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EFFECT OF ACCESS TO MICROFINANCE SERVICES ON POVERTY MANAGEMENT IN KENYA: A CASE OF MUKURU KWA NJENGA SLUM.

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ABSTRACT

Micro Finance Institution (MFI) offers credits mainly to low income earners as a way of alleviating poverty. Today, there is a growing recognition that credit alone is not the only solution of alleviating poverty. Poor people need and use a variety of financial services including savings. Today, savings have tremendously risen as opposed to previously when MFI focused primarily on providing loans leaving savings the "forgotten half" "The microfinance movement is bringing hope, prosperity and progress to many of the poorest people in the world. From the time of inception in 1981 to date Kenya Women Finance Trust clientele has grown to 4,000,000 with a portfolio of about 100.7 billion. However from the reviewed literature, not much has been done to link the access level of microfinance services on poverty management. Further, there is need to understand why the movement is such a success and how its exact achievement can be assessed and scrutinized." This study therefore focused on the effect of access to microfinance services by Small and Micro Enterprises in Kenya. The objective of this study was to determine the extent to which micro finance services have assisted in poverty management in Mukuru Kwa Njenga; to establish factors influencing accessibility of microfinance services by small and micro enterprises and to determine the level of influence of microfinance services on poverty management. The study was guided by a conceptual framework where the dependent variable was the level of poverty management and the independent variable was level of community empowerment and level of access to microfinance. Descriptive and co-relational designs were adopted. The population of the study was 100 officers drawn from five micro finance institutions in Mukuru Kwa Njenga. Census sampling was applied due to small number of population. Primary data was collected using questionnaire. The questionnaire was tested for both validity and reliability. Data was analyzed using both descriptive and inferential techniques. The findings were presented in form of graphs and tables. The findings may be helpful in policy formulation besides adding knowledge to the already existing body of knowledge.

Keywords: *Micro Finance Institution, microfinance, Small and Micro Enterprises and credit.*

Background to the Study

In the global arena there is already the impression that microfinance is successful in reducing poverty. Many policy makers are therefore engaged on how to make microfinance sustainable and available to many poor households and SMEs in the future. Many stake holders in the microfinance industry especially donors and investors argue that, "Microfinance can pay for itself, and must do so if it is to reach very large numbers of SMEs". The overall message in this argument is that unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from governments and donors. Microfinance institutions that follow the principles of good banking will also be the ones that alleviate the most poverty. The assumption being that with good banking practices it is possible to cover costs and operate in a sustainable manner to continue serving clients and alleviating poverty (Morduch 2000).

The "win-win" situation both for the investor and the poor can be explained as follows: The investor in microfinance programs follows good banking practices with the possibility of some profit, while the SMEs continue to benefit by accessing reliable credit that is assumed to be beneficial to their welfare. The supporters of the "win- win" proposition stress "mainly by assumption" that the ability to repay loans by the poor is a good indicator that whatever investments the poor make with their micro credit loans must be giving back profits. Given the assumption that microfinance is already beneficial to the poor, and SMEs' the "win-win" proposition further assumes that the amount of poverty reduced is directly proportional to the number of SME reached with microfinance. The "win-win" vision has been translated in to a series of "best practices" circulated widely by a number of key donors including United States Agency for International Development (USAID) and the United Nations Development programme (UNDP) among other key donors. It is important to note that the proposal of a commercial approach to microfinance for the poor has been questioned by socially oriented service providers.

Kenya's development challenge largely remains that of identifying sustainable ways of enabling the main sectors of the rural economy (Smallholder), Agriculture and Micro and Small Enterprise (MSE Sectors) to achieve their growth potentials. In the year 2010, it was estimated that 56 per cent of Kenyans lived below poverty line that is the equivalent of 23 million people (out of the 40 plus million). In response to rising levels of poverty and deteriorating social conditions, the Government reiterated its commitment to tackling this situation through the development of its Poverty Reduction Strategy Paper (PRSP). Microfinance needs to be recognized as vital part of the financial system, dedicated to meeting the needs of the poor in a responsive and profitable manner. The microfinance industry has evolved from being an exclusive domain of donors and experimental credit projects into an industry with prospects for financial viability, offering a broad range of services and significant opportunities for expansion. An estimated 10 percent to 15 percent of the population relies entirely on NGOs and informal associations for financial services. A national survey given in 2009 estimated that 20 percent of the country's total employment was involved in microenterprises, contributing more than 25 percent of non-agricultural GDP.

