THE IMPACT OF FINANCIAL INSTITUTIONS ON SUPPORTING WOMEN'S ECONOMIC DEVELOPMENT: KENYA WOMEN FINANCE TRUST (KWFT)

By

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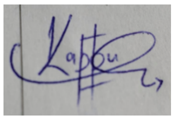
DECLARATION

I hereby declare that this study on ***"The Impact of Financial Institutions on Supporting Women's Economic Development: Kenya Women Finance Trust"*** is my original work that has not been submitted and presented to any university of higher learning for examination purposes and that all sources I have used and quoted have been acknowledged by complete references.



10/11/2021

Signature ……………………………… Date ……………………………………

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I, Sifunjo Kisaka, acknowledge that this Research Project titled ***"The Impact of Financial Institutions on Supporting Women's Economic Development: Kenya Women Finance Trust"*** is the original work of Mr. Kenneth Kioi Ndung'u, and has been submitted for examination in accordance with all guidelines with my approval in my capacity as the University's supervisor.

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ACRONYMS

DTM – Deposit Taking Microfinance Institution

GDP – Gross Domestic Product

KWFT – Kenya Women Finance Trust

MFI – Microfinance Institution

NGO – Non-Governmental Organization

OLS – Ordinary Least Squares

SHG – Self Help Group

TFP – Total Factor Productivity

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Kenya is one of the few countries in the world with a significant reliance on agriculture as a source of livelihood in much of the country, considered to be the backbone of the economy. Globally, women are classified as representing 70% of the 1.3 billion people living on less than a dollar a day, below the poverty line.

In Kenya, women make up 50.3% of the entire populace of over 39 million people as of the last population census (Kenya National Bureau of Statistics, 2013). However, an alarming majority of these women are illiterate, thus severely hampering their ability to not only financially cater for their families, but also to engage in gainful employment. The reality is that women around the world face discrimination regardless of the society they live in, with most being quite underprivileged. This is especially the case despite efforts undertaken by Non-Governmental Organizations and governments alike.

As noted by US President Barack Obama during his recent visit to Kenya during the Global Entrepreneurs Summit (2015), there is a culture of oppression and discrimination, not equal opportunities. Treating women and girls as second-class citizens is a bad practice. Any nation that fails to educate its girls or employ its own women and allow them to develop their skills, will inevitably return to the world economy. Evidence suggests that communities that provide their daughters with equal opportunities as their sons are more peaceful, more prosperous, faster to develop, and more likely to succeed.

The concept of microfinance institutions gained pre-eminence in the 70s (Robinson, 2001). From 50s -70s, subsidized rural credit programs were the main avenues for the provision of financial services by governments or donors. However, these often led to instances of high losses, high defaulted loans, and a lack of capacity to benefit rural households.

The 80s however marked a milestone in the development of microfinance institutions (MFIs), as this was when such institutions begun to provide savings and loan services in a profitable way (Micro Finance Information Exchange, 2005). MFIs were not only sustainable but also commercially viable even without the receipt of subsidies (Robinson, 2001).

The major disparity between the aforementioned debt programs in the 50's and micro-credit revolved around the latter's insistence on interest-charged payback, as well as the focus on servicing clientele who were reliant on informal credit facilities.

The 90s saw the growth of microfinance institutions into industrial status, with emphasis on expansion of the scale of beneficiaries of the financial services (Robinson, 2001).

With the growth of small institutions, care has shifted from credit to the poor (microcredit), to the provision of other financial services such as savings and pensions (small amounts of money) where it became clear that the poor need more services (Microfinance Information Exchange, 2005).

1.1.1 Concepts

a. Microfinance

By definition, microfinance relates to provision of financial services to low-income customers, inclusive of the self-employed, ranging from credit and savings with other small financial institutions also providing payment and insurance.

Apart from financial intermediation, most MFIs today also provide social intermediation services to clients, including the development of self-confidence, group formation as well as offering training in financial literacy and management capabilities amongst group members (Ledgerwood, 1999).

Herewith, microfinance can be viewed in its totality as a developmental tool, encompassing activities such as secure savings products, low operating interest rate, informal lending rates and investments (Ledgerwood, 1999), access to continued large-scale loans as determined by the customer's financial performance, collateral substitutes like compulsory savings or group guarantees and also, streamlined disbursement of loans and monitoring.

Microfinance is viewed as a vehicle for socio-economic transformation and as a catalyst for poverty alleviation at the grassroots level.

b. Women Empowerment

This refers to the action of facilitating the survival of women by enabling them to live a dignified, self-reliant life of respect and humanity. To this regard, various indicators of women empowerment have been outlined, including the ability to make decisions at home level, status, visibility and mobility, a sense of self, economic security, a vision for the future as well as the ability to actively participate in the public spectrum (Schuler and Hashemi, 1994).

Similarly, Friedman (1992) defines empowerment of women within the context of the various kinds of power they wield, be it psychological, economic, political, or social. Psychological power refers to an individual's sense of self, manifested through self-esteem and self-confidence. Economic power, meanwhile, refers to access to markets, assets, food, income, and decision-making authority in economic activities. Political power refers to the capability of a household member to influence the decision-making process itself, more so concerning his or her future. Social power references the ability of a household member to access the specific elements of individual production, including knowledge, financial resources, skills, information, and participation in social activities.

The interconnectedness of the two concepts of women empowerment and microfinance lies in the realization that most of the beneficiaries of said microfinance services are predominantly women. Furthermore, the nexus of the social, economic, and political dimensions of empowerment as defined above ensures that any slight change in one aspect subsequently causes ripples in the other two, and thus, empowering the economic capacity of women invariably leads to positive paradigm shifts in the social and political spheres.

1.1.2 Women Empowerment in Kenya

The overarching goal of the KWFT program is to empower low-income women access to sustainable financial and non-financial services to facilitate the improvement of their socio-economic status and consequently that of their respective households.

