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### Effects of micro finance institutions on poverty reduction in Kenya

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#### KEYWORDS

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#### A B S T R A C T

Microfinance is currently being promoted as a key development strategy for promoting poverty reduction and empowerment of people economically. This is because of its potential to effectively address poverty by granting financial services to households who are not served by the formal banking sector. This study attempted to investigate the effects of MFIs on poverty reduction. The study focused on PAWDEP located in Kiambu District as a case study. It intended to cover credit facilities provided by the MFI and clients perception on income improvement and/or reduced poverty levels. The study used descriptive survey design. The target population was 9 staff/administrators and 46 clients or recipients of PAWDEP. The study employed stratified sampling technique to select staff of the selected MFIs and clients. Both qualitative and quantitative data analysis methods were used. The study revealed that PAWDEP as a microfinance institution has been providing microfinance services to different groups of women - “productive” or “active poor” and that the institution uses various strategies to deliver its services such as granting small loans to women to help them start businesses, grow their businesses and educate their children. To enhance clients’ business skills to use credit and establish market channels for their products, the study recommends that microfinance institutions like PAWDEP can arrange mechanisms to improve technical and business skills of the poorest through training and loan utilization. The study also recommended that MFIs should put in place micro-insurance schemes which could help clients to pool risk or share losses.

#### Introduction

Across the world almost every country has to face the poverty. Poverty is the condition in which low-income people cannot meet

the basic needs of life. This situation leads to many difficulties like decreased health facilities, high illiteracy rate, decreased

quality of life etc., these difficulties motivate human beings to commit heinous crimes and sometimes suicide. Poverty is defined by several authors as it is the situation of having not enough money to meet the basic needs of human beings (Hulme and Paul, 1997)

Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life. This is caused by lack of resources and capabilities to acquire basic human needs as seen in many, but often mutually reinforcing parameters which include malnutrition, ignorance, prevalence of diseases, squalid surroundings, high infant, child and maternal mortality, low life expectancy, low per capita income, poor quality housing, inadequate clothing, low technological utilization, environmental degradation, unemployment, rural-urban migration and poor communication. Poverty is caused by both internal and external factors. Whereas the internal causes can be clustered into economic, environmental and social factors, the external causes relate to international trade, the debt burden and the refugee problem.

Christen (1997) defines microfinance as 'the means of providing a variety of financial services to the poor based on market-driven and commercial approaches'(Christen, 1997). In recent times the term 'Microfinance' (MF) became a buzz word in the every corner of the world as well as in the formulation of welfare programs by government. After hearing success stories in microfinance across the developing countries, third world nations started to give more importance to MFs. Since, banks have failed to reach the poorest of the poor of the country's population; microfinance emerged as a potential tool to fill the gap between financial institutions and needy people. Though we are in 21st century where

science and technology plays a vital role in the pace of development, many countries across the Africa suffered from hunger, ill health, mass poverty and illiteracy. To curb all these awful conditions, there is a need of massive financial recourses. Microfinance is said to be an effective instrument discovered in 21st century to mitigate poverty in the world. Microfinance helps the poor to come out from many wicked problems. The beauty of the MF is in safeguarding a variety of interests of its members.

### **Microfinance: Global Perception**

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 stake holders 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" (Consultative Group to Assist the Poorest (CGAP, 2010).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. Murdoch (2000) correctly points out that this kind of enthusiasm for microfinance rests on an enticing win-win proposition that: Microfinance institutions that follow the principles of good banking will also be the ones that alleviate the most poverty. The assumption being that with good banking

practices it is possible to cover costs and operate in a sustainable manner to continue serving clients and alleviating poverty (Murdoch 2000).

Kenya, as with other developing countries, has been struggling to reduce poverty. One of the interventions has been the introduction and implementation of social and economic policies which address the issue of poverty both at national and individual levels. This involved State intervention in education and other social services, and the creation of an enabling environment for private sector investment in productive sectors. During the World Social Summit held in Copenhagen in 1995, Kenya joined other nations in their commitment to eradicate poverty. Following this commitment, Kenya has developed plans for poverty reduction which are outlined in the Kenya Vision: 2030, the National Poverty Eradication Strategy, Poverty Reduction Strategy Paper (2000,) and the National Strategy for Growth and Reduction of Poverty (2005). All these stress the importance of equitable, sustainable economic growth and improvement of people's welfare.