In 2007, Kenya passed the Microfinance Bill to regulate microfinance institutions in conjunction with the Association for Microfinance Institutions (AMFI), based in Nairobi and funded by a large USAID grant. The aim of the bill is to protect populations who are out of the scope of traditional banking services from corrupt microfinance institutions. According to the Microfinance Act (2006), MFIs in Kenya are classified and registered into three different tiers: deposit-taking institutions such as banks (Tier 1), credit only non-deposit taking institutions (Tier 2), and informal organizations supervised by an external agency other than the government (Tier 3). The last category involves Rotating Savings Societies (ROSCAS), club pools and Financial Services Associations (FSAs). These distinct classifications have led to some of the MFIs specializing in certain niche markets, which have contributed to their growth and sustainability in delivering microfinance.

Statement of the Problem

The problem of poverty among households and individuals in Mukuru kwa Njenga continues to be persistent despite the government's initiative to develop resources to the grassroots level. One of the identified key problems facing the SMEs is access to formal credit to enable them take advantage of the economic opportunities to increase their level of output hence move out of poverty. The widely held argument in the development economics literature is that formal credit markets tend to fail the poor due to the collateral requirements that the poor cannot satisfy and due to the belief that the incentives to repay for the poor are limited given the associated asymmetric information and high monitoring costs of micro individual borrowers. However, the high cost of credit from the informal sector implies that the poor cannot gainfully invest in productive income-increasing activities. Interest rates charged by moneylenders in developing countries are several times higher than those in the formal financial market. Additionally; although microfinance industry is widely celebrated as a possible solution to the financing problems of smaller firms and micro businesses, there is remarkably little examination of their role in poverty alleviation. Majority of the previous studies have concentrated on the growth of the MFI institutions. This has resulted in little or casual assessment of MFIs in poverty management. This research is therefore designed to study the effect of access to microfinance services on poverty management.

LITERATURE REVIEW

Microfinance, according to Otero (1999) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services include savings and credit but can also include other financial services such as insurance, transfer of payment services and remittances. Schreiner and Colombet (2001) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." According to James Roth, "Microfinance is a bit of a catch all-term. Very broadly, it refers to the provision of financial products targeted at low-income groups. These financial services include credit, savings and insurance products. The Canadian International Development Agency (CIDA) defines microfinance as, "the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions" Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural areas and who are excluded to obtain such services from the formal financial institutions.

Extensive evidence from around the world shows that the poor do save and that they need secure places where they can build usefully large sums of money. Micro-finance is a powerful vehicle for poverty eradication, various stakeholders have challenged micro-finance providers to increase the range of financial services they offer in order to address the economic needs of the underprivileged members of the society. A vibrant micro-finance sector considerably contributes towards a country's equitable development because of availing financial support to under-served and marginalized members of the society. Indeed, there is greater demand for secure savings services than credit on the part of the very poor. They must save to reach their financial goals such as life-cycle needs, meet emergencies and lastly are the need to finance opportunities or investment in existing business or establishing new enterprise or home (Sadoulet, 2006).
Rutherford (2006) noted that access to more and better ways of turning savings into lump sums – helps poor people from sliding deeper into poverty and helps them lay foundations for their ambitions to better themselves and their families. This and other studies by Johnson et.al (1997) and (Graham et.al Uganda 1999) had similar conclusions that show that: poor do save, have a need to save and use savings for a variety of reasons, which include daily expenditure, to fix a leaky roof, to pay for healthcare, consumption smoothing, accumulation to meet life-cycle needs and to send children to school.