Since its inception in 2004, KWFT has evolved into one of the biggest NGO-based MFIs in Africa and the largest in Kenya, with an outstanding portfolio exceeding US$79million and an excess of 400,000 members. Additionally, client savings that have been collected thus far through commercial banks amount to an excess of US$29 million.

Group-based loans account for 84% of this MFI's portfolio, with amounts ranging from 100 – 3,000 euros in the first financial cycle. Customers can also take out individual loans (minimum of 975 euros), for 12-month maturity periods.

However, KWFT aims to further expand into two new regions soon, targeting to have at least 1.5 million members with a corresponding outstanding portfolio of about US$331 million, which would also necessitate a three-fold growth of its existing staff.

Even though KWFT disburses a loan portfolio worth hundreds of thousands to Kenyan beneficiaries, the impact is relatively low. The obstacle, therefore, is to assess and verify whether these MFIs have had either a negative or positive impact on people’s economic activities by creating available sources of funding for small businesses and people under difficult circumstances. This background lays the foundation for the study.

1.2 Statement of the Problem

Kenyan women encompass a greater proportion of all poverty-stricken earners, especially those working in the aforementioned informal agricultural sector. Worse still, most of the said women are not only the victims of outdated cultural practices that plunge them deeper into the vicious cycle of poverty, but also, they are illiterate.

Although microfinance options seek to provide financial respite to women and vulnerable groups alike, impact on beneficiary economic activities is relatively low. Access to loan facilities is a major challenge for women in their quest to boost their revenue sources, especially in cases where the collateral is a prerequisite for loan approval, which (loans) in turn are characterized by high rates of interest. This ensures that income derived from the loans is proportionately low.

Additionally, the high level of illiteracy among women in rural areas ensures that unemployment remains a major challenge when compared to their male counterparts. In this regard, the provision of financial services to the impoverished women will serve to uplift their status economically through facilitating steady income and productivity, thus, in turn, combating poverty.

Microfinance provides a conduit to bridge this gap through the provision of assistance from various donors and financial institutions, thereby contributing to the alleviation of poverty and streamlined access to financial services, especially amongst Kenyan women.

Thus, this backdrop sets basis for research, measuring impact of and access to microfinance on women's economic empowerment, as stated in these research questions:

- I) *Which financial services are offered by microfinance institutions to women in rural Kenya?*
- *ii) Which growth indicators are discernible in the socio-economic activities of microfinance recipients in Kenya?*
- *iii) How does microfinance spur the socio-economic activities of women in rural Kenya?*

1.3 Objectives of the Study

To:

a) investigate microfinance's impact on women empowerment, referencing the case of KWFT;
b) ascertain growth determinants in socio-economic activities of recipients of macro-finance in Kenya;
c) ascertain microfinance funding's significance to socio-economic development in Kenya;

1.4 Importance of the Study

The aim of this study was to investigate whether microfinance institutions have been shown to have a significant impact on the financial status of women in the rural areas of the Country.

This information will provide financial managers of small industries/ businesses to analyze the potential of development projects, whilst providing them an idea as to associated problems.

This will help ensure that loan officers of MFIs advise potential recipients on how and where to invest in order to reap the benefits of secured loans, whilst also reducing failure rates and in turn, accrued bad debt for these MFIs.

Similarly, those in the market for projects to invest in, can utilize this information to carry out appraisals, further informing causative factors for failure or success of organizations.

Likewise, stakeholders can utilize this information to stave off mistakes of the past, effectively enhancing sustainability and durability of socioeconomic activities in the developing world.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

Core microenterprise ideologies, corresponding financial theories and nature of services offered by MFIs are all deep-dived in this chapter, with linkages made to growth indicators correlated to women's emancipation.

Section 2.2 chronicles the corresponding theoretical body of literature with particular emphasis on the evolution of microfinance, providing a background to the concept as well as nature of services provided as well as the design strategies. The corresponding empirical literature is covered in section 2.3, with the correlation between women and microfinance being addressed. Additionally, the local literature overlying the subject matter is detailed under section 2.4.

2.2 Theoretical Literature

2.2.1 Women and Microfinance

70% of the world poor are women. However, traditionally, commercial banks often focus on formal businesses and men, thus discriminating against women who make up an exponentially increasing segment of the informal economy.

The rationale for targeting women through microfinance is that women clients have been documented to have higher repayment rates while consequently contributing a larger proportion of their derived income toward consumption at the household level, as compared to their male counterparts (Leuthold, 1968). This illustrates both a public policy and business argument in women's favor.

The International Labour Office, through its publication in 2007 titled *"Microcredit Summit Campaign Report*", stated that over 3,300 microfinance institutions in the year 2006 directly impacted about 133 million clients. Further analysis of this published data reveals that 93 million of these clients were classified as 'poor' upon taking their first loan. More specifically, women represented a whopping 85% of these.

Globally, "women empowerment" as a concept has been highlighted as a vital goal in the bid to foster international development, and is distinguished by two main features, namely the 'process of change toward greater equality, action, and freedom of choice, as well as the 'agency', whereby its paramount for women to take center stage in the change process {Oxaal and Baden 1997}. In this connection, there can only be a marked 'improvement' in gender equality where the women are not expressly involved in the actual process as agents, but as beneficiaries.

Consequently, the critical role played by microfinance in empowering women cannot be ignored since it not only delivers independence but also fosters newfound respect in addition to providing a platform upon which women can participate actively in their households and communities (International Labour Office, 2007).

Furthermore, resources are crucial to women's empowerment as catalysts for said change, or as the factors that facilitate the process of empowerment to take place.

In the context of the developing world, poverty is invariably linked to the imperfections of the enabling socio-economic environment, in this case, imperfections in the typically thin financial markets found in the low-income regions. Worth noting is that the situation in sub-Saharan Africa appears to be stagnating, as opposed to the scenario evidenced in Latin America and Asia. Furthermore, it has been found that the financial innovations attributable to microfinance do, indeed, mitigate financial intermediation costs, mainly at the agent-client level, hence contributing toward the reduction of poverty (Holt, 1993**).**

Through harnessing services inclusive of savings, micro-insurance and credit, microfinance facilitates families to cope with risk and take advantage of various income-generating activities that enable self-reliance (International Labour Office, 2007).

