AN EVALUATION OF THE FACTORS INFLUENCING ACCESS TO CREDIT FROM MICRO-FINANCE INSTITUTIONS: A CASE OF KINANGO DISTRICT KENYA

BY

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DEDICATION

To my beloved wife Peninah and my children Nyiro, Rehema and Mukami for their moral and material support which has made me reach this far.

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ABBREVIATIONS AND ACRONYMS

ADB	:	African Development Bank.
CDF	:	Constituency Development Funds
KPOSB	:	Kenya Post Office Savings Bank.
KUSCCO	:	Kenya Union of Savings and Credit Cooperatives.
MFIs	:	Micro-finance institutions.
NEPAD	:	New Africa's Partnership for Development.
PPP	:	Purchasing Power Parity.
SACCOs	:	Savings and Credit Co-operative Societies.
UNDP	:	United Nations Development Programme.

ABSTRACT

According to World Bank estimates, around one in every five of the world population lives on less than $1 a day (extreme poverty) and around one or two live on less than $2 a day (moderate poverty). Poverty is characterized by the inability of individuals and households to acquire sufficient resources to satisfy their basic needs. In Africa, more than 40% of its 750 million people live below the internationally recognized poverty line of $1 a day, and the evidence is even more worrying for sub-saharan Africa. The number of the poor has grown relentlessly, causing Africa's share of the world's absolute poor to increase from 25% to 30% in the 1990s (UNDP, 2001 and 2002).

In the Kenyan context, available data indicate that over 56% of the Kenyan population is absolutely poor. Though poverty in the urban areas is growing fast, poverty in Kenya still remains overwhelmingly a rural phenomenon (Republic of Kenya, 2004). Major characteristics of the poor include landlessness and lack of education.

This study was therefore aimed at investigating the key factors that inhibit the poor from accessing credit in the midst of many Micro-finance institutions as tools for poverty alleviation, thereby leading to increased poverty. The study was carried out in Kinango District in the Coast province of Kenya. The sample of the study comprised 200 respondents drawn from the four divisions (Kasemeni, Kinango, Ndavaya and Samburu) that make the district. Structured questionnaires were used to collect primary data from the sample respondents. The data collected from the field was analyzed using descriptive statistical measures, namely frequency distribution and cross tabulation. Once analyzed, interpretation and discussion of the results was done after which conclusions and relevant recommendations were made. The findings of this study are essential in further unearthing the root causes of low accessibility to credit by the poor from Micro-finance institutions. This will therefore help micro-finance programmes to be more focused in their approach and address the inhibiting factors that cause low accessibility to credit, hence increased poverty in the midst of many Micro-finance institutions.

CHAPTER ONE
INTRODUCTION

.1 Background to the study

.ccording to World Bank estimates, around one in every five of the world population lives on :ss than $1 a day (extreme poverty) and around one or two live on less than $2 a day noderate poverty). About 1.3 billion extremely poor people struggle to live on less than $1 a ay. They are trapped in poverty so severe, that they cannot adequately feed, clothe, or shelter iemselves or their families. The poverty threshold, or poverty line, is the minimum level of icome deemed necessary to achieve an adequate standard of living in a given country. In ractice, like the definition of poverty, the official or common understanding of the poverty line s significantly higher in developed countries than in developing countries.
'he common international poverty line has been roughly $1 a day, or more precisely $1.08 at 993 purchasing-power parity (PPP). World Bank has done extensive work in this field.

According to a UN declaration that resulted from the World Summit on Social Development in Copenhagen in 1995, absolute poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services.

Some recent studies on poverty have attempted to put forth terms and classifications of the very poor in a way that will allow the reader to imagine the extreme helplessness, and a state of extreme destitute amongst the people under discussion. The poorest of the poor, as they are most commonly referred to, have also sometimes been called the "hardcore poor" (Hashemi, 1997), the ultra-poor (African Development Bank, 2002) or the "chronic poor". While this paper does not aim to re-define who are the poor, it will use the term "poorest of the poor" to identify the group of people who are economically on the outer edges of survival and managing to continue their existence and live with or below an average $1 per day.

Poverty is commonly defined as the inability to attain a minimum standard of living measured in terms of necessary basic needs and services. Furthermore, the concept of a "poverty line" has internationally become accepted as an indicator of poverty which measures the monetary amount needed to purchase a basket of estimated minimum calorie intake and social services needed to live a healthy life. Below this estimated line an individual or household is considered poor (African Development Bank, 2002; Lipton, 1997). Poverty is therefore characterized by the inability of individuals and households to acquire sufficient resources to satisfy their basic needs. Furthermore, poverty is not static. Research shows that some people may be suffering from poverty from time to time while others are permanently poor.

Poverty is a global issue and is a problem that even the wealthiest nation is facing. At government level and also at international level many strategies are made every day to control poverty. Dr. Yunus gave a formula of micro-credit that successfully worked in Bangladesh and is now replicated all over the world and also in Kenya. The purpose of the study is to observe if the poor are accessing micro-credit as a means of poverty alleviation. Micro-credit programs extend small loans to very poor people for self employment projects that generate income for their survival, allowing them to care for themselves and their families. Developed over the past twenty years, micro-credit is now considered as one of the most effective tools used to fight poverty (Amina, 2008).

The main purpose of micro-finance is to break the vicious circle of 'low income low investment-profit' by inserting capital from outside into the economic life of poor people. According to Adam Smith "Money, says the proverb, makes money. When you have got a little, it is often easy to get more and the great difficulty is to get the little" (Adam Smith, 1937, 93). Micro-finance provides "the little" money where there is total absence of capital or profit as living is based on subsistence only. The researcher therefore wants to find out if micro-finance is actually providing the needed little capital to the poor in Kinango District. Thus micro-finance seeks to improve the condition of the poor by raising income and profit, thereby making people free from poverty and improving living standard. Its key feature is bringing the bank (money/capital) to the poor where traditional banking system does the opposite.

In Africa more than 40% of the 750 million people live below the internationally recognized poverty line of $1 a day, and the evidence is even more worrying for the Sub-Saharan Africa.

The number of poor people has grown relentlessly, causing Africa's share of the world's absolute poor to increase from 25% to 30% in the 1990s (UNDP, 2001 & 2002).

Poverty is rampant especially in the South of Sahara. Poverty is increasing instead of decreasing. The poverty assessment study commissioned and sponsored by the World Bank, establishes that poverty is indeed increasing (Akanji, 1995).

In most African countries women tend to account for an average 51% of the population, and make up about 65% of the rural labour force. They tend to shoulder the greater burden of child and family welfare, social and community obligations, engaging in more than one economic activity as well as undertaking domestic chores. In connection with the growing emphasis on poverty reduction sustainability, micro-credit has been recognized as the most necessary and the missing ingredient which is most effective in reducing poverty among the poorest of the poor (Orero and Rhyne, 1994; Khandker, 1998). Women were specifically targeted because they make up the majority of the poorest of the poor in the rural areas and are responsible for the social and economic welfare of the family (Pitamber, 2003).

Further more many NGOs and donors were dictated by gender policies which specifically called for increased micro-credit outreach to women, and these micro-credit programmes did not limit their desired impact to poverty reduction only, but extended it to achieve women's empowerment (Khandker, 1998; Kabeer, 1998).

Poverty reduction and women's empowerment are not the one and the same and that poverty reduction does not automatically lead to women's empowerment (Pitamber, 2003).

In the Kenyan context, available data indicate that over 56% of the Kenyan population is absolutely poor. Though poverty in the urban areas is growing fast, poverty in Kenya still remains overwhelmingly a rural phenomenon (Republic of Kenya, 2004a). Three quarters of the Kenyan poor are to be found in the rural areas while the majority of the urban poor live in slum and peri-urban settlements (Republic of Kenya, 2004a, 2003, 2000a, 2000b). This is not unique to Kenya. A study by Asenso-Okyere et al. (1993) indicate that about 73% of the population in developing countries lives in the rural areas, compared with only 33% in developed economies.

According to Welfare Monitoring Survey II {WMS II}, the incidence of overall national poverty was estimated at 43% of the population {adult equivalents}. In rural, it was 46.8% while 29.0% of the urban population was estimated to be poor.

Based on the rural poverty line of Kshs. 703.00 per adult equivalent in 1994, slightly over 47.2% of the rural dwellers were classified as food poor. Using the overall poverty line of Kshs. 978.00 in rural areas for 1994, 46.8% of Kenyans were classified as poor in rural areas. The prevalence of overall poverty by province showed North Eastern Province to be the highest at 59.0% followed by Eastern Province {57.8%} and Coast Province {55.6}. The provinces with the lowest prevalence of overall poverty were Central Province {32%}.

Coast Province with a total population of 1,568,000 people as per the 1999 population and housing census, has a rural population of roughly 909,000 people. Poverty at the location level ranges from 13% to 90% across the 140 locations. Two thirds of the rural poor in Coast Province are found in two Districts-Kilifi and Kwale. The urban poor population of Coast Province is estimated at around 400,000 persons, and two thirds are concentrated in Mombasa town (Geographic Dimensions of Well-Being in Kenya (2003), Where are the poor? From Districts to Locations, Volume 1).

According to the published Geographic Dimensions of Well-Being in Kenya, a Constituency Level Profile (2009), Kinango Constituency (District), was declared the poorest in Kenya. The sorry and harsh environment of Kinango District has led to a number of negative impacts:-

1. High incidences of poverty leading to it being declared the poorest district in Kenya in the last year's (2009) Welfare Monitoring Survey.

2. High illiteracy levels among community members leading to unemployment and poverty.

3. High school drop-out especially among girls due to lack of school fees and early pregnancies.

4. Poor performance in national examinations leading to it being declared the last in the 2008 KCPE results.

5. Poor sanitary coverage and services due to ignorance, retrogressive cultures and poverty.
6. Inter-ethnic clashes over water and pasture especially among the Durumas and Kambas on one hand (farmers) and the Maasais and Somalis (pastoralists) on the other hand.

Table 1.1: Area and administrative units by Division

Division	**Area (Km^2)**	**No. of Locations**	**No. of Sub-Location**	**No. of wards**
SAMBURU	1,811.8	5	10	5
KASEMENI	675.3	5	12	7
KINANGO	839.1	3	6	3
NDAVAYA	681.3	1	4	1
TOTAL	**4,007.5**	**14**	**32**	**16**

Source: District Commissioner's office, Kinango, 2008

Table 1.2: Population distribution and density per Division

Division	Area	1999 Population	1999 Density	2010 Population	2010 Density	2012 Population	2012 Density
SAMBURU	1,811.8	47,618	26	51,176	28	54,501	30
KASEMENI	675.3	67,901	101	72,975	108	77,715	115
KINANGO	839.1	73,089	87	78,551	94	83,653	100
NDAVAYA	681.3	25,608	38	27,522	40	29,309	43
TOTAL	**4,007.5**	**214,216**	**53**	**230,224**	**57**	**245,178**	**61**

Source: District statistics' office, Kwale, 2008

Kinango District is estimated to have a total population of 230,224 by the year 2010 as per table 1.2 above. It is also estimated to have a total adult population of 109,434 by the same year 2010 as shown in table 1.3 below. This is the productive age group that is of interest to the study. Of the total adult population, 65% (71,132) are considered poor. This is the population that lives below the poverty line.

ups	1999 Male	1999 Female	1999 Total	2008 Male	2008 Female	2008 Total	2010 Male	2010 Female	2010 Total	2012 Male	2012 Female	2012 Tot
'ear	3.308	3.321	6.629	3.788	4.046	7.834	3,994	4.266	**8,261**	4.254	4,543	**8,7**
'ears	8.780	8,858	17,638	19,939	19.827	39,766	21,025	20,906	**41,931**	22,391	22,264	**44,6**
l (3-5)	19,584	19,434	**39,018**	10,669	11,306	21,975						
chool (6-13)	21,166	20,450	41,616	25,380	26,321	51,701						
y school (14-17)	7,886	8,062	15,948	9,996	10,529	20,525						
-29)	18,177	24,925	43,102	24.399	33,362	57,761						
64yrs	43,476	58,341	**101,816**	44,264	59,520	103,784	46,674	62,760	**109,434**	49,706	66,837	**116,5**
yrs	3,147	3,117	**6,264**	3,204	3,180	6,384	3,378	3,353	**6,732**	3,598	3,571	**7,1**
ulation												

Table 1.3: Population projections 2010 and 2015

Source: District statistics' office, Kwale, 2008

To address poverty, Dr. Muhammad Yunus dreamt of a poverty free world in 55 years time through micro-finance programmes (Yunus, 1997). The poor need to be empowered to address the multi-dimensional aspects of poverty. Although high and sustainable economic growth is central to poverty reduction, a study by Asenso-Okyere et al. (1993) reveals that promotion of efficient, sufficient and widely accessible rural financial services is critical to achieving pro-poor and poverty reduction goals. Access to financial services plays a critical role in helping the poor.

In a speech he made during the Micro-credit conference held in Nairobi, Kenya in April 2010, Dr. Yunus said that, Kenya, like many other developing countries, is littered with micro-finance institutions that have abandoned their original calling. Many of them have become part of the formal banking sector, obsessed with the competition for profits and expansion rather than in the provision of affordable credit to the unbanked social classes. Many of them are micro-credit institutions only in name because they are no different from big banks in the interest rates they charge, the class of customers they seek out and the requirements they impose before considering credit.

As a result of the above, the poor are not accessing the needed credit. There is a need to carry out a research to evaluate the factors that inhibit the poor from accessing micro-credit.

1.2 Statement of the problem

In Kinango district, the majority of the population was poor and recorded high illiteracy rate and perennial food deficit. This was one of the biggest challenges that faced the population of Kinango District. In terms of infrastructural development, the District lagged behind in poor road network, inadequate safe drinking water, schools and health facilities (Kinango Constituency Strategic Plan, 2008-2012).

For the last five years the Government of Kenya has developed programmes aimed at the economic empowerment of the poor in Kinango District. There was the Constituency Development Fund (CDF) which was channeled through Kinango Constituency. There was the Youth Enterprise Fund aimed at the economic empowerment of the youth in the district which was channeled through the Kinango District Youth Office. In 2007 the Government of Kenya created the Women Enterprise Fund which was channeled through the District Gender and

Social Office. There were also a myriad of Micro-finance Institutions in Kinango District like Aga Khan Foundation, Yehu, K-Rep and Kenya Women Finance Trust. Despite the government effort and of the Micro-finance Institutions, the economic situation of the poor has not improved in the district. This is evidenced by the fact that in 2009, Kinango District was declared the poorest in Kenya. It seems the poor in Kinango may not be accessing micro-credit in the midst of Micro-finance institutions (MFIs).

This study aimed at establishing the factors that influence accessibility of credit by the poor from government programmes and Micro-finance Institutions in the Kinango district.

1.3 Purpose of the study

The purpose of the study was to evaluate the factors that influence access to credit from Micro-finance institutions in Kinango District.

1.4 Objectives of the study

The broad objective of the study was an evaluation of the factors that influence access to credit from Micro-finance institutions in Kinango District. The study was guided by the following objectives:-

1. To establish the relationship between knowledge level on the existence of MFIs and accessibility to credit.
2. To establish the relationship between the number of MFIs working in Kinango District and accessibility to credit.
3. To establish the relationship between procedures followed when applying for credit and accessibility to credit.
4. To establish the relationship between possession of collateral and accessibility to credit.

1.5 Research questions

The study sought to answer the following research questions:-

1. What is the relationship between knowledge level on the existence of MFIs and accessibility to credit?
2. What is the relationship between the number of MFIs working in Kinango District and accessibility to credit?
3. What is the relationship between the procedures followed when applying for credit and accessibility to credit?
4. What is the relationship between possession of collateral and accessibility to credit?

