

**AN EVALUATION OF THE EFFECTS OF MICRO-LENDING STRATEGY ON
POVERTY REDUCTION – A SURVEY OF SMALL SCALE TRADERS IN KIOGORO
DIVISION, KISII CENTRAL DISTRICT, KENYA.**



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**A Research Project Submitted to the Graduate School in Partial fulfillment for the
requirements of the award of a Master of Business Administration Degree of Kisii
University College**



EGERTON UNIVERSITY

APRIL 2011

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DECLARATION AND RECOMMENDATION

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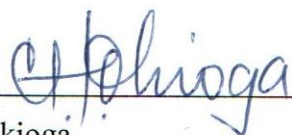
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DEDICATION

This work is dedicated to my late father Samson Nyakagwa whose desire and advice has brought me this far and to my dear wife Asenath Ongaga.

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I acknowledge my supervisor Dr. Charles Okioga and Dr. Isaac Ochieng (Kisii University College) and all my lecturers for their advice, guidance and understanding and to all Egerton University personnel and academic fraternity. My special thanks to my colleague teachers (Iruma Mixed Secondary School) for their encouragement, understanding and sacrifice that made me go through the course. I extend my thanks too to my course mates and relatives for their cooperation. Last but not least, I would like to thank all those who contributed either directly or indirectly to the success of this project.

ABSTRACT

Kiogoro Division in Kisii Central District consists of three locations: Bosongo (with three sub-locations), Kegati (with three sub-locations) and Kiogoro (with four sub-locations). According to Kenya National Bureau of Statistics (KNBS) Kisii Central District, 2009 population census, Kiogoro Division has a population of 74,643 people which is the highest in the District (1,177 people per kilometer square). Majority of the small scale traders in this Division are low income earners whose main source of credit facilities is the micro-lending institutions. Little information exists as to why the Division is among the poor Divisions in Kenya with an index of about 51.2% based on 2006/2007 Kenya Integrated Household Budget Survey (KIHBS). Further, the Division has quite a number of established NGOs' and financial institutions that offer credit facilities for poverty reduction. Despite the efforts made by the government and financial institutions in the Division, small scale traders continue to earn low income and aggravating poverty. The objective of this study was to evaluate the effects of micro-lending strategy on poverty reduction, specifically, on small scale traders in Kiogoro Division. The target population was 90 small scale business groups consisting of 900 members within Kiogoro Division, three managers of micro-lending institutions and D.D.O. of Kisii Central District. Purposive and census sampling techniques were used to obtain a sample of 54 respondents comprising 50 small scale traders belonging to 10 client groups, three managers of the MFIs and 1 DDO. Primary data was collected through administration of semi-structured questionnaires and analyzed using descriptive and inferential statistics – chi-square. This study found out that the credits accessed by majority of small scale traders in Kiogoro Division did not improve their living standards, but caught them in a vicious cycle of debt repayment. Further, the study established that the micro-lending strategy of the three micro-finance institutions studied needs to be reformulated to accommodate individual differences if poverty eradication is to be addressed. Based on these findings, two recommendations were made: Firstly, strategic control should be comprehensive in order to provide managers with information about the impact of micro-lending strategy to small scale traders so that deviations are addressed in time. Secondly, small scale traders should consider their repayment ability before determining the amount to be borrowed. The study is expected to offer alternative approaches to micro lending programs for poverty reduction.

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LIST OF ABBREVIATIONS

CBO	-	Community Based Organization
CDA	-	Community Development Assistant
DDO	-	District Development Officer
GDP	-	Gross Domestic Product
EIS	-	Environmental Impacts Studies
IPRSP	-	Interim Poverty Reduction Strategy
MFIs	-	Micro Finance Institutions
MSEs	-	Micro and Small Enterprises
KIPPRA	-	Kenya Institute for Public Policy Research and Analysis
KRA	-	Kenya Revenue Authority
KIHBS	-	Kenya Integrated Household Budget Survey
PEC	-	Poverty Eradication Commission
PPA	-	Participatory Poverty Assessments
PRSP	-	Poverty Reduction Strategy Paper
ROSCA	-	Rotating Savings and Credit Association
K-REP	-	Kenya Rural Enterprise Programme
PRIDE	-	Promotion of Rural Initiative and Development Enterprise

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The major challenge facing Kenya today is to reduce poverty and achieve sustained economic growth for healthy national development. This challenge can be addressed by the government in consultation with stakeholders in the economy, especially the private sector, civil society organizations and other development partners. The strategy to achieve this entails the participation and inclusion of all Kenyans especially the poor in the design and implementation of strategies aimed at tackling the challenges of poverty. This is because it is the poor who understand firsthand the causes, nature and extent of poverty.

Previous studies on poverty in Kenya (Mwabu et al.2000, Greer and Thorbecke, 1986a, 1986b, Collier and Lal, 1980, Republic of Kenya 1998, 1999) show that the poor are clustered into a number of social categories including the landless, the handicapped, female headed households, households headed by people without formal education, subsistence farmers, pastoralists in drought prone districts, unskilled and semiskilled casual laborers, AIDS orphans, street children and beggars. In 1994, about 60 percent of the poor were concentrated in 17 of the 47 districts. Although poverty is widespread and multi-dimensional, its victims can be identified by region of residence and by certain social characteristics. This implies that properly targeted anti-poverty strategies can be effective in substantially reducing the overall poverty. Moreover, as a poverty reduction strategy, targeting faces competition for the limited available resources from other development purposes such as investment in infrastructural facilities and industrialization by the year 2020 (Republic of Kenya, 1996a).

There are many programmes aimed at alleviating poverty in Kenya. These include micro-financing, development programmes and projects among others. The programmes and projects have important poverty alleviation aims. However, most seem to have problems at the implementation stage leading to failure to alleviate poverty.

The persistence of poverty throughout Kenya's history despite government's efforts to combat it, suggests that the adopted policies have not been effective or adequate in addressing the problem. Poverty reduction is now a big national challenge. Its persistence and spread is now recognized as a major threat to a very significant section of the Kenyan society with worrying consequences for security and economic wellbeing. This challenge demands a comprehensive review of the extent and causes of poverty, the characteristics of the people it afflicts, an evaluation of previous and current attempts aimed at alleviating poverty, and identification of areas that require further research. This constituted the main aim of this study.

Such a study is necessary especially for understanding trends in poverty and why previous efforts at alleviating poverty have not been successful and what needs to be done to put such efforts back on track. A study of this kind is critical in guiding the implementation of poverty alleviation initiatives of the sort contained in the recently released National Poverty Eradication Plan (Republic of Kenya, 2009). The plan aims at halting the increase in the incidence of poverty by 2015 and to eradicate it step by step thereafter.

As a first step in the implementation of the national poverty eradication plan, the government has come up with several medium term macro and sectoral measures aimed at better implementation of antipoverty programmes, projects and policies. These measures are contained in the Interim Poverty Reduction Strategy Paper 2000-2003 (see Republic of Kenya, 2000). The paper used a Medium Term Expenditure Framework (MTEF) in the 2000/2003 budget to guide efficient and effective use of government resources. The government through MTEF aimed at improving macroeconomic management by linking policy planning and budgeting process, and to improve the quality of public expenditure through efficient allocation and utilization of resources. It also aims at setting an MTEF fund which will be used to reward those sectors that meet both poverty and growth targets

A Government's Poverty Reduction Strategy Paper (PRSP) for the period 2001-2004 outlined the priorities and measures necessary for poverty reduction and economic growth. The paper was a product of broad-based and in-depth consultations among all key stakeholders, in particular the poor at all levels. These consultations ensured that the PRSP was to foster national

ownership that is necessary to support and implement poverty reduction strategy which identified interim measures and strategies necessary for facilitating sustainable and rapid economic growth, improving governance; raising income of the poor; improving the equity and participation.

The government of Kenya has identified measures geared toward improvement of economic performance and priority actions that must be implemented to reduce the incidence of poverty among Kenyans. The PRSP paper identified strategies that integrate sectoral objectives and ensure that priority actions are consistent with the goals of spurring growth and reducing poverty. Allocation of economic resources to pro-poor development initiatives will promote robust economic growth and poverty reduction. It is on this basis that the successes of the proposals made by the National Poverty Eradication Plan (NPEP) have been analyzed. The NPEP had proposed a fifteen year time horizon to fight poverty and adopt the International Development Goals (IDGs), which aim at reducing global poverty by half. However, this proposal seems to have not been well implemented because of some constraints such as corruption, inadequate budgetary allocation, costly agricultural inputs, gender imbalance and poor policy implementation.

A new approach emerged in the 1980's which basically centered on setting up credit programs for target groups. The targeted groups could be in the urban or rural setting. However, rural groups were more targeted by projects geared towards the development of rural areas. The poor segment of the society was targeted and credit programs largely outside the banking sector were designed to enable the low-income earners to mobilize capital as a poverty reduction strategy (Kenya Poverty Assessment, 1995). This marked the beginning of NGO's, microfinance and other non-banking institutions as well as other forms of financial arrangements. Sabana (2004) observed that the microfinance institutions, NGO's and other forms of financial arrangements target the poor and low-income earners. The economic characteristics of the poor result in the lack of access to credit resources. A commercial institution, for example, requires a borrower with a stable source of income and collateral with a clear title deed or fixed asset. (Rono, 2006)

In a number of countries, micro-lending institutions have been established as a means of mitigating financial constraints. Evans (1996) reported that micro-lending to small businesses have received widespread international attention in the past ten years. Micro-lending is viewed by many as a vehicle towards poverty reduction. Proponents of micro-lending view this idea as a cost effective way of building an entrepreneur culture, enhancing domestic economic capacity, reducing poverty and unemployment (Onyuma, 2000). A World Bank report (2005) by Thordens et.al shows a correlation between lack of financial access and low incomes. The success of some of micro lenders working with the poor, particularly in South East Asia has put micro-lending on the agenda of many development agencies.