However, as much as microfinance has been a tool for improving the livelihood of a large populace, regardless of the country where it is employed as a source of funding, most studies show that the vulnerable groups, mainly the rural poor, do not derive commensurate benefit from it. Specifically, women encounter hindrances in their quest to attain sustainable revenue sources in their bid to improve their socio-economic status (Cheston, 1999), therefore necessitating additional assistance by way of complementary services such as savings and loans.

Additionally, there is no clear-cut mechanism for delineating the particular impact that microfinance, as a practical concept, has, vis-à-vis other modes of interventions. This is exacerbated by the reality that most women tend to relinquish control of financial matters to their male counterparts, more so in the domestic household setting (Graham, 1999), and thus by extension negatively impacting gender equity in society as a whole. Fortunately, studies show that microfinance services do indeed contribute positively to the empowerment of women through influencing their decision-making and by extension, thus boosting their financial status (ILO, 2007). For instance, by the beginning of 2007, approximately 79 million women worldwide benefited through various micro-enterprise programs, exhibiting that microfinance has vast potential to significantly contribute toward the attainment of gender equity whilst also improving working conditions for women through the sustenance of their livelihoods.
Benefits also accrue to the children of women microfinance borrowers, evidenced by the increased likelihood of lower dropout rates and full-time enrolment in school (International Labour Office, 2007).

More specifically, it has been found that women represent a greater majority of borrowers of funds from MFIs, making up 65.6% of the entire sector and 70.9% of the microfinance sector without bank's active borrowers (Annual Report on The Microfinance Sector in Kenya, 2013). However, it ought to be noted that these figures have been decreasing over the last few years whereas, on the other hand, DTMs have recorded significantly higher shares of women borrowers, with KWFT having the lion's share of active borrowers at 64%.

In the Indian context, Ranjula and Yang (2009) highlight another positive light in this discourse through the exemplification of the “Self Help Bank Linkage” micro-enterprise programs. In that particular case study, empowerment only came about after the women challenged societal norms and customs in a bid to actively improve their individual and collective welfare. The study was carried out by analyzing sample household data gathered across 5 states between 2000-03. Subsequently, results demonstrated a significant incremental change in the economic liberation of SHG women, as opposed to the plight of those (women) in the control group. What's more, closer scrutiny of the evidence suggested that some of the women in the SHG group might have ended up being more empowered than some of their counterparts (Ranjula & Yang, 2009).

2.2.2 Evolution of Microfinance

According to the United Nations, in the year 2002, a fifth of the 1.3 billion total population of the world lived in dire poverty, earning less than a dollar a day. Therewith, microfinance was touted as a weapon to combat poverty, with programs being introduced in many developing nations, for instance, Banco Sol, Grameen Bank and Bank Rakyat in Bolivia, Bangladesh and Indonesia respectively. Consequently, group lending - pioneered by the Grameen Bank - was adopted in other developing nations, leading to a fivefold increase (initial 618 to an eventual 3,133) in microcredit institutions, corresponding to a 7.39% increase in recipients over the same period under research (December 1997 – December 2005), with 84% of these being women (Daley-Harris, 2006).

The "International Year of Microcredit" was declared by the United Nations to be 2005, further ringfencing the theory that microcredit can be harnessed to combat global poverty. Notably, the proponent of the Grameen Bank lending model, one Muhammad Yumus, gained notoriety by winning the Nobel Peace Prize. It was the view of the Nobel committee that microfinance could enable the masses stuck in the vicious cycle of poverty to break free, thus facilitating lasting peace in the long run (Leuthold, 1968).

Essentially, microfinance institutions target the poor for the provision of credit, as this demographic usually has no access to formal commercial banks. Such institutions receive financial aid from NGOs, donors, or even commercial banks, usually below the market interest rates. This enables the microenterprise facilities to target agents and domestic small companies at various small loan amounts.

2.2.3 Microcredit Services

While “micro-credit” is used in reference to loans that are comparatively “small” in nature, “microfinance” is employed in scenarios where MFIs and NGOs alike complement said loans with assorted economic offerings, such as insurance coverage and savings. In this context, the former is part and parcel of the latter, in as much as it entails offering credit to the “poor”. However, microfinance also includes extra non-credit monetary offerings such as pensions, insurance coverage and savings (Okiocredit, 2005). Further, three specialties of poverty alleviation are addressed through microfinance, premised upon “protection” of human beings from vulnerabilities caused by income fluctuation and “promotion” of families from the doldrums (Rogaly, 1999).

Through provision of enterprise development options, MFIs bridge the gap to financial liberation of beneficiaries (David, 1996), attained as a consequence of access to the aforementioned micro-credit services. This goes a long way to harnessing self-employment, especially where low interest and/ or interest-free loans are availed. Moreover, MFIs have structures for offering support for asset development, where recipients are put in vantage positions to partake of services that would otherwise be out of their financial reach, on the basis of their low-income livelihoods. Here, a savings account system that leverages on either charging no fees at all or doing so nominally is utilized, effectively providing the foundation of resource accumulation for such beneficiaries (Morduch & Shreiner, 2001). Likewise, to hedge against fluctuation of income, MFIs also offer products geared toward protection of their recipients from a wide array of worst-case scenarios, inclusive of accidents and malaise. Similarly, in the event of emergencies, such savings can be drawn on as collateral. Additionally, MFIs strengthen the financial literacy of beneficiaries through structures implemented to build their capacities on managing finances and debt alleviation.

2.3 Empirical Literature

2.3.1 Growth Indicators at Group and Household Levels

It has been documented that microenterprise makes a vital contribution to development of social amenities at grassroots and community levels, specifically through spurring economic ventures (David, 1996). Specific indicators here include "asset and consumption development" where beneficiaries' mannerisms of consumption are influenced positively, "profitability growth" where return on investments (ROIs) gauge the metamorphosis of firms from their onset as small businesses to medium and ultimately, large enterprises (Pandey, 1996).

