MICROFINANCE INTERVENTIONS ON RURAL AND URBAN HOUSEHOLD POVERTY LEVELS IN KISII COUNTY, KENYA

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OCTOBER, 2014

DECLARATION

By Student

This thesis is my original work and has not been presented for award of a degree in any other university

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DEDICATION

I dedicate this thesis to my parents Mr. and Mrs. Ogembo who have instilled a lot of discipline and culture of hard work in me. To my husband Daniel Bundi for his moral and financial support and encouragement through the entire period, to my sisters Janet, Edina and brothers Herbert, Vincent, Thomas and Henry for their financial and moral support.

ABSTRACT

Poverty is a global phenomenon that affects nations, continents and individuals differently. It afflicts individuals in different depths and levels at different times and stages of existence. This study sought to establish the influence of microfinance interventions in the management of rural and urban household poverty levels in Kisii County. The objectives were to: compare financial services on rural and urban household poverty levels, compare influence of non-financial services on rural and urban household poverty levels and examine collateral challenges rural and urban households face in accessing microfinance interventions. Group lending model was used and a comparative survey research design adopted. Target population was 50 credit officers of microfinance institutions and 6,667 customers totaling to 6,717. Respondents were stratified and thereafter a simple random sampling technique used to select 130 respondents for the study. Structured questionnaires were used to collect data from the selected sample. The data was analyzed using both descriptive and inferential (ANOVA) statistics. The study found that loans had greater influence on rural respondents in meeting health services, paying school fees for their children and expanding their businesses. As for the urban respondents loan played a vital role in starting business and improving their living standards. Further, savings is a requirement by the microfinance institutions though it is either compulsory or voluntary. However, medical insurance is not offered to clients {ANOVA p= 0.047}. Findings showed that non-financial services had a greater influence on urban households than to rural households in training on bookkeeping, entrepreneurial skills, financial statement, budgets and consultancy services {ANOVA p=0.043}. Equally, the study found that security is a requirement when one borrows a loan and neither guarantors nor chattels alone can be used as security. In addition, title deeds and logbooks are not the only security used by the MFIs, security influences credit given to clients and can be sold to clear outstanding balance if clients fail to repay, informal deeds are not accepted {ANOVA p=0.022}. The study recommends that the institutions should offer non-financial services like training on how to prepare financial statements and business plans, marketing services and consultancy services to the clients to enable them maintain proper records and run their businesses efficiently.

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LIST OF ABBREVIATIONS

ERS	-	Economic Recovery Strategy
FOCCAS	-	Foundation for Credit and Community Assistance
GDP	-	Gross Domestic Product
IFAD	-	International Fund for Agricultural Development
IWGIA	-	International Work Group for Indigenous Affairs
KIHBS	-	Kenya Integrated Household Budget Survey
KNBS	-	Kenya National Bureau Statistics
KWFT	-	Kenya Women Finance Trust
MDG	-	Millennium Development Goals
MFI	-	Microfinance Institution
MMR	-	Monthly Monitory Report
PAHNAL	-	Patronato del Ahorro Nacional
PEAP	-	Poverty Eradication Action Plan
PRSP	-	Poverty Reduction Strategy Paper
UNDP	-	United Nation Development Programme
WMS	-	Welfare Monitory Survey

OPERATIONAL DEFINITION OF TERMS

Poverty: Poverty is the lack of access to basic needs, education and health care.

Microfinance: Microfinance is the provision of financial services and non financial services to the poor living in both rural and urban settings who are unable to obtain such services from the formal financial sector. It is also referred to as banking and or financial services that target low and moderate households.

Financial services: these are the services that involve provision of funds. They include; micro-loans, micro-insurance, micro-savings and deposits.

Non financial services: these are the services not involving provision of funds. They include; training on business management, book keeping practices, business plan, entrepreneurial skills, budgeting and preparing financial statements, consultancy, health program and marketing.

Collateral: are properties or other asset that borrowers offer to lenders to secure a loan. They include chattels, title deeds, logbook, and guarantors.

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CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter contains the background of the study, statement of the problem, research objectives, research hypothesis, significance, scope and assumptions of the study.

1.1Background of the Study

Poverty has been a challenge over years. It is a global phenomena that haunts many people across the world by depriving them of their basic needs. Poverty remains a concern in many of the developing countries of the world (World Bank, 2002). Millions of people each day live in abject poverty, children going without food and their bodies stunted by malnutrition. As other parts of the world register sustainable growth and development, Africa is still trapped in a vicious circle of donor dependency and borrowing (Matovu, 2006). Forty percent of Africa's population, which translates to 750 million people, live under recognized international poverty levels of one dollar ($) a day. The number has gradually increased Africa`s share of the world`s absolute poor to 30 percent from 25 percent in 1990s (UNDP, 2001 and 2002).

Kenya has about 46 per cent of its population, 16.7 million, living below the poverty line and 19 per cent of them are extremely poor and can hardly afford a day's meal. This is slightly high compared to neighboring countries like Tanzania and Uganda which records 36 and 31 percent respectively (IWGIA, 2012). In 1997, Kenya recorded 52 per cent of its population living below poverty line (Kenya National Bureau Statistics, 2007). In the 2005 report by United Nations, Kenya was position

154 out of 177 countries in terms of expectancy, literacy levels and overall Gross Domestic Product (GDP). About 3 years earlier Kenya was ranked 134 while its neighbors Uganda and Tanzania were position 144 and 164 respectively (UN, 2005).

Geographical disparity in poverty distribution is large. Poverty is not only on a steady increase but also wide spread in rural areas (Matovu, 2006). About 79 per cent of Kenyan populations are rural dwellers who entirely depend on agriculture (IFAD, 2009). Toshiya and stone (2005) states that dominant focus of poverty reduction should be on rural areas where majority of the world's poor population dwell and urban poor are migrants escaping rural poverty. According to Poverty Reduction Strategy Paper (2005) three quarters of the poor live in rural areas while a greater percent of urban poor live in slum. The Government of Kenya carried out a Welfare Monitory Survey (WMS) in 1992, 1994 and 1997 to assess the level of poverty in the country (PRSP, 2005). In 1997, WMS recorded that 53 percent of people living in rural areas are classified as overall poor and 51 percent are food poor. In urban areas 49 percent of the population was poor and 38 percent are food poor (PRSP, 2005).

Food insecurity is among the factors that contribute to household poverty. A survey on household budget by the Kenya National Bureau Statistics (2007) states that 20 percent of Kenyans suffer from food poverty to the extent that their entire income cannot be enough to buy food. Malnutrition continues to be a threat to children and women. The survey records that 33 percent of children are stunted, 6 percent wasted and 20 percent underweight. National immunization coverage is 76 percent lower than the recommended 85 percent (KNBS, 2007).

Microfinance intervention is one of the measures used to address household poverty in promoting economic growth and improving the well being of individuals. It provides credit to low income households who are excluded from conventional financial institutions. Bangladesh is an example of a poor country where close to a quarter of the rural households is direct beneficiaries of these programs (Khandker, 2003). Microfinance intervention is a vital tool to break the vicious circle of poverty that is characterized by low savings, low income and low investment (Matovu, 2006).

1.2 Statement of the Problem

Many millions of people each day live in abject poverty, for instance, children going without food, which makes their bodies stunted by malnutrition. Strategies have been formulated to address household poverty in order to transform rural households status of living. In Kenya for instance, the microfinance sector was introduced and accepted with the objective of satisfying the unmet financial demands and reducing household poverty. The sector has also involved women who were earlier excluded as way of empowering them.

Microfinance variables like loan cycle, volume of last loan taken, experience with the microfinance institution and education has a positive significant effect on the customer`s poverty status (Aigbokhan and Asemota, 2011). However, more research needs to be conducted to ascertain whether microfinance intervention has an impact on household poverty as was done by this study. Forty six percent of Kenyan population live below the poverty line and that 19 percent of them are extremely poor to the extent that they cannot afford a day`s meal (IWGIA, 2012). According to Poverty Reduction strategy Paper (2005) three quarters of the poor live in the rural areas while the majority of urban poor people live in the slums. Toshiya and Stone

(2005) emphasizes on reducing rural poverty where the majority of the world`s poor population live.

Fifty one percent of Kisii`s population live below poverty line (Kenya counties, 2010). Jagero (2013) notes that 46.3 percent of the population of Nyamira county live below poverty level, Nyeri 32.4 percent, Meru 27.5 percent, Kisumu 45 percent and Kisii 59.8 percent. This clearly indicates that poverty still exist in Kisii. Therefore if the MDG, goal number 1 of reducing poverty is to be achieved, poverty should be reduced. Hence this study aims at examining the influence microfinance intervention has on rural and urban households poverty in Kisii County.

1.3 Objectives of the Study

1.3.1 Broad Objective

To establish the influence of microfinance interventions in the management of rural and urban household poverty levels

1.3.2 Specific Objectives

i. To compare the influence of financial services on rural and urban households poverty levels
ii. To compare the influence of non-financial services on rural and urban households poverty levels
iii. To examine the collateral challenge rural and urban households face in accessing microfinance interventions

1.4 Research Hypothesis

HO_1: There is no significant relationship between financial services and poverty levels in rural and urban households.

HO_2: There is no significant relationship between non financial services and poverty levels in rural and urban households.

HO_3: There is no significant difference in collateral challenge faced in accessing microfinance interventions between rural and urban households.

1.5 Significance of the Study

The findings of this study would benefit scholars in this academic field as well as contribute to the growing body of knowledge on the influence of microfinance interventions on household poverty levels. The management of microfinance institutions would also discover how clients utilize their services and some of the challenges they face in order to improve on the delivery of the product.

1.6 Scope of the Study

This research study was conducted in Kisii County. The main aspects investigated in this study were financial and non-financial services and collateral challenges that face clients of the Microfinance Institutions in the area of study. The study was conducted between May 2014 and June 2014. The respondents were credit officers and customers of selected microfinance institutions.

1.7 Assumptions of the Study

The assumption of the study was that respondents gave reliable information that was required and they were transparent and honest when filling the questionnaire.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents review of models, concept of poverty, concept of microfinance intervention, link between microfinance intervention and poverty and the conceptual framework of the study.

2.1 Models of Microfinance Interventions and Poverty

2.1.1 Individual Lending Model

Individual lending model provides an emphasis on individual loans (Addo, 2012). Individual loans are based on one's personal credit worthiness. It is more preferred by clients that require bigger size loan and have ability to produce guarantee for the MFI to have enough trust on them. MFIs through loan officers base their decision on personal knowledge of the client, one's reputation among peers and society, client's income and business position. The loan size and tenure is negotiated depending on borrower's activity. Loan amount and maturity increases as the borrower shows prompt repayment.

Individual lending program require borrowers to save a certain amount of money on weekly basis for a period of three months before accessing a loan. Collateral is 33.3 per cent on savings with a minimum of two guarantors, a practice that hinder the participation of very poor people. Lending is open to all especially the poor but the most important factor microfinance institutions look at is that the borrower has a viable income generating legal activity (Addo, 2012). Gine *et al* (2006) notes that poor borrowers may divert the loan borrowed to meet their urgent consumption needs. Hence Champagne *et al* (2007) emphasize on regular client visits to ensure the loan is used on the agreed purpose.

2.1.2. Group Lending Model

Group lending model emphasize on group loans (Adams & Landman, 1979). The objective of group approach include encouraging savings, improving the debt collection rate and the creation of platforms for providing training to borrowers so that they may gain confidence in tackling problems (Rahman & Khan, 2013). A group often consists of five to ten members who organize themselves into groups (known as solidarity groups). Members come from the same area but close relations are not allowed in one group. Each group elects a chairperson, treasurer and secretary to run its affairs. The group has by-laws that govern its activities. A new group undergoes weekly training sessions for a period of six weeks on group dynamics, business skills, health and nutrition, book keeping, accounting and loan deposits. A bank credit officer is present every time members of this group meet. Group members are trained to know what is expected of them with their loans, savings, loan repayment schedule and effects of default.