1.6 Significance of the study

The knowledge generated by this study would be made available to the public. It would specifically benefit the local community, the Micro-finance institutions, the government and the international community. The local community will benefit in the following ways:-

1. Enhanced awareness on the existence of Micro-finance institutions in the district.
2. Increased knowledge on the procedure of membership, requirements for credit and what would happen when one defaulted.
3. Improved decision making by the community based on information about Micro-finance institutions.

The Micro-finance institutions would benefit from the study in the following ways:-

1. Increased awareness on the actual situation of the potential clients on the ground.
2. What the community recommended to be done to make Micro-finance institutions more responsive to their needs.

The government would benefit from the study in the following ways:-

1. The government would be able to come up with proper policies to regulate the operations of Micro-finance as at present, there are inadequate policies. This has made it sometimes the banking Act being used to regulate Micro-finance institutions. There has to be a clear cut policy between commercial banks and Micro-finance institutions.
2. The feedback by the community on what they perceived as the role played by Micro-finance institutions in the fight against poverty.

The international community especially those who donated their money through Micro-finance institutions would benefit by:-

1. Seeing how their money has benefited the clients.
2. What policies to put in place to ensure regular flow of cash to Micro-finance institutions.

1.7 Scope of the study

The study focused on the factors that influence access to credit from Micro-finance institutions working in Kinango District. This was based on the poor's accessibility to credit from the identified Micro-finance Institutions in the District. By accessing credit, the researcher assumed that it would contribute to poverty alleviation.

1.8 Limitations of the study

The major limitation to the study was means of transport to reach out to the rural areas of the district bearing in mind the vastness of the district and poor road network.

1.9 Basic assumptions of the study

The study assumptions were:

1. The respondents and MFIs targeted for investigation would provide the right information.
2. Enumerators would do a good job as per the researcher's expectation during data collection

1.10 Definitions of significant terms used in the study

Micro-credit:

This is an institution whose sole responsibility is to give credit.

Micro-finance:
This is an institution that combines both credit and other services such as savings and insurance cover for their clients.

1.11 Organization of the study

The study was divided into five chapters each chapter focusing on very specific information. Chapter one concentrated on the understanding of the topic of study in terms of definition of poverty and its many faces, Micro-finance institutions and their contributions to poverty alleviations and the factors that influence access to credit from Micro-finance institutions. Despite the influx of Micro-finance institutions as tools for poverty alleviation, poverty is still on the increase, hence this study that looked at the factors that influence access to credit.

Chapter two looked at what has been written or researched on the topic of study. It focused on what other writers and researchers have looked as a whole the aspect of poverty in relation to Micro-finance institutions as tools for poverty alleviation. This chapter has shown that despite the existence of Micro-finance institutions, it is not everyone who wanted credit accessed it. There were procedures that one had to follow in order for one to become a member of an MFI, like attending regular meetings and to provide collateral to access a loan. The above was not always at the disposal of the poor and became hindrances to accessibility to credit. This chapter helped sharpen the topic of study and the methodology used.

Chapter three summarized the methodology used in the study. It shows the research design, targeted population and sample size, sampling procedures, data collection instruments and data analysis. It specifies where the data was collected and the number of respondents reached.

Chapter four gave a summary of how data was analyzed, presented in a form that could be understood and interpreted in a way that could influence decision making.

Chapter five outlined the summary of findings, provided a discussions of the findings, conclusions and recommendations of the study, apart from also providing suggestions for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter on literature review provides a framework for discussion on poverty and micro-credit as a tool for poverty alleviation. It focuses on the definitions and meaning of poverty and micro-credit and their impact on the lives of the poor.This literature review also provides an overview of the theoretical background that provides the premise of the study. It also deals with the concepts of poverty, micro-credit, objectives of micro-credit, impact of micro-credit , poverty in the world and in Kenya specifically, phenomenon of poverty, faces of poverty, ways to measure the impact of micro-credit on income and consumptions, theoretical framework, and the variables that influence access to credit from micro-finance institutions.

2.2 Theoretical literature review

2.2.1 Definition of concepts

Micro-finance means transactions in small amounts of both credit and saving, involving mainly small-scale and medium-scale businesses and producers. The poor, who cannot run a small business because they lack capital, may also benefit from Micro-finance organizations. The poor, especially poor women are the prime reason for Micro-finance intervention in many countries. The question of whether Micro-finance really benefits the poor depends on how we define poverty and what kind of help Micro-finance offers to the poor to combat poverty. The face of poverty varies from country to country (Khandker, 2001). In Pakistan, Micro-credit is as a credit provided to the 'poor' free of collateral (the only collateral is the 'peer' collateral) through institutionalized mechanism. This credit is made available 'as and when' needed at the doorstep of the client (Bajwa, 2001).

According to Amina Mushtaq (2008), poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation, people want to escape. So poverty is a call to action for the poor and the wealthy alike a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities.

Poverty amid plenty is the world's greatest challenge and it has been recognized that successful development requires a comprehensive, multifaceted, and properly integrated mandate. The study as Amina puts it, accepts the now established view of poverty as encompassing not only low income and consumption but also low achievement in social (education, health, nutrition), political (voice, empowerment), and other sectors of human development. The impact of micro-credit on poverty alleviation is so far found to be controversial in the literature. Several studies have found that micro-credit programmes have positive impact on eradicating poverty (Hossain, 1988; Khandker, 1998; Wahid, 1993; Yaron, 1994).

2.2.2 Collateral and growth of Micro-finance Institutions

According to Shahid Khandker (2001) in his speech "Does Micro-finance Really Benefit the poor?" observed that strategies such as collateral-free, group-based lending and mobilization of savings (even in small amounts) has mitigated their formal counterpart's problems of poor outreach and high loan default costs. But the apparent success has caused Bangladeshi Micro-finance Organizations to bear high transaction costs, in order to keep credit discipline under group pressure and monitor borrowers' behaviour. The transaction costs are substantial, and programmes rely on donors to sustain their operations (Khandker 1998; Khalily, Imam, and Khan 2000; Morduch 1999; Yaron 1992, 1994). Nonetheless, governments and donors continue to support micro-finance programmes in Bangladesh, expecting that such investments will benefit society. In comparison to Malawi, the interest rates on loans in Ethiopia can be said to be at acceptable levels and this is mainly because of the highly controlled nature of the Ethiopian economy and the inflation rate (Pitamber, 2003).

Khandker considers savings as an indicator and finds that this factor has an influence on eradicating poverty. He argues that credit programs do stimulate savings because micro-credit borrowers make mandatory savings every week, which they are entitled to withdraw at the end of their membership. In addition, he finds micro-credit programmes have a positive impact in generating not only voluntary savings but also additional savings among the borrowers (Khandker, 2000).

For Cameroon, especially, the material resources are abundant, the financial resources are available, but the missing ingredient is the political will to make the right mix. It is understood that there is no blueprint for micro-finance initiatives; each initiative must adjust to the specific cultural, political, and economic setting in which it operates. Allowing for such diversity, the following principles are highlighted:-

1. Pool together people's resources through group organizing.

2. Rely and build upon what people know – tradition.

3. Reinforce micro-finance to empower the African private sector.

4. Strive for efficiency.

To ensure wide and deep outreach, financial institutions should aspire to operate on a sustainable basis. Without well-managed sustainable institutions, it is very difficult to meet the unmet (and perpetual) demand for financial services. The most important role for Governments and the international community in ensuring an enabling environment where micro-finance may flourish is the promotion of better governance and accountability. According to the Consultative Group to Assist the Poor (CGAP), the last few decades have shown that governments are not good lenders to the poor and often engage in this activity for short-term political gains. Governments themselves should not be involved in the costs and pricing of financial products but can play a pivotal role; in general, they provide the legal and regulatory structures that make it possible for financial institutions to decide their own pricing. As some financial sectors may not be mature enough to support institutions that reach out to very poor segments of the population, the governments may also help with targeted assistance to better integrate these people into the economic landscape. The role of governments can easily complement the work of donors, social investors and civil society (Micro-credit Summit for Africa, 2005).

Nirmalya Biswas, writing in Mainstream, explains that the micro-finance model has been touted in recent years as a means of poverty alleviation but is in fact another means to exploit the poor. Neo-liberalism, the contemporary face of capitalism, tries to solve the problems it creates by the same factors that cause its crisis. On the one hand, there is a surplus of capital and on the other, is a surplus of the poor. Micro financing apparently tries to solve the problems of the poor but in reality is just another means of multiplying the return on capital.

Micro-credit appears to be pro-poor in form but in content it is actually anti-poor to the core. The adverse clauses of the loan agreement are carefully kept hidden in a sugar-coated loan package. The ever-trusted media censors certain pertinent information in fear of full disclosure of the evils of Micro-credit. The penniless poor listen to no reason but gracefully accept the loan offer to avail the cash inflow and solve the present crisis temporarily. The taste of its bitterness becomes palpable only when the installments fall due. Women are targeted because they make good clients and not out of gender and equity promoting mind-set (Pitamber, 2003).

2.2.3 Public awareness on existence of MFIs and their beneficiaries

To speed outreach, the first Micro-credit Summit, held in 1997 in Washington, D.C., set a goal to reach 100 million of the worlds poorest with tiny loans by 2005, up from 7 million borrowers that year. Yet just that task will require more than $10 billion in new funds plus training for thousands of new loan officers. "It is a simple idea, but hard to implement," said Sam Daley-Harris, director of the Micro-credit Summit, noting that hurdles also include limited public awareness of micro-credit. "An earthquake makes news, not the tens of thousands who die of malnutrition every day." What are the factors that make it hard for micro-finance to reach the targeted 100 million of the world's poorest? When Kinango District was declared the poorest in Kenya, did it make news or life went on as usual!

The 2006 Global Micro-credit Summit (Halifax, Nova Scotia) pledged to provide micro-finance to 175 million poor households by 2015. Governments and development agencies support the expansion of micro-finance institutions which often specifically target women, who account for the vast majority of clients. Traditional networks and peer reviews ensure creditworthiness and loans are secured through joint liability. There are a range of models for micro-finance institutions including non-governmental organizations, credit unions, cooperatives, banks and non-bank financial institutions and Government organizations. In some cases, the institutional forms are hard to distinguish from government banks operating micro-finance services in collaboration with non-governmental organizations or credit cooperatives.

In general, it appears that clients who participate in micro-finance programmes on a continuing basis eventually realize better economic outcomes than non-clients. For instance, in terms of income, there is evidence that access to credit has given many poor people the means to increase, diversify and protect their sources of income. In addition, micro-finance institutions in many parts of the world have reported improved food expenditures and employment opportunities among their clients. Access to micro-finance has also been found to promote increased expenditures on education and related improvements in health among poor clients and, in this respect, it can enhance human capital in the long term (Bulletin on the Eradication of Poverty, 2004).

Through micro-finance, women have become active participants in economic activities. Furthermore, as a result of microfinance, women own assets, including land and housing, play a stronger role in decision-making, and take on positions of leadership in their communities. Some areas have witnessed a shift in values and expectations that affect women's role in society. However in others, women's successful businesses have only added to their burden; women may be bringing in significant money through their work and dedication to their economic activities though this does not always translate into more power in the home; they often work in the market all day and then come home to the same domestic and family responsibilities that are not shared among the male members of the household. Though some studies indicate many loans are extended to women and paid back by women, they are in fact used by men. Thus empowerment cannot be assumed to be an automatic outcome of micro-finance programmes, especially given socio-cultural settings where women are extremely disempowered. Women were specifically targeted because they make up the majority of the poorest of the poor in the rural areas and are responsible for the social and economic welfare of the family (Pitamber, 2003 & Amina, 2008). Further more many NGOs and donors were dictated by gender policies which specifically called for increased micro-credit outreach to women, and these micro-credit programmes did not limit their desired impact to poverty reduction only, but extended it to achieve women's empowerment (Khandker, 1998; Kabeer, 1998). Poverty reduction and women's empowerment are not the one and the same and that poverty reduction does not automatically lead to women's empowerment (Pitamber, 2003).

It is also necessary to point out that years of research have not extinguished the debate about who exactly benefits from micro-finance. As the path out of poverty is rarely linear, other sets of data point to the importance of targeted assistance in helping the very poor before they can make good use of financial services. Though there is some concern that official development assistance will be diverted from health, education and clean water projects, helpful interventions that are focused on increasing the incomes of poor people may also range from building infrastructure and opening up new markets for the produce of the poor to providing business development services. As financial services are not right for every situation, it is often these interventions that will create conditions and opportunities for micro-finance and not the other way round.

In a speech during the launch of Kenya Women Finance Trust Wide-Area Networking and Websites on April 20, 2004; the USAID Kenya Mission Director, Kiert Toh said that there are not many micro-finance institutions in Africa that have achieved the level of success as the Kenya Women Finance Trust has. The Trust has developed and grown from a small organization to become one of the largest micro-finance institutions in Kenya; today, serving over 100,000 customers, with a specific mission to serve low-income, women, and small-scale entrepreneurs. The loan repayment performance is over 97 percent. This is an excellent achievement by any standards of prudential management of financial capital. It is certainly many times better than the performance of Kenya's development financial institutions and even some banks in Kenya that have much higher non-performance loans in their portfolio.

For an increasing number of poor people, micro-enterprises are a source of employment and income where no other alternatives are available. They have provided economic opportunities and *livelihood for a number of the poor in* Kenya. The experience in Kenya and elsewhere has *shown that support for micro-enterprise finance has done more than simply act as a charity or a* social safety net. It is an investment in productive, economic activities *with high payoff, if* properly targeted and managed.

The presentation delivered by Dr. Khwima Nthara, Economist for the World Bank country office confirmed the positive contribution of micro finance to poverty reduction on all following indicators: incomes, expenditures, acquisition of assets, nutrition, education status of women and basic financial management. However, there are challenges such as the sustainability of micro finance in view of declining resources. That sustainability also depends on proper targeting of the recipients of micro-finance. The designing of appropriate packages to suit the needs of the various groups is time consuming and requiring proper planning which increases the cost of extending micro-finance to the target group, thus making interest rates higher than commercial banks in some cases. In order to minimize the risk involved with extending loans to people without collateral, there is a tendency to focus on women because of the high repayment rate and ability for them to borrow as a group. What then inhibit the poor people especially men from accessing credit? There is need for research on this.

It is more than just lending, said Dokmo, chief executive officer of Oak Brook, Ill.-based Opportunity International, which lends more than $40 million yearly, supporting more than 250,000 jobs worldwide. "I have seen women [in micro-loan repayment groups] in India organize to get electricity, sewage and other basic services for their communities. This also is about dignity and democracy."

If micro-finance has to benefit the poor, the first thing is for the poor to have access to the services offered by these institutions, moreso credit (Mudibo, 2006).

2.2.4 Availability of MFIs and their limitations

A large number of MFIs have set up networks in many African countries taking advantage of increased pressure on governments to deregulate the economy and the financial sector, encourage competition in all sectors and create a more conducive environment for increased production. Thus, micro finance delivery has become an attractive business over the last decade in Africa. Some of these MFIs are local based, while others are either regional or even *international*.

There are several good reasons for giving loans exclusively to women. First of all, the Grameen Bank aims to provide loans for the poorest of the poor. As women are among the most disadvantaged in Bangladeshi society, the poorest of the poor are often women. Secondly, loans given to women seem to bring more benefit to the family than loans given to men. Women tend to use the income generated by the loans to promote their children's welfare rather than for radios, motorcycles, gambling and tobacco, which is often the case with loans given to men. Finally, women have proven better credit risk takers than men have. They are less mobile and socially more vulnerable than men, and therefore easier to apply pressure to. A married woman finds it difficult to leave home and defaulting on a loan could damage her reputation seriously in the village. Therefore, female borrowers go to great lengths to ensure repayment of the loans (Rahman, 1999).

