2004, p.377). Empowerment is relevant at the individual and collective level, and can be economic, social, or political.

Many micro-finance programmes, including that of the Grameen Bank in Bangladesh, encourage members to develop a socio-economic agenda covering matters such as health, nutrition, home management and children's care and education (Louise, 2002). Even where this emphasis is not explicit, increase empowerment and higher incomes from participation in micro-finance programme can reinforce other policies. At the same time, micro-finance programmes are likely to be more effective in raising member's incomes where rapid growth in the economy and in agricultural output, and better infrastructure, create a demand for the products and services provided by micro-entrepreneurs (Louise, 2002).

The challenge of reducing poverty and improving living conditions for the poorest population is a formidable one. The betterment of poor people requires an effort that spans all sectors of the economy and may not be easy to achieve through economic growth alone. Improved access to financial services helps poor people by enabling payment transactions then bring them into the formal sector. Financial services enable poor people to use profitable business opportunities and raise earnings (Kumar, 2005; Wolday, 2003). But financial markets often serve poor people badly. Since poor people often have insufficient traditional forms of collateral to offer, they are often excluded from financial markets. The formal financial institutions were relevant to extend credit facilities to the poor for fear that loans would not be repaid. Poor borrowers faced high transaction costs when they sought loans from formal financial institutions. The costs included time, travel and paperwork involved in obtaining credit (Wolday, 2003).

2.4 Microfinance and Economic Empowerment of Enterprises

Empowerment in the general sense means giving power to the less privileged members of a community. According to Nakshi (2004), power means having the capacity and the means to direct one's life towards the desired social, political and economic goals status. It also means control over material assets, intellectual resources and ideology. Empowerment is a multi-dimensional social process that helps people gain control over their own lives and in their society, by acting on issues they consider as important. Empowerment occurs within sociological, psychological and economic spheres and at various levels such as individual, group and community and challenges our assumptions about the status quo, asymmetrical power relationships and social dynamics (Nakshi, 2004). Empowerment implies a state of mind and

attitude of a person. It is a process through which people or communities increase their control or mastery of their own lives and the decisions that affect their day-to-day life.

Microfinance is recognized as an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by the commercial banks and financial institutions. Financial services provided by Micro Finance institutions (MFIs) generally include savings and credit. According to an estimate, currently 67.61 million people around the world have access to micro financing. This number is expected to grow steadily in the future since the target is to reach 100 million poor people with credit by the end of the year 2015 (Bateman, 2011).

Microcredit creates opportunities for self-employment rather than waiting for employment to be created (MoFED 2002a). It liberates both poor and women from the clutches of poverty. It brings the poor into the income stream. Given the access to credit under an appropriate institutional structure and arrangement, one can do whatever one does best and earn money for it. One can overcome poverty. One can become the architect of his/her destiny and the agent of change not only for one's family but also for the society (Bateman, 2011). Escaping extreme poverty must involve significant productivity gains arising from improved rates of employment and remuneration, increased self-employment, and asset accumulation by poor households.

Experts believe that microcredit, under the right conditions, could promote the empowerment of poor people and catalyzed opportunities for poor women to become active participants in economic activities, and to attain new roles as cash income earners and managers of household incomes (UNDP 2005). It is noted that with access to financial services, the poor becomes more confident, assertive and better equip to overcome cultural inequalities. In addition, savings through microfinance seem to build economic power that could change attitudes and practices so

as to enable communities to move from *subsistence to market-based economies* (UNDP 2005). Micro-finance is particularly relevant to increase the productivity of self-employment in the informal sector of the economy mostly made up of women. In an environment where economic growth is occurring, micro-finance has the capacity to transmit the benefits of growth more rapidly and more equitably through the informal sector (Nakshi, 2004).

2.5 Conceptual Framework of the Study

According to Yaron (1997), there are two major schools of thought that are prominent in impact assessment of microfinance. The first one focuses purely on changes in the organization and its operations. In this approach, generally, two key variables of institutional outreach and institutional sustainability are focused on. The main focus for the impact assessment in this approach is the performance of the institution in extending the credit. The assumption is that if both outreach and sustainability have been enhanced, then the intervention is judged to have a positive impact as it has widened the financial market in sustainable fashion. This, in turn, is based on the assumption that such institutional impact extends the choices of people looking for credit and saving services and that extension of choice ultimately leads to improved micro enterprise performance and household economic security.

The second approach, which is currently gaining prominence and is applied for this impact assessment, is the one, which focuses on clients' needs rather than on the organizations delivering the financial services. It should answer the questions, such as who are users of the services? How are the various groups using the services? And how does the intervention affect the life of the beneficiaries?

The rationale for using household and enterprises as units of impact assessment is that for an organization aiming at providing financial services to alleviate poverty, its end result is fully measurable only in direct relationship to the lives of human beings. Human beings are part of the household, the society or the community in which they live. These elements would, in one way or the other, influence the actions or activities of the clients. In other words, the impact of the credit may occur as a result of the composition of the household, the quality of the decision making within the household to any economic activity of the household (Tsehay and Mengistu, 2002). At the household level, impact may be measured by net increase in household income, asset accumulation and labor productivity.

At the enterprise level, it is measured by changes in enterprise income, employment, profit and volume of production. The result of this kind of assessment would enable the organizations to take appropriate decisions to build on their strengths and strive to concentrate on areas of clients' needs that call for much improvement (Tsehay and Mengistu, 2002). The aim of MFIs is to reduce poverty by targeting poor people to improve the clients' welfare and standard of living. Therefore, this study applies the second approach which focuses on clients' needs to assess the impact of SFPI on the living standard of the clients.

The study attempts to measure the impact that occurs at household level and enterprise level use it as a conceptual framework. The impact can be assessed by specific indicators such as increase in household income and expenditure (consumption), change in the enterprises income, improvement of employment and production, and empowerment of women. The research has both independent and dependent variables. Independent variables are services that are provided by the MFIs for clients. On the other hand dependent variables are improvements in the livelihood of the clients. Therefore, the finding depends on the relationship and outputs of the

independent and dependent variables. Figure 2.1 shows the relationship between independent and dependent variables.

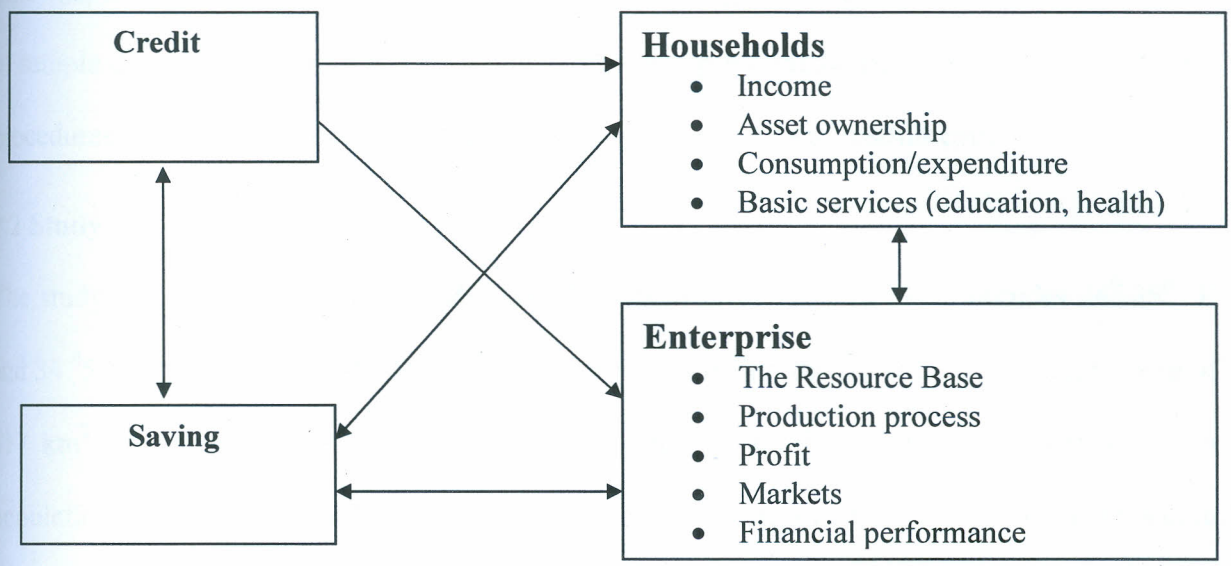


Figure: 2. 1. Relationship between independent and dependent variables

CHAPTER THREE

3.0 Research Design and Methodology

3.1 Introduction

This chapter discusses the research design and methodology of the study. It explains the process of sample design, selection of the study population, sampling methods, sampling techniques and procedures, data collection methods, data collection techniques and instruments.