In the recent past, Kenya has witnessed unprecedented growth in the number of micro-lending institutions offering credit facilities to low income earners and MSEs. These institutions can be characterized into two groups including formal and informal microfinance institutions while unregistered groups of people or bodies form the informal institutions.

Kiogoro Division is one division that has witnessed several registered groups seeking micro-lending. Composition of these groups includes people with low income earnings who do not qualify for credit facilities from the official commercial banking institutions. However, little information exists about the actual response of individuals to micro-lending strategy for poverty eradication. In Kiogoro Division, Wakenya Pamoja SACCO (formally Gusii Rural SACCO Society) is one society that offers a micro-lending programme to the small scale businessmen. The vision of this society is to finance rural developments for poverty alleviation. This society started in 1992 with an objective of availing affordable financial services to the rural and urban members. However, by 2009, 51.2% of the residents in Kiogoro Division live in abject poverty and yet, there are many micro-lending institutions such as Wakenya Pamoja SACCO, Kenya Women Finance Trust, Kenya Rural Enterprise (K-Rep) etc. With a population of 74,643 people (Kenya National Bureau of Statistics 2009 population census) more than a half of the population is composed of women(38,301) living in this rural area, majority of who are low income earners.

The government of Kenya has set its development agenda as outlined in the Kenya Vision 2030 with the aim of giving Kenyans better standards of living through economic empowerment. Majority of the people living in Kiogoro Division, Kisii Central District, Kenya, depend on farming and small scale enterprises and are low income earners. Poverty in this Division has been accelerated by poor infrastructure, lack of major cash crops, and high population density with a majority of the people owning less than an acre of land and lack of access to affordable financial services. Most people have attempted to involve themselves in small scale trading, agribusiness, agro-forestry, fish-pond projects, zero-grazing projects and poultry keeping. However, most of these projects stagnate due to low financial input.

The study, therefore, sought to evaluate the effects of micro-lending strategy on poverty reduction by micro financial institutions and their impact on the living standards of people in Kiogoro Division.

1.3 General Objective

To evaluate the effects of micro-lending as a strategy for poverty reduction - a survey of small scale traders in Kiogoro Division, Kisii Central District.

1.4 Specific Objectives

The following were the specific objectives for the study:

- (i) To identify the different micro-lending programs accessed by registered groups in Kiogoro Division.
- (ii) To determine the difference in the micro-lending programs accessed by registered groups in Kiogoro Division.
- (iii) To evaluate the effects of micro-lending strategy on the welfare indicators (savings, credit amount, education, food security, shelter, income and business size) of small scale traders in Kiogoro Division.

1.5 Research Questions

The following research questions were tested:

- (i) What are the different micro-lending programs accessed by registered groups in Kiogoro Division?
- (ii) What is the difference in the micro-lending programs accessed by registered groups in Kiogoro Division?
- (iii) What are the effects of micro-lending strategy on poverty reduction in Kiogoro Division?

1.6 Justification of the study

Detailed studies are needed in evaluating the actual motivation of micro-lending programs by financial institutions to individuals accessing credit facilities. This study was premised on the fact that evaluating the effects of micro-lending strategy on the welfare of small scale traders in the study area is crucial in understanding the extent to which micro-lending programs have helped in improving the lives of the intended beneficiaries. The study further focused on the challenges faced by small scale traders in the choice of micro-lending programs which ultimately determines the level of wealth creation through their small businesses. This study is expected to provide suggestions that can be useful in redesigning and strengthening of the micro finance programs in the country by those concerned including the Ministry of Finance, Ministry of Commerce and Industry, Ministry Culture and Social Services, Microfinance institutions, NGOs and individual households in Kiogoro Division. The information could help in the harmonization of credit accessibility in micro-lending institutions in their mission of empowering people economically.

1.7 The Scope and Limitations of the Study

The study focused on the micro-lending programs and how individuals have responded to them and the effects of micro-lending strategy on poverty reduction. Kiogoro Division is selected as a research area because of the ever increasing numbers of micro-lending institutions such as Wakenya Pamoja SACCO, NGOs and informal groups concerned with micro-lending. The

study involved micro-lending institutions, Wakenya Pamoja SACCO, Kenya Women Finance Trust and K-Rep. These institutions offer their credit facilities to clients organized in groups. The target population was 900 small scale traders. The research was done between May 2010 and August 2010 using a survey design.

There were a number of limitations; first, the study only addressed the effects of micro finance on poverty reduction and does not address the impact of micro finance on increasing inequality or the imperfect financial market that excludes the poor from the wealthy. Secondly; this study was carried out when two more locations had been created by the provincial administration. Any further changes in the divisional administration boundaries may render this study irrelevancy. Thirdly; the research did not address gender difference in micro finance and poverty reduction while the role of women remains important in poverty reduction. Fourthly; the study was based on a specific cultural background which may have limited the generalization to other areas.

1.8 Assumptions of the Study

The study was based on the following assumptions: That the respondents responded objectively and truthfully to the question items; that the small scale traders genuinely rated themselves and gave correct information; that micro-lending strategy for poverty reduction depends on individual response to the micro-lending programs and that small scale traders have no other means of accessing credit anywhere.

1.9 Operational Definition of Terms

According to the context of this study, the following operational definitions were used:

Poverty: the situation in Kiogoro Division where the residents do not access adequate basic needs and rights, such as education, social infrastructure and access to bank loans.

Poverty Reduction Strategy: - This is an approach used by micro-credit institutions to stimulate economic growth of small scale traders to reduce poverty in Kiogoro Division.

Micro-lending: - These are actions geared towards the provision of micro-loans by micro-credit institutions to small scale traders in Kiogoro Division.

Micro finance institutions: - These are institutions or organizations that provide financial services to micro and small scale traders in Kiogoro Division.

Standard of living: - This is the level of comfort and wealth availability to persons or groups of persons such as small scale traders in Kiogoro Division.

CHAPTER TWO

LITERATURE REVIEW

2.1 Poverty Initiatives.

Poverty is a major social and economic concern in Kenya. According to the 1997 welfare monitoring survey, more than half of Kenya's population is poor. The government, together with donors, the private sector, the civil society and other stakeholders, has prepared a Poverty Reduction Strategy Paper (PRSP) to fight poverty. That paper prioritizes projects and programmes aimed at poverty reduction in the medium term. To ascertain and monitor the impact of such programmes and projects from time to time, estimates of poverty indices and profiles at different points in time are necessary. Such estimates are easy with regular household surveys. However, such surveys require substantial resources and expertise to design and implement. Given that resources to carry out such surveys are limited, an alternative to using survey data is to estimate poverty using previous poverty profiles. We have estimated poverty indices and profiles for the year 2000 using poverty estimates based on 1994 and 1997 welfare monitoring surveys. The estimated income poverty in Kenya for 2000 is 57% (Kulundu et al, 2000).

Poverty in Kenya is caused by a number of factors, which include a high degree of inequality of income and production resources, inequality in the access to economic and social goods and services and in the participation in social and political process. Other causal factors include lack of education, lack of job opportunities, unfavorable climatic conditions, large family sizes, poor government planning and interventions, lack of good governance and weak democratic institutions and practices. A much recent factor leading to increased poverty is HIV/AIDS pandemic. In the rural areas other causes of poverty, include failure to formulate comprehensive land reforms, and the absence of effective social security system for most people. An anti-poverty strategy for rural areas should be based substantially on improving productivity of agricultural activities and better distribution of farm inputs and social and physical infrastructures (Kulundu et al, 2000).

The negative impact of structural adjustment programmes on poverty is through reduction of government expenditure on education and health, cost-sharing and price decontrols resulting in increase in price of basic commodities. But effective and sustained implementation of economic reforms can stimulate economic growth, generate employment and reduce concentration of economic activities and as a result alleviate poverty (GOK, 2008)

Rapid economic growth is regarded as a key solution not only to poverty but also to unemployment, poor health and economic exploitation. However, this strategy has not been successful in reducing poverty in Kenya, partly due to very low growth rates achieved over the years. Nevertheless, some growth strategies are more effective than others in reducing poverty. The government should take steps to foster pro-poor growth. A key sector identified for pro-poor growth is the small scale traders sector (Kulundu et al, 2000).

A major part of the anti-poverty policy involves the provision of rural credit especially micro financing to the rural poor for the establishment of small scale businesses. This initiative has been undertaken by the government of Kenya through the introduction of the Women enterprise Fund and Youth Enterprise Fund. Also microfinance institutions have in the recent past ventured in the provision of micro-credit to the rural poor to enable them undertake economic activities.

2.2 Small Scale Traders Sector.

The micro and small scale traders sector of Kenya plays a major role in the country's economy. Mulley and Bokea (1999) found that micro and small scale enterprises (MSEs) sector had about 1.3 million establishments employing some 2-3 million individuals and generated as much as 14% of the Kenya's GDP. Small scale traders generally suffer from a range of problems especially in their establishment and initial development stages. These problems include business inexperience, poor marketing strategies and general mismanagement. However, Green et.al. (2002), in their paper concerning how small firms in developing countries raise capital argued that finance was the most central. They point out that though requirements such as

identifying a product and a market, acquiring the necessary property rights or licenses and keeping proper records are all in some sense more fundamental to running a small business than finance, they argue that finance is the glue that holds together all diverse aspects involved in a small business start-up and development. Further, from the findings of Green et.al (2002), credit was a major constraint to new investment. The research also shows that small traders had financed their capital with debt and fewer still had utilized lenders outside their family and friends.