The World Bank study, based on the 1991/1992 household survey, indicates that less than 5 percent of borrowers lift themselves out of poverty each year by borrowing from a micro-finance programme (Khandker, 1998). Despite the large inflow of micro-finance, the incidence of rural poverty remains stubbornly high. The incidence of rural poverty, which was 54 percent in 1983/84, remained above 50 percent over the last decade (Ravallion and Sen 1995). A government estimate indicates that poverty fell to about 44 percent recently. Although this decrease is encouraging, the incidence of poverty remains high and reminds policymakers of the limitations of micro-finance in arresting poverty. It is well established that micro-finance programmes reach an overwhelming majority of the poor and women, to whom formal financial institutions are inaccessible. With their expenses of outreach and loan recovery, Bangladesh programmes find it difficult to achieve financial independence, despite their struggle to become cost-effective through portfolio diversification and other actions. As the majority of micro-finance clients are poor, the survival question of micro-finance is linked with the dynamics of poverty.

Even if poverty decreases through micro-finance, albeit at a slow rate, poverty is rampant in a country that has the largest presence of micro-finance programs in the world. Micro-finance is not to blame for this high incidence of poverty. We must admit that micro-finance is only an instrument among a large number of poverty reduction strategies that policymakers must pursue to reduce poverty. Certainly growth is a significant factor in reducing poverty. Investment in human capital and other means to empower the poor are important tools for reducing poverty (Amina, 2008).

Micro-finance issue was put into a global context. A consensus emerged that successful micro-finance operations relied upon the existence of enabling environment consisting of efficient and adequate infrastructure; health related schemes, insurance policies, adequate regulatory framework, sound macro-economic environment and financial stability, as well as a greater involvement of civil society. As far as the outreach of micro-finance is concerned, it was also mentioned that youth, women, poorest of the poor, and rural population had not received enough attention and focus.

Africans have a tradition and local institutions that are used to pooling finances, human, material and technical resources together to solve local problems. This already existing capacity and these local institutions must be strengthened through the micro-credit.
At the time when the United Nations has decided to support African Development through the New Africa's Partnership for Development (NEPAD), there is need to place micro-credit in the context of the global mobilization of resources needed.
The success of the United Nations efforts regarding micro-credit will come through increased advocacy, better coordination of initiatives of organizations of the UN system, increased donor support, and increased efforts to ensure that resources generated through the micro-credit campaign are strictly utilized for poverty eradication (Africa Advocacy Forum II, 2002).

According to Mudibo (2006), Kenya has approximately 3,120 financial intermediaries countrywide, which operate outside the supervision of the CBK. These are widely represented in the rural areas. The larger the number of MFIs in an area, the wider the choice and the more competitive they become, which may lead to better service delivery.

From the micro-finance standpoint, there are still major obstacles to overcome in order to make micro-finance an instrument for rural development. These obstacles among others include:-

1. Institutional stability is a must. Many MFIs today are ephemeral, created today and dying tomorrow. Institutional stability is characterized by a permanent location, it must stay long enough in an area to build trust and gain the confidence of the local population. It should have secured infrastructure. It should be managed by people from the community, thus be community-based. It should equally develop a pattern of savings mobilization to provide the financial resources for their own development, before seeking for external assistance.

2. Making financial resources available is the key to keeping the MFIs alive. Although savings mobilized by the rural population is small, rural people must start by counting on themselves and on their own savings. In addition to local savings in the MFIs, governments and donors should help. This help can come in the form of subvention, cheap loans for onward lending, or direct assistance. These external sources of finances are necessary today in the microfinance sector in order to stimulate productivity at the base.

3. Re-education of rural people about loans is another crucial point. A very poor precedence was set by the mismanagement procedures in the formal commercial and banking institutions, where loans were considered like handouts from the state benefactor. Farmers today need education not only in loan management but the technical knowledge in developing their activities far beyond the subsistence stage or level of development.

4. Stabilization of rural savings. Capital flight from the rural to the urban areas should be checked in order to have enough money for the development of rural activities. It is often the case that lack of well rewarding rural activities would oblige MFIs to justify their mobilized resources by putting them in high yielding deposit accounts in commercial banks in the cities.

5. The issue of institutional viability versus poverty reduction is a paradox to address. Governments and donors especially should assist MFIs that have a vocation for poverty reduction to resolve this paradox. This assistance can come in the form of start-up subvention for the infrastructure needs of the new MFIs, in the establishment of a revolving fund, or by creating financial services opportunities for MFIs in rural areas. For example, MFIs may pay social insurance allowance to retired workers of the village. In this way, MFIs will not wholly depend on the profit from loans to reach their administrative sustainability. Great flexibility and ingenuity must be exercised by MFIs in order to strike a comfortable paradoxical balance.

Even though many of these anecdotal studies clearly support a role for micro-finance in achieving the Millennium Development Goals, a key challenge in measuring the impact of micro-finance is obtaining reliable data. Sometimes clients are recipients of more than one product, which are provided by more than one micro-finance institution (MFIs). For MFIs, it becomes hard to obtain measures on the exact impact of their services and products on their clients' lives. They also do not have the answer to the question of what proportion of the population even has access to credit and savings. The breadth and scope of micro-finance hinders researchers' ability to determine who is providing what type of services, at what cost and with what effects.
What are the current inhibiting factors that do not allow micro-finance institutions to reach the millions of poor people in Kenya?

Still, it is an uphill climb for micro-lenders to reach the needy. The United Nations estimates that half the world's population lives on less than $3 a day. And while micro-finance is expanding fast, up 25 percent a year in some countries, the tiny loans to the poor still account for less than 1 percent of all commercial lending worldwide, studies show. What are the hindering factors?

A quick overview of impact analyses on micro-credit suggests advantages such as income generation, schooling and social inclusion (Morduch, 1999; Rahman, 2003). Critics of the micro-finance movement indicate that micro-finance has, until today, mainly focused on people, who have no access to financial services, but not to people who are poor (Guerin and Palier, 2005; Lesaffre, 2005). Combining micro-credit with micro-insurance can lead to more inclusion in terms of access to socio-economic services, but can also sharpen certain exclusionary mechanisms. Recent literature indicates that there is evidence about unintended exclusionary dynamics as a consequence of introducing micro-finance (Guerin and Servet, 2003; Rahman, 2003). An excessive focus on financial sustainability is reported to encourage micro-finance agencies to cost down interventions and put stronger emphasis on profit making, with unintended potentially negative consequences for poor borrowers (Morduch, 1999; Woller, 2002; Rahman, 2003). A well known example of an unintended consequence of introducing community-based micro-finance mechanisms is the increased dedication of women to associative work impacting their children (often girls) who cannot attend school anymore to compensate the family care obligations (Servet, 2005). Another example is the nature of micro-insurance exclusionary mechanisms reinforcing the inability of a certain segment of the population to participate or pay premiums. Moreover it has been noted that most surveyed micro-insurance schemes do not offer a sufficient array of social services to effectively protect their members against key risks, and hence give them an unrealistic feeling of safety (Baeza, 2002).

Micro-finance is by definition, a poverty alleviation tool. But how relevant is it for children and youth, who represent more than half of the poor in the Caribbean and worldwide? If the poverty issue is to be addressed successfully, a specific understanding of the poor is needed.

Despite the international attention for micro-finance, more than 30 years of experience and an estimated over 110 millions of clients being served as today, recent evaluation on the effectiveness of the portfolio of its most important promoters such as the World Bank and the United Nations Development Programme (UNDP) has revealed that less than a quarter of the projects that funded micro-lending were judged successful (Rosenberg, 2006). Similar sources indicate that also micro-insurance schemes are strongly donor and government-driven and lack evidence for results (Baeza, 2002).

Field observations show that most MFIs in Malawi and Ethiopia can be categorized as profit oriented, with a clear business approach, with a good network into the rural areas, and with minimum expenditures on training or group mobilization allowing for high repayment rates with minimum risk exposure (Pitamber, 2003).

2.2.5 MFIs procedures for membership and credit application

In Cameroon the question is how to make micro-finance institutions succeed where the financing by formal financial institutions failed. Compared to the formal banking institutions MFIs have a number of advantages that make them much suitable for assisting rural areas. First, there is proximity. Many of these institutions are created in the rural areas closer to the people. Second, the simplification of membership procedures and open access to many people to access the services that MFIs provide. Third, the less stringent conditions for loans, often with no collaterals are also favourable to the community borrowers. Fourth, in most cases, people in the rural areas through the savings they mobilized have a feeling of ownership and real participation in their own development. All these lead to a better channeling of resources to end-users in the rural areas at lower transaction costs.

MFIs operate in niche market because they address the needs of those clients who are considered "high risk" by bigger banks. High risk groups or individuals are characterized as those with very few assets, requiring very small loans, high degree of close follow up, business appraisal and evaluation as well as those engaged in activities whose income is fluctuating such as small holder farmers or petty traders. Thus, the MFIs cater for a market with an operationally acceptable demand level and where clients can be protected from the unreasonable conditions of informal money lenders. Such MFIs, however, charge high administrative costs and higher charges for risk coverage which is in addition to the market interest rates and taking advantage of the niche market for micro loans (Micro-credit Summit for Africa, 2005).

2.3 Empirical literature review

2.3.1 Types of micro-finance institutions and their impact

According to Mudibo (2006), Kenya has approximately 3,120 financial intermediaries countrywide, which operate outside the supervision of the CBK. These are widely represented in the rural areas. During the 1990s, the institutions and organizations that provided micro-finance and business advisory services to medium and small enterprises (MSEs) and the poor included the Government, banks, Savings and Credit Co-operative Societies, Kenya Post Office Savings Bank Ltd, rotating savings and credit associations, and non governmental organizations. According to the National MSE Baseline Survey (1999/ 2000), nearly 89.6% of MSEs had never received credit and other financial services.

(1) The Government

The Government has played a major role in various attempts to enable the poor access financial services. Government policy of extending banking services to the rural areas, for instance, led to considerable improvement in the outreach of the banking system. As a result, there are 54 banking institutions nationwide and over 2,700 Savings and Credit Co-operative Societies. This has led to rapid expansion in bank deposits and credit in Kenya. However, the existing inequitable allocation of financial services and comparatively high interest rates allowed credit indiscipline to grow and denied the poor access to financial services especially in the 1990s.

(2) Banking Institutions

A few banking institutions in the 1980's channeled funds from bilateral and multilateral organizations to small and medium sized enterprises as part of Government programmed projects. These programmes did not however meet their well-intended objectives. They were eventually scaled down and today, K-Rep Bank, the Co-operative Bank of Kenya, Equity Building Society and Family Finance Building Society have developed portfolios in micro-finance on their own initiatives.

(3) Savings and Credit Co-operative Societies (SACCOs)

The SACCO system is a mutual membership organization. It involves pooling voluntary savings from members in form of shares. The savings/ shares form the basis for extending credit to members. Credit is usually based on multiples of savings / shares. The Co-operatives Societies Act regulates SACCOs.

A number of SACCOs are increasingly getting involved in offering a limited range of banking services, through front office operations though legitimacy of their banking operations has been an issue under discussion. It is becoming clear that SACCOs offer the best opportunity for MSE entrepreneurs to access micro-finance services especially in the rural areas due to their extensive outreach and proven ability to mobilize savings for on-lending to members.

The Kenya Union of Savings and credit Co-operatives (KUSCCO) Limited has been playing an important role in the Poverty Reduction Strategy through advocacy for SACCO Societies and the members, representation, education and training of the Board members, members and staff, research and consultancy services and corporate affairs and marketing for the SACCO fraternity. Other services include provision of decent and affordable shelter through the housing fund, the inter lending Central Finance Programme and the coverage of loans and savings through the Risk Management Programme.

(4) Kenya Post Office Savings Bank Ltd (KPOSB)

KPOSB has since 1910 provided deposit services to small savers. During 2001, the KPOSB had 16 full branches, 55 sub-branches and 450 outlets countrywide and over 2 million account holders. The bank is licensed by an act of parliament and supervised and regulated by the Ministry of Finance. It is currently seeking to be allowed to offer limited credit services to its customers.

5) Rotating Savings and Credit Associations (ROSCAs)

ROSCAs are mutual membership clubs registered as social welfare groups. The members pool resources, which they lend to individual members in turns. There are numerous ROSCAs operating in Kenya with several of the smaller ROSCAs not even formally registered.

*6) Non-*Governmental *Organizations (NGOs)*

Many NGOs have ventured into the area of micro finance. NGOs which had their focus on social agenda have taken upon themselves the responsibility of functioning as change agents promoting people's organizations and functioning as feeder-banks linking unreached/underserved micro-entrepreneurs with the banking system. Besides, specialized NGO micro finance institutions are also providing para-banking services through innovative financial products and services to the poor.

Over fifty NGOs practice some form of micro-finance in Kenya. About twenty of them practice pure micro finance while the rest practice micro finance alongside social welfare activities. Some of the major players in the NGO sector are K-Kep Bank, Faulu Kenya, Kenya Women Finance Trust, Pride Ltd, Wedco Ltd, Small and Medium Enterprise Programme (SMEP), Machakos Catholic Diocese, Kenya Small Traders and Entrepreneurs Society (KSTES), Business Initiatives and Management Assistance Services (BIMAS), Ecumenical Church Loans Fund (ECLOF) and Vintage Management (Jitegemee Trust).

According to Sunita Pitamber (2003) in his research on, "Factors impeding the poverty reduction capacity of micro-credit: Some field observations from Malawi and Ethiopia", discovered that, since the establishment of the Grameen Bank as a micro-credit delivery model, many programmes have rushed to replicate the relative success and in doing so, a lot of attention has been given to female micro-credit borrowers. Women were specifically targeted because they make up the majority of the poorest of the poor in the rural areas and they are responsible for the social and economic welfare of the family.

During the 1990s, micro-credit was seen as successful amongst female clients because of high repayment rates and savings capacities. Furthermore, at the same time many Non-Governmental Organizations (NGOs) and donors were dictated by gender policies which specifically called for increased micro-credit outreach to women, and their micro-credit programmes did not limit their designed impact to poverty reduction only, but extended it to achieve women's empowerment (Khandker, 1998; Kabeer, 1998) by enabling them to have their own income and capital. However there is very little empirical evidence that micro-credit will directly empower women (Zaman, 1999). Empowerment as a concept is highly contextual and changes from one environment to another, whereas micro-credit delivery process is applied in almost the same way in most countries. Poverty reduction and women's empowerment are not the one and the same and that poverty reduction does not automatically lead to women's empowerment.

In order to achieve women's empowerment, there must be a change in gender relations. Although definitions and understanding of empowerment vary, the broader guiding milestones are generally agreed to be: increased access to and control over resources and specifically income, greater participation in decision-making in the household and over her body, improved negotiation capacity and greater mobility.

Most of MFIs are specialized in the delivery of small loans to a wide range of clients and especially the "poorest of the poor". MFIs encompass different kind of organizations, such as limited companies, parastatals, in addition to those legally registered as MFIs (Magill, 1994). Experience shows that some MFIs may also channel delivery and recovery of funds through other existing banks with which they may have an operations agreement. Thus such MFIs may not directly be involved in loan disbursements, repayment collection or business monitoring.