The group collects compulsory savings from members during the six week training period as a way to cultivate the habit of saving and managing funds. The group members must have operated savings account for eight consecutive weeks and must attend all group meetings. The importance of prompt repayment of loan, principal and interest, is explained to clients as an assurance of getting another loan. Before initial loan is disbursed all members must attend a training that explains the role of membership, savings requirements and penalty for late payment (Addo, 2012).

Group lending favors very poor households that lack collateral. It is assumed to build social capital by developing and strengthening the poor and social network. Group loan mechanisms acts as a collateral substitute. The group offers joint liability for member loans and if one member fails to repay, all group members are liable to pay. Failure of one member means all members are denied future loans (Matovu, 2006).

2.1.3 Human Capital Theory

Human capital theory is a theory of earnings, in fact, one of the major determinants of poverty. The theory was developed by Becker (1975). This theory explains both individuals' decisions to invest in human capital (education and training) and the pattern of individuals' lifetime earnings. An individual's different levels of investment in education and training are explained in terms of their expected returns from the investment. Investments in education and training entail costs both in form of direct expenses like tuition and foregone earnings during the investment period, so only those individuals who will be compensated by sufficiently higher lifetime earnings will choose to invest. People who expect to work less in the labour market and have fewer labour market opportunities, such as women or minorities, are less likely to invest in human capital. As a result women and minorities may have lower earnings and more likely to be in poverty (Ogujiuba *et al.*, 2011).

Human capital theory also explains the pattern of individuals' lifetime earnings. In general, the patterns of individuals' earnings are such that they start out low (when the individuals are young) and increase with age (Becker, 1975) although earning tends to decrease as individuals near retirement. The human capital theory states that earnings are low when people are young because younger people are more likely to invest in human capital and will have to forego earnings as they invest. Younger people are more likely to invest in human capital than older people because they have a longer working life to benefit from their investment and their foregone wages and so costs of investing are lower. Earnings then increase rapidly with age as new skills are acquired. Finally as workers grow older, the pace of human capital investment and thus productivity slows, leading to slower earnings growth. At the end of a person's working life, skills may have depreciated, as a result of lack of continuous human capital investment and the ageing process. This depreciation contributes to the downturn in average earnings near retirement age (Ehrenberg and Smith, 1991).

A sizeable portion of all poverty spells begin when a young man or woman moves out of a parent's home, an event often associated with getting further education or training and that these poverty spells are relatively short with an average duration of less than three years (Bane and Ellwood, 1986). Persons aged 65 years above are especially vulnerable to poverty because once they become poor it becomes hard to move out of it. While much empirical work tends to support the human capital theory, it is a theory of human capital investment and labour market earnings, not poverty. Earnings are only one of the main determinants of poverty. Non-earnings income and family composition are other important determinants that human capital theory does not shed light on. Thus human capital theory cannot be considered as a complete theory of poverty (Bane and Ellwood, 1986).

2.2 Concept of Poverty

Poverty has been defined as a state where an individual is not able to satisfy his/her basic needs such as food, clothing and shelter and has inadequate access to social and economic infrastructure like health, water and sanitation, which makes him/her have a minimal chance of improving his/her welfare (World Bank, 2002). UN (1995) defined absolute poverty as a condition that is characterized by severe deprivation of basic human needs like food, shelter, safe drinking water, sanitation facilities, education, health and information. Poverty depends not only on income but also on access to services.

Poverty is a situation where the poor are not just deprived of their basic resources but also lack the access to information that is vital to their lives and livelihoods, about income-earning opportunities, information about market prices for the goods they produce, about health, about the structure and services of public institutions, and about their rights (SIDA, 2005). Poor people also lack political visibility and voice in the institutions and power relations that shape their lives as well as lack of access to knowledge, education and skills development that could improve their livelihoods. The poor often lack access to markets and institutions, both governmental and societal that could provide them with needed resources and services. Hulme and Mosley (1996) define poverty as a scenario that incorporates both material conditions and other forms of deprivation, and the effects of innovative financial services on those who suffer from social inferiority, powerlessness and isolation are considered.

The poor are poor due to their condition of poverty that is connected like a web to trap them in deprivation (Chambers, 1983). Causes of poverty are numerous and they must be tackled from all sides. Chambers (1983) notes that some of the problems associated with poverty include physical weakness through lack of food, small bodies and malnutrition which leads to low immune response to infections and being unable to pay for health services. Isolation is another problem because the poor are unable to pay school fees for their children to be educated, hence remain remote or out of contact. Services cannot reach those who are remote and the illiterate cannot read information of economic value hence it becomes hard for them to obtain loans. Isolation also means lack of contact with political leaders and therefore misses government development policies. Powerlessness is another problem associated with poverty in the sense that the poor are exploited by the powerful, hence, they cannot demand what is meant for them and cannot attract government aid (Chambers, 1983).

2.3 Concept of Microfinance Intervention

Microfinance intervention is the provision of a broad range of financial and non-financial services to the poor, low income households and micro enterprises that are excluded from the formal financial institutions. Such services include provision of micro-loans, micro-insurance, micro-savings, transfer services, business training, consultancy, skills development and marketing. Microfinance intervention is a vital tool to break the vicious circle of poverty that is characterized by low savings, low income and low investment (Matovu, 2006). Omino (2005) defines microfinance interventions as the provision of financial services to low income household and micro and small enterprises to support their economic activities. Falaiye (2003) defines microfinance intervention as a system that provides small loans to people who are excluded from formal banking institutions to assist them increase income and productivity.

Microfinance emerged when it was realized that a large population of economic activities which are conducted by farmers, fishermen and business women have limited access to financial services from the formal banking sector. Microfinance interventions create a means in which the poor households have permanent access to suitable varieties of quality financial services (Richard *et al.,* 2004). Microfinance sector has created employment for many Kenyans and provided income to rural and urban poor to facilitate production of basic goods and services used by low income earners. Microfinance interventions are more effective when adopting credit-plus approach, providing borrowers with training on financial and business management skills (Seibel & Gloria, 2005). Microfinance allows the poor to protect, diversify and increase their sources of income, the essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of business opportunity, to pay school fees or to bridge a cashflow gap, can be a first step in breaking the cycle of poverty (Littlefield *et al*., 2003). CIDA (2005) states that the goal of microfinance interventions is to improve financial outreach to the poor and the poorest in the society.

Microfinance is like a vehicle that has a potential to build local institutions and empower the poor, who in most cases are women, to access independent income and financial services: create a cohesive support structure through solidarity groups and promote self employment (Ganesha, 2004). Such schemes will boost women status in the family and improve their control over family resources which promotes family well-being. Microfinance and the impact it produces go beyond just business loans. The poor households use financial services not only for business investment in their microenterprises but also to invest in health and education to manage household emergencies and to meet the wide variety of other cash needs that they encounter (Littlefield *et al*., 2003).

2.4 Microfinance Intervention on Poverty

Access to the basic financial services by the poor is essential to enable them improve their living standards. The poor are excluded from the opportunities of financial services. Microfinance is therefore considered as a vital tool to break the vicious circle of poverty which is characterized by low incomes, low savings and low investment (Matovu, 2006). Hulme *et al* (1996) states that most institutions regard low-income households as “too poor to save”. In order to generate higher incomes, savings and more investment, there is need to inject capital in the form of microfinance. Poverty status changes from time to time. This is due to the economic cycle and shocks such as poor weather, loss of employment, loss of a breadwinner through death, injury and long illness. Kiiru (2007) argues that some household do manage to escape poverty whereas some remain in poverty for a long time.

Microfinance enables the poor to have a smooth consumption during periods of cyclical downturns or unexpected crises (Chowdhury, 2009). This positive role of microfinance should not be dismissed altogether. If this consumption smoothing means parents can send their children to school, or buy essential medications, and maintain nutritional in-takes of their children then microfinance is likely to have positive long-term impacts on productivity. Morduch and Harley (2002) argue that microfinance programs do not serve the poor due to the policies in place. However, some institutions do and from the evidence the poorest could benefit from microfinance in terms of increased income and reduced vulnerability.

Microfinance intervention has more positive impact on education and health aspects (Addo, 2012). Education is a crucial ingredient for progress in any society and contributes to the buildup of human capital and is one of the components to fight poverty, disease and ignorance. Health aspect ensures the well-being of respondents is in good condition because a healthy person is more productive in society hence progress in that society. Microfinance has increased client`s income which assist them in paying school fees for their children, access health care that is critical for their well-being and productivity. Addo (2012) also states that microfinance has contributed to personal empowerment, entrepreneurial awareness and skills of client strengthened, social capital built by strengthening poor social network and inculcating saving behaviour among and between members of the institution. Addo (2012) recommends that MFIs should consider flexible financial services that depend on the aim and the size of financial needs of the clients so long as clients can credibly guarantee or have exemplary credit history.

2.4.1 Financial Services on Poverty

Microfinance interventions have been accepted globally as a viable policy strategy by various stakeholders as key to the management of rural and urban household poverty. Poverty is a multi-dimensional problem that is enclosed in a complex and interconnected political, economical, cultural and ecological system (Gema PKM Indonesia, 2002). There is no single approach to eradicate poverty due to its large scope and multiplicity of actors. Solutions to poverty are as multifaceted as the causes. Problems and solutions of poverty are not isolated phenomena, but occur within an interconnected system in which actors and action have the reciprocal consequences. Hence, poverty eradication is a complex mission that requires commitment, cooperation and cohesion from all levels of development, individual, society, nation and global (Rena and Ghirmai, 2007).

Financial services offered by microfinance institutions include loans, insurance, savings and transfer services. UN (2004) states that loans are small amounts of money that commercial banks and other financial institutions give to individuals or groups without collateral. Loans assist the poor to build assets, convert very small and irregular income into a lump sum that better livelihood and reduce vulnerability. Savings services protect clients` income and serves as an alternative to assumptions of debt (Akanji, 2005; Binns, 2001). Lennart (2004) and Seibel & Gloria (2005) encourages the scheme of saving because it is crucial for self help and self reliance mostly in women who are less risk prone and more savings oriented than their male counterparts. IFAD (2005) says that the poor strongly need a safe custody for their savings or else their valuable savings will be vulnerable.

Savings is a requirement for some MFIs since it cultivates financial discipline among borrowers and also provides funds to MFIs for lending to more clients (Kateera, 2009). Littlefield *et al* (2003) states that poor people will use safe, convenient saving accounts to accumulate enough cash to buy assets like inventory for a small business enterprise fix a leaky roof, pay for health care or to send more children to school. Savings can be either compulsory or voluntary (Kateera, 2009). A study on expansion of Patronato del Ahorro Nacional (PAHNAL), a Mexican saving institute that targeted low income customers, indicated that when credit and liquid savings instrument are provided, household increase their savings rate to 5 per cent and almost 7 per cent for the poor (Kateera, 2009). Insurance is a system through which individual, businesses and institutions make some contributions in order to share risks. Insurance provides protection to both borrowers and institutions. Life and medical insurance are important tools in loan protection for both institutions and individual households risk management (UN, 2005; Seibel & Gloria, 2005).

Various studies conducted indicate that financial services offered by the microfinance institutions have a positive impact on households. For instance, the study by Gustavo and Joao (2000) showed that customers of MFIs in Peru had an increase of their profit by 79 percent whereas in Guatemala, MFI customers had a 34 percent increase in income as a result of the loans they utilized. Generoso *et al* (2005) also states that microfinance played a crucial role in Central America, Bangladesh, Haiti and Rwanda in assisting the poor to pick up after they were hit by natural and man-made disasters. As they assessed the impact of microfinance on Tsunami disaster, Generoso *et al* (2005) noted that microfinance helped farmers with funds to reclaim their flood soaked lands and purchase livestock and equipment, craftsmen with funds for supplies and new sewing machines, shopkeepers and traders with credit to replenish inventory and purchase food and items for sale, fisher folk with loans to build their boats and repair or replace equipments damaged or lost.