3.2 Study Area

The study was focused on Kisumu Municipality which is situated between latitudes 34^0 35^0 E and 34 ^{0}55^{0}E and longitudes $0^0$00^{0}S and 12^{0}S^0 and lies within the equator. It has a total area of 417 km^2 of which 157km^2 is under water. Kisumu, the third largest city in Kenya with a population of approximately 345,312 people, is the headquarters of Kisumu District and Kisumu County respectively. It has developed progressively from a railway terminus and internal port in 1901, to become the leading commercial/trading, industrial, communication and administrative centre in the Lake Victoria basin, an area that traverses three provinces of Nyanza, Western and western Rift Valley.

Kisumu Municipality has a high rate of unemployment. With a 30% unemployment rate, 52% of the working population engaged in the informal activities have their monthly wage in the range of 3,000-4,000Ksh, and 48% of the urban population live within the absolute poverty bracket (Nat. Avg. 29%). The city lacks adequate shelter with approximately 60% of the urban population resident in the peri-urban and informal settlements lacking basic services (KDHS 2003). The city experiences one of the highest incidences of food poverty with 53.4% of the population below the food poverty line in comparison to Nairobi (8.4%), Mombasa (38.6%) and Nakuru (30%).

The Municipality lacks adequate shelter with approximately 60% of the urban population resident in the peri-urban and informal settlements lacking basic services. There is high congestion with 150 rooming/housing units per hectare in informal settlements and approximately 75% of peri-urban inhabitants live in temporary and semi-permanent structures (KDHS 2006). Administratively the Municipality is constituted of 12 locations: Central Kisumu, South West Kisumu, East Kisumu, East Kajulu, Township, Kondele, West Kolwa, Central Kolwa, Kolwa East, North Kisumu and West Kajulu. Figures 3.1 below shows the map of Kisumu Municipality in the regional context.

Figure 3.1: Map of Kisumu in the regional context
Source: Kisumu Municipality Archives

Municipality has highly fertile land and variations in temperature and rainfall with two rainy seasons per year across the region provides a suitable environment for a broad range of agricultural crops. The Kisumu region has approximately 1.6 million hectares of agricultural land. However, it is estimated that only 58 percent of the land is currently utilized. The majority of farming in the lake basin region is subsistence driven leading to relatively low production volumes due to lack of guaranteed markets and associated support services. Livestock farming is currently performed primarily on a subsistence basis. Cattle are predominantly indigenous breeds with lower milk output than grade cattle. **Figure 3.2** below shows the map of Kisumu Municipality and the constituent locations that make up its administrative boundary.

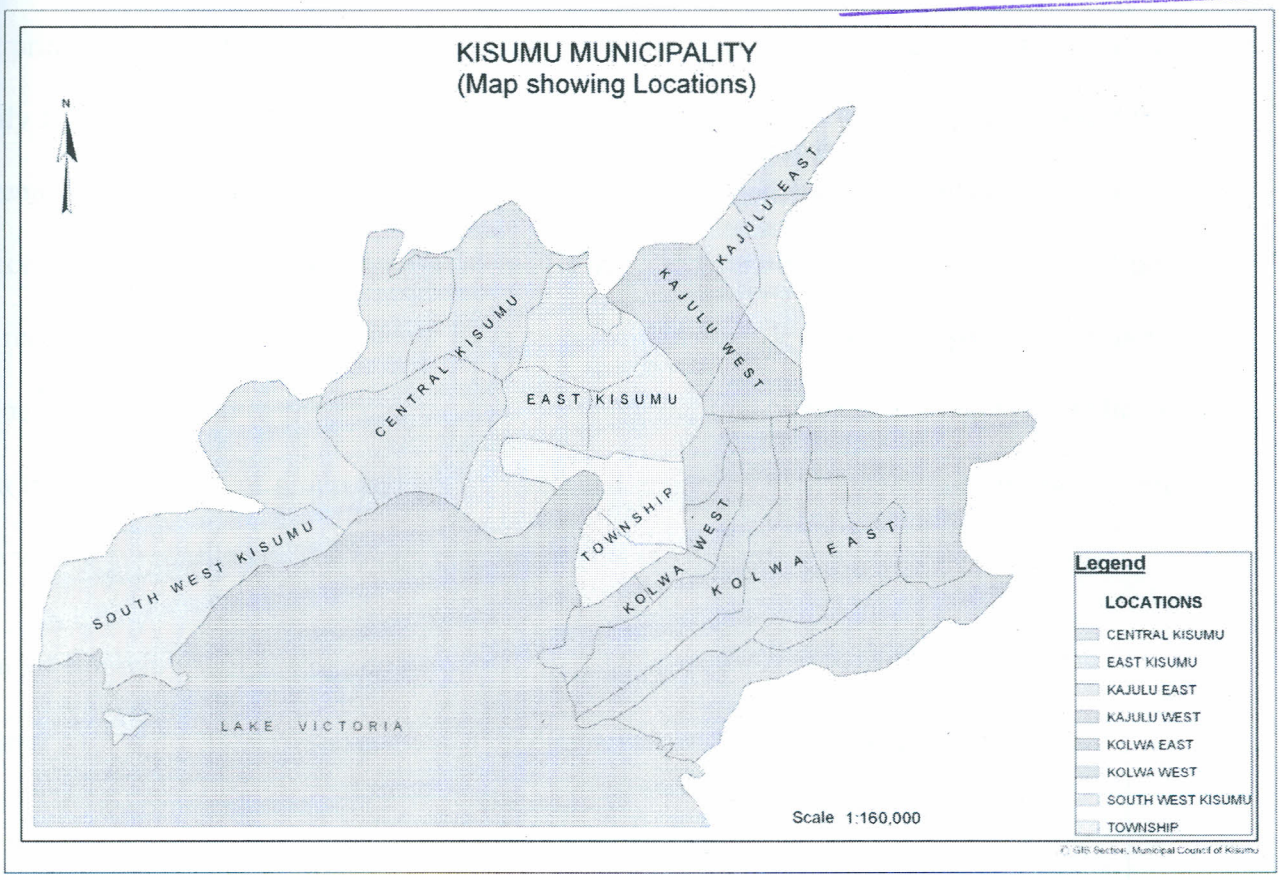


Figure 3.2: Map showing Locations in Kisumu Municipality

3.3 Research Design

Research survey was one component of an overall impact evaluation that included the collection over time of quantitative and qualitative data from the microfinance institution clients and a non-client comparison group. The purpose of the overall impact evaluation was to determine whether participation in the lending program leads to changes at the household and enterprise levels. The evaluation was driven by a set of specific impact reasearch questions that were derived from a conceptual model of the household economic portfolio and influenced by the findings of prior empirical work.