According to Amina Mushtaq (2008) in her research on "Role of Micro-credit in Poverty Alleviation" discovered that poverty in Pakistan has many dimensions. The poor have not only low income but they also lack access to basic needs such as education, health, clean drinking water and proper sanitation. The latter undermines and limits their capabilities and their opportunities to secure employment, results in their social exclusion and exposes them to exogenous shocks. Then the vicious cycle of poverty is accentuated when government structures exclude the most vulnerable from the decision making process. Poverty in Pakistan was reported at 31.8%, which comprises of 22.39% urban and 38.65% rural population in the country. The major objectives of micro credit schemes are: *(1) to stop exploitation of the poor caused by expensive informal credit; (2) to provide small loans to poor people at relatively lower cost as compared to accessible informal loans; (3) to finance economically and socially viable projects those cannot be financed otherwise; (4) to empower women within households as decision makers and in society through active economic participation; (5) to create maximum employment opportunities; (6) to create self sufficient and self-employed people and the most importantly; and (7) to reduce poverty, accelerate growth and improve the living standards on sustainable basis* (First Quarterly Report for FY05 on Role of micro credit in poverty alleviation). What then are the major objectives of micro-credit in the Kenyan context? Despite the popularity of micro-credit as a poverty reduction mechanism, there is very little evidence indicating a real positive net effect on poverty reduction (Mosley and Hulme, 1998, Wright and Dondo, 2001).

2.3.2 Challenges faced by micro-finance institutions in Kenya and other countries

There are many problems that constrain efforts of micro-finance institutions and SACCOs and limit their ability to enhance growth of financial services to micro and small enterprises and these challenges include but are not limited to:-

Legal and Regulatory Framework

While regulation is important for ensuring that players maintain acceptable standards, the existing legal and regulatory framework inhibits MSEs from accessing financial services. The present framework basically was designed to cater for a formal financial sector and does not recognize the peculiar circumstances and methodologies required to deliver credit and finance to MSEs. The documentation requirements are designed to focus on risks associated with traditional banking practices, assessing the value and reliability of collateral, determining financial stability of the borrower and avoiding the risk of making insider lending, as well as single large loans. A noteworthy weakness in the regulatory framework is the limitation it imposes on micro finance institutions with respect to mobilization of savings. Under the current regulatory framework, most micro finance institutions are unable to reach a large number of MSEs.

Reluctance by Commercial Banks to serve MSE Sector

Commercial banks operate purely on commercial basis and have therefore been reluctant to lend to the MSE sector. This is because MSE borrowers seldom have any credit history or marketable assets to use as collateral. While innovative methodologies for lending to the sector have emerged in the recent past, existing banking regulations do not encourage borrowers whose characteristics are substantially different from those of typical financial institutions. Reflecting these considerations, only few financial institutions have endeavoured to provide financial services to MSEs.

Lack of information about the potential of the MSE sector and its unique attributes has partly limited the sector's access to credit from the formal financial sector. Insufficient information has affected accessibility of MSEs to financial services at three levels: policy, support institutions and the MSEs themselves. In the past, policies and strategies designed to increase credit and finance to the MSE sector have been formulated in the absence of reliable information on "best practices" methodologies, data on the magnitude of the MSE sector, characteristics of its operators and the factors influencing growth and dynamics of the industry.

Diversity in Institutional Form

MFIs are licensed under eight different Acts of parliament namely; the Non Governmental Organizations Co-ordination Act, Companies Act(for companies limited by guarantee) Trust Act, Trustees (Perpetual Succession) Act, Societies Act, Co-operative Societies Act, Companies Act (for companies limited by shares) Banking Act, and the Kenya Post Office Savings Bank Act.

Some of the above forms of registration do not address issues regarding ownership, governance and accountability. They have also contributed to the poor performance and eventual demise of many MFIs. The introduction of a regulatory framework for MFIs requires them to have a more cceptable form of registration that clearly delineates the responsibilities of owners, directors nd management.

nadequate Governance and Management

he capacity to effectively govern and manage MFIs is yet another factor that impedes the ector's development. Any individual or institution can easily set up an MFI, leaving the urden of due diligence to the donors that fund the institution. Some of the donors however do ot have adequate capacity. As a result, the industry has been made susceptible to unscrupulous perators who give micro finance a bad name. This has led to waste of resources and at times ss of client's money. Furthermore, lack of clear ownership structure has led to poor overnance and failure of many MFIs. Finance and banking requires sound management gardless of the size of transactions. Poor management of financial institutions not only affects e institutions in question but also the economy as a whole.

mited Outreach

FIs, in Kenya, and Africa at large, have very limited outreach compared with those in other untries. Based on National MSE Baseline Survey carried out in 1999/ 2000, there were about 0 formal organizations providing financial services to the poor. The number of the poor they e reaching is however relatively small. The major micro finance institutions providing credit MSEs had 97, 329 active clients with a loan portfolio of shs1.3 billion in 2001.

ere were a total of 117,647 active savers (voluntary and forced) with savings totaling Kshs 5 million at the end of 2001. The MFIs in Kenya therefore serve a limited number of people d yet one of the principles of micro finance is to serve a large number of clients. Serving a ge number of people is necessary for both financial viability and developmental impact.

any reasons, such as inappropriate lending and savings technologies, management capacity, ltural norms and set –up and lack of enabling legal and regulatory framework, account for the v outreach. MFIs must come up with a solution to this predicament for micro finance to ive.

Limited Access to Funds

The shrinking donor funds are today the only source of funding for many MFIs. Moreover, most donors funding come in bits, which make it difficult for MFIs to plan effectively. Although some MFIs put to use deposits collected from their clients, this is not a common practice. The law prohibits institutions from taking public deposits unless they are licensed under the Banking Act.

Related to the access to funds is the impediment to developing new products, particularly savings products. As mentioned earlier, savings products are not only important as a source of funds to MFIs but more so as a service in greater demand than credit. Again, regulatory provisions constraining MFIs from taking deposits hinder this development.

There is a growing body of literature on micro-finance and its impact on poverty (Chowdhury, 2009). However, there are considerable difficulties in generalizing from the findings of these studies owing to the different methodologies used, problems in disentangling the effects of micro-finance from other effects on incomes, and the variety of institutional structures involved. A recent survey summarized these difficulties as follows:-

There are many stories of the transformative effect of micro-finance on individual borrowers but until recently, there has been surprisingly little rigorous research that attempts to isolate the impact of micro-finance from other factors, or to identify how different approaches to micro-finance change outcomes.

In terms of poverty reduction, two key questions have been raised: first, to what extent has micro-finance made a lasting difference in bringing households out of poverty on a permanent basis?, second, to what extent do micro-finance programmes reach the "core poor" and not just the better off among the poor? With the above two questions, the researcher adds a third question of "if micro-finance does not reach the poor, what are the hindering factors? There is a gap on this, which need to be filled (Centre for Global Development, 2007).

2.3.3 Innovativeness in micro-finance institutions

According to Koen Rossel-Cambier (2008) in a research on "Combined Micro-Finance" realized that in the last ten years, one of the most remarkable revolutions that has happened in the micro-finance thinking and practice is the change from a focus on a credit mono-product to ı full array of financial services, and from a target of micro-enterprises to the broader market of ow income households, including both business and family needs (Murdoch, 2004). Initially, nicro-finance was called together with micro-credit, and lending was the focus (Rhyne and)tero, 2006). The transition from micro-credit to micro-finance has brought a change outlook, growing realization that low-income households can profit through access to a broader set of inancial services than just credit (Armendáriz de Aghion and Morduch, 2005).

'he new approach to micro-finance includes the supply of loans, savings and other basic nancial services to the poor (Helms, 2006). People living in poverty, like everyone else, need diverse range of financial instruments to run their businesses, build assets, stabilize ɔnsumption, and shield themselves against risks. Financial services needed by the poor ıclude working capital loans, consumer credit, savings, pensions, insurance, and money ansfer services.

ne can distinguish three major service areas in micro-finance delivery: micro-credit, micro- :vings and micro-insurance products. Micro-credit is the extension of very small loans (micro- ans) to the unemployed, to poor entrepreneurs and to others living in poverty who are not nsidered bankable (Labie, 1998; Helms, 2006). These individuals lack collateral, steady nployment and a verifiable credit history and therefore cannot meet even the most minimal ıalifications to gain access to traditional credit. Micro-credit organizations offer different kind products such as housing and home improvement loans, education loans, consumer loans, or siness loans for working and fixed capital, agriculture or leasing. Lending can be delivered lividually or through groups (groups lending) and products can be differentiated in function collateral, repayment installments and other lending methodologies (Crijns and all, 2006).

e need to save may be more urgent for the poor than for the better-off (Hirschland, 05). Micro-savings services go hand in hand with the supply of deposit and payment ɔducts such as current accounts, small-scale investment funds, money transfer services :luding remittances and various bill payment services. A distinction can be made between igh" and "low frequency" saving. High frequency saving intends to fund short-term investment and to smooth consumption from month to month or from season to season, whereas low-frequency saving is more steady and deals with the long-term accumulation of capital during a person's life (Armendáriz de Aghion and Morduch, 2005).

Micro-insurance is the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved (Latortue, 2003). As with all insurance, risk pooling allows many individuals or groups to share the costs of a risky event (Atim, 2000).
Micro-insurance can be different depending on the insured event (life, health, age, accident, credit or property), payment mechanisms or organizational features (Churchill, 2006; ILO STEP, 2002; Dror and Preker, 2002). Combined micro-finance (CMF) can be described as the combination in the supply of one of the three described product areas -loans, insurance or savings- to the poor in order to deliver a more comprehensive package of service to clients.

In Benin and Burkina Faso for example, certain micro-credit institutions have developed their own micro-insurance products, whereas others focus only on the distribution and work together with an existing insurance company for calculating and managing the risk (outsourcing). Another example is that an existing insurance company develops and offers its own combined micro-finance product (Labie and all, 2007). The strength of a micro-finance institution is often based on its close relationship with clients and distribution coverage within a geographic region. The strength of an insurance company is its capacity to identify and manage risks related to insurance products.

Participants in the second High Level Meeting on Micro-finance (CGAP, 2006) agreed on a common action plan outlined in a Joint Memorandum, and endorsed five key elements of effectiveness for assessing and benchmarking performance. These are strategic clarity and coherence, strong staff capacity, accountability for results, relevant knowledge management and appropriate instruments. Bringing in new dimensions to the micro-finance delivery challenges donor agencies to promote diversity and creativity and a coherent approach, which promotes consistent application of good-practice principles.

evelopment agencies should be aware of their organizational limits and specific added value. is not only their mission or technical capacity which determine their effectiveness. Most ften parameters related to their organizational functioning and procurement impact the way hey effectively support combined micro-finance. This is especially true, when we observe the ntroduction of new, private investors in the micro-finance sector. These institutions are not supported by public funds –mostly intended for poverty alleviation- but are interested in the micro-finance sector because they see this as a way to invest in the informal economy and ultimately develop profits and strategic market outreach.

Efficiency in microfinance is a question of how well an MFI allocates inputs (such as assets, staff and subsidies) to produce the maximum output such as number of loans, financial self-sufficiency and poverty outreach (Balkenhol, 2007). Efficiency of micro-finance schemes may depend on different external variables such as its geographical location, the legal context, the way products are delivered, the level of subsidies and human resource capacities. Combining nsurance with credit schemes has to take into account these elements and -to a large extent- the change of efficiency by introducing CMF will depend on its compatibility with these factors.

World Bank (Micro credit Summit, 1997) classified the micro-credit programme in Bangladesh s one of the most effective anti-poverty tools for the poorest. The programme extends small oans to unemployed poor people that are not bankable. These individuals lack collateral, stable mployment and therefore cannot meet even the most minimum qualifications to gain access to ormal credit. The dynamics of social, economic, political, cultural and environmental forces ontrive in a manner that it separates the rich from the poor, strong from the weak, haves from he have-nots and favor those in a better position. The chemistry of sociology and the social actors like class, gender, ethnicity, caste, religion and age, play an important role in letermining the access to and control over resources for various groups of people in a given society. It is these relationships among people, their social structures and institutional settings, and their access to, and commands over resource base (physical, human, intellectual and social) and the policy framework that promote (or hinder) development. These factors are all the more relevant in the case of women who carry the double burden of gender and poverty (Subrahmanyam, 2000).

Analyses show that public institutions' micro-credit is not available during the whole year, but periodically in accordance with the institution's annual funding programme. It is not possible to rely on whether and when it will be provided. The procedure for applying is rather complicated and centralized, with a small or no influence of the local institutions on decision making process. Except of the Serbian National Employment Service, which has branches all around the country, other institutions are out of borrower's living places. The credit purpose is strictly determined and usually is not compatible with the applicants' needs. Advisory service is low and rather limited on formal requirements regarding the application process. Caused by centralized procedure, the costs are disproportionably high. Nevertheless, the credit price is subsidized below the inflation rate, and therefore is highly affordable.

On the other hand, micro loans provided by private sector are highly available – credit supply is high and always present. The net of micro-credit institution's branches is rather dense and territory is covered well. In order to apply for a micro loan a client is obligated to be a bank's commitment. Some banks give technical support in cash-flow analyses and business plan development, which is the necessity for risk assessment, but there is a lack in overall advisory service. Micro-credit provided by the private sector is rather unaffordable – interest rate is above the profit margin.

2.4 Conceptual Framework

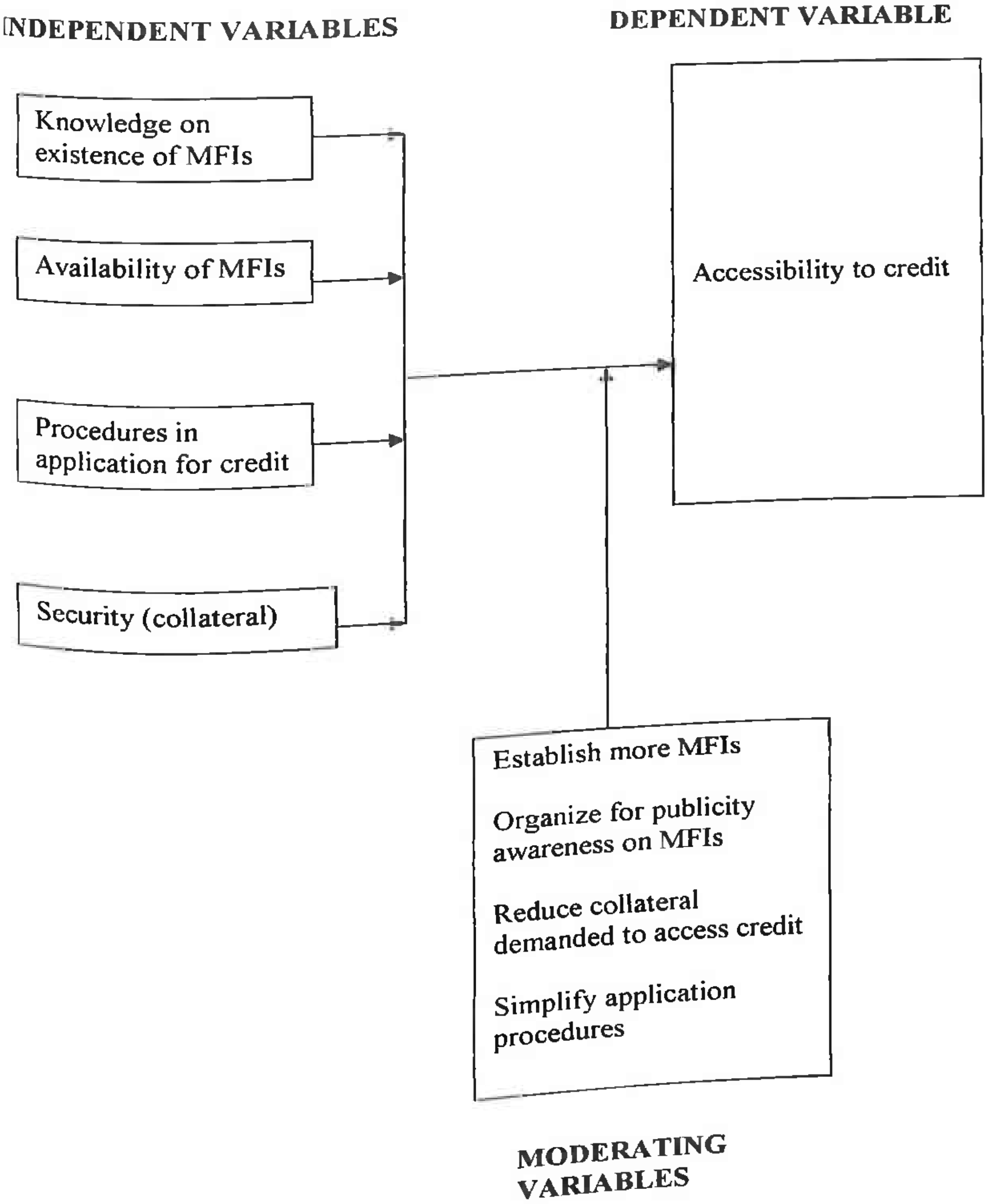

Figure 1: Factors influencing accessibility to credit by the poor in Kinango District

2.4.1 Brief explanation of the variables in the conceptual framework

Accessibility to credit from Micro-finance Institutions by the poor is influenced by the following factors:-

1. Collateral or security-availability of collateral will enhance access to credit.
2. Knowledge on existence of MFIs will increase the chances of getting credit.
3. Availability of MFIS in an area increases the chances of the poor getting credit.
4. Application procedures, if simple, increases the chances of getting credit as the poor will be motivated to apply.