### **Micro Finance Institutions and Poverty Alleviation**

MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor, women's empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure. Empirical evidences and surveys give mixed results on the performance of MFIs. In some cases debacle stories have been reported, yet there have been success stories. In other cases the reasons for

failures or successes have not been well documented.

Recent studies show that, linking MFIs with other interventions such as poverty alleviation often complicates the functioning of MFIs by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation. Most of sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability and degree of subsidization). Thus for an MFI to meet the microfinance best practices, as given by Consultative Group to Assist the Poorest (CGAP), and be financially sustainable, it has to regard itself as a business venture. As a consequence of this and especially in the rural areas, very few people qualify for a business loan.

Manandhar and Pradhan (2005) state that microfinance is an effective development tool for poverty reduction since the financial services enable the poor and low income households to take advantage of the economic opportunities to increase their living standards through self-employment. They further note that it is now accepted that the poor do not have much money, so low income households need financial support. The importance of microfinance particularly in the countries perceived to be poverty stricken has been increasing in recent times which have led to policy makers of many countries to adopt national micro-finance policies and programmes (Manandhar & Pradhan, 2005). The increasing number of microfinance practitioners around the globe is an indication that microfinance sector can play an important role not only to help attain the government's policies on poverty reduction

but also to help increase the income level of people living with poverty.

Micro financing is an increasingly common weapon in the fight to reduce poverty and promote economic growth and well-being of individuals. Dupas and Robinson (2008) affirm that in Kenya, employment in small and medium enterprises has been estimated to account for more than 20% of adult employment and for 12- 14% of national Growth Domestic Product. Worldwide, these businesses are typically extremely small-scale and the majority typically starts with no employees other than the owner and very low levels of working capital (Dupas and Robinson, 2008).

Todaro and others (2006) confirms that the first goal of the Millennium Development Goals (MDGs) is to eradicate poverty and hunger by year 2015. The MDGs seeks to reduce by half the proportion of people whose income is less than \$1.22 a day and those who suffer from hunger. According to International Fund for Agricultural Development (IFAD) (2009), about seventy nine percent of Kenya's population live in rural areas and relies on agriculture for most of its income. Nearly half the country's population of 40 million people is poor. The Welfare Monitoring Survey II Report of 1994 notes that 32.6% of the Kiambu County's population lived below poverty line in 1992. This decreased to 29.3% and 25% in 1994 and 1997, respectively. Currently, it is estimated that 25.08% of the county's population is poor (Kiambu County Strategic plan 2005 – 2010). This implies that there are 198,598 poor persons in Kiambu County. The contribution to national poverty is 1.48% and based on the \$1 a day yardstick; there are many poor people in the county. Poverty situation in Kiambu County is manifested in various forms such as

inaccessibility to education and inadequate education facilities (Kiambu County Strategic plan 2005 – 2010). The average dropout rate of 30% is attributed to poverty in various parts of the county and the high dropout rates are also caused by child labour in the tea and coffee plantations. Among the age group affected by poverty is the 15-64 which is the age group in labour force which comprises of female population of 15-49.

The effects of microfinance and/or microcredit schemes on poverty reduction are still largely unknown. Consequently, microfinance has been moving increasingly towards for-profit ventures that focus on relatively richer clientele. Though studies on broader area of microfinance have been done, no study has actually been carried out on the effects of microfinance on poverty reduction. The literature confirms that most microfinance programs do not serve the poorest (Morduch and Haley, 2002). This is because of policies that are put in place. However, the authors affirm that there are some institutions that do and the poorest can definitely benefit from microfinance in terms of increased incomes, and reduced vulnerability.

Morduch and Haley (2002) notes there is evidence to support the premise that it is possible for a microfinance institution to serve the poorest and also achieve financial sustainability. However, Swain (2004) states that microfinance is better used as an instrument along with other policies for poverty alleviation rather than poverty reduction strategy in isolation.

The reality on the ground indicates that the increase on the number of poor people both in rural and urban Kenya is worrying. Therefore, if poverty levels are not reduced in Kenya, then the MDG goal number 1 on

the eradication of poverty to less than 30% of the Kenyans by 2015 and as envisioned in the Kenya Vision 2030 will not be achieved. This creates a need to intensify poverty reduction efforts through MFIs in planning and outreach. This study investigated the effects of Microfinance institutions on poverty reduction in relation to Pamoja Women Development Programme in Kiambu as a case study. Poverty is widespread and remains a critical development challenge in Kenya. For this reason micro-financing come in handy in reducing poverty by bringing economic empowerment, which is the first step in reducing poverty. Therefore, it is from this premise that the study examined the effects of microfinance on poverty reduction.