Additionally savings are of greater importance to make income-generating activities, to exacerbate family against income variations, unanticipated future shocks that might drive the family back into poverty cycle, and "insurmountable debt". Equally savings are acknowledged to have long-term "asset effects" that may not only motivate to pursue education or employment, but also to help poor household to have a more optimistic outlook for the future. Therefore matched savings schemes are employed to enhance savings of low income households and as a way to save for "productive investments, microenterprises, education and health purposes",
(Zimmerman and Banerjee, 2009).

In the past 25 years, the delivery of financial services to this poor population has been considered as an important anti-poverty reduction tool. Although micro finance is not a panacea for poverty and related development challenges, it has and continues to play an important role in the following key areas: helping the unemployed become employed, thereby increasing their incomes and consumption; many women have been empowered and given a livelihood and independence. Significant amounts of savings have been mobilized and in general, a savings culture developed among the poor population. Further, micro finance has enabled poor people to access better health, education and nutrition.

When properly harnessed, microfinance offers a variety of benefits to the African people. Foremost, microfinance initiatives can effectively address material poverty, the physical deprivation of goods, services and the income to attain them. When properly guided, the material benefits of micro financing can extend beyond the household into the community. At the personal level, microfinance can effectively address issues associated with "non-material poverty, which includes social and psychological effects that prevent people from realizing their potential. Poor people, particularly poor women, are excellent borrowers, when provided with efficient, responsive loan services at commercial rates. Microfinance institutions can provide microloans to poor people in an efficient and financially sustainable way, once the numbers of clients reaches reasonable scale i.e. 10,000 to 20,000 borrowers in most settings. Microfinance lending savings and other financial services to poor people is an effective way to help poor people help themselves build income and assets, manage risk and work their way out of poverty.

The programs have the potential to transform power relations and empower the poor, both men and women. In well-run microfinance programs, there is a relationship of respect between the provider and the client that is inherently empowering. This is true regardless of the methodology or approach i.e. whether the institution takes a minimalist approach of delivering financial services only or a more holistic or integrated approach. As a consequence, microfinance has become a central component of many donor agencies' and national governments' gender, poverty alleviation, and community development strategies. Several studies and the experiences of a number of MFIs have shown, however, that simply putting financial resources in the hands of poor women is not enough to bring about empowerment and improved welfare.

According to the State of the Microcredit Summit Campaign 2001 Report, 14.2 million of the world's poorest1 women now have access to financial services through specialized microfinance institutions (MFIs), banks, NGOs, and other nonbank financial institutions. These women account for nearly 74 percent of the 19.3 million of the world's poorest people now being served by microfinance institutions. Most of these women have access to credit to invest in businesses that they own and operate themselves. The vast majority of them have excellent repayment records, in spite of the daily hardships they face. Contrary to conventional wisdom, they have shown that it is

a very good idea to lend to the poor and to women. Microfinance arouses enthusiasm among donors, practitioners, researchers and the state. This interest is based on the success of a few famous financial institutions in mobilizing savings and distributing large amounts of credit, with high repayment rates and good outreach on a rather sustainable basis. Microfinance has allowed millions of households usually excluded from classical financial services to begin their own economic activities or to reinforce existing efforts and become micro entrepreneurs.
Microfinance institutions (MFIs) play a vital role in the economic development of many developing countries. They offer loans and/or technical assistance in business development to low-income community in developing countries (Hartungi, 2007). They have a variety of products including micro loans, savings and other deposit products, remittances and transfers, payment services, insurance, and any other financial product or service that a commercial bank does not offer to low-income clients in the banking system (Hoque and Chisty, 2011). In both developing and transition economies, microfinance has increasingly been positioned as one of the most important poverty reduction and local economic and social development policies. Its appeal is based on the widespread assumption that simply 'reaching the poor' with microcredit will automatically establish a sustainable economic and social development trajectory animated by the poor themselves.

Dowla and Alamgir (2003) also noted that low saving could reflect a supply constraint, as poor household have few alternatives to deposit cash savings which in turn they use in kind saving or convert their saving into assets. They further argue many MFI clients have multiple loans and hence have to use their cash incomes to repay their loans and meet compulsory savings requirements. Research has found that, for MFI clients, savings products are as popular as "working capital and credit for investments". There has been ongoing shift from poverty lending and mandatory savings products since 1990 to a financial systems approach that acknowledge the importance of savings for the poor. The challenge for MFIs is to design **"**cost-effective savings mobilization strategies that respond to different client needs**"** (Bass et al., 2000). Similarly low-cost saving products that are easily accessible (opening hours and proximity), secured with positive returns (interest) and more attractive value scheme than what they already access informally should be prioritized.