In the absence of the above, then it is recommended that the following be done:-

1. Establish more MFIs.
2. Create awareness on the existence of MFIs.
3. Reduce collateral demanded to access credit.
4. Simplify application procedures.

2.5: Summary of literature

This chapter covers a review of a wide range of literature touching on various aspects of the study topic. The chapter begins with an introductory section which touches on a global perspective of the problem of poverty under investigation and how it has continued to increase in the midst of Micro-finance institutions. The section also touches on the Kenyan situation with regards to increased poverty and accessibility to credit by the poor from Micro-finance institutions. This chapter also covers literature on the historical development of Micro-finance institutions (MFIs) globally and also in Kenya as tools for poverty alleviation. The spread of MFIs to Africa and to Kenya has also been covered in this chapter. Also reviewed in this chapter was literature on various studies done in different countries and in Kenya on the challenges of poverty and strategies that have been developed over time. Lastly the chapter covers a review of literature on how different researchers and writers view as the ways of tackling poverty through increased access to credit from MFIs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This study was carried out in the four divisions of Kinango District in Coast Province of Kenya. The target population comprised residents living in the four divisions of the district. By using purposive sampling method, an appropriate sample for the study was identified. This chapter outlines the different methods used in the research study and the related research design. It shows the data collected, the data collection instruments, data presentation and analysis techniques, the limitations and delimitations of the study.

In this study, both primary and secondary data were collected. The primary data was collected through the use of questionnaires, observations and direct interviews with key informants. Administration of data was by an enumerator who is used to doing such type of work and had received training before the data collection exercise The data collected was both qualitative and quantitative. The data was then analyzed using Statistical Packages for the Social Sciences (SPSS), a software computer package.

3.2 Research design

The research design was a survey study conducted in Kinango District to determine factors that inhibit the poor from accessing credit from Micro-finance institutions. This involved establishing the target population and using random and purposive sampling which is of two types: judgment sampling and quota sampling. The researcher used random and judgment sampling. This sampling involves the choice of subjects who are most advantageously placed or in the best position to provide the information required. This sampling method helped to determine the study sample. The collected data comprised secondary data from relevant literature and primary data obtained from the sampled population through the use of questionnaires, observations and direct interviews with key informants.

3.3 Target population

Kinango District is estimated to have a total population of 230,224 by the year 2010 as per table 1.2 above. It is also estimated to have a total adult population of 109,434 by the same year 2010. This was the productive age group that was of interest to the study. Of the total adult population, 65% (71,132) are considered poor. This is the population that lives below the poverty line. The study population was the poor, that was, the 65% of the adult population targeted by micro-finance institutions in Kinango District, distributed in all the four divisions namely: Kinango, Ndavaya, Kasemeni and Samburu. The accessible population for the study consisted of the poor living in the four divisions.

3.4 Sample size and sampling procedure

The sample study for the survey was 200 respondents. This sample size was able to give representative information on the district. Amina Mushtaq (2008) in her survey on the role of micro-credit in poverty alleviation used a similar sample size of 200 respondents distributed in four different areas of the study. Such a sample size generated reliable information that was useful to this study. The researcher used purposive sampling which is a type of non probability sampling in which the elements in the population do not have any probability attached to their being chosen as sample subjects. Purposive sampling confines to specific type of people who can provide the desired information, either because they are the ones who have it, or confirm to some criteria set by the researcher. Purposive sampling is of two types: judgment sampling and quota sampling. The researcher used judgment sampling. This sampling involved the choice of subjects who were most advantageously placed or in the best position to provide the information required. These were people experiencing micro-credit or had experienced micro-credit so they could better tell what impact micro-credit has or had on their living standard. Better comparison could be made of their living standard before and after utilization of micro-credit. This sample design was used by Amina Mushtaq (2008) in her research on Role of micro-credit in poverty alleviation. The researcher selected those people who had either succeeded in accessing credit or failed to access credit due to one reason or another and those aware of existence of micro-finance institutions. The researcher also used random sampling to identify those aware of existence of MFIs as a tool for poverty alleviation. 50 respondents were selected per division which gave a total of 200 respondents.

3.5 Research instruments

The study used a questionnaire as a principal tool for collection of primary data from the field. There was Focus Group Discussions with key officials and members of Community Based Organizations (CBOs). Review of relevant documents on poverty and Micro-finance institutions which included documented literature, journals and research by other people on the topic was done. Observation was also used where applicable which added to the validity of some of the information given by respondents.

3.5.1 Validity of instruments

To establish the validity of the instruments and therefore the validity of the data collected, a pilot study was done on 15 respondents using the same questionnaire. The pilot study was aimed at testing the clarity of questions as set out in the questionnaire and check out if respondents understood them as what the researcher meant. This pre-test was repeated three times until the researcher and team were sure that the questions were clearly set and had similar meaning. The 15 respondents used in the pilot study were not included in the study to avoid bias. The questionnaire was a valid tool as it gave an opportunity to the researcher to interact with respondents in the process of administering questionnaires. As the researcher moved from one place to the next, was able to make observation of the conditions on the ground and compare them with the written data on the questionnaires.

3.5.2 Reliability of instruments

The questionnaire is the most used tool in research and has been used by many researchers. The questionnaire as a data collection tool helped the researcher to gather structured data from the 200 respondents. The pre-test done on 15 respondents ensured that the questionnaire was understandable and able to collect unbiased data from the field. Amina (2008) in her research on the role of micro-credit in poverty alleviation used questionnaires and observations to collect primary data. She was able to get reliable data that enabled her to analyze the situation as it was that time and the findings of the research can be relied on.

3.6 Data collection procedures and techniques

The survey process began with designing the questionnaire, a principal tool for the survey and training one Data Collection Assistant on how to obtain and record data. The training further dealt with how to enter and relate with the community. Before commencement of the exercise, the researcher paid a courtesy call to the Kinango District Commissioner to share the objectives of the survey and seek official authority to collect data in the district. The District Commissioner was very supportive and wrote an authority letter allowing the researcher to collect the needed data. In order for the researcher to collect meaningful and biased free data, questionnaires, interviews and observations were used. Review of relevant documents on poverty and Micro-finance institutions which included documented literature, journals and research by other people on the topic was done. This methodology and data collection techniques were used by Pitamber S. (2003) in the research on factors impeding the poverty reduction capacity of micro-credit done in Malawi and Ethiopia.

3.7 Data analysis techniques

The collected data from the field was entered manually into electronic form using Statistical Package for Social Sciences (SPSS). The same package was used to analyze data. Frequencies were run and measures of associations/relationships among variables determined. Microsoft Excel software was used to present findings in tables.

3.8 Ethical considerations

The research study followed the ethical principles of research. The purpose and objectives of the research study was explained to each respondent before actual interview started. Privacy during interviews was observed by ensuring that one respondent was interviewed at a time except during focus group discussions. Name and identity of individuals had to be concealed. All the comments and opinions expressed during the survey were quoted with permission.

3.9 Operational definition of variables

Variable	Instrument used	Indicators	Tools of analysis
Independent variables Lack of security	Questionnaire	Low number of poor accessing credit	Statistical Package for Social Sciences was used to analyze data collected using questionnaires Data collected from interviews was entered manually and tabulated. Microsoft excel was then used to present information into tables for easy interpretation
Lack of knowledge of existence of MFIs	Questionnaire	Awareness level of the poor on existence of MFIs	
Inadequate availability of MFIs	Questionnaire	Availability and actual number of MFIs in Kinango District	
Long procedures in application for credit	Questionnaire	The actual procedures followed when applying for credit	
Dependent variable Accessibility to credit by the poor	Questionnaire desk study interviews	Proportion of the poor accessing credit from MFIs	Statistical Package for Social Sciences (SPSS) was used to analyze data collected through questionnaires. Data collected from interviews was entered manually and tabulated.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction.

The research study was conducted in the four Divisions that make Kinango District, namely Kinango, Ndavaya, Kasemeni and Samburu. The data was collected through questionnaires, face to face interviews and observations. The broad objective of the study was an evaluation of the factors that influence access to credit from Micro-finance institutions in Kinango District. From the pilot study to pre-test the instruments, there was no change made in the data collection instruments, and that those piloted were not included in the study to avoid bias.

4.2 Response return rate

A total of 200 questionnaires were administered to randomly selected respondents in the four Divisions of Kinango District targeting 50 respondents per division. The number of respondents varied from one division to another. The actual number of respondents reached per division is shown in table 4.1 below.

Table 4.1: Response return rate per division

Division	Targeted number of respondents	Actual number of respondents reached	Percentage
Samburu	50	78	39
Kinango	50	58	29
Ndavaya	50	39	19.5
Kasemeni	50	25	12.5
Total	**200**	**200**	**100**

The analysis for the above table is that Samburu and Kinango Divisions are more accessible in terms of transport. Samburu Trading Centre, the headquarters of the division is on the Mombasa-Nairobi highway. It also hosts other trading centres like Taru and Mackinnon Road. Kinango Division hosts the headquarters of Kinango District. Due to their accessibility, most MFIs easily reach these places and have established offices there. For instance Yehu has an office at Samburu and others have agents there. At Kinango, most of the MFIs working in the district have either offices or agents. This scenario leads to these two places to have more people being members of MFIs or more aware of their existence. It was also easier for the researcher to reach to these places than the others, hence the higher number of respondents. The other reasons are the high poverty indices in Samburu and Kinango Divisions. Samburu Division leads in poverty followed by Kinango, Ndavaya and Kasemeni. They are therefore targeted by MFIs and were the only hope for the community, hence their large membership in them.

4.3 Respondents' profile and analysis.

Respondents included those employed in public and private sectors, self employed and house wives. Table 4.2 below gives an analysis of the respondents.

Table 4.2: Occupation of respondents

Occupation	Respondents	Proportion percentage
Business	91	45.5
Farmer	29	14.5
House wife	21	10.5
Teacher	17	8.5
Civil servant	17	8.5
Chief	6	3.0
Cook	4	2.0
Community Health Worker	3	1.5
Agricultural officer	3	1.5
Pastor	2	1.0
Student	2	1.0
Accountant	2	1.0
Conductor	1	0.5
Salesman	1	0.5
Catechist	1	0.5
Total	**200**	**100**

The analysis for the above table is that MFIs target everyone and the research team was able to each a cross-section of respondents in different professions. The highest number of espondents reached was business people, followed by farmers and house-wives. This could suggest that most of those who access credit are usually those with established business. It came out clearly that MFIs target those with business as they do not give starter-up credit. The armers could means doing farming as a business as was the case at Mackinnon Road where hey do horticultural farming through the use of irrigation from the main Mzima Spring Pipe Line.

.4 Analysis of the questionnaires.

.4.1: Respondents' knowledge level on existence of MFIs

The background part of the question was designed to establish the respondents' level of awareness on the existence of MFIs in Kinango District. Accessibility to credit is dependent on he availability of MFIs and awareness of their existence. This increases the chances of ccessibility to credit. When the respondents were asked to indicate whether they were aware f existence of MFIs within their areas, 90.5% responded yes as illustrated in table 4.3 below.

Table 4.3: Respondents' knowledge level on existence of MFIs

actor	Yes	No	Factor percentage
Aware of any MFI	181	19	90.5

his means that most of the people in Kinango District are aware of the existence of MFIs, neaning that the MFIs working in the district have strategies of marketing themselves to the ommunity. This was evident by the offices that have been opened or agents that move from ne place to another within the district. For instance, Kenya Women Finance Trust, Yehu and Aga Khan Foundation have full-time staff for this work and have means of transport at their isposal. This could be the reason as to why Kenya Women Finance Trust was the most known n the district as indicated in table 4.4 and had the highest number of clients as shown in table 6.

4.4.2: The number of MFIs working in Kinango District

The background to this question was not only for the respondents to indicate their awareness but also be able to name MFIs that work in the district. This information was important because it would then be compared with their membership to MFIs. When asked to name the micro-finance institutions that they are aware of, they were able to name 23 MFIs as shown in table 4.4 below.

Table 4.4: Names of MFIs working in Kinango District.

Name of MFI	Yes	No	Factor percentage
Kenya Women Finance Trust (KWFT)	85	115	42.5
Yehu	80	120	40
K-Rep	58	142	29
Faulu Kenya	32	168	16
Aga Khan	30	170	15
Kadet	15	185	7.5
Savings and internal lending communities (SILC)	13	187	6.5
Family Care	5	195	2.5
Coast Interfaith Council of Clerics (CICC)	3	197	1.5
Jamii Bora	2	198	1
Chirahu Youth Group savings and credit	2	198	1
Equity Bank	2	198	1
Friends for life	2	198	1
Kilifi Teachers Sacco	2	198	1
Milango Finance	2		

Ɜervices			
Actionaid	1	199	0.5
Mwaluphamba Sacco	1	199	0.5
Benters Group	1	199	0.5
Kwale Teachers Sacco	1	199	0.5
'aru Meat Goat Kiosk	1	199	0.5
'outh Enterprise Fund	1	199	0.5
Vomen Enterprise und	1	199	0.5
wale Sales	1	199	0.5

espite the fact that most of the respondents were aware of the existence of MFIs in the strict, most of them did not know the names of those MFIs. They were able to name only 23 FIs. The reason for this could be due to the low level of interaction between the respondents d the MFIs working in the district. It is only 71 out of the 200 respondents who indicated that ey were members to some of the MFIs named. The other reason could be because most of eir offices being outside the district. It is the officers of these MFIs who visit the district from her Mombasa or Mariakani to transact business.

ked further if they were members to some of the MFIs mentioned above, only 35.5% (71 pondents) said yes as indicated in the table below.

ble 4.5: Respondents' level of membership in MFIs

ctor	Yes	No	No response	Factor percentage
mber of MFI	71	98	31	35.5

spite the high level of awareness on the existence and availability MFIs, most of the ondents were not members of MFIs. The reasons could be the strict conditions or uirements that one has to fulfill to become a member which ranged from joining a group, ment of membership fee, attending regular meetings, saving regularly which the poor may ıot have time as they are busy looking for basic needs for their families. Most MFIs target ‌vomen only which automatically blocked men from becoming members.

The researcher further wanted to know the names of the MFIs in which they were members. They responded as shown in table 4.6.

Table 4.6: Names of MFIs in which respondents are members.

