EFFECT OF MICROFINANCE SERVICES ON POVERTY REDUCTION IN MAKUENI COUNTY

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DECLARATION

I understand that plagiarism is an offence and I therefore declare that this project report is my original work and has not been presented to any other institution for any other award.

Sign………………….. Date ………………………

FIDELIS NDUKU MUTUA

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This research project has been submitted with our approval as the University Supervisors.

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DEDICATION

To my husband Jonnes, daughter Madeleine and my parents. You have always been at my side during times of need and your constant encouragements have made me achieve this far.

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ACRONYMS AND ABREVIATIONS

BoP	Base of the Pyramid
CCE	Community Credit Enterprises
FINCA	Foundation for International Community Assistance
GB	Grameen Bank
ICT	Information and Communications Technology
KWFT	Kenya Women Finance Trust
LDCS	Less Developed Countries
MC^2	Means and Competence of the Community
MFIs	Micro-Finance Institutions
NGO	Non-Governmental Organizations
PAWDEP	Pamoja Women Development Programme
SMEP	Small and Micro-Enterprise Programme
SMEs	Small and Micro Enterprises
SPSS	Statistical Package for Social Sciences

OPERATIONAL DEFINITION OF TERMS

Microfinance: Microfinance refers to an array of financial services, including loans, savings and insurance, available to poor entrepreneurs and small business owners who have no collateral and wouldn't otherwise qualify for a standard bank loan (Anyanwu, 2004).

Poverty Poverty is a condition in which a person of community is deprived of the basic essentials and necessities for a minimum standard of living (Yunus, 2003)

Poverty Alleviation Development interventions embracing microenterprises as the key unlocking the potential of stagnant economies and improving the livelihoods of the poor (Momoh, 2005)

ABSTRACT

Poverty is a condition in which a person of a community is deprived of the basic essentials and necessities for a minimum standard of living. Poverty reduction has been a major concern for successive governments in Kenya over the years because it is believed to be the universally accepted way of achieving economic growth in the country. The intended purpose is to raise the living standards of the people and improve upon their quality of life. The Kenyan government has been implementing polices to expand financial access to the poor including promoting microfinance credit access to the poor. Microfinance programmes are increasingly publicized as one of the most successful tools for development with the ability to positively affect its participant's economic and social status. However, the effect of access to microfinance services in Kenya remains unknown. This study was carried out to show the effect of Microfinance services on poverty reduction in Makueni County. Descriptive research design was used to assess the extent to which poverty alleviation correlates with Microfinance services. The study targeted 6 deposit taking institutions in Makueni County. Systematic simple random sampling method was used to select 244 MFI members from the deposit taking microfinance. Primary data was collected using questionnaires and presented by descriptive statistics methods like pie charts and graphs. Data was analyzed using SPSS version 2.1. Multivariate regression model was used to determine the relative importance of the variables with respect to poverty reduction. The study found that Microfinance services have positive and significant effect on Poverty reduction in Makueni County. Savings had the highest impact followed by Micro-credit, Micro-insurance and finally training. The study recommends that Micro-finance Institutions operating within the county to be empowered through provision of finances which can be advanced to the locals as micro-credit to facilitate rapid economic growth. The study recommends that Micro-Finance Institutions operating within the county to undertake several trainings on financial management courses so that the customers can learn the best financial management skills and thus improves their businesses which will lead to higher income from the business thus leading to poverty alleviation in Makueni County.

CHAPTER ONE

1.0 INTRODUCTION

Across the world almost every country has to face poverty. Poverty is the condition in which low income people cannot meet the basic needs of life. This situation leads to many difficulties like decreased health facilities, high illiteracy rate and quality of life (Okibo & Makanga, 2014). The World Bank defines Micro Finance Institutions as institutions that engage in relatively small financial transactions using various methodologies to serve low income households, micro enterprises, small scale farmers, and others who lack access to traditional banking services, CBS (1999). In another definition, the Microfinance Act, 2006, defines Micro Finance Institutions as a business receiving money by way of deposits and interest on deposits which is lent to others or used to finance the business; or providing loans or other facilities to micro or small enterprises and low income households; deposit taking and non-deposit taking (MFI Act, 2006).

Microfinance, according to Otero (1999) is the provision of financial services to low income poor and very poor self-employed people. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

1.1 Background to the study

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Most people think of microfinance, if at all, as being about micro-credit i.e. lending small amounts of money to the poor. Microfinance is not only this, but it also has a broader perspective which also includes insurance, transactional services, and importantly, savings (Barr, 2005)

According to Sida (2005), Poverty has a multiple and complex causes. The poor are not just deprived of basic resources. They lack access to information that is vital to their lives and livelihoods, information about market prices for the goods they produce, about health, about the structure and services of public institutions, and about their rights. They lack political visibility and voice in the institutions and power relations that shape their lives. They lack access to knowledge, education and skills development that could improve their livelihoods. They often lack access to markets and institutions, both governmental and societal that could provide them with needed resources and services. They lack access to and information about income-earning opportunities.

1.1.1 The Concept of Microfinance Services

Microfinance refers to an array of financial services, including loans, savings and insurance, available to poor entrepreneurs and small business owners who have no collateral and would not otherwise qualify for a standard bank loan (Anyanwu, 2004). Microfinance banks generally target the low-income communities. Most micro finances give loans to borrowers without requiring collateral. They are micro not because of their institutional scale but because of the scale of typical transactions with customers. Loan sizes range from under Ksh 10,000 to roughly Ksh 500,000, and operational scale varies from several hundred customers to several million of customers (Nyakambi, 2014). Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education. Similarly, they are the majority of those without access to microfinance. (Aghion & Morduch, 2005).

Microfinance institutions offer financial services like savings, money transfers, payments, remittances, training, and insurance, among others. However many microfinance practices today still focus on micro-credit: providing the poor with small credit with the hope of improving their labour productivity and thereby lead to increment in household incomes. Micro finance is not a new concept because small micro credit operations have existed since mid-17th century. However, most modern micro financial institutions operate in developing countries. Modern finance is dated in the 1970s when related lending programs were first proven to pass two key tests namely to show that poor people can be relied on to pay their loans and to show that it is possible to provide financial services to poor people through market based enterprises (Otero, 2006).Historically, the main goal of microfinance was the alleviation of poverty and so traditional microfinance institutions consisted of only non-governmental organizations, specialized microfinance banks and public sector banks.

Throughout the world, poor people are excluded from formal financial system. Exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in Less Developed Countries (LDCs). Due to lack of access to formal financial services, the poor have developed a wide variety of informal community based financial arrangement to meet their financial needs. Microfinance is therefore created to fill this gap (Irobi, 2008).When Muhammad Yunus, an economics professor at a Bangladesh university, started making small loans to local villagers in the 1970s; it was unclear where the idea would go. Around the world, scores of state-run banks had already tried to provide loans to poor households, and they left a legacy of inefficiency, corruption, and millions of dollars of squandered subsidies. Today, Muhammad Yunus is recognized as a visionary in a movement that has spread globally, claiming over 65 million customers as at the end of 2002. Microfinance institutions (MFIs) focus on providing credit to the poor who have no access to commercial banks, in order to reduce poverty and to help the poor with setting up their own income generating businesses.

1.1.2 Poverty Alleviation

Poverty is a condition in which a person of community is deprived of the basic essentials and necessities for a minimum standard of living (Yunus, 2003). Since poverty is understood in many senses, the basic essentials may be material resources such as food, safe drinking water and shelter, or they may be social resources such as access to information, education, health care, social status, political power, or the opportunity to develop meaningful connections with other people in society. According to the World Bank's (1980), poverty is a condition of life so characterized by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency. The most commonly way to measure poverty is based on income or consumption line. A person is considered poor if his or her consumption level falls below one United States dollar per day, a level necessary to meet basic needs. This minimum level is called the poverty line (The World Bank, 2002).