### **Statement of the Problem**

Rigorous empirical analysis in the issue of statistical impact of microfinance began in the 1990s. However, the studies so far remain few in addressing the effectiveness of microfinance in poverty alleviation (Adam & Von Pische, 1992). The introduction of MFIs is seen as the best alternative source of financial services for low income earners in rural areas as a means to raise their income, hence reducing their poverty level. However evidence has (i) shown that these MFIs are faced by a myriad of challenges which are not to (ii) limited coverage, poor organizational structures and some is donor driven. Strategies such as formation of microcredit (iii) programmes through churches for example, ECLOF of the Catholic Church, SMEP of NCKK and NGOs like Faulu Kenya, KWFT and government initiatives such as the youth and women funds have been formulated over time to transform the status of entrepreneurs in Kenya economically. Studies have been done for instance, a

study by Aigbokhan and Asemota (2011) revealed that selected microfinance variables such as volume of loan last taken, cumulative loan, loan cycle, experience with the microfinance institution and education had positive significant impact on client's poverty status. However, more research needs to be done in regard to whether micro financing has effect on poverty reduction as will be done through this study. This is because despite efforts of micro financing, more people are still living with poverty. In Kenya over 50% of Kenyans live below poverty line (Kenya National Human Development, 2007). For example, Kiambu County Strategic Plan 2005 – 2010 indicates that administrative unit contributes 1.48% of poor people to the national poverty index and the absolute rural-urban poverty is 25.08% of which women are the majority.

### **Purpose of Study**

The purpose of the study was to examine the effects of microfinance institutions on poverty reduction in Kiambu County.

### **Objectives of the Study**

The study was guided by the following objectives:

- To examine strategies put in place by PAWDEP to reduce poverty;
- To determine what effects microfinance institutions have on poverty reduction in Kenya; and
- To assess the perceptions of microfinance beneficiaries on the poverty reduction strategies put in place by MFIs.

### **Hypothesis**

There is no significant effect of microfinance institutions activities on poverty reduction.

### **Scope of the Study**

In an attempt to investigate the effect of micro finance institutions on poverty reduction, the study focused on Pamoja Women Development Programme (PAWDEP) located in Kiambu County as a case study. Kiambu is the smallest but densely populated county in Central Province of Kenya bordering Nairobi City and Kajiado County to the south. The absolute poverty index of the district is 25.08%.

The PAWDEP was purposely chosen because its programmes specifically target women, and has dominance in Kiambu County. It is believed generally that when women are empowered financially, the entire family unit benefits as they participate in improving the standard of life to the family members. The study covered credit facilities provided by the MFI and clients perception on income improvement and/or reduced poverty levels. The study only concentrated on three branches within Kiambu that are about 30 kilometres from Nairobi City: Kiambu town, Thika and Limuru.

### **Conceptual Framework**

In order to uncover the effects of micro finance institutions in poverty reduction, the study strived to isolate the key variables mainly credit facilities, income improvement/reduced poverty and economic development, regulatory framework as illustrated Figure.2

### **Knowledge Gap**

The literature reviewed shows that the debate on microfinance is inconclusive on the impact of microfinance on poverty reduction as the study portray. It should be

noted that the varying conclusions in the text may be accounted for by differences in the methodology used to measure the impact, among other biases. Conducting such a study is justified by the increased rate of people living with poverty in Kenya. This situation forces re-evaluating the plans and programmes put in place by various stakeholders including the Kenyan government on poverty reduction. It is against this background that the researchers find it necessary to make a study on the effects of MFIs on poverty reduction in Kenya.

### **Methodology**

The study used descriptive survey design. Survey design was used because of its in-depth aspect collecting personal information that helps in learning peoples' attitudes, beliefs, values, behavior, opinions, habits and desires. It would also help coverage of a wide area using representative samples. The target population was 9 staff/administrators (management) of PAWDEP and 46 customers/recipients of the products and services. A total of 3 branches of PAWDEP were sampled. A sample size used in the study was 20% of the population. The study employed stratified sampling technique to select staff of the selected MFIs and customers (beneficiaries) because it enabled the study to achieve desired representation from various sub-groups in the accessible population. For the administrators (management), purposive sampling was used because they oversee individual sections in the institution. The sample size was based on 3 branches that were randomly selected. 9 staff/administrators from each branch and 20 customers/clients were sampled as shown in Table.