Financial services also improve livelihoods of many households, for instance Marilou and Carlos (2004) indicated that with access to financial services, poor households are able to keep their children longer in school, get better health services, eat better meals, stay in safer housing as compared to those who don’t have access to such facilities, holding other factors constant. When the poor households access financial services they are able to solve their problems and move out of poverty. Littlefield *et al* (2003) states that access to financial services translates into better nutrition and improved health outcomes such as immunization rates. Financial services also allow poor households to plan for their future and send more of their children to school for longer as well as making women clients more confident and assertive and thus better able to confront gender inequalities. Khandker and Shahidur (1998) revealed that microfinance increases per capita consumption among borrowers and their families hence reducing household poverty. The results indicated that 5 per cent of the borrowers boost their families from poverty by taking loans annually.

Microfinance services have weight on economic development by women in terms of asset holding in their own names, increasing their purchasing power and in their political and legal awareness (Ganesha, 2004). Weiss *et al* (2004) noted that if access to microfinance services is increased, the poor can be able to participate in productive activities that will boost income growth, holding other factors constant. Microfinance enables the poor to have credit in time of need, to be able to address their needs. However if financial services are not utilized properly it brings a negative impact. For instant a study by Hulme and Mosley (1996) noted that many of the modern systems are not effective and hence microfinance is not the solution to household poverty reduction because in some cases low income household have become worse off.

Households that have access to credit have higher income than those who do not access credit (Remenyi *et al.,* 2000). In Indonesia there is a 12.9 percent increase of income for the borrowers of loans compared to 3 percent of non-borrowers of credit. In Bangladesh it was noted that there is a 29.3 per cent annual increase of income for borrowers compared to 22 per cent income rise for non borrowers. Sri-Lanka showed a 15.6 per cent increase of income for borrowers and a 9 per cent rise of income for non-borrowers. India noted a 46 per cent annual increase of income for borrowers and a 24 per cent for the non-borrowers. The impact was more on those household that are just below poverty level while the very poor showed an improvement in income. Robinson (2001) argues that access to microfinance services enhances the quality of life for clients, improves their self confidence and diversifies their livelihood security strategies hence increasing income.

Client households on average spend 35 per cent more than non client households, Borrowers are able to spend 38 per cent on education than non borrowers (Barnes *et al*., 1998). Bakhtiari (2006) states that access and efficient provision of microcredit enables the poor to smooth their consumption, manage their risks better, build their assets, develop micro enterprises, enhance their income earning capacity and enjoy improved quality of life. Bakhtiari further argues that when and the form that microfinance is provided to the poorest should be understood. Murdoch and Haley (2002) states that customers of microfinance program enjoy increased household income, better health and nutrition, have better chance of attaining higher education, reduce vulnerability to economic shock, greater empowerment, and in some cases, the ability to completely move their families out of poverty.

Like anyone else, poor people need an array of financial services to help them deal with a range of short- to long-term consumption needs, the ups and downs of income and expenses, to make use of opportunities, and to cope with vulnerabilities and emergencies. The needs of the poor for financial services have been categorized into three groups, namely life-cycle needs that can be anticipated (like marriage, burial and education), unanticipated emergencies (like sickness, loss of employment, death of a bread-winner, floods), and opportunities (like investing in a new business or buying land) (Matin *et al*., 1999). Addo (2012) states that the services rendered by the MFI are mainly advancing loans and savings and the loans advanced by MFIs are normally for purposes such as petty trading, startup loans, poultry farming, weaving, basket making, wood working, cloth trading, pottery manufacture, printing, shoe and sandals making, hair dressing saloon, expansion of businesses, seamstress, tailoring, purchasing of commercial transport and other capital machinery. This creates employment for the borrowers and improves their living standards and for their families.

2.4.2 Non Financial Services on Poverty

Non financial services are essential besides the financial services as a way of impacting household poverty levels. Gustavo and Joao (2000) argue that non financial services like training are vital to supplement credit and savings. Services like education magnify the positive effect of credit. Binns (2001) and Seibel & Gloria (2005) also state that non financial services are necessary for borrowers to utilize the loans by making wise investment decisions and to be able to manage their business well. Training borrowers on financial management skills assist them to record their financial transactions, budget their business activities, prepare financial statements and come up with a business plan (Kateera, 2009). Karlan and Validivia (2007) state that training is important because the institution is able to retain its clients and also in terms of high repayment rates. After clients are trained they show greater business knowledge like keeping records of their business and are able to reduce sales fluctuations. Rahman and Khan (2013) in their study found out that 70.50% of borrowers did not receive any training from credit organization. Wube (2010) states the economic factors that SME face which include competition in the market, lack of access to the market, lack of access to raw material, lack of capital or finance, lack of marketing knowledge, lack of production/storage space, poor infrastructure, inadequate power supply and lack of business training.

Providing advice and training on health and nutrition is also necessary. For instance, Foundation for Credit and Community Assistance (FOCCAS), a Ugandan MFI, provided its clients with health care instructions on breastfeeding, disease prevention, (including AIDS, diarrhea and malaria) and family planning. The result indicated that 95 percent of their clients engaged in improving health and nutrition practices for their children contrary to 72 percent for non clients and 32 percent of borrowers compared to 18 percent had tried an AIDS prevention practice (Littlefield *et al.*, 2003). Research done on Grameen Bank indicates that members use contraceptives than non members hence influence the family size (Hashemi *et al.*, 1996).

Microfinance institutions should adopt a credit plus system whereby they offer non financial services on top of the financial services (Binns, 2001; Seibel & Gloria, 2005). Non financial services helps, for instance entrepreneurial skills to the poor assist to improve their human capital and hence are able to engage in economic activities (IFAD, 2002). Eileen *et al* (2005) and Marcus *et al* (1999) argued that training of business skills to borrowers of credit who intend to invest is important. However, due to cost effectiveness, MFIs should group their clients so that they offer non financial services together. For instance, Addo (2012) notes that new groups undergo weekly training sessions for a period of six weeks on group dynamics business skills, health and nutrition, good business practices, education on savings, book keeping, accounting and loan deposits. They are trained to know what is expected of them with their loans, savings, loan repayment schedule and effects of default.

Integrated approach should be adopted by MFIs whereby non financial services like training in health, literacy, social action and environment awareness are provided besides the financial services (Hickson, 2001). This approach has gained support of many people that credit alone is not enough to ensure stable employment and productivity because the causes of poverty are multidimensional varying from social and economical problems to lack of marketable skills and skills on how to manage resources (Amha, 2003). Rahman and Khan (2013) state that some MFIs provide training activities in different areas such as entrepreneurial skills development, managing micro enterprises, shop keeping, crafts productions, general awareness, family planning activities.

Health is one of the problems that poor clients face. Matin (1998) found out that 86 percent of the problems encountered by his study households are related to illness. It is therefore this reality that made Grameen bank to start an experimental health insurance programme and almost all microfinance Non-Governmental Organizations (NGOs) in Bangladesh are providing weekly health education at meetings (Wright, 2000). In addition to microfinance, Bangladesh Rehabilitation Assistance Committee (BRAC) provides enterprise training and support to their member borrowers in poultry and livestock, fisheries, agriculture and sericulture. Hulme and Mosley (1996) shows that credit is only one factor in the generation of income or output. There are other complementary factors essential for making credit more productive. Entrepreneurial skill is one of them and most people do not have the basic education or experience to understand and manage even low level business activities (Chowdhury, 2009).

Inputs like business and technical training, establishment of marketing linkages for inputs and outputs are required to supplement microcredit (Mahajan, 2005). In absence of these, microcredit by itself, works only for a limited familiar set of activities like small farming, livestock rearing and pretty trading and even those where market linkages are in place. Chowdhury (2009) notes that complementary factors for microfinance are essential to have some positive impact on household poverty. Some microfinance institutions and non-governmental organizations seem to have understood the need for such factors and therefore, also offer training to build management and entrepreneurial skills. BRAC, an NGO in Bangladesh, is one of the microfinance institutions that offer basic education in rural areas using innovative methods. Halder *et al* (1998) states that BRAC has opted for 'credit plus' approach where loans are given to poor women in combination with health care services. They also offer various forms of skill training, non-formal primary education for children of BRAC members, social development and the creation of grassroots organization for the poor.

Non-financial services such as education, vocational training and technical assistance might be crucial to improve the impact of microfinance services (Steward *et al*., 2010). Leatherman and Dunford (2010) assert that adding health education alone, usually delivered during the routine microfinance group meetings, improve knowledge that leads to behavioral change. These behaviors are associated with positive health outcomes such as reproductive health, preventive and primary health care for children, child nutrition, breastfeeding, child diarrhea, HIV prevention, domestic abuse, Sexually transmitted disease and malaria that are critically important for improving the health status of the poor globally and for achieving the Millennium Development Goals in areas such as maternal and child health.

Non-financial services are also vital to Micro and Small Enterprises (MSE) (Nassiuma, 2002). Services like business counseling and management skill development are essential when clients have received financial services to assist them in utilizing the credit. The commercial loan management seminar imparted to the borrowers had an impact in terms of enhanced business management skills (Nassiuma, 2002). Majority, 94.8 percent, of the respondents who had been trained on commercial loan management showed that they benefited from the seminar whereas 5.2 percent indicated that they did not benefit from the seminar. Addo (2012) argues that training in financial literacy, business skills, credit norms and procedures, and savings discipline are necessary and have prepared clients to access financial services and this has helped to strengthen banking and entrepreneurial skills of clients.

2.4.3 Collateral Challenge Households face in Accessing Microfinance Interventions

Collateral are assets that are pledged by a borrower to a lender as security for the payment of debt. The nature of collateral requested by lenders depends on the type of business a customer is involved in (Kihimbo *et al.*, 2012). Borrowers of credit from banks and other financial institutions face many challenges like stringent collateral requirement, high interest rate charged and lack of financial and business management capacity. Kiplimo (2013) states that low access to financial service is one among other constraints that rural small scale farming enterprises face in Kenya. Approximately 38 percent of the Kenyan population is not able to access formal and informal credit financial services because they have small land holdings hence lack collateral and also transaction cost that are high. Clients who have little or no resources to provide as collateral are denied loans by the lenders (Kihimbo *et al*., 2012).

Stringent collateral requirement is one of the primary barriers to access of finance. The level of collateral required by the financiers is often very high. For instance clients are restricted to land property, real estate, other than account receivables or inventories (Dalberg Global Development Advisors, 2011). In some cases clients own some acres of land but do not have title deeds. As a result, some financiers don't lend on informal deeds (i.e. a letter signed by neighbours to the North, South, East and West confirming the ownership of the land) which is a challenge to the financier to sell a foreclosed property and no one may be willing to buy their neighbor`s land (Dalberg Global Development Advisors, 2011). Kihimbo *et al* (2012) argue that financial institutions often discriminate against Small and Medium Enterprises (SMEs) because they are considered high risk.

In Kenya despite the need for formal credit financial services, its access by the smallholder farmers remains a challenge. For instance, the study by Odendo *et al* (2002) states that access to credit by smallholder farmers from formal financial institutions is still a challenge due to collateral requirement by the banks, including guarantors, shares from the quoted public company, motor vehicle logbook, machinery and or land title deed and other assets. A bank statement detailing transactions of a client for a period of six to twelve months may also be required. A study by Hossain (1988) notes that from Grameen Bank experience, collateral requirement should not be a barrier to poor smallholders in obtaining the credit as imposed by the formal financial institutions. Effective procedures of disbursement, supervision and repayment should be established to minimize the level of default.

Land constitutes an important form of security for credit received from the informal sector sources (Okurut *et al., 2004)*. Of all those who received loans from Non-governmental organizations, 21.4 percent secured it by land. For loans from government agencies and loans from cooperative societies the proportion of borrowers who pledged land as security are 34.2 percent and 36.3 percent respectively. This is an indication that for the poor who may not have land may not be able to get a loan from banks and other financial institutions. Nassiuma (2002) states that security is one of the barriers that hinder the growth of MSEs in Kenya. However, the use of guarantors should be encouraged to enable many clients access the credit facility.