Eradication of extreme poverty and hunger by 2015 is a Millennium Development Goal. To determine the number of extreme poor people around the world, the World Bank characterizes extreme poverty as living on the daily income of 1 United States dollar or less. It has been estimated that around 1.1 billion people currently live under these conditions.

Poverty reduction refers to strategies and policies that reduce the number or percentage of people living in poverty or the severity of the impact of poverty on the lives of poor people. Khandker, (2003) states that it is clear that what microfinance can do for the poor depends on the poor's ability to utilize what microfinance offers them. He further said that microfinance provides a window of opportunity for the poor to access a borrowing and saving facility.

1.1.3 Micro Finance Institutions in Makueni County

Makueni is a County in the former Eastern Province of Kenya with a population of 9,875 according to the 2009 census. The County is connected to Machakos town and Emali (on the Mombasa – Nairobi highway) by the road C99. The cash crop grown in Makueni County is cotton and coffee that serves as the income for people within the county. Irrigated farming is practiced in some areas of the county and mixed farming of food crops and livestock as well. The main crops are maize, peas, beans, pigeon peas and green grams. In Makueni County there are 6 registered Deposit Taking Microfinance Institutions according to Central Bank of Kenya records and these are KWFT, Faulu, Rafiki, Smep Deposit Taking Microfinance, Jitegemee Trust Ltd and Uwezo. It is therefore necessary to undertake an assessment of the extent to which microfinance services has impacted on poverty reduction in Makueni County.

According to Kenya Integrated Household Budget Survey 2005/2006 statistics provided by (former) Planning, National Development and Vision 2030 Ministry, Poverty level in Makueni County is estimated at 64.1 per cent above the national average of 45.9 per cent, placing the County among the poorest counties in Kenya.

1.2 Statement of the Problem

Poverty reduction has been a major concern for successive governments in Kenya over the years because it is believed to be the universally accepted way of achieving economic growth in the country. Efforts in fighting poverty in Kenya can be traced from Independence. Mostly the poor person in rural areas is not reflected in the macroeconomic interventions and because of this poverty is growing rapidly. Considering the great role that microfinance institutions play in the reduction of poverty, research on it cannot be ignored if Kenya is to become industrialized by the year 2030. No literature is available to establish the effect of microfinance services on poverty reduction in Makueni County. Previous studies were conducted in urban areas. Mbololo (2013) carried out a study on the impact of microfinance on urban development with a setting of Nairobi County. Mushimiyimana (2008) did an analysis of access to the microfinance institutions loans by female entrepreneurs and impact on their business in the Nairobi Business District.

According to Kenya Integrated Household Budget Survey 2005/2006 statistics provided by (former) Planning, National Development and Vision 2030 Ministry, Poverty level in Makueni County is estimated at 64.1 per cent above the national average of 45.9 per cent, placing the County among the poorest counties in Kenya. This calls for research to be conducted in Makueni County. It is for this reason that the research conducted a research on the effect of Microfinance services on poverty reduction in Makueni County in consideration of the main Microfinance services that is micro-credit, savings, training and micro-insurance.

1.3 Objectives of the study

1.3.1 General Objective

The general objective of this study was to establish the effect of Microfinance services on poverty reduction in Makueni County.

1.3.2 Specific Objectives

Specifically the study sought to;

1. To determine effect of micro-credit by microfinance institutions on poverty reduction in Makueni County.
2. To establish impact of savings by microfinance institutions on poverty reduction in Makueni County.
3. To find out effect of training by microfinance institutions on poverty reduction in Makueni County
4. To determine impact of micro-insurance by microfinance institutions on poverty reduction in Makueni County.

1.4 Research Questions

The study sought to answer the following questions;

1. What is the impact of micro-credit by microfinance institutions on poverty reduction in Makueni County?
2. What is the effect of savings by microfinance institutions on poverty reduction in Makueni County?
3. What is the impact of training by microfinance institutions on poverty reduction in Makueni County?
4. What is the effect of micro-insurance by microfinance institutions on poverty reduction in Makueni County?

1.5 Justification of the Study

The findings of this study are important to various stakeholders. Economic empowerment of the poor accelerates economic growth of a country by enabling the poor get access to credits, self employment and increase savings especially in the developing economies. This study can be important in providing vital information which will help take effective measures by MFIs management and policy makers to improve the MFIs performance. This can also help microfinance institutions identify innovative options and institutional arrangements that would serve as input policy makers in formulating economic empowering policy.

The outcome will also be a guide to NGOs to prioritize support towards poverty reduction through micro credit. Microfinance institutions can also become more innovative in formulating their services that are in line with their goals and objectives and the overall goal of the society. It will also establish if microfinance alleviate poverty or whether there are other mediating factors. It will therefore provide a window for further studies to advance this topic through gaps which will be left from this study. The Kenyan researchers can use this study as they seek to increase their knowledge on the relationship between Microfinance and Poverty reduction in Kenya.

1.6 Scope of the Study

This study was carried out in Makueni County and it targeted individuals who have used MFI services for the last five years that is 2010-2014. The respondents were drawn from the MFIs banking halls as the study targeted MFI customers.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews studies conducted by other researchers on microfinance services and poverty reduction both general and local studies. It also identifies and explains theories supporting the area of study as well as showing the relationship between dependent and independent variables and also identifies the study gap. The ultimate aim of the review is to give us an insight into existing knowledge. The gap identified is what the study in discussion aims to address. Microfinance has a long history that goes all the way back to the developments in rural credit and agriculture modernization. For over 30 years now, there has been so much debate concerning microfinance and its impact on poverty alleviation. The argument as to how it can be viewed as a program that arrests poverty, bring about a 'localized' economic and social developments still continue. It is important at this point to put into perspective the various schools of thoughts and arguments concerning the subject (Bwire, 2013)

2.2 Theoretical Review

Theoretical review refers to an examination of what others have said or done in the field covered by the study. The theories supporting the area of study include Grameen Bank Model, MC^2 Model, Base of the Pyramid Approach and Village Banking Model of FINCA. The idea of the review is to study the existing literature on the topic and relate it to the research problem.

2.2.1 Grameen Bank Model

Muhammad Yunus and the Grameen Bank that he created in 1983 were awarded the Nobel Peace Prize in 2006. The Grameen Bank main activity consists on granting loans to poor people in Bangladesh. The Grameen Bank (GB) is based on the voluntary formation of small groups of people to provide mutual, morally binding group guarantees of the security required by conventional banks. Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between four to eight members. GB has successfully reversed conventional banking practices by removing collateral requirements and has developed a banking system based on mutual trust, accountability, participation and creativity (Nyakambi, 2014)

According to Professor Yunus the founder of the Grameen Bank , credit is seen as a cutting edge tool for affecting those inequalities that confine the poor to a poverty cycle and for releasing the inherent capacities in people. Thus, it restores some sort of social power which has been denied to the poor because they lack collateral. Professor Muhammad Yunus argued that the conventional banking system is anti-poor, anti-women and anti-illiterate and thus, has contributed to maintaining the status quo between the rich and poor. (Nyakambi, 2014).