The research instruments had both qualitative and quantitative questionnaire items. The main data collection tool was the questionnaire which was used to collect data from the employees and customers who provided information on effectiveness of the MFIs products and services economic improvement initiatives. The questionnaire had both quantitative data which was in closed-ended form and Likert scale. While qualitative data was collected using open-ended questionnaire items. Interviews were included because the researchers wanted to hear from organizations' administrators and staff based on their own lived experiences. The study used the narrative interpretive interview to provide the respondents freedom and more space to share their experiences. Both qualitative and quantitative data analysis methods were used. The Statistical Package for Social Sciences (SPSS) version 17 was used in the analysis of quantitative data such as measures of central tendency. Qualitative data generated from interviews was categorized into themes emerging from the study data and reconstructed into narratives. Correlation and regression statistical ways were employed in establishing relationships among variables.

### **Strategies put in place by PAWDEP to reduce poverty**

The study was interested in finding out strategies that have been put in place to reduce poverty. Results from 6 out of 9 staff respondents said that the organization grant loans with very low interest rates to women which help them start businesses, grow their businesses, and educate their children among other things. On the loans borrowed the organization has come up with flexible collateral against the loans borrowed which encouraged borrowing.

According to Zahid (2008), there are some indirect benefits of microfinance on the borrower which include alleviation of poverty, improvement of healthcare, increased literacy rates among other social gains. Therefore, provision of loans at low interest rates and allowing for flexible collateral against the loans borrowed encourages borrowing and is instrumental in growth of peoples' livelihoods.

Another strategy that the organization has employed is by expanding the organization by opening more branches to reach a wider clientele. This was indicated by 7 out of 9 staff members who pointed out that they work both in rural and urban areas. According to Annan (2003), making microfinance accessible can help alleviate poverty. He further noted that microfinance can enable families to obtain health care, create jobs, access to education and empowering people.

Creating awareness through training and education on products offered to clients is another strategy the organization uses. For example, one member of staff said that they educate and train clients on how they can invest the loans they receive from PAWDEP and they have seen great improvement in repayment and general welfare of the families of their clients and has improved economic activities they engage which are performing well.

PAWDEP also sources for additional funding from other organizations both within the country and outside, these come in form of grants. For example, 88.9% of staff surveyed indicated that they receive funding from outside. This enables them meet the increasing loan request from clients, thus supplementing from what they generate within the organization.



In conclusion, the study found that according to PAWDEP staff, granting loans with very low interest rates, expanding the organization by opening more branches to reach a wider clientele, having a flexible collateral mode against the loans borrowed, creating awareness through training and education and sourcing for additional funding from other organizations are some of the strategies that PAWDEP has put in place to enhance poverty reduction efforts.

On the same note, staffs were asked to indicate their opinions on the impact of PAWDEP microfinance strategies on poverty reduction. The following points were highlighted: many people have been employed hence changed their lives, improved living standards/family welfare, good health among people, education, reduced death rates, expansion of businesses and women are empowered hence make a positive contribution to the society. Engagement in productive income generating activities will enable parents to take children to attend school which increases their knowledge and skills thus generally becoming a better and well-off society at large.

### **Indicators that PAWDEP has been able to reduce poverty**

As concerns indicators to the organization that it has been able to reduce poverty, the organization keeps data that indicates its efforts to reduce poverty as mentioned by 88.9% of the staff. This is through investing in information and communication technology systems that captures all disbursed loans. There also exists an efficient monitoring system that shows growth trends in clients incomes – for example use of PPI index form to collect data after some period of time. A database has also been created that shows

the number of clients graduating to the next level of loan which is increasing thus an indication that there are greater economic activities on clientele and financial situations improving. The organization also monitors the amount of loans that are taken for example, higher amounts borrowed indicates that there is a booming economic activities amongst clients. Lastly, reduced rates in defaulting amongst clients imply that people are engaged in incoming generating activities that poverty is reducing.