3.4 Target Population

The sample for this study was composed of the treatment group and the control group with the basic principle being to compare these two groups along different impact indicators and to identify any differences. The target population for the treatment group was clients who joined the programme at least 20 months prior to the survey, and include both current clients and ex-clients. The control group consisted of pipeline clients or new programme clients who either, had not have received their first loan, or would have received their first loan but had yet to finish their first loan cycle. The study, therefore, targeted one thousand two hundred and two (1202) clients drawn from the treatment group and six hundred and eighteen (618) members from the control group within the study area. The target population was as follows:

Table 3.1 Showing Target Population

Category	Population Frequency (N)	Percentage (%)
Control Group	618	34
Treatment Group	1202	66
Total	1820	100

3.5 Sampling Design

A sample of three hundred and eighteen (318) respondents was chosen for the study using stratified systematic sampling technique. The study used two groups of samples namely, treatment group and control group. Control group was used to avoid the problem of intervening variables that were affecting the output of the research other than independent variables. This control group was randomly selected from the list of people who were in the training phase, which would then be potential clients of the MFIs or incoming clients. Experimental groups were randomly selected from the list of the MFIs active clients and ex-clients (dropouts). The sample frame of the study was the entire people found in the list of the microfinance institutions.

Probability sampling technique was used in the study to ensure sampling units a known, non-zero and equal chance of being included and hence representativeness. In this technique sampling units were stratified depending on the grouping of the clients.

Determining the appropriate sample size is important in any research undertaking. Thus, sample size depended on the total number of population, the level of confidence and the maximum deviation from true population that could be tolerated in the study. Depending on this, there were various sample size estimation methods. The Cochran equation was used to determine the required sample size with the population of above 1,820 and sample size of above 30 computed as from the Cochran equation shown in **Figure 3.2**

$$n_0 = \frac{z^2 pq}{e^2}$$

Figure 3.3: Cochran equation. (Source: Cochran 2003)

Where

n_0 = the sample size,

Z^2 = the abscissa of the normal curve that cuts off an area α at the tails (1- α equals the desired confidence level 95%)

e= the desired level of precision,

p = the estimated proportion of an attribute that is present in the population,

q= the 1-p.

The computation of the study sample size is presented in figure 3.3 shown below

$$n_0 = \frac{Z^2 pq}{e^2} = \frac{1.96^2(0.5)(0.5)}{(0.05)^2}$$

$$n_0 = 385$$

Corrected Sample Size- Finite Population

$$\text{New SS} = \frac{SS}{\left(1+\left(\frac{SS-1}{Pop}\right)\right)}$$

Sample size- Finite Population

$$\text{New SS} = \frac{385}{\left(1+\left(\frac{385-1}{1820}\right)\right)} = 318$$

Sample Size= 318

Fig. 3.4 showing calculation of the study Sample Size (n_0)

Table 3.2 showing sample size

Category	Population Frequency	Sample size
Control Group	618	108
Treatment Group	1202	210
Total	1820	318

3.6 Sampling Method

The study applied probability sampling method where, stratified systematic sampling technique was used to select respondents from the target population. This ensured that all the respondents in the target population were given an equal and unbiased chance of participating in the study. The target population was further divided into sub-groups (control and treatment groups) and respondents picked randomly from each sub-group.

3.6.1 Sampling Procedures

The study employed the use of both random and stratified systematic sampling procedures. Stratified sampling procedure was deemed appropriate since the study was set to break the study population within the study area into the treatment and control groups for the purposes of easy interview and data collection during the survey. Systematic sampling was used to select respondents for both control and treatment groups from the register of Microfinance Institutions clients at regular intervals.

3.7 Data Collection

Data collection refers to the process of gathering of information relevant to the research study. The research used primary and secondary sources of data. The data collection instruments use are divided into key informant interviews, interview guide for beneficiaries and field observations. The interview guides provide qualitative data from officials and beneficiaries of the microcredit scheme.

3.7.1 Data Collection Method

Data collection method was mainly through the use of questionnaires, focus group discussions, and direct observations during the survey. Data collection technique involved the combined use

of structured and unstructured, and open-ended and closed-ended questionnaires and the main data collection instruments.

3.7.2 Data collection Procedures

Primary data

This presents the actual data that was obtained for the purpose of the research study. In getting primary data there were several approaches available to gathering data. In order to collect reliable and valid information, the researcher contacted relevant departments within the microfinance institutions. Operation officers and staff from the various levels in the Microfinance Institutions were contacted besides the client respondents for the purposes of data collection. Primary data was obtained from the answered questionnaires fully completed and retuned by respondents. The qualitative component of the impact evaluation also involved the collection and analysis of case study and focus group data to complement the quantitative analysis. Primary data was collected and analyzed to help in answering of the research questions.

Secondary data

The study also used secondary data in gathering information. The sources of the secondary data included journals, government publications, annual report of banking institutions, publications and working paper. This helped to identify how others had defined and measured key concepts in the field of microfinance and the data sources that others had used earlier on. This helped to discover how this research was related to work of others in the microfinance sector.

3.8 Data Analysis

The data was evaluated, assessed and comparison made so as to select the most accurate and quality information from the feedback given by various respondents. The method of analysis used in the study was both descriptive and quantitative statistics. It included the comparison of income, asset ownership, housing condition, business growth and employment opportunities between active clients and incoming clients within Kisumu Town. Frequencies, percentages, and central tendency measurements, and t-test were used to analyze the data. Statistical Package for Social Sciences (SPSS) software was used to process raw data. Diagrammatic representations of the statistical summaries of the result were presented in the form of pie charts, graphs frequency tables.

CHAPTER FOUR

4.0 Results and Discussion

4.1 Introduction

This chapter explains information gathered from the field through questionnaires. These are analyzed to emphasize response from respondents using various forms of graphical representations. This chapter is also divided into sub-headings in an attempt to answer the research questions asked on the field in relation to the objectives of the research.

4.2.0 Services offered by the Microfinance Institutions

MFIs have created financial and services that are packaged in a manner that enables low income people who are unable to access formal financial services to access comparatively small loans, saving schemes and other services for working capital and income generation. To find out from respondents the services offered by microfinance institutions towards economic empowerment of their clients in the Municipality, the answers generated from the study respondents are discussed in this section as follows:

4.2.1 Loans/Microcredit and Savings

Out of 318 respondents, 303 representing 95% of the respondents confirmed that microfinance helps in poverty reduction by providing financial services to low income earners or those in the informal sector to help them improve upon their business. According to the interviewed clients, Microfinance institutions provide a saving facility for small amounts that would otherwise be too small to save in a commercial bank thus assisting in the build-up of capital for the individual. Similarly, they play a pivotal role in creating a pool of funds for onward lending to those in need. This is the essence of table banking as promoted by the MFIs operating within Kisumu Municipality.

To lift people from poverty and improve their standards of living, MFIs offer group or individual loans without collateral but with one or two guarantors. The loans provide short-term working capital, and medium and long term financing to small and medium scale micro enterprises. Eighty percent (80%) of the study respondents revealed that besides the normal small and medium business loans, MFIs offer emergency loans to enable clients deal with their negative shocks. Another 10% of the clients confirmed that MFIs also offer micro school loans, short-term school loan facilities, granted to individual owners, as well as companies operating schools for working capital and capital investments especially in the slum areas within the Municipality.

Furthermore, all the respondents stated in their questionnaires that microfinance institutions play a crucial role in reducing poverty by providing an avenue for people to save any amount they can contribute at any point in time. Fisher and Sriram (2002) indicate that poor people need access to so many more financial services than just micro credit, including saving products. They stress that these services protect poor people from the impact of unforeseen crises and emergencies in the households or micro businesses from falling yet further into debt and enable poor households to plan and manage their resources more effectively to meet their basic needs. Respondents explained that this could be daily, weekly or monthly depending on the individual involved.

4.2.2 Clients' Training

Table 4.24 indicates the trainings delivered to the active clients as crossly tabulated from the questionnaires. About 91.7 % of clients received training, while about 7 % did not. The trainings were focused on loan utilization, marketing, and savings. Most of the clients (52.4 %) received training on loan utilization more than three times as summarized in **Table 4.2**.