According to Yunus, what the poor people want most is not charity but opportunity. If the poor are given charity today and none tomorrow, it does not help in ending their poverty at all. Opportunities granted to them will go a long way in assisting or aiding their businesses thereby ending poverty.Yunus added that the key to microfinance was to design loan products that meet needs of the poor. This he explained saying that the poor will use the funds for income generating activities and lift themselves also out of poverty.

A study commissioned by World Bank in collaboration with the Bangladesh Institute of Development Studies, and cited by Hashemi and Morshed (1975) showed that the

Grameen Bank not only reduced poverty and improved welfare of participating households but also enhanced the household's capacity to sustain their gains over time.

2.2.2 Village Banking Model

This model was developed in Bolivia by John Hatch in 1980s. The village banking institution, Foundation for International Community Assistance (FINCA) implements a village banking model in its effort to create financially-sustainable solidarity groups. FINCA trains small community groups in a 22-module program to form Community Credit Enterprises (CCE). These small enterprises, or companies, permit members to buy shares as shareholders and generate capital to offer sustainable credit and business models. According to the original model, village banking –FINCA works with groups of 30-60 members, usually all women. As soon as the village bank is inaugurated, it receives its first loan from the implementing agency (the local headquarters of FINCA or its affiliate) for on-lending to the individual members of the village bank (Kyale, 2013).

The sponsoring agency spends one to three months in setting up each bank, organizing the election of a management committee and training its members, as well as developing the rules and regulations to govern the village bank. The first individual loan (usually US$ 50) is repaid on a weekly basis in equal installments of principal and interest over a four-month period. The village bank collects these payments at regular meetings and, at the end of the 16th week; it repays the entire loan principal plus interest to the implementing agency. The funds circulating back and forth between the implementing agency and the village bank for loans to members constitute the external account. If the village bank repays in full, it is eligible for a second loan. If the village bank is unable to pay the amount due, the implementing agency stops further credit until reimbursement is made (Kyale, 2013).

2.2.3 The MC^2 Model

This model was developed by Fokam in 1992 in Baham. MC^2 are rural development micro-banks created and managed by a community in keeping to their local values and customs. The principal promoter of this concept, Paul K. Fokam drew inspiration from the Einstein's famous formula: Victory over Poverty is possible if the Means (M) and the Competences (C) of the Community (C) are combined. The objectives of the MC^2 Micro bank are simple. The first objective of the MC^2 micro bank is economic and financial sustainability from the perspective of the micro bank, the individuals and group members. The second objective of MC^2 is the social dimension. This involves targeting the poor, micro and small scale activities and consequently restoring dignity to target beneficiaries to see the importance of being masters of their destiny. (Fokam, 1992).

The micro-bank is more developed and corrects the imperfections of micro-credit and micro finance. It rests on the premise that, savings is the engine of progress and awareness is fuel to keep the engine rolling, while loans serve as a lubricants and finally appended and related service solution to the problem of poverty (Obwanga, 2012).

2.2.4 Base of the Pyramid Approach

This theory was first developed by Prahalad and Hammond in 2002 in London. The base (or bottom) of the pyramid is a term that represents the population of the world that primarily lives and transacts in an informal market economy. Base of the pyramid (BoP) perspective relies on a hypothesis of mutual value creation; the greater the value created for those living at the BoP, the greater the value created for the venture. Indeed, BoP ventures are expected to generate acceptable economic and societal returns to the organization investing in the venture and the local community in which they operate. A BoP venture is a revenue generating enterprise that either sells goods to, or sources products from, those at the base of the pyramid in a way that helps to improve the standard of living of the poor.

2.3 Empirical Literature

Several studies both local and international have been done on the effect of microfinance on poverty reduction and have shown that microfinance reduces poverty while others have negative findings.

2.3.1 Effect of Micro-insurance on poverty reduction

Micro insurance is considered as one of the most effective means of reducing the vulnerability of the poor from impacts of theft, disease, disability, fire and other hazards (Brown and McCord 2000, Brown and Churchill 1999).Churchill (2006) defined micro-insurance as a financial arrangement to protect low income people against specific perils in exchange for regular premiums payments proportionate to the likelihood and cost of the risk involved.

Mukhtar (2000) sought to investigate the prospects of micro-insurance in rural areas of Nigeria. The researcher used cross sectional research design and used data from a sample of 190 respondents, who were conducted through questionnaire. The data collected was analyzed using logit regression model. The study recommended that income level of the rural dwellers should be taken into consideration while setting premium, efforts to provide, at least basic education in the areas should be intensified.

Hao (2005) sought to know if accessibility of finance had a relationship with poverty eradication in rural Vietnam. The author used cross-sectional research design over 5 year period and a sample size of 1,516 households. Data collected was analyzed using the two step regression model. Research findings indicated existence of a relationship between accessibility to finance and level of poverty such that as accessibility went up, poverty level reduced. Khan & Rahaman (2007) in a study on impact of microfinance on living standards, empowerment and poverty alleviation in Bangladesh, the researcher found that microfinance has a positive impact on the standards of living of the poor people and on their life style. It has not only helped the poor people to come over the poverty line, but has also helped them to empower themselves.

2.3.2 Effect of Savings on poverty Reduction

In a study on the effect of MFIs products on livelihoods, homes and standards of living on the poor in Nigeria, Idor (2012), used Ordinary Least Squares regression technique and found that loans and advances of microfinance banks had a significant impact on education and life expectancy index. Also, microfinance banks asset base had a negative impact on human development index and its components; while deposit liabilities of microfinance banks also had a negative impact on human development index and its components.

Obwanga (2012) sought to find out the impact that Saccos in Kisumu County have on alleviation of poverty in Kenya. Descriptive statistics was used to analyze the data which was presented in form of tables and graphs. The findings indicated that 5% of the Sacco members fall below poverty level which is expenditure of less than Ksh 100 per day. The study concluded that Saccos had a positive impact on alleviation of poverty in Kisumu County as 95 % of the members fall above poverty level of expenditure of less than Ksh 100 per day.

Kyale (2013) in the study on Impact of Microfinance Institutions on Growth & Development of SMEs in Machakos County sought to establish the practical role of perceived solutions provided by microfinance institutions and how this affects growth of SMEs. SPSS was used to analyze the collected data. The study findings indicated that microfinance institutions provision of small-scale business loans are the major product offered by Microfinance institutions as indicated by 36.36% of the respondents. The study recommended MFIs to plan for seminars and workshops to train the SMEs on financial literacy, management skills and facilitation of ICT use.

Khatum et al, (2012) examined the impact of micro-credit programmes of six Government Organizations, Non Government Organizations and Micro Finance Institutions (MFI) on poverty alleviation in Bangladesh using a purposive sample of 406 credit receivers. Alongside respondents perceived change in poverty situation this study devised an alternative measure of poverty change based on the change in household wealth and education of a household. Two-level binary logistic regression and multinomial logistic regression analyses suggest that amount of loan, different Government Organizations, Non Government Organizations and Micro Finance Institution, satisfaction level, taken loan before and micro-credit as main means of asset change were the determinants of change in poverty situation. Significant community level variation was found in this analysis which indicates that the respondents from different communities with same set of characteristics will exhibit different influences on the change in poverty situation.

Nakiyimba (2014) set out to examine the impact of microfinance on the livelihoods of women in Kakondo sub-county, Rakai District in Uganda. Descriptive research design was used and collected data was analyzed using SPSS. As speculated, the results from the study showed that microfinance credit does really play a key role in helping the poor cope with poverty however, as microcredit on its own does not alleviate poverty, which also brings us to the fact that these women can improve their livelihoods however sustainability on a long term perspective is doubtful.