Also, the provisions of the Income Tax Act stipulate that an enterprises' growth can be measured by its' "filing of income taxes" (Naisbiit, 1985), especially where said growth is directly correlated to such firms training their employees as part of capacity development mechanisms geared toward improvement of job performance.

In addition, an enterprise's growth can be quantified by its "market share" metrics (Kotler, 2000), with increased volumes in sales and value chain systems including streamlined channels for distribution utilized as yardsticks. Furthermore, "managerial strength" in an enterprise – as an indicator - speaks to its position in the market, more so as far as risk-taking and delivering results is concerned (Leuthold, 1968).

By the same token, "customers' perception" is considered a verifiable indicator for an enterprises' growth, especially since the adage "the customer is always right" always holds (Donald, 1987). Consequently, a firm's innovative measures, efforts at diversification and improvement of product quality based on customer feedback all contribute towards favorable discernment. Forbye, "technological upgrades" at enterprise level, specifically in relation to hardware used in production, is considered a growth indicator, particularly in the developing world (Coleman, 2005).

"Improvement of the savings base" for beneficiaries is also a touchstone for growth, especially where MFIs provide reserves to offset crises and unexpected expenses that would otherwise render the recipients destitute. In the African context, contemporary ethos related to savings have been a bedrock upon which MFIs have enhanced service provision, adapting and innovating to mirror prevailing needs (Joanna, 1999).

Worth mentioning is that opportunities for generating income for small firms have increased exponentially given capital injections by MFIs, with direct correlations being made to both expanded production and improved wages in the agricultural sector where small farmers are targeted beneficiaries for support (Afrane, 2002).

Correspondingly, having a substantial credit base has been evidenced to enhance productivity, with beneficiaries skewing their resources toward not only viable investments, but also, welfare improvement (Armendariz, 2005).

2.3.2 MFIs and Spurred Economic Activities

One school of thought opines that there’s considerable difficulty in ascertaining outcomes of MFI interventions at societal level, whereas another argues that where proper structures are institutionalized, these interventions can verifiably enable beneficiaries to attain financial liberation (Simanowitz, 2004).

2.3.3 Design of Applicable Approaches

While tailoring KWFT’s services to better serve beneficiaries, applicable approaches include scrapping collateral, enhancing appraisal of projects, lowering interest rates, instituting outreach drives to grassroots level, increasing the repayment durations as well as expanding the range of services offered, nuanced by potential recipients.

By virtue of lowering rates, MFIs essentially aim to enhance accessibility of their products, not only to prospective beneficiaries, but also, amplifying usage by existing users through enhanced profitability of their firms (Ryne, 2002).

Further, a protracted repayment duration would pave way for honoring of loan obligations, especially where MFI beneficiaries are in the trade and agriculture sectors where revenues are long-term in nature (Gyasi, 2002).

Despite the requirement of security before advancement of loans, some proponents posit that scrapping collateral would actually go a long way to ensuring higher uptake of MFI services (Jerik, 2005). Moreover, others argue that positioning of MFIs such as KWFT in predominantly rural and peri-urban areas would boost access, as it would effectively cut down on resources related to time and operation for these beneficiaries (Walter, 2002).

To guard against fund misappropriation, an argument can be made for KWFT and other MFIs to expand their repertoire, so as to accommodate the varied needs of target recipients (Sebstard, 1996). Breach of loan contracts has been a common phenomenon, as users divert resources to undertakings not provided for, ultimately exacerbating the rate of default (Hoque, 2004).

Institutionalization of proper monitoring and evaluation mechanisms for projects, coupled with effective prior appraisals and recommendations, ought to be the bare minimum yardsticks by which the managerial brass at KWFT and other MFIs should be held accountable (Graham, 1999). Specifically, such brass ought to lean on their previous in-situ experience to sieve through projects and businesses, making judgment calls based on market failure rate (Coleman, 2005).

2.3.4 Financial Deepening

As a concept, this entails specialized fiscal functions by markets and institutions, relative to a foreign market (Shaw, 1973; Nnanna, 1998). Early twentieth-century studies by Schumpeter (1911) placed a direct correlation between financial integration and economic growth, a relationship that was later confirmed by Shaw (1973) and McKinnon (1973). Here, financial deepening holds that middlemen are crucial to channel monies to end users, as forwarded by Beneivenga and Smith (1991).

The above-mentioned "McKinnon-Shaw" hypothesis postulates that high GDP growth is a result of reforming a financial system by streamlining its component financial intermediaries. However, Lucas (1988) and Robinson (1952) present a counter-argument stating that, in the context of socio-economic development, influence of fiscal unification is negligible, effectively occasioning sectoral demand (Zulfiqar and Bhutta, 2014).

Studies show that, in the context of developing economies, financial crises are usually triggered by the mismanagement of financial liberalization and globalization, or due to severe fiscal imbalances (Zulfiqar and Bhutta, 2014).

2.3.4.1 Propositions/ Theoretical Backdrop

These are categorized into four, mainly, based on markets, banks, financial services, and law/ finance. The "law and finance" proposition espouses the need for proper legal structures being in place as the centerpiece for heightened socio-economic development (Levine, 1999). Similarly, the "bank-hinged" proposition speaks to the active mobilization of fiscal resources by banking industry, coupled with reduction of risks (Beck, 2004).

Comparatively, the "market-hinged" proposition underscores the merits of proper market systems, wherein incentives, risks and governance structures all play a vital role in boosting growth in profits. However, the "financial services" proposition marries the merits of both market-based and bank-based theories, whilst also stressing the key role played by the banking industry in spurring the industrial revolution (Kose, 2010).

2.3.4.2 Roles of Financial Deepening

Within the parameters of socio-economic development, there exists divergent perspectives, with one postulating that socio-economic growth in itself is a causative factor for heightened demand for an array of financial offerings (Robinson, 1952), noting that a positive externality of this is increased investments and savings alike, referred to as "demand-following" approach (Patrick, 1966).