2.5 Conceptual Framework of the Study

In figure 2.1 below microfinance intervention is the independent variable and rural and urban household dependent variable. Variable of microfinance interventions include financial, non financial services and collateral clients face when they borrow. Indicators of financial services are credit, insurance and savings. Indicators of non financial services include training on budgeting, business plan, financial statement, business management, marketing services and consultancy services. Indicators of rural and urban household poverty levels are improving existing enterprises, creating new enterprises, improving health services and improving education levels. Household poverty level was measured basing on the level of income, education level, occupation and number of dependants

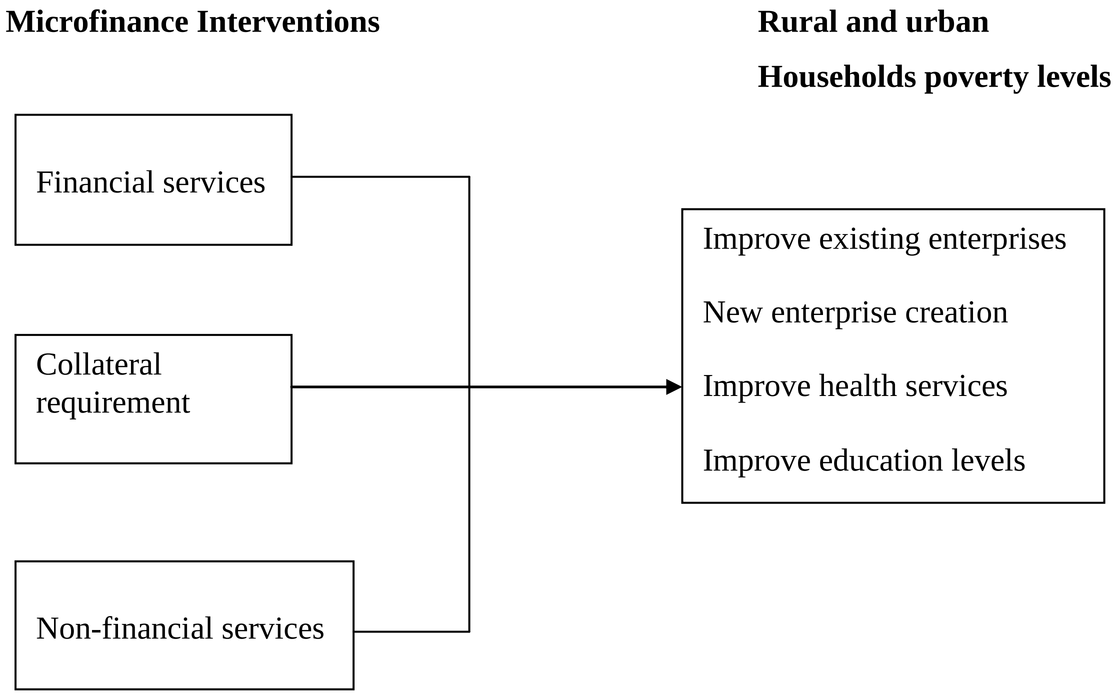

Figure 2.1 Conceptual Framework for Microfinance Intervention & Rural and Urban Households Poverty levels

(Source: Author, 2013)

CHAPTER THREE

MATERIALS AND METHODS

3.0 Introduction

This chapter focused on the study area, research design, target population, sample size determination and sampling, data and data collection instruments, validity and reliability and data analysis.

3.1 Study Area

This study was conducted in Kisii County. Kisii County is positioned to the south east of Lake Victoria and is bordered by six counties with Narok to the south, Migori to the west, Homa Bay to the north west, Kisumu to the north, Bomet to the south east and Nyamira to the east (Appendix 8). The county's total population is 1,152,282 people which translate to 48% male and 52% female. The county has a population density of 874.7 people per Km^2. Kisii County has 51% of its total population living below the poverty line. The main economic activities in the County include: subsistence agriculture, vegetable farming, small-scale trade, dairy farming, tea and coffee growing, commercial businesses and soapstone carvings. The residents in the county value better quality education for their children, good health and the reduction of poverty which has not been achieved (Kenyacounties.org, 2010).

3.2 Research Design

A comparative survey research design was adopted in this study. Financial and non financial services were compared among rural and urban households and collateral requirements also examined. Sample survey facilitates collection and analysis of certain characteristics in the population as well as collection of large amount of data from a population in an economic way (Saunders *et al*., 2003). Survey involves observation of behavior and asking of questions to get data required. Survey design is perceived to be authoritative by people and is easily understood hence valuable findings are obtained if correct procedures are followed (Saunders *et al*., 2003). Survey is used to describe, record and interpret conditions that either exist or existed (Kothari, 2004).

3.3 Target Population

The target population for this study was the MFIs that were currently operating in Kisii County which lend through groups. The credit officers of the MFIs and their clients were targeted. The credit officers were those that lend to groups. Clients were those in groups and borrow through groups. The total population was 6,717. The number of credit officer was 50 and customers 6,667 (MMR Juhudi Kilimo, 2014: MMR Opportunity Kenya, 2014: MMR KWFT, 2014).

3.4 Sampling and Sample Size

This study adopted probability sampling. The population was stratified into area of residence (rural and urban), gender (female and male) and age (< 30years, 31-45 years, >45years). Stratification was done to enhance accuracy. Simple random sampling technique was used to select the respondents because it produces more precise estimates than other methods (Kateera, 2009). The sample size was determined using the coefficient of variation formula (Nassiuma, 2000), as follows,

$$n = \frac{NC^2}{C^2 + (N-1)\, e^2}$$

Where n = Sample Size N = Total Population

C = Coefficient of Variation e = Tolerance level

This study applied a coefficient of variation of 11.5%. This is because a coefficient of variation of less than 30% is considered more appropriate (Nassiuma, 2000) and that coefficient of variation is a more sure measure of variation. Population of 6,717 with 1% tolerance level gave a sample size of 130 respondents as shown below.

$$n = \frac{6{,}717*(0.115)^2}{(0.115)^2 + \{(6{,}717-1)*(0.01)^2}$$

n = 130 respondents

Table 3.1 Sampling frame

MFIs	No. of clients	Clients in urban	Clients in rural	No. of credit officer	Urban clients selected	Rural clients selected	Credit officer selected	Total sample
KWFT	2,340	990	1,350	20	16	20	7	43
Opportunity Kenya	1,207	510	697	10	18	19	6	43
Juhudi Kilimo	3,120	1,575	1,545	20	21	16	7	44
Total	**6,667**	**3,075**	**3,592**	**50**	**55**	**55**	**20**	**130**

Source; **(MMR Juhudi Kilimo, 2014: MMR Opportunity Kenya, 2014: MMR KWFT, 2014)**

3.5 Data and Data Collection Instruments

This study used both primary and secondary data. Primary data was collected from the respondents in the field whereas secondary data was from documents in the offices which include newsletters. Questionnaire was the main instrument used to collect data. Two types of questionnaire was used, one for customers of MFIs and another for credit officers of the MFIs.

3.6 Validity and Reliability

Reliability is the extent to which data collection techniques yield consistent findings. According to Matovu (2006) reliability has to do with the quality of measurement. It is the consistency or repeatability of your measures. Reliability means applying the same procedures in the same way will always give same results. To ensure that reliability is maintained test-retest method was used. Validity is concerned with whether the findings are really what they appear to be about (Saunders *et al.*, 2003). Validity is connected to credibility of the research study (Silverman, 1997). Validity is divided into content, criterion and construct. Content validity ensures that content of the variables measures what is required. Criterion validity ensures that the instrument developed is related to the previous ones or it predicts certain outcome, Construct validity ensures that internal structure of the questionnaire and concept to be measured is maintained (Muijs, 2004). Reliability and validity of data collection instrument was enhanced through conducting a pilot test. Pilot testing was conducted in Uasin Gishu County. Fifteen respondents were involved, ten clients and five credit officers of the MFIs. Reliability of the instrument was tested using Cronbach`s alpha coefficient.

Table 3.2 Reliability and Validity

Variables	**Cronbach`s alpha**
Customer`s questionnaire	0.725
Credit officer`s questionnaire	0.607

Source: Field Data (2014)

3.7 Measurement of Variables

Microfinance intervention was measured basing on financial services, non-financial services and collateral requirement. The items were presented in a likert scale ranging from strongly agree (5) to strongly disagree (1). Household poverty level was measured basing on the level of income of respondents.

3.8 Data Analysis

Data collected was compiled, sorted, edited, classified, coded and analyzed using a Statistical Package for Social Science (SPSS 19.0). Data was analyzed using both descriptive and inferential statistics. One way analysis of variance (ANOVA) was used to test the hypotheses. Analysis of variance breaks down the total variation in a set of data into two types, amount attributed to chance and amount attributed to specific cases (Nassiuma, 2002). Data was presented using frequency and cross tabulations.

3.9 Ethical Considerations

All ethical issues of research were upheld. According to Mugenda and Mugenda Respondents were informed the purpose of the study and their consent sought prior to their participation. Research permit was sought from the relevant authority and adequate measures were taken to protect the confidentiality of respondents. The identity of the respondents was protected by either using numbers or third parties. Ethics were upheld in the design and analysis of the data. The dissemination of the findings was done as per the laid down procedures.

CHAPTER FOUR

RESULTS

4.0 Introduction

This chapter presents results of demographic characteristics of the respondents, compares financial and non-financial services on rural and urban household poverty levels and examines collateral challenges rural and urban household face in accessing microfinance interventions.

Response rate

The researcher targeted 130 respondents and out of the 130 questionnaires issued 120 questionnaires were filled which represent 92%. Credit officer of the MFIs were 15 and clients 105.

4.1 Demographic Characteristics of the Respondents

Demographic characteristics of the respondents are indicated in Table 4.1

As shown in Table 4.1, 31(57.4%) of rural respondents were female compared to 24 (47.1%) of urban. Further, 25 (46.3%) of rural participants were in age bracket of 31-45years compared to 26 (50.9%) of urban. Majority, 40 (74.1%) of rural respondents compared to 38 (74.5%) of urban were married. In addition 23 (42.6%) of rural respondents were high school leavers compared to 22 (43.1%) of urban respondents who had reached the tertiary level. Majority, 40 (78.4%) of urban respondents compared to 37 (68.5%) of rural were businesspersons. Furthermore, 43 (84.4%) of urban participants compared to 38 (70.4%) of rural households had 2-4 dependants. Table 4.1 shows that 36 (66.7%) of rural respondents compared to 33 (65%) in urban earn an income of Ksh 3,001-6,000 per month. In addition 35 (64.8%) of rural respondents compared to 25 (49%) of urban joined the MFIs in 2007-2010.

Table 4.1 Demographic Characteristics of Respondents

		Rural		Urban	
		F	**%**	**F**	**%**
	Female	31	57.4	24	47.1
Gender	Male	23	42.6	27	52.9
TOTAL		**54**	**100**	**51**	**100**
	18-30	12	22.2	20	39.2
Age	31-45	25	46.3	26	50.9
	>45	17	31.5	5	9.9
TOTAL		**54**	**100**	**51**	**100**
	Single	4	7.4	9	17.7
	Married	40	74.1	38	74.5
Marital Status	Widowed	9	16.6	2	3.9
	Separated	1	1.9	2	3.9
TOTAL		**54**	**100**	**51**	**100**
	Primary	11	20.4	2	3.9
Education level	Secondary	23	42.6	16	31.4
	Tertiary	16	29.6	22	43.1
	University	4	7.4	11	21.6
TOTAL		**54**	**100**	**51**	**100**
	< Ksh 3,000	13	24.1	10	20
Income	3,001- 6,000	36	66.7	33	65
	>Ksh 6,000	5	9.2	8	15
TOTAL		**54**	**100**	**51**	**100**
	Business	37	68.5	40	78.4
Occupation	Civil Servant	4	7.4	9	17.7
	Farming	13	24.1	2	3.9
TOTAL		**54**	**100**	**51**	**100**
	2003-2006	5	9.3	3	6
Time of Joining	2007-2010	35	64.8	25	49
	2011-2014	14	25.9	23	45
TOTAL		**54**	**100**	**51**	**100**
	1	1	1.9	3	5.9
	2	13	24.1	19	37.3
	3	11	20.4	16	31.4
Number of	4	14	25.9	8	15.7
Dependants	5	9	16.7	2	3.9
	6	4	7.4	2	3.9
	7	1	1.9	0	0
	8	1	1.9	0	0
	10	0	0	1	1.9
TOTAL		**54**	**100**	**51**	**100**

Source: **Field Data (2014)**

4.2 Comparison on influence of Financial Services on Rural and Urban Household Poverty Levels

Customer's result on financial services from the microfinance institution is shown in Appendix 4

From the Appendix 4 below 49 (90.8%) of rural respondents compared to 44 (86.3%) of urban areas stated that they received a loan when they required it. However, 5 (9.3%) in rural quarters compared to 7 (13.7%) in urban suggested that they did not get the loan when they required it. Besides, results indicates that 36 (66.6%) of rural respondents likened to 28 (54.8%) of urban stated that the loan had enabled them meet health service, whereas 14 (25.9%) in rural and 13 (25.6%) in urban areas were of the opinion that the loan had not assisted them meet health services. It is also indicated that 37 (68.6%) of rural compared to 27 (52.9%) in urban were of the opinion that the loan had assisted them pay school fees for their children. However, 11 (20.3%) in rural places and 14 (27.5%) in urban stated that they had not borrowed any loan to pay school fees for their children.