2.3.3 Effect of Micro-credit on poverty reduction

Nyakambi (2014) sought to find out the effect of microfinance credit on poverty alleviation at household level in Nakuru County. The study employed descriptive research method. Multivariate regression model was applied to determine the relative importance of each of the six variables with respect to poverty alleviation. The study found that microfinance credit access positively contributes to alleviation of poverty at household level in Nakuru County by providing finance access to low income earners, less educated and those in the informal sector which helps in expansion of business, acquisition of better residential places, and acquisition of education, health and improved welfare.

Okibo & Makanga (2014) carried out a study on Effects of micro finance institutions on poverty reduction in Kenya, the study focused on PAWDEP located in Kiambu District a case study. It intended to cover credit facilities provided by the MFI and client perception on income improvement and/or reduced poverty levels. The study used descriptive survey design. The target population was 9 staff and 46 clients of PAWDEP. The study employed stratified sampling technique to select staff of the selected MFIs and clients. Both qualitative and quantitative data analysis methods were used. The study established that microfinance is a strategy of poverty reduction and the way credit can reach the poor.

Wairanyagania (2011) carried out a study to investigate the determinants of participation in microfinance and its impact on household poverty in Musoma District, Tanzania. Primary data, gathered from 116 households both members and non-members of VICOBA, was applied on a two stage model that evaluates determinants of participation in micro finance and finally the impact of this participation on household incomes. Probit and Heckit models are applied in the first stage (participation) while two stages least square (2-SLS) model is applied to the income eequation.Results indicated that characteristics of the household head (gender, years of schooling, marital status and occupation), household characteristics (household size in terms of number of members) and village characteristics (distance to the market centres) affect participation in microfinance. On the other hand, years of schooling, household participation in microfinance, distance of households from main roads and interest rates affect incomes. Of essence, participation in microfinance was seen to alleviate household poverty. The study recommended policies that promote gender equity, development of rural infrastructure, development of multiple or strong microfinance institutions in remote village areas, mandatory publication of interest rates by MFI's and a more supportive business climate for microfinance institutions.

Obeng(2011)carried out a study on Impact of Microcredit on poverty reduction in rural areas A case study of Jaman North District, Ghana. He used the questionnaire for data collection from programme beneficiaries and microfinance institutions and analyzed the data using tables, percentage and diagrams. The objectives of the study were to assess whether microfinance has engendered positive or negative outcomes in reducing poverty. The findings from the study were that people, especially vulnerable and marginalized were getting access to credit which impacted positively on the poverty levels of the beneficiaries.

2.3.4 Effect of Training on poverty reduction

Parveen and Leonhäuser (2004) carried out a study in investigating the nature and extent of empowerment of rural women, factors influencing it and further outlined a strategic framework, role of Self help groups, education, training and gender awareness for enhancing empowerment. For the purpose of study, qualitative and quantitative methods were integrated and primary data was collected from 156 respondents from three villages of Mymensingh district of Bangladesh during January to April 2003 by applying stratified random sampling. For the purpose of measuring women empowerment, a cumulative empowerment index was prepared by adding the scores of six empowerment indicators, namely, contribution to household income, access to resources, ownership of assets, participation in household decision-making, perception on gender awareness and coping capacity to household shocks. The results showed that the level of women empowerment was not very satisfactory at the household level.

2.4 Overview of Literature

An evaluation of the literature review shows that the opinion is divided as to the impact of micro finance in poverty alleviation. Given differing findings, the assessment of microfinance programs effects on economic empowerment on entrepreneurs remain an important field for researchers, policy makers and development practitioners.Aghion & Morduch 2005 agreed that micro finance alleviates poverty but cautioned that this should not be taken as ‘a one size fits all’ kind of scenario, neither is microfinance a panacea nor a magic bullet against poverty. Kiiru (2007) observed that a number of studies have been done on microfinance but the findings have been conclusive. Kiiru (2007) calls for caution when performing or embracing the results of a study. This is because what has worked on one sociocultural and economic context may not work in another. From the available data, there is no much study done in the country in reference to the effects of microfinance on poverty alleviation. Thus it is important to evaluate how the microfinance services have impacted to poor people living in Makueni County.

2.5 Conceptual Framework

According to Smyth (2004), a conceptual framework is structured from a set of broad ideas and theories that help a researcher to properly identify the problem they are looking at and frame their questions and find suitable literature. A conceptual framework helps the researcher to clarify the research questions and aims. Mugenda (2003) further adds that a conceptual framework gives an explanation of how the researcher perceives the relationship between variables deemed to be important in a study.

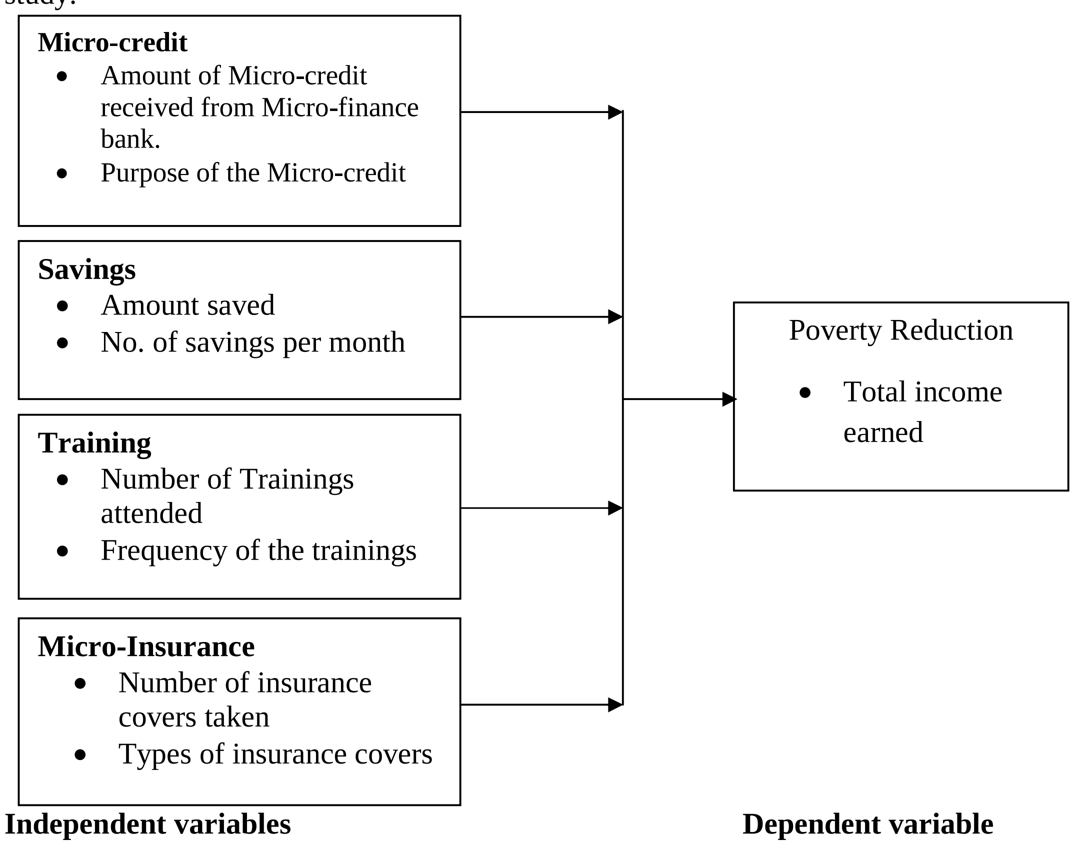

Figure 2.1: Conceptual Framework
Source: Author (2016)

CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

This chapter contains details about the research design used, target population, sampling frame, sample and sampling technique. It also includes the data collecting instruments, data collection procedure, pilot testing procedure as well as a model for analyzing the data in order to come up with answers to the research questions.