Conversely, the "supply-leading" approach involves movement of fiscal resources to modern growth sectors from more conventional ones, promoting an entrepreneurial response that is characterized by nuanced differences in quality and quantity of a country's fiscal offerings (Patrick, 1966).

Additionally, the "accumulative channel" approach details how the financial sector may impact economic growth. Here, economic growth can also be affected by the financial sector through channels such as "total factor productivity", a mechanism espousing the fiscal benefits of an efficient resource-allocation structure, which paves way for this growth (King, 1993). Other contributory factors here include enhanced access to fiscal resources as well as innovation of fresh, tailored instruments to better serve beneficiaries.

Merits of Financial Deepening

Firstly, through the enhancement of hiding costs as facilitated by the provision of better laws (Ang, 2008), entrepreneurial innovation is fostered. Secondly, financial deepening reduces monitoring costs, facilitating agency (Howitt, 2009). Thirdly, it facilitates technological innovation as resources are availed to address traditional industry challenges. Fourthly, efficiency is heightened, where countries at the macro-level are enabled to focus on the twin-objectives of profit maximization and channeling investments to industrial development (Bumann, 2013). Fifth, when coupled with increased competition, it results in better offerings for beneficiaries with portfolios catering to more varied options (Boot, 2000). Sixth, it enables rationalization of incomes, with fiscal inequalities being streamlined (Hamori, 2012).

Demerits of Financial Deepening

A myriad of shortcomings are attributable to this, namely, restrained efficiency due to the realities of asymmetric information, erosion of the conventional "relationship-lending" model that typifies MFI's interaction with beneficiaries, reduction of profits for financial institutions as a consequence of heightened competition, which potentially results in fiscal depressions due to these institutions taking on needless risk (Stiglitz, 2000).

2.3.5 Collective and Unitary Models

2.3.5.1 The Unitary Model

The unitary model offers that divergent individual preferences cannot be extrapolated to anticipate collective decisions, with Manser and Brown (1980) proposing axiomatic bargaining models, with other scholars, including Leuthold (1968) and McElroy (1990), positing non-cooperative models. Notably, there's no agreement as to which of these models is appropriate, consensus being that these are context-specific (Chen and Woolley, 2001).

2.3.5.2 The Collective Model

The collective model, on the other hand, is skewed more towards attainment of pareto-efficiency (Browning, 1998), the prevailing assumption being that a weighted welfare function informs a household's collective preferences. Here, extra-environmental parameters and distribution factors are not factored in (McElroy, 1990).

2.4 Review of Local Literature

Local literature reveals that microfinance is considered a platform for empowering women all across the East African region. At the same time, studies have shown that in Tanzania, for instance, the microfinance institutions tend to extort money from the rural poor women through charging high-interest rates, which then have the ripple effect of causing elevated social pressure, which then invariably leads to widespread instances of domestic violence (Mushumbusi, 2013).

However, the same studies postulate that female beneficiaries are significantly better off economically, in comparison to those in the control program. Specifically, a total of 454 women were surveyed (Mushumbusi, 2013), with 305 of these being members of MFIs with the rest being non-members. Consequently, results highlighted further marked divergencies, especially where target female beneficiaries exhibited larger agency and voice over income and savings derived from ventures. In addition, these women were seen to exhibit higher self-esteem, a louder voice in the decision-making process, as well as flexibility in their activities outside the domestic household setting (Mushumbusi, 2013).

In a separate Rwandese study, it was also found that MFIs' contributions to societal prosperity in general and amongst the female gender speficically cannot be understated, more so due to the action of putting in place policy frameworks that champion savings and credit activities, thus, in turn, enabling the population to engage in viable income-generating activities, either through solidarity groups or even as individuals (Kayiranga, 2013).

Kayiranga (2013) also observed, through the study, that the said microfinance institutions also bridge the gap, chiefly through their direct intervention in the hitherto neglected sectors of the Rwandan economy by providing timely financial aid.

However, local research has been plagued by the limitations of, firstly, the inability to involve all the microfinance institutions that are based in the country, if only in a bid to enhance the comprehensiveness of the findings and results arrived at (Mjomba, 2011). This hindrance was attributed to the limited amount of time available to carry out the same.

Mjomba (2011) highlights the need to compare findings obtained with data sourced from commercial banks, to justify the work done by microfinance institutions in the first place. She goes on to note that the financial resources derived from MFIs by respondents were employed for business-related purposes, thus justifying the contribution of MFIs to the growth of small-scale businesses and the corresponding expansion of old ones.

Mjomba (2011) goes on to add that, due to the ease of procuring loans from MFIs without the impediments of requisite collateral as is the case with conventional banking, respondents are capacitated to channel these resources more efficiently to their business undertakings, whilst also recommending the same services to their counterparts who may require the same.

Lakwo (2006) asserts that indeed, microfinance is a veritable development strategy. He argues that targeting women has the upshot of enabling fairer market positioning, which in turn, facilitates the enhancement of their bargaining power as well as provide better fallback positions, thus changing gender relations.

2.5 Summary

Empowering women through microfinance is key in the quest to alleviate poverty in Africa. Statistics reveal that women make up a greater proportion of the total population in Kenya, and as such, they need to be considered a pivotal element in the debate for achieving sustainable development, as contained in the millennium development goals. Similarly, empowering women has the added advantage of facilitating their being self-sufficient through creating their business ventures, thus further aiding in gender parity.

Also, worth noting is that, aside from the economic benefits that women can potentially attain through the utilization of microfinance institutions, various other positive externalities can also be accrued, including the raising of women's self-esteem, creation of social networks, and enhanced decision-making clout at the household and communal levels (Kayiranga, 2013).