Appendix 4 shows that, 22 (40.7%) of rural compared to 24 (47%) of urban stated that a loan assisted them to start their business. However, 21 (38.9%) in rural and 24 (47%) of urban suggested that a loan had not assisted them start their business. The findings further indicated that 44 (81.5%) of rural respondents likened to 42 (82.4%) in urban areas stated that the loan had assisted them expand their business whereas 8 (14.8%) in rural and 7 (13.7%) in urban were of the opinion that loan had not assisted them expand their business. Results further indicates that 34 (62.9%) of rural participants compared to 18 (35.3%) in urban used the loan to meet their basic needs.

However, 7 (13%) of rural and 22 (43.1%) of urban were of the opinion that the loan had not assisted them meet their basic needs.

The results further indicates that the majority, 51 (94.4%) in rural and 48 (94.1%) of urban respondents had a savings account with the institution. In addition 31 (57.3%) of rural respondents compared to 20 (39.2%) of urban were of the opinion that saving was a compulsory requirement. However, 22 (40.8%) of rural compared to 26 (51%) of urban stated that saving was not a compulsory requirement. Another, 46 (85.2%) of rural compared to 40 (78.4%) of urban used savings during hard financial times. Further, results shows that 22 (40.8%) of rural compared to 29 (56.8%) of urban stated that insurance cover was offered during loan period. Moreover, 45 (83.4%) of rural respondents likened to 41 (80.4%) of urban indicated that their institutions do not offer medical insurance. In addition, results indicates that 47 (87.1%) of rural participants compared to 49 (96.1%) of urban stated that the services improved their living standard

Credit officer’s result on financial services on household poverty levels is shown in Table 4.2

Table 4.2: Financial Services on Households Poverty Levels

STATEMENT	SD		D		N		A		SA		TOTAL	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
My institution offer saving programme to our clients	0	0	0	0	0	0	8	53.3	7	46.7	**15**	**100**
The saving program we offer to our customers is Voluntary	4	26.7	2	13.3	0	0	6	40	3	20	**15**	**100**
My Institution insure credit given to our customers	0	0	1	6.7	0	0	7	46.7	7	46.7	**15**	**100**
The Institution offer an insurance cover to our clients during the loan period	0	0	3	20	0	0	3	20	9	60	**15**	**100**
The Institution require our clients to indicate the purpose of the loan	0	0	0	0	0	0	8	53.3	7	46.7	**15**	**100**
Processing of loan by my Institution takes a short time	0	0	0	0	4	26.7	5	33.3	6	40	**15**	**100**
Follow up is done to our clients to ensure that loan given is used for the intended purpose	0	0	3	20	1	6.7	7	46.7	4	26.7	**15**	**100**

Source: **Field Data (2014)**

As revealed in Table 4.2, 15 (100%) of the respondents stated that the saving program is offered to clients, while 9 (60%) stated that the saving program offered to clients is voluntary while 6 (40%) asserted that saving program is not voluntary. In addition, 14

(93.4%) stated that loans given to clients were insured. However, 1 (6.7%) suggested that the loans offered to customers were not insured. Also, 15 (100%) respondents stated that clients were required to state the purpose of the loan. Similarly, 11 (73.3%) stated that processing of loan takes a short time. Results shows that 11 (73.4%) asserted that follow up is done to ensure the loan is used for intended purpose. However, 3 (20 %) stated that follow up is not done.

4.3 Comparison on influence of Non-financial Services on Rural and Urban Household Poverty Levels

Customer's result on non-financial services from the microfinance institution is shown in Appendix 5

Results in Appendix 5 below shows that 9 (16.7%) of rural respondents compared to 18 (35.3%) of urban stated that they were trained on business management whereas 43 (79.6%) of rural likened to 33 (64.8%) of urban asserted that they were not trained on business management. Furthermore, 46 (85.1%) of rural participants compared to 43 (84.3%) of urban were of the opinion that health program was not offered in the institution. In addition 30 (55.6%) of rural compared to 33 (64.8%) of urban stated that they were trained on book keeping practices whereas 22 (40.8%) of rural likened to 16 (31.4%) of urban indicated that they were not trained on book keeping practices. Further, 9 (16.7%) of rural respondents compared to 13 (25.5%) of urban stated that they were trained on entrepreneurial skills whereas 41 (75.9%) of rural compared to 33 (64.7%) of urban suggested that training on entrepreneurial skills was not offered.

Results from Appendix 5 shows that 48 (88.9%) of rural participants compared to 41 (80.4%) of urban were of the opinion that they were not assisted to market their services and products. In addition, 13 (24.1%) of rural compared to 17 (33.1%) of urban were trained on preparing financial statement whereas 36 (66.7%) of rural compared to 29 (56.8%) of urban were of contrary opinion. Further, 39 (72.3%) of rural compared to 41 (80.4%) of urban stated that they were not trained on how to develop business plan whereas 6(11.7%) of urban stated that they were trained. Another, 29 (53.7%) of rural compared to 33 (64.6%) of urban stated that they were trained on how to prepare a budget. However, 24 (44.4%) of rural as opposed to 16 (31.5%) of urban were of the opinion that they were not trained on how to prepare a budget. Moreover, 3 (5.6%) of rural compared to 10 (19.6%) of urban stated that consultancy services are given by the institution. However, majority 37 (68.5%) of rural respondents compared to 32 (62.8%) of urban stated that consultancy services were not offered.

Table 4.3 shows the results of the credit officers on non-financial services on rural and urban household poverty levels.

Table 4.3: Non-Financial Services on households

STATEMENT	SD		D		N		A		SA		TOTAL	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
Our customers are trained on business management	0	0	4	26.7	1	6.7	5	33.3	5	33.3	**15**	**100**
My Institution train clients on how to prepare a budget	1	6.7	0	0	1	6.7	10	66.7	3	20	**15**	**100**
Our clients are trained on how to prepare a business plan	1	6.7	4	26.7	2	13.3	5	33.3	3	20	**15**	**100**
The Institution assist clients market their services and products	5	33.3	2	13.3	4	26.7	1	6.7	3	20	**15**	**100**
Health program are offered to our clients by my Institution	6	40	6	40	2	13.3	0	0	1	6.7	**15**	**100**
We offer entrepreneurial skills to our clients	0	0	4	26.7	3	20	6	40	2	13.3	**15**	**100**
My Institution train our clients on book keeping practices	0	0	0	0	1	6.7	10	66.7	4	26.7	**15**	**100**

Source: **Field Data (2014)**

Results in Table 4.3, 10 (66.6%) of the credit officers were of the opinion that clients were trained on business management whereas 4 (26.7%) suggested that clients were not trained on business management. Further, 13 (86.7%) of the credit officers stated that clients were trained on how to prepare a budget whereas 1 (6.7%) suggested that clients were not trained on how to prepare a budget. Table 4.3 indicate that 8 (53.3%) of the credit officers stated that clients were trained on preparing business plan.

However, 5 (32.7%) suggested that clients were not trained on how to prepare a business plan. Besides, 4 (26.7%) of the credit officers were of the opinion that clients were assisted in marketing their products services whereas 7 (46.6%) stated that clients were not assisted in marketing their products and service. Majority, 12 (80%) suggested that health programs were not offered to clients. Further, 8 (53.3%) were of the opinion that clients were trained on entrepreneurial skills. However, 4 (26.7%) stated that clients were not trained on entrepreneurial skills. In addition, majority (93.4%) of the credit officers stated that clients were trained on book keeping practices.

4.4 Collateral Challenge Rural and Urban Household Face in Accessing Microfinance Interventions

Customer's result on collateral challenge in accessing microfinance intervention is shown in Appendix 6

Appendix 6 shows that, 54 (100%) in rural respondents and 50 (98%) in urban stated that security is a requirement before one gets a loan. Also, 10 (18.5%) in rural compared to 9 (17.6%) in urban suggested that they are exempted to get a loan without security. On the other hand 43 (79.6%) in rural compared to 39 (76.5%) in urban stated that exemption is not given to those without security. In addition, 20 (37%) in rural compared to 22 (43.1%) in urban have used guarantors only as security to get a loan. However, 32 (59.3%) in rural compared to 28 (54.9%) in urban were of the opinion that guarantors alone cannot be used as security to get a loan. Further, 19 (35.2%) in rural likened to 15 (29.4%) in urban suggested that one can use chattels alone as security when borrowing loan whereas 33 (61.1%) in rural compared to 31 (60.8%) in urban were of contrary opinion.

In addition, 8 (14.8%) of rural compared to 7 (13.7%) of urban stated that title deeds and logbook were the only security required by the microfinance institution. However, 38 (70.4 %) of rural compared to 36 (70.6%) of urban suggested that title deed and logbook were not the only security accepted. Besides, 34 (63%) of rural compared to 38 (74.5%) of urban stated that security is sold when they fail to repay the loan to recover the outstanding loan balance, whereas 6 (11.1 %) of rural likened to 3 (5.9) of urban suggested that security is not sold to recover the outstanding loan balance. Moreover, 47 (87%) of rural compared to 36 (70.6%) of urban were of the opinion that security determines the loan clients get. Another, 13 (24%) of rural compared to 9 (17.6%) of urban stated that they received a loan that is higher than the value of security pledged whereas 39 (72.2 %) of rural compared to 38 (74.5%) of urban asserted that one cannot get loan higher than the value of security attached to the loan. In addition, 44 (81.5%) of rural compared to 38 (74.5%) of urban stated that security is required when borrowing as group. However 10 (18.5%) of rural compared to 12 (23.5%) of urban were of contrary opinion.

As shown in Appendix 6, 27 (50%) of rural compared to 25 (49%) of urban stated that MFIs require bank statements to accompany security pledges if one has an account in other institutions whereas 24 (44.4%) of rural compared to 17 (33.3%) of urban stated that a bank statement is not required to accompany security attached. Another, 44 (81.5%) of rural compared to 36 (70.6%) of urban were of the opinion that those letters from assistant chiefs were not accepted to acts as security for those with no title deed.

Credit officer's result on the collateral challenge household face in accessing microfinance interventions is presented in Table 4.4.