Green et.al. (2002) emphasized the following findings from their research work. First, MSEs in Kenya obtained debt from a wide range of sources including cooperatives, NGOs, banks, ROSCAs (Rotating Savings and Credit Associations) and other financial institutions. However, they found the most important source of finance to be family and friends. Second, the key determinants of debt and loan screening decisions were a mixture of conventional and heterodox variables such as level of education and training.

Klundu et.al. (2000) emphasized that the development strategy is the key factor for poverty reduction to happen. Growth must be labor intensive, providing viable livelihood opportunities for poor people. Core recommendations are; rural development requires pro-poor policies and (in many instances) land redistribution is an important component of rural development strategy. Other core policies to facilitate rural development are; investment in physical and communications, infrastructure, stable prices for food stuffs, access to credit and savings facilities, good quality social provision, access to relevant technologies

Kolundu et.al. (2000) observes that countries where resource allocation reflects short term political objectives, rather than the needs of the poor, tend to under perform in terms of welfare, outcomes, with long term negative implications for growth and equity. He further observed that; existing social-sector budgets tend to be misallocated in three main ways; Weak and ineffective administrative structures carry high opportunity costs for the poor, biased spending on politically powerful upper income groups and failure to develop rural social strategies.

In view of the above, the small scale traders have continued to earn low income and aggravating poverty. Since the small scale traders are central in economic growth, the government of Kenya has set its development agenda as outlined in the Kenya Vision 2030 with the aim of giving Kenyans better standards of living through economic empowerment and reducing poverty.

The Poverty Reduction Strategy Paper (PRSP-2008) outlines priorities and measures necessary for poverty reduction and economic growth. According to the paper, identification of issues in each sector was done and strategic priorities given. In the trade sector, the following issues were identified; lack of entrepreneurship and/or business skills; poor access to credit facilities and existence of multiple trading licenses. The priorities given by the government to these issues were; reduce interest rates to affordable levels, expand training opportunities in existing institutions in order to equip small scale traders with necessary modern skills, reduce business licenses to a single business permit and undertake measures to reduce the cost of credit and promote establishments of appropriate institutions for credit.

The Ministry of State for Planning, National Development and Vision 2030 identified the main causes of poverty in Kisii Central District as; Low agricultural production causing food shortages, Poor infrastructure, Ignorance, Idleness, Insecurity, Lack of land title deeds, Landlessness, Environmental degradation, High disease incidence, Retrogressive cultural practices, HIV/AIDS and Drunkenness.

The district's challenge on poverty is to break the vicious cycle of poverty as it leads to low savings, low investments, low productivity (income) which further heads to high drop out rates, unskilled labor and pressure on the arable land. Increase in the dependency ration may foster crime rate due to unemployment. The youthful group is faced with the danger of indulging in drugs and its associated problems.

According to the Kisii Central District Development Plan for 2002-2008, the small scale traders created employment of over 2000 people. This includes bakeries, carpentry, shoe repairs, tailoring, posho mills and welding. The district's industrial potential is not yet fully trapped.

There is great potential in the development of the informal sector in the district to create employment and generate incomes.

The district priorities therefore (in line with the Ministry of Planning strategies for poverty alleviation) identified the following key strategies; Provision of financial support to upcoming businesses through loans with low interest rates, Provide training to small scale traders on business management skills, Designate hawkers and street vendors to particular areas, Reduce business licenses to a single business permit, Establish SACCOs for traders, NGOs to provide credit and Access both local and external markets (Kisii Central District Development Plan, 2008 -2012).

2.3 Micro-Lending Strategies

This strategy emerged in the 1980's which consisted of setting up credit programs largely outside the formal banking sector. It was based on the premise that credit facilities would enable the low-income earners to mobilize capital as poverty reduction strategy. In a number of countries, micro-lending institutions have been established as a means of mitigating financial constraints.

Various approaches of providing credit access for the poor have been put into practice by different types of organizations around the world. Different institutions working in different environments with different poverty conditions and enterprise opportunities have fostered a number of working approaches for loaning to poor borrowers. These models include; the Latin American model which was founded in 1996 by Joe Blatchford, the Grameen Bank model founded by Mohammed Yunus in 1976, the Credit Union model and individual lending.

The Latin American Model was based on the idea that; each member of the group has a tiny amount of money allocated to him or her as they collectively meet their obligations. The virtue of this model is that there is social pressure from group members to encourage loan repayments and avoid the unwillingness to repay (Morduch et.al, 2005)

The Grameen Bank Model was based on the premise that credit is a human right and that the poor families should be helped to overcome poverty. It targeted the poor especially poor women. Distinctively is the fact that this model is not based on collateral or legally enforceable contracts but on 'trust' not procedure and systems. Further credit is offered for creating self-employment for income generating activities for the poor as opposed to consumption. Grameen was a challenge to the conventional banking which rejected the poor by classifying them to be "not credit worthy". This model provides service to the doorstep of the poor based on the principle that the poor people should not go to the bank, the banks should go for the poor. Grameen credit is based on the premise that the poor have skills that have remained under-utilized. It follows therefore that, it is definitely not the lack of skills that make people poor, but probably institutions and policies surrounding them (UN, IPS, 1997).

The Credit Union Model is based on the premise that low income micro entrepreneurs can make savings and thereafter access low cost loans. Rotating savings and Credit associations are common in Africa (Otero and Rhyne, 1994).

Ledgerwood (1998) observed that individual lending models provides credit access to Individual borrowers who are selected on an individual discretionary basis and often have at least some form of fixed assets or income. Beneficiaries or clients of these types of institutions are generally micro entrepreneurs in the informal sectors. Credit markets in Kenya are shaped by lenders' strategies for screening potential borrowers and for addressing opportunistic behavior encouraged by the inter-temporal nature of the loan contracts. Their transactions involve heterogeneous goods since the qualities of credit contracts vary due to difference in credit-worthiness of borrowers. The transaction involves a promise to pay later. It is influenced by the level of risks and profitability of projects. Lenders tend to raise the price of the credit to a level where they expect returns to be maximized. This includes small, risky and costly borrowers. The consumption of credit tends to be inversely related not only to interest rates but also to collateral requirements (Kimuyu & Omiti, 2000).

According to Kimuyu and Omiti (2000), small scale enterprise and low income earners tend to have a poor collateral base and are therefore excluded from the credit market. Von Pische

(1992) observes that many borrowers failed to repay their loans and the credit programs were left with a progressively drying pool of funds for lending. This phenomenon is referred to as the exit problem of credit program and is evident in Kenyan financing institutions.

According to Lee (1996), Many organizations do not believe that it is important to understand why and how their credit is used by participants because they have confidence in their participants' abilities. However, knowledge of the relative role of credit within livelihoods is important for determining appropriate lending methodology and credit product. Different lending methodologies benefit particular livelihood systems over others. Preferences for one microlending program over another tend to have more to do with the flexibility of repayment schedule, social considerations and location, than with interest rates.

2.4 Concepts of micro-lending institutions

Most micro-lending organizations are based on two concepts i.e. the concept of outreach and the concept of sustainability (Yaron, 1994).

Outreach is the social value of the output a micro-lending organization in terms of debt-worth to users cost to users, breadth, length and scope. Outreach is commonly evaluated by; the sex or poverty of borrowers, the size or the terms of loan contracts, the price and transaction costs borne by users, the number of users, the financial and institutional strength of the lender and the number of products offered.

Sustainability is permanence. The social goal is not to have sustainable micro-lending organizations but rather to maximize expected social value less social cost discounted through time (Yaron, 1995). In principle, sustainability is neither necessary nor sufficient for social optimality. Sustainable organizations tend to improve welfare the most (Rhyne, 1998). According to Rhyne, there are six aspects of outreach i.e. depth, worth to users, cost to users, breadth, length and scope.

Depth of outreach refers to the value that society attaches to the net gain from the use of micro-lending by a given borrower. Society places more weight on the poor than on the rich. Society

values the net gain from a small loan for a street kid or for a widow than the same gains from a rich person. 'Worth to users' refers to how much a borrower is willing to pay for a loan. 'Worth' depends on the loan contract and on the tastes, constraints and opportunities of the user. With the cost of the user constant, more worth means more net gain. 'Cost to users' includes both price and transaction costs where price include interest and fees. Prices paid by the user are revenues for the lender. Transaction costs are non-price costs. They include both non-cash opportunity costs such as the value of the time to get and to repay a loan and loan-related cash-expenses such as transport and documentation. 'Breadth of outreach' refers to the number of people who subscribes to micro-lending products. Length also refers to the time frame in which a micro-lending organization produces loans. 'Scope of outreach' refers to the number and product types of loans micro-lending organizations offer to users.

From the above literature, micro-lending increases the economic well being of an individual if programs are well designed. Program design issues cannot be resolved, however, until economic well being is measured and associated with specific designs that an individual responds to.

Dhonte et.al (1994) observed that there are limited comparative studies of the way in which micro-lending programs provide solutions to rural and urban problems particularly those faced by women. As cited by Mayoux (1995), there seems to be a difference between women in different productive activities and those from different social backgrounds and individual differences between women from similar backgrounds and those within the same sector.

Rashmi (2005) asserted that at first glance, the goal of micro-lending is exciting and innovative. By making small loans to help impoverished people start small businesses, micro lenders appears to turn those who are marginalized by mainstream banks into successful entrepreneurs. According to studies by Aminur Rahman and Helen Todd (both of whom studied the Grameen Bank in Bangladesh) and a worldwide study of micro lenders sponsored by Oxfam, micro lenders regularly fail to help people to attain permanent self-employment, often because they fail to ensure that the loans are actually used by their borrowers to start small businesses.

Most disappointing, as these studies of the Grameen Bank and studies of similar programs show, such programs have been unsuccessful in reaching the poorest individuals who are the purported targets of their efforts. Like any other development strategy, micro-lending for the purpose of developing small businesses is a complicated endeavor that requires a localized understanding of the particular economic, cultural and social factors affecting entrepreneurial success.