3.2 Research Design

The research adopted a descriptive research design. According to Mugenda and Mugenda (2003), descriptive research design is a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because they inherently cannot be manipulated. In the study the observation was on the relationship between Microfinance services and poverty Reduction. This research design was appropriate for the study as it enabled higher level analysis such as correlation and regression analysis that allow for establishing the nature, strength and extent of the association between the variables. This research design was suitable for collecting quantitative data useful in the study which established the effect of microfinance services on poverty reduction in Makueni County.

3.3 Population

Population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated.

Population is the larger group to which one generalizes findings (Mugenda and Mugenda, 1999). Population is used in statistics to represent all possible outcomes that are of interest in a particular study. Target population is the entire group of people or objects to which the researcher wishes to generalize the study findings. The target population for the study was 2,448 customers from the 6 MFIs in Makueni County as per appendix 3.KWFT were four branches but only two of them were sampled.Uwezo and Rafiki were two branches and all of them were sampled while Faulu and SMEP were three branches which were all sampled.Jitegemee Trust Ltd was only one branch.

Table 3.1 MFI Population

MFI	POPULATION
Kenya Women Finance Trust	656
Uwezo	423
Faulu	351
Rafiki	409
SMEP	319
Jitegemee Trust Ltd	290
Total	**2448**

Source: Microfinance Institutions Customer Data Base (December, 2015)

3.4 Sample and Sampling Technique

A sample is a small proportion of the target population selected using some systematic procedures for study. Sampling is a research procedure that is used for selecting a given number of subjects from a target population as representative of that population (Mugenda and Mugenda, 1999). The research used systematic convenience sampling technique. The Systematic convenience sampling was used because it is a random sampling method and easy to find the respondents whereby questionnaires were given to those customers who were visiting the MFIs. According to Mugenda and Mugenda (2003) a sample size of between 10% and 30% is a good representative of the target population. Based on this, the researcher settled at 10% to draw a sample of 244 SMEs from the target population. This involved first selecting a fixed starting point in the larger population which was one and then obtaining subsequent observations by using a constant interval between samples taken which was five in this case.

Table 3.2 Sampling

MFI	POPULATION	SAMPLE=10%OF Population
KWFT	656	65
Uwezo	423	42
FAULU	351	35
RAFIKI	409	40
SMEP	319	31
Jitegemee Trust Ltd	290	29
TOTAL	**2448**	**244**

Source: Microfinance Institutions Customer Data Base (December, 2015)

3.5 Instrument

A data collection instrument is a device used for gathering data from the target population. An instrument ensures that the right data is collected from the right population (Kothari, 2004). For the purpose of this research, a questionnaire was used as the data collection instrument because the researcher was looking for primary data.

The questionnaire was preferred because it enables large coverage of the population with little time and at low cost.

3.6 Data Collection procedure

Data pertaining to the effect of MFI Services on poverty reduction in Makueni County was collected by use of a self-administered questionnaire to obtain mainly primary data from individuals who are customers of MFI services under study. According to Sproul, (1998), a self-administered questionnaire was the only way to elicit self-report on peoples' opinion, attitudes, belief and values. The questionnaires contained both closed-ended and a few open ended questions which were distributed to all respondents. The questionnaires were issued to the respondents visiting MFIs at the time.

3.7 Pilot Test

Before commencing the actual data collection exercise, the questionnaires were tested by sending some to three selected respondents with a view of amending questions where difficulties arise. The questionnaires were then collected back after three days and analyzed. This helped check effectiveness of the sample frame, sampling techniques and designing of the study. One of the benefits of carrying out a pilot study is that it may give advance warning about where the main research project could fail or whether the instruments used are complicated. This pilot study also helped check validity and reliability of the study (Chandran, 2004).

3.8 Data Processing and Analysis.

The study used statistical packages for social sciences (SPSS) version 21 and excel sheet to aid analysis. Results were presented in pie charts, bar charts, tables, graphs and percentages for ease of understanding. Multivariate regression analysis resulted in an equation that described the relationship between the dependent and independent variables (Gujarati, 2000). According to Bertha and Melody (2013) a multiple linear regression model has a continuous outcome and multiple predictors and adopts longitudinal data and this was adopted for this research. They proposed that a regression model would adopt the format;

$$Y=\alpha+ x1\beta1+x2\beta2 +......+ xk\beta k +\varepsilon$$

It is on this basis that this study adopted regression model to reflect measures of poverty reduction in Makueni County.

The model was as follows

$$Y=\beta_0+\beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4+ \varepsilon$$

Where;

Y = Dependent variable-Poverty reduction (measured by total income earned by users of Microfinance services)

β_0= Constant term

β = 1….4 coefficient used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables.

X_1 = Micro-credit

X_2 = Micro-insurance

X_3 = Savings

X_4= Training

ε = is the error term to capture unexplained variations in the model and which is assumed to be normally distributed with mean zero and constant variance.

CHAPTER FOUR

4.0 RESULTS

This study sought to establish the effect of micro-finance services on poverty reduction in Makueni County. The results obtained were presented in form of tables. The four independent variables that were studied were savings, micro-credit, training and micro-insurance while the dependent variable was poverty reduction.

4.1 Introduction

This chapter presents the results of the application of the variables using techniques mentioned in chapter three. Specifically, the data analysis was done in line with specific objectives where patterns were investigated, interpreted and implications drawn on them. The results are mainly presented in the form of demographic information of the study respondents, analysis of descriptive statistics and regression results that test the relationship between poverty reduction and the independent factors affecting it.

The study initially had sampled a total of 244 respondents drawn from different Microfinance Institutions. The findings indicate that the study was able to gather data from 203 respondents which represented 79.9% of the sampled respondents. According to Mugenda and Mugenda (2003), a 50% response rate is adequate, 60% good and above, while 70% is rated very good. The recorded response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential respondents of the intended survey, utilized a self administered questionnaire which were completed and these were picked shortly after and made follow up calls to clarify queries as well as prompt the respondents to fill the questionnaires.

4.2 Empirical Findings

The study used a likert scale to collect data on the views of respondents regarding various statements for the variables under study. A scale of 1 – 5 was used where responses were categorized by level of agreement as: 1- Strongly disagree; 2- Disagree; 3- Neutral; 4- Agree; and 5- Strongly Agree. The mean and standard deviation for each statement was generated and the mean index for each variable arrived at.

4.2.1 Effect of Micro-Credit by MFIs on Poverty Reduction

Table 4.1 reveals that the majority of the respondents indicated that they preferred Micro-credit from MFIs than from banks and this had a mean of 4.43 and standard deviation of 0.512.Most respondents indicated that their income earned per month increased due to expansion of business after getting loans from the MFIs.The results show that the amount loaned by MFIs increased year after year and this had a mean of 4.25.

Table 4.1: Effect of Micro-credit on Poverty reduction

Statements	**Mean**	**SD**
Micro-credit has led to improvement of basic needs	4.36	0.747
The amount loaned increased for the last 5 years	4.25	0.598
Preference of Micro-credit from MFIs to bank loans	4.43	0.512
Mean Index	**4.35**	

Source: (Field data, 2016)

4.2.2 Effect on savings by MFIs on poverty reduction

From the findings the amount of savings influences amount of micro-credit. Respondents also agreed that savings improved their lifestyles with a mean of 4.36 and standard deviation of 0.747.Income earned also increased because they were able to get higher amounts of micro credit due to higher savings and this had a mean of 4.38.Respondents said that their savings had increased for the last five years and this had a mean of 4.39.