Table 4.2: **Clients' Training**

Activities	Indicators	Percentage (%)
Training taken	Yes	91.7%
	No	7.1%
Type of Training	About loan utilization	52.4%
	About marketing	6%
	About saving	20.2%
	General training on book keeping	11.9%
Number of trainings taken	Once	17.9%
	Twice	11.9%
	Three times	28.6%
	More than three times	33.3%
	No answer	8.3%

Source: Field Data

Training is one of the non-financial services provided by the microfinance institutions in the Municipality. The interview conducted on the study respondents revealed that prior to the disbursement of the loan to the clients in their respective borrowing groups, the individual clients of the MFIs are trained in entrepreneur skills to enhance their capabilities of managing their small businesses. During the interviews, the clients expressed that they had been trained especially on how to calculate their profits and expenses which smoothened their business operations and acted as early warning in case one was to fall in losses.

4.2.3 Monitoring and Supervision

As per the results in table 4.3 below, about 92.9 % of the respondents reported that MFI staffs and credit officers supervised them to assess the use of loans, whether they used their loan to the intended purpose or not and ensure repayment of loans in accordance with the schedule. About

27.4 % of the clients were been supervised more than three times in one loan cycle. Moreover, about 23.8 % were supervised conditionally i.e. when supervision was necessary. Most of the clients (79.8 %) accept the supervision of MFIs as satisfactory. Furthermore, the clients were satisfied with supervision where they received advices to help them to achieve better success and encouraged them to repay the loan on time. However, they suggest that more improvement is needed in monitoring and supervision, which will encourage clients to increase their performance and reduce defaults.

Table 4.3: Monitoring and Supervision of clients (n=318)

Activities	Indicators	Percentage (%)
Any supervision on loan utilization and repayment	Yes	92.9
	No	4.8
	No answer	2.4
Number of supervision per loan cycle	None	3.6
	Once	19
	Twice	4.8
	Three times	16.7
	More than three times	27.4
	Conditionally	23.8
	No answer	4.8

Source: Field data

Supervision is an important element in improving the performance of microfinance institutions and to assess the demand and success of clients. Regular monitoring and supervision of loan utilization is expected to help in reducing diversion of loans towards unintended activities (Assefa et al., 2005). Active clients were asked whether monitoring and supervision is useful, regular and satisfactory.

4.3.0 Impact of Microfinance at the Household Level

Access to microfinance provides better chance of involving in farm, non-farm and micro and small enterprises activities. Consequently, the households could increase and diversify their income, ensure food security and reduce poverty. At the household level impact may be measured by the net increase in household income, savings, asset accumulation, housing conditions, expenditure, diet, education, health condition and improve decision making capacity (empowerment). Housing is an important or basic asset for households. Ownership of houses and improvements in it increases households' material wealth and living standard of the household. The assumption is that households may have better housing ownership and improve their houses after getting the loan from microfinance institutions. If households have access to capital through loans, they will invest it in income generating activities. It is expected that they will increase their income and have better capacity to improve and build their own houses. At the household level, the impact of microfinance programmes were measured by the net increase in household income, savings, asset accumulation, housing ownership and conditions, expenditure and education. The findings were organized into sub-headings as will be presented in the following sections.

4.3.1 Household Income and Savings

The study respondents drawn from both the control and treatment groups were asked in the questionnaire if they generated any income from their enterprises. Those who generated income from their businesses were further asked to specify their average monthly enterprise income in a questionnaire. The results revealed that 95.8% of the households under the treatment group and 72.4% of the households drawn from the control group at least generated some income from their

businesses. The monthly average business incomes for the two groups are presented in **Table 4.4** below.

Table: 4.4a. Household income in the control and treatment groups

Income Group * Category of the respondent Crosstabulation				
Average Monthly Income (Ksh)		Frequency of Saving Class		Total
		Treatment	Control	
	below 3000	16	16	32
	3001-6000	53	59	112
	6001-9000	24	11	35
	9001-12000	28	8	36
	12001-15000	37	3	40
	15001-18000	18	0	18
	above 18000	34	11	45
Average Monthly Income (Ksh)		**14051.42**	**8009.43**	318

Source: Field Data

As reported by the respondents, the control households had a monthly average income of KSh. 8000 from their businesses compared to Ksh. 14000 reported in the households of the treatment group. Only 28.6 % of the control households had above KSh. 15,000 on the average per month while 57.7% of the treatment households had above KSh. 15,000 on the average per month. Treatment households have higher monthly average income than control households. Moreover, more than 70 % of the treatment group confirmed that there was an increase in the overall household income while 19.3% and 10.8% of the respondents reported no change and decrease respectively in their overall household income.

When the respondents were asked on why there is change in their household income, 48.8 percent of households indicated that their income increased because, most of them (68%)

expanded the existing business, few of them (16 %) started new business and the remaining (9%) a family member managed to get a job. However, insignificant number of the households (12%) reported that their income decreased due to poor production, poor sales (market problem), a family lost job, and other reasons.

An independent-samples t-test was conducted to evaluate whether monthly incomes of the control and treatment groups differed significantly at 95% confidence interval. The 95% confidence interval for the average monthly income test mean ranged from Ksh. 3414.66-8928.93. The computed t-value of the treatment and control monthly income means was 4.404. The result was significant, t (315)=, p<.001, d=1401.33. An examination of the group monthly income means indicate that treatment group (M=14,051.42, SD= 16731) was significantly higher than that of the control group (M= 8009.43, SD= 8252.81). The positive impact of Microfinance Institutions is more pronounced in the households of the treatment group than those of the control group.

Almost all respondents (95 %) had savings account in MFIs. Whereas more than 89.30% has both compulsory saving and voluntary saving, about 79.8 % of the respondents reported that their main source of saving is business profit. Majority of the respondents (68 %) have increased their overall savings and the capacity to save. On the other hand, some of the respondents (13%) complained that their overall savings had shown no change and even showed a decreasing trend (12 %). The findings of the study revealed that households' income of the treatment group has increased; and their source of income diversified as well as their savings also increased due to the loans provided by the MFIs.

Table: 4.4b. Household saving in the control and treatment groups

Saving * Category of the respondent Crosstabulation				
		Frequency of saving class per category of the respondent		Total Frequency
		Treatment	Control	
Savings (Kenya shillings)	below 1000	71	86	157
	1001-2000	43	10	53
	2001-3000	18	9	27
	3001-4000	13	3	16
	4001-5000	14	0	14
	5001-6000	10	0	10
	above 6000	41	0	41
Average Saving per Category (KSh)		**4570**	**2780**	318

Source: Primary data

An independent-samples t-test was conducted to evaluate whether savings of the control and treatment groups differed significantly at 95% confidence interval. The 95% confidence interval for the average saving test mean ranged from Ksh. 1414.51- 38508.21. The computed t-value of the treatment and control average savings means was 2.417. The result was significant, t (315)=, p<.000, d=1401.33. An examination of the group average saving means indicate that treatment group (M=4570, SD= 2731) was significantly higher than that of the control group (M= 2780, SD= 1252.81).

Several other studies of microfinance programs have revealed that microfinance plays a significant role towards increasing the income and savings levels of the poor. In support of the findings of this study, Barnes (2001) also found out that microfinance allows poor people to increase their incomes by starting new enterprises or expanding existing ones. Through diversified sources of income, the people could be able to shield themselves against external

shocks. Savings and micro-insurance services could also allow poor individuals to plan for future expenses, cope with stochastic crises and cover unanticipated expenses. In Indonesia, 90% of BRI clients surveyed on the island of Lombok had moved above the poverty line, with income increases averaging 112 percent (Panjaitan-Drioadisuryo and Cloud, K, 1999). In India, in addition to increased economic wellbeing, SHARE clients have shown a striking shift from irregular, low-paid daily labour to more diversified sources of income, with a strong reliance on small businesses (Simanowitz and Walters, 2002).

4.3.2 House Ownership and Improvements

During the research study, respondents from both the control and treatment groups were asked in the questionnaires if they owned houses, whether their houses were mud-walled, semi-permanent or permanent, and the kind of improvements they had done to their houses using their microfinance savings such expansion, house repair, installation of electricity and piped water supply. These responses given by the control and treatment groups were then organized, analyzed and presented as shown in **Table 4.5** below.