Before microfinance loan, it is evident from figure that the average loan taken was KES 13,021.7. However, after going for a loan, the average income had increased to KES 21,782.6 (next figure). From these findings, it can be concluded that participation in microfinance credit improves group or an individual productive income. These findings are consistent with Owuor's (2009) study on assessment of the effects of microfinance credit on borrower's productivity in Kenya that found out in a single production period; household productive incomes had increased from US\$ 200 to US\$ 260 due to participation in microfinance credit.

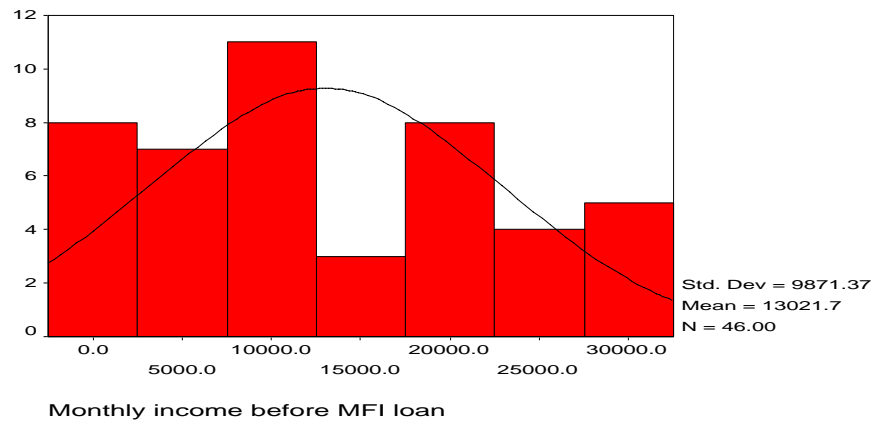
### **Effects of microfinance institutions on poverty reduction in Kenya**

The purpose of the data analyses is to explore relationships and carry out tests of the null hypothesis among the variables of the study.

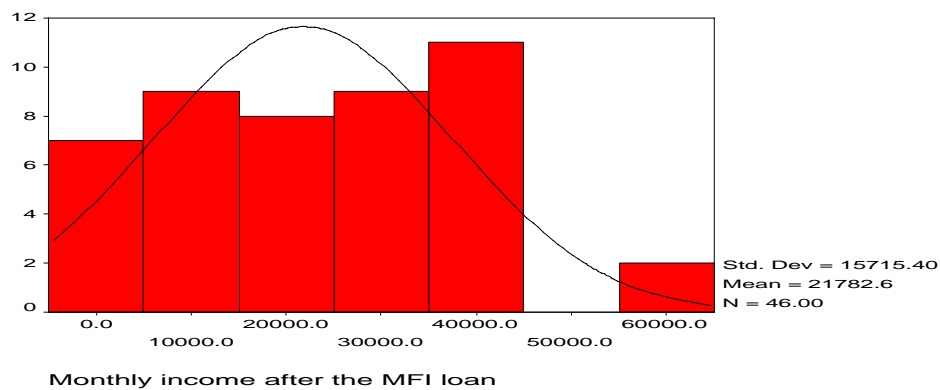
### **Exploration of relationships and test of null hypothesis**

These relationships are between on one hand the independent variables namely –

**Figure.1.2** Monthly Income before MFI Loan



**Figure.1.3** Monthly Income after the MFI Loan



**Table.1.2** Correlations Matrix

Particulars		Volume of loan borrowed	Perceptions towards MFI facilities	Monthly income after the MFI loan
<b>Volume of loan borrowed</b>	Pearson Correlation	1	-.002	.247
	Sig. (2-tailed)	.	.989	.098
	N	46	46	46
<b>Perceptions towards MFI facilities</b>	Pearson Correlation	-.002	1	.036
	Sig. (2-tailed)	.989	.	.812
	N	46	46	46
<b>Monthly income after the MFI loan</b>	Pearson Correlation	.247	.036	1
	Sig. (2-tailed)	.098	.812	.
	N	46	46	46

**Table.1.3 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
<b>1</b>	.344(a)	.118	.077	1.66377	.118	2.885	2	43	.067

a predictors: (Constant), Monthly income after the MFI loan, Recent Volume borrowed time

**Table.1.4 ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
<b>1</b>	Regression	15.971	2	7.985	2.885	.067(a)
	Residual	119.029	43	2.768		
	Total	135.000	45			

a) Predictors: (Constant), monthly income after the MFI loan, Recent Volume borrowed time

b) Dependent Variable: Improved poverty levels (poverty reduction)