Name of MFI	Yes	No	Factor Percentages
Member of Kenya Women Finance Trust (KWFT)	28	43	39.4
Member of Yehu	22	49	30.9
Member of K- Rep	12	59	16.9
Member of Aga Khan	11	60	15.4
Member of Savings and internal lending communities (SILC)	8	63	11.3
Member of Kadet	4	67	5.6
Member of Kilifi Teachers Sacco	3	68	4.2
Member of Faulu Kenya	2	69	2.8
Member of Family Care	1	70	1.4
Member of Taru Meat Goat Kiosk	1	70	1.4

It is clear that the more an MFI was known the more members it got. For example, Kenya Women Finance Trust (KWFT), which was the most known in Kinango District, had the highest number of members as shown in table 4.6. Therefore MFIs need to have a very clear marketing strategy if it has to get members for its prosperity.

Asked to give reasons as to why they chose to register with the above MFIs, they gave the following reasons as shown in table 4.7.

Table 4.7: Reasons behind respondents' choice of MFIs.

Reasons	Frequency	Percentage
Friendly loan procedures	11	11.5
Target women only	11	11.5
Friendly interest rates	7	7.3
Quick services	6	6.3
Conducive terms	5	5.2
Reach out to rural areas	5	5.2
The only MFI in the area	5	5.2
Varied loan products	4	4.2
Owned by community	4	4.2
Good policies	4	4.2
Friendly repayment period	4	4.2
Flexible loan repayment	3	3.1
Gender inclusive	3	3.1
Members share profits	3	3.1
Encourage small savings e.g Ksh 20.	2	2.1
Large membership countrywide	2	2.1
Ready to work with the poor	2	2.1
Trust.	2	2.1
Automatic after joining ministry job	2	2.1
Sense of belonging	1	1.0
Contribute my shares and can withdraw and take my money.	1	1.0
Target women only.	1	

Good awareness/Sensitization	1	1.0
Trainings are offered	1	1.0
Low registration e.g Ksh 100	1	1.0
Savings are insured	1	1.0
Affordable minimum savings	1	1.0
Well organized	1	1.0
Waive loans to deceased members.	1	1.0
Total	**95**	**100**

From the above it is clear that clients are attracted to MFIs that understood their situation and were more friendly in their transactions of business. The more attractive the policies were, the more the clients they attracted to those MFIs and the higher business transactions were.

For the respondents who were aware of the existence of MFIs but not members of any, gave reasons as shown in the table 4.8 below.

Table 4.8: Reasons behind some respondents not being members of MFIs.

Reason	**Frequency**	**Percentage**
MFIs conditions strict	22	14.9
High interest rates	13	8.8
Not enlightened on MFIs	12	8.1
Target women only	11	7.4
Member of others	8	5.4
No time to attend meetings	8	5.4
Fear of what is already happening to registered members	8	5.4
MFIs target those in groups	7	4.7
MFIs exploit the poor	7	4.7
Amount given too little	5	3.4
Short repayment period	5	3.4

Fear consequences of loan default	4	2.7
Target those in business	4	2.7
Not yet registered as a member	3	2.0
Not interested	3	2.0
Cannot meet MFIs conditions	3	2.0
Fear losing cash through MFIs (Victim of DECI)	2	1.3
Meeting hours not convenient	2	1.3
Conflict in MFIs groups	2	1.3
MFIs milk the community of its cash through high interest rates	2	1.3
Not owned by the community	2	1.3
No regular income	2	1.3
MFIs pocket all profits	2	1.3
Person being new in the area	1	0.6
Concentrating with studies	1	0.6
Still familiarizing with MFIs goals	1	0.6
Low business opportunity in the area	1	0.6
No identity card	1	0.6
Only for the unemployed	1	0.6
Lack of skills on entrepreneurship and MFIs do not train on this	1	0.6
MFIs do not target the poor and illiterate	1	0.6
Unclear procedures	1	0.6
Pastors not allowed to be members of MFIs	1	0.6
Total	**147**	**100**

It was the strictness of MFIs that dissuaded respondents to join MFIs. The unclear procedures, the fact that MFIs pocket all the profits and that MFIs target those in business, left many respondents de-motivated to become members of MFIs. The is a challenge to MFIs to come up with better recruitment procedure if MFIs have to continue being tools for poverty alleviation for the poor.

According to the researcher, accessing credit starts by one having the required qualifications to be a member of a MFI. These qualifications can be classified into 3 categories. These categories are age, sex and occupation. When the respondents were asked to indicate the membership criteria in the MFIs in which they were members, they answered as follows:-

Table 4.9: Responses in terms of age

Age	Frequency	Percentage
28-32	40	20
38-42	39	19.5
33-37	31	15.5
23-27	25	12.5
43-47	22	11
48-52	15	7.5
18-22	8	4
53-57	8	4
58-62	8	4
63-67	2	1
68-72	1	0.5
98-102	1	0.5
73-77	0	0
78-82	0	0
83-87	0	0
88-92	0	0
93-97	0	0
Total	**200**	**100**

The table above clearly indicates that for one to be a member of a MFI, he/she must have attained the minimum age of 18 years. This is the age according to which a Kenyan is considered an adult and qualifies for issuance of a national identity card. This is the reason as to why possession of an identity card was mentioned as one of the qualifications for a loan. Therefore, membership to MFIs was open to anyone who had attained the age of 18 years and had a national identity card. The above table shows that majority of those who were active in MFIs were in the age of 28 and 52 years. The researcher concludes that membership to MFIs was made up of mostly people in the productive age group.

Table 4.10: Responses in terms of sex

Criteria	Frequency	Percentage
Both sex	43	62.3
Female only	24	34.8
Male only	2	2.9
Total	**69**	**100**

It is clear from the table above that most MFIs target women. There are women specific MFIs like Kenya Women Finance Trust. Even those which are gender inclusive still emphasize on women. As a result most of the members of MFIs were women. Women were more trustworthy and liked borrowing as a group. The study was able to identify only one MFI that targeted men only. This was a very new MFI that its survival is yet to be tested over time.

Table 4.11: Responses in terms of occupation

Criteria	Frequency	Percentage
Those with business	25	60.9
Both employed and unemployed	14	34.1
Those with some income	2	4.8
Total	**41**	**100**

The above table shows that those targeted by MFIs are those with businesses. These were people who had established businesses which were assessed to verify their viability whenever they applied for credit. The employed stood a better chance of becoming members and eventually access credit because they had a source of regular income which formed a basis of their personal savings. Those with incomes from whatever source had also chances of becoming members of MFIs. What is very critical is a source of regular income for security.

The researcher was interested to know the length of time the respondents had been members in the various MFIs. Their responses are shown in table 4.12.

Table 4.12: Length of respondents' membership in MFIs.

No. of years	Frequency	Percentage
2	20	27.7
1	12	16.6
3	12	16.6
4	10	13.8
5	8	11.1
10	4	5.5
7	3	4.1
6	2	2.7
8	1	1.3
Total	**72**	**100**

From the table above, it is clear that the number of membership is higher in the first few years of joining MFIs. Year 1 to 4 indicates a higher number of memberships to MFIs, but from year 5 onwards, the number drops. This could be due to the excitement people got when MFIs were introduced in the area. As the years went by, the members started feeling the reality of MFIs as they transacted business with them. Most of them failed to get loans as they could not meet the conditions set by MFIs. To some of those who accessed credit, their dream of moving out of poverty were not realized and ended up losing even the little that they had saved that made them even more miserable than they were found. This is what led Nirmalya Biswas to say that nicro-finance model has been touted as a means of poverty alleviation but is in fact another neans to exploit the poor. This led to the drop in membership.

The researcher was interested to know the number of times the respondents had accessed credit within the duration they have been members in various MFIs. They responded as shown in table 4.13.

Table 4.13: Number of times respondents have accessed credit

No. of times	Frequency	Percentage
1	18	28.5
3	16	25.4
2	13	20.6
4	8	12.7
5	2	3.1
6	2	3.1
7	2	3.1
8	1	1.5
9	1	1.5
Total	**63**	**100**

The table above shows that in the first 3 years application for credit and accessibility was high as clients hoped that MFIs would remove them out of poverty. The experience of repaying loans within a very period of time (most of them 12 months maximum) and the absence of grace period, impacted negatively to most of the clients. For those who defaulted, may lost their assets and savings. This could also have made some of their guarantors lose their savings in the process of bailing out their fellow members. This has led to conflicts in groups and disintegration of some of the groups. This contributed to the drop in the accessibility to credit as members dropped out of MFIs.

4.4.3: Procedures followed when applying for credit

The background to this question is to understand the process clients have to go through to get credit. The procedures can motivate or discourage clients from applying for credit. This information was important because later it can be compared with MFIs in which respondents choose to register as members. When respondents were asked to state the procedures they follow when applying for a loan/credit, they responded as shown in the table 4.14 below.

Table 4.14: Procedures for loan application

Procedure	Frequency	Percentage
Fill a loan application form	55	29.7
Apply through the group	36	19.4
Guarantors to sign application form	29	15.6
Certification by area chief/Lawyer	18	9.7
Recommendation by loan committee/Loan approval	16	8.6
Pay insurance fee/Pay loan application fee	10	5.4
National identity card	8	4.3
Passport size photographs	6	3.2
Attend meetings	3	1.6
Waiting period for loan (1 week-1 month)	3	1.6
Copy of pay slip	1	0.5
Total	**185**	**100**

The table above shows that there were clear procedures that one had to follow when applying for credit. These procedures ranged fro filling application forms, applying through the group, guarantors to sign the loan application form, certification by area chief/lawyer to having to attach a copy of pay slip I some MFIs. These procedures have led some clients to pay bribes to administrators/lawyers for their loan application forms to be certified. Some had to walk long distances to get this type of service as lawyers offices were not found in rural areas. There was need to simplify these procedures to make them more friendly to clients.

4.4.4: Relationship between collateral and accessibility to credit

This background to this question was to understand the role played by security in accessing credit. This was important because the information would compare well to those who get credit and what they were asked to give as security. When respondents were asked to indicate the type of security required by MFIs, they responded as shown in table 4.15.

Table 4.15: Security/collateral required to access credit

Security/Collateral	Frequency	Percentage
Assets, personal savings and guarantors	39	60.00
Members, savings and household assets	15	23.07
Guarantors (3 and above) and shares	8	12.31
Household asset and guarantors	3	4.62
Total	**65**	**100**

The table above confirmed to the researcher that no collateral no credit. This meant that MFIs were purely on business and were not prepared to make any losses. Before one qualified for credit, an assessment of their businesses were done to ascertain the viability of those businesses. Once they repaid the loans, MFIs had no business following on them to see if their lives had improved due to the credit they had got. This clearly showed that the major motivation of MFIs was to do business with the poor and make profits but not to help the poor come out of poverty. The research did not find any client who indicated that he had come out of poverty due to micro-credit from MFIs. There were more complaints than compliments from respondents on MFIs. To some of those who got loans from MFIs had to repay using money from other sources than from the businesses that they had intended to do. This led to domestic conflict in families and left them poorer than they were found.

When the respondents were further asked to state what would happen if one failed to repay the loan on time or completely, they answered as shown in table 4.16.

Table 4.16: Action taken incase of loan default.

Action taken	Frequency	Percentage
Penalty charged	66	66.6
Bail out by members	32	32.3
Take case to police	1	1.0
Total	**99**	**100**

The table above shows that failure to repay loan on time or completely would attract a penalty ranging from payment of extra charge on loan, bail out by fellow members moreso guarantors or take the case to the police. The MFIs have to recover their money by any means which meant members loss of assets and personal savings. For those who have lost their savings through bail out, found it difficult to guarantee other members who needed credit. If one failed to get guarantors, they would not qualify for credit. Those found not credit worthy by fellow members due to their poverty found it difficult to get guarantors leading to no access to credit. This was the reasons that led to some respondent say that MFIs are not interested with the poor. This was the reason that led Dr. Muhammad Yunus to state during the micro-credit conference held in Nairobi in April 2010 that micro-finance institutions had abandoned their original calling. Many of them had become part of the formal banking sector, obsessed with the competition for profits and expansion rather than in the provision of affordable credit to the unbanked social classes. Many of them are micro-credit institutions only in name because they are no different from big banks in the interest rates they charge, the class of customers they seek out and the requirements they impose before considering credit.

When the respondents were asked to give their assessment of MFIs as tools for poverty alleviation, they responded as indicated in table 4.17.

Table 4.17: Respondents' assessments of MFIs as tools for poverty alleviation.

Assessment	Frequency	Percentage
Before providing loans, MFIs to educate clients on how to start businesses. Lack of this type of knowledge has made MFIs not to be tools for poverty alleviation	27	13.11
MFIs have contributed to increased poverty	26	12.62
Few members are accessing, usually those whose partners are working or educated/able	21	10.19
By lending loans/credit, MFIs make people to be self reliant, build up entrepreneurship in people and encourage banking through savings	17	8.25
Low development despite influx of MFIs	13	6.31
Strict conditions do not make them tools for poverty alleviation	11	5.34
For those who meet the requirements, have boosted their economic status	11	5.34
Have financially empowered the rural poor to start income	11	5.34

generating activities, hence alleviating poverty		
Helps meet basic needs	10	4.85
Many people who have poor income get hard time while repaying the loans	10	4.85
Empower women, women able to participate in decision making	7	3.40
For members, majority have improved livelihood	6	2.91
If there could be ways of group formation in such a way that the groups themselves get empowered to mobilize resources, MFIs would become tools for poverty alleviation	6	2.91
MFIs approach is not to alleviate poverty but to do business with the poor	6	2.91
A very desirable tool for poverty alleviation. Some women are accessing funds and start income generating activities, hence poverty reduction	5	2.43
Bring conflicts, causes domestic chaos, they are biased, they only want to make money out of the poor	5	2.43
Causes domestic conflicts, very	4	1.94

ittle loan, same businesses		
Yes if MFIs will follow up loanees' projects and if gender and sects are included in MFIs.	4	1.94
If properly used, MFIs are good tools for poverty alleviation	3	1.47
They do not alleviate poverty because loan repayment period is very short and clients not given time to organize their businesses	2	0.97
Have been a source of employment for youth	1	0.49
Total	**206**	**100**

The respondents' assessment of MFIs as a tool for poverty alleviation is almost 50% positive and 50% negative. This means that 50% of the people involved in Micro-finance have benefited from micro-credit from MFIs and their living standards improved. However, almost the same number of respondents has suffered in the hands of MFIs. They lost even the little that they had saved in order to repay credit.

The respondents went further to give recommendations on how to make MFIs more accessible to the poor and be tools for poverty alleviation. This is illustrated in table 4.18

Table 4.18: Respondents, recommendations on MFIs.

Recommendation	Frequency	Percentage
Be brought to the village and give affordable requirements for one to enroll	106	32.72

:reate awareness on MFIs and rain on business skills	101	31.17
'rolong the repayment period Grace period and repayment)eriod)	35	10.80
Target the real poor in society	20	6.17
)pen MFIs offices in rural ıreas	11	3.39
Target individuals as opposed .o groups	9	2.78
MFIs to be gender inclusive	8	2.47
MFIs to be membership based	8	2.47
MFIs to declare profits to nembers	7	2.16
Have two types of loans, one 'or those with businesses and he other for those without	4	1.23
Start membership MFIs where nembers give their views freely and influence management of MFIs.	3	0.92
Good leadership	3	0.93
Follow up on loans and projects done by loanees	3	0.93
Be empowered by being given some grants and training	1	0.31
Bring in projects that will contribute to community's economic stability	1	0.31
Increase the amount of loan given	1	0.31

MFIs to remain true to their mission of poverty alleviation and not profit making	1	0.31
MFIs have been tools for poverty alleviation for the middle class and the rich	1	0.31
Come up with better ways of dealing with loan defaulters	1	0.31
Total	**324**	**100**

The above recommendations on MFIs by respondents are related to their assessment of MFIs as tools for poverty alleviation as shown in table 4.16. The table above indicates what respondents would wish to see changed in the management and operations of MFIs. They would like to see many MFIs in the rural areas where most of the poor are to easy interaction. This would make MFIs understand the situation of the poor with the possibility of making friendly policies that would motivate community members to become members of MFIs They would like to see more awareness creation being done on the original mission of MFIs. MFIs to come up with better ways of dealing with defaulters prolong repayment period and give grace period for businesses to stabilize. Also MFIs to increase the amount of loan being given out to individuals. At the moment the credit given out is too little for real development to take place. The short repayment period and high interest charged on credit, to some as high as 25% interest rate, discourages members to get large amounts of credit.