Evidence from Asia and Latin America illustrates that the major constraint for micro-savings was product design, as such products need to be tailored specifically to the needs of the poor (Meyer, 2002; Hudon, 2004). The poor require flexible and inexpensive products that match their capacity to save, and address their needs for them to cope with crisis thus there is a strong need for outside saving schemes. These schemes however, must correspond to the frequent, small, and uneven transactions pattern that matches with the low-income cash flows (Rutherford, 2000; Sadoulet, 2006). Gugerty (2007), on his study from 70 ROSCAs in rural Kenya, interestingly found that nearly 60 ROSCAs were "consistent with a self-control commitment though most used the money for more than one purposes". Karlan et al. (2010) who tested the effects of making savings more significant by sending clients simple reminders to make deposits found that even with no commitment, the reminders can be successful in increasing savings rates (by 6%) and helping clients meet savings goals (a 3% increase in the likelihood of reaching one's goal). Similar positive impacts on savings were found by a deposit collection services tested in Ashraf et al. (2006a).

Challenges facing Microfinance Institutions;

With the proliferation of Microfinance into Africa, the actual truth or reality of its intentions is far from expected. Agreeably financial and economic opportunities are emerging with vast credit options, liberal economy, privatization, democracy globalization and competitiveness. The irony of all these is that nothing seems to be working in favor of the poor underprivileged grassroots masses and community development is a sham. Critically, despite all the efforts of Microfinance in the struggle against poverty, it is still facing huge challenges there by attracting much criticism. In a discussion with the managers of the MFIs, it was noted that Microfinance institutions serving the poor operate in very risky contexts. Most of the risk arises due to the economic disadvantage of their clients and also because these institutions work in areas with poor or no basic infrastructure. Aiming for sustainability in such a context would involve a question of risk sharing between the microfinance institution and the clients. In the present scenario, many of the costs pertaining to risk have been shifted to the borrowers who bear them as long as they need the loans and have no other alternatives. The shifting of costs to the poor should call for a policy to address over indebtedness and debt management by the poor.

By charging high interest rates on loans placed the poor borrower in a very difficult situation in that he/she has to deal with the cost of maintaining his micro business and at the same time, deal with the cost of repayments which makes it hard for the borrower to accumulate profit and get out of poverty. The worst part of this stigma is that should the supposed project (self reliance initiative) fails he/ she still has to deal with mounting interest rates, causing resentments, miseries and tensions in households as a result of pressures from Microfinance debt collector agents. Some borrowers end up selling their properties for debt repayment. S aptly captured, 'The African rural entrepreneur has not been empowered and poverty is still deeply embedded among the rural communities' (Mihanjo 2010).

Empowerment theory holds that for development to take effect, communities and households has to be empowered so as to take control over their natural environments and control their own destiny. Most Microfinance institutions seems to be deviating from these basic norms as providing mere credit to the poor is just one step towards empowering the borrowers but it does not in itself yields the benefits of poverty alleviation given the fact that most of these poor people have no basic education nor training.

RESEARCH METHODOLOGY

The researcher used both descriptive and correlational design. The study targeted five micro Finance institutions. Due to small number of the population this study used census sampling and questionnaires for data collection. The study used intensively administered questionnaires as the main instrument for data collection. The data obtained was first recorded, coded and tabulated before being considered for analysis. The data was analyzed through the use of descriptive statistics like measures of central tendencies, measures of dispersion and measures of normality and inferential statistics like correlation and regression analysis. The regression poverty management (dependent variable) is a function of the independent variables that including level of community empowerment, level of access to microfinance services and level of influence.