Table 4.4 Collateral Challenge Household Face

Statement	SD		D		N		A		SA		TOTAL	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
My Institution require security when approving client's loan	1	6.7	0	0	0	0	6	40	8	53.3	**15**	**100**
Exemption is offered to customers with no security by my Institution	5	33.3	4	26.7	0	0	3	20	3	20	**15**	**100**
Title deeds & logbooks are the only security accepted by my Institution	6	40	5	33.3	2	13.3	1	6.7	1	6.7	**15**	**100**
My Institution accepts chattels only as security from our customers	3	20	7	46.7	0	0	5	33.3	0	0	**15**	**100**
When our client uses guarantors only as security they can get the loan they require	4	26.7	6	40	2	13.3	3	20	0	0	**15**	**100**
My Institution use valuers to determine the value property pledged as security by our customers	0	0	3	20	2	13.3	8	53.3	2	13.3	**15**	**100**
Collateral pledged influences the amount to be approved as loan to clients	2	13.3	2	13.3	1	6.7	7	46.7	3	20	**15**	**100**
A letter from assistant chief for clients with no title deeds is accepted by the institution as security	3	20	8	53.3	0	0	2	13.3	2	13.3	**15**	**100**

Source: Field Data (2014)

Table 4.4 reveals that 14 (93.3%) of the respondents stated that security is a requirement before a loan is approved. However, 1 (6.7%) suggested that security was not required when approving a client’s loan. Also, 6 (40%) were of the opinion that clients without security are exempted whereas 9 (60%) stated that clients without security were not exempted. In addition, 2 (13.4%) of the credit officers suggested that title deeds and logbook were the only security accepted by the microfinance institution. However, 11 (53.3%) were of the opinion that title deeds and logbook were not the only security accepted by microfinance institution. Besides, 5 (33.3%) stated that clients use chattels as the only security whereas 10 (66.7%) were of the opinion that chattels were not accepted as the only security.

Table 4.4 shows that 3 (20%) of the credit officers stated that microfinance institution allowed clients to use guarantors as the only security. However, 10 (66.7%) suggested that guarantors alone cannot be used by clients as security. Also, 10 (66.7%) were of the opinion that valuers were used to determine the value of property pledged as security whereas 3 (20%) stated that valuers were not used in determining the value of security pledged. In addition, 10 (66.7%) of the credit officers stated that collateral offered by clients influenced the amount of loan they received. However, 4 (26.6%) suggested that collateral pledged did not influence the amount of loan client received. Moreover, 4 (26.6%) of the credit officers stated that a letter from an assistant chief was accepted as collateral for those clients without title deeds whereas 11 (73.3%) stated that a letter from the same official was not accepted as collateral for those without title deeds.

4.5 Hypotheses Testing

Analysis of variance (ANOVA) is a statistical test used to determine whether there is a significant difference between two or more groups at selected probability level. One way ANOVA was used to test the hypothesis since the study was comparative and it compares all means simultaneously and maintains type 1 error probability at the designed level.

4.5.1 There is no significant relationship between financial services and poverty levels in rural and urban households

Financial services on poverty levels between rural and urban households are shown in Table 4.5

Result on one-way ANOVA shows p=0.047. Since p<0.05, null hypothesis is rejected. This implies that financial services have a significant influence on poverty level between rural and urban household. The ways households make use of the financial services vary from one household to the other. Hence influence of financial services on household poverty levels is different between rural and urban.

Table 4.5: ANOVA results on financial services and poverty levels

		Sum of squares	df	Mean square	F	Sig
Financial services	Between groups	.074	1	.074	.573	.047
	Within groups	13.241	103	.129		
	Total	**13.315**	**104**			

Source: **Field Data (2014)**

4.5.2 There is no significant relationship between non-financial services and poverty levels in rural and urban households

Non-financial services on poverty levels between rural and urban households are shown in Table 4.6

Result on one-way ANOVA shows p=0.043. This shows that non-financial services have a significant influence on poverty level between rural and urban household.

Households receive training in different areas from MFIs through credit officers. The way households make use of the skills is different in managing their businesses, creating other businesses and making other investments. Therefore, the non-financial services provided to clients assist them run their economic activities differently.

Table 4.6: ANOVA results on non-financial services and poverty levels

		Sum of squares	df	Mean square	F	Sig
Non-Financial services	Between groups	1.653	1	1.653	4.201	.043
	Within groups	40.523	103	.393		
	Total	**42.176**	**104**			

Source: Field Data (2014)

4.5.3 There is no significant difference in collateral challenge faced in accessing microfinance interventions between rural and urban household

Collateral challenge faced in accessing microfinance interventions between rural and urban household is shown in Table 4.7.

Result on one-way ANOVA shows p=0.022. This implies that there is a significant difference in collateral challenge faced in accessing microfinance interventions between rural and urban household. Household have different assets or properties to attach as security when they borrow credit from MFIs. Security attached has an influence on the amount of credit households receive. Hence collateral required by MFIs has a different impact in access to microfinance interventions by rural and urban households.

Table 4.7: ANOVA on Collateral Challenge and access to Microfinance Intervention

		Sum of squares	df	Mean square	F	Sig
Collateral challenge	Between groups	17.737	21	.845	1.296	.022
	Within groups	54.111	83	.652		
	Total	**71.848**	**104**			

Source: Field Data (2014)

CHAPTER FIVE

SUMMARY AND DISCUSSION OF FINDINGS

5.1 Summary of Findings

5.1.1 Comparison of Financial Services on Rural and Urban Household Poverty Levels

Results on one-way ANOVA showed p=0.047. This implies that financial services have a significant influence on poverty levels on rural and urban household. The ways households make use of the financial services vary from one household to the other. Hence influence of financial services on household poverty levels is different between rural and urban.

5.1.2 Comparison of Non-financial Services on Rural and Urban Household Poverty Levels

Result on one-way ANOVA showed p=0.043. This indicates that non-financial services have a significant influence on poverty level between rural and urban household. Households receive training in different areas from MFIs through credit officers. The way households make use of the skills is different in managing their businesses, creating other businesses and making other investments. Therefore, non financial services have different influence on urban and rural household poverty levels.

5.1.3 Collateral Challenge Rural and Urban Household face in Accessing Microfinance interventions

The results on one-way ANOVA indicated that p=0.022. This implies that there is significant difference in collateral challenge faced in accessing microfinance interventions between rural and urban household. Household have different assets or properties to attach as security when they borrow credit from MFIs. Security attached has an influence on the amount of credit households receive. Hence collateral required by MFIs has a different impact in access to microfinance interventions by rural and urban households.

5.2 Discussion of Findings

5.2.1Demographic Characteristics of the Respondents

The results showed that more females participate in the MFIs as compared to their male counterparts. Moreover, those who are involved in the microfinancing activities range between 31-45 years where they utilize their efforts in the microfinancing activities to move out of poverty. In addition, married people are the most active in microfinancing activities because both parties are committed to loan repayment. Besides, most rural clients are high school leavers who require special skills to run business and venture into new areas that are profitable as oppose to urban clients with tertiary level education.

Results indicated that most of those who participated, both rural and urban, had two dependants a number that is easy to manage in meeting their needs hence can move out of poverty cycle. Further, majority (90.8% in rural & 85% in urban) earn less than

Ksh 6,000 per month which is little to meet their needs as well as service loans from the MFIs becoming hard for them to move out of poverty. Similarly, most of the MFI clients are business oriented who make use of the financial and non financial services to expand or improve their businesses that create employment for other poor households. Results revealed that most of the respondents have been in the institution for more than five years. Hence they are utilizing both financial and non-financial services from the institution to help them move out of poverty.

5.2.2 Comparison on the influence of Financial Services on Rural and Urban Household Poverty Levels

The results revealed that loans had greater influence on rural respondents in meeting their basic needs, health service, paying school fees for their children and expanding their businesses compared to urban respondents. Similarly, loan had greater influence on urban respondents in starting business and in improving their living standards. This goes hand in hand with what Marilou and Carlos (2004) who stated that with access to financial services, poor households are able to keep their children longer in school, get better health services, eat better meals and stay in safer housing as compared to those who don't have access to such facilities, holding other factors constant. In addition, Morduch and Haley (2002) stated that customers of microfinance programs enjoy increased household income, better health and nutrition, have better chance of attaining higher education, and in some cases, the ability to completely move their families out of poverty. Also, Littlefield *et al* (2003) stated that access to financial services translates into better nutrition and improved health outcomes such as immunization rates.

Results revealed that most of the respondents (88.6%) received loans when they required them. This is in agreement with the credit officers of the MFIs that their institutions take the shortest time in processing client's loans. Furthermore, results indicated that clients were required to state the purpose of the loan. Similarly, results showed that loan follow up is done to ensure that clients have used the loan for the intended purpose. This concurs with Hossain (1988) who stated that effective procedures of disbursement, supervision and repayment should be established to minimize the level of default. Similarly, Champagne *et al* (2007) emphasized on regular client visits to ensure the loan is used on the agreed purpose.

In addition, results showed that savings account is a requirement for members. This concurs with Kateera (2009) that Savings is a requirement for some MFIs since it cultivates financial discipline among borrowers and also provides funds to MFIs for lending to more clients. Also, Lennart (2004) and Seibel & Gloria (2005) encourages the scheme of saving because it is crucial for self help and self reliance mostly in women who are less risk prone and more saving oriented than their male counterparts. However, saving can be compulsory or voluntary. This is in agreement with Kateera (2009) who asserted that savings can be compulsory or voluntary.

Moreover, results revealed that savings assisted rural households greater during hard financial times compared to urban respondents. In addition, insurance is offered during loan period as well as loan given to customers insured. However, majority of the respondents (83.4% of rural & 80.4% of urban) stated that the institutions do not offer medical insurance. This is contrary to Seibel & Gloria (2005) and UN (2005) who stated that life and medical insurance are important tools in loan protection for both institutions and individual households` risk management.

Results on statistical analysis of financial services on households poverty indicated that null hypothesis is rejected i.e. alternative hypothesis accepted. This implies that there was a significant influence on financial services and poverty levels between rural and urban households. Hence financial services offered by MFIs have different impact on poverty levels of households in rural and urban areas.

5.2.3 Comparison on the influence of Non-financial Services on Rural and Urban Household Poverty Levels

Results revealed that non-financial services had a greater influence on urban household than rural household in training on bookkeeping, entrepreneurial skills, financial statement, budgets and consultancy services. This concurs with Seibel & Gloria (2005) that microfinance interventions are more effective when adopting credit-plus approach, providing borrowers with training on financial and business management skills. However, results showed that majority (79.6%) of rural household compared to urban household (64.8%) were not trained on business management. This is in agreement with Rahman and Khan (2013) who found out that 70.5% of borrowers did not receive any training from credit organization.

In addition, results indicated that the institutions do not offer health program to their clients. This is contrary to what Leatherman and Dunford (2010) asserted that adding health education alone, usually delivered during the routine microfinance group meetings, improve knowledge that leads to behavioral change. These behaviors are associated with positive health outcomes such as reproductive health, preventive and primary health care for children, child nutrition, breastfeeding and malaria prevention that are critically important for improving the health status of the poor globally and for achieving the Millennium Development Goals in areas such as maternal and child health. Health services are important because they influence the size of the family, ensures that poor people are healthy to carry out their microfinancing activities and the resources used when one is ill can be used elsewhere in expanding their businesses and farming that helps them move out of poverty. A healthy society is a productive society hence there is progress in that society.

Further, results revealed that majority (75.9%) of rural household compared to urban household (64.7%) are not trained on entrepreneurial skills. Entrepreneurial skills are essential, according to IFAD (2002) which stated that non financial services helps, for instance entrepreneurial skills to the poor assist to improve their human capital and hence are able to engage in economic activities. In addition, results (88.9% of rural and 80.4% of urban) showed that MFIs do not assist clients market their services and products. This is in agreement to Wube (2010) who stated that SMEs face economic factors like competition in the market, lack of access to the market, lack of access to raw material, lack of capital or finance and lack of marketing knowledge. When clients can’t access the market for their products and services it becomes hard for them to get money to repay their loans and also to improve their livelihood to move out of the poverty cycle.

The results on statistical analysis of non financial service on household poverty showed that null hypothesis is rejected. This implies that there was a significant influence of non-financial services on poverty levels between rural and urban households. Therefore, non-financial services offered by MFIs have different impact on poverty levels on rural and urban households.