4.5 Data interpretation from the analysis of the questionnaire

This section shows how the independent variables investigated had affected respondents' accessibility to loans/credit. The analysis is done for each of the research objectives stated.

4.5.1: Objective 1: To establish the knowledge level of the poor on the existence of MFIs in Kinango District.

A total of 181 (90.5%) out of the 200 respondents interviewed were found to be aware of the existence of MFIs in Kinango District as shown in table 4.2. It is only 19 (9.5%) respondents vho were not aware of the existence of MFIs. Despite the high level of awareness, it is only 71 35.5%) out of the 200 respondents who were members of MFIs as shown in table 4.5. This learly shows that despite people being aware of the existence of MFIs, only a small proportion hose to register as members.

I.5.2: Objective 2: To establish the number of MFIs working in Kinango District.

The 181 respondents who were aware of the existence of MFIs working in Kinango District vere able to name 23 MFIs that work in the District as shown in table 4.4. Out of the 23 MFIs nentioned, it is only 10 MFIs that have members as shown in table 4.6.

I.5.3: Objective 3: To establish the procedures followed when applying for credit.

The 71 respondents who indicated that they were members of MFIs were able to outline the procedures followed when applying for a loan. This is illustrated in table 4.13.

I.5.4: Objective 4: To establish the relationship between collateral and accessibility to credit.

The respondents stated that for one to get a loan, he/she must have security/collateral. This security may be in the form of personal savings, household assets and guarantors. This is illustrated in table 4.14.

CHAPTER FIVE

SUMMARY OF FINDINDS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

.1 Introduction

he broad objective of the study was an evaluation of the factors that influence access to credit om Micro-finance institutions in Kinango District. The specific objectives of the study were s follows:

1. To establish the relationship between knowledge level on the existence of MFIs and accessibility to credit.
2. To establish the relationship between the number of MFIs working in Kinango District and accessibility to credit.
3. To establish the relationship between procedures followed when applying for credit and accessibility to credit.
4. To establish the relationship between possession of collateral and accessibility to credit.

This chapter will give a summary of the findings, make conclusions and also give ecommendations.

.2 Summary of findings

he study established that 90.5% of the respondents in Kinango District were aware of the xistence of Micro-finance institutions (MFIs) working in the district. Despite this high level of wareness, only 35.5% had registered as members. This result indicates that high level of wareness on MFIs alone did not influence registration to MFIs in Kinango District. Awareness as to be accompanied by other motivational factors like free registration as opposed to ayment of registration fee as the case was. This is so because most of the established MFIs ave either opened offices in the district or have fulltime officers with means of transport as was the case for KWFT, Yehu, Aga Khan Foundation, Faulu Kenya and K-Rep. They go out to he villages regularly to market their organizations. Field observations showed that most MFIs n Malawi and Ethiopia could be categorized as profit oriented, with a clear business approach, vith a good network into the rural areas, and with minimum expenditures on training or group nobilization allowing for high repayment rates with minimum risk exposure (Pitamber, 2003). t was found out that MFIs do not declare profits and pocket all the profits. There was no ollow up on clients once they had repaid their loans. Their interest is not to help the client to rogress but rather to ensure that repayment is done on time. The low registration to MFIs ould be a pointer to what happened to those who defaulted in repaying loans and the penalties nuted to them. Many had lost their savings and household assets leaving them poorer than they vere found.

he study found out that those who had registered as members of MFIs, had done so in MFIs hat had favourable terms of service like friendly loan procedures, varied loan products, nembers share profits, waive loans to deceased members, flexible loan repayment periods and others as shown in table 4.7. This shows that conditions or policies of MFIs have greater nfluence on registration of members to MFIs. In Ethiopia as Pitamber discovered, interest rate which was at 6% per annum was more acceptable to clients. This was due to the controlled nature of the economy by the government and the high inflation rate. Another observation was he membership to MFIs was higher in the first few years but there was a consistent dropout as he years went by. When conditions of MFIs dawned on the members, they had no alternative out to leave the MFIs. The members needed to fulfill all conditions of MFIs and moreso to have collateral if they had to continue enjoying the services of MFIs.

The study established that most MFIs working in Kinango District targeted women. Even the MFIs that were gender inclusive, still focused more on women leading to most men being left out. There was only one MFI that targeted men, but this was so new that its survival was yet to be proved over time. Women, as Pitamber says, are specifically targeted because they make up the majority of the poorest of the poor in the rural areas and are responsible for the social and economic welfare of the family. Women were simply better clients than men. Firstly women did not demand high loan amounts, secondly women being risk averse were always punctual with their repayments, third because they knew they will have to borrow in future from the same source, they had to maintain a good record with the MFI. Therefore for MFIs and other micro-credit delivery mechanisms focusing on women as clients made better business sense and contributed to business profits and sustainability (Pitamber, 2003). Further, many NGOs and donors were dictated by gender policies which specifically called for increased micro-credit outreach to women, and the micro-credit programmes did not limit their desired impact to poverty reduction only, but extended it to achieve women's empowerment (Khandker, 1998; Kabeer, 1998).

The study established that MFIs targeted areas that were not only poorer but also accessible. This is evidenced by the high number of respondents for Samburu and Kinango Divisions. These two divisions have higher poverty indices than the other two, Samburu having the highest poverty index. Due to their vulnerability, most of the community members have no alternative than to join MFIs in the hope that their lives would improve through access to credit from those MFIs. The concentration of the MFIs and their marketing strategies and the promise of a better future when one joins MFIs had lured many people to join. The findings of the research have shown that a big number of those who join MFIs drop in the first three years. The reasons for the drop are due to the harsh conditions of MFIs which members are expected to abide. These were attending regular meetings, saving on a weekly basis, short repayment periods without grace period and high interest charged on loans. The interest charged on loans could be as high as 25% which is above commercial banks' rates. For instance, National Bank of Kenya charged interest rate of between 15%-18% on reducing balance.

The study established that there are at least 23 MFIs working in Kinango District. These MFIs had clear procedures for recruitment of members and procedures for application for credit. The application for membership involved filling a form and payment of registration fee in some MFIs. What was seen to be tedious was the application for credit. It involved filling a loan application form and applies through the group. In some MFIs it had to be approved by a loan committee, certified by area chief or a lawyer and signed by either all members of the group or by guarantors. This meant that some members had to cover long distances especially if a lawyer had to sign the form as lawyers are never found in villages. There was also the assessment of clients business as a form of security and check on other securities before a loan is approved. There was a waiting period before the loan finally comes. The whole process could take a month for a loan to finally reach the applicant. Field observations suggest that repayments for loan started immediately, starting a week after the loan has been disbursed and repayments were done in weekly installments. Both in Malawi and Ethiopia, field observations revealed that, other than agriculture credit, repayments were required to start immediately after the loan has been disbursed and repayments done in weekly installments. Lending was done on group and on individual basis. In most cases clients were expected to form their own groups before approaching the MFI for a loan and those who performed well could later be eligible for individual loans (Pitamber, 2003).

5.3 Discussion of the findings

From the findings of the study it came out quite clearly regarding the factors that influence access to credit from Micro-finance institutions in Kinango District. Each of the factors investigated is therefore discussed below:-

Knowledge level on existence of MFIs

The study established that there was a high level of awareness on existence of MFIs in Kinango District. Despite the high awareness level, membership to MFIs was still low. This meant that creating awareness alone would have little effect in membership to MFIs that would eventually lead to increased accessibility to credit. Most of the MFIs working in the district had full-time staff and who were mobile. They had very clear marketing strategies that led to the high awareness level but membership remained low. The reasons for the low membership in MFIs could be due to:-

1. Most MFIs targeted or focused more on women which closed out men. This was similar to what Pitamber (2003) found out in Malawi and Ethiopia where women were specifically targeted because they made up the majority of the poorest of the poor in the rural areas and were responsible for the social and economic welfare of the family. The small size of loans given by MFIs did not motive men to join.

2. The fear of losing even the little that they had saved discouraged them from registering with MFIs. This fear developed out of the experiences that others went through as they repaid for

oans that had been disbursed to them by MFIs. Some had lost their savings plus household ssets to clear their loans.

rogrammes designed to promote accessibility to credit from MFIs by the poor should focus nore on other factors that have stronger influence like friendly policies other than publicity. or instance in Ethiopia the interest rate was said to be at acceptable levels and this was mainly lue to the highly controlled nature of the Ethiopian economy and the inflation rate (Dejene, 999).

umber of MFIs working in the district

he study established that there were MFIs working in Kinango District. The respondents were ble to mention 23 MFIs working in the district. The existence and number of MFIs in the listrict did not in itself influence membership to MFIs and in turn to accessibility to credit. stablishment of more MFIs should go hand in hand with a focus on other factors that nfluence accessibility. There was need to establish more MFIs that had better terms of service hat would have encouraged many people to register as members.

ccording to Mudibo, Kenya had approximately 3,120 financial intermediaries but still poverty vas on the increase (Mudibo, 2006). It was high time that MFIs listened to what the people vere saying and make necessary adjustments as proposed in table 4.18. The size of the amounts f loans given did not enable one to make any long lasting income change for the household. his discouraged mostly the men from joining MFIs (Pitamber, 2003). Therefore MFIs are sked to increase the loan amounts and extend repayments periods.

rocedures followed when applying for credit

he study established that procedures followed influenced membership to MFIs and in turn to ccessibility to credit. The more the procedures were simple and understandable, the more the eople would be encouraged to register as members and increase accessibility. Simplification f application procedures should go hand in hand with a focus on other factors that influenced ccessibility to credit.

mpared to the formal banking institutions MFIs have a number of advantages that make m much suitable for assisting rural areas. First, there is proximity. Many of these institutions created in the rural areas closer to the people. Second, the simplification of membership cedures and open access to many people to access the services that MFIs provide. Third, the ; stringent conditions for loans, often with no collaterals are also favourable to the nmunity borrowers. Fourth, in most cases, people in the rural areas through the savings they bilized have a feeling of ownership and real participation in their own development. All se lead to a better channeling of resources to end-users in the rural areas at lower transaction its (Micro-credit Summit for Africa, 2005).

llateral possession and accessibility to credit

e study established that no collateral no accessibility to credit. The collateral could be in the m of personal savings, guarantors and household assets. This was the single most factor that luenced accessibility to credit from MFIs. There was need to reduce collateral demanded on dit to increase accessibility. There was the idea of starting collateral free MFIs. There were eady examples of Islamic banks from Middle East that were running special products that 'e free collateral loans.

cording to Shahid Khandker (2001) in his speech "Does Micro-finance Really Benefit the or?" observed that strategies such as collateral-free, group-based lending and mobilization of ings (even in small amounts) has mitigated their formal counterpart's problems of poor reach and high loan default costs. But the apparent success has caused Bangladeshi Micro-ance Organizations to bear high transaction costs, in order to keep credit discipline under up pressure and monitor borrowers' behaviour. The transaction costs are substantial, and grammes rely on donors to sustain their operations (Khandker 1998; Khalily, Imam, and an 2000; Morduch 1999; Yaron 1992, 1994). Nonetheless, governments and donors continue support micro-finance programmes in Bangladesh, expecting that such investments will nefit society.

andker considers savings as an indicator and finds that this factor has an influence on dicating poverty. He argues that credit programmes do stimulate savings because micro-dit borrowers make mandatory savings every week, which they are entitled to withdraw at end of their membership. In addition, he finds micro-credit programmes have a positive pact in generating not only voluntary savings but also additional savings among the rowers (Khandker, 2000).

spite the popularity of micro-credit as a poverty reduction mechanism, there is very little dence indicating a real positive net effect on poverty reduction (Mosley and Hulme, 1998, ight and Dondo, 2001).

orld Bank (Micro credit Summit, 1997) classified the micro-credit programme in Bangladesh one of the most effective anti-poverty tools for the poorest. The programme extends small ns to unemployed poor people that are not bankable. These individuals lack collateral, stable ployment and therefore cannot meet even the most minimum qualifications to gain access to mal credit. MFIs should come up with innovative ways of dealing with the issue of collateral hey have to remain tools for poverty alleviation.

Conclusions

cro-credit was meant to be an enabling, empowering, and bottoms-up tool to poverty eviation that provided considerable economic and non-economic externalities to low-income useholds in developing countries. But there has been a gradual apprehension that micro-dit alone is not enough. Micro-credit is not a replacement for jobs that are not there, markets t are inaccessible, or education and skills that do not exist. Micro-credit is indeed an ential ingredient in the development process, but not the only ingredient (Amina, 2008).

owledge level on existence of MFIs

vareness on the existence of MFIs in Kinango District was so high (90.5%) and one would pect this to be reflected in the number of membership to MFIs. Out of the 200 respondents, it s only 71 (35.5%) who had registered as members of MFIs. What happened to the rest of the pondents? Marketing of MFIs as tools for poverty alleviation should go together with mation of MFIs that are responsive to the conditions of the poor. This would lead to MFIs that have acceptable terms of service as was the case in Ethiopia (Pitamber, 2003). This was why despite the popularity of micro-credit as a poverty reduction mechanism, there was very little evidence indicating a real positive net effect on poverty reduction (Mosley & Hulme, 1998; Wright & Dondo, 2001).

Number of MFIs working in the district

The respondents named 23 MFIs that worked in the district. This meant that there were MFIs working in the district. The advantage of having a large number of MFIs working in an area is the competition and the wide choice that the community will have which leads to better service delivery. Whether this number was ideal for the district is not clear. What is clear was that even with that number of MFIs, membership was very low. Therefore it is not so much about the number of MFIs working in an area, but moreso the policies of those MFIs. Even if there are few MFIs but have friendly policies, the number of membership would be high.

Procedures followed when applying for credit

Every organization has its own way of doing this. This is good for every organization and is encouraged to have such. However, these procedures should be simple so that they would attract rather than distract clients. The study has established that the procedures followed by MFIs in Kinango District was cumbersome and had negative impact on membership. This led to the low membership to MFIs in the district despite their reasonable number.

In Pakistan, micro-credit is defined as a credit provided to 'poor' free of collateral (the only collateral is the 'peer' collateral) through institutionalized mechanism. This credit is made available 'as and when' needed at the doorstep of the client (Bajwa, 2001).

Collateral possession and accessibility to credit

The study concludes that lack of adequate security or collateral contributed to the low number of membership that led to eventual low accessibility to credit despite the high awareness and existence of 23 MFIs as identified by respondents. Both collateral and procedures of MFIs had strong influence to membership and eventual accessibility to credit. Most of the poor could not afford the needed collateral and procedures to be followed. This led to low membership and ow accessibility to credit leading to increased poverty (Kinango is the poorest district as from he 2009 Constituency Poverty Index in Kenya).

.5 Recommendations

rom the findings of this study it is clear that Kinango District has MFIs that are working there ut accessibility to credit by the poor is low. This could be as a result of what Dr. Yunus (2010) vould call them MFIs that have abandoned their original calling. Many of them have become art of the formal banking sector, obsessed with the competition for profits and expansion ather than in the provision of affordable credit to the unbanked social classes. Many of them re micro-credit institutions only in name because they are no different from big banks in the nterest rates they charge, the class of customers they seek out and the requirements they mpose before considering credit. The researcher therefore makes the following ecommendations:-

. The campaign for the awareness on existence of MFIs as tools for poverty alleviation should e accompanied by the formation of friendly MFIs that have friendly policies that would attract nd be responsive to the needs of the poor.