**Table.1.5 Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
<b>1</b>	(Constant)	-.528	.493		-1.071	.290
	Current Volume of loan borrowed	-5.107E-06	.000	-.136	-.923	.361
	<b>Monthly income after the MFI loan</b>	<b>3.871E-05</b>	<b>.000</b>	<b>.351</b>	<b>2.377</b>	<b>.022</b>

Dependent Variable: Improved poverty levels (poverty reduction)

**Table.1.6** Summary of Data: (Descriptive analysis of responses)

<b>Item</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>E13. The organization has more or diversified products</b>	46	2.61	1.406
<b>E5. There is an efficient and effective service delivery system</b>	46	2.54	1.328
<b>E6. PAWDEP has opened more branches in the region to increase access to loans</b>	46	2.35	1.449
<b>E15. The organization provides its clients with a conducive environment to operate their business</b>	46	2.28	1.259
<b>E7. Ensures sustainable lending/financing</b>	46	2.22	1.209
<b>E14. The organization has skilled staff that meet clients needs</b>	46	2.22	1.381
<b>E10. The organization has increased resource mobilization</b>	46	2.20	1.185
<b>E16. I would invest in a similar business if I got a grant or a gift of similar amount</b>	46	2.15	1.505
<b>E3. The compulsory interest rate on saving is good</b>	46	1.96	1.264
<b>E9. Increased its training and education programmes to beneficiaries e.g. on how to invest the loans</b>	46	1.89	.994
<b>E2. I am comfortable with compulsory monthly repayment</b>	46	1.85	1.154
<b>E4. Mode of repayment of loan is good e.g. flexible loan repayment periods</b>	46	1.83	1.198
<b>E1. I am comfortable with compulsory monthly savings</b>	46	1.80	1.147
<b>E12. The organization has fair lending conditions</b>	46	1.78	1.031
<b>E11. There is a fair interest rates charged on loans by the organization</b>	46	1.72	1.068
<b>E8. The target group (women) for the loan facilities if good</b>	46	1.30	1.685
<b>Average</b>		<b>2.044</b>	<b>1.266</b>

**Table.1.7** Clients' responses on improvements in standard of living after taking loans

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
<b>Much Improved</b>	18	39.1
<b>Improved</b>	22	47.8
<b>Not Indicated</b>	6	13.0
<b>Total</b>	<b>46</b>	<b>100.0</b>

**Table 1.8** Cross tabulation results of improved standard of living versus gender

How much has the MFI improved your standard of living?		Sex			Total
		Male	Female	Not Indicated	
<b>Not Indicated</b>	Count	0	5	1	6
	Expected Count	1.0	4.0	.9	6.0
	% within improved standard of living	.0%	83.3%	16.7%	100.0%
<b>Much Improved</b>	Count	4	11	3	18
	Expected Count	3.1	12.1	2.7	18.0
	% within improved standard of living	22.2%	61.1%	16.7%	100.0%
<b>Improved</b>	Count	4	15	3	22
	Expected Count	3.8	14.8	3.3	22.0
	% within improved standard of living	18.2%	68.2%	13.6%	100.0%
<b>Total</b>	Count	8	31	7	46
	Expected Count	8.0	31.0	7.0	46.0
	% within improved standard of living	17.4%	67.4%	15.2%	100.0%

demographic variables (i.e. sex, age, marital status and education) and MFIs activities (credit facilities) which was tested by Pearson chi-square test. On the other hand is test of null hypothesis tested by regression analysis.

### **Correlation Coefficient**

From the table, correlation coefficient monthly income after MFI loan and perception towards MFI facilities show a positive correlation. This positive correlation coefficient (.036) indicates that there is a statistically significant ( $p < 0.001$ ) linear relationship between these two variables such that the more income a person generates, the more positive he/she perceives MFI credit facilities.

### **Hypothesis Testing**

Linear regression was used in this analysis where poverty reduction was the dependent variable while the independent variable was MFI activities (credit facilities).

From the table above, the R value (multiple correlation coefficients) of 34.4% indicates that there is a strong relationship between the variance shared by the independent variables and the dependent variable. The R square (coefficient determination) indicates a considerable small amount of goodness-of-fit, the value of 11.8% of the variance in the dependent variable is explained by the independent variables in the model i.e. 11.8% of the variability in the success of the reduced poverty levels is accounted for

by the explanatory variable in the MFIs activities while the remaining 88.2% could be attributed to the random fluctuation on other unspecified variables (stochastic error term).