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The chapter speaks to the approach employed to collect, process and analyze raw data, providing an adequate overview of the study as it attempts to highlight the influence of microenterprise initiatives on women's financial emancipation. The population, sample size, and related sampling techniques – including documentation, questionnaires, and interviews are also detailed. Consequently, the chapter provides a snapshot of the various procedures carried out to process and analyze the raw data gathered during the study, including charts, tables, and graphs.

3.2 Research Design

Both a detailed questionnaire and structured interviews were utilized, in a bid to gather and ascertain KWFT's clients' responses in relation to how microcredit impacted their financial status.

3.3 Population and Sample

Beneficiaries of Kenya Women Finance Trust, specifically those in the Nairobi region and its environs, were targeted. These clients would thus be representative of their counterparts in other counties, who could not be accessed due to the constraint of both resources and time.

The sample size was drawn from both clients and staff of KWFT. The entire population could not be studied to the aforementioned time and resource constraints. The researcher used 50 clients as the sample to represent the whole population as well as interviewing key members of KWFT to acquire relevant data/ information.

A purposeful sampling method was employed through a selection of pre-defined groups of clients, who then filled out the questionnaires, thus availing key information that the researcher believed was vital for the research.

3.4 Data and Data Collection Instruments

Both secondary and primary sources were utilized for data collection. Here, interviews and questionnaires formed the basis of the entire research process.

3.4.1 Primary Data

Is in reference to that either gathered or compiled and studied empirically. For this study, data was collected from the field through the issuance of questionnaires and requesting respondents to fill them. This involved analysis of the primary document to clarify or explain the tool.

3.4.1.1 Questionnaires

The questionnaire used was designed in English and was composed of both structured and unstructured questions, with the former aimed at obtaining detailed information while the latter focused on extracting concise responses from the respondents on the issues.

3.4.1.2 Interviews

The researcher was able to conduct face-to-face interviews with respondents, one question at a time while noting down responses. This method was chosen mainly for its flexibility.

3.4.2 Secondary Data

This source was especially relevant in the formulation of both the conceptual and theoretical framework around which this study was founded.

Pertinent literature was also derived from pre-existing empirical studies, case studies, and reports from various institutions, including the United Nations, the Government of Kenya (via relevant ministries), key Working Papers, and verified financial journals. Visits to KWFT offices were key in obtaining reports related to microfinance products as well as any related services offered by the organization.

3.5 Data Analysis

Collected data underwent analysis through editing, coding and tabulation.

Editing involved double-checking all questions to debug errors whilst eliminating redundancies that could hinder the effective analysis of data. Tabulation involved putting the data into statistical tables and charts, enumerating the number of occurrences of respondents to specific questions, laying the framework for the calculation of various percentages for analysis and summary purposes.

3.5.1 Conceptual Model

Via the questionnaire derived data, correlation of microcredit to financial emancipation of women was assessed cross-sectionally with a control-group utilized as the baseline. Specifically, the caveat emptor that the control and treatment groups were already eligible for acceptance into the KWFT initiative, quantitative data analysis has been conducted through a comparison of microfinance borrowers with soon-to-be microfinance borrowers using data gathered from the questionnaire. Crucially, it ought to be noted that microcredit borrowers have already received assistance, whereas the soon-to-be microcredit borrowers (control group) are yet to receive the microcredit. This then lays the foundation to undertake regression, effectively estimating microfinance's effect on financial liberation of women.

The conceptual model is illustrated below:

Equation 1:

Empowerment = f (Microfinance Borrower, Expenditure, Own Business, Number of income-earners at household level, Years of microfinance program membership)

3.5.2 Analytical Model

Women empowerment is measured through an empowerment index, which is constituted by the empowerment indicators presented above, which were derived from the answers provided by respondents in the questionnaire (see appendix 1). To facilitate measurement of the respondent's answers to the questions listed, the system of transforming a 'YES' into a '1' and a 'NO' into a '0' was utilized, with the values for each of the five indicators being summed up into an aggregate index with one-point increments from 0 to 5. Herewith, an individual with a high aggregate empowerment index score is thus considered to be more empowered than one with a lower aggregate empowerment index score.

Equation 2:

Empowerment index = $\beta 1$ *+* $\beta 2$ *Microfinance borrower +* $\beta 3$ *Expenditure +* $\beta 4$ *Own Business +* β *5 Number of Income-Earners at household level +* β *6 Years of microfinance program membership +* ε

In the equation above, 'empowerment index' forms the dependent variable, while the indicators 'microfinance borrower', 'Expenditure', 'Own Business', 'Number of income-earners at household level' and 'Years of microfinance program membership' constitute the independent variables.

Thus, the OLS model is gradually built up through the addition of each independent control variable at a time, done to derive the correlation between microfinance and women's economic empowerment. A positive effect of microfinance on women empowerment is captured by the coefficient $\beta 2$. Therefore, about the null hypothesis mentioned earlier (that microfinance does not affect women empowerment), if $\beta 2$ obtains a significant positive value, then the null hypothesis can be rejected, with the corresponding assertion that microfinance has a positive effect on women empowerment.

CHAPTER FOUR
DATA ANALYSIS, RESULTS, AND DISCUSSION

4.1 Introduction

Here, we analyze the collected raw data, with section 4.2 detailing summations through three tables, outlining demographic characteristics of the respondents (Table 1), their income-earning activities (Table 2), and the empowerment indicators that can be discerned from their responses (Table 3). Section 4.3 then serves to outline the empirical model that guided this study, with Table 4 summarizing the results of the OLS model, with the dependent variable being the empowerment index. Results are briefly discussed under 4.4, with 4.5 providing a succinct summation.

4.2 Summary Statistics

50 respondents, 32 of whom confirmed receipt of KWFT microfinance with another 18 having been accepted into the microfinance program but yet to receive microfinance assistance, referred to earlier as the 'soon-to-be microfinance borrowers, participated.

Table 1: Demographic Characteristics

Table 1 highlights the chosen sample characteristics for microfinance borrowers and soon-to-be microfinance borrowers. The former is typically a demographic slightly more advanced in age and have marginally costlier recurrent expenditures on a monthly basis, whilst it can be observed that they have more children and income-earners in their households, in comparison with soon-to-be microfinance borrowers. Also noteworthy is that all respondents had at least one child, and they were all either married, widowed, or divorced.