Table 4.2: Effect of savings on poverty reduction

Statements	**Mean**	**SD**
The amount of savings made enabled me to improve my lifestyle.	4.36	0.747
My savings have increased for the last 5 years	4.39	0.785
The higher the savings the higher the micro-credit	4.38	0.782
Mean Index	**4.37**	

Source: (Field data, 2016)

4.2.3 Effect of micro-insurance by MFIs on poverty reduction

The findings are shown in the table 4.5. Findings indicated that majority of micro finances reported having insurance covers (3.30 mean score), clients with insurance covers (3.85 mean score) and majority benefit from insurance covers. Respondents indicated that they had benefited from the insurance covers they received from the MFIs and this had a mean of 3.40.

Table 4.3: Effect of micro-insurance by MFIs on poverty reduction

Statements	Mean	SD
MFIs have various Micro-insurance covers	3.30	.923
Number of people with micro-insurance covers	3.85	.933
Benefit of Micro-insurance covers	3.40	.754
Mean Index	**3.55**	

4.2.4 Effect of training by MFIs on poverty reduction

As seen in Table 4.4, majority of respondents agreed that MFIs provide an environment that allows members to develop skills and talents, and acquire knowledge had the highest mean of 4.44 with standard deviation of 0.498 which is in line with the findings of Abraham (2015) that the development of skills and talents among employees is one way through which employees feel engaged. Also, the respondents agreed that the trainings help in better usage of micro credit. The findings also show that the respondents are in agreement that trainings have improved the saving trends. The respondents indicated that MFIs organize trainings for them and this had a mean of 4.36.

Table 4.4: Effect of training by MFIs on poverty reduction

Statements	Mean	SD
MFIs organize trainings for its members	4.36	0.747
Trainings have enabled me save more than before	4.23	0.665
Trainings have led to better usage of Micro-credit	3.80	0.782
MFIs organize trainings after every three months	4.44	0.498
Number of trainings attended	4.02	0.792
Mean Index	**4.17**	

Source: (Field data, 2016)

As shown in table 4.5 micro finance services were found to have enhanced income earned by MFIs customers. Access to microfinance services led to increase in income with a mean of 5 and standard deviation of 0.01.Quality of life improved due to microfinance services with a mean of 3.63 and standard deviation of 0.342.

Table 4.5: Income before and after acquiring MFIs services

Statements	Mean	SD
Income before	3.60	0.34
Income after	5.00	0.01
Quality of life has improved due to MFI services	3.63	0.342

Source: (Field data, 2016)

The researcher conducted a multiple regression analysis so as to set the relationship among variables .The researcher applied SPSS in the computation of measurements of multiple regression as shown in the table of Goodness of Fit Model. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables. In this study the dependent variable which is poverty reduction is explained by the independent variables (micro-credit, savings, micro-insurance and training).

The findings of Goodness of Fit Model showed a correlation value of 0.761 as this illustrates a strong positive relationship between the dependent and independent variables. An R-square value of 0.632 was established and adjusted to 0.600. This coefficient of determination shows that Savings, Trainings, Micro-insurance and Micro-credit affects Poverty Reduction at the rate of 63.2% the remaining 36.8% of variations are brought about by factors not captured in the objectives.

Table 4.6 Goodness of Fit Model

R	R Square	Adjusted R Square	Std. Error of the Estimate
.761	.632	.600	.321

a. Predictors: (Constant), savings, Trainings, Micro-insurance, Micro-Credit

Source: (Field data, 2016)

The R is correlation and it's a measure of how things are related. The R squared is coefficient of determination and it explains the extent to which changes in the dependent variable can be explained by the change in the independent variables. The adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The adjusted R-squared increases only if the new term improves the model more than would be expected by chance. It decreases when a predictor improves the model by less than expected by chance.

Table 4.7 Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
(Constant)	0.332	.460		.013
Savings	0.432	.123	0.712	.000
Trainings	0.223	.058	0.415	.002
Micro insurance	0.042	.077	0.553	.004
Micro-credit	0. 334	.033	0.479	.000

Source: (Field data, 2016)

In statistics, standardized coefficients or beta coefficients are the estimates resulting from a regression analysis that have been standardized so that the variances of dependent and independent variables are one. Unstandardized Coefficients represents the amount by which dependent variable changes if we change independent variable by one unit keeping other independent variables constant.Unstandardized Coefficients were used because they have readily interpretable substantive meaning based on changes of standard deviation units.

4.3 Analysis of Variance

Analysis of Variance (ANOVA) was further carried out to test the significance of the regression model in relations to the differences in means of the dependent and independent variables.

Table 4.8 Analysis of Variance (ANOVA)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	5.44	25	2. 71	32.043	.000
Residual	3.32	178	0.235	12.003	.002
Total	8.76	203	2.945	44.046	

Source: (Field data, 2016)

a. Independent variable: Savings, Trainings, Micro-insurance and Micro-Credit

b. Dependent Variable: Poverty Reduction

Analysis of variance (ANOVA) is a collection of statistical models used to analyze the differences among group means and their associated procedures (such as "variation" among and between groups), developed by statistician and evolutionary biologist Fisher. The findings ANOVA test produced an f-value of 32.043 which was significant at p value of 0.000. This illustrates that the regression model is significant at 95% confidence level. That is, has less than 5% probability of misrepresentation.

The regression equation therefore becomes:

Poverty reduction = $0.332 + 0.432X_1 + 0.223X_2 + 0.042X_3 + 0.334X_4 + e$

From the above regression model, when aggregate independent variables assume null value; poverty reduction would be equal to 0.332. An improvement in savings would yield a 0.432 poverty reduction. An improvement in trainings would result to a 0.223 increase poverty reduction; An Increase in micro insurance would yield 0.042 increases in poverty reduction. While an increase in micro credit would also have a 0.334 increase on poverty reduction. Savings had the greatest effect on poverty reduction, followed by, then inflation of the fund while trainings had the least effect on poverty reduction. All the variables were significant. The ANOVA results indicated a p value of 0.000 was less than 5%.This implied that the model developed was significant at 95% confidence level and hence could be used in prediction and decision making. This implied that the services obtained from microfinance all have significant effect on poverty reduction.

CHAPTER FIVE

5.0 DISCUSSION

5.1 Introduction

This chapter provides a discussion of the results shown in chapter four above. The study on the effect of microfinance services on poverty reduction in Makueni County looked at four MFIs services and these are Micro-credit, savings, trainings and micro-insurance. According to the findings the respondents agreed that all these services lead to poverty reduction as show in the results presented in chapter four above.

5.2 Effect of Micro-Credit by MFIs on Poverty Reduction

From the results in chapter four on this objective, it is clear that majority of customers preferred Micro-credit from MFIs than from banks. The amount of money loaned increased for the last five years with a mean of 4.25 and standard deviation of 0.598.Again most respondents indicated that their income increased due to expansion of business after they acquired loans from the MFIs. It is encouraging to find that majority of the respondents used credit finance to expand business and through this basic needs were improved. The respondents agreed that amount of loan received from the MFIs increased for the last five years and this had a mean score of 4.25.A greater number of respondents preferred Micro-credit from the MFIs to loan from banks and this had the highest mean of 4.43. An analysis of Regression Coefficients shows that an increase in micro credit would a 0.334 increase on poverty reduction. The coefficient of determination shows that Savings, Trainings, Micro-insurance and Micro-credit affects Poverty Reduction at the rate of 63.2% the remaining 36.8% of variations are brought about by factors not captured in the objectives.