DATA ANALYSIS AND PRESENTATION

Extent to which access to microfinance services has empowered communities in Mukuru Kwa Njenga;

Objective one sought to determine the extent to which access to microfinance services has empowered communities in Mukuru Kwa Njenga. The study also required the respondents to indicate the extent to which they were satisfied that access to microfinance services empowered communities. The survey results for the extent to which access to microfinance services has empowered communities. are hereby presented in the table 2 below.

The study sought to find the extent to which the access to microfinance services has empowered communities. As per the findings of the survey presented in the table above, 20% of the respondents agreed to a very great extent that access to microfinance services has empowered communities in Mukuru kwa Njenga. 26% of the respondents agreed to the great extent, 27% of the respondents moderately extent and 15% agreed to low extent while 4% believed that access to microfinance services has not empowered communities to any extent at all. This study results compliments those of the research conducted by Zimmerman and Banerjee, 2009 which found that matched savings schemes are employed to enhance savings of low income households and as a way to save for productive investment, education and health purposes. This shows when a community is empowered, it is able to develop and able to meet some of its obligations and access to microfinance services has proved to be away of empowering them in Mukuru Kwa Njenga.

Microfinance improves community livelihood;

The study required the respondents to indicate the extent to which they believe that access to microfinance services had improved communities livelihood in Mukuru kwa Njenga. The above illustration shows that 12% of the respondents agreed to very great extent, 27% to great extent, 13% to moderate extent 32% believed to low extent on the improvement on the community’s livelihood by access to microfinance services. This study concurs with study by Rutherford 2006 who noted that the access to more and better way of turning savings into lump sum helps poor people from sliding deeper into poverty and helps them lay foundation for their ambitions to better themselves and their families. It also complements the study by Johnson et all 1997 and Graham et al Uganda 1999 who had similar conclusions that show that poor do save and have need to save and sue savings for a variety reasons which induced daily expenditure, accumulation to meet life cycle needs and to send children to school.

The study required the respondents to indicate the extent to which they believe access to microfinance services has positively affected the poor more than the rich. 16% of the respondents believed to a very great extent, 23% to a great extent, 27% to a moderate extent, and 22% to a low percent while 4% believed that it has not affected the poor to any extent.

Microfinance has made a lasting difference in pulling households out of poverty on a permanent basis;

The study sought to establish if access to microfinance services enhances lasting difference in pulling households out of poverty on permanent basis. 15% of the respondent believed it has in very great extent, 32% believed it had to a great extent, 28% moderate extent. However 14% believed it has at a low extent while 3% believed it has not made any lasting difference to any extent. According to the findings presented above, majority of the respondents agreed at a moderate extent that microfinance has made difference in pulling household out of poverty on permanent basis. This concurs with the research by Aghion & Morduch 2005 that due to microfinance, there are many possibilities that have emerged including extending markets, reducing poverty and fostering social change.

4.2.4 Microfinance enhances Gender equality and women empowerment;

The survey result for the extent to which microfinance enhances gender equality and women empowerment are represented as follows. 15% of the respondents believed it has to a very great extent, 38% to a great extent while 18% to a moderate extent. 16% however believed it has at a low extent while 5% believed it has not enhanced gender equality at any extent. The results of this study confirms those of the study conducted to the state of the Microcredit Summit Campaign 2001 report, 14.2 million of world's poorest women now have access to financial services through specialized microfinance institutions (MFIs), bank, NGOs and other nonbank financial institutions. Most of women have access to credit to invest in business that they own and operate themselves.

Microfinance work in harmony with local culture and values;

As per the findings of the survey presented 36% of the respondents believed that microfinance work in harmony with local culture and values at a very great extent, 22% believed at a great extent, 18% at a moderate extent, 10 at a low extent while 6% believed it has not to any extent.
This study concurs with study by Rutherford 2006 who noted that the access to more and better way of turning savings into lump sum helps poor people from sliding deeper into poverty and helps them lay foundation for their ambitions to better themselves and their families. It also complements the study by Johnson et all 1997 and Graham et al Uganda 1999 who had similar conclusions that show that poor do save and have need to save and sue savings for a variety reasons which induced daily expenditure, accumulation to meet life cycle needs and to send children to school.