In the 1980's, Savings and Credit Co-operatives (SACCOs) and Non-Bank Finance Institutions (NBFIs) expanded rapidly to fill the gap created by Commercial Banks, but were only useful for salaried employees for whom the lending and borrowing entitlement were clearer. The continuing gap in MSE sector attracted attention of Non-Governmental Organizations (NGOs), including the Kenya Rural Enterprise Program (K-Rep), the Kenya Women Finance Trust (KWFT), and PRIDE Africa. All these programs attract support from the donor community and are potentially exposed to the exit problem.

Kenya also experiences a wide range of informal institutions that extend financial services to different segments of the community. The most widespread are the Rotating Savings and Credit Associations (ROSCAs) which are found almost everywhere in the country and act as conduits for converting small regular savings into lump sums especially among women. These associations are based on trust and close familiarity that is in turn, based on social institutions such as kinship. Entrepreneurs also rely on friends, relatives, customers and suppliers of materials and provisions as sources of working capital. These divergent credit sources are therefore important components of the financial/credit markets in Kenya.

The role of credit varies with many factors, including time/season, the composition of activities, their long-term household goals and the lending methodology used. Some roles of credit include to reduce risk or restock after emergencies, to even out lumpy income flows for household purchases, to diversify activities, to store wealth, to invest in capital and to add-value to a product by producing it at a different time. Credit use is fungible, and generally moves freely within the household according to needs (Lee,N., 1996).

2.5 Empirical Studies

Rono (2006) In his Research Project on the Effects of Micro-lending on the welfare of Households, asserts that, while micro-lending is a concept that has gained widespread acceptance by international development agencies and major donors little has been done to determine the extent to which the micro-lending programs have increased household well being. He further concluded that, the amounts of credit accessed from micro-lending institutions determine the level and direction of change in the welfare of the beneficiary household. He recommended that there is need for the borrowing household and client groups to consider the type of credit programs offered by the micro-lending institutions and the conditions attached for maximum benefit

In his Research Project on Financial Constraints Facing Kenya's Music Business; a survey of Micro and small scale music businesses in Nairobi Province, Muturi (2003) concluded that music business entrepreneurs should be trained in the areas of financial management in order to increase their understanding of projects they carry out. He further recommended that financiers of micro scale entrepreneurs should also be trained to understand the operations and limitations of small scale traders.

Leposo (2006) in his Research Project "An Assessment of the factors influencing clients' satisfaction with micro finance institutions' loans" asserted that loan interest rates, repayment duration, access and delivery processes are critical factors in clients' satisfaction or dissatisfaction with micro finance institutions. He further pointed out that a regular client feedback tracking mechanism need to be embedded into the loan access and delivery process in order to create and maintain clients' loyalty to the product and organization.

Hisako (2009) in his study on micro-finance and inequality, in which he examined the relationship between micro-finance and inequality using a cross-country empirical study of 61 developing countries, established that micro-finance plays an important role in eliminating inequality i.e. it lowers inequality. He further established that poor countries need to focus more on the equalizing effect of micro-finance which also can be used as an effective redistribution

strategy. He recommended that poorer countries need to focus on micro-finance a tool of creating equality since it enables the poor to obtain loans and increase their productivity through borrowing activity with training which lead to the development of social systems leading to improved social welfare. He recommended a further research on constraints experienced in the achievement of equality using micro-finance.

Imai K (April 2010), in his study on microfinance and Household Poverty Reduction: New Evidence from India in which he examined whether household access to microfinance reduce poverty using national household data from India and employed treatment effects model established that loans for productive purposes were more important for poverty reduction in rural areas than in urban areas. He also established that in urban areas micro finance loans have large average poverty reduction effects when used for non-farm businesses than when used for productive purposes.

From the above empirical studies it is clear that poverty eradication may not succeed if the micro-lending strategies are not well implemented especially when formal lending does not address the needs of the rural poor and considers creditworthy persons only. Rural small scale traders can be effectively financed for agricultural production rather than for small business in a rural area where the majority of the people are low earners.

2.6 Conceptual Framework

The framework explains the indirect effect of micro credit strategy on poverty reduction through direct credit products offered by the micro-lending institutions. The credit facilities are aimed at uplifting the standards of living by engaging in small scale trading or income generating activities. The reduction in poverty status was manifested through changes in credit amount, savings, income levels, education, food security situations, asset accumulation, better shelter and healthy status (dependent variables). Ali Abdel et.al (2006) observed that Education is associated with lower poverty rates. They further observed that improvement in education and in particular maternal education lowers rates of poverty at regional and national level. Accessing education as a factor of well-being is an indicator of low rates of poverty. Better food security, improved health status and good shelter are indicators of low poverty rates

However, the actual poverty reduction was determined by a number of extraneous/intervening variables beyond the control of the client and/or lending institution such variables include poverty level, household size, number of household dependants inflation rate, level of education, business risk, government controls, death and environmental factors.

The above interrelationships can be illustrated in figure 1 which is guided by this study;

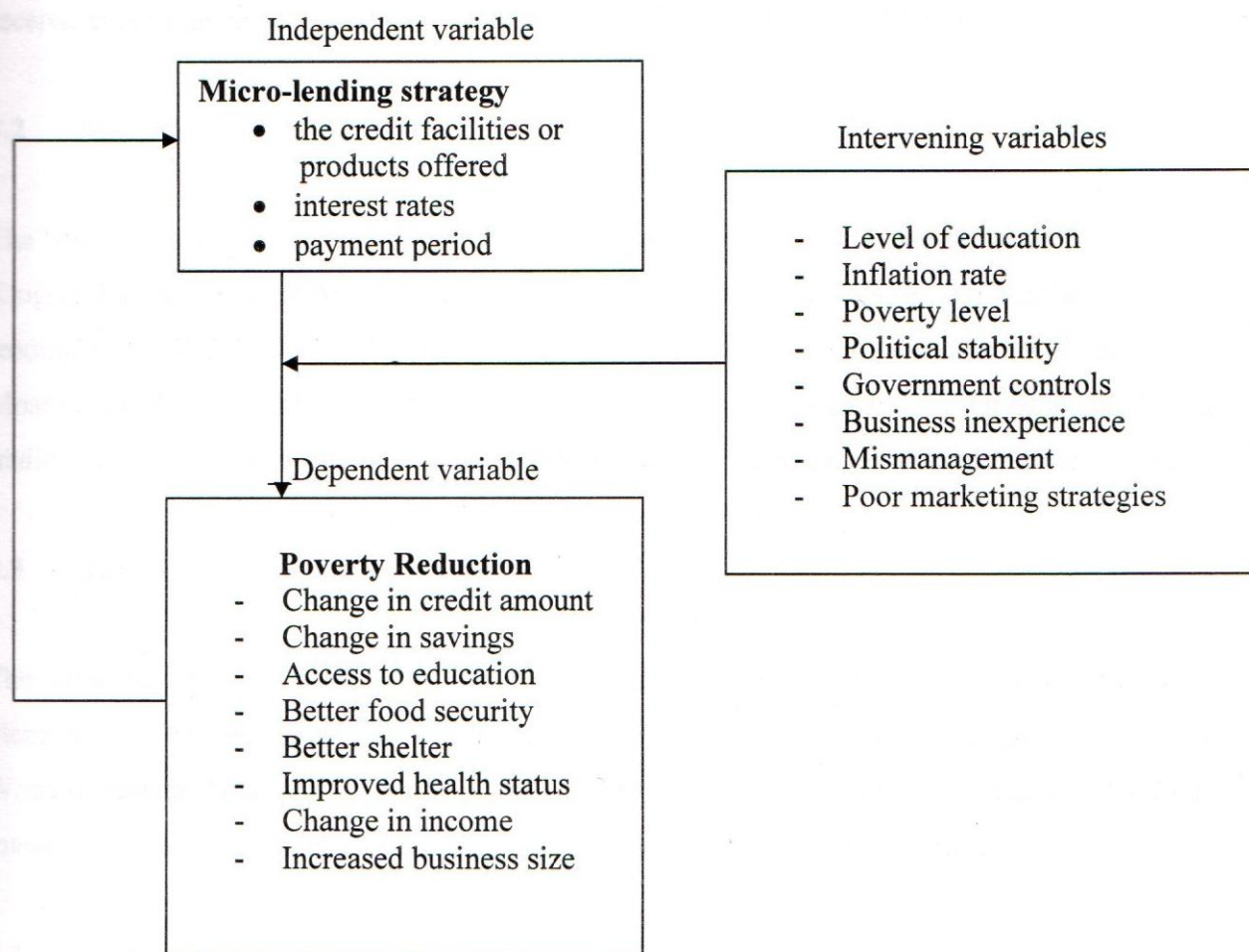


Figure 1: Conceptual Framework of the Study

Source: Researcher's Conceptualization.

From the figure above, intervening variables such as the level of education, poverty level and inflation rate determines the credit facility borrowed interest rates and payment period for poverty reduction.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design of this study was a survey of different micro-lending programs accessed by registered groups in Kiogoro Division. Identification of major groups and individuals who receive microfinance programs was done through a survey in Kiogoro Division.

3.2 Study Area

The study was conducted in Kiogoro Division of Kisii Central District, Nyanza Province. Kiogoro Division was chosen as a research site because of the ever increasing number of micro-lending institutions and yet the poverty levels still seem to remain the same or becoming worse. Most people living in this division are low income earners and engage themselves in small scale trading and rarely qualify for credit facilities from the official commercial banking institutions.

3.3 Target Population of the study

The targeted population included 900 small scale traders in Kiogoro Division who were members of 40 client groups of Wakenya Pamoja SACCO, 30 active client groups of Kenya Women Finance Trust and 20 active client groups of K-Rep. The study also included the three managers of these institutions and the Kiogoro Divisional Development Officer.