Table: 4.5. Houses ownership and housing improvement

Ownership and status	Indicators	Percentages (%)		Total (%)
		Treatment	Control	
Have your own house	Yes	87.5	44	68
	No	12.5	56	32
Quality of the house at present	Mud-walled	35.7	27.8	33.3
	Semi-permanent	47.6	66.7	53.3
	Permanent (Stones/ bricks)	16.7	5.5	13.3
Kind of improvements on houses	Repair	70.6	64.3	70
	Expansion	21.4	17.6	20
	Electricity/water pipes installation	7	5.9	6.7
	Other improvements	7	5.9	6.7

Source: Field Data

Ownership of houses and improvements indicates an increase in the households' material wealth and living standard of its members. The results in **Table 4.5** reveal that 87.5% of the households from the treatment group had their own houses out of which 35.7% are mud-walled, 47.6% semi-permanent and 16.7% permanent. On the other hand, 44% of the households from the control group had their own houses as indicted in the table below. Some households (47%) brought improvements on their houses, which cost more than Ksh. 10,000 for the last one year. However significant number of households (53%) did not bring improvements on their houses which cost more than Ksh. 10,000. Improvements are mostly made on repairs of houses. Few households (20%) expanded their houses. Based on the response from the households, it is evident that Microfinance institutions have a positive impact on house ownership and housing improvements of its clients within the Municipality.

An independent-samples t-test was conducted to evaluate whether household ownership of the control and treatment groups differed significantly at 95% confidence interval. The computed t-value of the treatment and control house ownership means was 4.235. The result was significant, t (316)=, p<.001, d=0.032. An examination of the group house ownership means indicate that treatment group (M=1.32, SD= 0.469) was significantly higher than that of the control group (M=1.13, SD= 0.337). The positive impact of Microfinance Institutions is more pronounced in the households of the treatment group than those of the control group.

The study finding that there is a positive impact of microfinance participation by the clients on house ownership and housing improvements within the Municipality is also supported by Hulme (2006) research on his impact study of the Rural Livelihood Project in Bangladesh. In Bangladesh, the female microfinance clients of the Participatory Livestock Development Project

said that, after participating in the Project, the number of their assets increased. Ownership of houses changed, either into joint or single women ownership. Houses were improved from bamboo material to corrugated iron, which indicates improved living conditions (Hulme, 2006). Similar responses were made for the Rural Livelihood Project in terms of housing.

It is a well-established fact that housing and its related investment is a key indicator of a country's development. This is because investments can serve a useful purpose both to increase the household's standard of living and to improve its income-generating opportunities. Apart from serving people as shelter, a house is the most valuable asset people should have. When the house is improved, its value boosts and thereby increases a household's material wealth. In urban areas, housing improvements may create a storage space for inventory or other enterprise-related items. Rooms and storefronts can be added to the house to be used for rental or enterprise purposes. Such improvements can help households to diversify and to add a steady income stream to their economic portfolio.

Rental units can provide a source of income after retirement. In these ways, housing improvements can be an integral part of the household members' long-term economic strategies. Hence, the assumption of this variable is that, participants of microfinance scheme have better housing condition than new clients. That is, if households have access to a large capital through loan, they will be engaged in more profitable and productive activities, thereby increasing their income level. As a result, they will have better capacity to improve their residential and business houses through repair or building additional rooms from the profits of loan activities. Housing improvements can range from adding new rooms to installing electricity or telephone.

4.3.3 Household Asset Ownership

In regard to household asset ownership, the study sought to know from the respondents if they had used their microfinance savings to acquire the following household items: beds, chairs, tables, refrigerator, sofa sets, TV sets, VCD/DVD players and personal computers. The responses were then organized accordingly in respect to the control and treatment groups as shown in **figure 4.3** below.

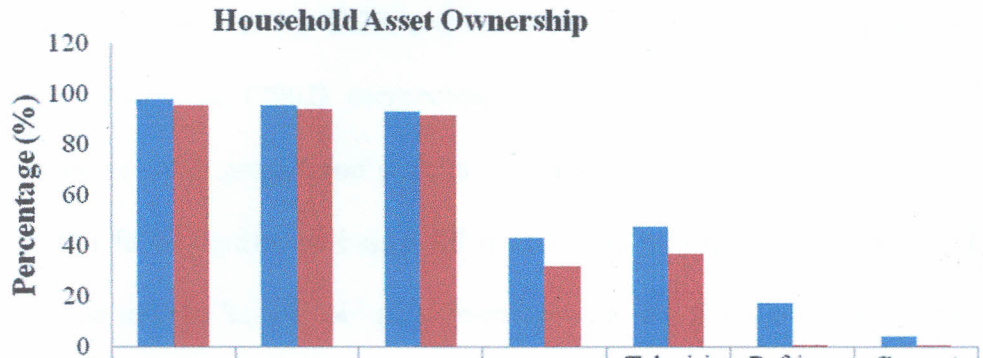


	Table	Bed	Chair	Sofa Set	Television Set	Refrigerator	Computer
Treatment Group	97.6	95.2	92.9	43	47.6	17.3	4.2
Control Group	95.4	94	91.2	32.1	36.7	0.8	0.5

Figure 4.3 Households' Asset Ownership for the Control and Treatment groups

Figure 4.3 shows some household assets ownership by comparing the treatment and control groups of the study. The data in the table reveals that most households (more than 73%) from both the treatment and control groups had modest value household assets such as chair, table, bed, and radio. However, luxurious assets such as Television sets, sofa set, refrigerator and personal computers were owned by few households (less than 35%). The independent-sample t-test results showed that, ownership of household assets was significantly higher (($p<.001$) in the

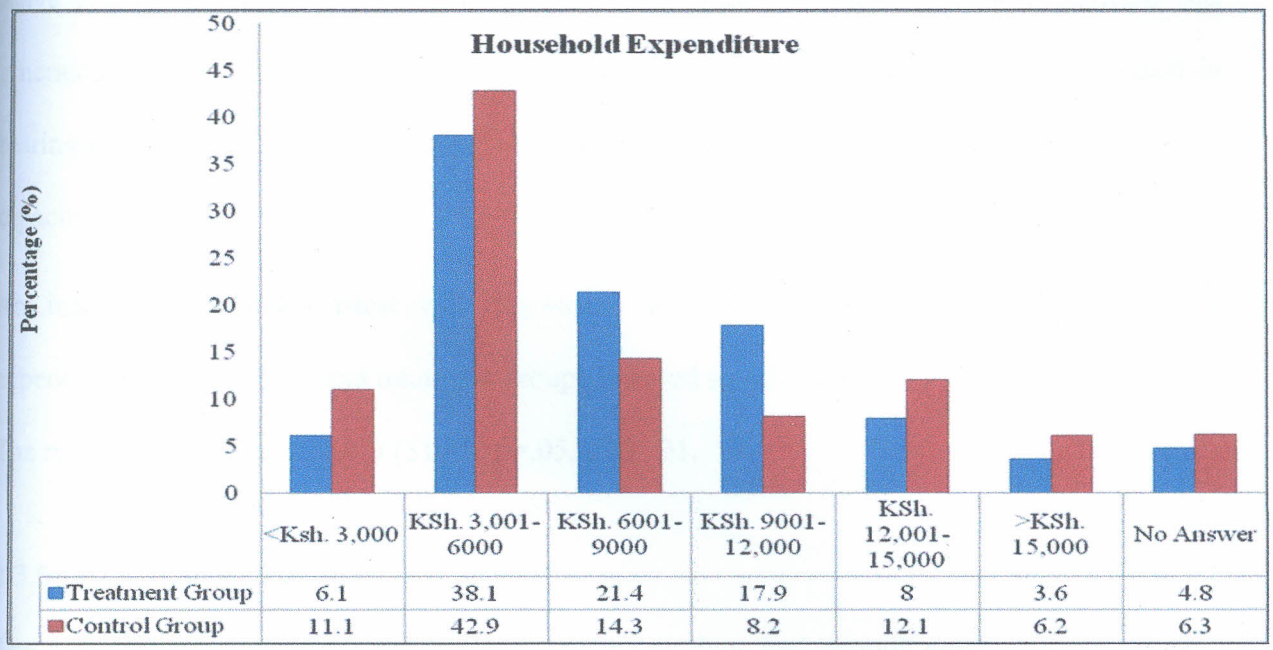
treatment group than control group. This indicates that microfinance has a significant positive impact on increasing household assets ownership.