5.3 Effect on savings by MFIs on poverty reduction

Results in chapter four on effect of saving by MFIs on poverty reduction shows that the amount of savings influences amount of loan received from MFIs.The respondents agreed that their savings had increased as show by a mean score of 4.39.They also agreed that Savings enabled them to improve their lifestyle and this had mean score of 4.36 since the higher the savings the higher the amount loaned and hence expansion of their businesses. Again the respondents agreed that the higher the savings the higher the amount loaned by the MFIs. Savings also increased year by year as show from the results. The coefficient of determination shows that Savings, Trainings, Micro-insurance and Micro-credit affects Poverty Reduction at the rate of 63.2% the remaining 36.8% of variations are brought about by factors not captured in the objectives. From the Regression Model an improvement in saving would yield a 0.432 increase poverty reduction and thus savings had the greatest effect on poverty reduction.

5.4 Effect of micro-insurance by MFIs on poverty reduction

Micro-insurance is a service offered by MFIs to customers. From the results majority reported that having insurance covers with a mean score of 3.30 and stand deviation of .0933 .again majority stated that they benefit a lot from the insurance covers offered by MFIs with a mean of 3.40 and standard deviation of 0.754. A greater number of respondents also agreed that they had acquired insurance covers from the MFIs and this had the highest mean score of 3.85.The regression coefficient model shows that an increase in Insurance covers would have an increase in poverty reduction by 0.042. The coefficient of determination shows that Savings, Trainings, Micro-insurance and Micro-credit affects Poverty Reduction at the rate of 63.2% the remaining 36.8% of variations are brought about by factors not captured in the objectives.

5.5 Effect of training by MFIs on poverty reduction

Results in chapter four on the effect of training by MFIs on poverty reduction shows that MFIs provide a good environment that allows its members to develop skills and talents as well as acquiring knowledge on the use of MFI products. This had a mean of 4.4 and deviation of 0.498.The trainings again led to better usage of loan received from the MFIs as well as increase in amount of money saved with a mean of 3.80. The results showed that MFIs frequently organize trainings for its members and the customers attended the trainings. The respondents agreed that they frequently attended MFIs trainings and this had a mean of 4.02.Again such trainings enabled customers to save more than before and this had a mean of 4.23. An improvement in trainings would result to a 0.223 increase in poverty reduction though this variable had the least effect on poverty reduction.

Analysis of variance (ANOVA) is a collection of statistical models used to analyze the differences among group means and their associated procedures (such as "variation" among and between groups), developed by statistician and evolutionary biologist Fisher. The findings ANOVA test produced an f-value of 32.043 which was significant at p value of 0.000. This illustrates that the regression model is significant at 95% confidence level. That is, has less than 5% probability of misrepresentation. The ANOVA results indicated a p value of 0.000 was less than 5%.This implied that the model developed was significant at 95% confidence level and hence could be used in prediction and decision making. This implied that the services obtained from microfinance all have significant effect on poverty reduction.

CHAPTER SIX

6.0 CONCLUSIONS AND RECOMMENDATION

6.1 Introduction

This chapter provides conclusions of the findings and recommendations and areas for further research on the impact of microfinance services on poverty reduction in Makueni County. Poverty is a big problem in the Kenyan society as well as across the world. This study was done to find out if Micro-credit, training, savings and micro-insurance lead to Poverty reduction in Makueni County. Coefficient of determination explains the extent to which changes in the dependent variable is explained by changes in the independent variables. The dependent variable (poverty reduction) is explained by independent variable (micro-credit, savings, training and micro-insurance).

6.2 Conclusions

6.2.1 Effect of Micro-Credit by Microfinance Institutions on Poverty Reduction

From the discussion in chapter five the study concluded that Micro-credit Service play a great role in poverty reduction in Makueni County. This micro-credit service help in poverty alleviation by ensuring that amount received in terms of loan is used for the intended purpose. If this loan is used well then the living standards of individuals will improve thus poverty reduction. Total income earned will increase if customers who get loan from MFIs start up income generating units. The study also concludes that microcredit help in poverty reduction by making finance accessible to low income earners, less educated and those in the informal sector which helps in expansion of business, acquisition of better residential places, access to education, health and improved welfare. From the results above if all other independent variables are taken at zero, a unit increase in micro-credit will lead to 0.334 unit increase in poverty reduction in Makueni County.

6.2.2 Effect of savings by MFIs on poverty reduction

The research concluded that the higher the savings the higher the amount loaned. The amount saved in terms of money lead to higher amounts of loans which can be used in improving the living standards of individuals through start up of income generating units. Again the savings kept on increasing year by year and this contributed to higher amounts of credit issued to customers. From the results above if all other independent variables are taken at zero, a unit increase in savings will lead to 0.432 unit increase in poverty reduction in Makueni County.

6.2.3 Effect of micro-insurance by MFIs on poverty reduction

The research concluded that Most MFIs had various Micro-insurance covers and thus the number of people with insurance covers was high. A higher number of customers stated that they had benefited from the insurance covers. The research finally concluded that microfinance services on poverty reduction are of great benefit to the country as a whole and not only in Makueni County since it is only part of the country. From the results above if all other independent variables are taken at zero, a unit increase in micro-insurance will lead to 0.042 unit increase in poverty reduction in Makueni County.

6.2.4 Effect of training by MFIs on poverty reduction

The research concluded that most of the customers of microfinance institutions were in the informal employment and thus were the major beneficiaries of training as a service offered by MFIs to enable the customers to develop skills and talents as well as to have knowledge on how to save.MFIs offered them financial advisory skills. The research also concluded that the trainings enabled customers to save more than they were saving before. Again the trainings led to better usage of amount loaned by the MFIs. From the results above if all other independent variables are taken at zero, a unit increase in training will lead to 0.223 unit increase in poverty reduction in Makueni County.

6.3 Recommendations

6.3.1 Recommendations for Policy

MFIs are recognized as an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by banks due to lack of collateral. This study done on the impact of microfinance services on Poverty Reduction in Makueni County found that microfinance services play a very important role in Poverty Alleviation in the country. As a result policy makers should intervene and develop mechanisms to fight poverty which has remained intense.

The study recommends that MFIs operating within Makueni County to be empowered through provision of finances which can be advanced to the locals as loan to facilitate rapid economic growth. Again the MFIs should undertake regular trainings especially on financial management courses so that the customers can learn the best financial management skills and thus improve their business which will lead to higher income thus alleviation of poverty.

Finally the research recommends that the government should formulate and review the existing policies on MFIs to incorporate the emerging issues due to changes in the banking industry. However it is important for Microfinance programs to be well designed in order to best meet the real needs of the poor customers they aim to serve. The government should also put strict measures to curb corruption and other evil vices that have infiltrated the Microfinance programmes.Financial education is recommended for the microfinance credit obtained by customers. This will ensure the loan is used for the intent purpose.

6.3.2 Recommendations for Further Research

Based on the conclusions above, the researcher recommends further research to be done on all MFIs in various areas within the Country as this will ensure comprehensive and representative findings obtained on how Microfinance help in poverty reduction. Future research can also be done using more variables in the model.

A study like this is also recommended on the effect of Microfinance Services on Poverty Reduction but done over a period of time whereby data will be collected after every three months for a period of ten year. Lastly there is need to carry out studies to examine whether MFIs exist to make profit, empower their clients or both.