5.2.4 Collateral Challenge Rural and Urban Household face in Accessing Microfinance Interventions

Results revealed that security is a requirement which has to be attached to the loan given to customers. Further results showed that urban households can use guarantors only as security and security pledged is sold when one fails to repay the loan compared to the rural households. In addition urban households can borrow as a group without security as opposed to rural households. Results indicated that most of the rural households attached bank statements, if one has an account in other institutions, when they borrow credit to accompany security attached as opposed to urban household. This is in agreement with Odendo *et al* (2002) who stated that a bank statement detailing transactions of a client for a period of six to twelve months is also required when clients borrow loans. This is to confirm whether clients have a loan elsewhere that can interfere with loan repayment resulting to their assets being sold. Besides, results revealed that security plays a crucial role in determining the loan clients receive. Similarly, clients cannot get a loan that is higher than the value of security they attached to the loan.

Results showed that rural households had used chattels alone as security as well as title deeds and logbooks compared to urban households. However, majority (81.5%) of rural households have not used a letter from assistant chief to show ownership of piece of land, when they lack title deed, to act as security as opposed to urban households. This concurs with Dalberg Global Development Advisor (2011) who stated that some financiers don’t lend on informal deeds (i.e. a letter signed by neighbours to the North, South, East and West confirming the ownership of the land) which is a challenge to the financier to sell a foreclosed property and no one may be willing to buy their neighbor`s land. Also, results showed that valuers were used to determine the value of property pledged as security which means that clients are forced to meet the cost of valuing their security which is also a burden.

The results on statistical analysis indicated that null hypothesis is rejected. This implies that there is a significant difference in collateral challenge faced in accessing microfinance interventions between rural and urban households.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

This chapter addresses conclusions, contributions, limitations and recommendations of the study

6.1 Conclusion of the Study

i. Financial services had a greater influence on rural households compared to urban households in getting the loan when they require it, meeting their health services, paying school fees for their children, meeting their basic needs and using their savings during hard financial times. Moreover, the institutions take short time to process client's loans and loan follow up is done. Therefore, financial services have different influence on poverty levels between rural and urban households.

ii. Non-financial services had a greater influence on urban households compared to rural households. Urban households utilize training from the microfinance institutions on bookkeeping, budgeting, business management, entrepreneurial skills and business plan and consultancy services. Hence, non-financial services have different influence on poverty levels between rural and urban households.

iii. Rural and urban households face different collateral challenge in accessing microfinance interventions. This is because households have different properties they attach to the loans. Therefore, security households offer will influence their access to microfinance interventions that assist them fight poverty levels. Also, Security is a requirement when one borrows a loan, neither guarantors nor chattels alone can be used as security. In addition, title deeds and logbook are not the only security used by the MFIs, security influences credit given to clients and can be sold to clear outstanding balance if clients fail to repay, informal deeds are not accepted.

6.2 Contribution of the Study

Group lending is assumed to favor poor households who lack collateral. However, MFIs require households to attach collateral when borrowing credit and when group members fail to repay the loan other group members are denied credit. Microfinance interventions assist rural and urban households expand their businesses and farming as well as start up new businesses for others. Moreover, households have been able to get better health services and improve education for their dependants. Expanding and starting up new businesses create employment for other poor households. Healthy households are able to engage in economic activities hence improve their living standards. Education is also an important factor for progress in a society and it contributes toward the fight of poverty, ignorance and diseases. Microfinance interventions have different influence on poverty levels between rural and urban households.

6.3 Limitations of the Study

The limitation of the study was that respondents were not willing to fill questionnaire. However, the researcher was consistent in contacting them and ensured reminders were sent to them to fill the questionnaire.

6.4 Recommendation of the Study

6.4.1 Policy Recommendation

6.4.1.1 Recommendation on Rural households

The study recommends that the MFIs should offer non-financial services like training on how to prepare financial statements and business plans, marketing services and consultancy services to their clients to enable them maintain proper records and run their businesses efficiently. In addition, the institution should be lenient on security so long as the character of the borrower is good and is a repeat borrower who paid well in previous loans. Further, clients should be offered medical insurance to reduce risk of selling their assets to meet medical needs which expose them to poverty.

6.4.1.2 Recommendation on Urban Households

The study recommends that the MFIs should encourage clients take medical insurance to cover them during the period of sickness. In addition, the MFIs should offer training to clients on entrepreneurial skills, business plan and business management and assist clients to market their services and products. Besides, the institutions should be lenient on security to clients once their character is good and in their previous loans they paid well.

6.4.2 Recommendation for Further Research

The study suggests that further research be conducted on the impact of women entrepreneurs on economic growth in Uasin Gishu County.

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APPENDICES

APPENDIX I: INFORMED CONSENT

OGEMBO NANCY NYATICHI
UNIVERSITY OF ELDORET,
P.O. BOX 1125, 30100.
ELDORET, KENYA.

Dear respondent,

<u>RE: REQUEST FOR YOUR PARTICIPATION</u>

I am a student at the University of Eldoret in the School of Business and Management science and I am conducting a research entitled **Microfinance Interventions on Rural and Urban Household Poverty Levels in Kisii County**. The research is part of the fulfillment of my postgraduate course. This is to give you information in the hope that you will participate in the study for the research which is for academic purpose only. Participation in this study is entirely voluntary. The information you provide is confidential and your name will not be exposed anywhere. The Information you provide will be treated only as a source of background research, alongside books and other research carried earlier. There are no known or anticipated risks to you as a participant in this study. If you have any questions regarding this study or would like additional information please ask me before, during, or after the exercise. I can assure you that this study has been reviewed and approved by the Postgraduate Committee of the University.

Thank you for your assistance.

Participant's Sign……………………………………………………………………

OGEMBO NANCY NYATICHI
BMS/PGMBM/007/12
0727-938744

APPENDIX II : QUESTIONNAIRE FOR MICROFINANCE CUSTOMERS

Introduction

I am a student at the University of Eldoret in the school of Business and Management Science. I am conducting a research study entitled **Microfinance Interventions on Rural and Urban Household Poverty Levels in Kisii County**. This study is part of the fulfillment of my masters program. The findings for the study will be purely for academic purposes. I would be grateful if you could accept to answer the questions by filling this short questionnaire. Your opinions and views are of extreme importance. The answers you give will be treated with utmost and strict confidentiality.

Instructions

1. For absolute confidentiality **DO NOT** write your name anywhere on this questionnaire.
2. Please fill free and be as honest as possible. There is no right or wrong answers.
3. Place a tick (√) against the most appropriate response. For questions that need writing, fill in the spaces provided.

PART A: DEMOGRAPHIC CHARACTERISTICS

1. Gender

   Male ☐ Female ☐

2. Age bracket

   18 - 30 years ☐ 31 – 45 years ☐ ove 45 years ☐

3. Where do you stay?

   Urban ☐ Rural ☐

4. Marital Status

   Single ☐ Married ☐ Widowed ☐ Separated ☐

5. Highest educational level?

   Primary ☐

   Secondary ☐

   Tertiary ☐

   University ☐

   No formal Education ☐

6. How many dependants do you have? ☐
7. How much income do you earn per month?

   Less than Ksh 3,000 ☐

   Ksh 3,001-Ksh 6,000 ☐

   Above Ksh 6,000 ☐

8. What is your occupation?

   Business ☐ Civil Servant ☐ Farming ☐

9. When did you join the microfinance programme? ☐

PART B. FINANCIAL SERVICES ON POVERTY

To what extent do you agree with the following statement regarding the financial services offered by Microfinance Institutions on poverty? Please indicate the one that accurately reflect your view. **Key**: **SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree**

	SD	D	N	A	SA
My Institution offered me a loan when I needed it					
The loan assisted me meet health services for my family					
My Institution gave me a loan to pay fees for my children					
The loan assisted me start up the business					
The loan assisted me expand my business					
The loan assisted me meet my basic needs					
I have a saving account with my Microfinance Institution					
Saving is a compulsory requirement by Institution					
Savings helped me during hard financial times					
My Institution offer insurance to me during loan period					
My Institution offers me medical insurance					
The services I get from the Microfinance Institution have improved my standard of living					

PART C: NON-FINANCIAL SERVICES ON POVERTY

To what extent do you agree with the following statement regarding the non-financial services offered by Microfinance Institutions on poverty? Please indicate the one that accurately reflect your view. **Key**: **SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree**

	SD	D	N	A	SA
My Institution offer training services to clients on business management					
Health programs are offered by my Microfinance Institution					
I am trained by my Institution on book keeping practices					
My Institution train me on entrepreneurial skills					
I am assisted by my Institution to market my services and products					
I am trained on how to prepare financial statements for my business					
Training on how to develop a business plan is done by my					

Institution					
I am trained on how to prepare a budget					
My Microfinance Institution offers Consultancy services					

PART D: COLLATERAL REQUIREMENT ON POVERTY

To what extent do you agree with the following statement regarding the non-financial services offered by Microfinance Institutions on poverty? Please indicate the one that accurately reflect your view. **Key**: **SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree**

	SD	D	N	A	SA
Security is a requirement in getting a loan from my Institution					
I can be exempted to get a loan without a security					
I can use guarantors only as security when borrowing a loan from my Institution					
My Institution accept chattels only as security when borrowing a loan					
Title deeds & logbook are the only security required by my Institution before I borrow a loan					
When I fail to repay the loan my security is sold to recover the remaining balance					
Security offered is used to determine the amount of loan I receive					
When I require a loan, higher than the value of security I offered, I am able to get it					
Security is not required when I borrow as a group					
When I have an account with another Institution, a bank statement is required to accompany my security					
When I have a piece of land without a title deed, my Institution accept a letter from assistant Chief stating that the piece of land is mine to acts as security					

Thank you for your cooperation and please check if there is any quiz that you forgot to answer.

…………END……….

APPENDIX III : QUESTIONNAIRE FOR MICROFINANCE CREDIT OFFICERS

Introduction

I am a student at the University of Eldoret in the school of Business and Management Science. I am conducting a research study entitled **Microfinance Interventions on Rural and Urban Household Poverty Levels in Kisii County**. This study is part of the fulfillment of my masters program. The findings for the study will be purely for academic purposes. I would be grateful if you could accept to answer the questions by filling this short questionnaire. Your opinions and views are of extreme importance. The answers you give will be treated with utmost and strict confidentiality.

Instructions

1. For absolute confidentiality **DO NOT** write your name anywhere on this questionnaire.
2. Please fill free and be as honest as possible. There is no right or wrong answers.
3. Place a tick (√) against the most appropriate response. For questions that need writing, fill in the spaces provided.

PART A: DEMOGRAPHIC CHARACTERICTICS

1. Gender
   Male ☐ Female ☐
2. Age bracket
   18-30 years ☐ 31-45 years ☐ above 45 years ☐
3. Marital Status
   Single ☐ Married ☐ Widowed ☐ Separated ☐
4. Where does your Institution cover
   Rural areas ☐ Urban areas ☐ Rural and urban areas ☐
5. How do you lend to clients?
   Groups ☐ Individuals ☐ Groups & individuals ☐

PART B: FINANCIAL SERVICES ON POVERTY

To what extent do you agree with the following statement regarding the financial services offered by your Institution on poverty? Please indicate the one that accurately reflect your view. **Key**: **SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree**

	SD	D	N	A	SA
My institution offer saving programme to our clients					
The saving program we offer to our customers is Voluntary					
My Institution insure credit given to our customers					
The Institution offer an insurance cover to our clients during the loan period					
The Institution require our clients to indicate the purpose of the loan					
Processing of loan by my Institution takes a short time					
Follow up is done to our clients to ensure that loan given is used for the intended purpose					

PART C: NON-FINANCIAL SERVICES ON POVERTY

To what extent do you agree with the following statement regarding the non-financial services offered by your Institution on poverty? Please indicate the one that accurately reflect your view. **Key**: **SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree**

	SD	D	N	A	SA
Our customers are trained on business management					
My Institution train clients on how to prepare a budget					
Our clients are trained on how to prepare a business plan					
The Institution assist clients market their services and products					
Health program are offered to our clients by my Institution					
We offer entrepreneurial skills to our clients					
My Institution train our clients on book keeping practices					

PART D: COLLATERAL REQUIREMENTS ON POVERTY

To what extent do you agree with the following statement regarding the Collateral requirements as per the Microfinance Institutions on poverty? Please indicate the one that accurately reflect your view. **Key**: **SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree**

	SD	D	N	A	SA
My Institution require security when approving client's loan					
Exemption is offered to customers with no security by my Institution					
Title deeds & logbooks are the only security accepted by my Institution					
My Institution accepts chattels only as security from our customers					
When our client uses guarantors only as security they can get the loan they require					
My Institution use valuers to determine the value property pledged as security by our customers					
Collateral pledged influences the amount to be approved as loan to clients					
A letter from assistant chief for clients with no title deeds is accepted by the institution as security					

Thank you for your cooperation and please check if there is any quiz that you forgot to answer.