In other independent research studies, prolonged participation in a microfinance program affects not only short-term flows but also long-term stock of assets of households. Estimates in Pitt and Khandker (1998), for instance, show that credit program participation by women increased the value of their non-land assets holdings. Every Tk100 of increased credit from Bangladesh Rural Advancement Committee increases the value of their non-land assets by Tk15, Bangladesh Rural Development Board's RD-12 program by Tk29, and Grameen Bank by Tk27. Using data from Thailand, Kaboski and Townsend (2002) corroborate the study results by finding out that memberships in production credit groups and women's groups have a positive impact on asset growth. Coleman (2006) finds significant impact of microcredit on the physical assets when estimated using the whole sample. Several physical assets such as household non-land assets and household productive assets were found to increase among committee members. In the Philippines, Coleman (2006) found that the number of physical assets of the sample beneficiaries increased after they joined the microfinance program. Participants reported that they were able to acquire more productive assets like sewing machines, tricycles, motorcycles; and more household appliances such as colored televisions, DVD players, and karaoke machines.

4.3.4 Household Expenditure

In this section, the study asked the respondents from both the treatment and control groups to quantify their monthly household expenditures. The figures were then computed in a table form for the purpose of comparing average expenditure for the treatment and control groups. Results

attained from the questionnaires filled by the study respondents are presented as shown in **Figure 4.4** below.



	<Ksh. 3,000	KSh. 3,001-6000	KSh. 6001-9000	KSh. 9001-12,000	KSh. 12,001-15,000	>KSh. 15,000	No Answer
Treatment Group	6.1	38.1	21.4	17.9	8	3.6	4.8
Control Group	11.1	42.9	14.3	8.2	12.1	6.2	6.3

Fig 4.4. Household Expenditure of active and incoming clients
Source: Field Data

The primary data revealed that 54 % of the control group spent a maximum of KSh. 6,000 per month as their monthly household expenditure compared to the corresponding 44.2% of the treatment group. The percentage of treatment group whose average monthly expenditure was less than KSh. 3000 and between KSh. 3001 and KSh. 6000 were found out to be 6.1% and 38.1% respectively compared to 11.1% and 42.9% in the control group. As indicated in the chart, the level of average monthly expenditure of the active clients shifts from the lower expenditure category to the next higher expenditure category after receiving loan from the microfinance institutions.

In comparison to the control groups more than 44.2 % of active clients had an average monthly expenditure of above KSh. 6000 after taking loans, 54.8 % of incoming clients had an average

monthly expenditure of above KSh. 6000. Therefore, it could be concluded from the results that loans make a difference in increasing household expenditure. Additionally, about 59.5 percent of active clients and 42.9 % of incoming clients responded that most of the expenditure was generated by the households and that the contribution of other family members increased in bearing expenditure. This is an implication of provision of credit increases the income generating capacity of the households.

An independent-samples t-test was conducted to evaluate whether the average monthly expenditure of the control and treatment groups differed significantly at 95% confidence interval. The result was not significant, t (316)=, p>.05, d=0.991.

4.3.5 Household Access to Education

The respondents were asked in a questionnaire if they had school aged children in their households. In the second part of the question, the study sought to know the corresponding number of children attending schools from the households of control and treatment groups.

The study established that 54% of children attending formal schools from the study area were from the households of the active clients compared to 46% from incoming clients. The results of the study reveal that school attendance is higher for the children of the active clients than those of the incoming clients. Similarly, the study revealed that the average annual educational expenditure for the control and treatment groups were KSh. 13,716 and KSh. 20,522 respectively.

The results derived from the closed ended questionnaire were analyzed and presented as shown in **Figure 4.5**.

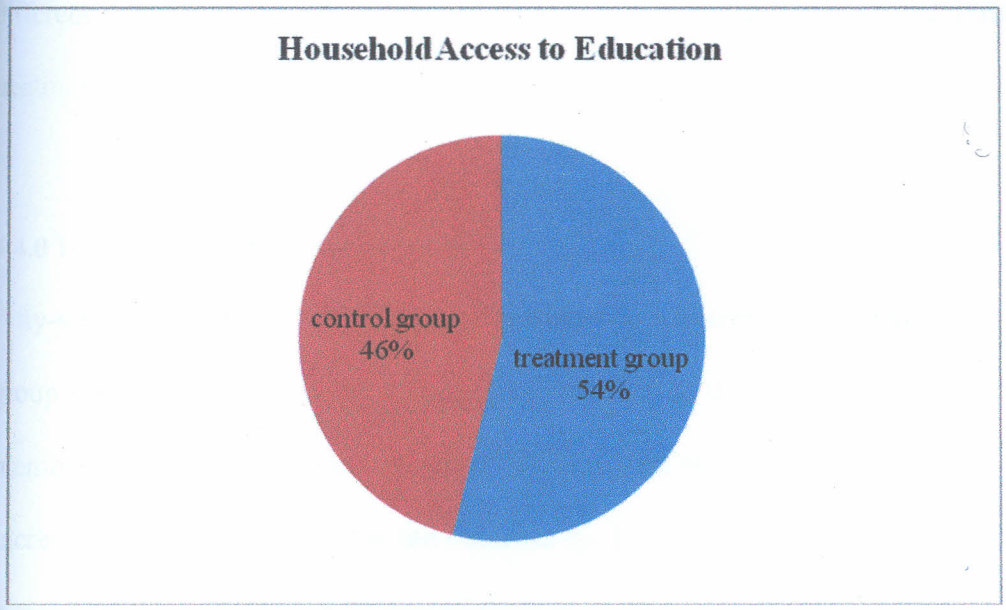


Fig 4.5. Household Access to Education

Source: Field Data

Furthermore, the overall school attendance has not shown any change after taking loans as reported by 72 % of active clients like of 88 % reported by control groups during the last 12 months. Only 27.7 % of active clients reported an increase in school attendance of their children at the time of conducting this study. However, about 52 % of active clients have indicated that microfinance programme increased their access to education. On the other hand about 48 % of the respondents reported that microfinance didn't increase access of their children to education. Although some of the respondents indicated a positive change, the majority revealed that microfinance program did not have positive impact on their household access to education.

An independent-samples t-test was conducted to evaluate whether the number of children in formal education from the households of control and treatment groups differed significantly at 95% confidence interval. The result was insignificant, t (211)=, p>.05, d=0.58. An analysis of the group children school attendance means indicate that treatment group (M=1.38, SD= .488) almost the same as that of the control group (M= 1.34, SD= .475). Therefore, there was no much

difference between school attendance rate between children drawn from the households of treatment group and households of the control group.

4.4.0 Impact at the Enterprise Level

Fifty-six percent (56 %) of the respondents from the treatment group and 37% from the control group confirmed that they hired additional workers in their enterprises other than their family members respectively. Moreover, about 54.5 % of the respondents indicated that their enterprises increased job opportunities for the community. It is clearly indicated that about 94.7 % (large majority) of the households improved their enterprise capacity after taking loans. Similarly 86.1 % and 93.8 % of respondents confirmed that their enterprises' production and profit have increased in the Municipality after they borrowed money from Microfinance Institutions respectively.

An independent-samples t-test was conducted to evaluate whether the impact of microfinance on the enterprises capacity to create jobs and improve business profit differed significantly between the control and treatment groups at 95% confidence interval. The result was significant, t (304)=, p<.000, d=.127. Further analysis into the production levels of the enterprises reveal that job opportunities/employment created by the treatment group (M=1.70, SD= .458) was significantly higher than that of the control group (M= 1.11, SD= .309).