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APPENDICES

APPENDIX 1: INTRODUCTION LETTER FROM THE UNIVERSITY

SOUTH EASTERN KENYA UNIVERSITY

OFFICE OF THE DIRECTOR

BOARD OF POST GRADUATE STUDIES

P.O. BOX 170-90200
KITUI, KENYA
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TEL. 020-4213859 (KITUI)

Our Ref: D61/KIT/200374/2012

Date: 22nd November, 2016

Mutua Fidelis Nduku
Reg. No. D61/KIT/20374/2012
Masters of Business Economics
C/O Dean, School of Business Economics

Dear Nduku

RE: PERMISSION TO PROCEED FOR DATA COLLECTION

This is to acknowledge receipt of your Masters in Business Administration Proposal document entitled, "*Effect of Microfinance Services on Poverty Reduction in Makueni County.*"

Following a successful presentation of your Master Proposal, the School of Business and Economics in conjunction with the Directorate, Board of Post graduate Studies (BPS) have approved that you proceed on and carry out your Research Data Collection in accordance with your approved proposal.

During your research work, you will be closely supervised by Dr. Jared Ariemba. You should ensure that you liase with your supervisor at all times. In addition, you are required to fill in a Progress Report ***(SEKU/ARSA/BPS/F-02)*** which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection as a critical stage in your Master of Business Administration.

Prof. Cornelius Wanjala
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs
Dean, School of Business and Economics
Director, Kitui Campus
Chairman, Department of Business and Entrepreneurship
Dr. Jared Ariemba
BPS Office - To file

ARID TO GREEN ...... TRANSFORMING LIVES

ISO 9001: 2008 CERTIFIED

APPENDIX 11: QUESTIONNAIRE

This research is intended to find out the impact of microfinance services on poverty reduction in Makueni County

All your responses will be treated with a high level of confidentiality

Questionnaire No………………………….. Date ………………………….

Kindly respond to the following questions by ticking (√) against the most suitable alternative or giving narrative responses in the spaces provided.

Microfinance Institution Name…………………………………..

SECTION A: BACKGROUND INFORMATION

1 Age

18-35 years ( )

36-50 years ( )

51 and above ( )

2 Gender

Male ( )

Female ( )

3 Education Background

a) Secondary ( )

b) Diploma ( )

c) Undergraduate Degree ( )

d) Postgraduate Degree ( )

e) Others (specify)…………………………….

4 No. of dependants

a). 0-3 ( )

b) 4- 8 ( )

c). 9- 14 ( )

d). 15 and above ( )

5 Source of income

a) Wage ( )

b) Income from farming ( )

c) Income from business ( )

d) Income from rent ( )

SECTION B: EFFECT OF SAVINGS BY MFIs ON POVERTY REDUCTION

1. How much did you save with MFIs in the period indicated below?

YEARS	2010	2011	2012	2013	2014
KSH.					
0-20,000	( )	( )	( )	( )	( )
21,000-50,000	( )	( )	( )	( )	( )
51,000-100,000	( )	( )	( )	( )	( )
101,000-300,000	( )	( )	( )	( )	( )
ABOVE 300,000	( )	( )	( )	( )	( )

2. To what extent do you agree with the following statements on a scale of 1 to 5?

1=strongly disagree, 2=disagree, 3=don't know, 4=agree, 5=strongly agree

	Statement	**1**	**2**	**3**	**4**	**5**
1	The amount of savings made enabled me to improve my lifestyle.					
2	My savings have increased for the last 5 years					
3	The higher the savings the higher the micro-credit.					
4	I save more than once in a month					

SECTION C: EFFECT OF MICRO-CREDIT BY MFIs ON POVERTY REDUCTION

3. How much were you loaned by MFIs in the period indicated below?

YEARS	2010	2011	2012	2013	2014
KSH.					
0-50,000	( )	( )	( )	( )	( )
51,000-100,000	( )	( )	( )	( )	( )
101,000-300,000	( )	( )	( )	( )	( )
301,000-500,000	( )	( )	( )	( )	( )
ABOVE 500,000	( )	( )	( )	( )	( )

4. To what extent do you agree with the following statements on a scale of 1 to 5?

1= strongly disagree, 2= disagree, 3= don't know, 4= agree, 5= strongly agree

	Statement	1	2	3	4	5
1	Micro-credit has led to improvement of my basic needs					
2	The amount loaned increased for the last 5 years					
3	I prefer Micro-credit from MFIs to bank loans					

SECTION D: EFFECT OF TRAINING BY MFIs ON POVERTY REDUCTION

5. How many MFI trainings did you attend in the period indicated below?

YEARS	2010	2011	2012	2013	2014
No. of trainings					
0	( )	( )	( )	( )	( )
1-2	( )	( )	( )	( )	( )
3-4	( )	( )	( )	( )	( )
5-6	( )	( )	( )	( )	( )
ABOVE 6	( )	( )	( )	( )	( )

6. To what extent do you agree with the following statements on a scale of 1 to 5?

1= strongly disagree, 2= disagree, 3= don't know, 4= agree, 5= strongly agree

	Statement	**1**	**2**	**3**	**4**	**5**
1	MFIs organize trainings for its members					
2	Trainings have enabled me save more than before					
3	Trainings have led to better usage of Micro-credit					
4	MFIs organize trainings after every three months					

SECTION E: EFFECT OF MICRO-INSURANCE BY MFIs ON POVERTY REDUCTION

7. How many insurance covers did you take from MFIs for years indicated below?

YEARS	2010	2011	2012	2013	2014
No. of insurance covers from MFI					
0	( )	( )	( )	( )	( )
1	( )	( )	( )	( )	( )
2	( )	( )	( )	( )	( )
3	( )	( )	( )	( )	( )
ABOVE 3	( )	( )	( )	( )	( )

8. To what extent do you agree with the following statements on a scale of 1 to 5?

1= strongly disagree, 2= disagree, 3= don't know, 4= agree, 5= strongly agree

	Statement	**1**	**2**	**3**	**4**	**5**
1	MFIs have various Micro-insurance covers					
2	I have taken several micro-insurance covers					
3	Micro-insurance covers have been of benefit to me and my family					

9. The following MFIs services have brought change in my life? (Tick where applicable**)**

	Strongly Agree	Agree	Not sure	Disagree	Strongly disagree
Micro-credit					
Savings					
Training					
Micro-insurance					

10. What was your income before uptake of Microfinance services?

A. Below Kshs.10, 000 ( )

B.10, 000-20,000 ( )

C.20, 000-50,000 ( )

D.Above 50,000 ( )

11. What was your income after uptake of Microfinance services?

A. Below Kshs. 10,000 ( )

B.10, 000-20,000 ( )

C.20, 000-50,000 ( )

D.Above 50,000 ( )

The End

Thank you for your cooperation

APPENDIX III: LIST OF LICENSED MICROFINANCE INSTITUTIONS IN MAKUENI COUNTY AS AT 1ST DECEMBER, 2015

1. Faulu Kenya DTM Limited
2. Kenya Women Finance Trust DTM Limited
3. SMEP Deposit Taking Microfinance Limited
4. Rafiki Deposit Taking Microfinance
5. Uwezo DTM Ltd
6. Jitegemee Trust Limited

Source: Central Bank of Kenya (2015)

APPENDIX IV: POPULATION OF MICROFINANCE INSTITUTIONS IN MAKUENI COUNTY AS AT 1ST DECEMBER, 2015

Name of MFI	No. Of customers
Kenya Women Finance Trust	656
Uwezo	423
Faulu	351
Rafiki	409
SMEP	319
Jitegemee Trust Ltd	290
Total	**2448**

Source: Microfinance Institutions Customer Data Base (December, 2015)