3.4 Sampling Procedure

Purposive sampling was used to obtain a sample of 10 active client groups out of 90 active client groups. These were proportionately divided amongst the three micro lending institutions as shown below:

Wakenya Pamoja SACCO	-	$\frac{40}{90} \times 10$	=	4 groups
Kenya Women Finance Trust	-	$\frac{30}{90} \times 10$	=	3 groups
K-Rep	-	$\frac{20}{90} \times 10$	=	3 groups
Total			=	10 groups

The second stage will involve purposive selection of 5 small scale traders who are active members of the groups from each institution basing on their accessibility and availability.

Wakenya Pamoja SACCO	-	5×4	=	20 individuals
Kenya Women Finance Trust	-	5×3	=	15 individuals
K-Rep	-	5×3	=	<u>15 individuals</u>
Total				50 small scale traders

Census sampling was used to obtain a sample of 3 managers of the institutions and one Divisional Development Officer. This made a sample of 54 respondents. This sample size was considered a fair representation of the total population in the study area. Gay (1981), suggested that for a correlation research, 30 cases or more are required to increase statistical efficiency.

3.5 Data Collection Instruments

Primary data was collected through the administration of a semi-structured questionnaire for individual group members. A separate questionnaire was given to the Divisional Development Officer and managers of the three institutions. Each instrument was aimed at collecting specific information from targeted respondents. The individual questionnaire sought information on the amount of credit they have accessed from the institutions, the purpose of the credit, utilization of

the credit, the impact of the credit on their small trading activities and their perception on credit programs. The managers and the Divisional Development officers gave information on credit programs, conditions for the credits and problems exhibited from crediting low income earners. Secondary data was also collected to supplement the primary data. This data was collected from documented information on micro-lending institutions and established client groups. Sources of such information were sought from government offices e.g. the District Development Officer's office and libraries (journals, theses, periodicals, books and other publications).

3.6 Data Analysis and presentation

Data collected was processed and analyzed to facilitate answering the Research Objectives and Questions. Descriptive analysis such as percentages and frequencies were used. The chi-square was used to determine the difference in the micro-lending programs accessed by registered groups in Kiogoro Division.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 General Findings

This section evaluates the findings from the survey carried out on small scale traders in Kiogoro Division on micro-lending strategies on poverty reduction. The researcher administered questionnaires in person. A total of 54 questionnaires were filled and collected in time representing 100 percent response rate. The questionnaire utilized a combination of structured and unstructured questionnaires.

The survey findings are expected to provide a basis for a clear understanding of why the division is among the poorest divisions in the country. The table below show the percentage of respondents based on their status:

Table 1: percentage of Respondents

RESPONDENTS	FREQUENCY	PERCENTAGE
Managers	3	5.55
Development Officers	1	1.85
Small Scale Traders	50	92.60
TOTAL	54	100.00

Source: Survey Data 2010

4.1.1 Marital status and gender of the small scale traders

Marital status influences the success of the trading activities. Married couples share responsibilities in trading activities. This leads to careful spending of borrowed loans to make more profit. Table 2 depicts the marital status of the sampled small scale traders.

Table 2: Marital status of the small scale traders

STATUS	FREQUENCY	PERCENT
Married	35	70
Single	9	18
Divorced/Separated	1	2
Widow/widower	5	10
TOTAL	50	100

Source: Survey Data 2010

From Table 2, 70 percent of the respondents were married. This suggests that majority of the small scale traders are married and that the couples actively participate in improving the welfare of their household. This means that the married couples are likely to pull together their resources and improve their trading activities and in turn their living standards.

The study revealed that most females joined groups in order to access credit facilities from micro-lending institutions. This is because most females in the division are low earners, unemployed and vulnerable to poverty conditions. It is also worthy to note that most lending institutions target women groups. Table 3 below shows the gender of small scale traders seeking micro-lending institutions.

Table 3: Gender Distribution in Micro-Lending Institutions

INSTITUTION	MALE		FEMALE	
	No.	Percentage	No.	Percentage
Wakenya Pamoja SACCO Society	6	30	14	70
Kenya Women Finance Trust	0	0	15	100
K-Rep	5	33.33	10	66.67
TOTAL	11	22	39	78

Source: Survey Data 2010

From the above table, 30 percent of males from Wakenya Pamoja SACCO, 0 percent from Kenya Women Finance Trust and 33.33 percent of males from K-REP seek loans from lending

institutions. It was observed that 78 percent of the respondents were women seeking micro-credit loans as compared to 22 percent of men seeking micro-credit loans.

The figure below displays the gender of the small scale traders that benefited from the credit facilities form micro-lending institutions.

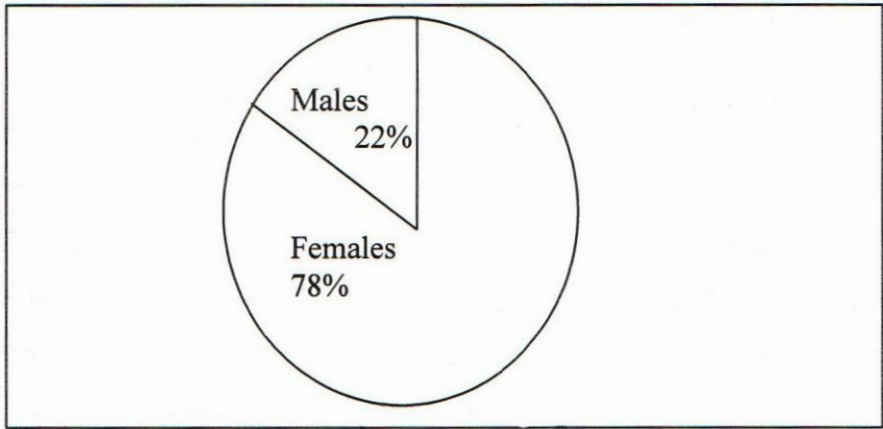


Figure 2: Gender of Small Scale Traders
Source: Survey Data 2010

From the above figure, 78 percent of females seek credit facilities. This imbalance is caused by lending strategies of institutions studied.

4.1.2 Level of Education, Employment and Income

The level of education influences the ability of a person to make conscious and rational decisions. The level of education enhances the ability of a person to secure employment or seek employment opportunities. From the respondents, it is clear that most respondents with education accessed and benefited from micro-lending facilities. Table 4 below shows the level of education of the sampled small scale traders.

Table 4: Level of Education of the Sampled Small Scale Traders

LEVEL OF EDUCATION	FREQUENCY	PERCENTAGE
Non	4	8
Primary	11	22
Secondary	33	66
Middle Level College	2	4

Source: Survey Data 2010

From Table 4, 66 percent of the sampled small scale traders had secondary level education, 22 percent primary level and those with no education 8 percent. This implies that the majority small scale traders who sought micro-lending are dynamic and receptive to new ideas and conscious of new investment opportunities. The kind of occupation one undertakes and even the amount of income earned is determined by the level of education. Most of the respondents are self-employed with income-generating investment. The table below shows the employment status of the sampled small scale traders in the study area.

Table 5: Employment status of the small scale traders

STATUS	FREQUENCY	PERCENT
Employed	2	4
Self employed	44	88
Unemployed	4	8
TOTAL	50	100

Source: Survey Data 2010

From the above table, it was observed that 88 percent of the sampled small scale traders were self-employed. 4 percent were employed but with low wages. 8 percent of the respondents were unemployed. These findings justify the fact that the micro-lending institutions were targeting self-employed individuals. It was also observed that the self-employed individuals encouraged the formation of groups in order to access micro credits from lending institutions.

4.1.3 Income Generating Activities

It was observed that the ability of the respondents to engage in in-come generating activities depended on their level of education and the confidence attained from the self-employment. The study established that 92 percent (46) of the 50 respondents were engaged in income-generating activities while 8 percent did not. The 8 percent cited financial limitations as their main reason for not initiating income-generating activities. The 92 percent respondents gave their major sources of capital for investment as shown in the table below:

Table 6: Source of Capital for Investment

SOURCE	FREQUENCY	PERCENT
Credit/loan	5	10.85
Merry-go-round	5	8.68
Credit/loan and merry-go-round	20	43.4
Personal savings and credit/loan	16	34.72
Donations	1	2.17
TOTAL	46	100.00

Source: Survey Data 2010

From Table 6 above, 10.85 percent relied on only credit/loan facilities as their source of capital for investment in income generating activities. 8.68 relied on merry-go-round and they cited the reason being that it is less stressful. 43.4 percent supplemented credit with merry-go-round. 34.72 percent supplemented credit with personal savings while 2.17 percent gave other sources of capital specifically from donations.

These results give an indication or points to the need to assess the strategy used by micro credit institutions. If only 10.85 small scale traders relied on credit facilities and 89.15 percent supplemented their credit with other sources, then it follows or it reveals that credit facilities from the micro-lending institutions could not fully support the small scale traders. The study also revealed that of the 10.85 percent (5) who relied on credit facilities for their small scale trading 80 percent (4) never made any meaningful profit while 20 percent (1) made profit.

Further, those small scale traders who supplemented credit facilities with personal savings or merry-go-round made higher profits. 94.44 percent (34 of 36) of those who supplemented the credit facilities made meaningful profits while 5.56 percent do not make any meaningful profit. This suggests that the credit programs need to be assessed for their effectiveness.

4.2 Micro-lending credit programs accessed by small scale traders

The first objective of this study sought to identify the different micro credit programs accessed by small scale traders in Kiogoro Division. The objective aimed at identifying the various credit programs available to the clients by the three sampled micro-lending institutions determine the conditions attached to them and how those programs influence the clients.