Table 2: income-earning Activity

Table 2 outlines information relating to the various income-earning activities engaged in by the microfinance and soon-to-be microfinance borrowers. Judging by the averages, it can be observed that the soon-to-be microfinance borrowers are more involved in agriculture as compared to their micro-finance counterparts. Similarly, microfinance recipients were found to derive their livelihoods from sectors not related to agriculture. In addition, those more likely to be involved in their businesses were found to be the microfinance borrowers, with a higher relative average likelihood.

Table 3: Empowerment Indicators

Table 3 above presents a breakdown of the empowerment indicators, as were outlined in the questionnaire. Here, each YES response was transformed into a 1, whereas a NO response is translated into a 0. This implies that a respondent given a 1 is thus more empowered than one given a 0. Consequently, what emerges from the table is that, on average, microfinance borrowers are more empowered, in comparison to the soon-to-be microfinance borrowers, seen through the higher values on each empowerment indicator outlined. However, it was also noted that both groups exhibited significantly low levels of empowerment when it came to asset ownership indicators.

Table 1: Demographic Characteristics

	All (50)		**Microfinance Borrower (32)**		**Soon-to-be microfinance borrower (18)**	
	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation
Age	34.0	10.6	36.1	10.3	29.8	10.1
Household Expenditure (per month)	10.9	3.8	10.9	3.8	10.7	3.8
# Of Children	2.6	1.3	2.6	1.2	2.4	1.5
# Of Income-Earners	1.5	0.7	1.6	0.8	1.3	0.6
Land (Acres)	0.3	0.4	0.3	0.4	0.3	0.2

Table 2: income-earning Activity

	All (50)		Microfinance Borrower (32)		Soon-to-be microfinance borrower (18)	
		%		%		%
Agriculture	21	42	12	37.5	9	50.0
Non-Agricultural work	4	8	3	9.4	1	5.6
Husband's Business	21	42	14	43.8	7	38.9
Own Business	4	8	3	9.4	1	5.6
Total	50	100	32	100	18	100

Table 3: Empowerment Indicators

	All (50)		Microfinance Borrower (32)		Soon-to-be microfinance borrower (18)	
	Mean	Std.Dev.	Mean	Std.Dev.	Mean	Std.Dev.
Decision-Making Indicators						
Make small purchases without consulting husband	0.25	0.43	0.29	0.46	0.16	0.37
Make Major Purchases	0.72	0.45	0.76	0.43	0.64	0.48
Say in working outside homestead	0.11	0.31	0.14	0.35	0.05	0.21
Agency in number of kids to conceive	0.87	0.34	0.90	0.29	0.80	0.41
Agency in property purchase or sale	0.43	0.50	0.48	0.50	0.34	0.48
Asset Ownership Indicators						
Owns property (Personally)	0.57	0.50	0.59	0.49	0.55	0.50
Has Own Savings	0.34	0.47	0.50	0.50	0.02	0.13
Owns Land in Own Name	0.04	0.20	0.06	0.23	0.02	0.13
Mobility Indicators						
Free to go to Market without permission from the husband	0.15	0.36	0.17	0.38	0.11	0.31
Free to visit friends without permission from the husband	0.01	0.10	0.02	0.13	0.0	0.0

4.3 Estimated/ Empirical Model

As outlined in Chapter 3, this model fundamentally entails 'microfinance borrower' and 'empowerment index' as the independent and dependent variables respectively. Therewith, an independent variable is added sequentially, assessing correlation between microcredit and women's financial emancipation.

Table 4: OLS results – With 'Empowerment Index' as the dependent variable

NOTE: Standard errors are indicated in parentheses. Statistical significance is indicated by *** (1%), ** (5%), and *(10%)

	1	2	3	4	5
Microfinance borrower	1.636*** (0.305)	1.322** (0.431)	1.389** (0.444)	1.432** (0.447)	1.506*** (0.441)
Duration of membership to microfinance programme		0.0285 (0.0276)	0.0163 (0.0339)	0.0161 (0.0339)	0.003368 (0.0337)
Age			0.0108 (0.0173)	0.00869 (0.0175)	0.0136 (0.0173)
Expenditure				1.055* (0.407)	1.054* (0.406)
	5.047*** (0.248)	5.047*** (0.248)	4.724*** (0.573)	4.697*** (0.574)	2.148 (1.134)
N	50	50	50	50	50
Adjusted R-squares	0.128	0.129	0.126	0.125	0.151

4.4 Discussion

As afore-mentioned, the basic OLS model only incorporates 'empowerment index' and 'microfinance borrower' as the independent and dependent variables respectively, while gradually building up the model through the sequential addition of an independent variable at a time. This then provides a blueprint for the relationship that exists between microfinance and women's empowerment. Hence, Table 4 above highlights that, indeed, microfinance does have a significantly positive correlation to the empowerment of women, as per the expectations of this study. The specific magnitude of said effect is however dependent on the controls employed, and the estimated effect whilst incorporating both household and individual characteristics (5% significance). In addition, statistically speaking, empowerment index is envisaged to rise by 1.6 where the participant is a recipient of microfinance, other variables held constant. It should also be noted that the significance levels and pattern of estimates across the different sets of independent control variables are indicative of robustness. Furthermore, it can be noted that the number of years that one has been a beneficiary of microfinance does not significantly impact the level of empowerment, with one possible explanation being that the initial microfinance advanced to an individual impact their empowerment the most, with subsequent microfinance supplements only bringing about marginal value. Table 4 also serves to highlight that age is another major determinant of women's empowerment, signifying the importance of streamlining gender roles to ensure that economic growth is spurred through the facilitation of women's contribution to market output, thus contributing to total productivity in the national accounts (Blackden and Wodon, 2006).