2. The existence and the number of MFIs working in an area in its self is not the most important actor. What is important is the existence of MFIs that are acceptable by the people because hey respond to their needs. The researcher recommends for the formation of MFIs that respond irectly to the needs of the poor in Kinango District.

3. The procedures followed are cumbersome and time consuming. There is an urgent need to nake simple procedures for membership and application for loans.

4. The collateral charged is so high and added to the high interest rate charged on loans, it ecomes unbearable to the poor. The researcher recommends for the formation of collateral free loans as what is happening in the Moslem world where loans are given free of collateral. Another option is for MFIs to charge very minimal collateral on loans to allow for greater participation of the poor.

5.6: Suggestions for further research

The study covered mainly the factors influencing access to credit by the poor from Micro-finance institutions in Kinango District. It would be interesting to research on how those accessing credit have benefited in terms of uplifting their standard of living. Also to research on how targeting of women by MFIs has contributed to women participation in decision making at family and at other levels.

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APPENDICES

APPENDIX 1: LETTER OF TRANSIMITAL OF DATA COLLECTION INSTRUMENTS

Dear sir/Madam

My name is Michael Chidzao Nyanje working for an Organization called Ilishe Trust, in Mombasa. I am currently pursuing a Masters of Arts Degree course in Project Planning and Management at the University of Nairobi

In partial fulfillment of the requirements for the course, I am supposed to submit a research report based on a topic of interest whose findings will fill a knowledge gap in society and the public at large. The topic of this research is" An evaluation of the factors inhibiting access to credit from Micro-finance Institutions: The case of the poor in Kinango District."

The purpose of this letter is therefore to introduce myself to you, the intention of my research and request for your co-operation. Please fill the attached questionnaire as honestly and objectively as possible. The information generated will help me in the identification of gaps for corrective action.

Also find attached continuum (A) and (B), to facilitate the objectivity of your responses for rankings and evaluation for the questions asked.

All information provided will be treated in strict confidence and will only be used for the purpose of analysis for the study.

Thank you for your support.

APPENDIX 2: QUESTIONNAIRE FOR DATA COLLECTION

(Please provide the following information)

BACK GROUND INFORMATION OF RESPONDENT

Name--

Age--

Division -----------------------**Location**---------------------------

Level of education---

Occupation--

1. Are you aware of any Micro-Finance Institutions working in your area?
   a) Yes.
   b) No.

2. (a) If yes, please name those that you know

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....

....

(b) If the answer is NO, give reasons,

(If the response is "NO" to question "2" above then go to question 15 and 16)

3. Are you a member in any of the MFI mentioned above?
   a) Yes.
   b) No.

4. If Yes in 3 (above) which one(s).
....
....
....
....

5. If the answer in 3 (above) is NO, give reasons.
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....
....
....

(If the response is NO to question 3 above then go to question 15 and 16)

6. What made you choose to register with that/those particular MFI(s) and not the others you mentioned earlier?

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……………………………………………………………………………………………………

……………………………………………………………………………………………………

7. What is the membership criterion in the MFI(s) which you are a member?

i. Age……………………………………………

ii. Sex……………………………………………

iii. Occupation……………………………………

8. For how long have you been a member of that/those MFI(s)?

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……………………………………………………………………………………………………

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……………………………………………………………………………………………………

9. How often have you accessed credit in that/those MFI(s)?

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10. What are the requirements in order for one to qualify for credit?

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11. Please give an outline of the procedures one has to follow when applying for credit

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12. What was the security of the credit applied?

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13. What happens when one fails to pay on time (completely)?

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14. How has this institution (MFI) affected your standard of living?

i. Individual level ....

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ii. Family level

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15. From your own point of view, give an assessment of MFIs as tools for poverty alleviation in your location?

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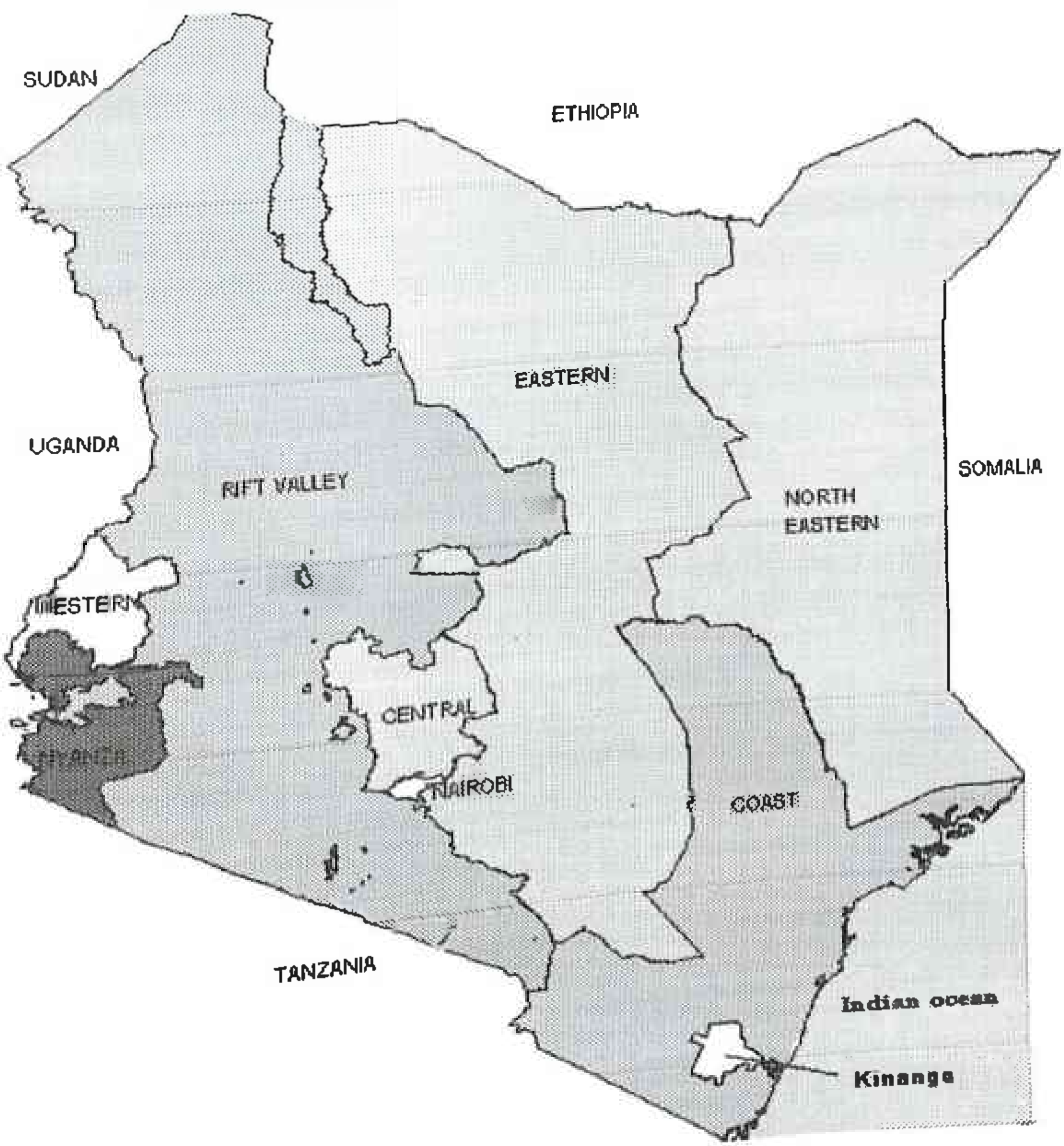
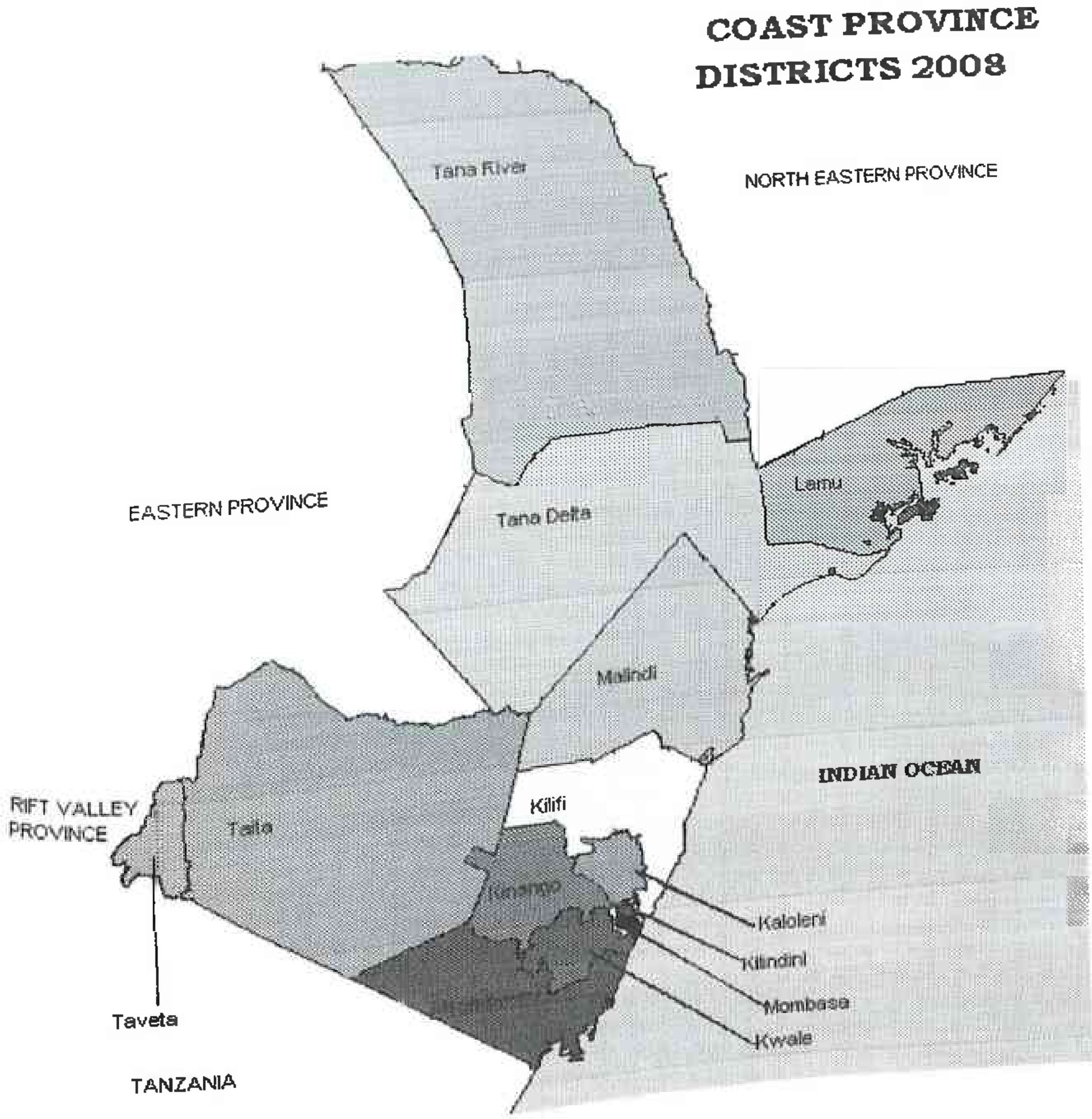
16. What do you as an individual recommend to be done to make MFIs more accessible to the poor?

APPENDIX 3: KINANGO DISTRICT IN THE MAP OF KENYA



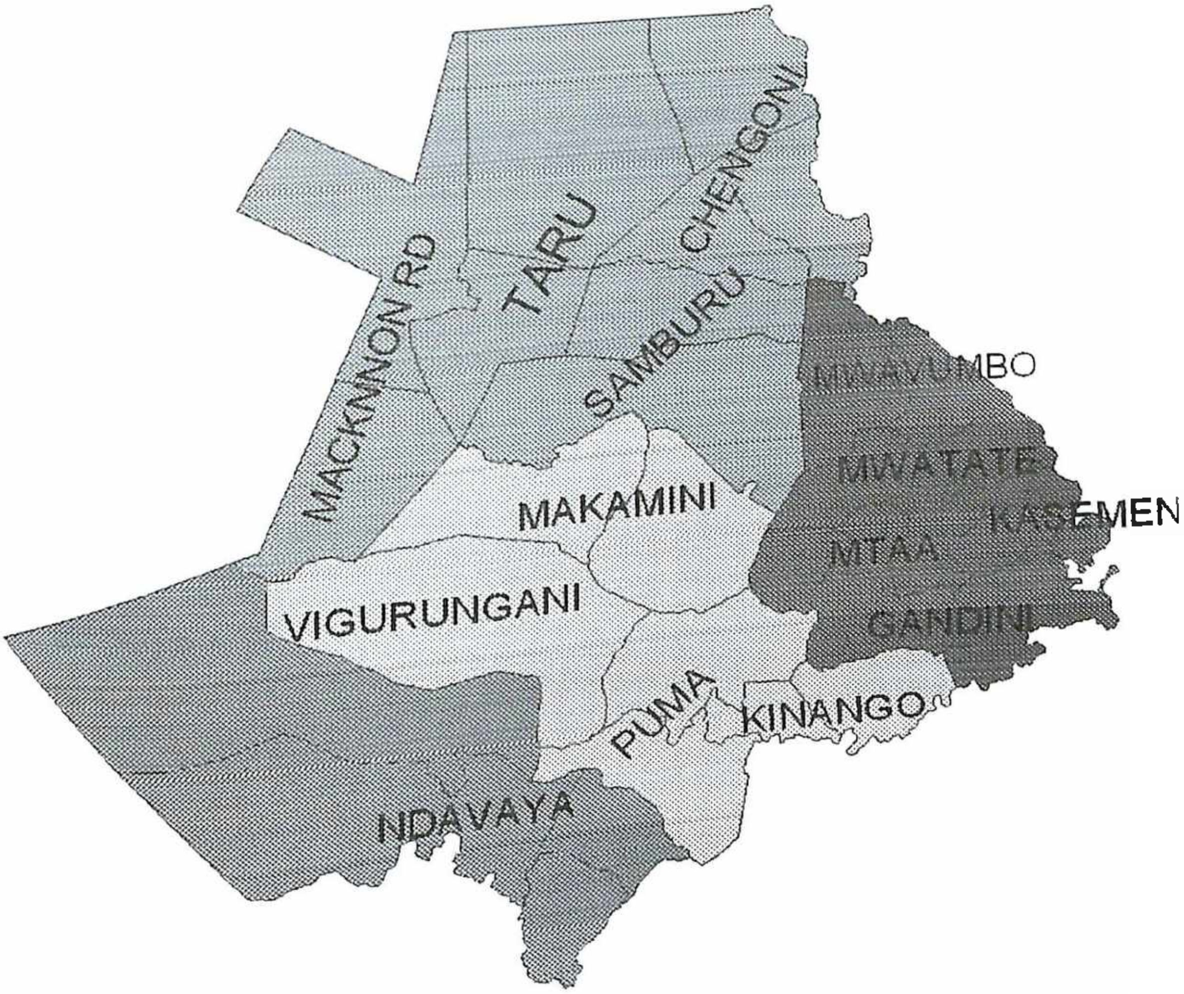
(Source: Kinango District Development Plan 2008-2012)

APPENDIX 4: KINANGO DISTRICT IN THE MAP OF COAST PROVINCE



(Source: Kinango District Development Plan 2008-2012)

APPENDIX 5: MAP OF KINANGO DISTRICT



(Source: Kinango District Development Plan 2008-2012)