4.2.1. Micro-lending institutions and access to micro credit by small scale traders

The table 7 below shows the micro-lending institutions and the client small scale traders who had sought credit facilities from them.

Table 7: Micro-lending institutions and the sampled respondents

NAME OF INSTITUTION	FREQUENCY	PERCENT
Wakenya Pamoja SACCO	20	40.0
Kenya Women Finance Trust	15	30.0
K-Rep	15	30.0
TOTAL	50	100.0

Source: Survey Data 2010

From table 7, 40.0 percent of the respondents were purposively drawn from Wakenya Pamoja SACCO, 30.0 percent from Kenya Women Finance Trust and 30.0 percent from Kenya Rural Enterprise Program (K-Rep). The distribution of the sampled respondents was done purposively from the three institutions based on the number of client groups sampled. The study first identified the client groups belonging to the institutions and then traced the members of these groups. Some of these members could not be traced because they stayed far from the main road

and other members of the group and this necessitated a purposive selection of client members accessible and available. The 50 respondents reported that they had sought credit from the three institutions. Table 8 summarizes the different ways used by the respondents in accessing credit from the institutions.

Table 8: Accessing credit from micro-lending institutions

MEANS OF ACCESSING	FREQUENCY	PERCENT
In a group	31	62.0
Individually and in a group	19	38.0
Individually	0	0
TOTAL	50	100.0

Source: Survey Data 2010

From table 8, 62.0 percent of the respondents accessed credit from the micro-lending institutions in a group while 38 percent accessed credit facilities individually and in a group. The reason for majority accessing credit in a group was due to the fact that micro-lending institutions give preference for the credit facilities to members organized in client groups which act as a guarantor and a point of mobilizing resources to raise the minimum amount of deposit required for one to access credit. Most clients in K-Rep and Kenya Women Finance Trust could be allowed to access credit facilities individually and in a group. The managers of the three sampled institutions observed that they serve only those clients who have been organized in a registered client group and have savings with the institutions. The number of clients in each institution varied as shown on table 9.

Table 9: Number of clients served by the institutions

INSTITUTION	NUMBER OF CLIENT GROUPS	NUMBER OF CLIENTS
Wakenya Pamoja SACCO	40	431
Kenya Women Finance Trust	30	293
K-Rep	20	176
TOTAL	90	900

Source: Survey Data 2010

From table 9, Wakenya Pamoja SACCO served the highest number of clients and K-Rep the least. The three managers from the institutions reported that they only serve client groups that have been registered with the intention to invest in income-generating activities for poverty reduction, and have savings with the institutions.

The client groups make their constitution on how to raise savings and how to utilize any credits acquired. 62 percent of the respondents who accessed credit through groups reported that the group divided the credit among the members equally or according to the ability of payment. 38 percent of the clients accessed credit individually through the groups (which acted as a guarantor to the individuals) and made their payments direct to the institutions. The purposive selection of respondents was done in table 10.

Table 10: Selected respondents from sub-locations

SUB-LOCATION	WAKENYA PAMOJA	KENYA WOMEN FINANCE	K-REP
	SACCO	TRUST	
Masongo	4	3	3
Nyaguta	4	3	2
Matunwa	4	3	6
Boronyi	4	3	4
Nyanguru	4	3	0
TOTAL	20	15	15

Source: Survey Data 2010

From table 10, 4 client members from Wakenya Pamoja SACCO from selected sub-locations were studied to make a total of 20 respondents, the same method was used for KWFT (3 client members per sub-location) but K-Rep had some variations because of the membership. K-Rep had no members from Nyanguru Sub-location and only 2 in Nyaguta Sub-location. It was noted that K-Rep groups had members even from others divisions such as Itumbe and Suneka of the neighboring District (Kisii South). Most client groups are found in Kisii town although some members could also be living outside the town.

The study revealed the various groups to which the respondents belonged. Table 11 depicts the names of the different client groups that respondents used in accessing credit from institutions.

Table 11: Client groups of the sampled respondents

GROUPS		NO. OF GROUP MEMBERS	NO.OF RESPONDENTS	SELECTED
A. Wakenya Pamoja SACCO				
(i)	Getacho Women Group	29		5
(ii)	Ebigeri Women Group	31		5
(iii)	Obwanchani Women Group	23		5
(iv)	Boronyi Women Group	26		5
B. Kenya Women Finance Trust				
(i)	Mamagoro Group	50		5
(ii)	Omwabo Women Group	41		5
(iii)	Masongo Women Group	22		5
C. K-Rep				
(i)	Emonga Self-Help Group	19		5
(ii)	Dove Self- Help Group	21		5
(iii)	Getembe Women Group	16		5
TOTAL		278		50

Source: Survey Data 2010

Each group had its objectives for accessing credit. The respondents reported that the above client groups served two main functions. First, the group served as a guarantee mechanism where members collectively raised the minimum amount of money required to access credit from the micro-lending institutions. Secondly, the respondents also reported that the objective of client groups was to alleviate poverty and improve standards of living through joint investments in income generating activities.

4.2.2: Credit Programs

The three sampled micro-lending institutions were established to carry out specific functions. Wakenya Pamoja SACCO's main objective is "to provide affordable financial services to the rural and urban members"; Kenya Women Finance Trust's main objective is "to access financial and non-financial services to the largest number of women entrepreneurs" while Kenya Rural Enterprise Program (K-Rep) is "to provide financial services to active low income entrepreneurs". 66.7 percent (2) of the three sampled managers reported that their institutions were established to mobilize resources and offer credit facilities to economically active low income/poor people. 33.3 percent (1) of them noted that the institution aims at promoting community development of the low income/poor people. This means that the three sampled micro-lending institutions were established to promote the welfare of the low income/poor people through supporting income generating programs. The study also revealed that the three institutions targeted the private individuals organized in small groups (client groups) and interested or engaged in small scale trading.

The three institutions offered a variety of programs/packages to their clients. Each credit program served particular functions and had a number of conditions that the clients were to fulfill before accessing the credit. Table 12 summarizes the credit programs through which the sampled respondents accessed credit from institutions.

Table 12: Credit programs accessed by sampled respondents

CREDIT PROGRAM	FREQUENCY	PERCENT
Business Loans	31	62
Elimu Loans	11	22
Tatua-Emergency Loans	7	4
Small Asset Loan	1	2
TOTAL	50	100

Source: Survey Data 2010

Table 12 indicates that there were four main common programs that were used by sampled respondents to access credit from micro-lending institutions. They included microfinance loans (62 percent), Elimu loans (22 percent), Emergency loans (14 percent) and Small asset loans (2 percent). The respondents accessed the above products according to conditions attached to each program.

Wakenya Pamoja SACCO had five categories of loans i.e. microfinance loans (3 months, 6 months, 9 months and 12 months), Small asset loans, Economical Equipment Asset loan, Jiinue Rafiki loan (installment on a daily basis) and Mama Bidii loan. Microfinance loans (Business loans) mostly targeted low income earners or those in small scale trading. The loan is given to individuals in groups.

Kenya Women Finance Trust has a series of loan products i.e. Biashara loans (which require clients to be in a group of more than 20 members and can access credit up to three million, if capable of paying; Mwangaza loans (which require clients to be in a group of 7-10 members who should agree to pledge household assets); Mwamba loans (no group guarantee); Tatua-Emergency loans (be a client of K.W.F.T. for a period of one year, be in a group), Small asset loans (LPG (GAS) loan, Afya Card loan, Water Tank loans) and Elimu loans.

K-Rep has four main loan products for low earning groups i.e. Juhudi loan (15-35 members) which does not exceed 50,000 and that an individual must be in a group and save some amount with the bank. K-Rep has also another major product for individuals in a group who would like to expand their income generating activities i.e. Super Juhudi (15-20 members) and can access up to 100,000 shillings, Katikati loan (7-11 members) and Katikati special loan (5-6 members).

Micro-finance loans are tailored for small scale traders who operate on small or low income. The interest rates are low but when closely observed; Wakenya Pamoja SACCO has 24 percent interest per annum. K.W.F.T., 16 percent per annum and K-Rep 16.5 percent per annum. This means K.W.F.T. has the lowest interest rates. However, K.W.F.T. has serious penalties for defaulters. The funds accrued from defaulters are never ploughed back to the members as dividends. Monthly meetings are common in K.W.F.T. and Wakenya Pamoja SACCO.

It is important to note that, Wakenya Pamoja SACCO credits offered are lower than K.W.F.T. Members of a group in Wakenya Pamoja SACCO can start from as low as kshs.7, 000 and repay at an interest rate of 2 percent for three to six months.

4.3 Difference in micro-lending programs

The second objective of this study was to determine the difference in micro- lending programs accessed by registered groups in Kiogoro Division. From the above discussion of the various credit products that the three sampled micro-lending institutions offers to their clients, business loan was the most favorite among respondents. This can be attributed to the mission and vision of these institutions which is to enable the economically active poor people invests in income generating activities that can raise their standards of living. However, clients of the three institutions complained of not getting attractive profits for expanding their income generating activities. Wakenya Pamoja SACCO clients complained of low credit facilities and limited grace period and further, that the interest rates were higher than other institutions. For clients of K.W.F.T., they complained of lack of grace periods, serious punitive measures for defaulters and that the institutions should offer credits to individuals according to their abilities to pay. K-Rep clients complained that the interest rates were too high and any meaningful profit could not be realized.

The micro-lending institutions had laid down a number of conditions that were supposed to be fulfilled for each credit program, amount of credit advanced and the interest rate charged on the credit. The conditions aimed at barring potential defaulters and misuse of the credit. The conditions varied from one institution to another. 80 percent of the respondents said they were not satisfied with the credit conditions and only 20% were satisfied with the conditions.