4.5 Summary

Results from Table 4 lend credence to the theory that microenterprise has a positive bearing on women's economic emancipation.

CHAPTER FIVE
SUMMARY AND CONCLUSION

5.1 Introduction

Here, an overview of the study's findings is provided. Section 5.2 gives a summary, focusing on three main subgroups of empowerment, namely mobility, ownership of assets, and decision-making power within the household. Section 5.3 outlines the conclusions deciphered, whereas the various limitations that can be discerned are noted under section 5.4, whereas the suggestions for further research are highlighted in Section 5.5.

5.2 Summary of the Study

Three main groupings of empowerment were illustrated, namely mobility, ownership of assets, voice, and decision-making power within the household.

5.2.1 Mobility

This was studied with the freedom of movement that women have. Indicators here were the level of comfort that they have to go to the local market without having to ask their husbands for permission, as well as that which they have to go visit their friends at will, without similarly seeking permission. Here, there was no significant relationship that could be ascribed to microfinance, as can be seen in tables 1 and 2 in Chapter 4, where freedom of movement is typically seen to be highly restricted.

5.2.2 Ownership of Assets

This subgroup details whether or not a woman owns the property, including valuables or land, or independent savings. There was found to be a positive correlation between microfinance and independent savings, at the 1% level, in the OLS model, which suggests a robust relationship. One way of interpreting this scenario is that microfinance borrowers may have built up goodwill with the KWFT program, thus opening doors to access additional financial services that are offered by the institution. On the contrary, the soon-to-be microfinance borrowers are yet to establish such rapport.

5.2.3 Household decision-making power

This subgroup analyzed the clout that a woman has in the determination of household decisions, measured through indicators such as involvement in - the property purchase or sale decisions, how many children to bear, whether or not to work outside the home as well as the ability to make purchases. There was found to be a positive correlation between microfinance and the respective abilities to make small purchases, involvement in decisions as to the number of children to bear, and involvement in the decision on whether or not to seek employment away from the homestead, at a 10% significance. Further within the 10% significance level, testing the relationship between the decision to buy or sell property and microfinance returned a positive significant impact, suggesting a robust relationship. However, there was no significant impact in the relationship between microfinance and the decision to make large purchases, owing to the reality that such decisions have traditionally fallen under the male sphere. In this regard, microfinance still has a lot of ground to cover to make a positive impact.

5.3 Conclusion

From an empirical perspective, the impact of microcredit on women empowerment in Kenya, with KWFT as the case study, was investigated. Findings derived from the OLS model strengthen the notion that, indeed, microfinance positively impacts women's economic emancipation. The capacity of women to make decisions domestically is empirically enhanced through the acquisition of microfinance, which correlates to the findings derived from previous studies by Kabeer (2001).

5.4 Limitations of the Study

Notably, analysis of aggregated data tends to have inherent limitations, key amongst which being the fact that it is difficult to accurately capture reality in numbers, owing to human characteristics of either generalization or simplification. Consequently, this requires a careful interpretation of the data so obtained. Also, owing to the small sample size containing respondents in and around Nairobi County, the study cannot be generalized to represent the realities of other counties around the country.

The issue of reverse causation can also be cited as a possible limitation of this study. This may arise in several ways, including a situation where one of the independent variables, for example, can be attributed to the dependent variable, or where measurement errors blight the independent variables (Hulme, 2000), or when independent variables are omitted from the OLS model itself. For instance, it is difficult to attribute empowerment of microfinance borrowers to their acquisition of microcredit in comparison to the soon-to-be microfinance borrowers, because – for one – a woman could actually benefit more from microfinance as a consequence of her being empowered, and therefore, the causal relationship relates empowerment to the benefits accruing from microfinance, as opposed to the other way around.

Similarly, the issue of dropouts can be singled out as another limitation of this study, since omitting these women undermines the overall analysis of the negative impact of microfinance (Hulme, 2000). Also, instances of dropouts can be a result of success, in cases where microfinance beneficiaries improve their businesses, develop their savings and thus negate the need for additional microfinance.

Worth mentioning is that, in addition to the issue of limited time resources to effectively conduct this study, there was also the issue of a lack of motivation of most of the KWFT staff and respondents to cooperate in answering the questionnaire or providing relevant data. This was due to understandable misgivings as to the intention of the researcher is seeking to acquire the sought data, as well as the sensitive nature of the questions contained in the data collection instrument, especially those touching on financial matters. However, the soon-to-be microfinance borrowers were more cooperative, as per the case in previous studies carried out by Hulme (2000).

5.5 Recommendations for Further Research

It was not discernible as to how, exactly, microfinance impacts the freedom of mobility for women, thus providing grounds for further investigation to be carried out in a bid to fully harness the potential of microfinance as a tool for empowerment.

Additionally, it was anticipated that the number of years the respondents were members of the microfinance program would positively impact their empowerment. However, findings of this study paint a different picture, thus providing basis upon which to further evaluate this relationship in the future. Also, as mentioned above, the limited nature of the sample size of this study leaves room for improvement in terms of deep-dives encompassing bigger sample sizes and populations across, to more accurately illustrate how microfinance impacts the empowerment of women.

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APPENDICES

Appendix 1: Questionnaire

1. Name of County?
2. Age?
3. What is your occupation?
4. Are you married?

a) If yes;

i) At what age did you get married?

ii) Do you have a choice whether to work outside the home or do you have to consult your husband?

iii) Do you have a say in decisions to buy household goods, such as a radio or television?

iv) Do you consult your husband in case you want to buy a new dress?

v) Do you determine the number of children to bear?

vi) Are you consulted when selling or purchasing property?

vii) Do you require permission to leave the house and go to the market or visit your friends without your husband's permission?

b) If no, proceed to the questions below.

5. How many children do you have?
6. How many income earners are there in your household?
7. What is the monthly expenditure in your household?
8. How many years have you been part of the KWFT microfinance program?
9. Does your household own land? If so, how much?
10. Do you own land, registered in your name?
11. Do you have savings that you control by yourself?