Factors influencing accessibility of Microfinance Services by SMEs;

In relation to the results of the survey on the factors influence accessibility of microfinance services by SMEs it was presented as above. 18% believed it influences at a very great extent, 26% great extent, 32% moderate extent, 14% at low extent while 2% believed there are no factors influencing accessibility of microfinance services.

Lack of clear regulations regarding lending;
The researcher sought to establish whether lack of clear regulations regarding lending affect the accessibility of microfinance services by SMEs. Most respondents at 26% indicated it affects at very great extent, 14% indicated at great extent, 17% at moderate extent and 18% at low extent while 17% believed that it has no effect at all on accessibility of microfinance services by SMEs.

Negative attitudes towards microfinance

The researcher sought to establish whether negative attitudes towards microfinance affect the accessibility of microfinance services by SMEs. 21% indicated it affects at a very great extent, 25% indicated it affects at great extent, 30% indicated at moderate extent. 14% indicated the effect is at low extent while 2% indicated it does not have effect at all. According to study by Bertrand et Al 2010 poor household do not want to use formal financial services due to cost implications such as transaction cost and they prefer informal services due to reasons like greater flexibility, lower transaction cost, interest rates. It also concurs with Deaton, 1998 Flexible savings are in line with the realities faced by the poor, while high frequency activity is a barrier to consumption and income.

4.3.3 Lack of extension of credit supplies

The researcher sought to establish whether lack of extension credit supplies affect the accessibility of microfinance services by SMEs. 19% indicated at a very great extent, 19% indicated at a great extent, majority of the respondents indicated 34% at a moderate extent, 13% indicated the effect is at low extent while 7% indicated it does not have effect at all. This study complements past findings according to the 2000 Population and Housing Census, 80% of the working group and found to be in private informal sector and this group is characterized by lack of access to credit which constrains the development and growth of that sector of the economy. Clearly access to financial service is imperative for the development of informal sector and helps to mop up liquidity through savings that can be made available as investment capital for national development.

Lack of Trained officers in different areas;

The respondent sought to establish if lack of trained officers in different areas affects the access of microfinance services by SMEs. 17% indicated that it affects at a very great extent, 15% at a great extent, 25% at a moderate extent, majority at 32% at a low extent and 2% at no extent at all. This shows that the respondents are aware that their officers are trained in different areas and this factor cannot affect accessibility to microfinance services at very great extent than other factors. The results of the study contradict those of Mihanjo 2010 that the African Rural Entrepreneur has not been empowered and poverty is still deeply embedded among rural communities. He argued that for development to take place, communities and households have to be empowered so as to take control over their natural environments and control their own destiny. The study shows that the officers are trained in their different areas and hence it is not a major contributing factor.

Lack of collaterals for the services sought by SMEs;

The researcher sought to establish if lack of collaterals affects access to microfinance services by SMEs. Majority of the respondents indicated that at 36% it affects at a very great extent, 31% at a great extent, 10% at moderate extent, 9% at a low extent and 6% at no extent at all. From the survey, this is the factor that seems to greatly affect the access to microfinance services at 36% than all other factors. This is because the population living in Mukuru kwa Njenga is believed to be poor and does not have a lot of livelihoods. It concurs with the study by Aghoin & Morduch 2005 who found that poor people are not able to access loans from commercial banks because of lack in guarantee and collateral and banks were not willing to finance the poor.

Influence of access to microfinance services on poverty management in Kenya

The research sought to establish if access to microfinance services has influenced poverty management in Kenya. 23% of the respondents indicated that it has influenced at a very great extent, 37% at a great extent, 26% at a moderate extent and 6% at a low extent. From the study majority of the respondents believed that it has a great extent influence on poverty management.

Microfinance positively affects the poor more than the rich

The study sought to establish if access to microfinance services has a positive influence to poor than the rich. The results of the findings were; 15% believed at a very great extent, 28% at a great extent, 7% at a moderate extent, 28% at low extent and 14% believed it has no influence at all. The results indicated that to a very great extent access to microfinance services has a positive influence to poor than the rich. The findings therefore confirms those of study done by (Hartungi, 2007) that microfinance have variety of products including micro loans, savings payment of services to develop low income communities in developing countries. However, this study contradicts the findings by Hosque and Chisty, 2011 how found that commercial banks do not offer these services to low-income clients in the banking system.