The respondents also gave reasons why they are not satisfied with the micro-lending programs. Table 13 below shows the reasons why respondents were not satisfied with micro-lending programs:

Table 13: Reasons why respondents are not satisfied

REASON	FREQUENCY	PERCENT
Very high interest rates	18	36
Collateral requirements	4	8
Too tough group conditions	2	4
Low starting amount of loan	26	52
TOTAL	50	100

Source: Survey Data 2010

From table 13, 52 percent of the respondents were not satisfied with the credit programs because very low amount of loan was given that could not give reasonable profit. 36 percent gave the reason of high interest rates, 8 percent said collateral requirements were too tough and 4 percent gave reasons of tough group conditions. This revelation pointed out that the micro credit programs need to be analyzed and properly packaged for poverty reduction strategy.

The sampled respondents also gave suggestions to the micro-lending institutions for consideration when dealing with low income earners. Table 14 below shows the suggestions given by the sampled respondents.

Table 14: Suggestions by sampled respondents

SUGGESTION	FREQUENCY	PERCENT
Reduce interest rates	4	8
Lengthen payment period	2	4
Consider the extent of poverty of borrower	44	88
TOTAL	50	100

Source: Survey Data 2010

From table 14, 88 percent of the respondents suggested that the institutions lending credits should consider poverty levels before giving loans. Some clients are too poor to use the credits in investments. Others are at stage where they want to make more profits and improve their income generating projects. Others pointed out that collateral requirements hindered the amount

of credit be given. 8 percent of the respondents suggested that the micro-lending institutions reduce interest rates if their mission was to improve the welfare of small scale traders. 4 per cent gave suggestions of lengthening the payment period.

The study also revealed that 68 percent were not improving in their income generating activities while 32 percent said they did improve in their income generating activities.

On whether the small scale traders did benefit from the micro-credit programs accessed, the study established that 68% of the respondents reported that they did not benefit from the credit they accessed from micro-lending institutions. They argued that the credit had locked them in a vicious cycle of debt repayment and therefore never benefited them. Some members of their client groups defaulted to pay back their share of the amount advanced to them which forced the remaining members to pay on their behalf. 32% revealed that they benefited from micro loans offered. Table 15 below depicts these benefits accrued to the respondents as a result of accessing credit from micro-lending institutions.

Table 15: Benefits accrued from the credit

BENEFIT	FREQUENCY	PERCENT
Improved standards of living	12	75
Expanded business and improved profits	4	25
TOTAL	16	100

Source: Survey Data 2010

From table 15, 75 percent of the respondents said they benefited from the credit they accessed from micro-lending institutions. This suggests that the respondents invested the credit that they accessed from the micro-lending institutions.

On the credit programs accessed, respondents were requested to indicate the credit programs that motivated them.

Table 16: Comparison of Frequency of Respondents in the Credit Programs

PROGRAMME	WAKENYA PAMOJA SACCCO	K.W.F.T.	K-REP	TOTALS
Business loan	8	8	15	31
Small Asset loan	1	-	-	1
Elimu loan	4	7	-	11
Emergency loan	7	-	-	7
TOTALS	20	15	15	50

Source: Survey Data 2010

Table 17 shows that the majority of the small scale traders preferred business loans to uplift their income generating activities and in turn their standard of living. From the table above, a table of the observed and expected was generated as below:

Table 17: Analysis of Observed and Expected Responses to Credit Programs

OBSERVED(O)	EXPECTED(E)	O-E	(O-E) ²	(O-E) ² /E
8	12.4	- 4.4	19.36	1.56
8	9.3	- 1.3	1.69	0.18
15	9.3	5.7	32.49	3.49
1	0.4	0.6	0.36	0.9
0	0.3	- 0.3	0.09	0.3
0	0.3	- 0.3	0.09	0.3
4	4.4	- 0.4	0.16	0.036
7	3.3	3.7	13.69	4.148
0	3.3	- 3.3	10.89	3.3
7	2.8	4.8	23.04	8.23
0	2.1	- 2.1	4.41	2.1
0	2.1	- 2.1	4.41	2.1
TOTAL				26.644

Source: Survey Data 2010

$$\chi^2 = 26.644. \text{ df} = 6$$

Since 26.644 is greater than 12.59 (for alpha 0.05), there is a statistically significant difference in the credit programs accessed by small scale traders from the three sampled micro-lending institutions in Kiogoro Division. However, as indicated by Leposo(2006), loan interest rates, repayment period, access and delivery processes are critical factors in distinguishing between the credit programs.

4.4 Change in the standards of living

The third objective of this study was to evaluate the effect of micro- lending strategy on the welfare indicators. From the three sampled micro-lending institutions, credit programs are geared towards enabling economically active poor people initiate income-generating activities that could uplift their standards of living. Accessing such credit programs could be a strategy in changing the welfare status of the small scale traders. This was measured on a five-point Likert scale basing on eight basic dimensions or indicators of household welfare (credit amounts, savings, education, food security, shelter, health, income and asset accumulation.)

The sampled small scale traders were asked to rate the level of change or improvement in household welfare on a scale of 1, indicating minimum improvement, to 5 indicating high improvement, as a result of accessing credit. Table 18 depicts the distribution of their responses.

Table 18: Distribution of responses of Small Scale Traders

Indicators	No Change 1	Minimal improvement 2	Average improvement 3	Considerable improvement 4	Great improvement 5	Σf_i	$\Sigma f_i w_i$	$\frac{\Sigma f_i w_i}{\Sigma f_i}$
Income	27	12	7	3	1	50	89	1.78
Savings	21	23	3	2	1	50	89	1.78
Credit amount	24	13	10	3	0	50	92	1.84
Food Security	22	15	11	2	0	50	93	1.86
Health	20	9	12	4	5	50	115	2.3
Shelter	22	17	9	2	0	50	91	1.82
Education	19	18	8	3	2	50	101	2.02
Asset- accumulat ion	29	15	6	0	0	50	77	1.54

Source: Survey Data 2010

From table 18, based on weighted averages the level of improvement of all the indicators of the welfare of the small scale traders' household was minimal. However the level of improvement in health and education were more with weighted averages of 2.300 and 2.02 respectively. The level of improvement was least for asset accumulation (1.54). This can be attributed to the fact that 68 percent of the respondents had indicated that the credit had not improved their standards of living but caught them in a vicious cycle of debt repayment. This further concurs with Kulundu et al (2000) that microfinance strategy alone cannot reduce poverty. However, the finding is at variance with Imai (2010) who established that microfinance loans had a large average poverty reduction effects.

4.5 Results of the Research Questions

The first research question "what are the different micro-lending programs accessed by registered groups in Kiogoro Division?" has already been answered in section 4.2.2. However it should be noted that most small scale traders who chose programs from K.W.F.T were given credit individually but in a group. This enabled them to choose the loan product they could manage to pay. The majority of those who selected products individually reported higher profits, while those who got loans in a group, reported lack of profit. It follows therefore that the low income earners who took risk in accessing higher amounts of loans got higher profits in return and improved household welfare.

The second research question 'what is the difference in the micro-lending programs accessed by registered groups in Kiogoro Division?' was tested by the use of the chi-square. Chi-Square test for one sample is used to compare the observed frequencies of cases with those expected in a variable which has more than two categories. At 5 percent level of significance, the value of chi-square was determined. It was used to establish whether the frequency distribution of the respondents among the four credit programs was significant or not. In this study, credit programs were considered in terms of the different credit/loan products that the institutions offered to their clients.

The third research question ‘what is the effect of micro-lending strategy on poverty reduction in Kiogoro Division?’ was tested by the use of the five-point Likert scale basing on eight indicators. Most small scale traders rated the level of change, in each of the indicators of welfare of their household below the average improvement. It is, therefore, noted that the objective of these micro-lending institutions and N.G.O.’s such as ADRA Kenya to alleviate poverty needs to be re-assessed for effective poverty reduction. The mission and vision of these micro-lending institutions is to provide sustainable financial and non-financial services to low income small scale traders for poverty reduction but the strategic intent, so far, has not been achieved.

The micro-lending institutions’ strategy for poverty reduction is to promote those individuals in business, small scale traders or income generating projects. However, a close look at the vision and mission of these institutions points to a very desirable future for the poor but the same poor individuals are still in a vicious cycle of debt repayment. A strategy has three main sections; Formulation, Implementation and Control. In most cases the formulation can be right but implementation and control a problem. Wakenya Pamoja SACCO for instance has an objective of “availing affordable financial services to the rural and urban members.” By the time they are giving loans in groups, the group must have a certain amount of savings; give low start up loans which are shared among group members and finally each member paying an interest of 24% per annum. From the survey, the objective, mission and vision are very attractive but this institution has not catered for the poor. This is because the interest rate is too high to attract any meaningful profit. Low profits in any business will attract high exit from business because there is no growth at all.

Kenya Rural Enterprise is another institution to put in focus. They have three major microfinance loans which they call business loans in the name Juhudi loans i.e. Juhudi, Super Juhudi, Katikati loan and Katikati Special. These loans have categorized the clients from low earners to super earners. However, the interest rates remain at 16.5 percent per annum and collateral requirements include household items and attractive business. The startup loans are very low (Ksh 5,000) and the poor group must guarantee all individuals taking up loans. K-Rep has the highest number of exit groups because their strategy does not create wealth in the long run. Most clients of K-Rep are found in towns and not in rural settings as the vision and mission states.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Research Findings

Based on the study objectives, research questions and data analysis, the following research findings are represented:

The study established that there were four common credit programs used by the sampled respondents to access credit from the three micro-lending institutions in Kiogoro Division. They include; Business loans, Small Asset loans, Elimu loans and Tatua-Emergency loans. However, business loans were preferred by the majority of small scale traders.