The ANOVA table above describes the overall variance accounted for in the model. The F statistics tests the null hypothesis that the expected values of the regression coefficients are equal to each other and that they equal zero. The value of ( $F_{2, 43} = 2.885$ ) adjusted R square = 0.118.

The table provides the effect of individual predictor variable (microfinance activities) on the dependent variable (poverty reduction). The results suggest that microfinance activities i.e. income after loan borrowed is a significant predictor of poverty reduction ( $P < 0.05$ ) thus: Beta = 0.351;  $p < 0.05$ . (NB: current volume of loan borrowed was not a significant predictor in this model). Therefore, in this study we fail to accept the null hypothesis and take the alternative, hence there is a statistically significant effect of microfinance institutions activities (monthly income after loan) on poverty reduction. The following simple linear regression model was developed:

$$\text{Poverty reduction} = (.528) + 0.351 \beta (\text{income after the MFI loan}) - 0.136 \beta (\text{Volume of loan borrowed}) + \text{error.}$$

The regression model above indicates a positive linear relationship between income after the MFI loan and poverty reduction while on the other hand it indicates a negative linear relationship between volume of loan borrowed and poverty reduction. Therefore, a unit increase in income causes a 35.1% reduction in poverty levels.

### **Perceptions of microfinance beneficiaries on the poverty reduction strategies put in place by MFIs**

The study sought information on microfinance recipients' attitudes towards MFIs on poverty reduction. PWADEP recipients were asked to respond to a 5 point Likert scale on statements about microfinance institutions activities. The scale was anchored from 1 = strongly disagree to 5= strongly agree. Data were collected, analyzed and presented as displayed in Table 1.5.

According to the clients responses presented there were differences in the clients' perceptions towards MFI activities/facilities on the items being measured. Some interesting trends were manifested in the data, with some items having considerable good score compared with others. This difference in score is attributed to the experiences of clients with MFIs.

### **Improvements in standard of living**

The table reveals that the majority of the respondents 86.9% indicated that their standard of living had improved. Improvements can be attributed to what clients reported on questions relating to why they go for credit, businesses they are engaged in and maybe the number of people they have employed. For example, 80.9% of clients reported that they went for credit to start businesses. Other reasons provided were to expand business (1), to add or increase stock (4), improve farming (2) and buy land (1). On the same note, 84.7% of clients indicated that they have employed between 1 – 5 people.

Descriptive data on the table further show that up to 22.2% of male and 61.1% of female microfinance recipients agreeing that their standards of living have much improved. Based on these results we can conclude that indeed PAWDEPs microfinance recipients/clients' standard of living had improved.

### **Client's opinions about microfinance as a poverty reduction tool**

Qualitative data from open-ended questions from the clients concerning their opinions on microfinance institutions as a way to reduce poverty helped come up with interesting results. For instance, three customers who had benefited from the loans indicated that microfinance institutions are the best. For example, one PAWDEP client who was sampled said: "I had started with dairy goats and now I have got 20 dairy cows. Secondly they charge very low interest rates, and the mode of repayment is favourable not forgetting the creation of jobs to other people of the society" The sentiments show how important microfinance is since that recipient's business has expanded. It was also found that microfinance institutions had brought about a lot of progress thus uplifting the living standards of the poor as mentioned by twelve customers.

### **Challenges MFIs face in getting donor support**

Following were some of the responses made that most donors set economic activities that MFIs should fund that may not viable, most donors look into the history of the organization and its performance in terms of funding which many local MFIs are unable to fulfill and that donors set tough conditions/Strict

regulations imposed by donors that MFI are not comfortable with. Other challenges experienced included, structure of MFIs and ownership, lack of proper regulations governing MFIs in the country, high interest rates charged on the grants and unavailability of data prior to funding by donors i.e. not able to provide enough convincing data to convince donors on efforts being made to reduce poverty.