Microfinance enhances financial inclusion;

The study sought to establish if access to microfinance services has enhanced financial inclusion, the results of the findings were; 9% believe at a very great extent, 40% at a great extent, 21% at a moderate extent 19% at a low extent and 3% at no extent at all. This study confirms study confirms the study by Dowla & Alamgir (2003) who noted that poor households have few alternatives to deposit cash which in turn they use in kind saving or convert savings into assets.

Microfinance has made a lasting difference in pulling households out of poverty on a permanent basis;

The study sought to establish if access to microfinance services has made difference in pulling households out of poverty on a permanent basis. The results of the findings were; 8% believed at a very great extent, 16% at a great extent, 33% at a moderate extent, 28% at a low extent while 7%

believed it has not made at any extent at all. According to the findings presented above, majority of the respondents agreed at a moderate extent that microfinance has made difference in pulling household out of poverty on permanent basis. This concurs with the research by Aghion, & Morduch 2005 that due to microfinance, there are many possibilities that have emerged including extending markets, reducing poverty and fostering social change.

Microfinance is a cost effective method of transferring income to the poor;

The research sought to establish if access to microfinance services is a cost effective method of transferring income to the poor. Majority of the respondent 37% believed it is at a very great extent, 30% at great extent, 18% at a moderate extent, 4% at low extent and 3% at no extent at all. The study results confirmed those of finding by Bass et al...2000 that the challenge for MFIs is to design a cost effective savings mobilization strategy that respond to different client needs and low cost savings products that are accessible easily, and more attractive value scheme should be prioritized.

Summary

Microfinance institutions play a significant role in poverty management and reduction. With effective utilization of credit by the recipients, helps to boost their economic activities which have a multiple effect to the society thus reducing poverty levels. In addition, data gathered from the clients show that their borrowing has increased and subsequent loans were higher than what they had previously taken. The loans taken were used to improve or expand their businesses. The clients said that their living standards had improved as they feel productive, important and equal with anybody else due to undertaking relatively better profitable economic activities.

Conclusion

It is often claimed that the greatest discovery of the microfinance movement has been the credit worthiness of the poor in many part of world. Related to this has been the discovery of the dynamism of micro-enterprises and it has reduced the rate of poverty and standard of living has been enhanced to some certain extent. In reality, however, neither is new. The poor have been borrowing from money lenders from time immemorial. Micro-enterprises have been operating for a long time in many poor societies, and form the vast informal sector associated with developing countries.

Recommendation

Given all the above, there is no doubt that Microfinance is yet to be challenge as a development paradigm with regards to its approach to development (bottom- top). However, for access to services effectively manages poverty in Kenya, we recommend the following:-

a) The government through the central bank should ensure that Microfinance, Bank loans are extended to the poor without too much strict deposit condition.

b) Microfinance setting up of sinking funds that can be lent out at low interest rates. The interest rate that will be charged on the loans should be lower than that of commercial banks to enable them to be able to repay both interest and money borrowed.
c) MFI facilities should partner with other organizations so as to deliver services at affordable rates.
d) Repayment should include a grace period and reasonable schedule instead of weekly payment that is commonly found among the Microfinance Banks.
e) Embrace “group lending” which effectively overcomes the problems of collateral and adverse selection due to information asymmetry through peer monitoring.
f) Increase in lending to the poor, empowering youth groups, funding development programmes, expanding the organization to different locations so as to reach many people, developing new products that are beneficial and relevant to clients.
g) It is important to note that credit alone is often insufficient in ensuring growth and small business development, particularly when people engaged in such activities lack basic knowledge and skills related to business management for instance improvement on client training and awareness on starting business and or engaging in economic activities that will improve their status, help clients in marketing products.
h) Different microfinance products i.e. loan sizes matching varying borrowing powers of clients may meet credit and business needs of diversified clients.
i) Put in place micro-insurance schemes which could help clients to pool risk or share losses.

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