…………END…………

APPENDIX IV: FINANCIAL SERVICES ON RURAL AND URBAN HOUSEHOLD POVERTY LEVELS

Statement	SD				D				N				A				SA				TOTAL			
	Rural		Urban		Rural		Urban		Rural		Urban		Rural		Urban		Rural		Urban		Rural		Urban	
	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%
My Institution offered me a loan when I needed it	0	0	1	1.9	5	9.3	6	11.8	0	0	0	0	40	74.1	31	60.8	9	16.7	13	25.5	**54**	**100**	**51**	**100**
The loan assisted me meet health services for my family	5	9.2	4	7.9	9	16.7	9	17.7	4	7.4	10	19.6	34	62.9	26	50.9	2	3.7	2	3.9	**54**	**100**	**51**	**100**
My Institution gave me loan to pay fees for my children	0	0	1	1.9	11	20.3	13	25.6	6	11.1	10	19.6	36	66.7	19	37.2	1	1.9	8	15.7	**54**	**100**	**51**	**100**
The loan assisted me start up the business	0	0	1	1.9	21	38.9	23	45.1	11	20.4	3	5.9	15	27.8	18	35.3	7	12.9	6	11.8	**54**	**100**	**51**	**100**
The loan assisted me expand my business	0	0	0	0	8	14.8	7	13.7	2	3.7	2	3.9	38	70.4	39	76.5	6	11.1	3	5.9	**54**	**100**	**51**	**100**
The loan assisted me meet my basic needs	1	1.9	2	3.9	6	11.1	20	39.2	13	24.1	11	21.6	27	50	12	23.5	7	12.9	6	11.8	**54**	**100**	**51**	**100**
I have a saving account with my MFI	0	0	0	0	3	5.6	2	3.9	0	0	1	1.9	37	68.5	38	74.5	14	25.9	10	19.6	**54**	**100**	**51**	**100**
Saving is a compulsory requirement by my Institution	3	5.6	3	5.9	19	35.2	23	45.1	1	1.9	5	9.8	24	44.4	10	19.6	7	12.9	10	19.6	**54**	**100**	**51**	**100**
Savings helped me during hard financial times	0	0	0	0	3	5.6	4	7.8	5	9.3	7	13.7	38	70.4	31	60.8	8	14.8	9	17.6	**54**	**100**	**51**	**100**
My MFI offer insurance to me during loan period	3	5.6	4	7.8	10	18.5	5	9.8	19	35.2	13	25.6	17	31.5	26	50.9	5	9.3	3	5.9	**54**	**100**	**51**	**100**
My Institution offers me medical insurance	32	59.3	23	45.1	13	24.1	18	35.3	1	1.9	3	5.9	7	12.9	6	11.8	1	1.9	1	1.9	**54**	**100**	**51**	**100**
The services I get from MFI have improved my living standards	3	5.6	0	0	3	5.6	1	1.9	1	1.9	1	1.9	38	70.4	38	74.5	9	16.7	11	21.6	**54**	**100**	**51**	**100**

Source: Field Data (2014)

APPENDIX V: NON-FINANCIAL SERVICES ON RURAL AND URBAN HOUSEHOLD POVERTY LEVELS

Statement	SD				D				N				A				SA				TOTAL			
	Rural		Urban		Rural		Urban		Rural		Urban		Rural		Urban		Rural		Urban		Rural		Urban	
	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%
My MFI offer training services to clients on business management	9	16.7	8	15.7	34	62.9	25	49.1	2	3.7	0	0	9	16.7	16	31.4	0	0	2	3.9	**54**	**100**	**51**	**100**
Health programs are offered by my MFI	34	62.9	27	52.9	12	22.2	16	31.4	7	12.9	6	11.8	1	1.9	2	3.9	0	0	0	0	**54**	**100**	**51**	**100**
I am trained by my Institution on book keeping practices	5	9.3	5	9.8	17	31.5	11	21.6	2	3.7	2	3.9	28	51.9	29	56.9	2	3.7	4	7.9	**54**	**100**	**51**	**100**
My Institution train me on entrepreneurial skills	4	7.4	4	7.8	37	68.5	29	56.9	4	7.4	5	9.8	6	11.1	11	21.6	3	5.6	2	3.9	**54**	**100**	**51**	**100**
I am assisted by my Institution to market my services and products	28	51.9	20	39.2	20	37	21	41.2	5	9.3	6	11.8	1	1.9	4	7.8	0	0	0	0	**54**	**100**	**51**	**100**
I am trained on how to prepare financial statements for my business	8	14.8	1	1.9	28	51.9	28	54.9	5	9.3	5	9.8	13	24.1	14	27.5	0	0	3	5.6	**54**	**100**	**51**	**100**
Training on how to develop a business plan is done by my Institution	9	16.7	8	15.7	30	55.6	33	64.7	15	27.8	4	7.8	0	0	4	7.8	0	0	2	3.9	**54**	**100**	**51**	**100**
I am trained on how to prepare a budget	7	12.9	5	9.8	17	31.5	11	21.7	1	1.9	2	3.9	29	53.7	32	62.7	0	0	1	1.9	**54**	**100**	**51**	**100**
My MFI offers Consultancy services	17	31.5	13	25.5	20	37	19	37.3	14	25.9	9	17.6	2	3.7	6	11.8	1	1.9	4	7.8	**54**	**100**	**51**	**100**

Source: Field Data (2014)

APPENDIX VI: COLLATERAL CHALLENGE ON HOUSEHOLDS

Statement	**SD**				**D**				**N**				**A**				**SA**				**TOTAL**			
	Rural		**Urban**		**Rural**		**Urban**		**Rural**		**Urban**		**Rural**		**Urban**		**Rural**		**Urban**		**Rural**		**Urban**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
Security is a requirement in getting a loan	0	0	1	2	0	0	0	0	0	0	0	0	45	83.3	38	74.5	9	16.7	12	23.5	**54**	**100**	**51**	**100**
I can be exempted to get a loan without a security	22	40.7	15	29.4	21	38.9	24	47.1	1	1.9	3	5.9	9	16.7	6	11.8	1	1.9	3	5.9	**54**	**100**	**51**	**100**
I can use guarantors only as security	2	3.7	2	3.9	30	55.6	26	51	2	3.7	1	2	18	33.3	16	31.4	2	3.7	6	11.8	**54**	**100**	**51**	**100**
My MFI accept chattels only as security	2	3.7	1	2	31	57.4	30	58.8	2	3.7	5	9.8	16	29.6	11	21.6	3	5.6	4	7.8	**54**	**100**	**51**	**100**
Title deeds & logbook are the only security required by my Institution before I borrow a loan	32	59.3	27	52.9	6	11.1	9	17.6	8	14.8	8	15.7	3	5.6	6	11.8	5	9.3	1	2	**54**	**100**	**51**	**100**
When I fail to repay the loan my security is sold to recover	1	1.9	1	2	5	9.3	2	3.9	14	25.9	10	19.6	23	42.6	29	56.9	11	20.4	9	17.6	**54**	**100**	**51**	**100**
Security offered is used to determine the amount of loan I receive	1	1.9	1	2	0	0	1	2	6	11.1	3	5.9	43	79.6	39	76.5	4	7.4	7	13.7	**54**	**100**	**51**	**100**
When I require a loan, higher than the value of security I offered, I am able to get it	8	14.8	4	7.8	31	57.4	34	66.7	2	3.7	4	7.8	10	18.5	8	15.7	3	5.6	1	2	**54**	**100**	**51**	**100**
Security is not required when borrowing as a group	5	9.3	6	11.8	39	72.2	32	62.7	0	0	1	2	10	18.5	12	23.5	0	0	0	0	**54**	**100**	**51**	**100**
When I have an account in another MFI, a bank statement is required to accompany my security	4	7.4	7	13.7	20	37	10	19.6	3	5.6	9	17.6	23	42.6	23	45.1	4	7.4	2	3.9	**54**	**100**	**51**	**100**
When I have land without a title deed, my MFI accept a letter from assistant Chief stating that the land is mine to acts as security	19	35.2	7	13.7	25	46.3	19	37.3	1	1.9	6	11.8	5	9.3	8	15.7	4	7.4	1	2	**54**	**100**	**51**	**100**

Source: Field Data (2014)

APPENDIX VII: RESEARCH PERMIT

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471, 2241349, 310571, 2219420
Fax: +254-20-318245, 318249
Email: secretary@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote

9th Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No.

Date:

13th May, 2014

NACOSTI/P/14/1276/1542

Nancy Nyatichi Ogembo
University of Eldoret
P.O.Box 1125-30100
ELDORET.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Microfinance interventions on rural and urban household poverty levels in Kisii County,"*** I am pleased to inform you that you have been authorized to undertake research in **Kisii County** for a period ending **31st August, 2014.**

You are advised to report to **the County Commissioner and the County Director of Education, Kisii County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

SHussein.
SAID HUSSEIN
FOR: SECRETARY/CEO

Copy to:

The County Commissioner
The County Director of Education
Kisii County.

National Commission for Science, Technology and Innovation is ISO 9001: 2008 Certified

REPUBLIC OF KENYA

MINISTRY OF EDUCATION SCIENCE AND TECHNOLOGY

STATE DEPARTMENT FOR EDUCATION

Telegram: "EDUCATION"
Telephone: 058-30695
E-mail address:
When replying please quote

COUNTY EDUCATION OFFICE
KISII COUNTY
P.O. BOX 4499,
KISII.

Our Ref: CDE/KSI/MOE/23

Date: *20^{th} May, 2014*

TO WHOM IT MAY CONCERN

RE: RESEARCH AUTHORIZATION

Authority is hereby granted to Nancy Nyatichi Ogembo of University of Eldoret to carry out research on "***Microfinance interventions on rural and urban household poverty levels in Kisii County,***" for a period ending ***31^{st} August, 2014.***

Ensure that the exercise is conducted professionally.

COUNTY DIRECTOR OF EDUCATION
KISII COUNTY
P. O. Box 4499 - 40200, KISII
Date
Sign

NG'ARIBA SAMSON
FOR: COUNTY DIRECTOR OF EDUCATION
KISII COUNTY.

THIS IS TO CERTIFY THAT:
MS. NANCY NYATICHI OGEMBO
of UNIVERSITY OF ELDORET, 0-40202
KEROKA-KISII,has been permitted to
conduct research in *Kisii* *County*

on the topic: *MICRIFINANCE INTERVENTIONS ON RURAL AND URBAN HOUSEHOLD POVERTY LEVELS IN KISII COUNTY*

for the period ending:
31st August,2014

Permit No : NACOSTI/P/14/1276/1542
Date Of Issue : 13th May,2014
Fee Recieved :Ksh 1,000

Applicant's Signature

Secretary
National Commission for Science, Technology & Innovation

CONDITIONS

1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do that may lead to the cancellation of your permit
2. Government Officers will not be interviewed without prior appointment.
3. No questionnaire will be used unless it has been approved.
4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.
5. You are required to submit at least two(2) hard copies and one(1) soft copy of your final report.
6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice

REPUBLIC OF KENYA

NACOSTI

National Commission for Science, Technology and Innovation

RESEARCH CLEARANCE PERMIT

Serial No. A 1685

CONDITIONS: see back page

AUTHORIZED

COUNTY COMMISSIONER
KISII COUNTY

20/05/2014

COUNTY DIRECTOR OF EDUCATION
KISII COUNTY
P. O. Box 4499 - 40200, KISII
Date.......
Sign....... 20/05/2014.

APPENDIX VIII: MAP OF KISII COUNTY