### **Suggestions for improvement**

Staff made the following suggestions: increase in lending to the poor, empowering youth groups, funding development programmes, expanding the organization to different locations so as to reach many people, developing new products that are beneficial and relevant to clients, improvement on client training and awareness on starting business and or engaging in economic activities that will improve their status, reduction of interest rates charged on loans borrowed, help clients in marketing products, setting up of sinking funds that can be lent out at low interest rates, involve men in taking loans (for MFIs that target women only like PAWDEP) and offer loan facilities to other people of the organizations who save with them.

Similarly, MFI clients made the following suggestions to be considered to enhance implementation of poverty reduction initiatives among MFIs. Firstly, clients suggested that it would be good to train them and other recipients of MFI loans through holding seminars by having or introducing new strategies to educate clients on how to manage businesses. It was also suggested that reduction of interest rates offered on loans will benefit the poor also introducing more loan

products that suit everyone who can afford in society. Since for example women are the most targeted, it would be good if they are encouraged to start group projects and funding them for example, buying land for them and allowing the group to pay for it slowly and subsequently disburse more funds to women. Another strategy put across by recipients of MFI facilities indicated that MFIs can partner with other organizations so as to deliver services at affordable rates. Clients also felt that it would be good if MFIs adjust the loans to suit client's needs and ability so that recipients do not get stressed in repaying for example from small amounts of 20,000, 30,000 etc and not standardize. Lastly, the government should come up with ways to reach people through the various ministries by way of administration.

### **Summary, Conclusions and Recommendations**

PAWDEP microfinance institution has been providing microfinance credit facilities and services to individual or groups of women. This encourages formation of capital for instance, individual clients come together to form groups for the purpose of accessing the loans. The institution uses various strategies such as granting loans at low interest rates to women that help them start businesses, grow their businesses, educate own children among other things. They have also expanded by opening more branches to reach a wider clientele thus working both in rural and urban areas and provide training and education on products they offer to their clients.

Microfinance institutions play a significant role in poverty reduction. With effective utilization of credit by the recipients, helps

to boost their economic activities which have a multiple effect to the society thus reducing poverty levels. In addition, data gathered from the clients show that their borrowing has increased and subsequent loans were higher than what they had previously taken. The loans taken were used to improve or expand their businesses. The clients said that their living standards had improved as they feel productive, important and equal with anybody else due to undertaking relatively better profitable economic activities.

Poverty among the clients of PAWDEP microfinance institution after their participation in the programmes, to some extent, is in a declining trend. This is because most recipients are engaged in meaningful productive economic activities such as dairy farming, operating small retail shops etc. Businesses of most respondents were expanded or improved in some ways. Majority of the client respondents 86.9% reported that their living standards had improved.

### **Conclusions**

This study established that micro-finance is a strategy of poverty reduction and the way credit can reach the poor. If properly positioned, microfinance institutions are useful tools for poverty reduction. Based on the findings, the following conclusions were made: Various strategies had been put in place by MFIs to reduce poverty such as training, localizing the business through expansion of business in remote areas to reach the poor and/or entrepreneurs, offering loans at reduced interest rates. However, the respondents indicated some dissatisfaction with the current loan range. Microfinance beneficiaries' perceptions on strategies laid down by microfinance



institutions was positive thus helped reduce poverty trends among people in areas they were participating.

### **Recommendations**

It is important to note that credit alone is often insufficient in ensuring growth and small business development, particularly when people engaged in such activities lack basic knowledge and skills related to business management. More so, extending credit to them with limited business knowledge is riskier proposition for MFIs. Therefore, microfinance institutions like PAWDEP, that are able to secure grants to help serve the poor, should arrange mechanisms to improve technical and business skills of the poorest through training and loan utilization. This will enhance their business skills to use credit and establish market channels for their products.

The progresses observed in poverty reduction through PAWDEP can be further enhanced through various ways arranged to extend loans and other financial capacities of clients needing loans (small or dig) could be developed. The problem of the maximum loan size ceiling decided by PAWDEP to most group members should be made flexible to allow groups to take loans they wish. Different microfinance products i.e. loan sizes matching varying borrowing powers of clients may meet credit and business needs of diversified clients.

Training on business may also help clients a notch higher to minimize transaction related risks, manage their assets and businesses. It would also be good if MFIs put in place micro-insurance schemes

which could help clients to pool risk or share losses.

Lastly, MFIs need to put a lot of care to ensure that income-generating activities of their loan recipients are profitable and loan products appropriate. Otherwise, loan recipients may need to convert what they have saved as goods into cash to repay their loans, thus depriving themselves further.

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