Most of the respondents (63 %) from the control group reported that members of the household ran their enterprises to help them in running the business. **Table 4.6** shows the impact of Microfinance Institution program on enterprises using impact indicators such as job opportunity, production process and profit between the control and treatment groups.

Table: 4.6. Summary of Impact of MFI Programs on the Enterprises

Indicators	**Responses**	**Percentage (%)**	
Any co-worker		Treatment Group	Control Group
Hired additional laborer for the last one year	Yes	56	37
	No	44	63
Your business increase job opportunity for the last one year	Yes	23.4	9.1
	No	76.6	90.9
Business Improvement for the last one year	Yes	87	45
	No	13	55
Your business production for the last one year	Increased	65	23
	No Change	35	77
Business profit for the last one year	Decreased	12	34
	No change	35	40
	Increased	53	26

In conclusion, the sample survey results reveal that Microfinance Institutions program has a significant positive impact at enterprise level by improving business, employing more members of the community, increasing production and increasing net profit.

CHAPTER FIVE

5.0 Summary, Conclusion and Recommendation

5.1 Introduction

The purpose of this chapter is to round off the study with summary of study, conclusion and recommendations. The conclusions would be made from the analysis of the data generated by the study and the literature review.

5.2 Summary of Findings

This study was about the role of microfinance in economic empowerment of beneficiary households in Kisumu Municipality. Microfinance is an instrument that, under the right conditions, fits the needs of a broad range of the population including the poorest in the Municipality.

5.2.1 Services offered by Microfinance Institutions in Kisumu Municipality

The research revealed that microfinance plays a crucial role in helping reduce poverty in the Municipality by providing financial and non-financial services to clients in the informal sector to help them improve upon their business. MFIs provided avenues for people to save daily or weekly for the future. Furthermore, microfinance institutions provide entrepreneurial advice, monitor and evaluate their clients to ensure they use funds for the intended projects that would help improve upon their lives.

5.2.2 Impact of Microfinance at the Household Level

At the household level impact was measured by the net increase in household income, savings, asset accumulation, housing conditions, expenditure and access to education. Ownership of houses and improvements in it increases households' material wealth and living standard of the

household. Households of active clients have better housing ownership and improve their houses after getting the loan from microfinance institutions. Access to capital through loans enable clients invest in income generating activities and in turn increase their income and have better capacity to improve and build their own houses.

5.2.2.1 Household Income and Savings

The study revealed that microfinance increased the household income and levels of savings due to expansion of existing businesses. At 95% confidence interval, the monthly income means for the treatment group (M=14,051.42, SD= 16731) at 95% significance interval was significantly higher than that of the control group (M= 8009.43, SD= 8252.81), t (315)=, $p<.001$, d=1401.33. Almost all clients (95 %) had both compulsory saving and voluntary savings with the MFIs with the business profit being their source of income.

Microfinance also increased clients' overall savings and the capacity to save. The findings of the study revealed that households' savings for the treatment group (M=4570, SD= 2731) was significantly higher ($p<.001$) than that savings of the control group (M= 2780, SD= 1252.81) at 95% confidence interval. Income increased their source of income diversified, and savings also increased due to the loans provided by the MFIs.

5.2.2.2 House Ownership and Improvements

Based on the study findings, the positive impact of Microfinance institutions on house ownership and improvements of their clients is statistically significant ($p<.001$) in the study area. Results of the independent-samples t-test show that house ownership of the control group (M=1.13, SD= 0.337) and treatment group (M=1.32, SD= 0.469) differ significantly, t (316)=, $p<.001$, d=0.032 at 95% confidence interval.

5.2.2.3 Household Asset Ownership

Microfinance was found to have a significant (($p<.001$) positive impact on increasing household assets ownership. Ownership of household assets was relatively higher in the treatment group than control group. Most households of the MFI clients had modest value household assets such as chair, table, bed, and radio. However, few clients who have been participating in the MFI programs for over two years owned luxurious assets such as Television sets, sofa set, refrigerator and personal computers.

5.2.2.4 Household Expenditure

The average monthly expenditure of the control and treatment groups did not differ significantly at 95% confidence interval, t (316)=, $p>.05$, $d=0.991$. However, the level of average monthly expenditure of the MFI clients shifts from the lower expenditure category to the next higher expenditure category after receiving loan from the microfinance institutions.

5.2.2.5 Household Access to Education

The results of the study reveal that microfinance did not have a significant positive impact ($p \geq .05$) on access to education and school attendance of children from the households of clients. However, the study revealed that microfinance increases the average annual educational expenditure and school attendance of children from the participating households.

5.2.3 Impact of Microfinance at the Enterprise Level

The sample survey results reveal that Microfinance Institutions program has a significant ($p<0.001$) positive impact at enterprise level by improving business, employing more members of the community, increasing production and increasing net profit. The study found out that MFI clients benefited from microfinance program by improving access to their capital, which helps them to expand their business. They use microcredit from the MFIs to expand their enterprises,

increased production, profit and create job opportunities to their households and the community. Fifty six percent (56 %) of the respondents hired additional workers in their enterprises other than their family members.

5.3 Conclusion

From the literature review and the analysis, it was realized the contributions of microfinance institutions in improving household income and standards of living within the Municipality is significant ($p<0.001$). Microfinance Institutions provide financial and non-financial services to those in the informal sector, the poor and those who earn little income to enable them improve their labor productivity. Increased household income helps the poor entrepreneurs to improve their services at the enterprise level, housing conditions, and standards of living at the household levels.

In summary, the importance of microfinance in poverty reduction is of immense benefit to the Municipality as a whole. Therefore there is need to develop and sustain the growth of MFI programs in the study area since it plays a significant role in economic development of participating households within Kisumu Municipality.

5.4 Recommendations

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

5.4.1 Promote market segmentation: Microfinance Institutions enabled poor people to acquire more assets, increase household welfare, and to better cope with vulnerability. The needs and demand of poor heterogeneous populations, like in any market, can even be more appropriately met through market segmentation to better understand each segment's demands, differentiate among them, and understand the sources and uses of finance by a given segment. People with disabilities and impairments do not have products and services designed to meet their needs and also are not adequately served by existing microfinance funds and services yet they could substantially benefit from complementary skills training programmes of the MFIs. These specific services and products that target the disabled persons to enable the vulnerable populations engage in economic activities and become more self-reliant need to be more coherent. The youth between the age bracket of 15-24 years account for about a third of the population of the Municipality and constitute over half of the unemployed population. There is a need for special microfinance, grant and training programmes that target the youth for entrepreneurial development.

5.4.2 Support Market Research for Designing financial products: MFIs operating in Kisumu Municipality largely overlooked the component of market research leading to low customer retention rates and sub-optimal client satisfaction and impact. MFIs should have designated personnel responsible for collecting and processing data and participating in the design of products and services and use frontline staff more effectively in gathering ongoing feedback from clients. MFIs should further provide funds and training to staff necessary to develop the much desired market research tools.

5.4.3 Development of linkages between Microfinance Institutions, Academic and Research Institutions in the Municipality: MFIs operation within the Municipality should establish more links with microfinance sector, academic and research institutions to disseminate key lessons learnt, and further develop the management of the knowledge the Fund generates. First establish a simple system to share lessons learned among MFIs in the Municipality and even beyond. Currently, MFIs in Kisumu do not capitalise enough on the experience gained from the many lending programs they have supported. Though MFIs attach high importance to evaluating, documenting, and analysing lessons learned, they do not yet seem to have an efficient mechanism to disseminate lessons and experiences among their partners and other MFIs, funders, and even with the private sector.