There was a significant difference in the credit programs accessed by small scale traders in the study area $\chi^2 = 26.644$ which is greater than 12.59 (for alpha 0.05). Majority of small scale traders preferred business loans to other credit programs as they had longer repayment intervals than other credit programs. Also business loans are the ones tailored towards the financing of low income earners engaged in small scale trading.

The study established that 68 percent of the respondents had no significant profits from credits offered unless they combine it from other sources such as merry-go-round and personal resources meaning that whoever depended on micro-lending only never realized significant profits and therefore caught in a vicious cycle of debt repayment. Further, 32 percent reported that there were significant profits.

The study established that there was a less than average improvement in the welfare indicators of small scale traders as a result of accessing credit from the micro-lending institutions.

The study also established that micro-lending strategy needs to be reformulated to accommodate personal differences when giving loans. It was further established that K-Rep and Wakenya

Pamoja SACCO gave very low start up loans which attracted insignificant profits and thereby discouraging clients.

5.2 Conclusions

The study evaluated the effect of micro-lending strategy on poverty reduction a survey of small scale traders in Kiogoro Division. The evaluation was considered important in analyzing the effects of micro-lending on the various indicators of welfare of small scale traders who accessed such credit facilities. The concerned agencies including Ministry of Finance, Ministry of Trade and Industry, Ministry of Social Services and Culture, microfinance institutions, society and individual businessmen could use such information to come up with ways and means of harmonizing access to credit from microfinance institutions and change the welfare of individuals hence reducing poverty.

Based on the summary of the major findings, the study concludes that credit programs offered by micro-lending institutions are a strategy for poverty reduction and needs to be formulated or packaged in a manner that can benefit the low income earners. The implementation of the strategy needs to be re-assessed so that clients do not complain of low start up loans. The strategic control systems should be comprehensive. Feedback, concurrent and feed-forward control systems were not providing managers with information concerning outcomes from institutional activities, real time information about the process and activities so that deviations from the strategic formulation can be identified before they can affect the institutional results.

Finally, there is need for the borrowing small scale traders and client groups to consider their ability to repay the credit. Ability to repay determines the amount of credit that they can access from the micro-lending institutions.

5.3 Recommendations

The following recommendation for both policy making and further research were put forward.

5.3.1 Recommendation for policy making

The government should strengthen and increase enterprise fund allocations to small scale traders as a strategy for poverty reduction. They should simplify the access logistics.

The study recommends that MFIs should reduce interest rates to enable the women small scale traders repay their loans easily while at the same time make profits from their businesses to enable them reduce poverty situations. Also, MFIs should provide loans for production purposes as opposed to business loans since Kiogoro Division is a rural area. MFIs should lengthen both the grace and repayment periods to enable the businesses to amass wealth. Finally, they should soften the collateral requirements to enable more small scale traders access credit and should do away with the group lending strategy which encourages defaulting by members. MFIs should establish strategic control systems that support managers in assessing the relevance of their strategy to progress in accomplishing their goals without discrepancies.

5.3.2 Recommendations for Further Research

The micro-lending strategy for poverty reduction has attracted attention in sub-Saharan countries. There has been limited research attention known to this author that concentrated directly on strategic aspects (formulation, implementation and control of micro-lending strategy).

This study suggests that further research on the effects of feedback strategy control by micro-lending institutions on poverty reduction be done.

Second, the study suggests that longitudinal studies be undertaken so as to gain deeper insights on the impact of the micro lending strategy on poverty reduction. Such study should employ other research tools.

Third, a similar study should be replicated in other regions so as to confirm the findings of this study.

Lastly, this study suggests that further research on the role of gender difference in the implementation of micro-lending strategy by financial institutions be undertaken.

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APPENDICES

APPENDIX ONE: LETTER

My name is Nyakagwa Naftali Ongaga. I am a student at Kisii University College undertaking a Masters degree in Business Administration (MBA). As part of the requirements of the course, I am required to undertake a research project in my area of study. My research topic is on “Evaluation of Micro-Lending Strategy on Poverty Reduction” – A survey of small scale traders in Kiogoro Division, Kisii Central District, Kenya.

You have been selected as one of my respondents in this project. Your sincere and correct answers will be important in attaining this goal. All information will be treated with utmost confidentiality.

Thank you.

APPENDIX TWO: QUESTIONNAIRE

I INDIVIDUAL

Section A: Background Information

1. Gender ☐ Male ☐ Female
2. Marital Status
☐ Single
☐ Married
☐ Divorced/Separated
☐ Widow/widower
3. Your level of Education
☐ None ☐ Secondary ☐ University
☐ Primary ☐ College
4. What is your employment status?
☐ Unemployed
☐ Self employed
☐ Salaried/employed
5. If unemployed, are you undertaking any income-generating activity/investment?
☐ Yes ☐ No
6. If yes, how much capital have you injected into your investment?
7. What were the sources of your capital for the investment?
☐ Donations
☐ Credit/loan
☐ Merry go round
☐ Any other (specify)
8. Is your investment making any profit? ☐ Yes ☐ No
9. If yes, do you inject the profits into the general improvement of your living standard?
☐ Yes ☐ No
10. If No, what do you think are the impediments for lack of profit?
.....

Credit access and micro-lending institutions

11. Do you belong to any micro-lending institution?

☐

Yes

☐

No

12. If yes, which institution do you belong to?

☐

Wakenya Pamoja SACCO

☐

Kenya Women Finance Trust

☐

K- Rep

☐

Any other (specify)

13. Have you ever sought for a credit from this micro finance institution?

☐

Yes

☐

No

14. If yes, how did you access this credit?

☐

Individually

☐

In a group

☐

Both

15. If individually, what credit programme motivated you?

.....

16. If in a group, what is the name of your group?

.....

17. What was the interest rate charged on the credit received?

.....

18. Are you satisfied with the credit conditions?

☐

Yes

☐

No

19. If yes, are you improving in your income generating activity?

☐

Yes

☐

No

20. If No, give reasons why you are not satisfied?

.....

.....

.....

- 21 Suggest what institutions should consider when giving credit to low earners.
.....
.....
.....
22. On a scale of 1 to 5 (where 1 is no change and 5 is great improvement), rate the level of
improvements in the standard of living of your household as a result of credit received
from micro-lending institution.

- Key:**
- 6 No change
- 7 Minimal improvement
- 8 Improvement
- 9 Considerable improvement
- 10 Great improvement

Indicator	Level of Improvement				
	1	2	3	4	5
Savings					
Education					
Food Security					
Shelter					
Health					
Credit Amount					
Income					
Asset accumulating					

Table 1.1: Source: Author

If you would like to have a copy of the summary of the findings, please fill in your name and address:

Name:.....

Address:.....

THANK YOU VERY MUCH FOR PARTICIPATING IN THIS SURVEY

II INSTITUTION MANAGER

Section A: Background Information

1.

Name of Manager:
2.

Name of the Institution:
3.

Designation in the institution:.....
4.

Age:
5.

Level of Education

Primary

Secondary

College

University

6.

Professional qualification:.....

Micro-finance institution

7.

Number of years of experience in micro finance:

8.

Year when the institution was established in the area:.....

9.

Functions of the institution

.....

.....

.....

.....

.....

.....

.....

.....

10.

Type of people targeted by the institution

.....

.....

.....

11.

Current number of clients in the institution from Kiogoro Division:.....

12.

Number of client groups from Kiogoro Division:

- 13. Basis of accepting a client group
.....
.....
.....
.....
- 14. Credit programs offered by the institution
.....
.....
.....
.....
.....
- 15. What kinds of clients or client groups are targeted by each program?
.....
.....
.....
.....
.....
- 16. What conditions must be fulfilled by the client before accessing credit in your institution?
.....
.....
.....
- 17. Do you monitor the utilization of the loans advanced to your clients?
- 18. In your own opinion, why do you think some clients don't access credits from your institution?
.....
.....

19. How do you rate your credit programs as a strategic plan for supporting small scale traders for poverty alleviation?

Very effective ☐ Effective ☐ Not effective ☐

If you would like to have a copy of the summary of the findings, please fill in your name and address:

Name:.....
Address:.....

THANK YOU VERY MUCH FOR PARTICIPATING IN THIS SURVEY

III DIVISIONAL DEVELOPMENT OFFICER

Section One: Background Information

- 1. Name of the officer:.....
- 2. Name of the Division:
- 3. Designation in the Division:
- 4. Age:.....
- 5. Level of Education:

Primary
Secondary
College
University
- 6. Professional qualifications:

Section Two

- 7. How many groups of small scale traders currently exist in the Division?
- 8. List below the major challenges the small scale traders experiencing in your Division.

(a)

(b)

(c)

(d)

(e)
- 9. List below the major strategic plans in the Division geared towards poverty.

(a)

(b)

(c)

(d)

(e)
- 10. List the specific support programs for the small scale traders that your office is involved in.

(a)

(b)

- (c)
- (d)
- (e)
11. How do you rate the strategic plans for supporting the small scale traders from your office?
- Very effective ☐ Effective ☐ Not effective ☐
12. In your own opinion, describe the role of micro finance institutions in your Division.
-
-
-
13. How do you rate the response of small scale traders to microfinance strategy for poverty alleviation?
- Very effective ☐ Effective ☐ Not effective ☐
14. List some reasons why some small scales do not respond to credits from micro finance institutions.
- (a)
- (b)
- (c)
- (d)
15. Do you carry out some training programs for poverty alleviation?
- Yes ☐ No ☐
16. If yes, what were some of the problems exhibited by the small scale traders?
- (a)
- (b)
- (c)
17. How will you describe the group dynamics?
-
-

18. Suggest some of the programs that were effective to small scale traders from micro finance institutions.

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

If you would like to have a copy of the summary of the findings, please fill in your name and address:

Name:.....

Address:.....

THANK YOU VERY MUCH FOR PARTICIPATING IN THIS SURVEY