5.4 Suggestion for Future Research

The research has brought to fore the role of microfinance on poverty reduction in the county. To enhance this development more of such research should be conducted to bring to public domain the importance of microfinance, the challenges and the way forward. Furthermore the population size should be increased to cover most of clients and the general public with regards to the relevance and challenges since larger samples are more representative of the population than a smaller sample.

REFERENCES

ACCION International, FINCA, Grameen Foundation, Opportunity International, UNITUS, and Women's World Banking. (2010). *Measuring the Impact of Microfinance: Our Perspective.*

African Institution of Mathematical Sciences Project (2000). Learning from Clients Assessment Tools for Microfinance Practitioners. Washington D.C.

Assefa, A. (2004). New Pro-poor Policies and Budgeting in the Ethiopian Education Sector in Tassew W. and Eberlie W. (eds). Department of Economics, Addis Ababa University: Addis Ababa.

Assefa, Gebrehiwot, A. and Mulat, D. (2005). Rural Finance in Ethiopia: Assessment of the Financial Products of Microfinance Intuitions. AEMFI, Occasional paper No.12: Addis Ababa, Ethiopia.

Attimir, O. (1982). The Extent of Poverty in Latin America: World Bank Staff Working Papers. No .522. The World Bank: Washington D.C.

Bateman, M. (2010). *Why Doesn't Microfinance Work? The Destructive Rise of Local Neoliberalism.* London: Zed Books.

Bateman, M. (2011) (Ed.) *Confronting Microfinance: Undermining Sustainable Development.* Sterling VA: Kumarian Press.

Central Bureau of Statistics. (1999). National Micro and Small Enterprise: Baseline Survey 1999. Executive Summary. Nairobi, Kenya: The Government Printers.

Cheruiyot, A. and Kioko, K. (1999). Financial Service Association Program Evaluation Report. Kenya Rural Enterprise Programme (K-REP) Holdings Limited.

Chowdhury, M. (N.D) the Role of Micro-Credit in Alleviation of Poverty: A Study of the Gramen Bank in Bangladesh

Chowdhury, and Buhia. (2001). "Do Poverty Alleviation Programmes Reduce Inequality in Health: Lessons from Bangladesh." In Poverty Inequality and Health, Ed. D.Leon and G. Walt. Oxford University Press.

Cochran, W. G. (1963). *Sampling Techniques*, 2nd Ed., New York: John Wiley and Sons, Inc.

Davis, P. (2007) *Discussions among the Poor: Exploring poverty dynamics with focus groups in*

Bangladesh. CPRS Working Papers no. 84. Manchester: IDPM, University of Manchester.

Getahun, T. (1999). Poverty and Poverty Reduction in Ethiopia: In Aspects of Development Issues in Ethiopia Proceedings of Workshop on the Twenty-Fifth Anniversary of the Institute of Development Research in Tegegne G. et al. (ed), Institute of Development Research Addis Ababa University: Addis Ababa, Ethiopia.

Ghokale, K. (2009). 'As Microfinance Grows in India, so do its rivals', *Wall Street Journal*, 16 December.

Holcombe, S. (1995). Managing to Empower: The Grameen Bank Experience of Poverty Alleviation. University Press Limited, Dhaka and ZED Books: London.

Hulme, D and Mosley, P. (1996) Finance against Poverty: Effective Institutions for Lending to Small Farmers and Micro-enterprises in Developing Countries: Rutledge press, London.

Jeyseelam, N. (2005)."The Indian Rural Banking 2010", IBA, XXVI No.1, January 2004, p.166.

Johnson, S. and Rogaly, R. (1997). Microfinance and Poverty Reduction, Oxfam and ACTIONAID: Oxfam print unit.

Kabeer, G.D. and Kiiru, W.K. (1999). Kenya Rural Enterprise Program: Case Study of a Microfinance Scheme. Studies in Rural and Micro Finance no. 3. Africa Region/ The World Bank.

Kitili, J. (2005). "How to Regulate andSupervise Microfinance – Key Issues in an International perspective' in Eds. Hanning, A., Katimbo- Mugwanya, E. BoU/GTZ. Kampala.

Kumar, A. (2005) Access to Financial Services in Brazil, The World Bank: Washington D.C.

Ledgerwood, J. (1999) Sustainable Banking with the Poor: Microfinance Handbook, The Institutional and Financial Perspective. The World Bank: Washington D.C.

Littlefield, E., J. Morduch, and S, Hashemi (2003). *Is Microfinance an effective strategy to reach the Millennium Development Goals?* CGAP Focus Note No 24, January.

Louise, C. (2002). Macro-economic and Sectoral Approaches: A Source Book for Poverty Reduction Strategies, Vol.2: The World Bank, Washington D.C.

Meehan, F. (1999). Microfinance in Rural Development: The Impact of Credit Provision by the Dedebit Savings and Credit Institution on Economic Activity and Household Income in Tigray M.Sc. Thesis: Ethiopia.

Ministry of Finance and Economic Development. (2002a). Sustainable Development and Poverty Reduction Program, Government of the Federal Democratic Republic of Ethiopia: Addis Ababa, Ethiopia.

Ministry of Finance and Economic Development. (2002b) Poverty Profile of Ethiopia: Analysis and Comparison of Poverty. Government of the Federal democratic Republic of Ethiopia: Addis Ababa, Ethiopia.

Nakshi, S.K, (2006). "Microfinance: A Study on Stree Shahri (SHG) Programmes", Southern Economist, 43 No. 8, August 15, 2004, p.9.

Otero, M. and Rhyne, E. (1999). The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor. West Hartford: Kumarian Press.

Robinson, M. (2005). *The Microfinance Revolution: Sustainable Finance for the Poor.* Washington DC: World Bank.

Robinson, S. (2001) The Microfinance Revolution: Sustainable Finance for the Poor. Vol. I. The World Bank: Washington D.C.

Ruben, R. and Clercx, L. (2003). Rural Finance, Poverty Alleviation and Sustainable Land use: The Role of Credit and the Adoption of Agro-forestry Systems in Occidental Hondura. Vol. 5, No. 2, Journal of Microfinance: Brigham Young University Publications.

Simanowitz, A. (2000). Clients Exit Surveys: A Tool for Understanding Client Dropout, Vol.2, No.1, Journal of Microfinance: Brigham Young University Publications.

Special Unit of Microfinance (2002). Microfinance Distance Learning Course: United Nations, United States of America.

Todaro, M.P. (1997). Economic Development, 6th (edn.). Third Impression: New York.

Tripathy, K.K. (2004), "Micro-Credit Intervention and Poverty Alleviation", Kuruksheta, 54 No.11, September, 2006, pp. 4-8.

Tsehay, T. and Mengistu, B. (2002). The Impact of Microfinance Services Among Poor Women in Ethiopia. Association of Ethiopian Microfinance Institution Occasional Paper No.6: Addis Ababa, Ethiopia.

United Nations Development Program (2003). Human Development Report 2003: Millennium Development Goals. New York: Oxford University Press.

United Nations Capital Development Fund (2003). A Conceptual Framework for the UNCDF Impact Assessment. UNCDF Evaluation Unit. New York.

Wolday, A. (2000). Networking Microfinance Activities in Ethiopia: Challenges and Prospects. AEMFI Proceeding of the Conference on Microfinance Development in Ethiopia: Bahirdar.

Wolday, A. (2003). Microfinance in Ethiopia: Performance Challenges and Role in Poverty Reduction. Association of Microfinance Institutions. Occasional paper No. 7, AEMFI: Addis Ababa, Ethiopia.

World Bank (1990). World Development Report. New York: Washington D.C.

World Bank (2001). Partnership for Development. New York: Washington D.C.

World Bank (2002). Poverty Reduction and The World Bank. New York: Washington D.C.

World Bank (2003). Microfinance and Poverty Assessment Tool. The World Bank: Washington D.C.

World Bank (2004). Progress in the Fight against Poverty. The World Bank: Washington D.C

Yaron, J. (1997). What Makes Rural Finance Institutions Successful? The World Bank Research Observer. Vol.9 No.1: World Bank, Washington D.C.